Rating Report

University of Toronto

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DBRS

Insight beyond the rating.

Ratings

Debt	Rating	Rating Action	Trend
Issuer Rating	AA	Confirmed	Stable
Senior Unsecured Debentures	AA	Confirmed	Stable

Rating Update

DBRS Limited (DBRS) has today confirmed the Issuer Rating and Senior Unsecured Debentures rating of the University of Toronto (the University) at AA, both with Stable trends. The ratings reflect the University's internationally prominent academic profile, robust enrolment outlook, effective financial management practices and positive operating results.

The University expects to generate another consolidated surplus in 2015–16, though not to the same scale as in recent years because of weaker investment returns. Notwithstanding the volatility in investment earnings, the interim results are positive, with enrolment significantly stronger than expected. Enrolment growth of 3.5% was driven by a higher than anticipated acceptance rate and not looser entrance standards. Revenue growth is projected at 2.3%, while expense growth is projected at 8.4%, resulting in a narrower consolidated surplus. Expense growth is broad-based, with most expenditure categories projected higher.

The medium-term outlook remains challenging under the current tuition and funding frameworks, with the university expecting operating revenue growth to lag expenditure growth in the coming years. Moreover, the University's pension plans continue to be challenged by the persistence of low interest rates, with the solvency deficit widening to $1.1 billion at July 1, 2015. Without further solvency accommodation by the province or an improvement in long-term interest rates, pension plan deficit payments will put further pressure on the University's cash flow in an already constrained environment.

The University continues to make significant investments in capital renewal and expansion across its three campuses; however, the strength of the University's balance sheet and its effective approach to capital budgeting are expected to limit the need for new borrowings. The University does not plan to issue any external debt in the near term. As such, the debt burden per FTE should track meaningfully lower as enrolment continues to rise.

There is policy uncertainty facing the university sector, with the provincial funding framework currently under review, the tuition framework set to expire after 2016–17 and temporary solvency relief set to expire in the years after. DBRS expects the provincial government will continue to be supportive of post-secondary education and that any changes will not adversely impact university funding. Similarly, DBRS expects the provincial government will continue to accommodate pension solvency deficits in the sector, given (1) the impact that a significant increase in pension payments would have on university budgets and programming, (2) ongoing progress by Universities to improve the sustainability of their defined benefit pension plans and (3) sector-wide progress on discussions about the establishment of a multi-employer jointly sponsored pension plan.

Overall, DBRS expects the University's credit profile to remain relatively stable over the coming years, though a significant deterioration in operating performance or a significant increase in external debt could put downward pressure on the rating.

Financial Information

	For the year ended April 30				
	2015	**2014**	**2013**	**2012**	**2011**
Consolidated surplus (deficit) ($ millions)	287.8	204.3	137.7	70.1	7.2
Surplus-to-revenue	10.1%	7.5%	5.4%	2.9%	0.3%
Interest coverage ratio (times) 1	8.7	5.6	6.1	2.6	5.2
Expendable resources-to-debt 2	166%	146%	128%	115%	146%
Long-term debt per FTE ($)	9,677	9,988	10,326	10,688	7,909

1 Cash flow from operations plus interest divided by interest. 2 Internally restricted endowments plus cash reserves for future spending divided by debt.

Issuer Description

Founded in 1827, the University of Toronto is Canada's largest university, with total full-time equivalent enrolment of 77,130 in 2015–16. Located on three campuses – St. George (downtown Toronto), Mississauga and Scarborough – the University offers a wide range of undergraduate, graduate and professional programs and is home to one of the most extensive library systems in North America. The University serves the Greater Toronto Area, Canada's largest urban centre with a population of about 6.0 million.

Rating Considerations

Strengths

1. One of Canada's flagship post-secondary institutions

The University is one of the nation's flagship institutions and benefits from the strong reputation of its highly diversified academic and research programs, as well as its world-class library system. An established academic profile and strong demand, both international and domestic, will continue to drive plans to grow enrolment across the three campuses. In addition, the St. George campus is located in the heart of Canada's most populous metropolitan area, the Greater Toronto Area (GTA), with a population of about 6.0 million, and the other two campuses are located in fast-growing suburban areas. Roughly 65% of direct-entry undergraduate students are drawn from the GTA. Moreover, enrolment has continued to rise despite a decrease in system-wide applications in Ontario with increased enrolment at both the undergraduate and graduate levels for both domestic and international students.

2. Considerable endowment fund

The University of Toronto has the largest endowment among Canadian universities, valued at approximately $2.1 billion at April 30, 2015, which translates to $28,747 per FTE. The fund provides an important source of income for departments with roughly 4% drawn annually to support operations. To some extent, the endowment also acts as a liquidity reserve, although restrictions prevent a considerable portion of the endowment (roughly 85%) from being used for debt servicing.

3. Effective management practices

The University's commitment to prudent financial management is reflected in its financial processes and policies, including its debt policy, its approach to capital budgeting and its five-year rolling budget model, which only authorizes the budgeting of a deficit in extraordinary circumstances and requires an accumulated deficit to be eliminated by the end of the planning period. The University pioneered the activity-based budget model among Canadian universities and the budget model has helped to improve revenue and cost management at the University.

4. Large portfolio of downtown Toronto real estate

The University owns an important portfolio of real estate valued at over $2 billion, well in excess of its outstanding long-term debt. This includes approximately 49 hectares of land on the St. George campus and a further 211 hectares on the Scarborough (UTSC) and Mississauga (UTM) campuses.

Challenges

1. Sizeable post-employment liabilities

Similar to most of its peers with defined benefit plans, the University carries considerable unfunded pension and other post-employment liabilities. The latest actuarial valuations as of July 1, 2015, revealed an improved going concern deficit of $446 million and slightly worse solvency deficit of $1.1 billion when compared to that of the prior year. The University was approved for Stage 2 of the provincial solvency relief, which defers solvency payments until July 1, 2018. Non-pension post-employment benefits totalled $580.8 million as at April 30, 2015 (accounting basis); although the University is not required to fund the non-pension post-retirement benefits, the University has reserves to address a small portion these liabilities over the long term.

2. Challenging operating environment

A large share of revenues for Ontario universities comes from operating grants and tuition fees. While this provides considerable stability to revenues, both are controlled by the Province of Ontario (the Province; rated AA (low)). DBRS notes that the current tuition framework limits the ability of Ontario universities to increase revenue, particularly when the university-aged cohort in Ontario is expected to decline. Moreover, the province has slowed growth in operating funding with adjustments to base funding (e.g., policy lever efficiency cuts and the international student recovery). The current tuition fee framework is set to expire after the 2016–17 academic year and the province is currently reviewing the funding framework.

3. Salary pressures

Salary and benefits costs, which are rising faster than government grants, will continue to put pressure on the University's finances. Additionally, the strategy to recruit high-profile faculty and researchers puts particular pressure on labour costs. The ability of the University to maintain fiscal balance will largely depend on securing reasonable wage settlements that minimize growth in the compensation envelope to below that of overall revenue growth.

4. Moderately high debt burden

The debt burden stood at $9,677 per FTE in 2014–15, which remains high relative to other DBRS-rated universities, but consistent with the AA rating. The University does not expect to borrow externally in the near term and thus the debt burden should fall on an FTE basis as enrolment continues to increase and a small portion of the existing debt amortizes.

2014–15 Operating Performance

The University generated a consolidated surplus of $287.8 million for the year ended April 30, 2015, up from $204.3 million the year prior. Total revenue rose 4.8%, driven higher by increased tuition revenue, modest increases in government grants and higher investment income. Tuition revenue rose 11.5% with enrolment up 2.3% and tuition fee increases for domestic and international students increased to the extent permitted under the provincial tuition fee framework. Government grants for operations increased marginally by 1.1% as the increase for student enrolment was partially offset by the continuing International Student Recovery (ISR) operating grant reductions. Increases in research grants and strong investment returns helped to offset declines in donations, sales, services, and sundry income.

The University managed to contain expenditure growth to 1.8%, driven largely by modest growth in salaries and benefits. The faculty association was without a contract for much of the fiscal year, while other collective agreements provided only modest increases in compensation. Overall, salaries increased by 3.7%, though this was largely offset by a 6.5% decrease in employee future and other benefits. Other drivers of higher spending included student aid and materials and supplies. Cost of sales and services, repairs and maintenance, utilities, and other expenses were all lower for the year.

Operating Outlook

The University conducts business through four funds (operating, capital, ancillary and restricted); however, the detailed budget prepared by the University covers only the operating fund, which comprises approximately 70% of consolidated spending. The other funds are essentially run on a break-even basis. The budget is prepared on a cash basis and is based on a five-year rolling window, updated annually. Planned deficits are allowed only in exceptional circumstances and must be repaid over five years.

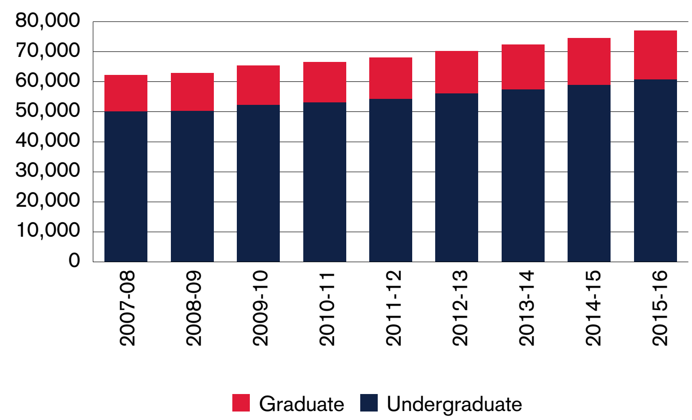
2015–16 Budget and Interim Results

The Governing Council approved a balanced 2015–16 operating budget, which expected revenue to increase by $117 million, or 5.7%, with growth driven by higher planned enrolment across the three campuses. Despite a decline in the number of Ontario high school applicants system-wide, the University of Toronto continues to see an increase in the number of applications. Tuition fees were to increase for domestic students to the extent permitted under the provincial tuition fee framework. Domestic undergraduate tuition rose, on average, by about 3%, while international undergraduate tuition fees rose by 6.2% (weighted-average), while doctoral tuition fees were reduced slightly.

The University was projecting a slight decline in operating grants, reflecting modest reduction in the number of domestic undergraduate students, reductions in teacher education funding, the final year of the phase-in of the ISR operating grant reductions and the elimination of the Aiming for the Top provincial scholarship program.

Expenditure growth was projected at 5.7% over the prior year's forecast. Key spending pressures included additional funding for faculty to accommodate increases in enrolment, enhancements to student services and operating budget contributions toward capital projects. Compensation continues to be a key cost driver, accounting for roughly 60% of total expense, but is being managed within the context of provincial restraint.

Total Enrolment (FTE)



The most recent management forecast, dating from early January, projects a $138.2 million consolidated surplus for 2015–16. The strong result is largely because of higher than expected enrolment. Enrolment was buoyed by a higher than anticipated acceptance rate, which helped push enrolment to 77,130 FTEs, more than 1,000 FTEs higher than planned, or 3.5% over the prior year. The higher level of enrolment translated into higher tuition revenue and operating grants. Investment income is expected to be notably lower this year, given recent market volatility and continuing low interest rates. On an operating basis, the surplus is projected to be $12.5 million, well ahead of the balanced position budgeted.

The revised forecast now projects total expense rising 8.4%, with expenses higher in most categories. Salaries are projected to rise by $91.5 million, or 7.4%, due to higher staffing levels and higher compensation costs. Similarly, employee future and other benefits are also higher by 5.8% and 3.7%, respectively. Other notable increases include repairs and maintenance (17.7%), materials and supplies (10.5%) and student aid (5.2%).

Operating Outlook (CONTINUED)

Outlook

The University has tabled a proposed 2016–17 operating budget. At this time, the budget has yet to pass through the various stages of endorsement and approval. However, as in past years, DBRS does not expect the draft budget proposal to change materially from its current state.

The proposed budget for 2016–17 is balanced, though some academic units continue to incur operating deficits, thus running down reserves as they work toward financially sustainable operations. The budget projects revenue growth of $158 million, or 7.3%, driven primarily by planned increases in enrolment across the three campuses and modest tuition fee increases within the current tuition fee framework. Enrolment is planned to increase by about 1,200 FTEs, 1.6%, to 78,338 FTEs, which will push operating grants slightly higher ($7 million) and, when paired with tuition rate increases, tuition revenue 8.4% higher ($144.3 million). Tuition fees are set to increase, on average, by 3% for domestic students and 5.9% for international students. DBRS believes the enrolment outlook is reasonable given the University's strong profile and capacity to increase enrolment.

Operating expenditures are projected to rise 7.3% to support rising enrolment and other pressures. Academic divisions are responsible for their own expense increases, including compensation and operating costs related to new infrastructure and, as such, are required to implement their own cost-containment measures to keep within set budgets. Key academic priorities in this budget include: faculty hiring, enhancements to student services, support for entrepreneurship activities, curriculum redesign that incorporates new learning technologies and contributions to capital projects. As planned in past years, the university will increase pension special payments to $102.3 million and will continue to seek cost containment measures of $2 million (1%) in the shared service budget.

Over the medium term, the outlook for the University remains challenging, given ongoing fiscal constraint at the provincial level limiting growth in operating grants and a tuition framework that constrains tuition fee increases for domestic students. If the current frameworks remain in place, the University will likely require further adjustments to address what could be a weakening structural balance. DBRS notes that the current tuition fee framework ends with the 2016–17 academic year. The provincial government has yet to provide guidance on the next tuition fee framework and the funding framework for operating grants is also being reviewed. However, DBRS expects that the provincial government will continue to remain supportive of post-secondary education and that any changes to the frameworks will not adversely impact universities, but may require further adjustments or efficiency improvements.

While funding and tuition pose challenges, the University of Toronto does benefit from strong student demand and has capacity to increase enrolment at its Mississauga and Scarborough campuses. Applications and acceptances have continued to rise and the University is projecting total enrolment to increase by about 4,000 FTEs over the next five years (1,900 undergraduate and 2,100 graduate). Of this increase, international students will account for 1,600 FTEs. If accomplished, the University would see the proportion of international students rise to 19.5% in 2020–21, from 18.3% currently. The university has greater flexibility to increase tuition fees for international students, though shifts in exchange rates can dramatically alter the costs for international students. The recent depreciation of the Canadian dollar has made Canadian institutions more affordable for international students, all else equal.

DBRS anticipates the constrained operating environment will continue to put pressure on expense management at the University, particularly as it seeks to contain rising compensation costs. The University has collective agreements in place for 2016–17 for all major bargaining units. The other major expenditure challenge going forward continues to be pension special payments, which are required to address solvency and going concern deficits and are in addition to current service contributions. The University is planning for pension special payments budget, which includes pension special payments and other costs associated with the pension contribution strategy, to rise to $122 million in five years' time to deal with going concern deficits. DBRS expects further pension solvency relief is likely forthcoming, which should alleviate some the need for additional allocations to pensions.

Capital Plan

Capital spending increased by 2.5% to $258.8 million in 2014–15 and the University anticipates similarly high levels of capital spending in the coming years as it continues to replace aging infrastructure and build new capacity at its three campuses, a reflection of its multi-year academic plan and the priorities identified in the University's 2030 plan.

The capital budgeting process seeks to direct resources to those projects with the highest priority (aligned with academic plan and university needs) that are financially feasible. The University requires proposals to include funding/financial plans and that the incremental operating costs be accommodated in divisional budgets. The university has found success through this approach to containing project scale and costs, securing fundraising and minimizing borrowing requirements.

As noted in past years, the University is putting considerable resources toward capital renewal at the St. George campus in downtown Toronto, with various projects at varying stages of development. Major projects include:

- the new Jackman Law Building (Faculty of Law expansion);
- the renovation and expansion of 1 Spadina Crescent (Faculty of Architecture, Landscape & Design);
- the Centre for Engineering Innovation and Entrepreneurship (Faculty of Applied Science & Engineering); and

Capital Plan (CONTINUED)

- the renewal of the University College building.

The University has a number of other projects that are currently underway or in the initial planning stages for the St. George campus. The University is also seeking to increase capacity at its campuses in Mississauga and Scarborough, as the University is planning for significant enrolment growth. The University recently completed the Environmental Sciences and Chemistry building at UTSC and is currently constructing the Mississauga North Building at UTM.

The University of Toronto has one the largest university campuses in North America. Many buildings have heritage designations, with 36 over 100 years of age. As such, similar to other older universities, the University of Toronto has a considerable amount of deferred maintenance. Deferred maintenance is estimated at $518 million, with the bulk of it on the St. George campus. The operating budget includes $16 million for deferred maintenance for the St. George campus, with the annual allocation rising to $18 million in two years. DBRS notes that operating contributions to deferred maintenance appear relatively modest in relation to other DBRS-rated universities.

Debt and Liquidity

As of April 30, 2015, the University's long-term debt amounted to $721.1 million, down slightly from the year before. Strong enrolment growth pushed the debt burden on a FTE basis lower, to $9,677 from $9,988. The University's debt burden stands as one of the highest among DBRS-rated universities, but remains acceptable within the current rating, given the University's established academic profile, substantial financial resources, superior fundraising capacity and effective management practices. The University's outstanding debentures are long-dated with maturities spread between 2031 and 2051. Interest charges remain manageable at $38.6 million, or 1.5% of total expense, and interest coverage remained elevated at 8.7x in 2014–15.

The University's Debt Strategy, which covers both internal and external debt, includes a policy limit of:

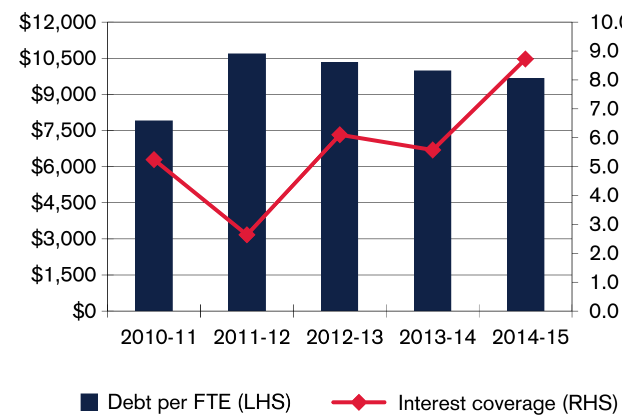
- 5% for the debt burden ratio, defined as interest payments plus principal repayments divided by total expenditures; and
- The expectation that the University maintain a viability ratio of 0.8 or higher, defined as expendable resources divided by debt.

At April 30, 2015, both metrics were in favourable positions relative to their limits. The University's debt burden ratio was 3.7% and the University's viability ratio was 1.03. The University has also established a sinking fund, the Long-Term Borrowing Pool, to accumulate funds for the eventual repayment of the $710 million in debentures. The sinking fund is not required by the master trust indenture. At April 30, 2015, the sinking fund had a balance of $199.8 million.

The University's endowments marked another year of strong growth, increasing 13.9% to $2.14 billion, driven higher by robust investment earnings and contributions. Despite strong growth in enrolment, the endowments on a per-FTE basis continued to rise, reaching $28,747, their highest level since the financial crisis.

The University's expendable resources stood at $1.2 billion at April 30, 2015, or 166% of long-term debt, and provide a considerable financial buffer. Expendable resources consisted of $873.1 million in cash reserves for future spending, largely operating and capital reserves, and $321.4 million in internally restricted endowment funds which the Governing Council may have the right to unendow to meet financial obligations, if required.

Debt Per FTE and Interest Coverage



The University's pension plans, in aggregate, continue to be in deficit positions; however, strong investment returns (11.88%) and special payments have improved the funding status. On a going-concern basis, the deficit fell to $446.0 million on July 1, 2015, down from $729.5 million. Like other plans, however, the solvency deficit worsened as a result of lower long-term bond yields. At July 1, 2015, the solvency deficit was $1.1 billion.

The University was approved for stage 2 solvency relief, which defers solvency payments until July 1, 2018. The University has been increasing its budget allocations for special payments. The budget projects special payments of $102.3 million in 2016–17 and for annual payments to rise by $5 million in each of the subsequent four years. While special payments related to the solvency deficit are deferred until July 1, 2018, the University is making special payments to the pensions related to the going concern deficit. The 2014 valuation was the last to be filed with the provincial regulator, as such legislation requires the next filing to be as of July 1, 2017, or earlier.

There remains a degree of uncertainty to the outlook, given the persistence of low long-term interest rates and the temporary nature of the solvency exemption. While sector-wide discussions

Debt and Liquidity (CONTINUED)

regarding a multi-employer jointly sponsored pension plan (JSPP) continue, which could be provided a permanent solvency exemption, DBRS does not believe a JSPP will be established in the near term. However, given the size of the contributions required to address solvency deficiencies, the extent of the problem across the University sector, and the generally supportive stance of the provincial government toward the post-secondary sector, DBRS expects further accommodation will likely be forthcoming and should limit the impact of solvency concerns on university cash flow.

Other employee future benefits have also tracked higher, reaching $580.8 at April 30, 2015, up from $514.4 million the year prior. While these benefits are paid on a cash basis and there is no requirement for the University to set aside funds, DBRS notes that the University has set aside small amounts of reserves to fund a portion of these obligations. At April 30, 2015, internal reserves totalled $84.3 million.

Outlook

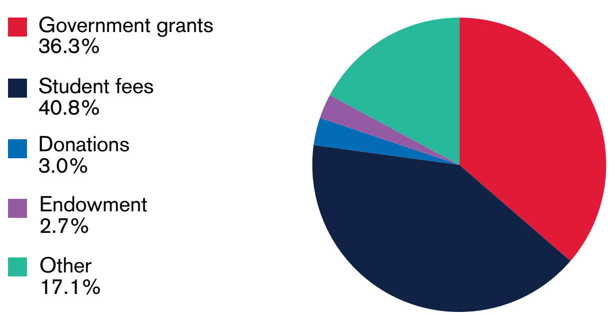
The university does not envision any near-term borrowing, which should result in the debt burden per FTE continuing to move lower as enrolment increases. If enrolment grows as projected, the debt burden should fall to about $9,200 per FTE by April 30, 2017.

University Funding in Ontario

Canadian universities generally have access to three key sources of revenue for their core teaching and research activities: (1) government grants, (2) student fees and (3) fundraising and endowment income. For the University of Toronto, these accounted for about 83% of total revenues in 2014–15.

Provincial government funding remains the primary source of revenue for universities across the country, although its relative importance remains under pressure in most provinces as a result of accelerating costs in competing areas of provincial responsibility, notably in health care. In Ontario, the lack of indexation and recent cuts in base operating grants have also contributed to this trend.

2014-15 Revenue Sources (Total: $2,839 million)



Government Funding (provincial and federal, approx. 36%): This includes operating grants, research grants and contracts as well as capital grants, of which operating grants are by far the most stable revenue source. They are provided exclusively by the Province, primarily through a formula that allocates a certain number of basic income units to each student based on the program in which they are enrolled. Targeted funding, which is aimed at expanding enrolment in high-demand programs, and performance-based grants also account for a small portion of provincial operating funding. No inflation adjustment is provided for base operating funding in Ontario, although the Province continues to provide full average funding for enrolment growth.

In recent years, the Ontario government has introduced refinements to its post-secondary education plan that embrace a number of priorities, including additional student spaces, tuition and financial assistance for students, long-term capital funding to support expansion and renewal of campus infrastructure, as well as renegotiation of multi-year accountability agreements. Furthermore, the government has expressed its intention to reform the current enrolment-based university funding model with a focus on improving quality and student experience. In December 2015, the government released a consultation paper on university funding model reform, although DBRS notes that it is too early to determine what implications this could have, if implemented, on university funding in Ontario.

Government grants for research and capital projects are also an important source of funding. The federal government typically provides 65% to 75% of all public research funding, while the Province provides the bulk of capital funding; however, the provincial government's increased emphasis on spending restraint to address its own budgetary challenges suggests limited flexibility for funding increases, making cost containment at universities that much more crucial.

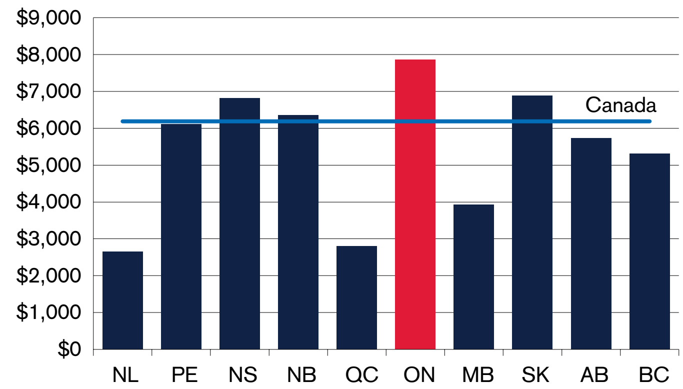
Student Fees (41%): From 2006–07 to 2012–13, the Province permitted universities to raise average tuition fees by 5.0% annually, with fee increase limits varying across programs and years of study. For example, arts and sciences tuition could be increased by 4.5% for the first year of study and 4.0% for the following years, while graduate and professional program tuition fees could be increased by 8.0% for the first year of study and 4.0% per year for the remaining years. In 2013–2014, an updated framework was introduced by the Province for the next four years. The new framework placed a cap on annual undergraduate

University Funding in Ontario (CONTINUED)

tuition fee increases to 3.0% for most programs. Additionally, tuition fee increases for graduate and professional programs were also reduced and are now capped at 5.0%.

Fundraising and Endowment Contributions (6%): Donations are a particularly important funding source for older institutions like the University of Toronto, which generally enjoys a well-established reputation and large alumni base. They include funds received for restricted purposes, the principal of which is sometimes endowed. The University's extensive alumni base, academic profile and research capabilities have provided ample support for its fundraising efforts over the years. The current fundraising campaign, Boundless, launched in 2011 and is the largest in Canadian history with a target of $2.0 billion; over $1.89 billion has been secured to date. In 2014–15 alone, donations and pledges for the University and its federated universities (Victoria University, University of St. Michael's College, and the University of Trinity College) amounted to $248 million.

2015-16 Average Undergraduate Tuition Fees



Source: Statistics Canada.

Consolidated Statement of Financial Position

($ millions)	As at April 30 2015	2014	2013	2012	2011
Assets					
Cash & cash equivalents	144.0	113.4	104.1	121.0	99.3
short-term investments	883.8	783.0	651.0	663.9	535.1
Accounts receivable	91.5	91.3	82.7	84.7	104.8
Inventories & prepaid expenses	20.6	19.8	18.6	23.5	16.9
Long-term investments 1	2,766.9	2,463.1	2,403.6	2,095.6	2,078.4
Capital assets	4,264.8	4,166.5	4,018.8	3,921.9	1,769.2
Other assets	46.2	43.9	46.4	45.2	36.8
Total Assets	**8,217.8**	**7,681.0**	**7,325.2**	**6,955.8**	**4,640.5**
Liabilities & Equity					
Accounts payable & accrued liabilities	328.2	324.9	298.4	278.1	248.0
Deferred contributions 2	454.2	404.0	372.7	371.2	370.3
Employee future benefit obligations	580.8	514.4	521.9	616.8	379.2
Accrued pension liability	617.4	683.8	1,122.9	1,250.2	233.5
Deferred capital contributions	1,140.2	1,130.9	1,076.4	1,018.3	986.3
Long-term debt	721.1	722.8	726.0	727.7	526.8
Total liabilities	3,841.9	3,780.8	4,118.3	4,262.3	2,744.1
Accumulated surplus (deficit)	(89.5)	(124.6)	(129.7)	(134.9)	(173.9)
Internally restricted funds 3	2,323.3	2,144.0	1,672.9	1,310.3	530.9
Endowment - internally restricted	321.4	276.0	247.9	230.8	237.7
Endowment - externally restricted	1,820.7	1,604.8	1,415.8	1,287.3	1,301.7
Total Liability & Equity	**8,217.8**	**7,681.0**	**7,325.2**	**6,955.8**	**4,640.5**
Contingencies & Commitments					
Construction & renovation in progress	374.6	333.3	252.0	229.5	101.8
Operating leases	16.2	18.4	14.6	14.2	15.0
Loan guarantees	7.4	6.7	6.6	7.2	7.9
	398.2	**358.4**	**273.2**	**250.9**	**124.7**

University of Toronto's financial statements exclude the federated universities and research administered at the affiliated hospitals. In 2012–13, the University adopted Canadian accounting standards for not-for-profit organizations, moving to the immediate recognition approach for its employee future benefit plans. This moved the recognition of investment and actuarial gains and losses to the income statement. In 2013–14, the University early adopted Section 3463, which has moved the recognition of these investment and actuarial remeasurements to a direct charge on net assets, thereby reducing volatility in reported results. The standards were retroactively applied to the transition date of May 1, 2013.

1 Market value. 2 Represent unspent externally restricted grants and donations. 3 Includes investment in capital assets, employee pension and other benefits, and funds set aside for specific purposes (e.g., departmental carry-forwards, capital reserve, etc.).

Consolidated Statement of Operations (DBRS-Adjusted)

	For the year ended April 30				
($ millions)	2015	2014	2013	2012	2011
Operating revenue	2,839.4	2,710.2	2,563.3	2,406.0	2,321.1
Total expenditures	2,551.6	2,505.9	2,425.6	2,335.9	2,313.9
Net Income	287.8	204.3	137.7	70.1	7.2
Pension and benefit recovery (expense) - remeasurement 1	n/a	n/a	n/a	(396.1)	n/a
Consolidated Balance, as reported	287.8	204.3	137.7	(326.0)	7.2
Revenue					
Student fees 2	1,158.6	1,039.0	944.7	847.4	764.3
Government grants for operations	714.1	706.0	703.6	702.2	691.0
Other grants for restricted purposes	397.1	386.5	391.5	420.3	406.4
Investment income (loss)	191.8	178.6	151.3	102.9	135.6
Sales, services and sundry income	292.0	309.8	288.5	273.3	260.1
Donations 3	85.8	90.3	83.7	59.9	63.7
Total Operating Revenue	**2,839.4**	**2,710.2**	**2,563.3**	**2,406.0**	**2,321.1**
Expenditures					
Salaries and benefits	1,545.5	1,522.9	1,478.6	1,409.0	1,459.9
Materials and supplies	233.6	206.5	212.6	222.2	206.3
Student aid	206.0	199.1	186.3	176.3	141.4
Repairs and maintenance	92.5	96.0	88.2	81.7	79.8
Cost of sales & services	85.0	87.7	87.9	84.6	80.4
Utilities	55.5	59.1	51.9	53.0	51.0
Amortization	152.1	146.2	141.2	137.0	132.1
Interest	38.6	38.8	39.9	34.3	32.6
Other expenses	142.8	149.6	139.0	137.8	130.4
Total Expenditures	**2,551.6**	**2,505.9**	**2,425.6**	**2,335.9**	**2,313.9**
Capital Expenditures	**258.8**	**252.4**	**204.7**	**219.6**	**275.9**

University of Toronto's financial statements exclude the federated universities and research administered at the affiliated hospitals. In 2012–13, the University adopted Canadian accounting standards for not-for-profit organizations, moving to the immediate recognition approach for its employee future benefit plans. This moved the recognition of investment and actuarial gains and losses to the income statement. In 2013–14, the University early adopted Section 3463, which has moved the recognition of these investment and actuarial remeasurements to a direct charge on net assets, thereby reducing volatility in reported results. The standards were retroactively applied to the transition date of May 1, 2013.

1 Post-employment benefit recovery (expense) remeasurement comprises current service cost and any actuarial gains or losses on plan assets. 2 Includes tuition fees, ancillary service fees, application and registration fees, late registration fees and service charges on unpaid fees. 3 Excludes externally restricted donations to endowment funds, since the endowment principal is unearned and is required to be maintained intact in accordance with the University's preservation of capital policy.

Summary Statement of Cash Flows (DBRS-Adjusted)

($ millions)	For the year ended April 30				
	2015	**2014**	**2013**	**2012**	**2011**
Operating balances as reported	287.8	204.3	137.7	(326.0)	7.2
Amortization	152.1	146.2	141.2	137.0	132.1
Other non-cash adjustments	(141.9)	(173.1)	(75.4)	245.1	(1.2)
Cash flow from operations	298.0	177.4	203.5	56.1	138.1
Change in working capital	68.8	35.7	28.6	42.3	14.4
Operating cash flow after working capital	366.8	213.1	232.1	98.4	152.5
Net capital expenditures 1	(192.0)	(157.7)	(99.2)	(132.0)	(210.6)
Free cash flow	174.8	55.4	132.9	(33.6)	(58.1)

University of Toronto's financial statements exclude the federated universities and research administered at the affiliated hospitals. In 2012–13, the University adopted Canadian accounting standards for not-for-profit organizations, moving to the immediate recognition approach for its employee future benefit plans. This moved the recognition of investment and actuarial gains and losses to the income statement. In 2013–14, the University early adopted Section 3463, which has moved the recognition of these investment and actuarial remeasurements to a direct charge on net assets, thereby reducing volatility in reported results. The standards were retroactively applied to the transition date of May 1, 2013.

1 Defined as gross capital expenditures, less donations and grants received during the year for the purchase of capital assets.

Long-Term Debt Repayment Schedule

($ thousands)	For the year ended April 30						
	2016	**2017**	**2018**	**2019**	**2020**	**Thereafter**	**Total Long-term Debt**
Debt repayment	1,700	1,800	1,900	1,900	1,400	715,300	724,000
Share of Total (%)	0.2%	0.2%	0.3%	0.3%	0.2%	98.8%	100.0%

Long-term debt includes senior unsecured debentures, mortgages, term loans and the fair value of an interest rate swap contract. Includes current portion of long-term debt otherwise classified as accounts payable and current liabilities, and excludes unamortized transaction costs.

Outstanding Debentures

($ thousands)	Maturity	Interest Rate	Amount 1
Series A Senior Unsecured Debentures	Jul 2031	6.78%	160,000
Series B Senior Unsecured Debentures	Dec 2043	5.841%	200,000
Series C Senior Unsecured Debentures	Nov 2045	4.937%	75,000
Series D Senior Unsecured Debentures	Dec 2046	4.493%	75,000
Series E Senior Unsecured Debentures	Nov 2051	4.251%	200,000
Total			**710,000**

1 Principal payable upon maturity.

Summary Statistics (DBRS-Adjusted)

	For the year ended April 30				
	2015	2014	2013	2012	2011
Total students (FTEs)	74,516	72,370	70,311	68,088	66,611
- Undergraduate	79.0%	79.5%	79.9%	79.8%	79.9%
- Graduate	21.0%	20.5%	20.1%	20.2%	20.1%
Annual change (%)	3.0%	2.9%	3.3%	2.2%	1.8%
Total staff 1	14,345	14,503	13,832	13,807	13,396
- Academic staff 1	8,251	7,953	7,439	7,615	7,263
Operating Results					
Surplus (deficit) ($ millions)	287.8	204.3	137.7	70.1	7.2
- As % of revenues	10.1%	7.5%	5.4%	2.9%	0.3%
Debt & Liquidity Analysis					
Total long-term debt ($ millions)	721.1	722.8	726.0	727.7	526.8
- Per FTE student ($)	9,677	9,988	10,326	10,688	7,909
L-t debt, contingencies & commitments ($ millions)	2,317.5	2,279.4	2,644.0	2,845.6	1,264.2
- Per FTE student ($)	31,101	31,496	37,604	41,793	18,979
Liquid assets ($ millions)	1027.8	896.4	755.1	784.9	634.4
- As % of total expenditures	40.3%	35.8%	31.1%	33.6%	27.4%
- As % of current liabilities	313.2%	275.9%	253.0%	282.2%	255.8%
Interest costs as % of total expenditures	1.5%	1.5%	1.6%	1.5%	1.4%
Interest coverage ratio (times)	8.7	5.6	6.1	2.6	5.2
Expendable Resources ($ millions) 2	1,194.5	1,053.9	932.7	836.0	769.1
- As % of total debt	166%	146%	128%	115%	146%
Endowment Funds					
Total endowments ($ millions)	2,142.1	1,880.8	1,663.7	1,518.1	1,539.4
- Per FTE student ($)	28,747	25,989	23,662	22,296	23,110
- Set payout rate 3	4.1%	4.4%	4.7%	4.6%	4.7%
- Annual return on assets	15.0%	14.6%	11.4%	1.0%	9.9%

1 Includes part-time staff and teaching assistants. 2 Internally restricted endowments plus cash reserves for future spending. 3 Percentage of endowments that is spent annually.

Rating History

	Current	2015	2014	2013	2012	2011
Issuer Rating	AA	AA	AA	AA	AA	NR
Senior Unsecured Debentures	AA	AA	AA	AA	AA	AA

Previous Action

- Confirmed, April 1, 2015.

Related Research

- Rating Public Universities, June 3, 2015.

Previous Report

- University of Toronto, Rating Report, April 1, 2015.

Notes:
All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on **www.dbrs.com**.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.