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 or U of T) at AA. Both trends are Stable. The ratings reflect U of T's exceptional academic profile, robust enrolment outlook, effective financial management practices and positive operating results; however, the University's ratings are constrained by its significant pension and employee future benefits liabilities and its relatively high level of deferred and pending maintenance. In addition, there remains some policy uncertainty surrounding the Province of Ontario's (the Province; rated AA (low) by DBRS) funding and tuition frameworks.

The University posted a strong operating result in 2015–16, achieving a surplus of $210.6 million. The result was weaker than in previous years, though this was largely the result of weaker investment earnings. Enrolment increased strongly during the year (+3.5%), which drove tuition revenue higher and helped to offset flat operating grants and weak investment earnings. At the same time, expense growth increased as a number of divisions sought to increase spending on academic and other priorities. Notwithstanding these increases, divisions' operating fund reserves have continued to rise, reflecting U of T's considerable financial flexibility.

The University has tabled a balanced budget for the 2016–17 fiscal year and the outlook for subsequent years is positive. While Ontario's university sector is facing enrolment and funding-related challenges, U of T remains the Province's preeminent institution. The University continues to attract considerable amounts of research funding, student demand remains strong and donations from its large and generous large base of alumni and friends continue to rise. As such, DBRS believes that the University has ample financial flexibility to meet its evolving academic priorities and inflationary pressures.

The University continues to make significant investments in capital renewal and expansion across its three campuses; however, the strength of U of T'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, DBRS expects the debt burden per full-time equivalent (FTE), currently $9,317, to track lower as enrolment rises.

DBRS expects the ratings to remain stable over the medium term. A positive rating action, though unlikely, requires a significant improvement in the funding environment and an upgrade of the Provincial funder rating. A negative rating action, similarly unlikely, requires a significant and sustained deterioration in operating results and a marked deterioration in the University's balance sheet.

Financial Information

	For the year ended April 30				
	2015-2016	**2014-2015**	**2013-2014**	**2012-2013**	**2011-2012**
Consolidated operating result (DBRS-adjusted, CAD millions)	210.6	287.8	204.3	137.7	70.1
Surplus-to-revenue (five-year average)	6.6%	5.3%	3.6%	0.4%	-0.2%
Debt per FTE ($)	9,317	9,677	9,988	10,326	10,688
Interest coverage	8.9	8.7	5.6	6.1	2.6
Expendable resources to debt (times)	171%	155%	130%	111%	97%

Issuer Description

Founded in 1827, the University of Toronto is Canada's largest university with total FTE 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. U of T 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 preeminent universities
The University is one of Canada's leading universities and benefits from the strong reputation of its comprehensive academic and research programs as well as its world-class library system. Its established academic profile and strong demand, both international and domestic, will continue to drive enrolment growth across U of T's 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. Enrolment has continued to rise despite a decrease in system-wide applications in Ontario.

2. Considerable endowment fund
U of T has the largest endowment among Canadian universities, valued at approximately $2.1 billion at April 30, 2016, which translates to $27,197 per FTE. The fund provides an important source of income for departments with roughly 4% drawn annually to support operations specified, in most cases, by donors in support of student aid and faculty salary support. 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 has prudent and effective financial management practices and policies. The budget process is highly decentralized and emphasizes local responsibility and control, which results in improved medium-term planning and has led many divisions to achieve strong results and build operating reserves. This has translated into strong consolidated results in recent years. U of T 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 also has capital planning processes and a debt policy that seeks to meet its growing needs while preserving its long-term financial flexibility.

4. Large portfolio of downtown Toronto real estate
The University owns an important portfolio of real estate valued at over $2.0 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. Sizable post-employment liabilities
Similar to most of its peers with defined benefit plans, the University carries considerable unfunded pension and other post-employment liabilities on its balance sheet. The latest actuarial valuations as of July 1, 2015, revealed an improved going-concern deficit of $446.0 million and slightly worse solvency deficit of $1.1 billion compared to the prior year. U of T was approved for provincial solvency relief, which defers and reduces the annual requirement for special payments. Non-pension post-employment benefits totalled $567.3 million as at April 30, 2016 (accounting basis); although the University is not required to fund the non-pension post-retirement benefits, it has reserves to address a small portion of these liabilities over the long term.

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

3. Salary pressures
Salary and benefit costs are rising faster than government grants and will continue to put pressure on the University's finances. Salaries and benefits account for about 60% of total expense. Labour relations remain positive at this time, though DBRS notes that many of the collective agreements will begin to expire in 2017.

4. Moderately high debt burden
The debt burden stood at $9,317 per FTE in 2015–16, which remains high relative to other DBRS-rated universities, but consistent with an AA-range rating. The University does not expect to borrow in the near term and, thus, the debt burden should fall on a per-FTE basis as enrolment rises and a small portion of the existing debt amortizes.

2015–16 Operating Performance

The University generated a surplus of $210.6 million for the year ended April 30, 2016, which was down from the $287.8 million surplus recorded in the year prior. Total revenue growth slowed to 2.5% in 2015–16 largely because of weaker investment returns.

Tuition revenue rose sharply (+11.5%) with strong enrolment growth (+3.5%) and tuition-fee increases. Government grants for operations were down marginally (-0.6%) with the impact of the International Student Recovery operating grant reduction offsetting the impact of enrolment growth. The principal driver of the weaker revenue growth was the sharp contraction in investment income (-43.1%) that resulted from adverse market conditions.

Total expense growth was notably higher (+5.8%) than in previous years and was relatively broad based across expense categories. As noted elsewhere, the University is highly decentralized and has adopted an activity-based budget model that provides greater autonomy and responsibility to the division level. The system enables improved long-term planning by allowing the divisions to set aside funds for future priorities in reserves. Over the last number of years, the divisions' operating fund reserves have grown strongly and, in 2015–16, a number of divisions opted to increase spending on their academic priorities. In some instances, this led to smaller budget surpluses and, in other instances, required draws on operating fund reserves. In aggregate, however, the divisions have continued to achieve surpluses and the increased spending has simply slowed growth in operating fund reserves.

Net assets decreased modestly (-0.6%) from the prior year despite the strong operating result. The decline reflects remeasurement losses on the University's pension plan and investment losses on U of T's endowments.

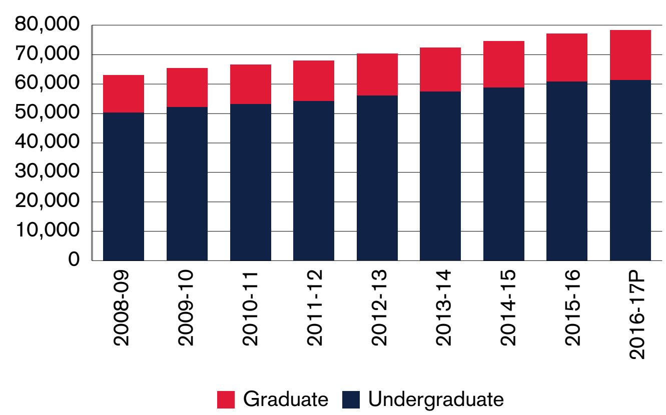
Operating Outlook

The University conducts business through four funds (operating, capital, ancillary and restricted); however, the detailed budget prepared by U of T 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.

2016–17 Budget and Outlook

The University's 2016–17 operating budget 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 $158.0 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. Tuition fees are set to increase, on average, by 3.0% for domestic students and 5.9% for international students. Enrolment is planned to increase by about 1,200 FTEs, or 1.6%, to 78,338 FTEs, which will push (1) operating grants slightly higher by $7.0 million and, when paired with tuition-rate increases, (2) tuition revenue by 8.4% ($144.3 million). Enrolment growth is generally being driven by growth at the UTM and UTSC campuses.

Exhibit 1: Total Enrolment (FTE)



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 the pension special payments budget to $102.3 million, which includes funding for pension special payments and other costs relating to the pension contribution strategy, and will continue to seek cost-containment measures of $2.0 million (1.0%) in the shared service budget.

U of T prepares a mid-year forecast to update the administration and the Governing Council on the University's financial affairs. The update occurs at the end of the calendar year and is typically presented at the January Governing Council meeting. The University expects the forecast to be largely in line with budget expectations.

Medium-Term Outlook

The operating environment remains challenging for Ontario universities because of limited growth in government operating grants and a decreasing university-aged population in the Province. This has led to increasing competition among Ontario universities for domestic undergraduate students and has necessitated a growing

Operating Outlook (CONTINUED)

reliance on international students by some institutions. Despite the challenges, DBRS does not expect U of T to face significant difficulties over the medium term. The University remains one of Canada's leading post-secondary institutions and student demand has remained strong. Moreover, with additional capacity at its UTM and UTSC campuses, U of T is projecting enrolment to rise by 4,000 FTEs over the next five years.

The Province is currently reviewing the provincial funding and tuition-fee frameworks. At this time, there is little public information about possible changes to either framework, though DBRS expects that the operating grant funding will remain relatively stable over the near term and that the Province would provide transitional support to universities that are adversely affected by changes to the grant system. At the same time, the existing tuition-fee framework, which limits annual increases, is set to expire at the end of the current academic year. DBRS expects that the next iteration of the tuition-fee framework is unlikely to provide the universities with greater flexibility than what is already provided under the current system, but could conceivably allow for some one-time adjustments.

A further area of uncertainty is the next round of Strategic Mandate Agreements (SMAs). Ontario universities signed SMAs with the Province in 2014 covering the 2014–15 to 2016–17 academic years. These agreements set out broad priorities for the various universities within the context of the Province's objective to see greater differentiation and specialization by the universities. The SMAs also imposed specific reporting requirements. It is expected that the next round of SMAs will be more specific and targeted and that some portion of university funding will be at risk if specific objectives or targets are not met. DBRS expects at-risk funding to remain a relatively small share of total funding and that transitional measures will be in place. DBRS does not expect U of T to be adversely affected by the next round of SMAs.

The University's pension plans remain a challenge, given the size of the funding shortfalls. U of T will be required to file its 2017 actuarial valuation, which could identify larger going-concern and solvency deficits, given the weak market returns over the last 18 months and the decline in long-term interest rates. Nevertheless, these challenges are long term in nature and are not expected to impose an undue challenge to the University's operating budget in the short term. As outlined later in the debt section, the Province has extended its solvency relief measures and initial indications suggest that the added cash requirements for pension special payments can be accommodated within the existing budget allocation for special payments.

While there remains some policy uncertainty and pension challenges, DBRS expects the University's operating outlook and ratings to remain stable. U of T is a highly rated and globally renowned university, which attracts top talent and gives the University an advantage in attracting students over other universities in the region. The funding outlook is likely to remain constrained; however, U of T has the capacity to increase enrolment and benefits from a breadth of other revenues sources. As such, DBRS expects that the University is likely to continue to post strong operating results and build further balance-sheet flexibility.

Capital Plan

Capital spending amounted to $227.7 million in 2015–16 and the University anticipates higher 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 its 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. U of T requires proposals to include funding/financial plans and that the incremental operating costs be accommodated in divisional budgets. With this approach, the University has been successful in containing project scale and costs, securing fundraising and minimizing borrowing requirements.

As noted in past years, U of T 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 (Daniels Faculty of Architecture, Landscape & Design);
- The Centre for Engineering Innovation and Entrepreneurship (Faculty of Applied Science & Engineering); and
- 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. U of T is also seeking to increase capacity at its UTM and UTSC campuses as the University is planning for significant enrolment growth. U of T recently completed the Environmental Sciences and Chemistry building at UTSC and is currently constructing the Mississauga North Building at UTM.

The University has one the largest university campuses in North America and a long history. Many buildings have heritage designations and 36 building are over 100 years of age. As such, U of T has a considerable amount of deferred and pending maintenance estimated at $518.0 million, the bulk of which is on the St. George campus.

Capital Plan (CONTINUED)

The operating budget includes $16.0 million for deferred maintenance for the St. George campus and the annual allocation will rise to $18.0 million over the next two years. DBRS notes that operating contributions to deferred and pending maintenance appear to be relatively modest in relation to other DBRS-rated universities. The University has received funding from the Government of Canada's Post-secondary Strategic Infrastructure Fund (SIF) to upgrade over 560 labs. The project (Lab Innovation for Toronto) has a total cost of $189.8 million and will receive $83.7 million in support from the federal government and $14.3 million from the Province. The renewal should further alleviate some of the deferred maintenance pressures.

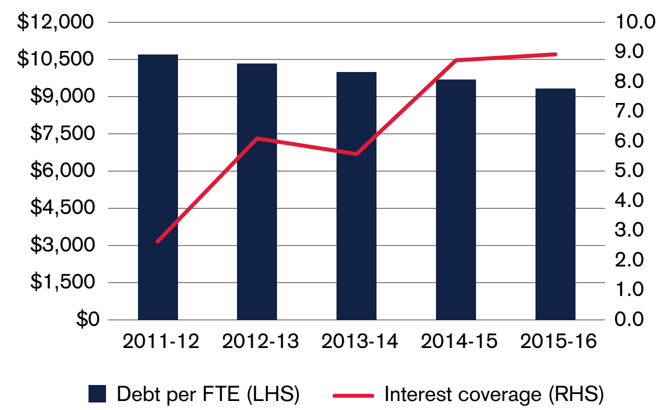
Debt and Liquidity

As of April 30, 2016, the University's long-term debt amounted to $718.6 million, down slightly from the year before. Strong enrolment growth pushed the debt burden on a per-FTE basis lower to $9,317 from $9,677. U of T's outstanding debentures are long-dated with maturities spread between 2031 and 2051. Interest charges remain modest at $38.5 million, or 1.4% of total expense, and interest coverage has risen in recent years and remains elevated at 8.9 times (x) in 2015–16.

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 U of T maintain a viability ratio of 0.8 or higher, defined as expendable resources divided by debt.

Exhibit 2: Debt Per FTE and Interest Coverage



At April 30, 2016, both metrics were in favourable positions relative to the policy guidelines. The University's debt burden ratio was 3.5% and its viability ratio was 1.10. Although not required by the master trust indenture, the University has established a sinking fund, the Long-Term Borrowing Pool, to accumulate funds for the repayment of the $710.0 million in debentures. At April 30, 2016, the sinking fund had a balance of $227.3 million.

The University's balance sheet continues to retain considerable flexibility. While the overall net asset balance does exhibit some year-to-year volatility, much of this is attributable to remeasurement gains and losses on the University's pension plan and post-retirement benefits. To better understand the level of and changes and in the University's financial flexibility, DBRS estimates U of T's expendable resources as a sub-set of net assets, which includes unrestricted net assets, internally restricted net assets and internally restricted endowments. DBRS estimates the University's expendable resources to be $1.2 billion at April 30, 2016. Expendable resources have risen steadily in recent years with positive operating results and the accumulation of operating fund reserves. The ratio of expendable resources to debt has risen to 171% at April 30, 2016, from 100% four years earlier.

The University's endowments contracted modestly to $2.1 billion after incurring investment losses because of adverse market conditions. Enrolment on a per-FTE basis fell to $27,197. U of T has the largest university endowment in Canada.

The University's pension plans, in aggregate, continue to be in deficit positions. U of T conducts annual actuarial valuations and files a valuation triennially with the regulator. The July 2015 valuation identified a going-concern deficit of $446.0 million and a solvency deficit of $1.1 billion. The July 2016 valuation is not yet complete, but initial indications suggest a worsening on both bases as a result of poor investment returns during the year and the further decline in long-term interest rates.

The University was approved for stage 2 solvency relief, which defers solvency payments until July 1, 2018. U of T has been increasing its budget allocations for special payments. The budget allocates $102.3 million in 2016–17 for special payments and other costs related to the pension contribution strategy. The budget allocation is planned to increase by $5.0 million in each of the next four years. While special payments related to the solvency deficit are deferred until July 1, 2018, the University is making special payments for 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 on July 1, 2017, or earlier.

The Province recently introduced regulations that will provide further temporary solvency relief. The new rules do not provide a further deferral of payments, but will significantly reduce payments from what was expected under stage 2 solvency relief. Preliminary indications suggest that the University will be able to accommodate the additional special payments within the planned budget allocation.

Debt and Liquidity (CONTINUED)

There remains some downside risk with respect to the next valuation, but the impact on special payments should not pose a significant challenge for U of T.

The changes to pension solvency relief continue to be temporary in nature, though the Province is conducting a broad-based review of pension solvency funding for both private- and public-sector plans. Given the widespread nature of the challenges, DBRS expects that further changes to pension solvency are likely forthcoming in 2017. Nevertheless, sector-wide discussions regarding a multi-employer jointly sponsored pension plan (JSPP) continue. The Province has indicated that a multi-employer JSPP might benefit from a permanent solvency exemption. DBRS does not believe that a multi-employer JSPP will be established in the near term, given the complexity of sector-wide pension reform and the further extension of temporary pension solvency relief.

Other employee future benefits fell modestly to $567.3 million at April 30, 2016, from $580.8 million in the year prior. These benefits are paid on a cash basis and there is no requirement for the University to set aside funds.

Outlook

U of T does not envision any near-term borrowing, which should result in the debt burden-per-FTE continuing to decrease as enrolment increases. If enrolment grows as projected, the debt burden should fall to about $8,800 per FTE over the next three years.

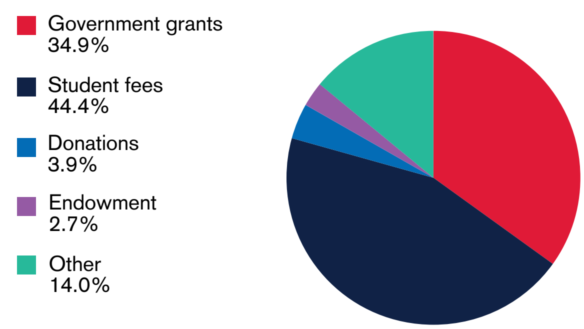
University Funding in Ontario

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/endowment income. For U of T, these accounted for approximately 86% of total revenues in 2015-16.

Provincial government funding remains a 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 health care. In Ontario, the lack of indexation in base operating grants has also contributed to this trend. Over time, this has led to a gradual shift in the relative shares of revenue provided by operating grants and tuition. With constrained provincial funding, the share of University operations funded by operating grants has declined while that funded by tuition fees has increased.

Government Funding (provincial and federal, approximately 35%): This includes operating grants, research grants and contracts as well as capital grants, of which operating grants are the most important and stable revenue source. They are provided exclusively by the Province, primarily through a formula that allocates a certain number of basic-income units to students 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.

Exhibit 3: 2015-16 Revenue Sources (Total: $2,909 million)



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.

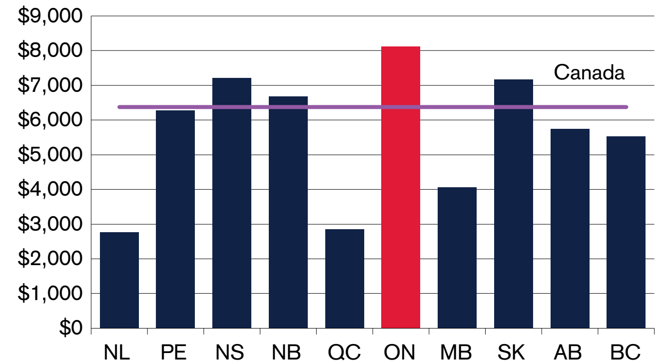
Government grants for research and capital projects are also an important source of funding. The federal government typically provides 65% to 75% of all public research funding whereas the Province provides the bulk of capital funding; however, the provincial government's increased emphasis on spending restraint to address its own budgetary challenges suggests limited flexibility for funding increases, which makes cost containment at universities that much more crucial. In the 2016 federal budget, a new $2.0 billion SIF was announced that will support up to 50% of eligible costs for shovel-ready projects that will enhance research and innovation capacity or improve environmental performance and can be completed within two years. The University will upgrade over 560 labs and receive $83.7 million from the SIF.

Debt and Liquidity (CONTINUED)

Student Fees (44%): The current tuition-fee framework was introduced by the Province in 2013–14 and covered the subsequent four-year period. The framework placed a cap on annual undergraduate 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%. The current academic year, 2016–17, is the final year of the tuition-fee framework. The Province has not provided any guidance for the tuition-fee framework beyond 2016–17.

Fundraising and Endowment Contributions (7%): Donations are a particularly important funding source for older institutions such as U of T, 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 $2.00 billion, over $1.95 billion of which has been secured to date. In recent years, the University has generally been able to raise more than $200.0 million in donations, of which more than half has been without restrictions.

Exhibit 4: 2016-17 Average Undergraduate Tuition Fees



Source: Statistics Canada.

University of Toronto

Statement of Financial Position (DBRS-Adjusted)

(CAD millions)

	For the year ended April 30				
Assets	**2016**	**2015**	**2014**	**2013**	**2012**
Cash & cash equivalents	114.0	144.0	113.4	104.1	121.0
Short-term investments	1,039.3	883.8	783.0	651.0	663.9
Accounts receivable	115.7	91.5	91.3	82.7	84.7
Inventories & prepaid expenses	20.3	20.6	19.8	18.6	23.5
Long-term investments	2,733.3	2,766.9	2,463.1	2,403.6	2,095.6
Capital assets	4,349.3	4,264.8	4,166.5	4,018.8	3,921.9
Other assets	60.7	46.2	43.9	46.4	45.2
Total assets	**8,432.6**	**8,217.8**	**7,681.0**	**7,325.2**	**6,955.8**
Liabilities and Net Assets					
Liabilities					
Accounts payable & accrued liabilities	350.4	328.2	324.9	298.4	278.1
Deferred contributions	504.1	454.2	404.0	372.7	371.2
Employee future benefit obligations	567.3	580.8	514.4	521.9	616.8
Accrued pension liability	797.4	617.4	683.8	1,122.9	1,250.2
Deferred capital contributions	1,145.9	1,140.2	1,130.9	1,076.4	1,018.3
Long-term debt	718.6	721.1	722.8	726.0	727.7
Total liabilities	**4,083.7**	**3,841.9**	**3,780.8**	**4,118.3**	**4,262.3**
Net Assets					
Accumulated surplus (deficit)	(52.0)	(89.5)	(124.6)	(129.7)	(134.9)
Internally restricted funds	2,303.2	2,323.3	2,144.0	1,672.9	1,310.3
Endowment - internally restricted	318.4	321.4	276.0	247.9	230.8
Endowment - externally restricted	1,779.3	1,820.7	1,604.8	1,415.8	1,287.3
Total Net Assets	4,348.9	4,375.9	3,900.2	3,206.9	2,693.5
Total liability and net assets	**8,432.6**	**8,217.8**	**7,681.0**	**7,325.2**	**6,955.8**
Contingencies & Commitments					
Construction & renovation in progress	422.3	374.6	333.3	252.0	229.5
Rental leases	157.1				
Operating leases	20.2	16.2	18.4	14.6	14.2
Loan guarantees	7.9	7.4	6.7	6.6	7.2
	607.5	**398.2**	**358.4**	**273.2**	**250.9**

Note: 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.

University of Toronto
Statement of Operations (DBRS-Adjusted)

(CAD millions)	For the year ended April 30				
	2016	**2015**	**2014**	**2013**	**2012**
Total revenue	2,909.0	2,839.4	2,710.2	2,563.3	2,406.0
Total expense	2,698.4	2,551.6	2,505.9	2,425.6	2,335.9
Net income	**210.6**	**287.8**	**204.3**	**137.7**	**70.1**
Pension and benefit recovery (expense) - remeasurement 1	n/a	n/a	n/a	n/a	(396.1)
Consolidated balance, as reported	**210.6**	**287.8**	**204.3**	**137.7**	**(326.0)**
Revenue					
Student fees 2	1,291.7	1,158.6	1,039.0	944.7	1,291.7
Government grants for operations	710.1	714.1	706.0	703.6	710.1
Other grants for restricted purposes	382.9	397.1	386.5	391.5	382.9
Investment income (loss)	109.1	191.8	178.6	151.3	109.1
Sales, services and sundry income	301.6	292.0	309.8	288.5	301.6
Donations 3	113.6	85.8	90.3	83.7	113.6
Total operating revenue	**2,909.0**	**2,839.4**	**2,710.2**	**2,563.3**	**2,406.0**
Expense					
Salaries and benefits	1,599.3	1,545.5	1,522.9	1,478.6	1,409.0
Materials and supplies	162.3	151.8	151.2	147.5	151.5
Student aid	218.5	206.0	199.1	186.3	176.3
Repairs and maintenance	124.8	107.3	96.0	88.2	81.7
Cost of sales & services	88.7	85.0	87.7	87.9	84.6
Utilities	61.4	55.5	59.1	51.9	53.0
Amortization	158.6	152.1	204.9	204.1	208.5
Interest	38.5	38.6	38.8	39.9	34.3
Other expenses	246.3	209.8	149.6	139.0	137.8
Total expense	**2,698.4**	**2,551.6**	**2,505.9**	**2,425.6**	**2,335.9**
Capital expenditures	258.8	258.8	252.4	204.7	219.6

Note: 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 fee.
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.

University of Toronto
Statement of Cash Flows (DBRS-Adjusted)

	For the year ended April 30				
(CAD millions)	2016	2015	2014	2013	2012
Operating balances as reported	210.6	287.8	204.3	137.7	(326.0)
Amortization	158.6	152.1	146.2	141.2	137.0
Other non-cash adjustments	(64.3)	(141.9)	(173.1)	(75.4)	245.1
Cash flow from operations	**304.9**	**298.0**	**177.4**	**203.5**	**56.1**
Change in working capital	33.8	68.8	35.7	28.6	42.3
Operating cash flow after working capital	**338.7**	**366.8**	**213.1**	**232.1**	**98.4**
Net capital expenditures 1	(169.2)	(192.0)	(157.7)	(99.2)	(132.0)
Free cash flow	**169.5**	**174.8**	**55.4**	**132.9**	**(33.6)**

Note: 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 capex, less donations and grants received during the year for the purchase of capital assets.

Outstanding Debentures

	Maturity	Interest Rate	Amount 1 (CAD millions)
Series A Senior Unsecured Debentures	Jul 2031	6.780%	160.0
Series B Senior Unsecured Debentures	Dec 2043	5.841%	200.0
Series C Senior Unsecured Debentures	Nov 2045	4.937%	75.0
Series D Senior Unsecured Debentures	Dec 2046	4.493%	75.0
Series E Senior Unsecured Debentures	Nov 2051	4.251%	200.0
Total			**710.0**

1 Principal payable upon maturity.

University of Toronto
Summary Statistics (DBRS-Adjusted)

	For the year ended April 30				
	2016	**2015**	**2014**	**2013**	**2012**
Total students (FTEs)	77,140	74,516	72,371	70,311	68,088
- Undergraduate	79.0%	79.0%	79.5%	79.9%	79.8%
- Graduate	21.0%	21.0%	20.5%	20.1%	20.2%
Annual change (%)	3.5%	3.0%	2.9%	3.3%	2.2%
Total staff 1	14,738	14,345	14,503	13,832	13,807
- Academic staff 1	8,423	8,251	7,953	7,439	7,615
Operating Results					
Surplus (deficit) (CAD millions)	210.6	287.8	204.3	137.7	70.1
- As % of revenues	7.2%	10.1%	7.5%	5.4%	2.9%
Debt & Liquidity Analysis					
Total long-term debt (CAD millions)	718.6	721.1	722.8	726.0	727.7
- Per FTE student ($)	9,317	9,677	9,988	10,326	10,688
LT debt, contingencies & commitments (CAD millions)	2,690.8	2,317.5	2,279.4	2,644.0	2,845.6
- Per FTE student ($)	32,850	31,101	31,496	37,604	41,793
Liquid assets ($ millions)	1,153.3	1,027.8	896.4	755.1	784.9
- As % of total expenditures	42.7%	40.3%	35.8%	31.1%	33.6%
- As % of current liabilities	329.1%	313.2%	275.9%	253.0%	282.2%
Interest costs as % of total expenditures	1.4%	1.5%	1.5%	1.6%	1.5%
Interest coverage ratio (times)	8.9	8.7	5.6	6.1	2.6
Expendable resources ($ millions)	1,226.4	1,116.8	937.9	805.4	703.5
- As % of total debt	171%	155%	130%	111%	97%
Endowment Funds					
Total endowments ($ millions)	2,097.7	2,142.1	1,880.8	1,663.7	1,518.1
- Per FTE student ($)	27,193	28,747	25,988	23,662	22,296
- Set payout rate	3.7%	4.1%	4.4%	4.7%	4.6%
- Annual return on assets	-0.3%	15.0%	14.6%	11.4%	1.0%

1 Includes part-time staff and teaching assistants.

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, March 11, 2016.

Related Research

- *Rating Public Universities*, June 27, 2016.
- Canadian Peer University Comparison Table, November 16, 2016.
- Business and Financial Risk Assessments, November 16, 2016.

Previous Report

- University of Toronto: Rating Report, March 11, 2016.

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.