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) 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 the University's exceptional academic profile, strong student demand and effective management practices, which have translated into positive operating results and a strong balance sheet. Large pension and post-retirement benefit liabilities do represent credit challenges but have improved in recent years.

The University reported an exceptional operating result for the 2017–18 fiscal year, with a $465 million surplus and a $486 million increase in net assets. The strong results reflect relatively strong investment earnings, the accumulation of operating and capital reserves and the impact of making significant capital investments funded, in part, by government capital grants.

The University's strategic direction remains unchanged from past years, though the outlook for enrolment has weakened because of the new Strategic Mandate Agreement (SMA). Ontario universities concluded their second SMA with the Province of Ontario in late 2017 and early 2018. These agreements set out academic priorities, enrolment targets and funding expectations. Under U of T's agreement, enrolment and operating grant funding are now expected to remain relatively stable during the 2017–20 period.

While the SMAs were intended to provide a degree of policy and funding certainty to the university sector, the recent change in government does create uncertainty. The Progressive Conservative (PC) Party of Ontario's election platform was largely silent on post-secondary education policy but did commit to a broader effort to reduce the size of the public sector to balance the provincial budget and to fund tax reductions.

Nevertheless, U of T remains among the strongest universities from a financial management perspective. The University continues to budget for balanced budgets and maintains significant budget and balance sheet flexibility. In addition, the University has a strong management team and a responsive budget model. The University continues to make significant investments in

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Financial Information

	For the year ended April 30				
	2017-18	**2016-17**	**2015-16**	**2014-15**	**2013-14**
Operating balance (DBRS-adjusted, $ millions)	465	417	211	288	204
Debt per FTE ($)	8,995	9,145	9,317	9,677	9,988
Expendable resources to debt	208%	207%	171%	155%	130%
Interest coverage (times)	10.5	8.8	8.8	8.6	5.5
Surplus-to-revenue (five-year average)	10.3%	8.7%	6.6%	5.3%	3.6%

Issuer Description

Founded in 1827, the University of Toronto is Canada's largest university, with enrolment of more than 90,000 students (78,262 full-time equivalents (FTEs)). Located on three campuses — downtown Toronto (St. George), Mississauga (UTM) and Scarborough (UTSC) — the University offers a range of undergraduate, graduate and professional programs and is home to one of the most extensive library systems in North America. The University's campuses are in the Greater Toronto Area, Canada's largest urban centre, which has a population of 6.4 million.

Rating Update (CONTINUED)

capital renewal and expansion; however, the strength of U of T's balance sheet and its effective approach to capital budgeting preclude the need for material new borrowings. DBRS projects the University's debt burden will fall below $8,900 per FTE in 2018–19 and track modestly lower over the medium term.

DBRS expects the ratings to remain stable over the medium term given the University's exceptionally strong financial ratios and stable academic profile. A positive rating action would require an improvement in the funding environment or an upgrade of the Province. A negative rating action could result from a significant and sustained deterioration in operating results leading to a significant weakening of the balance sheet.

Rating Considerations

Strengths

1. A leading Canadian university
U of T is one of Canada's leading universities and benefits from the strong reputation of its comprehensive academic and research programs as well as its excellent library system. Its established academic profile and strong demand from both domestic and international students continues to drive enrolment growth across U of T's three campuses. The Unversity's credit profile further benefits from the scale of being the largest university in Canada and being located in Canada's largest population centre.

2. Strong balance sheet
Over the last five years, the University's balance sheet has shown consistent improvement, which provides the University with considerable financial flexibility. Unfunded pension liabilities have fallen sharply, while financial resources in the form of endowed assets (+50%) and expendable resources (+84%) have risen strongly. As at April 30, 2018, expendable resources were twice the University's outstanding long-term debt. The University maintains ample liquidity in the form of cash and short-term investments.

3. Effective financial management practices
The University has effective management practices. The budget process is highly decentralized, emphasizing local responsibility and control, and has led many divisions to achieve strong results and build reserves in recent years, translating into substantial surpluses at the institutional level. 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 five-year planning period. The University also has a debt policy and capital-planning processes that seek to meet the University's growing needs while preserving its long-term financial flexibility.

4. Downtown Toronto real estate
The University owns a 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 UTSC and Mississauga UTM campuses. The University continues to actively explore opportunities to exploit its prime real estate holdings to generate new revenue to support its academic mission.

Challenges

1. Constrained provincial funding
The University derives three quarters of its revenue from tuition fees and provincial operating grants. While these revenue sources are stable and largely predictable, the Province maintains considerable control. In recent years, revenue growth has been constrained by provincial policy. There is now added uncertainty as the recently elected PC government seeks to identify efficiencies to fund its tax reduction and other priorities.

2. Large pension and post-employment benefit liabilities
The University carries considerable unfunded pension and other post-employment liabilities on its balance sheet. The most recent actuarial valuation (2017) determined the pension going-concern deficit was $362.4 million and the University reports $591 million in other non-pension, post-employment benefit obligations.

3. Labour costs
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.

4. Deferred maintenance
The University has a considerable amount of deferred and pending maintenance (DM) on its St. George campus, which reflects the University's long history. The University currently estimates DM to total $659 million. Over the last decade, the University has increased funding to address DM, which has significantly reduced the highest priority category, but DM nevertheless remains elevated. The University's facilities condition index has remained relatively stable for the three campuses. The current estimates are 6.7% for UTSC, 11.0% for UTM and 14.7% for St. George.

2017–18 Operating Performance

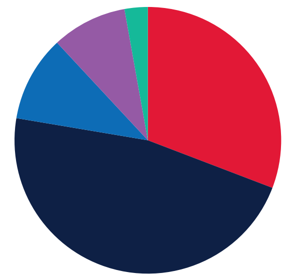
The University reported a surplus of $465 million for the year ended April 30, 2018, which is the second consecutive year of exceptional operating results. On a relative basis, the surplus equates to 13.8% of revenue. The result was principally the result of relatively strong investment earnings, the accumulation of operating and capital reserves, and the impact of making significant capital investments funded in part by capital grants.

Total revenue rose moderately (+5.1%), driven largely by growth in student fees and donations. Tuition and other student fees were higher (+10.6%), supported by modest enrolment growth (+1.2%; both domestic and international) and fee increases. The University increased fees to the extent permitted by the provincial framework for domestic students and by 5.9%, on average, for international students.

Government grants were marginally higher (+0.4%) during the year, with modest growth in operating grants (+1.4%) offset by a decline in restricted grants (-1.2%). Investment income fell to $180 million (-18.2%), which exceeded the University's target return but follows the exceptional results in the year prior (post-Trump-election equity market rally).

Total expense rose moderately (+4.1%), reflecting growth in most expense categories. Salary and wage escalation was modest in the final year of most of the University's major collective agreements; however, headcount continued to rise (+3.4%) to meet growth in enrolment and research activity. Other areas of expense rose modestly (+2.8%), which broadly reflects the ongoing growth in the scale of the University operations and inflationary pressures.

2017-18 Revenue by Source (Total: $3.4 billion)



The University has a decentralized, activity-based budget model, which has supported strong operating results in recent years. The budget model places greater autonomy and responsibility with faculties/divisions and encourages faculties/divisions to set aside reserves to support their long-term objectives and to manage enrolment and other risks. Many faculties plan for modest surpluses/reserve accumulation as part of their budget planning, which leads the University to consistently report strong operating results and rising reserve balances.

Net assets jumped by $486 million (+8.9%) on account of the strong operating results ($465 million), endowed contributions ($39 million) and investment earnings on the externally restricted endowment ($61 million), though partially offset by remeasurements and other items relating to employee future benefits (-$79 million).

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 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.

2018–19 Budget and Outlook

The University's 2018–19 operating budget is balanced at the institutional level, as are each of the subsequent four years in the outlook. This is consistent with the University's standard budgeting practice. While balanced at the institutional level, some academic units will incur operating deficits. The University continues to work with these units to achieve longer-term budget sustainability.

This budget is largely consistent with previous budgets. The University has not made any significant changes to internal budget processes or policies, nor has it shifted its strategic goals and objectives. Operational and financial planning continues to align closely with the University's longer-term objectives, as reflected in U of T President Meric Gertler's *Three Priorities* and the goals contained in the University's *Towards 2030*, foundational strategy documents that emphasize internationalization, improving the student experience and leveraging the University's location in Toronto. The budget provides incremental funding for initiatives oriented toward the University's strategic objectives and continues to include various provisions to accommodate provincial policy uncertainty (i.e., pension funding requirements, tuition and funding frameworks, etc.).

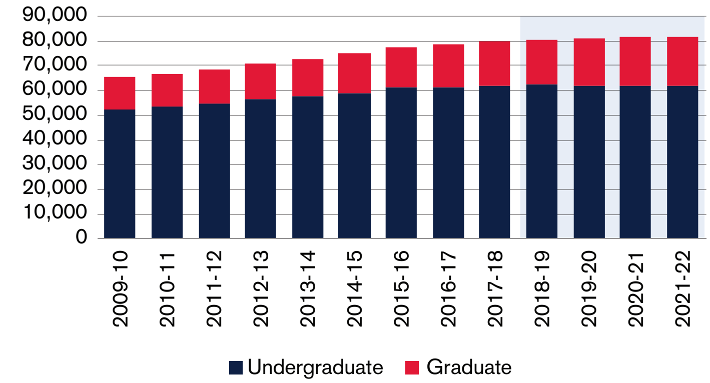
The University projected moderate growth in revenue (+8.2%). As in past years, revenue growth is driven primarily by student fees (+10.8%) as government funding remains restrained (+1.2%).

Operating Outlook (CONTINUED)

Under the new SMA (SMA2), the University's operating grants are largely fixed based on 2016–17 enrolment levels, though the University will benefit from some incremental funding tied to the Province's expansion of graduate student spaces in the province.

Total enrolment is planned to rise by 887 FTEs (+1.1%), the slowest pace in a decade. Growth in undergraduate enrolment is set to slow because of SMA2. Under the agreement, the University will seek to reduce domestic undergraduate enrolment by 1,800 FTEs at the St. George campus and hold undergraduate enrolment stable at UTM and UTSC over the three-year period (2017–18 to 2019–20). In 2018–19, the University will seek to offset some of the declines in domestic undergraduate enrolment by increasing international and graduate student enrolment.

Total Enrolment (FTEs)



The University will increase tuition fees to the extent permitted by the provincial framework for domestic students. Under the framework, the University can raise fees for undergraduate arts and science students by 3.0% and for higher-cost, professionally oriented programs by 5.0%, providing the overall institutional average does not increase by more than 3.0%. International student tuition fees are set to rise, on average, by 6.1%.

The University's budget and planning process requires a balanced budget. At year end, however, the reported results tend to diverge because of reserve accumulation and investment returns. The budget does provide for budget increases for shared services to meet required compensation increases and rising facility costs and allocates new funding for university priorities (e.g., additional tenure and teaching stream faculty, increased supports for international students and for mental health, increased student financial support and experiential learning and research).

Medium-Term Outlook

The operating environment for Ontario universities appears somewhat uncertain through the medium term because of the recent change in province government. Under the existing framework, provincial operating funding was to remain stable and the universities were provided with flexibility to raise tuition fees. Going forward, however, it is unclear how post-secondary education policy will shift. The PC Party of Ontario's election platform was largely silent on post-secondary policy. However, the platform does commit to a broader effort to reduce the size of the public sector to balance the provincial budget and to fund tax reductions.

Despite the uncertainty, DBRS does not expect U of T to face significant difficulties over the medium term. The University is one of Canada's leading post-secondary institutions and student demand remains strong. The University also has greater financial and operational flexibility when compared with other Ontario universities.

The University's strategic direction has been stable in recent years. The University continues to shape its plans in accordance with the President's *Three Priorities* and *Towards 2030*. The strategic outlook is unlikely to change through the medium term given the recent reappointment of Meric Gertler to a second term as University President (2018–23).

Ontario universities negotiated *Strategic Mandate Agreements (2017–2020)* with the Province over the last two years. These agreements are part of a broader effort by the Province to drive differentiation in the sector, improve academic outcomes and enhance accountability. The current iteration of agreements provides for stable funding during the coming three-year period and sets the stage for some at-risk funding (tied to outcomes) in the future. The current agreements also seek to address enrolment-related challenges facing weaker or more remote universities. For U of T, the SMA envisions stable operating funding for the three-year period and total enrolment remaining largely stable at around 80,000 FTEs. Previously, the University had envisioned modest enrolment growth. Nevertheless, the plan remains largely consistent with the University's academic priorities.

The University's focus on research intensification envisions growth in domestic and international graduate student enrolment at the St. George campus. The new SMA provides new funding for both domestic and international graduate students (631 master's students and 198 PhD students). Undergraduate enrolment will remain relatively stable with a planned decrease on the St. George campus offset by growth on the UTM and UTSC campuses over the next five years. During the period, domestic undergraduate student enrolment will decline slightly and be offset by growth in international undergraduate enrolment.

International students accounted for 21.3% of the student population in 2017–18 (22.5% undergraduate and 16.8% graduate). Over the next five years, the enrolment plan implies a modest increase in the proportion of international students (22.7% in 2022–23). International students are an important component of the University's internationalization effort. They contribute to the diversity of ideas and opinions in the classroom and support

Operating Outlook (CONTINUED)

the University's efforts to build international partnerships. International student fees are not subject to the same constraints as tuition fees for domestic students. While this is supportive of the University's budget and provides financial flexibility, international students are also somewhat riskier. Enrolment can be adversely affected by changes in immigration policies, geopolitical events, university ratings, etc. The University's international student population is concentrated with about 65% of international undergraduate and 35% of graduate students from the People's Republic of China. The University is working to diversify its international student population to reduce enrolment risk.

Labour relations remain positive and constructive at the University. U of T recently concluded collective agreements with its major bargaining units that stretch into the early 2020s. The agreements generally provided a one-time adjustment and annual wage and salary increases around 2.0%.

Capital

The University's capital program has expanded in recent years as it seeks to replace aging infrastructure and build new capacity across its three campuses, supported in part by an increase in government funding for research and innovation-related infrastructure. In 2017–18, capital investment jumped to $576 million, which was more than double what the University typically invested in recent years.

The University has a well-established capital budgeting process that seeks to direct resources to the highest priority projects (aligned with academic plans and University needs). U of T requires capital proposals to include funding plans, relatively large upfront cash contributions and for the incremental operating costs to be fully accommodated in divisional budgets. With this approach, the University has been successful in prioritizing capital development while maintaining a strong balance sheet.

The surge in capital investment during 2017–18 reflects a number of recently concluded and ongoing projects. Among others, these include:

- **Lab Innovation for Toronto ($195 million):** 560 labs across the three campuses were renovated with support from the Province's Facilities Renewal Program ($14 million) and the federal government's Strategic Investment Fund ($84 million).
- **Land and building acquisition ($125 million):** The University acquired 4.3 acres of land that adjoins the St. George campus. The property has a 15-story building and two smaller buildings, all of which are leased on a long-term basis.
- **Myhal Centre for Engineering Innovation and Entrepreneurship ($43 million):** An eight-story, multidisciplinary building on the St. George campus.
- **UTM North Building ($59 million):** 210,000 square foot (sf) facility with academic, administrative and student spaces.
- **UTSC Highland Hall ($25 million):** 134,000 sf facility with academic, administrative and student spaces.

The University expects capital investment to remain elevated going forward with several major projects in various stages of planning and development, including a science building at UTM and a major campus landscaping project at St. George.

The University has one of the largest and oldest university campuses in North America. Many buildings at St. George have heritage designations and 36 buildings are more than 100 years of age. As such, U of T has a considerable amount of deferred and pending maintenance estimated at $659 million for academic and non-academic buildings, the bulk of which are on the older St. George campus. While the DM is elevated, the University has made significant progress over the last decade to significantly reduce the highest priority needs and intends to continue providing funding to slow further deterioration of the infrastructure stock.

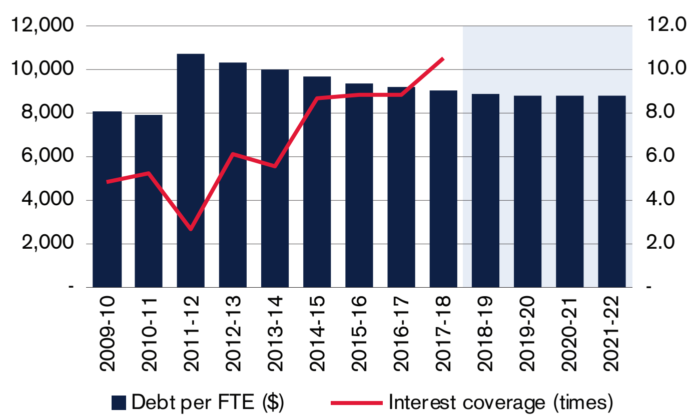
The operating budget for 2018–19 includes $18 million for DM on the St. George campus and the University plans to increase the annual allocation to $20 million over the next four years. The University sets aside an additional $2.5 million for UTM and UTSC.

Debt and Liquidity

The University's long-term debt fell slightly to $713.0 million at April 30, 2018, which reflected the amortization of some small mortgages and term debt. On a per-student basis, this translated into a more pronounced decline because of ongoing enrolment growth. The debt burden fell to $8,995 per FTE at April 30, 2018 from $9,145 per FTE the year prior.

U of T's outstanding debentures are long dated with maturities spread between 2031 and 2051. Interest charges remain modest at $38.0 million, or 1.3% of total expense, and interest coverage remains high at 10.5 times (x).

Debt per FTE and Interest Coverage



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, 2018, the sinking fund had a balance of $344 million, up from $281 million a year earlier. DBRS does not net the value of the sinking fund against the University's debt burden.

The University's balance sheet continues to retain considerable flexibility and is among the strongest of DBRS-rated universities. While the overall net asset balance does exhibit some year-to-year volatility, much of this volatility is attributable to remeasurement gains and losses on the University's pension plan and post-retirement benefits. To better understand the level and change 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 were $1.5 billion at April 30, 2018, unchanged from the year prior. Nevertheless, 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 208% at April 30, 2018, from 111% five years earlier. The ratio is among the highest of DBRS-rated universities.

The University's endowments grew moderately (+5.2%) in 2017–18, reflecting investment returns during the year as well as ongoing endowed contributions to the university. In aggregate, the endowments increased by $124 million to $2.5 billion, or $31,591 per FTE. The University has the largest endowment among Canadian universities and one of the largest on a per-student basis.

Employee Future Benefits

The University's most recent financial statements continue to show a pension shortfall of $319 million, which is slightly higher than the year before. The deterioration primarily reflects the University's decision to lower the discount rate used to value the accrued benefit obligation by 20 basis points to 5.55%.

The University conducts annual actuarial valuations. The most recent valuation, as of July 1, 2017, showed a significant improvement in the pension plan's going concern and solvency funding statuses. On a going concern basis, upon which DBRS tends to place more weight given the ongoing nature of public universities, the shortfall fell to $362 million (from $573 million) and the solvency deficit fell to $1.2 billion (from $1.7 billion). The solvency valuation assumes the wind-up of the pension plan on the valuation date and uses prevailing long-term interest rates to value the obligations. The improvement was primarily the result of strong investment returns during the prior year. The plan's solvency deficit is highly sensitive to changes in the discount rate. A one-percentage-point increase in the discount rate would reduce the solvency deficit by $721.9 million.

Like other Canadian public universities, U of T is an enduring institution, which makes the sudden wind-up of a pension plan unlikely. DBRS places less emphasis on the solvency valuation, though a large solvency deficit does put pressure on the credit profile because provincial regulations require universities make special payments to liquidate the going concern and solvency deficits.

The Province introduced temporary solvency relief measures in the wake of the financial crisis and has since extended and amended relief provisions. The current iteration of the funding regulations requires the University to make payments to liquidate 25% of the solvency deficits over a seven-year period and fund the interest costs on the remaining 75% of the liability. However, the Province has also announced broader, permanent changes to pension funding requirements for defined benefit pension plans. The elements of the new framework are as follows:

- Universities will only be required to make special solvency payments if the solvency funding status is less than 85%;
- The amortization period for amortizing the going concern deficit will be reduced to ten years from 15 years, and universities will be required to establish a reserve (Provision for Adverse Deviation); and

Debt and Liquidity (CONTINUED)

- The Province will increase the Pension Benefits Guarantee Fund monthly guarantee, which will likely require higher premiums.

The 2017 actuarial valuation was filed with regulators and was used to determine special payments. Beginning July 1, 2018, the University will be required to make special payments of $21.3 million for the net solvency deficit and $44.5 million for the going concern deficit. The impact of the new funding requirements are not clear at this time but the University continues to budget for rising pension costs.

At the same time, the University continues to work with Queen's University and the University of Guelph to develop a multi-employer jointly-sponsored pension plan for Ontario universities. DBRS understands the universities and their employee groups have made significant progress over the last two years and are now working towards an aggressive implementation date. Despite this progress, there remains several significant elements that need to be resolved, including obtaining consent from plan members and the creation of a governing body and administrative entity (i.e., people, infrastructure, processes, etc.).

For more information about Ontario university pension issues, see the DBRS commentary *Relief and Reform: Changes in Ontario's University Pension Landscape* (February 14, 2018).

Other employee future benefits fell slightly during the year to $591 million. Unlike the pension plan, the University is not required to set aside funds for employee benefits

Outlook

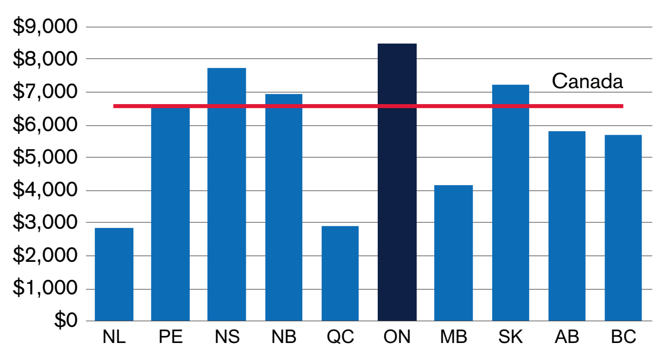
The University does not anticipate any material external borrowing over the next three years, which should result in the debt per FTE ratio falling modestly. DBRS projects that debt per FTE will drop to $8,870 in 2018–19 and trend modestly lower in subsequent years reaching $8,740 in 2020–21.

University Funding in Ontario

Canadian universities generally have three key sources of revenue for their core teaching and research activities: (1) government grants, (2) student fees and (3) donation and investment income. These accounted for 87% of U of T's revenue in 2017–18.

Provincial government funding remains one of the primary sources of revenue for universities across the country, although its relative importance remains under pressure in most provinces because of strained provincial finances and competing priorities. Over time, this has led to a gradual shift in the relative shares of revenue provided by operating grants and tuition. The share of university operations funded by operating grants has declined, while that funded by tuition fees has increased.

2017-18 Average Undergraduate Tuition Fees



Source: Statistics Canada.

Government Funding (Provincial and Federal, 31%)

Government funding includes operating grants, research grants and contracts, and capital grants. Operating grants are the most important and stable revenue source.

The Province introduced a new funding model for Ontario universities in 2017–18. The model is similar to the previous funding model with a large share of funding being enrolment based. The new model, however, seeks to reduce some of the financial incentives to increase enrolment and will provide those universities facing enrolment declines with downside protection. Ultimately, funding is expected to be relatively stable for all Ontario universities over the next three years. For more information about Ontario's new funding model, see the DBRS commentary *DBRS Comments on Ontario's New University Funding Model* (March 9, 2017).

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.

In the 2016 federal budget, the federal government announced the creation of a new $2.0 billion Strategic Investment Fund (SIF) to support post-secondary infrastructure development. The fund provides up to 50% of eligible costs for shovel-ready projects that enhance research and innovation capacity or improve environmental performance and can be completed ahead of the 2018–19 academic year. The University received funding to upgrade 560 labs under the SIF.

University Funding in Ontario (CONTINUED)

Student fees (47%)

The current tuition fee framework was introduced by the Province in 2013–14. It covered a four-year period and was subsequently extended for a further two-year period to 2018–19. The framework caps annual undergraduate tuition fee increases to 3.0% for most programs and 5.0% for most graduate and professional programs. The Province has yet to provide Ontario universities with guidance on the new iteration of the tuition fee framework.

The tuition fee framework also requires the University to set aside funds for student aid to support the Province's accessibility objectives. The University provides additional support to ensure no student admitted to U of T is unable to attend because of financial considerations.

Donation and Investment Income (9%)

Unrestricted donations and investment income recognized on the statement of operations typically represent about 10% of the University's revenue. Endowed contributions and investment income earned by the externally restricted endowments are recognized as changes in net assets and are not captured on the statement of operations until they are spent, at which point they are recorded as revenue.

The University has a well-established fundraising program and a large alumni base, which provide U of T with a considerable unrestricted donations and endowed contributions. In recent years, the University has focused on generating expendable donations to support its operations. In 2017–18, the University received $128 million in expendable donations and a further $39 million in endowed contributions.

The current fundraising campaign, *Boundless*, was launched in 2011 and is the largest university campaign in Canadian history, with a target of $2.0 billion for U of T and its federated universities (Trinity, Victoria and St. Michael's). The University reached its goal in November 2016, six months ahead of schedule. The University has since increased the campaign target to $2.4 billion and expects the campaign to conclude later in 2018.

University of Toronto
Statement of Financial Position

(DBRS-Adjusted) ($ millions)

	As at April 30				
Assets	**2018**	**2017**	**2016**	**2015**	**2014**
Cash and cash equivalents	70	102	114	144	113
short-term investments	1,414	1,321	1,039	884	783
Accounts receivable	78	90	116	91	91
Inventories and prepaid expenses	22	22	20	21	20
Long-term investments	3,337	3,135	2,734	2,767	2,463
Capital assets	4,890	4,473	4,349	4,265	4,167
Other assets	83	62	61	46	44
Total Assets	**9,894**	**9,205**	**8,433**	**8,218**	**7,681**
Liabilities and Net Assets					
Liabilities					
Accounts payable & accrued liab.	458	395	351	328	325
Deferred contributions	616	557	504	454	404
Employee future benefit obligations	591	594	567	581	514
Accrued pension liability	319	296	797	618	684
Deferred capital contributions	1,254	1,190	1,146	1,140	1,131
Long-term debt	713	716	719	721	723
Total liabilities	**3,951**	**3,748**	**4,084**	**3,842**	**3,781**
Net Assets					
Unrestricted net assets	(68)	(59)	(52)	(89)	(125)
Internally restricted net assets	3,507	3,136	2,303	2,323	2,144
Endowment - internally restricted	375	359	319	321	276
Endowment - externally restricted	2,129	2,021	1,779	1,821	1,605
Total Net Assets	**5,943**	**5,457**	**4,349**	**4,376**	**3,900**
Total Liabilities and Net Assets	**9,894**	**9,205**	**8,433**	**8,218**	**7,681**
Contingencies & Commitments					
Construction & renovation in progress	410	424	422	375	333
Rental leases	150	150	157		
Operating leases	9	8	20	16	18
Loan guarantees	8	8	8	7	7
	577	**590**	**607**	**398**	**358**

Note: University of Toronto's financial statements exclude the federated universities and research administered at the affiliated hospitals.

Outstanding Debentures

($ millions)

	Maturity	Interest Rate	Principal
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**

University of Toronto
Statement of Operations (DBRS-adjusted)

($ millions)

	For the year ended April 30				
Revenue	**2018**	**2017**	**2016**	**2015**	**2014**
Student fees 1	1,583	1,431	1,292	1,159	1,039
Government grants for operations	723	713	710	714	706
Other grants for restricted purposes	413	418	383	397	386
Investment income	180	220	109	192	179
Sales, services and sundry income	352	333	301	292	310
Donations 2	128	101	114	86	90
Total Revenue	**3,379**	**3,216**	**2,909**	**2,840**	**2,710**
Expense					
Salaries and benefits	1,717	1,669	1,600	1,546	1,523
Materials and supplies	227	218	217	203	170
Student aid	239	217	218	206	199
Repairs and maintenance	118	115	103	95	106
Cost of sales & services	113	106	89	85	88
Utilities	56	63	61	56	59
Amortization	178	165	159	152	146
Interest	38	38	39	39	39
Other expenses	228	208	212	170	176
Total expense	**2,914**	**2,799**	**2,698**	**2,552**	**2,506**
Operating Surplus (deficit), as reported	**465**	**417**	**211**	**288**	**204**
Capital Expenditures	**576**	**284**	**228**	**259**	**252**

Note: University of Toronto's financial statements exclude the federated universities and research administered at the affiliated hospitals.
1 Includes tuition fees, ancillary service fees, application and registration fees, late registration fees, and service charges on unpaid fees.
2 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.

Calculation of Free Cash Flow

(DBRS-Adjusted) ($ millions)

	For the year ended April 30				
	2018	**2017**	**2016**	**2015**	**2014**
Operating balances as reported	465	417	211	288	204
Amortization	178	165	159	152	146
Other non-cash adjustments	(282)	(286)	(65)	(142)	(173)
Cash flow from operations	**361**	**296**	**305**	**298**	**177**
Change in working capital	115	116	34	69	36
Operating cash flow after working capital	**476**	**412**	**339**	**367**	**213**
Net capital expenditures 1	(459)	(171)	(169)	(192)	(158)
Free cash flow	**17**	**241**	**170**	**175**	**55**

Note: University of Toronto's financial statements exclude the federated universities and research administered at the affiliated hospitals.
1 Gross capital expenditures less donations and grants received during the year for the purchase of capital assets.

University of Toronto
Summary Statistics (DBRS-Adjusted)

	For the year ended April 30				
	2018	**2017**	**2016**	**2015**	**2014**
Total students (FTEs)	**79,262**	**78,291**	**77,130**	**74,516**	**72,370**
Undergraduate	78%	79%	79%	79%	79%
Graduate	22%	21%	21%	21%	21%
Annual change (%)	1.2%	1.5%	3.5%	3.0%	2.9%
Enrolment (headcount)	**90,077**	**88,766**	**87,639**	**85,383**	**83,012**
Domestic	70,890	71,314	71,587	70,859	70,405
International	19,187	17,452	16,052	14,524	12,607
Total Employees (headcount)	**15,715**	**15,204**	**14,738**	**14,345**	**14,503**
Academic staff 1	8,898	8,564	8,423	8,251	7,953
Operating Results					
Surplus (deficit) ($ millions)	465	417	211	288	204
As share of revenues	13.8%	13.0%	7.3%	10.1%	7.5%
As share of revenues (five-year rolling average)	10.3%	8.7%	6.6%	5.3%	3.6%
Revenue Mix (As a share of total DBRS-adjusted revenue)					
Government grants	30.8%	32.2%	34.9%	36.3%	37.4%
Student fees	46.8%	44.5%	44.4%	40.8%	38.3%
Ancillary	10.4%	10.4%	10.3%	10.3%	11.4%
Donations and investment income	9.1%	10.0%	7.7%	9.8%	9.9%
Other	2.8%	3.0%	2.6%	2.8%	2.8%
Debt and Liquidity Analysis					
Total long-term debt ($ millions)	713.0	716.0	718.6	721.1	722.8
Per FTE student ($)	8,995	9,145	9,317	9,677	9,988
Debt, contingencies and commitments ($ millions)	2,200.0	2,196.0	2,691.0	2,318.3	2,279.4
Per FTE student ($)	27,756	28,049	34,889	31,111	31,496
Cash and short-term investments ($ millions)	1,484.0	1,423.0	1,153.0	1,028.0	896.4
As share of total expenditures	50.9%	50.8%	42.7%	40.3%	35.8%
As share of current liabilities	324.0%	360.3%	328.5%	313.4%	275.9%
Interest costs as a share of total expenditures	1.3%	1.4%	1.4%	1.5%	1.6%
Interest coverage ratio (times)	10.5	8.8	8.8	8.6	5.5
Expendable Resources ($ millions)	1,480.0	1,479.0	1,227.0	1,116.9	937.9
As share of total debt	208%	207%	171%	155%	130%
Endowment Funds					
Total endowments ($ millions)	2,504.0	2,380.0	2,098.3	2,142.0	1,880.8
Per FTE student ($)	31,591	30,399	27,205	28,745	25,989
Payout rate	3.6%	3.9%	3.7%	4.1%	4.4%
Annual return on assets	6.7%	15.4%	(0.3%)	15.0%	14.6%

1 Includes part-time staff and teaching assistants.

Rating History

	Current	2017	2016	2015	2014	2013
Issuer Rating	AA	AA	AA	AA	AA	AA
Senior Unsecured Debentures	AA	AA	AA	AA	AA	AA

Previous Action

- Confirmed, August 23, 2017.

Related Research

- *Rating Public Universities*, May 2018.
- *Relief and Reform: Changes in Ontario's University Pension Landscape*, February 14, 2018.
- *DBRS Comments on Ontario's New University Funding Model*, March 9, 2017.

Previous Report

- University of Toronto, Rating Report, August 23, 2017.

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.

The DBRS group of companies consists of DBRS, Inc. (Delaware, U.S.)(NRSRO, DRO affiliate); DBRS Limited (Ontario, Canada)(DRO, NRSRO affiliate); DBRS Ratings Limited (England and Wales) (CRA, NRSRO affiliate, DRO affiliate); and DBRS Ratings México, Institución Calificadora de Valores S.A. de C.V. (Mexico)(CRA, NRSRO affiliate, DRO affiliate). Please note that DBRS Ratings Limited was registered as an NRSRO affiliate on July 14, 2017. For more information on regulatory registrations, recognitions and approvals, please see: http://www.dbrs.com/research/225752/highlights.pdf.

Date of Release: August 8, 2018

DBRS Confirms the University of Toronto at AA with a Stable Trend

Bloomberg: DBRS Confirms the University of Toronto at AA, Stable
Industry Group: Public Finance
Sub-Industry: Universities
Region: Canada

DBRS Limited (DBRS) 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 the University's exceptional academic profile, strong student demand and effective management practices, which have translated into positive operating results and a strong balance sheet. Large pension and post-retirement benefit liabilities do represent credit challenges but have improved in recent years.

The University reported an exceptional operating result for the 2017–18 fiscal year, with a $465 million surplus and a $486 million increase in net assets. The strong results reflect relatively strong investment earnings, the accumulation of operating and capital reserves and the impact of making significant capital investments funded, in part, by government capital grants.

The University's strategic direction remains unchanged from past years, though the outlook for enrolment has weakened because of the new Strategic Mandate Agreement (SMA). Ontario universities concluded their second SMA with the Province of Ontario in late 2017 and early 2018. These agreements set out academic priorities, enrolment targets and funding expectations. Under U of T's agreement, enrolment and operating grant funding are now expected to remain relatively stable during the 2017–20 period.

While the SMAs were intended to provide a degree of policy and funding certainty to the university sector, the recent change in government does create uncertainty. The Progressive Conservative Party of Ontario's election platform was largely silent on post-secondary education policy but did commit to a broader effort to reduce the size of the public sector to balance the provincial budget and to fund tax reductions.

Nevertheless, U of T remains among the strongest universities from a financial management perspective. The University continues to budget for balanced budgets and maintains significant budget and balance sheet flexibility. In addition, the University has a strong management team and a responsive budget model.

The University continues to make significant investments in capital renewal and expansion; however, the strength of U of T's balance sheet and its effective approach to capital budgeting preclude the need for material new borrowings. DBRS projects the University's debt burden will fall below $8,900 per full-time equivalent in 2018–19 and track modestly lower over the medium term.

DBRS expects the ratings to remain stable over the medium term given the University's exceptionally strong financial ratios and stable academic profile. A positive rating action would require an improvement in the funding environment or an upgrade of the Province. A negative rating action could result from a significant and sustained deterioration in operating results leading to a significant weakening of the balance sheet.

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

The principal methodology is Rating Public Universities, which can be found on dbrs.com under Methodologies.

The related regulatory disclosures pursuant to the National Instrument 25-101 *Designated Rating Organizations* are hereby incorporated by reference and can be found by clicking on the link under Related Documents or by contacting us at info@dbrs.com.

The rated entity or its related entities did participate in the rating process for this rating action. DBRS had access to the accounts and other relevant internal documents of the rated entity or its related entities in connection with this rating action.

For more information on this credit or on this industry, visit www.dbrs.com or contact us at info@dbrs.com.

Issuer	Debt Rated	Rating Action	Rating	Trend
University of Toronto	Issuer Rating	Confirmed	AA	Stable
University of Toronto	Senior Unsecured Debentures	Confirmed	AA	Stable

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