Rating Report

University of Toronto

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DBRS

Insight beyond the rating.

Ratings

Debt	Rating Action	Rating	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 (U of T or the University) at AA with Stable trends. The ratings reflect the University's exceptional academic profile, resilient operating performance and robust balance sheet. The constraining policy environment remains a challenge for all Province of Ontario (Ontario or the Province; rated AA (low) with a Stable trend by DBRS) universities.

The University reported a surplus of $505 million for the year ended April 30, 2019, or 14.1% of revenue. The strong result primarily reflects student fee increases, enrolment growth, the accumulation of operating and capital reserves and capital investments.

U of T's strategic direction remains largely unchanged from past years, with a focus on diversifying international enrolment, improving the student experience and developing alternate revenue sources by leveraging the University's large real estate assets. The revenue outlook, however, has weakened due to recent changes in the provincial tuition fee and funding frameworks. The provincial government announced a 10% reduction in domestic tuition fees in 2019–20, which is to be followed by a tuition freeze in the subsequent academic year. U of T estimates the new tuition fee framework will reduce tuition revenue by $88 million in 2019–20.

The medium-term outlook appears challenging because of ongoing provincial expenditure restraint and uncertainty for the next round of Strategic Mandate Agreements (SMA3). Nevertheless, U of T is one of the strongest universities from a financial management perspective. The University forecasts balanced budgets over the next five years, maintains significant balance sheet flexibility and continues to make progress on pension reform. In addition, the University has a strong management team and a responsive budget model and continues to identify opportunities to increase revenue and streamline services.

The University continues to make investments toward maintenance, renovation and expansion projects. However, the strength of U of T's balance sheet and its effective approach to capital budgeting preclude the need for material new borrowings in the near term. As such, DBRS projects the University's debt burden to fall below $8,600 per full-time equivalent (FTE) by 2023–24 from $8,816 in 2018–19.

DBRS expects the ratings to remain stable over the medium term given the University's exceptionally strong financial ratios and robust student demand. A positive rating action is dependent on a material improvement in the policy environment and a rating upgrade of the Province. Though unlikely, a negative rating action could result from a significant and sustained deterioration in operating results leading to a substantially weakened balance sheet.

Financial Information

	For the year ended April 30				
	2019	**2018**	**2017**	**2016**	**2015**
Operating balance (DBRS adjusted, $ millions)	505	465	417	211	288
Debt per FTE ($)	8,816	8,995	9,145	9,322	9,676
Expendable resources-to-debt	245%	208%	207%	171%	155%
Interest coverage (times)	11.6	10.5	8.8	8.8	8.6
Surplus-to-revenue (five-year average)	11.6%	10.3%	8.7%	6.6%	5.3%

Issuer Description

U of T is Canada's largest university, with enrolment totalling 80,652 FTEs. Founded in 1827, the University offers a wide array of undergraduate, graduate and professional programs. The University's three campuses in downtown Toronto (St. George), Mississauga (UTM) and Scarborough (UTSC) are located in Canada's largest urban centre, the Greater Toronto Area, which has a population of 6.3 million.

Rating Considerations

Strengths

1. Strong reputation and student demand

U of T is one of Canada's leading universities and benefits from the strong reputation of its comprehensive academic and research programs. Its established academic profile and strong demand from both domestic and international students continues to support enrolment-related revenues. The University'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. Robust 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 been consistently declining, while financial resources in the form of expendable resources (+86%) have risen strongly. As at April 30, 2019, expendable resources were nearly 2.5 times (x) the University's outstanding long-term debt.

3. Effective financial management practices

The University has effective management practices. The budget process is highly decentralized, emphasizing local responsibility and control, which 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 above 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 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. Limited control of revenue

Canadian universities have limited control over their main revenue sources — tuition fees and government grants. The Province imposed a 10% reduction on tuition fees for domestic students in regulated programs for 2019–20, while effectively limiting domestic enrolment growth and freezing operating grants. The estimated adverse impact from the new framework is a decline of about $88 million in 2019–20 revenue.

2. Cost pressures

Underlying cost pressures are somewhat detached from the University's revenue drivers. Universities' expense bases are largely fixed and growing in the form of tenured faculty, unionized support staff, externally mandated student aid requirements and large infrastructure footprints. In recent years, inherent cost pressures such as negotiated wage settlements, competitive salaries for top researchers and increasing benefit costs have outpaced provincially controlled revenue growth for many DBRS-rated universities. The fixed nature of the expense tends to slow the pace at which universities can respond to a significant exogenous shock to revenue. Labour relations at U of T remain positive at this time, though DBRS notes that many of the collective agreements will be renegotiated over the next two years.

3. Large pension and post-employment benefit liabilities

Though declining in recent years, the University's unfunded pension and other post-employment liabilities remain considerable. The most recent actuarial valuation (2018) determined that the pension going-concern deficit was $212 million, and the University reports $625 million in other non-pension, post-employment benefit obligations.

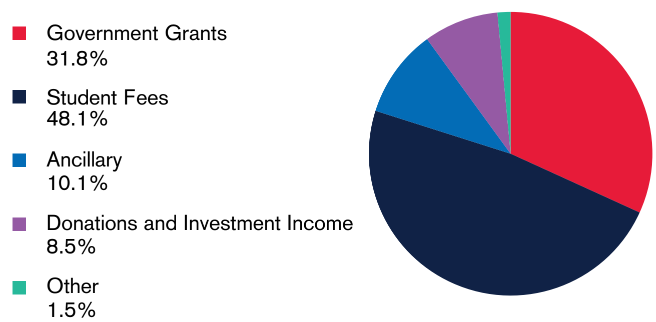
4. Deferred maintenance

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 $936 million. Over the last decade, the University has increased funding to address DM, which has significantly reduced the highest-priority category. However, DBRS expects total DM liability to increase further because of recently implemented changes to the sector-wide Facilities Condition Assessment Program (FCAP) that will be implemented over the next five years.

2018–19 Operating Performance

The University reported a surplus of $505 million for the year ended April 30, 2019, or 14.1% of revenue. The result was principally driven by student fee increases, enrolment growth, the accumulation of operating and capital reserves and capital investments. Revenue growth (+6.3%) was supported by rising international enrolment and moderately higher government grants (+5.3%).

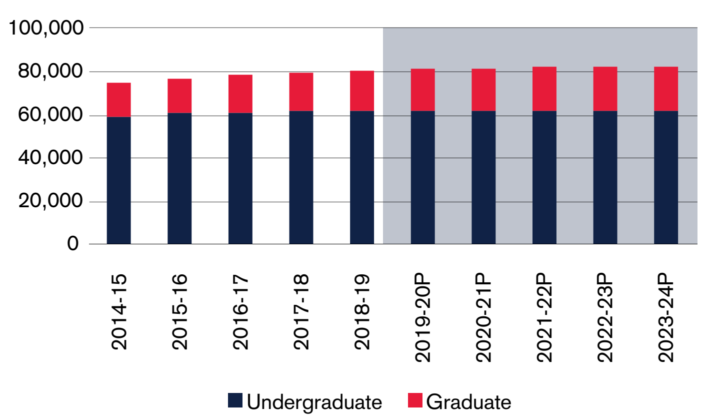
2018–19 Revenue by Source (Total: $3.6 Billion)



The University increased domestic tuition fees to the extent permitted by the provincial framework and by 5.4%, on average, for international students. The Province caps tuition fee increases to 3% for grant-eligible domestic undergraduate programs and to 5% for eligible graduate and certain professional programs, with an overall average fee increase across these programs limited to 3%.

International enrolment and tuition fees remain unregulated and provide revenue flexibility to Canadian universities. In 2018–19, international student enrolment exceeded budget expectations and rose to 18,958 FTEs, comprising 24.8% of total undergraduate students and 19.1% of overall graduate enrolment.

Total Enrolment (FTEs)



Government grants rose (+5.3%) during the year, with modest growth in operating grants (+0.6%) and a more pronounced increase in restricted grants (+13.6%). Investment income improved to $205 million (+13.9%).

Total expense rose moderately (+6.0%), mainly led by higher salaries and benefits — a 6.1% growth owing to negotiated compensation increase. Other areas of expense also increased (+5.8%), which broadly reflects ongoing growth in the scale of operations and inflationary pressures.

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 them to set aside reserves to support their respective long-term objectives in line with overall institutional strategy, while also managing enrolment and other operational 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. As at April 30, 2019, U of T's operating fund surplus was $34 million, up from the budgeted break-even position.

Net assets jumped by $507 million (+8.5%) on account of the strong operating results ($505 million), endowed contributions ($40 million) and investment earnings on externally restricted endowment ($35 million), partially offset by remeasurements and other items relating to employee future benefits (-$73 million).

2019–20 Budget

Like most Ontario universities, U of T only provides medium-term guidance on the performance of its operating fund (over 80% of consolidated spending). U of T's operating budget is an aggregation of the multi-year budget plans prepared by individual faculties and is balanced at the institution level. Planned deficits are allowed only in exceptional circumstances and must be repaid over five years.

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 that emphasize internationalization, improving the student experience and leveraging the University's location in Toronto.

In January 2019, the Province introduced a new tuition framework imposing a 10% reduction in 2019–20 domestic tuition fee levels (relative to 2018–19) and stipulated that fees remain frozen at that level into the next year (2020–21). The University presented a balanced operating fund budget, which responds to the adverse impact of the change to the tuition fee framework. U of T revised down its projection for operating revenue

2018–19 Operating Performance (CONTINUED)

growth in 2019–20 to 3.5% from the previously estimated 5.2%. Current growth estimates are mainly driven by higher tuition and student fees (+2.9%). The revenue forecast includes an estimated $88 million adverse impact from the new tuition fee framework, in addition to some decline in domestic undergraduate enrolment. Operating grants are set to rise modestly, largely reflecting the increased funding tied to the Province's expansion of graduate student spaces. Operating expenses are forecast to grow in line with the revenue growth estimate of 3.5%.

The University plans for a moderate enrolment growth of 499 FTEs (+0.6%) in 2019–20. The University continues to reduce its domestic undergraduate enrolment at the St. George campus and is holding enrolment steady at UTM and UTSC. To offset this decline, U of T will modestly increase its graduate and international student intake.

Medium-Term Outlook

The operating outlook for Ontario universities appears challenging and uncertain. The Progressive Conservative government, elected in 2018, has started a significant multi-year deficit-reduction exercise and begun implementing its policy priorities for the sector. The changes, announced to date, have been administratively cumbersome.

- In the latest iteration of the tuition fee framework, the Province reduced domestic tuition fees by 10% for 2019–20 followed by a tuition freeze for 2020–21. The Province has yet to provide any guidance beyond 2020–21. However, most universities expect the Province to provide modest flexibility thereafter.
- The Province did not reduce operating grants in its 2019–20 budget but has not provided any guidance for future years. The Province's multi-year deficit reduction effort suggests that operating funding for the post-secondary sector will remain (at best) constrained through the medium term.
- The Province announced changes to make some ancillary fees optional. DBRS understands that few fees will generally be optional, but the process to review and implement systems have been time-consuming and cumbersome for some institutions.

The Province has also begun to consult with universities on the next iteration of SMA3, which is expected to cover the three-year period beginning with the 2020–21 academic year. DBRS expects SMA3 to be more closely linked to a set of ten pre-identified performance metrics. The Province has also signalled that it will gradually increase the proportion of performance-based or differentiation funding from 10% currently to 60% by 2025. At this time, it is not clear how the targets will be set or how the metrics will be weighted.

A further source of uncertainty relates to enrolment targets. In 2017–18, the Province introduced a new operating grant funding model that includes an enrolment corridor. Under that model, core operating grants were to remain stable during the SMA2 period, provided that the five-year moving average of WGU based enrolment did not fluctuate more than +/- 3% from the midpoint. The Province has yet to signal its intentions for domestic enrolment and whether there will be changes to the enrolment corridors or levels of the funding mechanism (allocative mechanism).

Given the present policy environment, DBRS expects overall FTEs to increase modestly over the next five years at an average growth rate of 0.5%. Domestic undergraduate enrolment is expected to remain constrained, though the University may seek to increase international and graduate headcount.

International headcount accounted for 23% of the student population in 2018–19, which the University plans to maintain over the medium term. The University's international student population is concentrated with about 65% of international undergraduate and 37% of graduate students from the People's Republic of China. The University is working to diversify its international student population by leveraging local alumni and through scholarships, to reduce enrolment risk.

With the constrained revenue outlook, U of T will continue to face a fundamental disconnect between its inherent cost pressures, which may eventually outpace provincially controlled revenue growth. As in the past, the University will continue to make adjustments to maintain a balanced operating position. The budget model remains the primary tool for incenting faculties to increase revenue and contain costs, though the University is also seeking to develop new revenue sources and identify other efficiency savings.

- In Fall 2018, U of T adopted the Four Corners Strategy primarily to develop self-supporting revenue streams over the long term by leveraging its sizable real estate assets. Though not included in the University's budget guidance, U of T expects to generate annual operating funding of $50 million by 2033 through new space development (approximately 3.5 million square feet) that will be devoted to campus services, amenities and office and retail spaces.
- U of T will participate in a benchmarking exercise to compare the cost of its administrative services with those of other universities, which it hopes will enable it to identify opportunities to improve service delivery.

Labour relations are generally positive at the University. In June 2019, the Ontario government introduced Bill 124, a wage-restraint act that imposes an annual cap of 1% on public-sector compensation increments over a three-year "moderation period." If enacted, the law will apply retroactively to June 5, 2019. The University's collective agreements with full-time faculty, administrative and technical staff (the United Steelworkers) and non-unionized staff are due in mid- to late 2020. U of T anticipates collective discussions to proceed as planned, with no material concerns.

Capital

The University's capital program has expanded in recent years as it seeks to replace aging infrastructure, in addition to building new capacity. In particular, U of T is expanding its UTM and UTSC campuses because of rising enrolment at those locations. Though somewhat lower, capital investment remained sizable at $331 million in 2018–19, relative to large investments approximating $576 million in the prior year.

Some of the principal capital projects included

- Renovation of over 546 research laboratories at the St. George campus costing nearly $195 million, of which $84 million was received under the federal government's Post-Secondary Institutions Strategic Investment Fund, $14 million from the Province's Facilities Renewal Program (FRP) and $97 million from divisional funds.
- Real estate expansion totalling $125 million, including the purchase of a 15-storey tower on College Street and two buildings on Russell Street.
- Ongoing project to upgrade energy infrastructure across the three campuses, funded through the provincial Greenhouse Gas Campus Retrofits Program ($55 million).

Additionally, U of T completed the construction of UTM's North Building B, the Myhal Centre for Engineering Innovation & Entrepreneurship and UTSC's Highland Hall for an overall expenditure of $178 million in 2018–19.

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 and relatively large upfront cash contributions as well as 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. Over the medium term, U of T has several capital plan proposals, including a second instructional centre at UTSC, a new science building at UTM, renovations in several arts and sciences buildings at the St. George campus and the Centre for Civilizations, Cultures and Cities building at the McLaughlin Planetarium site on Queen's Park, subject to approval by the Board.

The University has one of the largest and oldest university campuses in North America. As such, U of T has a considerable amount of DM estimated at $936 million, the bulk of which is concentrated on the older St. George campus. The University's facilities condition index (FCI) increased moderately to an average of 15.2%, which is higher than that of the Council of Ontario Universities (11%). The current campus-specific FCI estimates are 16.7% for UTSC, 11.1% for UTM and 15.6% for St. George.

The University has made significant progress over the last decade to reduce its highest-priority maintenance needs. However, DBRS expects total DM liability to increase, owing to recently implemented changes to the FCAP, including standardization of reporting to include soft costs associated with professional services and consulting fees, assessment of supporting infrastructure and frequent auditing (every five years, as opposed to seven years) across the sector. The magnitude of increase is uncertain at this time and will be monitored over the implementation phase of five years.

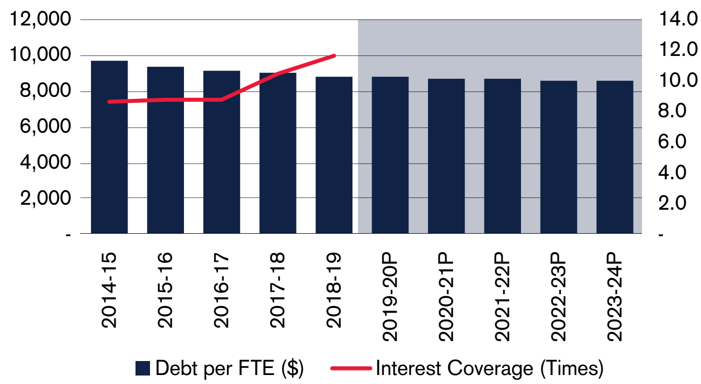
The operating budget for 2019–20 includes $20 million for DM on the St. George campus, $3 million for UTM and UTSC and additional resources estimated at $7.1 million through the provincial FRP. The University is targeting an annual DM allocation of $28 million over the next ten years.

Debt and Liquidity

The University's total debt fell marginally to $711.0 million as at April 30, 2019, from $713 million. Benefiting from ongoing enrolment growth, the debt burden fell to $8,816 per FTE as at April 30, 2019, from $8,995 per FTE the year prior.

U of T's outstanding debentures are long dated with maturities spread between 2031 and 2051. Interest charges were stable at $38.0 million, or 1.2% of total expense, and interest coverage was robust at 11.6x — notably higher than the average of DBRS-rated universities (6.0x).

Debt per FTE and Interest Coverage



The University has established a sinking fund, the Long-Term Borrowing Pool, to accumulate funds for the repayment of debentures. As at April 30, 2019, the sinking fund had a balance of $397 million. The sinking fund is not explicitly required by the bonds' indenture and is not held by a trustee. As such, DBRS presents debt on a gross basis with the sinking fund assets included in DBRS's measure of expendable resources.

DBRS calculates expendable resources as a measure of the strength and flexibility of a university's balance sheet, defined as a subset of net assets, which includes unrestricted net assets, internally restricted net assets and internally restricted endowments. U of T's expendable resources have risen steadily in recent years propelled by positive operating results and reserve accumulation and remains the highest among DBRS-rated universities at $1.7 billion, or 245% of debt, as at April 30, 2019.

The University also benefits from its sizable endowments that increased to $2.6 billion (+3.6%), supported by an investment return of 5.2%. On a per-FTE basis, U of T's endowment of $32,150 is one of the largest among Canadian universities, a majority of which was utilized for student aid and endowed chairs.

Employee Future Benefits

The University's most recent financial statements continue to show a pension shortfall of $308 million, though slightly lower than $319 million in the prior year. During 2018–19, special payments of $17.7 million were paid for the net solvency deficit and $54.6 million for the going-concern deficit. In its medium-term budget plan, the University includes an annual increase of $5 million to the pension special payments, amounting to $137.2 million by 2023–24.

The University conducts annual actuarial valuations. The most recent valuation, as of July 1, 2018, showed 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 $212 million (from $362 million) and the solvency deficit fell to $902 million, equivalent to a funded status of 85% (from $1,184 million, equivalent to an 80% funded status). 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 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 $722.8 million.

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

The 2017 actuarial valuation was filed with regulators and was used to determine special payments. With its next filing, the University will be subject to new pension funding requirements that shorten the going-concern deficit amortization period to ten years (from 15 years), mandates the implementation of a 10% reserve factor (Provision for Adverse Deviation (PfAD)) to accrued plan liabilities and current service costs and imposes higher premiums for the Pension Benefits Guarantee Fund monthly guarantee. The new pension funding regime eliminates solvency funding requirements for those plans that have a funded ratio of at least 85%. DBRS expects that the updated going-concern and PfAD requirements may offset the savings from reduced solvency funding requirements.

In July 2019, the University, along with Queen's University (rated AA with a Stable trend by DBRS) and the University of Guelph (rated A (high) with a Stable trend by DBRS), announced that a majority consent toward the creation of a jointly sponsored pension plan (University Pension Plan (UPP)) had been received. The UPP is a risk-sharing defined benefits plan that will be jointly governed and funded (following a transition period) by employers and plan members. Subject to additional approvals from university boards, the Financial Services Regulatory Authority of Ontario and Canada Revenue Agency, the new UPP is expected to be operational by July 2021. This project is forward-looking and would not address pension deficits retrospectively, with the universities funding their respective deficits over an estimated 15-year period. DBRS views the adoption of UPP by Ontario universities positively.

Debt and Liquidity (CONTINUED)

Other employee future benefits increased during the year to $625 million. Unlike the pension plan, Canadian universities are not required to set aside funds for employee benefits. Nevertheless, U of T has set aside investment assets worth $107 million as at April 30, 2019.

Outlook

DBRS does not anticipate any material external borrowing over the short term, with the debt-per-FTE ratio falling modestly to $8,761 in 2019–20. Assuming no debt issuance over the next five years, DBRS projects U of T's debt per FTE to decline to $8,566 by 2023–24.

University Funding in Ontario

Canadian universities in the Province generally have three key sources of revenue for their core teaching and research activities: (1) government grants, (2) student fees and (3) donations and investment income. For U of T, these accounted for nearly 88% of total revenue in 2018–19, which is comparable to other DBRS-rated universities.

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 finances and competing priorities. Over time, this has led to a gradual shift in the relative shares of revenue provided by operating grants, which have declined, and tuition fees, which have increased.

Government Funding (Provincial and Federal; 32%)

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

The previous Liberal provincial government introduced a new funding model for Ontario universities in 2017–18. The model is similar to the previous funding model with a large enrolment-based share of funding; however, the new model seeks to reduce the financial incentive to increase domestic undergraduate enrolment and will provide universities facing enrolment declines with downside protection. Under the model, funding was expected to be relatively stable for all Ontario universities over a three-year period (2017–18 to 2019–20). The recent change in government has created some uncertainty, however. The current Progressive Conservative government indicated that it will not make any changes to the funding formula at this time, but the medium-term outlook is uncertain. The direction of fiscal policy under the new government is one of constraint.

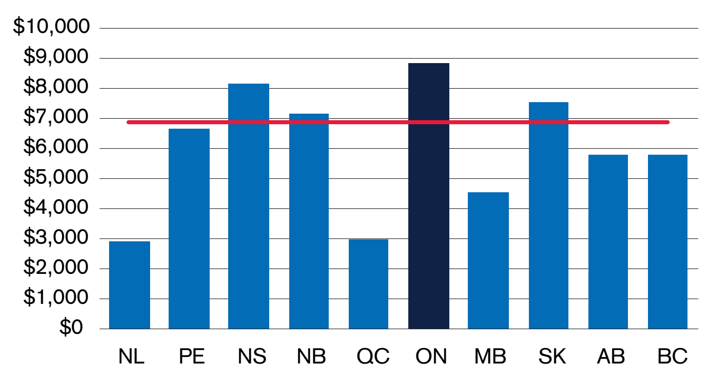
Government grants for research and capital projects are also an important source of funding. The federal government typically provides 65% to 75% of all public research funding, whereas the Province provides the bulk of capital funding. U of T will receive $235 million from the federal government to support research initiatives, in addition to $58.8 million through the Research Support Fund toward indirect costs.

Student Fees (48%)

On January 17, 2019, the Province announced a revised tuition fee framework for regulated domestic programs at Ontario universities and colleges. Ontario universities are required to reduce tuition fees for domestic funding (eligible programs by 10% in 2019–20) and to maintain domestic-funding-eligible program tuition fees at this level for the 2020–21 academic year. For most DBRS-rated universities, the tuition-fee reduction results in a total revenue loss of between 3% and 5%. Institutions are expected to absorb revenue losses within their budgets and are required to comply with the policy or risk losing core operating funding.

International student fees are not regulated by the Province and are generally set to recover the full costs of international student enrolment.

2018–19 Average Undergraduate Tuition Fees



Source: Statistics Canada.

Donations and Investment Income (9%)

Unrestricted donations and investment income, recognized on the statement of operations, typically represent about 10% of the University's total revenue. This primarily consists of investment income earned on operating reserve balances throughout the year. Earnings on restricted endowments are recognized as a change in net assets and are not captured on the statement of operations until they are spent, at which point they are reported as part of grants and other revenues for restricted purposes.

Given its reputation and long history, U of T benefits from a large alumni base and consistently introduces well-established fundraising programs. The University raised $2.6 billion through its recently concluded Boundless campaign — well above the initial target of $2 billion. The University also recently received a donation of $100 million toward the development of the Schwartz Reisman Innovation Centre.

Statement of Financial Position

DBRS adjusted ($ millions)

	As at April 30				
	2019	**2018**	**2017**	**2016**	**2015**
Assets					
Cash and short-term investments	2,017	1,484	1,423	1,153	1,028
Accounts receivable	103	78	90	116	91
Inventories and prepaid expenses	22	22	22	20	21
Long-term investments	3,242	3,337	3,135	2,734	2,767
Capital assets	5,009	4,890	4,473	4,349	4,265
Other assets	-	83	62	61	46
Total Assets	**10,393**	**9,894**	**9,205**	**8,433**	**8,218**
Liabilities and Net Assets					
Liabilities					
Accounts payable & accrued liabilities	455	458	395	351	328
Deferred contributions	616	616	557	504	454
Employee future benefit obligations	625	591	594	567	581
Accrued pension liability	308	319	296	797	618
Deferred capital contributions	1,228	1,254	1,190	1,146	1,140
Long-term debt	711	713	716	719	721
Total liabilities	**3,943**	**3,951**	**3,748**	**4,084**	**3,842**
Net Assets					
Unrestricted net assets	(162)	(68)	(59)	(52)	(89)
Internally restricted net assets	4,019	3,507	3,136	2,303	2,323
Endowment – internally restricted	383	375	359	319	321
Endowment – externally restricted	2,210	2,129	2,021	1,779	1,821
Total Net Assets	**6,450**	**5,943**	**5,457**	**4,349**	**4,376**
Liabilities and Net Assets	**10,393**	**9,894**	**9,205**	**8,433**	**8,218**
Contingencies & Commitments					
Construction & renovation in progress	576	410	424	422	375
Rental leases	191	150	150	157	-
Operating leases	9	9	8	20	16
Loan guarantees	9	8	8	8	7
Total Contingencies & Commitments	**785**	**577**	**590**	**607**	**398**

Note: U of T'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	Dec 2051	4.251%	200.0
Total			**710.0**

Statement of Operations

DBRS adjusted ($ millions)

	For the year ended April 30				
	2019	**2018**	**2017**	**2016**	**2015**
Revenue					
Tuition fees	1,481	1,344	1,204	1,072	945
Other student fees	247	239	227	220	214
Government grants for operations	727	723	713	710	714
Other grants for restricted purposes	469	413	418	383	397
Investment income (loss)	205	180	220	109	192
Sales, services and sundry income	362	352	333	301	292
Donations 1	102	128	101	114	86
Total Revenue	**3,593**	**3,379**	**3,216**	**2,909**	**2,840**
Expense					
Salaries and benefits	1,821	1,717	1,669	1,600	1,546
Materials and supplies	222	227	218	217	203
Student aid	255	239	217	218	206
Repairs and maintenance	135	118	115	103	95
Cost of sales & services	117	113	106	89	85
Utilities	49	56	63	61	56
Amortization	189	178	165	159	152
Interest	38	38	38	39	39
Other expenses	262	228	208	212	170
Total Expense	**3,088**	**2,914**	**2,799**	**2,698**	**2,552**
Operating Surplus (Deficit), as Reported	**505**	**465**	**417**	**211**	**288**
Capital expenditures	331	576	284	228	259

Note: U of T's financial statements exclude the federated universities and research administered at the affiliated hospitals.

1 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.

Statement of Cash Flows

DBRS adjusted ($ millions)

	As at April 30				
	2019	**2018**	**2017**	**2016**	**2015**
Operating balances, as reported	505	465	417	211	288
Amortization	189	178	165	159	152
Other non-cash adjustments	(290)	(282)	(286)	(65)	(142)
Cash Flow from Operations	**404**	**361**	**296**	**305**	**298**
Change in working capital	1	115	116	34	69
Operating Cash Flow after Working Capital	**405**	**476**	**412**	**339**	**367**
Net capital expenditures 1	(210)	(459)	(171)	(169)	(192)
Free Cash Flow	**195**	**17**	**241**	**170**	**175**
Financing activities	38	37	34	27	31
Investment activities (excluding capex)	(191)	(86)	(287)	(226)	(175)
Increase (Decrease) in Cash	**42**	**(32)**	**(12)**	**(29)**	**31**

1 Gross capital expenditures less donations and grants received during the year for the purchase of capital assets.

Summary Statistics

DBRS adjusted ($ millions)

	For the year ended April 30				
	2019	**2018**	**2017**	**2016**	**2015**
Total Students (FTEs)	**80,652**	**79,262**	**78,291**	**77,130**	**74,516**
Undergraduate	77%	78%	79%	79%	79%
Graduate	23%	22%	21%	21%	21%
Annual change (%)	1.8%	1.2%	1.5%	3.5%	3.0%
Enrolment (Headcount)	**91,286**	**90,077**	**88,766**	**87,639**	**85,383**
Domestic	77%	79%	80%	82%	83%
International	23%	21%	20%	18%	17%
Total Employees (Headcount)	**15,680**	**15,715**	**15,204**	**14,738**	**14,345**
Academic staff [1]	8,873	8,898	8,564	8,423	8,251
Operating Results					
Surplus (deficit) ($ millions)	505	465	417	211	288
As a share of revenues	14.1%	13.8%	13.0%	7.3%	10.1%
As a share of revenues (five-year rolling average)	11.6%	10.3%	8.7%	6.6%	5.3%
Revenue Mix					
(As a share of total DBRS-adjusted revenue)					
Government funding (federal and provincial)	31.8%	30.8%	32.2%	34.9%	36.3%
Student fees	48.1%	46.8%	44.5%	44.4%	40.8%
Ancillary	10.1%	10.4%	10.4%	10.3%	10.3%
Donation and investment income	8.5%	9.1%	10.0%	7.7%	9.8%
Other	1.5%	2.8%	3.0%	2.6%	2.8%
Debt and Liquidity Analysis					
Total debt ($ millions)	711	713	716	719	721
Per FTE student ($)	8,816	8,995	9,145	9,322	9,676
Debt, contingencies and commitments ($ millions)	2,429	2,200	2,196	2,691	2,318
Per FTE student ($)	30,117	27,756	28,049	34,894	31,110
Interest Costs as a Share of Total Expenditures	**1.2%**	**1.3%**	**1.4%**	**1.4%**	**1.5%**
Interest coverage ratio (times)	11.6	10.5	8.8	8.8	8.6
Expendable Resources ($ Millions)	**1,744**	**1,480**	**1,479**	**1,227**	**1,117**
As a share of total debt	245%	208%	207%	171%	155%
Endowment Funds					
Total market value ($ millions)	2,593	2,504	2,380	2,098	2,142
Per FTE student ($)	32,150	31,591	30,399	27,205	28,745
Payout rate	3.5%	3.6%	3.9%	3.7%	4.1%
Annual return on assets	5.2%	6.7%	15.4%	-0.3%	15.0%

1 Includes part-time staff and teaching assistants.

Rating History

	Current	2018	2017	2016	2015	2014
Issuer Rating	AA	AA	AA	AA	AA	AA
Senior Unsecured Debentures	AA	AA	AA	AA	AA	AA

Related Research

- *Business and Financial Risk Assessments for Public Universities*, August 7, 2019.
- *DBRS Canadian University Peer Comparison Table*, August 7, 2019.
- *Rating Public Universities*, May 2019.
- *Ontario Tuition Cut: Credit Negative for DBRS-Rated Universities*, January 17, 2019.

Previous Report

- University of Toronto: Rating Report, August 8, 2018.

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.

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