Borrowing Strategy

Review
January 2010

Courtesy of Cicada Design Inc. & Kuwabara Payne McKenna Blumberg Architects

54941

University of Toronto
Borrowing at a Glance to January 31, 2010
(in Millions of dollars)

Maximum borrowing capacity:	
External	758.4
Internal	200.0
	958.4
Borrowing allocated:	
Total allocated	(942.0)
Minus repayment eligible for reallocation	53.2
	(888.8)
Unallocated to January 31, 2010	69.6
Actual outstanding external borrowing:	
Series A debenture due July 18, 2031	160.0
Series B debenture due December 15, 2043	200.0
Series C debenture due November 16, 2045	75.0
Series D debenture due December 13, 2046	75.0
Borrowing prior to 2001 net of repayments	21.3
Loan from City of Toronto	1.5
	532.8
Actual outstanding internal borrowing to January 31, 2010	207.9 *
Total actual outstanding borrowing to January 31, 2010	740.7

* internal borrowing is greater than $200 million maximum target because internal funds are providing short to medium-term bridge-financing until the University issues the next debenture of up to $200 million.

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PURPOSE OF REPORT

The purpose of this report is to review the borrowing strategy that was approved by the Business Board on June 17, 2004 to assess:

- Is the current strategy financially prudent?
- Are any additional parameters needed to ensure that it continues to be financially prudent?
- Does it continue to provide sufficient borrowing capacity to meet carefully reviewed priorities?

The borrowing strategy was last reviewed on February 11, 2009.

CURRENT BORROWING STRATEGY

The current borrowing strategy is to borrow both internally from the expendable funds investment pool (EFIP), and externally from third parties. The key elements of the current strategy are:

- Maximum external borrowing capacity equals 40% of net assets averaged over 5 years.
- In the event that outstanding external borrowing exceeds 40% of net assets averaged over 5 years, no further borrowing is permitted until such time as the actual outstanding external borrowing is not greater than 33% of net assets averaged over 5 years.
- Maximum internal borrowing capacity is $200 million loaned from EFIP and excludes internal financing of fund deficits and short-term construction financing of capital projects.
- In the event that the funds invested by EFIP were needed for short-term expenditures, the borrowing would have to be re-financed externally.
- An internal financing program.
- An internal sinking fund to accumulate funds for repayment of debentures.
- No credit rating parameters.
- No external borrowing debt service or debt repayment parameters.

CURRENT STATUS

Maximum borrowing capacity:

The maximum external borrowing capacity is updated annually every April 30. At April 30, 2009, the maximum external borrowing capacity was $758.4 million.

The utilization of up to $200 million of internal borrowing from EFIP is also reassessed annually. At April 30, 2009, it was confirmed that $200 million can continue to be allocated to internal borrowing.

Therefore, maximum external plus internal borrowing capacity was set at $958.4 million, effective April 30, 2009.

Borrowing allocated to capital projects and other requirements:

At January 31, 2010, the Business Board has allocated $942.0 million to capital projects and other requirements. With $53.2 million repayments that can be reallocated, this leaves $69.6 million to be allocated to future projects, at this time.

Actual borrowing:

At April 30, 2009 there was $554.0 million in outstanding external long-term debt, comprised as follows:

$ 42.5 million borrowing prior to 2001(excluding $2.1 million to be repaid during 09-10)
$ 1.5 million loan from City of Toronto (excluding $0.2 million to be repaid during 09-10)
$160.0 million Series A debenture
$200.0 million Series B debenture
$ 75.0 million Series C debenture
$ 75.0 million Series D debenture
$554.0 million

Since then, $21.2 million of borrowing issued prior to 2001 has been repaid and refinanced internally, leaving $532.8 million in outstanding external long-term debt as of January 31, 2010. This represents 28.1% of net assets averaged over 5 years or 32.9% of net assets as at April 30, 2009.

Additionally, at January 31, 2010, outstanding internal long-term borrowing from EFIP was $207.9 million, which includes the $21.2 million mentioned above. Outstanding borrowing from EFIP is higher than the $200 million target, because we have temporarily used EFIP funding to finance loans that will eventually be assigned to our next debenture issue. This short-term bridging gives the University flexibility to find an opportune timing for the next external financing and will enable us to choose a desired timing for adding external debt to the balance sheet.

BENCHMARKING

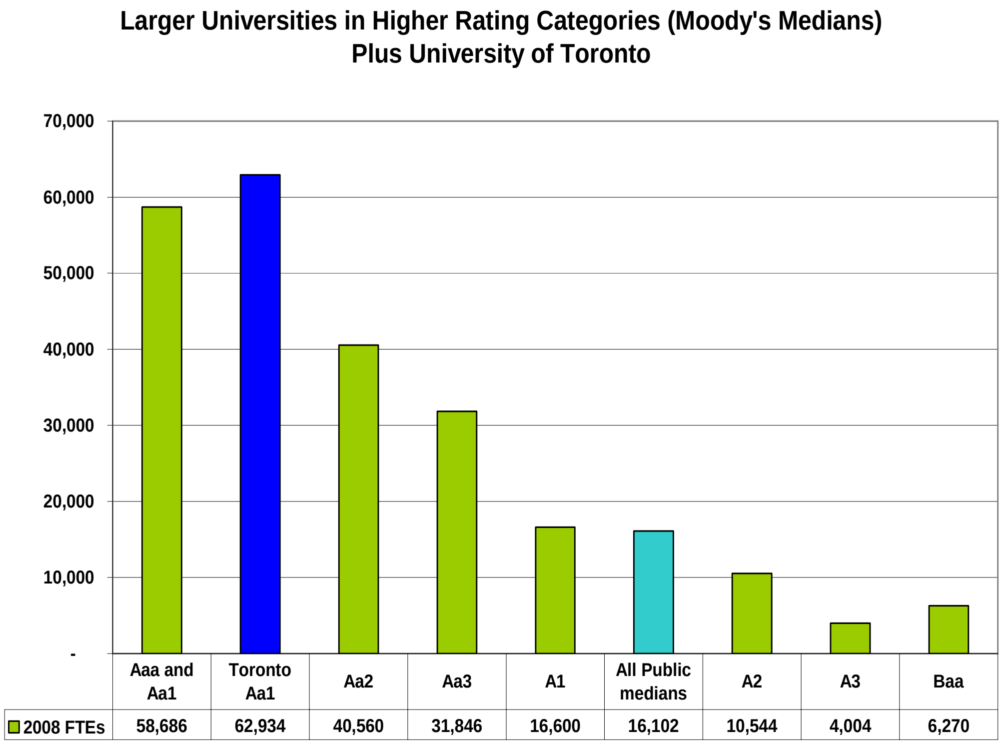
To assess the financial prudence of the current borrowing strategy, we have developed a number of balance sheet and income statement ratios for the University of Toronto, and have compared them to other universities.

The benchmarks that have been used as comparators are from Moody's Fiscal Year 2008 U.S. Public College and University Medians issued in July 2009. Moody's currently rates "209 public universities on an underlying basis, with over $89 billion debt outstanding. Moody's ratings cover the vast majority of the [U.S.] public university sector through ratings assigned to both large systems and individual colleges and universities[1]".

Moody's credit ratings applied to U.S. public colleges and universities in descending order are Aaa, Aa1, Aa2, Aa3, A1, A2, A3, and Baa1.

The University of Toronto was ranked Aa1, with a stable outlook, by Moody's in its most recent review.

Moody's publishes many ratios for public colleges and universities. We have selected several ratios and have compared University of Toronto to other universities with similar ratings. The chart shows that universities with larger numbers of students tend to be in the higher rating categories.



[1] Moody's Fiscal Year 2008 Public College and University Medians (p. 2).

Here are the comparators in the Aaa, Aa1 and Aa2 categories:

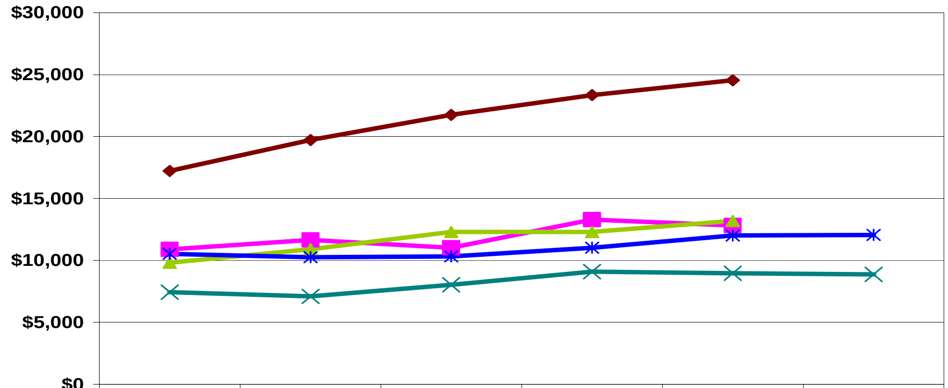
Aaa	
University of Michigan	University of Texas System
University of Virginia	
Aa1	
Indiana University	Purdue University
Texas A&M University System	University of California
Univ. of North-Carolina Chapel Hill	University of Toronto
University of Washington	
Aa2	
University System of Georgia	Michigan State University
New Mexico Military Institute	North Carolina State University
Ohio State University	Pennsylvania State University
State University of Iowa	State University System of Florida
University of Georgia	University of Kansas
University of Minnesota	University of Missouri System
University of Nebraska	University of Pittsburgh
University of Utah	University System of Maryland
Virginia Polytechnic Institute	

Direct Debt per Student:

Moody's compares the direct debt to the size of the student body. Direct debt is defined as the legal obligations of the institution, e.g. bonds, notes, commercial paper, capital leases, bank loans and draws upon lines of credit. The size of the student body is the FTE (full-time equivalent enrolment).

The chart below illustrates that U of T's direct debt per student is well below the medians. The maximum external borrowing capacity is very much in line with the medians for the Aa2 and Aa3 comparators and well below the median for the Aaa/Aa1 group. This means that U of T has borrowed less to date and has set a maximum external borrowing capacity to date per student that is less than the actual outstanding external borrowing of its rating peers.

**Direct Debt per Student
Comparing University of Toronto to Moody's Medians for
Aaa/Aa1, Aa2 and Aa3**

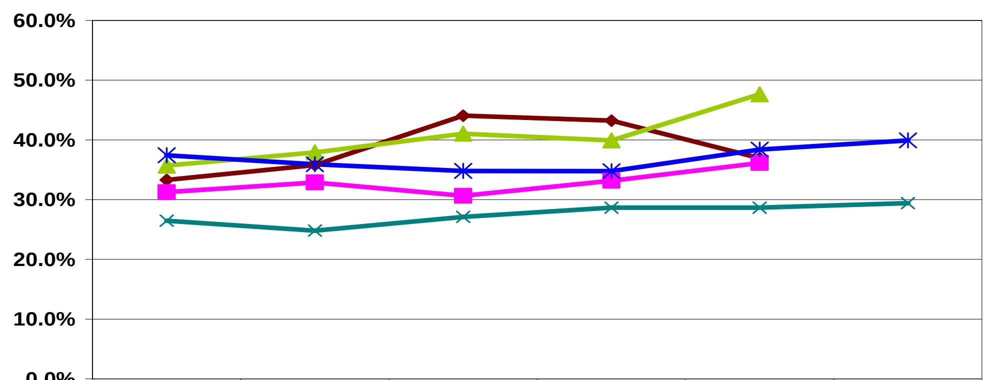


	2004	2005	2006	2007	2008	2009
Aaa/Aa1 direct debt per student	17,229	19,716	21,748	23,352	24,554	
Aa2 direct debt per student	10,884	11,658	11,033	13,295	12,817	
Aa3 direct debt per student	9,812	10,906	12,297	12,296	13,185	
U of T direct debt per student	7,444	7,093	8,034	9,095	8,963	8,881
U of T max debt capapcity per student	10,527	10,260	10,318	11,031	12,006	12,051

Direct Debt to Total Revenues:

This Moody’s ratio compares direct debt and the annual revenues of the institution. Direct debt is as defined above. Total revenues are the total revenues of the institutions.

**Direct Debt to Total Revenues
Comparing University of Toronto to Moody's Medians for
Aaa/Aa1, Aa2 and Aa3**



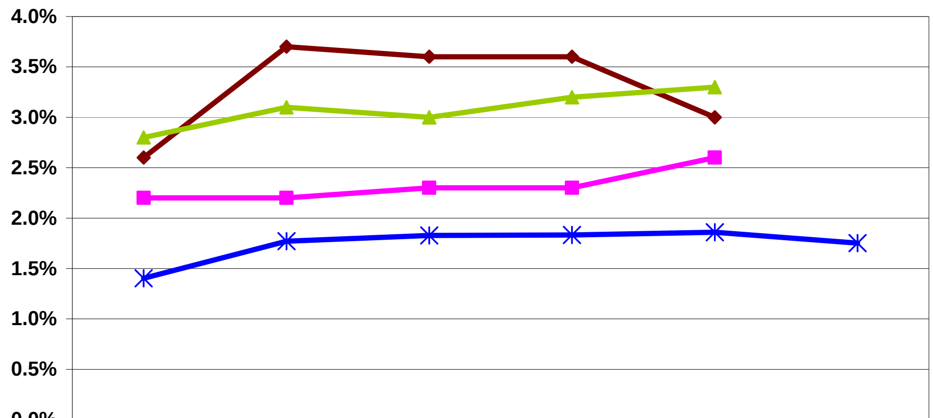
	2004	2005	2006	2007	2008	2009
Aaa/Aa1 direct debt/rev	33.3%	35.8%	44.1%	43.2%	37.0%	
Aa2 direct debt/rev	31.3%	32.9%	30.6%	33.2%	36.2%	
Aa3 direct debt/rev	35.7%	37.9%	41.0%	39.9%	47.7%	
U of T direct debt/rev	26.5%	24.8%	27.1%	28.7%	28.7%	29.4%
U of T max external debt capacity/rev	37.4%	35.9%	34.8%	34.8%	38.4%	39.9%

The chart illustrates that U of T's actual direct debt to revenues is well below the median while the maximum debt capacity is comparable to the current medians for its rating peers. This means that U of T has a better ratio of direct debt to revenues than its peers and that its external borrowing capacity to total revenues would be within the range of that of its rating peers.

Debt Service to Operations:

This Moody's ratio measures the debt service burden on expenses. Debt service is defined as the actual direct interest expense. Total expense is the total expenses as stated in the audited financial statements excluding student aid.

Actual Debt Service to Operations (Total Expense)
Comparing University of Toronto to Moody's Medians for
Aaa/Aa1, Aa2, and Aa3



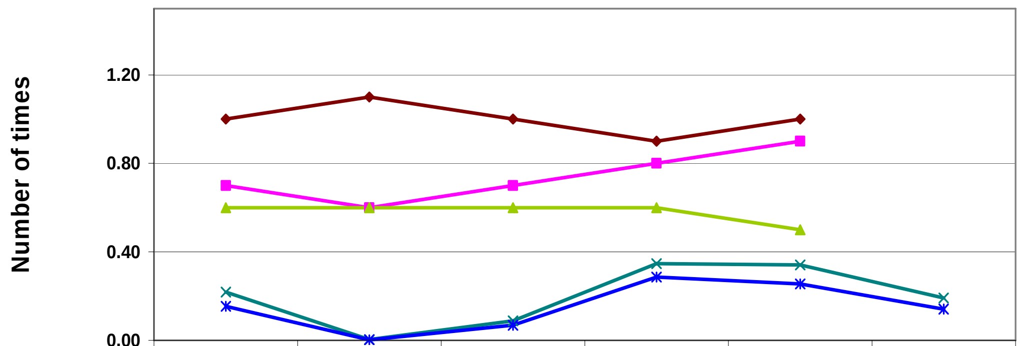
	2004	2005	2006	2007	2008	2009
Aaa/Aa1 actual debt service to operations	2.6%	3.7%	3.6%	3.6%	3.0%	
Aa2 actual debt service to operations	2.2%	2.2%	2.3%	2.3%	2.6%	
Aa3 actual debt service to operations	2.8%	3.1%	3.0%	3.2%	3.3%	
U of T actual debt service to operations	1.4%	1.8%	1.8%	1.8%	1.9%	1.8%

U of T's ratio of direct debt service to operations was 1.8% at April 30, 2009, well below the medians for its rating comparators. This means that the U of T interest expense as a % of total operations was much less than its rating peers.

Unrestricted Resources to Long-Term Debt:

This Moody’s ratio measures the coverage of direct debt by the most liquid resources, which it defines as unrestricted net assets.

Unrestricted resources to long-term debt
Comparing University of Toronto to Moody's medians



	2004	2005	2006	2007	2008	2009
Aaa/Aa1 unrest. resources to debt	1.00	1.10	1.00	0.90	1.00	
Aa2 unrest. resources to debt	0.70	0.60	0.70	0.80	0.90	
Aa3 unrest. resources to debt	0.60	0.60	0.60	0.60	0.50	
U of T's unrestricted resources to debt	0.22	0.00	0.09	0.35	0.34	0.19
U of T's unrestricted resources to debt capacity	0.15	0.00	0.07	0.29	0.25	0.14

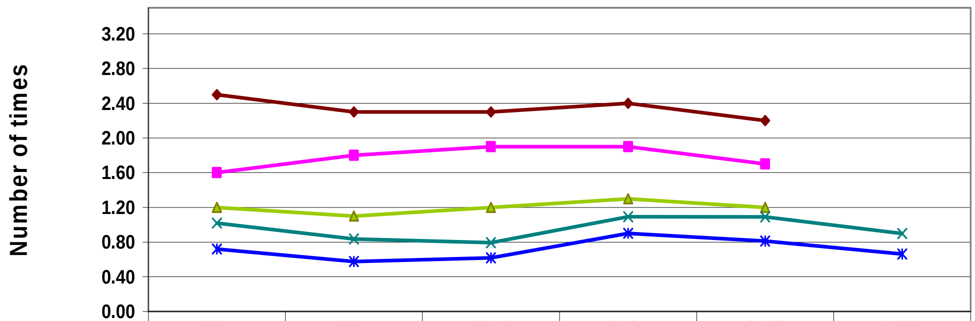
The chart illustrates that U of T’s unrestricted resources to long-term debt ratio of 0.19 is well below the medians for its rating comparators. This means that U of T has fewer unrestricted resources to support long-term debt than its rating peers.

Expendable Resources to Long-Term Debt:

This Moody’s ratio measures the coverage of direct debt by financial resources that are ultimately expendable, which it defines as the sum of unrestricted net assets plus restricted expendable net assets.

The chart below illustrates that U of T’s expendable resources to long-term debt ratio of 0.9 is well below the medians for its rating peers. This means that U of T has fewer expendable resources to support long-term debt than its rating peers.

Expendable Resources to Long-Term Debt
Comparing University of Toronto to Moody's medians

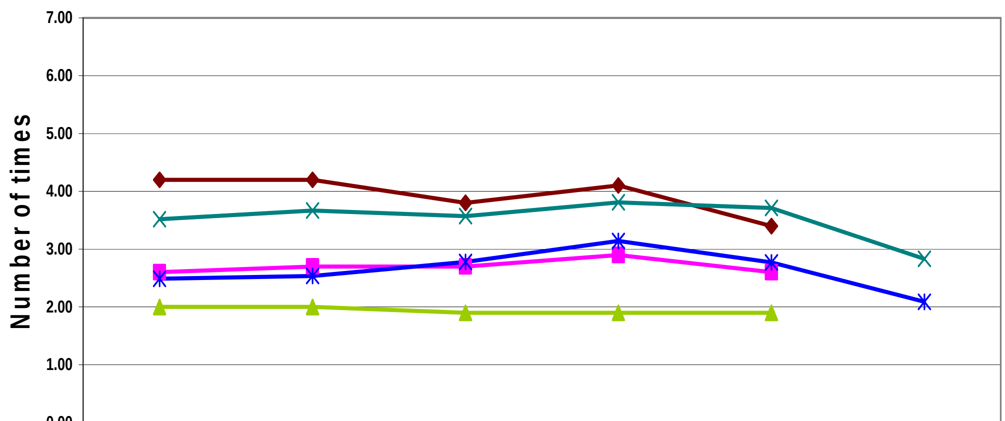


	2004	2005	2006	2007	2008	2009
Aaa/Aa1 expen. resources to debt	2.50	2.30	2.30	2.40	2.20	
Aa2 expen. resources to debt	1.60	1.80	1.90	1.90	1.70	
Aa3 expen. resources to debt	1.20	1.10	1.20	1.30	1.20	
U of T's expendable resources to debt	1.02	0.83	0.79	1.09	1.09	0.90
U of T's expendable resources to debt capacity	0.72	0.58	0.62	0.90	0.81	0.66

Total Resources to Long-Term Debt:

This Moody's ratio measures the coverage of direct debt by total financial resources including permanent endowments.

Total Resources to Long-Term Debt
Comparing University of Toronto to Moody's medians

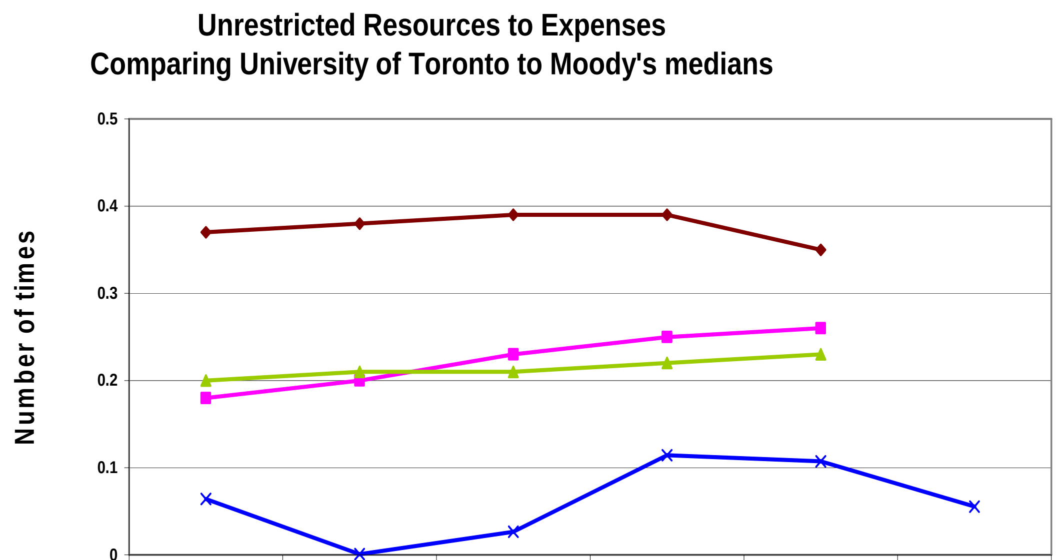


	2004	2005	2006	2007	2008	2009
Aaa/Aa1 total resources to debt	4.20	4.20	3.80	4.10	3.40	
Aa2 total resources to debt	2.60	2.70	2.70	2.90	2.60	
Aa3 total resources to debt	2.00	2.00	1.90	1.90	1.90	
U of T's total resources to debt	3.52	3.67	3.57	3.81	3.71	2.83
U of T's total resources to debt capacity	2.49	2.54	2.78	3.14	2.77	2.09

U of T's total resources to long-term debt ratio of 2.83 is within the range of medians for its rating peers. This means that U of T has similar levels of total resources to support long-term debt as its rating peers.

Unrestricted Resources to Expenses:

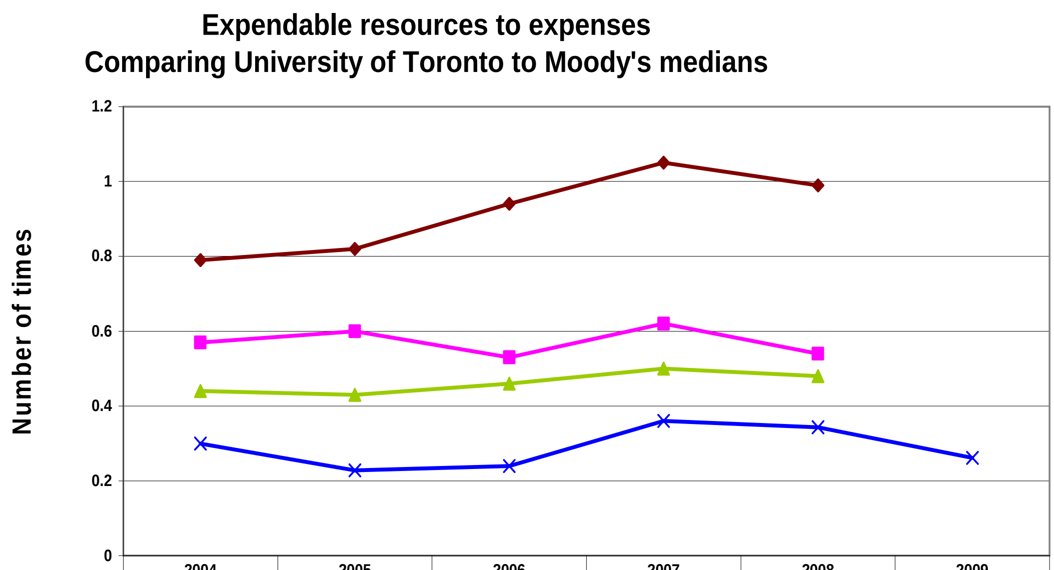
This Moody’s ratio measures the coverage of annual expenses by the most liquid resources, the unrestricted net assets. The chart illustrates that U of T’s ratio of 0.06 is well below its rating peers. This means that U of T has fewer unrestricted resources in comparison to its annual expenses than its rating peers.



	2004	2005	2006	2007	2008	2009
Aaa/Aa1 unrest. resources to expenses	0.37	0.38	0.39	0.39	0.35	
Aa2 unrest. resources to expenses	0.18	0.20	0.23	0.25	0.26	
Aa3 unrest. resources to expenses	0.2	0.21	0.21	0.22	0.23	
U of T's unrestricted resources to expenses	0.06	0.00	0.03	0.11	0.11	0.06

Expendable Resources to Expenses:

This Moody’s ratio measures coverage of annual expenses by financial resources that are ultimately expendable, defined as unrestricted net assets plus restricted expendable net assets. The chart below illustrates that the U of T ratio of 0.26 is well below that of its rating peers. This means that U of T has fewer expendable resources in comparison to its annual expenses than its rating peers.



	2004	2005	2006	2007	2008	2009
Aaa/Aa1 expen. resources to expenses	0.79	0.82	0.94	1.05	0.99	
Aa2 expen. resources to expenses	0.57	0.60	0.53	0.62	0.54	
Aa3 expen. resources to expenses	0.44	0.43	0.46	0.5	0.48	
U of T's expendable resources to expenses	0.30	0.23	0.24	0.36	0.34	0.26

What do these comparisons tell us?

+ Debt per student is below medians
+ Debt to total revenue is below medians
+ Actual debt service to expenses is below medians
+ Total resources to long-term debt is within range of medians
- Unrestricted resources and expendable resources to long-term debt are below medians
- Unrestricted resources and expendable resources to expenses are below medians

In summary, we have borrowed externally less than our rating peers to date, but we also have fewer resources to support debt issuance and we have internal debt.

Those ratios, where it was possible to test maximum borrowing capacity also indicate that the maximum borrowing capacity to date is within the appropriate range as compared to our rating peers.

PROJECTING MAXIMUM BORROWING CAPACITY

The University performed the following steps to project maximum borrowing capacity under the current borrowing strategy:

- Projected net assets to 2014.
- Calculated projected maximum external borrowing capacity as 40% of net assets averaged over 5 years.
- Assessed continued ability to provide $200 million internal borrowing from EFIP.

Projecting Net Assets

Net assets increase due to 1) net income mainly in operating and restricted funds, defined as revenues minus expenses for the year, and 2) growth in endowments from endowed donations and grants and from net reinvested investment earnings, offset by 3) the change in the fair value of interest rate swap contracts.

At April 30, 2009, actual net assets were $1.62 billion. By 2014, net assets are projected to be between $1.7 billion and $2.4 billion, using the following assumptions:

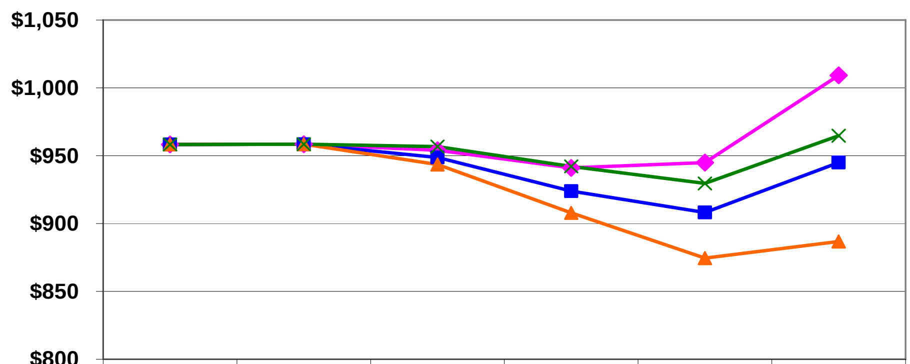
- Long range operating budget to 2014. This budget includes an annual pension funding of $27.2 million, but does not make any provision to fund the current pension plan deficit. Alternatives will be developed over the next year and will be incorporated into the long range budget once a funding strategy is finalized.
- Divisional carry forwards are projected to increase by $15 million each year from 2010 to 2014.
- Preliminary ancillary budgets submitted to SARG to 2014.
- Investment return on endowments and other long-term funds is forecasted to be 8% for 2010.
- No additional net losses for the capital fund, assuming that transfers from operating fund will offset.
- Endowed donations of $26 million in 2010 and $35 million per year thereafter.
- Endowed grants of $4.6 million per year.
- Endowment payout increases by 2% inflation annually from $7.26 per unit in 2009-10.
- A variety of endowment return assumptions from years 2011 to 2014: 4%, 8%, 12%; and variable at 14% for 2011, 9% for 2012, 3% for 2013 and 5% for 2014.

Projecting borrowing capacity:

At April 30, 2009 the maximum external and internal borrowing capacity was $958.4 million. The projected net assets of between $1.8 billion and $2.4 billion by 2014 would result in a projected maximum external borrowing capacity of between $686.8 million and $809.2 million by 2014.

A review of internal borrowing capacity indicated that the $200 million from EFIP could be continued and would not be expected to be replaced with comparable external borrowing during the period. The review also showed that increasing the limit temporarily beyond the $200 million target is not expected to result in any risk of cash flow shortages. Adding the internal borrowing capacity limit of $200 million would increase capacity to between $886.8 million and $1.01 billion, as shown in the chart below.

Projected Maximum External Borrowing at 40% Net Assets Smoothed over 5 Years Plus $200 Million internal Borrowing from EFIP, at various Endowment Return Assumptions (millions of dollars)



	2009 Actual	2010 Forecast (8%)	2011 Projection	2012 Projection	2013 Projection	2014 Projection
12% (average 7.5% 2004 to 2014)	958.4	958.5	954.1	941.0	944.9	1,009.2
8% (average 6.1% 2004 to 2014)	958.4	958.5	948.7	923.9	908.2	944.9
4% (average 4.6% 2004 to 2014)	958.4	958.5	943.6	907.8	874.5	886.8
2011:14%, 2012:9%, 2013:3%, 2014:5% (average 6% 2004 to 2014)	958.4	958.5	956.8	942.1	929.6	964.8

The table below summarizes the maximum borrowing capacity projected in January 2009 as compared to the projections in the current review:

Projected maximum total borrowing capacity ranges (in millions)				
	January 2009 Review		January 2010 Review	
	LOW	HIGH	LOW	HIGH
April 30, 2010	983.6	998.0	958.5	958.5
April 30, 2011	987.1	1,014.0	943.6	956.8
April 30, 2012	962.4	1,018.3	907.8	942.1
April 30, 2013	938.2	1,035.2	874.5	944.9
April 30, 2014			886.8	1,009.2

The current projected maximum borrowing capacity is lower than previously projected in January 2009 mainly due to lower investment returns on endowments for the fiscal year 2008-09. For every 1% change in the 2010 investment return, the maximum borrowing capacity by 2014 will change by $5.7 million.

Additionally, bank loans issued prior to 2001 are almost all amortizing loans, with principal being repaid to lenders each year. Similarly the internal loans from EFIP will decline over time as principal is repaid. External debenture borrowing is all repaid at maturity with no intervening principal repayments. The principal repayments from bank loans and EFIP loans provide another $121.8 million in loan potential by 2014.

Therefore, assuming that the projections of net assets are reasonable, we would expect to have available between $886.8 million and $1.01 billion in borrowing capacity by 2014. With the additional $121.8 million in principal repayments on amortizing loans, the internal borrowing available is projected to be between $66.6 million and $189.0 million more than the $942.0 million allocated to projects and other requirements by Business Board to January 31, 2010.

The following chart shows the projected range of remaining borrowing available in each future year after taking into account principal repayments that can be reallocated.

University of Toronto Debt Strategy

Borrowing Available Under Current Policy compared to Allocations (millions of dollars)

	Proj. 2010		Proj. 2011		Proj. 2012		Proj. 2013		Proj. 2014	
	LOW	**HIGH**	**LOW**	**HIGH**	**LOW**	**HIGH**	**LOW**	**HIGH**	**LOW**	**HIGH**
Maximum Borrowing Capacity										
Maximum external borrowing	758.5	758.5	743.6	756.8	707.8	742.1	674.5	744.9	686.8	809.2
Maximum internal borrowing	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0	200.0
Total	**958.5**	**958.5**	**943.6**	**956.8**	**907.8**	**942.1**	**874.5**	**944.9**	**886.8**	**1,009.2**
Allocations:										
Approved up to January 31, 2010	942.0	942.0	942.0	942.0	942.0	942.0	942.0	942.0	942.0	942.0
Less:										
Repayments that can be reallocated	(67.6)	(67.6)	(80.4)	(80.4)	(91.6)	(91.6)	(107.2)	(107.2)	(121.8)	(121.8)
	874.4	**874.4**	**861.6**	**861.6**	**850.4**	**850.4**	**834.8**	**834.8**	**820.2**	**820.2**
Remaining to be allocated	**84.1**	**84.1**	**82.0**	**95.2**	**57.4**	**91.7**	**39.7**	**110.1**	**66.6**	**189.0**

Given the uncertainty of future investment returns, the University should use a cautious approach when allocating additional borrowing and issuing new external debt. We have temporarily allowed internal borrowing from EFIP to move beyond the $200 million maximum as bridge-financing, to provide flexibility in the timing of issuing external debt. EFIP current balances show there is no risk of cash shortages in temporarily allocating funds to internal borrowing beyond the target of $200 million. In addition, due to current low short-term returns, EFIP can temporarily take this opportunity and earn better returns from internal borrowing.

Other Considerations - Credit Ratings

The purpose of credit ratings is to give lenders an assessment of a borrower's ability to repay debt.

The credit rating also influences the interest rate paid by the borrower, reflecting how much the lender wants to be compensated for assuming the risk related to repayment of the debt. Note that other influences on the interest rate are the underlying interest rates for benchmark on Government of Canada bonds and spreads between Canada and Ontario bonds at the moment of debt issue.

The following chart compares U of T credit ratings with our Canadian peers and with our U.S. AAU (Association of American Universities) peers and with the Province of Ontario, all at June 2009.

Credit Rating Comparison
University of Toronto with US and Canadian Peers at June 2009

Rating Definitions	**Moody's Investors Service**	**Standard & Poor's**	**Dominion Bond Rating Service**
Best quality	Aaa	AAA	AAA
Next highest quality	Aa1	AA+	AA(high)
and so on, declining	Aa2	AA	AA
	Aa3	AA-	AA(low)
	A1	A+	A(high)
	A2	A	A
	and so on	and so on	and so on

University	**Moody's Investors Service**	**Standard & Poor's**	**Dominion Bond Rating Service**
PROVINCE OF ONTARIO	**Aa1**	**AA**	**AA**
University of Texas system	Aaa	AAA	
University of Michigan	Aaa	AAA	
Queen's University		AA+	AA(high)
University of British Columbia	Aa1	AA+	
University of Toronto	**Aa1**	**AA**	**AA**
University of Washington	Aa1	AA	
University of California	Aa1	AA	
University of Ottawa	Aa1		AA
McMaster University		AA	AA
University of Western Ontario		AA	
Ohio State University	Aa2	AA	
University of Pittsburgh	Aa2	AA	
University of Minnesota	Aa2	AA	
McGill University	Aa2	AA-	
University of Illinois	Aa3	AA-	
University of Arizona	Aa3		

Source: Credit rating agencies' websites and reports.

The table above indicates the credit rating definitions and the ratings assigned to those of our US and Canadian peers that have been rated by the University of Toronto's rating agencies.

As the above chart illustrates, the University of Toronto continues to maintain excellent credit ratings, absolutely and in comparison to our peers.

The current borrowing strategy does not specify a minimum credit rating. Many factors affect credit ratings at any point in time, such as:

- Student demand.
- Government policy and funding.
- Debt per student ratios.
- Levels of unrestricted resources.
- Investment performance.
- Quality of management

While the University of Toronto should continue to maintain good credit ratings, both as comfort to our lenders regarding our ability to repay debt, and as a general indicator of financial health, we continue to believe that it is not necessary to set credit rating floors. There are too many variables involved, some of which can be quite short-term to enable credit ratings in themselves to act as a constraint to ensure the continued financial prudence of the borrowing strategy.

OTHER CONSIDERATIONS - DEBT SERVICE AND DEBT REPAYMENT

The question facing the University of Toronto is how much more do we want to spend ON the classrooms and other facilities rather than IN the classroom?

It is important to note that current outstanding debt is at fixed rates of interest, so that debt service and debt repayment on those obligations are declining as a percent of revenues and expenses over time.

Evaluation of ability to service and repay debt is done on a project by project basis, and it is assumed that the sum of these individual evaluations will aggregate to an overall ability to service and repay the debt with low risk of default.

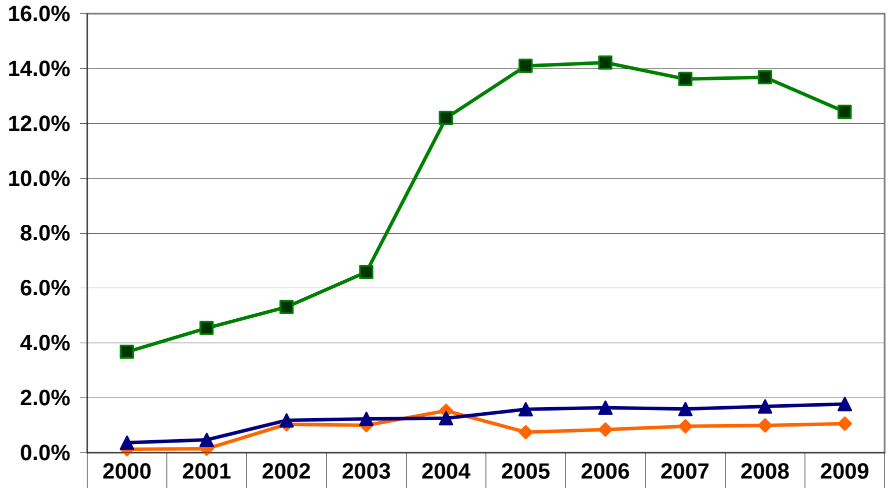
Internal borrowers, such as academic divisions or residence operations, are required to sign loan agreements under the University's internal financing program, which require regular principal and interest payments at specified fixed interest rates that are linked to market rates.

Those principal and interest payments are deposited into an internal sinking fund (the long-term borrowing pool, or LTBP) along with investment earnings on the LTBP balance. That sinking fund is drawn down by periodic interest payments to lenders and by payment of issue and ongoing administrative costs such as commission, legal and accounting fees and by ongoing trustee and rating fees. The expectation is that the net sum of additions and draw downs will be sufficient to repay each debenture upon maturity.

Debt Service – Interest Expense on External Debt:

At April 30, 2009, the interest expense on outstanding external debt was $33.7 million for the year. This was 1.8% of revenues, and 1.6% of expenses. Operating fund interest expense was 1.1% of operating fund revenues while ancillary interest expense was 12.4% of ancillary revenues.

Long-term Debt
Interest Expense as a % of Revenues
for the year ended April 30



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Op Fund interest expense as a % of Operating revenue	0.1%	0.1%	1.0%	1.0%	1.5%	0.8%	0.8%	1.0%	1.0%	1.1%
Ancillary interest expense as a % of Ancillary revenues	3.7%	4.5%	5.3%	6.6%	12.2%	14.1%	14.2%	13.6%	13.7%	12.4%
Interest as a % of revenues	0.4%	0.5%	1.2%	1.2%	1.3%	1.6%	1.6%	1.6%	1.7%	1.8%

Principal and Interest on External and Internal Debt:

Borrowing, whether internally or externally financed, is covered by the internal financing program, which requires formal loan agreements with regular principal and interest payments for set periods, with interest charged at fixed rates linked to market rates at the issue date of the loan agreement. Therefore, evaluating the principal and interest payment load on the University must take this into account.

The $942.0 million in borrowing allocated by the Business Board to January 31, 2010 has been distributed as follows: $636.7 million to academic buildings and other requirements and $305.3 million to ancillary operations. The actual and estimated principal and interest repayment on this allocated borrowing is projected to be $77.6 million per annum distributed as follows: $51.7 million per annum to the operating fund, representing 3.8% of the 2009 operating fund revenues, and $25.9 million per annum to ancillaries, representing 17.9% of the 2009 ancillary revenues.

Given that interest rates are fixed and that revenues are expected to continue to increase, the percentages will fall over time on this amount of allocated borrowing.

The current borrowing does not place any limits on debt service or debt repayment percentages.

External debt service is partly dependent on total debt and partly dependent on interest rates. Since interest rates are fixed, debt service on currently outstanding debt will fall over time as a percent of revenues and expenses.

Allocation of debt to individual projects or divisions is based on their ability to repay that specific loan, while the aggregation of individual assessments provides the overall assessment of ability to repay debt.

The various measures that have been put in place are deemed to be sufficient control over debt service and debt repayment and no specific limits are considered necessary.

Conclusion

This review has considered the current borrowing strategy and has found the following:

- The current strategy is projected to make available between $66.6 million and $189.0 million in additional borrowing capacity by 2014 under current accounting rules, above the $942.0 million allocated by the Business Board to January 31, 2010.
- Comparisons to Moody's medians indicate that to date we have borrowed externally less than our rating peers but we also have fewer resources to support debt issuance and we have internal debt. Certain ratios where we were able to test maximum borrowing capacity also indicate that the maximum borrowing capacity to date is within the appropriate range as compared to our rating peers.
- Credit rating limits are not considered to be necessary.
- Debt service and debt repayment processes and current internal controls are considered to be sufficient.

In conclusion, the current borrowing strategy, as approved by the Business Board on June 17, 2004, continues to be prudent. However, if the actual investment performance falls within the lower range modeled here, it would constrain the University's ability to build and renovate using borrowed funds for the next several years (under current accounting rules) because the University could be in a situation where the actual external borrowing is above 40% of net assets averaged over 5 years. In this event, no further external borrowing would be permitted under the current policy until such time as the actual external borrowing is not greater than 33% of net assets averaged over 5 years.

Additionally, based on current regulatory rules, the University would expect to increase pension contribution requirements beginning 2011. While the actual amount of these obligations will depend upon regulatory requirements at the time and investment earnings in the interim, these contributions could potentially reduce the University's net assets and affect borrowing capacity.

Therefore, in conclusion, the results of this study, along with these uncertainties suggest a cautious approach to new borrowing allocations in the next several years.