25. Financial Health Indicators:

a) Unrestricted resources to long-term debt and expenses
b) Expendable resources to long-term debt and expenses
c) Total resources to long-term debt
d) Credit ratings of U of T and peers

Relevance:

Information on the financial health and credit ratings of the University of Toronto is useful to governors to help determine the capability of the University to repay borrowing, as assessed by independent credit rating agencies. Key rating criteria include diversity of revenues and strength of student demand.

Assessment:

The University of Toronto's financial health is measured by the amount of financial resources available to meet its mission. These financial resources provides the University with the flexibility to meet a variety of financial challenges in the short to long-term and provides security to lenders that amounts borrowed will be repaid.

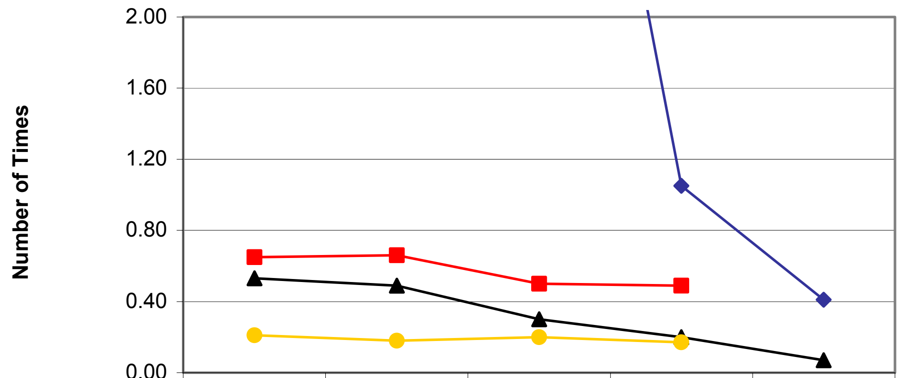
The University's financial resources at April 30, 2003 included total assets of $2.44 billion less liabilities of $1.18 billion for a capital of $1.26 billion. Capital includes unrestricted deficit of $0.07 billion, committed capital of $0.08 billion, equity in capital assets of $0.19 billion and endowments of $1.06 billion.

Moody's Investors Service measures financial health using three levels of liquidity, being financial resources which are immediately available to be spent (unrestricted resources), those which an institution could access in the intermediate term (expendable resources) and those which provide a long-term reserve base to the university (total resources). These categories of resources are hence cumulative, aggregating up from unrestricted resources which could be freed up in the short term (such as the operating surplus or deficit, and internally restricted endowments), to expendable resources (unrestricted resources plus temporarily restricted resources, such as unspent research funding and departmental trust funds), to the total resources available to the institution to deal with a liquidity problem in the longer term (expendable funds plus externally restricted endowments).

As indicated in the following tables and charts, the University has taken on considerable debt in recent years, and has hence reduced its financial flexibility for the immediate future, as further discussed below. It is important to note, however, that this is "up-front" debt (about half of which is for new residences), incurred to build the facilities to accommodate enrolment expansion before the supporting revenue from residence fees, government operating grants and tuition has flowed to the University. Once the revenue streams associated with enrolment expansion are in place, the ratios presented below will improve. It should also be noted that despite the sharp recent changes, the University's resource:debt ratios remain somewhat above the median for American Public Colleges and Universities rated by Moody's Investors' Service.

The University's most immediate financial flexibility is evaluated by comparing the unrestricted resources to the level of long-term debt and total expenses for the year. The higher the number of times the university covers its debt and expenses, the more financial flexibility the University enjoys in the short-term.

Unrestricted Resources to Long-Term Debt and Expenses



	1999	2000	2001	2002	2003
U of T's unrestricted resources to debt	11.49	7.32	5.20	1.05	0.41
Median unrestricted resources to debt	0.65	0.66	0.50	0.49	
U of T's unrestricted resources to expenses	0.53	0.49	0.30	0.20	0.07
Median unrestricted resources to expenses	0.21	0.18	0.20	0.17	

Source: Medians obtained from Moody's Investors Service "Public College and University Median" publications.

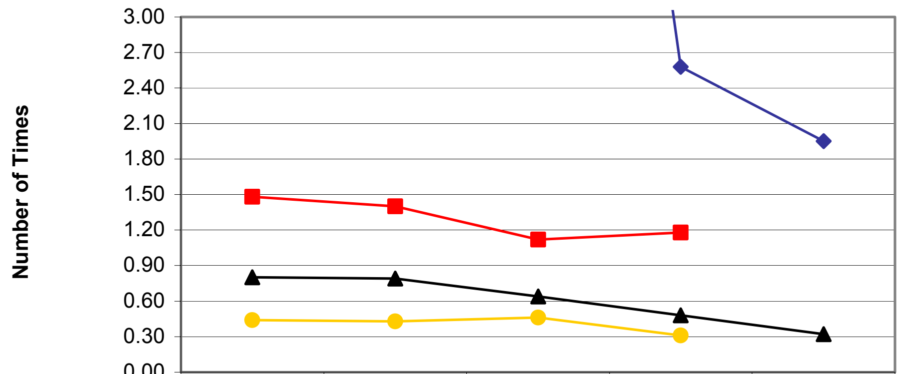
The decrease in unrestricted resources to long-term debt and expenses can be attributed to the following two major factors:

- In 2001, the University was required to account for the cost of employee future benefits other than pensions. This resulted in a decrease of $129.9 million in unrestricted resources even if the University's financial statements recorded this liability over the next 15 years.

- Historically, the University borrowed funds on a project by project basis where there was a specific business plan for repayment in place. The University has recently embarked on a major capital construction program which resulted in the issuance of an unsecured debenture of $160.0 million in 2002 for a total long-term debt outstanding of $220.5 million. An additional $200 million is anticipated to be borrowed in 2004. This additional debt will further reduce the University's immediate financial flexibility.

The University's two to three year financial flexibility is assessed by comparing the <u>expendable resources</u> to the level of long-term debt and total expenses for the year. The higher the number of times the university covers its debt and expenses, the more financial flexibility the University enjoys in the mid-term.

Expendable Resources to Long-Term Debt and Expenses



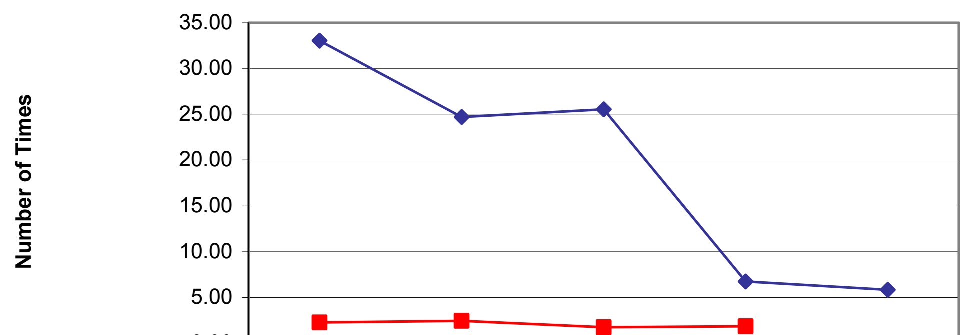
	1999	2000	2001	2002	2003
U of T's expendable resources to debt	17.30	11.76	11.08	2.58	1.95
Median expendable resources to debt	1.48	1.40	1.12	1.18	
U of T's expendable resources to expenses	0.80	0.79	0.64	0.48	0.32
Median expendable resources to expenses	0.44	0.43	0.46	0.31	

Source: Medians obtained from Moody's Investors Service "Public College and University Median" publications.

The decrease in expendable resources to long-term debt and expenses can be attributed to the same two major factors discussed above which were partly offset with an increase in research funding in 2001.

The broadest view of financial liquidity is obtained by comparing the University's total resources to the level of long-term debt. The higher the number of times the university covers its debt, the better security for creditors and support for the University's mission.

Total Resources to Long-Term Debt



	1999	2000	2001	2002	2003
U of T's expendable resources to debt	33.06	24.71	25.52	6.74	5.82
Median expendable resources to debt	2.27	2.46	1.76	1.84	

Source: Medians obtained from Moody's Investors Service "Public College and University Median" publications.

The decrease in total resources to long-term debt and expenses can be attributed to the same major factors discussed above partly offset by an increase in externally restricted endowments.

The University of Toronto has three credit ratings. In each case the credit rating agency has assigned a rating to the University which is one level higher than the rate assigned to the Province of Ontario by that credit rating agency.

University of Toronto ratings assigned by Moody's Investors Service and Standard and Poor's are the same as those assigned to the University of North Carolina at Chapel Hill, and better than those of most of our peers.

Credit Rating Comparison
University of Toronto with US and Canadian Peers as at August 2003

The University of Toronto has three credit ratings - from Moody's Investor's Service, from Standard and Poor's, and from Dominion Bond Rating Service. All three of these credit ratings are ranked one level higher than the credit ratings assigned to the Province of Ontario by that credit rating agency. The following tables showing the credit rating definitions and the ratings assigned to those of our US and Canadian peers that have credit ratings.

Rating Definitions	**Moody's Investor's Service**	**Standard and 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 Investor's Service**	**Standard and Poor's**	**Dominion Bond Rating Service**
University of Texas system	Aaa	AAA	
University of Michigan	Aaa	AA+	
University of North Carolina - Chapel Hill	Aa1	AA+	
University of Toronto	**Aa1**	**AA+**	**AA high**
Queen's University		AA+	**AA high**
University of California system	Aa2	AA-	
University of Washington	Aa2	AA+	
University of Minnesota - Twin Cities	Aa2	AA	
Ohio State University	Aa2	AA	
McGill University	Aa2	AA-	
University of British Columbia	Aa2	AA-	
Rutgers University	Aa3	AA	
University of Illinois	Aa3	AA-	
University of Arizona	A1	AA	