Insight beyond the rating.

Date of Release: February 10, 2014

DBRS Confirms University of Toronto at AA, Trend Stable

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

DBRS has today confirmed the Issuer Rating and Senior Unsecured Debentures rating of the University of Toronto (the University or UofT) at AA, both with Stable trends. UofT benefits from a track record of sound financial management and an excellent academic reputation, which has led to healthy enrolment growth and substantial endowment assets. However, amid growing pension funding costs and a tight operating environment, proactive management will have to be sustained to prevent undue erosion in operating results.

Consolidated results rebounded strongly in 2012-13, on solid financial market performance, better-than-expected full time equivalent (FTE) enrolment growth of 3.3% and prudent expenditure management. A consolidated surplus of $173.3 million was reported. However, DBRS makes adjustments to exclude the gains from the remeasurement of employee benefits ($46.1 million) resulting from the adoption of new accounting standards, translating to an adjusted surplus of $127.2 million, or 5.0% of revenues in 2012-13. The University's debt burden fell to $726.0 million or $10,326 per FTE in fiscal 2012-13. Endowment assets benefited from resurgent financial markets, rising to roughly $1.7 billion by April 30, 2013, the highest level among Canadian universities, which translates to $23,662 per FTE. Expendable resources remained substantial, accounting for 128% of debt and providing considerable flexibility to address financial obligations. A balanced budget was presented for the current fiscal year, including the elimination of the operating fund accumulated deficit.

The medium-term outlook points to continued balanced results. However, DBRS expects budget pressures to remain elevated, especially in light of a more restrictive tuition framework and the squeezing of government funding. Unfunded pension liabilities remain the most pressing challenge facing the University. Encouragingly, a recent estimate of the University's pension plan shows improvements on both solvency and going concern bases, which bodes well for the upcoming valuation, as the interest rate environment and financial markets show signs of picking up. However, the current pension contribution strategy calls for pension special payments to increase to $110 million per year by 2015-16, up more than threefold from several years ago. The University will be applying for Stage 2 of the Province of Ontario's (the Province; rated AA (low)) solvency relief program, which would allow the solvency deficit to be amortized over ten years, rather than five years as otherwise required. DBRS notes that failure to attain Stage 2 relief would exert even greater pressures on the University's operations, though the increased employee contributions secured during the last round of labour negotiations meets the conditions required for approval.

Capital expenditures are set to increase in the coming years to accommodate further enrolment growth. Several large projects are underway, and others are in early development stages. The University has indicated that no new external debt is required over the near term. A new "build to budget" approach is being used to better manage the scale and associated debt needs of capital projects, and some early success has been found in the implementation of this new approach. Furthermore, the University is looking to the ongoing fundraising campaign as a key source of future capital funding.

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

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 to the right under Related Research or by contacting us at info@dbrs.com.

This rating is endorsed by DBRS Ratings Limited for use in the European Union.

The applicable methodology is Rating Public Universities, which can be found on our website under Methodologies.

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 Debt	Confirmed	AA	Stable

Insight beyond the rating.

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Rating Report

Report Date:
February 10, 2014

Previous Report:
November 2, 2012

Insight beyond the rating.

University of Toronto

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The University
The University of Toronto is Canada's largest university, with total full-time equivalent enrolment of 70,311 in 2012-13. Located on three campuses – St. George (downtown Toronto), Mississauga and Scarborough – the University offers a wide range of undergraduate, graduate and professional programs and is home to one of the most extensive library systems in North America. The University serves the Greater Toronto Area, Canada's largest urban centre, with a population of about 5.9 million.

Rating

Debt	Rating	Rating Action	Trend
Issuer Rating	AA	Confirmed	Stable
Senior Unsecured Debentures	AA	Confirmed	Stable

Rating Update

DBRS has confirmed the Issuer Rating and Senior Unsecured Debentures rating of the University of Toronto (the University or UofT) at AA, both with Stable trends. UofT benefits from a track record of sound financial management and an excellent academic reputation, which has led to healthy enrolment growth and substantial endowment assets. However, amid growing pension funding costs and a tight operating environment, proactive management will have to be sustained to prevent undue erosion in operating results.

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The medium-term outlook points to continued balanced results. However, DBRS expects budget pressures to remain elevated, especially in light of a more restrictive tuition framework and the squeezing of government funding. (Continued on page 2.)

Rating Considerations

Strengths
(1) One of Canada's flagship post-secondary institutions
(2) Considerable endowment fund
(3) Large portfolio of downtown Toronto real estate
(4) Prudent management practices

Challenges
(1) Sizable post-employment liabilities
(2) Salary pressures
(3) Moderately high debt burden
(4) Limited tuition fee setting autonomy

Financial Information

	For the year ended April 30				
	2012-2013*	2011-2012*	2010-2011	2009-2010	2008-2009
Consolidated surplus (deficit) ($ millions)	127.2	70.1	7.2	45.4	(169.2)
Surplus-to-revenue	5.0%	2.9%	0.3%	2.1%	(8.8%)
Long-term debt ($ millions)	726.0	727.7	526.8	528.2	558.9
Interest coverage ratio (times) (1)	6.0	2.6	5.2	4.8	4.7
Total endowment ($ millions)	1,663.7	1,518.1	1,539.4	1,437.2	1,286.3
Expendable resources-to-debt (2)	128%	115%	146%	126%	108%
Total enrolment (FTEs)	70,311	68,088	66,611	65,402	62,934
Long-term debt per FTE ($)	10,326	10,688	7,909	8,076	8,881
Endowment per FTE ($)	23,662	22,296	23,110	21,975	20,439

* As of the transit ion date of May 1, 2011, the University has adopted new account ing standards. The University has elected to revalue land at fair value. Actuarial gains and losses on employee pension and non-pension benefit plans are now recognized immediately rather than smoothed.
(1) Cash flow from operations plus interest divided by interest.
(2) Internally restricted endowments plus cash reserves for future spending diveded by debt.

Rating Update (Continued from page 1.)

Unfunded pension liabilities remain the most pressing challenge facing the University. Encouragingly, a recent estimate of the University's pension plan shows improvements on both solvency and going concern bases, which bodes well for the upcoming valuation, as the interest rate environment and financial markets show signs of picking up. However, the current pension contribution strategy calls for pension special payments to increase to $110 million per year by 2015-16, up more than threefold from several years ago. The University will be applying for Stage 2 of the Province of Ontario's (the Province; rated AA (low)) solvency relief program, which would allow the solvency deficit to be amortized over ten years, rather than five years as otherwise required. DBRS notes that failure to attain Stage 2 relief would exert even greater pressures on the University's operations, though the increased employee contributions secured during the last round of labour negotiations meets the conditions required for approval.

Capital expenditures are set to increase in the coming years to accommodate further enrolment growth. Several large projects are underway, and others are in early development stages. The University has indicated that no new external debt is required over the near term. A new "build to budget" approach is being used to better manage the scale and associated debt needs of capital projects, and some early success has been found in the implementation of this new approach. Furthermore, the University is looking to the ongoing fundraising campaign as a key source of future capital funding.

Rating Considerations Details

Strengths

(1) The University is one of the nation's flagship institutions and benefits from the strong reputation of its highly diversified academic and research programs, as well as its world-class library system. An established academic profile and strong demand will continue to drive plans to grow enrolment across the three campuses. In addition, the St. George campus is conveniently located in the heart of Canada's most populous metropolitan area, the Greater Toronto Area (GTA), from which 66% of incoming undergraduate students are drawn.

(2) UofT has the largest endowment among Canadian universities, valued at approximately $1.7 billion as at April 30, 2013, which translates to $23,662 per FTE. The fund provides an important source of income for departments and, to some extent, a liquidity reserve, although restrictions prevent a considerable portion of the endowment fund (roughly 85%) from being used for debt servicing.

(3) The University owns an important portfolio of real estate valued at over $2 billion, well in excess of outstanding long-term debt. This includes approximately 49 hectares of land on the downtown (St. George) campus and a further 211 hectares on the Scarborough (UTSC) and Mississauga (UTM) campuses.

(4) The strong commitment of the University to conservative management and a solid financial profile is reflected in its five-year rolling budget model, which only authorizes the budgeting of a deficit in extraordinary circumstances and requires an accumulated deficit to be eliminated by the end of the planning period.

Challenges

(1) Similar to most of its peers with defined benefit plans, the University carries considerable unfunded pension and other post-employment liabilities. A July 1, 2013, estimate of UofT's pension plan shows sizable going concern and solvency pension deficits of $1.0 billion and $1.4 billion, respectively. Both measures recovered somewhat after experiencing further deteriorations in the prior year. The University secured employee contribution increases as part of labour negotiations in 2011-12, which meets the conditions required for acceptance to Stage 2 of the provincial solvency relief program. The current pension funding strategy (based on a July 1, 2011, valuation) estimates that contributions of $110 million annually will be required. Additionally, non-pension post-employment benefits totalled $734.7 million at April 30, 2013, on an accounting basis, and, although the University is not required to fund this shortfall, cash requirements are expected to increase annually.

(2) Salary and benefits costs, which are rising faster than government grants, will continue to put pressure on the University's finances over the medium term. Furthermore, the strategy to recruit high-profile faculty and researchers puts particular pressure on labour costs.

(3) The $200 million long-term debt issued by UofT in 2011-12 eroded the competitive advantage it previously held. The debt burden stood at $10,326 per FTE in 2012-13, and sound operating performance helped bring interest coverage to 6.0 times, after the low posted in the prior year. UofT does not foresee taking on additional debt in the near term, which should keep metrics consistent with an AA rating, provided budget prudence is maintained, helping to rebuild flexibility into the rating.

(4) A large share of revenues for Ontario universities comes from government grants and tuition fees, both of which are set by the Province. From 2006-07 to 2012-13, Ontario universities were limited to a 5% average annual increase in tuition fees. Starting with the 2013-14 academic year, annual domestic undergraduate tuition fee increases have been capped at 3% for the next four years for regulated programs, leaving universities with limited flexibility to alter this considerable revenue stream.

2012-13 Operating Performance

UofT reported a better-than-expected consolidated surplus of $173.3 million. However, DBRS makes adjustments to exclude gains from the remeasurement of employee future benefits ($46.1 million), resulting from the immediate recognition approach for pensions and other employee future benefits under new accounting standards for not-for-profit organizations. This translates into an adjusted surplus of $127.2 million, or 5.0% of revenues in 2012-13, a further improvement from the restated $70.1 million surplus in 2011-12. Total revenues climbed by 6.5% in 2012-13. Enrolment grew by a sound 3.3%, and has grown at an increasing rate for three consecutive years, though some weakness persists in domestic graduate enrolment. Higher enrolment and tuition fees supported a solid 11.5% increase in tuition revenues. Buoyant financial markets pushed investment income up by 47.0% over the prior year, and donations too rose solidly. Conversely, provincial operating funding remained sluggish, while other grants and contracts, particularly for capital infrastructure, contracted. Spending was well-contained, helped by lower costs for employee future benefit payments due to favourable investment returns, combined with underspending in academic divisions. Spending on student aid, as well as repairs and maintenance, rose moderately, while interest charges jumped by 16.3%, reflecting the full-year impact of the debt issued in 2011-12.

Operating performance of UofT's ancillary services is also improving. After taking on debt to finance capital expansion, operations are now approaching a break-even position, and plans are being developed to address accumulated deficits.

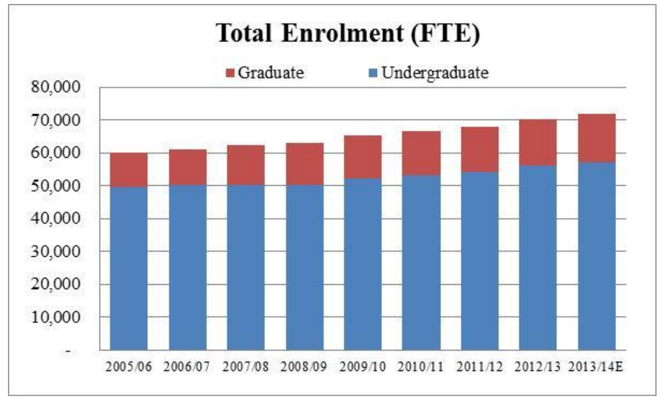
Operating Outlook

The University conducts business through four funds (operating, ancillary, capital and restricted). However, the detailed budget prepared by the University covers only the operating fund, which comprises approximately 70% of consolidated spending. The other funds are essentially run on a break-even basis. The budget is prepared on a cash basis and is based on a five-year rolling window updated annually. Planned deficits are allowed only in exceptional circumstances and must be repaid over five years. Due to its large investable assets, UofT's operating balance is more susceptible to financial market conditions, which, together with other factors, can produce more notable swings in operating performance than in the case of other DBRS-rated universities.

Summary

A balanced budget was once again presented for 2013-14, supported by continued enrolment growth and prudent expenditure management. Operating revenues were projected to grow by 6.7% over the prior budget, supported by a 12.1% increase in tuition revenues, owing to planned FTE enrolment growth of 2.3% and tuition fee increases of 4.3% on average for domestic students and 7.2% for international students. However, DBRS notes that at budget time the revised tuition regime capping average domestic undergraduate tuition increases to just 3%, instead of 5%, had not been introduced. A revised projection incorporating the new tuition framework shows slightly slower operating revenue growth of 6.3%. Full funding for enrolment growth is expected to continue. However, provincial operating grants are projected to remain flat, hampered by funding cuts related to efficiency savings targets and international student tax, though the latter will be recovered through tuition increases for this group of students.

Operating expenditures are budgeted to rise by 6.7% for the current fiscal year, driven by rising labour costs owing to negotiated salary and benefit increases, and faculty hiring. The University is currently negotiating with four of its 22 employee groups, and contracts for the remaining employee groups are set to expire in 2013-14 and 2014-15. Both student aid spending and pension special payments will see increases. Additional spending out of the University Fund is also expected to support, among other things, structural realignments of certain faculties and course development. Other cost drivers include library services, deferred maintenance, a new student information system, expansion of wireless infrastructure and administrative staff hiring. Cost containment of 1% will be sought from the shared services portfolio, following a 2% reduction target in 2012-13. Preliminary indications suggest that the University is expecting continued positive results, owing to favourable forecast investment returns and cautious spending, helping to offset the impact of the tuition regime change.



Outlook

The University has been served well by its budget model, which incentives faculties to generate revenues and cut costs while still funding academic priorities, and has helped to eliminate the operating fund accumulated deficit. A balanced operating budget is projected over the five-year planning horizon (2013-14 to 2017-18), with continued enrolment growth expected to be the primary budget driver. Graduate enrolment growth is expected to lead the way, though there have been some difficulties filling graduate spaces (particularly doctoral students) in recent years. Modest undergraduate enrolment expansion is planned at UTM, while UTSC, through undergraduate enrolment at the St. George campus, will see a reduction, with growth limited to certain professional faculties (architecture, music, kinesiology and engineering). International students remain outside of the regulated tuition framework, and the University will seek to capitalize on this by growing this component of the student body, which is forecast to increase from 14.6% in 2012-13 to 15.9% by 2017-18. In light of this enrolment strategy, the University will have to work diligently to contain expenditure growth, as additional staffing, support services and space will likely be required. Additionally, DBRS notes that the change in the tuition framework is expected to result in a cumulative reduction of approximately $144 million in projected revenues over five years, which will alter the University’s medium-term outlook and put additional pressure on operations, especially in light of already constrained grant funding and sizable cash draws required to fund the pension deficiency. Despite this, the four-year term of the tuition framework adds much needed certainty and alleviates a key budgetary risk over the medium term.

Upcoming labour negotiations, including those with the largest employee groups – faculty and administrative staff – could prove to be challenging, as the appetite for austere salary restraint appears to have dissipated. Additionally, at the request of the Province, post-secondary institutions across Ontario have submitted Strategic Mandate Agreements (SMAs) outlining their strategic priorities, established strengths and financial sustainability plans. These SMAs will likely be used to differentiate funding across the sector. UofT’s role as a large, world-class, research-intensive university with diversified course and program offerings leaves it well-positioned within the system, which DBRS believes will limit downside risks that may result from this differentiation exercise.

Pension Funding Strategy

Similar to other large universities with defined benefit plans, UofT faces sizable unfunded pension and post-employment benefit liabilities. The University is required to file triennial actuarial valuations, whereby any going concern pension deficit (which assumes the plan will continue to operate indefinitely) must be paid down within fifteen years, while any solvency deficit (which assumes the plan is wound down as of the valuation date), is normally required to be funded within five years. The financial crisis in 2008 led to steep declines in pension fund assets, with the subsequent prolonged period of historically low long-term interest rates and unfavourable actuarial assumption changes causing sizable funding deficiencies to persist. A July 1, 2013, valuation showed a going concern deficit of $1.0 billion (75% funded status) and a $1.36 billion solvency deficit (68% funded status), both of which have improved year over year, owing to better-than-expected investment returns, after experiencing a further deterioration in 2012.

In light of the challenges faced across the broader public sector, the Province introduced a two-stage pension solvency relief program in 2010-11. UofT was granted Stage 1 solvency relief and given a solvency funding exemption for a three-year period up to July 1, 2014. To fund the deficit over time, UofT introduced a pension contribution strategy in May 2012 (based on an actuarial valuation as at July 1, 2011), which includes (1) increased annual pension special payments, (2) two sizable lump sum payments and (3) the use of non-cash letters of credit (LC).

An initial $150 million lump sum payment was made into the plan in June 2011, using a combination of pension reserve funds and internal borrowing. A second equal payment will be made by June 2014, consisting of a projected $121 million transfer of assets from the Supplemental Retirement Assistance fund and approximately $29 million in internal borrowing. Additionally, total cash special payments will increase to $67 million between 2012-13 and 2014-15. From 2015-16 until 2029-2030, this is projected to increase to $76 million annually, topped up by $34 million in non-cash LCs (representing the net solvency deficit payments – the excess of the solvency above the going concern special payments) for a ten-year period. The use of LCs in lieu of cash contributions to fund solvency deficiencies is not yet permitted.

Solvency Funding Relief

Announced in Ontario's 2010 budget, Ontario Regulation 178/11 came into force in June 2011. It allows for solvency funding relief in two stages for certain public sector pension plans.

Stage 1:

- Allows universities up to three years to make changes that will improve the sustainability of their plans.
- Special payments are only required to ensure the solvency shortfall does not increase (i.e., interest-only payments).

Stage 2:

- Provided sufficient progress is made to improve the sustainability of pension plans, the solvency deficit can be amortized over ten years instead of five. Similar to Stage 1, in the first three years special payments are only required to ensure the solvency shortfall does not increase. The deficiency must then be amortized over seven years.

As part of labour negotiations in 2011-12, UofT secured increased employee pension contributions, helping to bring the employer-to-employee contribution ratio to approximately 1.5:1, and improving the sustainability of the plan going forward. This meets the conditions required for acceptance to Stage 2 solvency relief, for which the University is currently applying. Failure to achieve Stage 2 solvency relief would have severe cash flow implications, raising pension special payments to approximately $200 million per year.

DBRS notes that the Province recently released proposed changes to the temporary solvency relief program, which permit a further deferral of net solvency payments for three years. The proposal still does not allow for the use of LCs; however, with this revised proposal, the University would be afforded some time, and would not require an LC facility until its revised net solvency payments start date of July 1, 2018.

UofT will likely adopt new mortality tables for the upcoming actuarial valuation as at July 1, 2014, which could partially offset some of the gains that are likely to be accrued from the actions being implemented. The pension contribution strategy will be updated to reflect the results of the July 2014 valuation and will consider the changes to solvency relief program. Given the scale of the University's pension challenge, a meaningful improvement in the funded status will require an improvement in the interest rate environment and favourable financial market performance. Barring this, substantive structural changes could be required, as an exacerbation of the pension deficiency could force the University to allocate an even greater portion of its operating budget to fund the pension plan each year, which would materially affect its financial position and pose downward pressure on the credit rating.

Capital Plan

Capital spending declined year over year to $204.7 million in 2012-13. Several smaller projects were completed during the year, largely using internal resources, and were completed on time and on budget. Several large projects are currently at advanced stages of construction and are expected to be complete in calendar year 2014, including the Goldring Centre, a state-of-the art sport science facility, reconstruction of the North Building and expansion of the Kaneff Centre, both on the UTM campus, and a large aquatics complex on the UTSC campus, which will be used for the 2015 Pan American Games and co-owned with the City of Toronto. Other large projects are at earlier stages, including expansion and renovation of the Faculty of Law and the Jackman Institute of Child Study, upgrades to the Ramsay Wright laboratories on the St. George campus, the Environmental Science and Chemistry building on the UTSC campus, renovation of the historic 1 Spadina Crescent site to house the Faculty of Architecture and Landscape Architecture (FALA), and a new student centre in the building vacated by FALA. Lastly, a new engineering building is in the planning stage. Larger projects are typically funded with a combination of funds, including cash on hand, donations and, in some cases, debt. The University has indicated that no new external borrowing will occur in the near term.

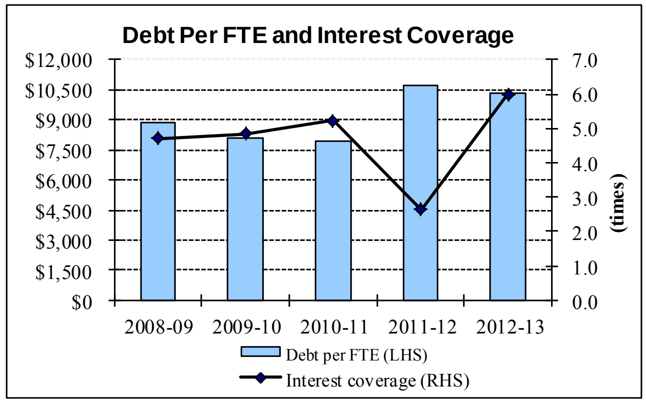
In light of the challenges at the provincial level and the considerable infrastructure dollars extended to the sector following the financial crisis, senior government funding for future capital projects is likely to be limited for some time. The University is thereby focusing on sourcing funds through its ongoing “Boundless” fundraising campaign, and hopes to raise half of the $2 billion fundraising target for capital projects. Furthermore, in an effort to minimize reliance on debt for capital projects, a new “build to budget” approach has been adopted, whereby the University has ceased the practice of departments planning new capital projects before identifying funding sources. Divisions are now asked to design projects based on what they can afford (accounting for departmental reserves, secured fundraising, etc.); projects are then adjusted and costed accordingly. Early implementation of this approach has been successful in containing project scale, securing fundraising and minimizing the borrowing requirements.

UofT has one of the largest university campuses in North America. Many buildings have heritage designations, with 36 being over 100 years old. As such, similar to other older universities, UofT has a considerable deferred maintenance backlog, estimated at $594 million as of April 30, 2013, and a facility condition index that is notably weaker than the Ontario university average. Both figures have seen further deterioration, though this is partially due to re-auditing of the building stock in recent years. While the overall liability continues to grow, DBRS notes that the highest priority deficiencies are improving over time, as rehabilitation projects are completed and new buildings come online. The University has increased its deferred maintenance budget to $16 million annually.

Debt and Liquidity

UofT ended fiscal 2012-13 with total debt of $726.0 million, or $10,326 per FTE, down slightly year over year, due to the repayment of certain term loans. This remains one of the highest debt burdens among DBRS-rated universities, but is considered acceptable for the rating given the University’s established academic profile, substantial financial resources, fundraising capabilities and prudent management practices. Outstanding debentures are long-dated, with maturities stretching out to between 2031 and 2051. Interest charges jumped by 16.3%, but still remain contained at just 1.7% of total spending. Despite the sharp rise in debt charges, much improved operating performance led to a marked improvement in the interest coverage ratio, which stood at 6.0 times in 2012-13.

Buoyant equity markets drove endowment assets up by 9.6%, to a sizable $1.7 billion by fiscal year-end 2013, the largest among Canadian universities, which translates to $23,662 on an FTE basis. Expendable resources stood at $932.7 million or 128% of debt outstanding, providing a significant financial cushion. Expendable resources consist of $684.8 million in cash reserves for future spending, largely operating fund reserves, and $247.9 million in internally restricted endowment funds, which the Governing Council may unendow to meet financial obligations if the need arises.



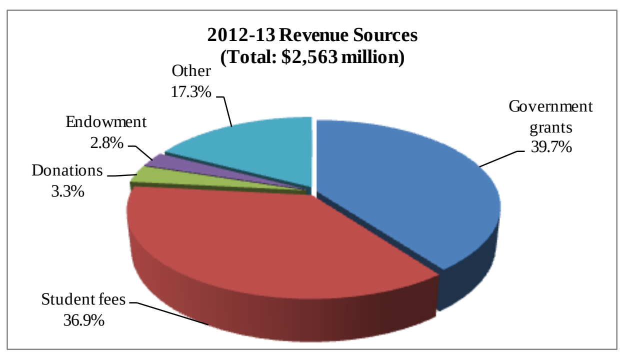
A revised debt strategy was approved in November 2012 that encompasses both external and internal debt. Whereas previously its external borrowing capacity was directly tied to balance sheet growth (set at 40% of five-year average of net assets), UofT now measures its debt capacity primarily against a debt burden ratio (interest plus principal repayment divided by total expenditures), with an established limit of 5%. A viability ratio (expendable resources divided by debt) is also tracked, with a soft floor set at 0.8. DBRS views the move away from a balance sheet-driven indicator as a prudent one, although the new limit potentially allows for significant increases in debt and erosion in the credit profile.

Outlook

Modest enrolment growth and the absence of new external debt needs will see the University's debt-to-FTE ratio improve gradually, as principal on existing mortgages and term loans are repaid. However, DBRS notes that the onerous cash requirements imposed by the pension deficit and slowing growth in provincial grants will likely keep the University's budget position tight. The University's debt appetite will therefore have to be managed prudently to prevent erosion in the credit profile.

University Funding in Ontario

Canadian universities generally have access to three key sources of revenue for their core teaching and research activities: (1) government grants, (2) student fees and (3) fundraising and endowment income. For UofT, these accounted for about 82.5% of total revenues in 2012-2013.

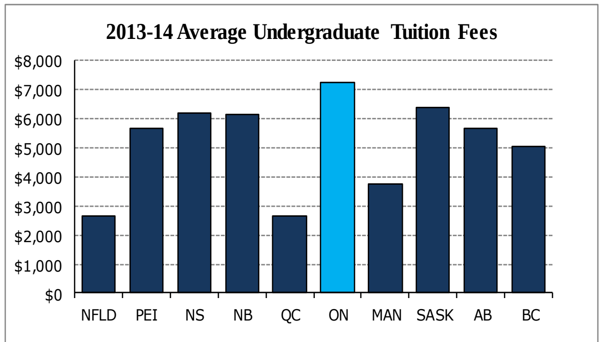


Provincial government funding remains the primary source of revenue for universities across the country, although its relative importance remains under pressure in most provinces as a result of accelerating costs in competing areas of provincial responsibility, notably health care. In Ontario, the lack of indexation and recent cuts in base operating grants has also contributed to this trend. In compensation for the budget cuts, Ontario universities were given fee-setting discretion for a range of deregulated programs and were allowed to raise tuitions substantially for those programs. This led to an increase in the universities' reliance on tuition fees and other private funding sources, as has occurred in other provinces.

Government Funding (provincial and federal, 39.7%): This includes operating grants, research grants and contracts and capital grants, of which operating grants are by far the most important and stable revenue source. They are provided exclusively by the Province, primarily through a formula that allocates a certain number of basic income units to each student based on the program in which they are enrolled. Targeted funding, which is aimed mainly at expanding enrolment in high-demand programs, and performance-based grants also account for a small portion of provincial operating funding. The Province continues to provide full average funding for enrolment growth. However, no inflation adjustment is provided in Ontario and recently there have been modest reductions in base operating funding.

In 2011, the Ontario government introduced refinements to its post-secondary education plan that embraced a number of priorities, including 60,000 additional spaces by 2015-2016 (of which 41,000 would go to the university sector), tuition and financial assistance for students, long-term capital funding to support expansion and renewal of campus infrastructure, and renegotiation of multi-year accountability agreements. 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, while the Province provides the bulk of capital funding. However, the provincial government's increased emphasis on spending restraint to help address its own budgetary challenges suggests limited flexibility for funding increases, making cost containment at universities that much more crucial.

Student Fees (36.9%): From 2006-2007 to 2012-2013, the Province permitted universities to raise average tuition fees by 5% annually, with fee increase limits varying across programs and years of study. For example, arts and sciences tuition can be increased by 4.5% for the first year of study and 4% for the following years, while graduate and professional program tuition fees can be increased by 8% for the first year of study and 4% per year thereafter. In March 2013, the Province announced that starting with the 2013-2014 academic year and for the next four years, the cap on annual undergraduate tuition fee increases will be reduced to 3%. Additionally, tuition fee increases for graduate and professional programs were also reduced, and will now be capped at 5%.



Source: Statistics Canada.

Fundraising and Endowment Contribution (6.0%): Donations are a particularly important funding source for older institutions like UofT, which generally enjoys a well-established reputation and alumni base. They include funds received for restricted purposes, the principal of which is often endowed. The University's extensive alumni base, academic profile and research capabilities have provided ample support for its fundraising efforts over the years. In November 2011, UofT launched a new $2 billion fundraising campaign, the largest in Canadian history, with over $1.4 billion secured to date from more than 83,000 donors (inclusive of the affiliated universities).

University of Toronto

Report Date:
February 10, 2014

University of Toronto

Consolidated Balance Sheet

($ millions)	For the year ended April 30				
Assets	2013*	2012*	2011	2010	2009
Cash & short-term investments	749.2	784.9	634.4	560.0	578.4
Accounts receivable	82.7	84.7	104.8	105.8	119.9
Inventories & prepaid expenses	18.6	23.5	16.9	11.2	14.4
Long-term investments (1)	2,403.6	2,095.6	2,078.4	1,965.0	1,633.1
Capital assets	4,018.8	3,921.9	1,769.2	1,618.5	1,532.4
Other assets	46.4	45.2	36.8	32.4	30.8
Total Assets	7,319.3	6,955.8	4,640.5	4,292.9	3,909.0
Liabilities & Equity					
Accounts payable & accrued liab.	298.4	278.1	248.0	234.4	182.8
Employee future benefit obligations	734.7	616.8	379.2	329.7	300.1
Accrued pension liability	1,122.9	1,250.2	233.5	161.0	90.7
Deferred contributions (2)	372.7	371.2	370.3	357.9	328.4
Deferred capital contributions	1,076.4	1,018.3	986.3	881.7	831.0
Long-term debt	726.0	727.7	526.8	528.2	558.9
Total liabilities	4,331.1	4,262.3	2,744.1	2,492.9	2,291.9
Accumulated surplus (deficit)	(129.7)	(134.9)	(173.9)	(186.8)	(232.0)
Internally restricted funds (3)	1,454.2	1,310.3	530.9	549.6	562.8
Endowment - internally restricted	247.9	230.8	237.7	225.2	205.1
Endowment - externally restricted	1,415.8	1,287.3	1,301.7	1,212.0	1,081.2
Total Liability & Equity	7,319.3	6,955.8	4,640.5	4,292.9	3,909.0
Contingencies & Commitments					
Construction & renovation in progress	252.0	229.5	101.8	275.6	191.3
Operating leases	14.6	14.2	15.0	17.2	15.0
Loan guarantees	6.6	7.2	7.9	7.9	8.4
	273.2	250.9	124.7	300.7	214.7

*U of T adopted CICA Handbook Part III guidelines as of the Transition Date of May 1, 2011. Land assets are now reported at fair market value resulting in an increase in net assets. The funded status of employee pension and benefit plans is also now reported directly on the Balance Sheet, resulting in an increase in long-term liabilities and a corresponding decrease in internally restricted net assets.

(1) Market value.

(2) Represent unspent externally restricted grants and donations.

(3) Includes investment in capital assets, employee pension and other benefits, and funds set aside for specific purposes (e.g., departmental carry-forwards, capital reserve, etc.).

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Consolidated Financial Summary (DBRS-adjusted)

($ millions)	For the year ended April 30				
	2013*	2012*	2011	2010	2009
Operating revenue	2,563.3	2,406.0	2,321.1	2,210.9	1,924.7
Total Expenditures	2,436.1	2,335.9	2,313.9	2,165.5	2,093.9
Net Income	127.2	70.1	7.2	45.4	(169.2)
Pension and benefit recovery (expense) - remeasurement (1)	46.1	(396.1)	-	-	-
Consolidated Balance as Reported	173.3	(326.0)	7.2	45.4	(169.2)
Revenue					
Student fees (2)	944.7	847.4	764.3	701.3	636.4
Government grants for operations	703.6	702.2	691.0	678.0	646.0
Other grants for restricted purposes	391.5	420.3	406.4	395.9	408.7
Investment income (loss)	151.3	102.9	135.6	124.9	(125.3)
Sales, services and sundry income	288.5	273.3	260.1	253.1	251.0
Donations (3)	83.7	59.9	63.7	57.7	82.1
Total Operating Revenue	2,563.3	2,406.0	2,321.1	2,210.9	1,924.7
Expenditures					
Salaries and benefits	1,489.1	1,409.0	1,459.9	1,319.5	1,224.0
Materials and supplies	212.6	222.2	206.3	200.4	195.8
Student aid	186.3	176.3	141.4	132.1	144.6
Repairs & maintenance	88.2	81.7	79.8	92.1	82.5
Cost of sales & services	87.9	84.6	80.4	80.5	80.5
Utilities	51.9	53.0	51.0	51.3	51.0
Amortization	141.2	137.0	132.1	124.1	117.2
Other expenses	139.0	137.8	130.4	133.1	164.6
Interest	39.9	34.3	32.6	32.4	33.7
Total Expenditures	2,436.1	2,335.9	2,313.9	2,165.5	2,093.9
Capital Expenditures	204.7	219.6	275.9	210.1	197.8

*As of the Transition Date of May 1, 2011, the University has adopted the immediate recognition approach for employee benefit plans. This change results in the recognition of a post-employment benefit recovery (expense) remeasurement on the Statement of Operations.

(1) Post-employment benefit recovery (expense) remeasurement is comprised of current service cost and any actuarial gains or losses on plan assets.

(2) Includes tuition fees, ancillary service fees, application and registration fees, late registration fees, and service charges on unpaid fees.

(3) Excludes externally restricted donations to endowment funds since the endowment principal is unearned and is required to be maintained intact in accordance with the University's preservation of capital policy.

Summary Statement of Cash Flow (DBRS adjusted)

($ millions)	For the year ended April 30				
	2013*	2012*	2011	2010	2009
Operating balances as reported	173.3	(326.0)	7.2	45.4	(169.2)
Amortization	141.2	137.0	132.1	124.1	117.2
Other non-cash adjustments	(114.9)	245.1	(1.2)	(45.0)	177.4
Cash flow from operations	199.6	56.1	138.1	124.5	125.4
Change in working capital	28.6	42.3	14.4	96.8	(30.9)
Operating cash flow after working capital	228.2	98.4	152.5	221.3	94.5
Net capital expenditures (1)	(99.2)	(132.0)	(210.6)	(98.3)	(32.4)
Free cash flow	129.0	(33.6)	(58.1)	123.0	62.1

*As of the Transition Date of May 1, 2011, the University has adopted the immediate recognition approach for employee benefit plans. This change results in the recognition of a post-employment benefit recovery (expense) remeasurement, comprised of actuarial gains and losses and the difference between expected and actual investment returns on plan assets, on the Statement of Operations.

(1) Defined as gross capital expenditures, less donations and grants received during the year for the purchase of capital assets.

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Summary Statistics (DBRS-adjusted)

	For the year ended April 30				
	2012-2013	2011-2012	2010-2011	2009-2010	2008-2009
Total students (FTEs)	70,311	68,088	66,611	65,402	62,934
- Undergraduate	79.9%	79.8%	79.9%	79.9%	80.0%
- Graduate	20.1%	20.2%	20.1%	20.1%	20.0%
Annual change (%)	3.3%	2.2%	1.8%	3.9%	1.0%
Total staff (1)	13,832	13,807	13,396	13,446	13,204
- Academic staff (1)	7,439	7,615	7,263	7,306	7,198
Operating Results					
Surplus (deficit)	127.2	70.1	7.2	45.4	(169.2)
- As % of revenues	5.0%	2.9%	0.3%	2.1%	(8.8%)
Debt & Liquidity Analysis					
Total long-term debt ($ millions)	726.0	727.7	526.8	528.2	558.9
- Per FTE student ($)	10,326	10,688	7,909	8,076	8,881
L-t debt, contingencies & commitments ($ millions)	2,856.8	2,845.6	1,264.2	1,319.6	1,164.4
- Per FTE student ($)	40,631	41,793	18,979	20,177	18,502
Liquid assets ($ millions)	749.2	784.9	634.4	560.0	578.4
- As % of total expenditures	30.8%	33.6%	27.4%	25.9%	27.6%
- As % of current liabilities	251.1%	282.2%	255.8%	238.9%	316.4%
Interest costs as % of total expenditures	1.6%	1.5%	1.4%	1.5%	1.6%
Interest coverage ratio (times)	6.0	2.6	5.2	4.8	4.7
Expendable Resources ($ millions) (2)	932.7	836.0	769.1	664.1	603.3
- As % of total debt	128%	115%	146%	126%	108%
Endowment Funds					
Total endowments ($ millions)	1,663.7	1,518.1	1,539.4	1,437.2	1,286.3
- Per FTE student ($)	23,662	22,296	23,110	21,975	20,439
- Set payout rate (3)	4.7%	4.6%	4.7%	5.0%	0.0%
- Annual return on assets	11.4%	1.0%	9.9%	14.7%	(31.0%)

(1) Includes part-time staff and teaching assistants. (2) Internally restricted endowments plus cash reserves for future spending
(3) Percentage of endowments that is spent annually.

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Rating

Debt	Rating	Rating Action	Trend
Issuer Rating	AA	Confirmed	Stable
Senior Unsecured Debentures	AA	Confirmed	Stable

Rating History

	Current	2013	2012	2011	2010	2009
Issuer Rating	AA	AA	AA	NR	NR	NR
Senior Unsecured Debentures	AA	AA	AA	AA	AA	AA (high)

Related Research

- Rating Public Universities, October 3, 2012.

Notes:
All figures are in Canadian 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.