



**Financial Update
Report to the Board of Trustees
May 2017**

I: 2016-17 Operating Budget Update

The table below shows projected variances from the approved 2016-17 operating budget.

Queen's University 2016-17 Operating Budget (000,000's)			
	Approved Budget 2016-17	Projected Actuals 2016-17	Variance
REVENUE			
Student Fees	\$ 291.9	\$ 302.9	\$ 11.0
Government Grants	\$ 208.3	\$ 208.8	\$ 0.5
Unrestricted Donations	\$ 1.3	\$ 1.7	\$ 0.4
Other Income	\$ 5.5	\$ 5.2	\$ (0.3)
Research Overhead	\$ 3.6	\$ 3.0	\$ (0.6)
Investment Income (Note 1)	\$ 12.2	\$ 13.3	\$ 1.1
Total Operating Revenue	\$ 522.8	\$ 534.9	\$ 12.1
EXPENSE			
Faculties and Schools Allocations	\$ 310.8	\$ 319.7	\$ 8.9
Shared Services Allocations*	\$ 179.9	\$ 179.9	\$ -
Infrastructure Renewal	\$ 4.9	\$ 4.9	\$ -
Board Priorities & Compliance	\$ 2.2	\$ 2.2	\$ -
Contingency	\$ 1.8	\$ 1.8	\$ -
Total Allocations	\$ 499.6	\$ 508.5	\$ 8.9
Flow Through Expenses, net of recoveries	\$ 9.1	\$ 10.5	\$ 1.4
Indirect Costs of Research to External Entities	\$ 1.4	\$ 1.7	\$ 0.3
To Be Allocated	\$ 1.3	\$ 2.1	\$ 0.8
Total Operating Expenditures	\$ 511.4	\$ 522.8	\$ 11.4
Net Surplus before Capital Expenditures	\$ 11.4	\$ 12.1	\$ 0.7
Transfer to Capital Budget	\$ (12.3)	\$ (12.3)	\$ -
Unit Expenses greater than Budget Allocation	\$ (15.5)	\$ (3.0)	\$ 12.5
Transfer to Pension Reserve	\$ -	\$ 6.8	\$ 6.8
Net Budget Surplus (Deficit)	\$ (16.4)	\$ 3.6	\$ 20.0
Contribution from Carryforward balances	\$ 16.4	\$ 3.2	\$ (13.2)
Contribution to Pension Reserve	\$ -	\$ (6.8)	\$ (6.8)
Net Surplus (Deficit)	\$ -	\$ -	\$ -

*Includes Undergraduate & Graduate Student Aid and Utilities

Note 1: Income from the PIF is currently estimated to exceed \$20.0M. Only the budgeted amount of \$5.2M has been used in this projection.

The following table shows the detailed breakdown of the Shared Service Allocations and projections shown above:

Queen's University at Kingston
2016-17 Shared Services Budget Allocations (000,000's)

	Approved Budget 2016-17	Projected Actuals 2016-17	Variance
Shared Services			
Principal's Office	\$ 1.4	\$ 1.4	\$ -
Secretariat	\$ 1.5	\$ 1.5	\$ -
Communications	\$ 3.6	\$ 3.6	\$ -
Vice-Principal (Research)	\$ 6.0	\$ 6.0	\$ -
Vice-Principal (Advancement)	\$ 10.2	\$ 10.2	\$ -
Vice-Principal (Finance & Admin)	\$ 8.6	\$ 8.6	\$ -
Provost & Vice-Principal (Academic)	\$ 3.9	\$ 3.9	\$ -
Student Affairs	\$ 8.8	\$ 8.8	\$ -
Library(operations & acquisitions)	\$ 26.7	\$ 26.6	\$ (0.1)
Occupancy Costs (net of Shared Service Space Costs)*	\$ 30.7	\$ 30.0	\$ (0.7)
Environmental Health & Safety	\$ 1.5	\$ 1.5	\$ -
ITS	\$ 16.7	\$ 16.7	\$ -
Human Resources	\$ 5.1	\$ 5.1	\$ -
Graduate Studies	\$ 1.9	\$ 1.8	\$ (0.1)
University Wide Benefits & Pension Benefit Guarantee Fund	\$ 8.4	\$ 9.3	\$ 0.9
Need Based & UG Merit Student Assistance	\$ 18.2	\$ 17.5	\$ (0.7)
Graduate Students Assistance	\$ 13.4	\$ 13.4	\$ -
University Wide	\$ 12.5	\$ 13.2	\$ 0.7
Faculty Bridge Programs (QNS, QRC, FRP)	\$ 0.8	\$ 0.8	\$ -
Total Shared Services	\$ 179.9	\$ 179.9	\$ -

* The Occupancy Costs include \$4.21M of deferred maintenance.

The following table shows the Capital Allocations from the Operating Budget.

Queen's University Capital Budget Allocations from Operating		
	Budget 2016-17	Projection 2016-17
Grant Revenue		
MAESD Facilities Renewal Fund	\$ 3,457,000	\$ 3,457,000
MAESD Graduate Capital	\$ 1,700,000	\$ 1,700,000
Total Revenue	\$ 5,157,000	\$ 5,157,000
<u>Capital Projects Financing</u>		
School of Kinesiology & Queen's Centre	\$ 6,900,000	\$ 6,900,000
QUASR	\$ 3,000,000	\$ 3,000,000
BISC	\$ 250,000	\$ 250,000
Biosciences Complex	\$ 222,500	\$ 222,500
Chernoff Hall	\$ 900,000	\$ 900,000
Electrical Substation	\$ 900,000	\$ 900,000
CoGeneration Facility	\$ 1,064,000	\$ 1,064,000
Richardson Hall & University Ave	\$ -	\$ -
Tools for Research Administration at Queen's (TRAQ)	\$ 640,000	\$ 640,000
Boiler #8	\$ 166,526	\$ 166,526
<u>Deferred Maintenance</u>		
MAESD Facilities Renewal Fund	\$ 3,457,000	\$ 3,457,000
Total Expenses	\$ 17,500,026	\$ 17,500,026
Budget Surplus (Deficit)	\$ (12,343,026)	\$ (12,343,026)
Transfer from Operating Budget	\$ 12,343,026	\$ 12,343,026
Net Budget Surplus (Deficit)	\$ -	\$ -

Note: \$2.4M of the Facilities Renewal Fund Grant will be allocated to capital projects funded through the Strategic Initiatives Fund (SIF). The funding for Deferred Maintenance will be maintained through the use of capital reserves originally earmarked to fund the SIF projects.

Budget Analysis

The projected variances relative to the approved budget are explained below.

Enrolment

Enrolment data shows that we are slightly above target against our overall enrolment projections at the undergraduate level and slightly below target at the graduate level. In addition to graduate enrolment being below projections, the mix between grant eligible domestic and grant ineligible domestic has shifted, resulting in a higher proportion of ineligible domestic graduate students than budgeted. This shift between eligible relative to ineligible has no impact on tuition revenue, but it does impact the graduate grant funding.

Overall student fees are showing a positive variance of \$11.0M, with undergraduate tuition revenue being the most significant contributor, with a positive variance of \$9.0M. The international enrolment was higher than anticipated in the Faculty of Arts and Science and the Faculty of Engineering and Applied Science, and in addition there was a modest increase in domestic grant eligible enrolment. This increase in undergraduate tuition is offset by a decrease in graduate tuition of \$1.8M. Approximately \$1.1M of this relates to lower than budgeted enrolment within the Smith School of Business professional graduate programs, with the remaining \$0.7M in all other graduate programs. Additional increases in Student Fees comes from an increase in non-tuition fees of approximately \$0.5M, primarily university council on athletics fees, which is a flow-through to the Division of Student Affairs.

There was also an increase in non-credit tuition of \$3.3M. This is a result of increased enrolment in the Continuing Teacher Education and School of English within the Faculty of Education (\$2.3M) and an increase in the attendance at programming offered by the Industrial Relations Centre and other non-credit programs in the Faculty of Arts and Science (\$1.0M).

Overall government grants are showing a positive variance of \$0.5M. The graduate accessibility grant is projected to be lower than budget due to the lower graduate enrolment (\$2.2M). This is offset by a positive variance in the undergraduate accessibility funding and Teacher Education funding of approximately \$0.6M, which reflects the modest increases in undergraduate enrolment and the government commitment to fund the ATEP and flow-through of the concurrent program beyond the enrolment caps in Education. In addition, the decline is further offset by an increase in the performance fund grant of \$0.3M and an increase in the Research Support Fund grant (formerly federal indirect cost of research grant) of \$0.7M.

The targeted program grant funding increased by \$1.1M largely due to an increase in the Regional Assessment and Resource Centre (RARC) funding which was unbudgeted because of uncertainty about its continuation when the budget was established for 2016-17. Since that time, funding has been confirmed through to 2018-19.

Unrestricted Donations

Donation revenue is difficult to forecast, but based on current donations received and historical trends, Advancement is forecasting that unrestricted donation revenues will be \$1.7M which is an increase from the budget of \$0.4M.

Other Income

Other income has a negative variance of \$0.3M arising from a decrease in flow-through revenues, primarily related to miscellaneous athletics fees within the Division of Student Affairs.

Research Overhead

Research Overhead revenues are difficult to project because they are linked to expenditures in research projects, which are somewhat unpredictable, but current projections suggest we are \$0.6M lower than budgeted.

Investment Income

Investment income is showing a positive variance of \$1.1M as a result of higher than budgeted short-term investment returns. The operating budget currently assumes revenue from the Pooled Investment Fund (PIF) of \$5.2M, but current year-to-date market valuations suggest the revenue may exceed \$20.0M. Prudence dictates that we include only the budgeted amount of \$5.2M in the updated projections. The returns include both realized and unrealized gains/losses and will fluctuate with market conditions before the end of the fiscal year.

Expenditures

Under the budget model, all tuition and grant revenues are attributed directly to the Faculties and Schools, which have a direct effect on Faculty and School allocations, resulting in an increase to the Faculty and School allocations.

Shared services are projecting to be on budget. The individual variances are described below.

Utilities are resulting in a projected net decrease of \$0.8M in occupancy costs. The savings in utilities are due to the deferral of a large renovation previously planned at the cogeneration facility as well as lower heating costs due to a warmer than anticipated winter.

The utilities savings are also the contributor to the reduced library costs of \$0.1M. The size of the Library footprint results in large space costs being assigned to the Library and therefore any savings on utilities or occupancy costs will result in a savings in the Library costs that are attributed to the Faculties.

One-time funding of \$0.7M for student financial assistance that was identified for 2016-17 is no longer required as the university was able to meet all merit and needs based student assistance requirements within the previous year's budget allocations and a lower than planned drawdown of carry forward, which negates the need to transfer the additional \$0.7M in 2016-17. In addition, examiner fees are projecting to decrease resulting in the \$0.1M savings for Graduate Studies.

These savings are offset by a projected increase in University Wide Benefits of \$0.9M related to an increase in benefit expenses relating to retiree benefits and employees on long-term disability. In addition, these savings are offset by a projected increase in University Wide costs of \$0.7M related to additional legal fees (\$0.6M) and an increase in university membership fees (\$0.1M).

Flow-through expenses net of recoveries are higher than was originally budgeted. The majority of this variance relates to an unbudgeted targeted grant (RARC) which is netting against a decrease in student fees relating to miscellaneous athletics fees. Both flow directly to the Division of Student Affairs.

The positive variance of \$0.8M in the *“to be allocated”* line is due to the impact of shared service cost savings along with unplanned incremental revenues flowing to the university fund. The incremental revenues include; an increase in university fund contributions related to increased tuition revenue, short-term investment income, and unrestricted donations.

Operating Budget Surplus (or Deficit)

Current projections continue to show a balanced budget after draw down of carry-forward reserves.

The budget approved by the Board reflects the in-year revenue and expenses or budget allocations. Many units planned total expenditures to be higher than their budget allocation, with the additional expenditures being funded by prior-year reserves (carry-forward balances).

The originally approved budget projected to draw down reserves by \$16.4M, but current projections indicate an improvement, with an estimated drawdown of \$3.0M. The majority of the swing results from higher than anticipated enrolment at the undergraduate international level in the Faculty of Arts and Science and the Faculty of Engineering and Applied Science resulting in an increase in faculty allocations of \$8.9M. There are additional net savings projected within the faculties (\$4.1M), primarily resulting from salary savings and a delayed renovation project in the Faculty of Engineering and Applied Science. The overall improvements in the Faculties and Schools are offset by additional drawdowns within the shared services (\$1.5M). In particular, carry forward drawdowns within the Vice-Principal Research portfolio to support faculty research initiatives and acquisitions within the Library offset by other units experiencing salary savings and delays in projects into next fiscal year. As was previously noted, the planned contribution to undergraduate student financial aid from central cash reserves is no longer required (\$0.7M). The drawdown is projected to reduce by a further \$1.2M due to higher than planned revenues to the University Fund and a conservative approach to committing the unallocated funds within the University Fund.

Contribution to Pension Reserve

In September 2015, Faculties and Shared Services began paying an additional 4.5% of salary base as an expense to address the increase to going concern payments and establish a reserve for future pension solvency payments. The 2016-17 budget reflected the additional charges to Faculties and Shared Services. Projected year end results include both the charges, and the allocation to the Pension Reserve. The pension reserve is expected to increase by approximately \$6.8 million for the 2016-17 fiscal year.

II: Ancillary Operations and Consolidated Entities

Overall, the projected deficit for the Ancillary Operations and Consolidated Entities has decreased to a \$1.8M loss compared with the budgeted deficit of approximately \$5.1M. The significant individual variances are outlined below.

Residence is projecting a deficit of \$0.6M, which is an improvement compared to budget. The largest swing is between the supplies and miscellaneous expenses and the transfer to the capital reserve for deferred maintenance. Furniture and equipment purchases will now be funded through the deferred maintenance capital reserve, which will increase the annual transfer relative to what was budgeted in 2016-17. The other most significant savings currently projected is in Utilities due to efficiencies experienced from ESCO project and the global adjustment savings on electricity. In addition, the utilization at food venues is lower than budgeted resulting in savings from food costs in external contracts compared to budget.

Community housing is projecting an increase to the surplus of approximately \$1.0M ahead of budget. This positive variance is due to lower than budgeted vacancies. In addition, savings are projected in utilities due to lower water usage and lower heating costs due to a warmer than expected winter. In addition, repairs and alterations is lower as some maintenance projects have been deferred and supplies and miscellaneous is presenting savings due to less appliance and furniture renewal required compared to budget. At year-end, any resulting surplus will form part of a discussion regarding the appropriate contribution, if any, towards the capital reserve.

Event Services is now projecting a deficit of \$19K, a worsening of results of approximately \$145K. A significant variance is noted on sales, which is offset by a large variance in externally contracted services. The offsetting variances result from the discontinuance of internal charging practices within the unit and have no impact on the overall bottom line results. The most significant variance contributing to the projected deficit is an increase in salaries and benefits. A decision has been made to hire additional staff to operate and manage a growing portfolio (particularly two new buildings that are used extensively in the summer months). The intention is to expand the staff during the current fiscal year, which will result in increased sales beginning in summer 2017.

Parking is projecting a slight improvement on the original deficit budgeted of \$2.1M, to a projected deficit of \$2.0M. The improvement results from salary savings and expected savings in Utilities compared to budget. The Stuart Street Underground joint venture parking garage is projecting to be on budget, with one noted variance, an increase to the annual transfer to the deferred maintenance capital reserve; this increase was approved by the Parking Commission subsequent to the budget being submitted.

The Donald Gordon Centre is now projecting a surplus approximately equal to budget. Although the Centre experienced cancellations in the fall period there was an increase in reservations in the winter resulting in the improved projection. In addition, there are cost savings in external contracted services attributable to better business practices and general operational efficiencies.

PARTEQ is projecting a deficit of \$83K, an improvement of \$860K over budget. Revenue is up by \$1.8M due to one license significantly exceeding expected performance in the first quarter of the fiscal year. The increase in revenue is offset with increases in supplies and miscellaneous, which accounts for distributions to inventors and generally moves in correlation to license revenue.

QCED is projecting a \$175K deficit versus the budgeted deficit of \$95K, a worsening of approximately \$80K due to lower than expected sales revenue. The new venture is continuing to develop, with a forecast to return to profitability in fiscal 2018-19.

The following tables provide budget and projection details for the Ancillary Operations as well as for the Consolidated Entities.

2016-17 ANCILLARY & CONSOLIDATED ENTITIES FINANCIAL REPORT (000's)									
	TOTAL ANCILLARY			TOTAL CONSOLIDATED ENTITIES			TOTAL ANCILLARY & CONSOLIDATED ENTITIES		
	Budget	Actual	Variance Surplus (deficit)	Budget	Actual	Variance Surplus (deficit)	Budget	Actual	Variance Surplus (deficit)
REVENUE	85,698	84,388	(1,310)	3,055	4,568	1,513	88,753	88,956	203
EXPENDITURE									
Salaries & Benefits	11,336	11,088	(248)	1,462	1,407	(55)	12,798	12,495	(303)
External Contracts	31,597	29,934	(1,663)	718	405	(313)	32,315	30,339	(1,976)
Utilities	6,577	5,094	(1,483)	-	-	-	6,577	5,094	(1,483)
Repairs & Alter.	4,070	3,824	(246)	-	-	-	4,070	3,824	(246)
Interest & Bank Charges	8,764	8,784	20	90	86	(4)	8,854	8,870	16
Supplies & Misc.	5,281	4,118	(1,163)	1,823	2,928	1,105	7,104	7,046	(58)
Overhead	4,084	4,163	79	-	-	-	4,084	4,163	79
Total Expenditures	71,709	67,005	(4,704)	4,093	4,826	733	75,802	71,831	(3,971)
Net Surplus (Deficit) before Capital and Contributions to University Operations	13,989	17,383	3,394	(1,038)	(258)	780	12,951	17,125	4,174
Deferred Maintenance	(4,661)	(6,014)	(1,353)	-	-	-	(4,661)	(6,014)	(1,353)
Debt Servicing - Principal	(8,419)	(7,922)	497	-	-	-	(8,419)	(7,922)	497
Contributions to University Operations	(5,000)	(5,008)	(8)	-	-	-	(5,000)	(5,008)	(8)
SURPLUS (DEFICIT)	(4,091)	(1,561)	2,530	(1,038)	(258)	780	(5,129)	(1,819)	3,310

2016-17 ANCILLARY FINANCIAL REPORT (000's)									
	Residence			Event Services			Community Housing		
	Budget	Projected	Variance Surplus (deficit)	Budget	Projected	Variance Surplus (deficit)	Budget	Projected	Variance Surplus (deficit)
REVENUE	65,170	64,515	(655)	6,052	5,128	(924)	5,820	6,144	324
EXPENDITURE									
Salaries & Benefits	8,403	8,095	(308)	1,318	1,483	165	1,300	1,237	(63)
External Contracts	24,059	23,300	(759)	3,914	2,941	(973)	117	451	334
Utilities	4,429	3,473	(956)	181	180	(1)	1,278	839	(439)
Repairs & Alter.	2,907	2,925	18	24	30	6	947	700	(247)
Interest & Bank Charges	5,438	5,478	40	20	27	7	59	51	(8)
Supplies & Misc.	4,208	3,184	(1,024)	147	206	59	760	486	(274)
Overhead	3,259	3,226	(33)	303	256	(47)	291	307	16
Total Expenditures	52,703	49,681	(3,022)	5,907	5,123	(784)	4,752	4,071	(681)
Net Surplus (Deficit) before Capital and Contributions to University Operations	12,467	14,834	2,367	145	5	(140)	1,068	2,073	1,005
Deferred Maintenance	(3,091)	(4,364)	(1,273)	-	-	-	(900)	(900)	-
Debt Servicing - Principal	(7,126)	(6,605)	521	-	-	-	(57)	(61)	(4)
Contributions to University Operations	(4,502)	(4,486)	16	(19)	(24)	(5)	(29)	(31)	(2)
SURPLUS (DEFICIT)	(2,252)	(621)	1,631	126	(19)	(145)	82	1,081	999

2016-17 ANCILLARY BUDGET (000's) OPERATING RESERVES									
OPENING RESERVE	5,252	5,252	-	800	800	-	1,000	1,000	-
SURPLUS (DEFICIT) - PLANNED ALLOCATION TO (FROM) RESERVES	(2,252)	(621)	1,631	126	(19)	(145)	82	1,081	999
CLOSING RESERVE	3,000	4,631	1,631	926	781	(145)	1,082	2,081	999

2016-17 ANCILLARY BUDGET (000's) CAPITAL RESERVES									
OPENING RESERVE	3,357	3,357	-	-	-	-	5,165	5,165	-
Planned Contribution	3,091	4,364	1,273	-	-	-	900	900	-
Deferred Maintenance Expenditure	(2,456)	(4,334)	(1,878)	-	-	-	(450)	(554)	(104)
CLOSING RESERVE	3,992	3,387	(605)	-	-	-	5,615	5,511	(104)

2016-17 ANCILLARY FINANCIAL REPORT (000's)									
	Donald Gordon Centre			Parking			Stuart St. Underground Parking**		
	Budget	Projected	Variance Surplus (deficit)	Budget	Projected	Variance Surplus (deficit)	Budget	Projected	Variance Surplus (deficit)
REVENUE	4,548	4,378	(170)	3,027	3,108	81	1,081	1,115	34
EXPENDITURE									
Salaries & Benefits	-	-	-	238	197	(41)	77	76	(1)
External Contracts	2,991	2,582	(409)	469	618	149	47	42	(5)
Utilities	323	352	29	313	220	(93)	53	30	(23)
Repairs & Alter.	127	108	(19)	37	37	-	28	24	(4)
Interest & Bank Charges	594	575	(19)	2,469	2,469	-	184	184	-
Supplies & Misc.	62	124	62	61	85	24	43	33	(10)
Overhead	80	219	139	151	155	4	-	-	-
Total Expenditures	4,177	3,960	(217)	3,738	3,781	43	432	389	(43)
Net Surplus (Deficit) before Capital and Contributions to University Operations	371	418	47	(711)	(673)	38	649	726	77
Deferred Maintenance	(85)	(105)	(20)	(525)	(525)	-	(60)	(120)	(60)
Debt Servicing - Principal	(247)	(267)	(20)	(850)	(850)	-	(139)	(139)	-
Contributions to University Operations	-	-	-	-	-	-	(450)	(467)	(17)
SURPLUS (DEFICIT)	39	46	7	(2,086)	(2,048)	38	-	-	-

2016-17 ANCILLARY BUDGET (000's) OPERATING RESERVES									
OPENING RESERVE	33	33	-	(13,940) *	(13,940) *	-	-	-	-
SURPLUS (DEFICIT) - PLANNED ALLOCATION TO (FROM) RESERVES	39	46	7	(2,086)	(2,048)	38	-	-	-
CLOSING RESERVE	72	79	7	(16,026)	(15,988)	38	-	-	-

2016-17 ANCILLARY BUDGET (000's) CAPITAL RESERVES									
OPENING RESERVE	345	345	-	5,560	5,560	-	293	293	-
Addition to Maintenance Reserve	85	105	20	525	525	-	60	120	60
Deferred Maintenance Expenditure	(35)	(109)	(74)	(365)	(558)	(193)	(293)	(146)	147
CLOSING RESERVE	395	341	(54)	5,720	5,527	(193)	60	267	207

* The accumulated deficit, created by the debt servicing payments, is projected to be reduced to zero 7 years after the debt servicing payments are completed. The debt servicing payments have 25 years left on the amortization schedule.

** This is owned and operated with KGH and this represents a 50% share.

2016-17 Consolidated Entities Financial Report (000's)						
	PARTEQ Consolidated			QCED Inc.		
	Budget	Projected	Variance Surplus (deficit)	Budget	Projected	Variance Surplus (deficit)
REVENUE	2,728	4,549	1,821	327	19	(308)
EXPENDITURE						
Salaries & Benefits	1,306	1,247	(59)	156	160	4
External Contracts	490	375	(115)	228	30	(198)
Utilities	-	-	-	-	-	-
Repairs & Alter.	-	-	-	-	-	-
Interest & Bank Charges	90	86	(4)	-	-	-
Supplies & Misc.	1,785	2,924	1,139	38	4	(34)
Deferred Maintenance	-	-	-	-	-	-
Total Expenditures	3,671	4,632	961	422	194	(228)
SURPLUS (DEFICIT)	(943)	(83)	860	(95)	(175)	(80)

Note: The Bader International Study Centre is a consolidated entity but under the Budget model its academic operations are now included as a faculty in the operating budget.

III: Pension Plan

Currently, government regulations require the university to fund both going concern and solvency deficits. Effective September 1, 2015 these going concern payments are \$20.7 million annually. The university has applied for and received Stage II solvency relief, which provided for a three-year deferral of making solvency deficit payments. The Ministry of Finance initiated a solvency funding review and a consultation paper was issued in July 2016, to which Queen's submitted a response. It is anticipated that further information will be presented sometime this year with a view to permanent changes to solvency funding requirements at some point in the future. In the interim, a new regulation was issued at the end of October 2016, which provides additional partial solvency relief for those in Stage II relief with a valuation date on or before December 31, 2018. These additional payments will be determined using the next required actuarial valuation, as of August 31, 2017, and will commence a year later, on September 1, 2018.

The actuarial valuation of the pension plan completed as of August 31, 2014 reported a solvency deficit of \$285 million. As outlined in Section VII of this report, the university is building a reserve to assist with future solvency funding requirements.

The Revised Pension Plan of Queen's University is not financially sustainable, and the university is committed to examining all options to make the plan financially sustainable over the long term. During the round of collective bargaining that was completed in the summer of 2015, the university and all its unions committed to participating in the project to design and build a new jointly sponsored pension plan (JSPP) for Ontario universities. A group comprising three universities – Queen's University, University of Toronto, and University of Guelph has been formed and is charged with finalizing the outstanding design and governance elements of the University Pension Project. At Queen's, a joint working group between the university and its employee groups continues to meet. If the project is successful, the Revised Pension Plan of Queen's University would be merged with the new JSPP. One condition for success would be agreement from the Government of Ontario that the new JSPP would have a permanent exemption from solvency payments. If it is not successful, Queen's and its unions are committed to exploring merging with another JSPP that does have a solvency exemption, and failing that, to discussing and negotiating such changes as may be needed to support the financial sustainability of the pension plan.

IV: Capital

The table below provides an overview of Board approved capital projects with related findings information. In May 2015, the Board of Trustees approved a revised Major Capital Projects Approval Policy (Built Environment) Board approval is required for projects in excess of \$2.5 million, with the continued requirement for a business case identifying impact on operations, strategic alignment, risks etc., as well as full project funding.

As of March 31, 2017			Cash Flow Impact				Additional Funding	
	Approved Budget	Total Projected Costs	Expenditures to Mar'17	Funding to Mar '17	Debt to Mar '17	Cash surplus (shortfall) Mar '17	External Grants / Donations/ Debt	Notes:
Projects in Process:								
TRAQ	3,460	3,460	2,441	3,450	-	1,009	-	
Energy Service Company (ESCo) Partnership	10,727	10,727	4,493	-	-	(4,493)	10,727	1
Innovation and Wellness Centre (IWC)	87,465	87,465	11,607	32,206	-	20,599	65,659	2
IWC – Engineering Space Fit Up	8,000	8,000	-	-	-	-	8,000	3
Biomedical Research Facility Revitalization	31,865	31,865	1,621	6,364	-	4,743	25,502	4
Smith School of Business Leasehold Improvements	4,000	3,908	55	-	-	(55)	4,000	5
Total Approved Projects in Process	145,517	145,425	20,216	42,020	-	21,804	113,888	
Projects Completed:								
David C. Smith House and Brant House	70,000	58,500	56,435	-	63,900	7,465	-	
Goodes Hall Expansion	40,000	39,880	39,849	27,437	-	(12,412)	12,599	6
Isabel Bader Performing Arts Centre	80,500	80,500	79,779	76,905	-	(2,874)	3,595	7
Reactor Materials Testing Laboratory	18,355	18,355	16,455	17,365	-	910	1,190	8
Richardson Stadium	20,570	20,570	20,570	20,351	-	(219)	219	9
Queen's Centre Underground Parking	12,235	12,235	12,235	-	12,235	-	-	
School of Kinesiology and Queen's Centre	169,000	168,263	168,239	42,252	78,329	(47,658)	17,200	10
School of Medicine Building	76,846	76,846	75,285	75,321	-	36	1,525	11
Victoria Hall - Building Envelope Repairs	6,100	6,100	6,100	-	6,100	-	-	
Total Approved Completed Projects	493,606	481,249	474,947	259,631	160,564	(54,752)	36,328	

Notes on Funding Sources:

- 1 Residences and utility budget funded internal loan
- 2 Strategic investment fund, provincial grants, donations, capital reserves and University fund contributions
- 3 Donations
- 4 Strategic investment fund, provincial grants and internal contributions shared between central administration, FHS, FAS and FEAS
- 5 Partially funded by Landlord and the rest by Smith School of Business reserves
- 6 Donations and \$12M internal loan to Smith School of Business
- 7 Federal grant and donations and the Faculty of Arts and Science has committed to fund any shortfall
- 8 Research funding
- 9 Donations and University contribution
- 10 Provincial grant and donations
- 11 Donations and the Faculty of Health Science has committed to fund any shortfall

Deferred Maintenance

In late 2016 the university completed a Facilities Condition Audit to evaluate the condition of the campus and assist in determining deferred maintenance priorities. The audit revealed an overall increase in deferred maintenance balances since the last audit that was conducted in 2010.

Applying the common standard of reporting used by Ontario universities to report on deferred maintenance balances, priorities that should be completed in the next five years are presented in the table below.

2016 Facilities Condition Audit Deferred Maintenance (\$M)	
Campus buildings	\$145
Residences	56
Underground infrastructure	34
Total	\$235

The University receives annual provincial funding of \$1.6M for deferred maintenance under the Ministry of Advanced Education and Skills Development (MAESD) Facilities Renewal Program. For 2016-17 only, there is an additional one-time top up funding of \$1.8M. In support of ongoing capital renewal, all but \$1M in provincial funding for the current fiscal year has been allocated to capital projects funded by the Strategic Initiatives Fund (SIF).

Queen's also commits annual operating budget funds for deferred maintenance. The 2016-17 operating budget allocation is \$8.7M, which includes a one-time allocation of \$4.5M from the University Fund. Total funding for deferred maintenance initiatives (excluding SIF funded projects) for the 2016-17 fiscal year is \$9.7M. All current year deferred maintenance funds are projected to be spent by April 30th.

The industry standard for annual deferred maintenance funding is 1%-1.5% of the Current Replacement Value (CRV). For the university academic buildings the annual number at 1% would be \$15M.

Physical Plant Services has developed a detailed five-year deferred maintenance plan which allows for engineering design work ahead of the fiscal year for prioritized projects, with the flexibility to adjust plans based on available funding. There are also contingency funds to deal with unanticipated issues. A detailed multi-year deferred maintenance plan for the residence buildings has also been developed. Information on budgeted allocations to ancillary capital reserves as well as planned spending is included in the ancillary section of the report.

V: Investment Funds

Market volatility can have a significant impact on investment holdings and financial planning. Although the university's investment funds have recovered strongly from the 2008 decline in the financial markets, they remain susceptible to further volatility.

The University has two investment portfolios, the Pooled Endowment Fund and the Pooled Investment Fund, which are now over \$1.2 billion in combined assets.

The Pooled Endowment Fund ("PEF") is an investment pool composed of funds that have been designated for University Endowment accounts. Donations received by the University are invested in the PEF and each year certain amounts are withdrawn according to the spending policy. These annual withdrawals ("payout") fund scholarships, academic chairs, book funds, lectureships, as well as a diverse range of university programs, in accordance with donor wishes.

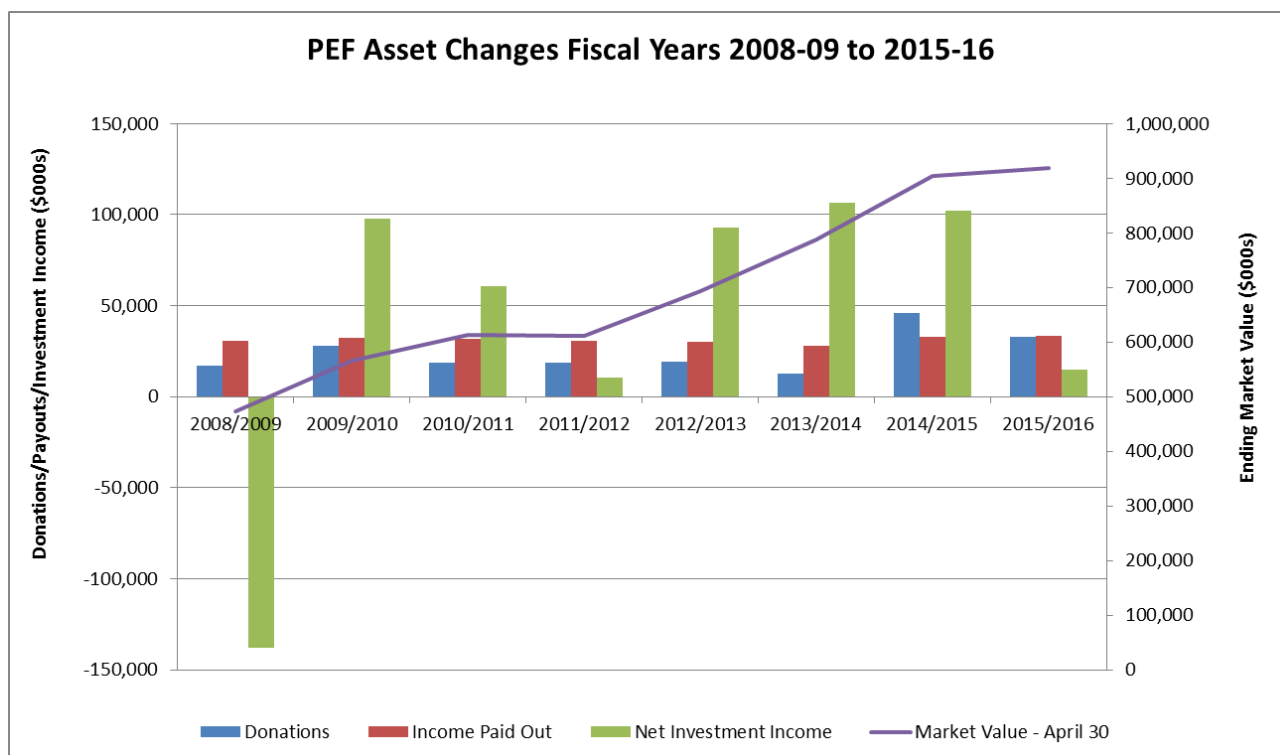
The Pooled Investment Fund ("PIF") is made up of reserve funds and unspent balances. In the past, spending from the PIF was based on a percentage of mean assets, even in periods when returns have been weak. As the PIF's primary objective is to preserve the nominal capital of the fund, the decision was made to limit the operating budget reliance on income from the PIF. Thus, commencing in 2012-13, budgeted income from the PIF was reduced to \$4.2million. As the market value of the PIF has grown, this amount has been conservatively increased to \$5.2 million.

Investment Fund balances are shown in the table below. Note that \$20 million in surplus cash was transferred to the PIF in August 2015, which accounts for part of the change in market value:

Investment Portfolios (000's)

	Market Value April 30, 2014	Market Value April 30, 2015	Market Value April 30, 2016	Market Value Mar. 31, 2017
Pooled Investment Fund (PIF)	177,054	192,423	213,553	234,291
Pooled Endowment Fund (PEF)	787,474	896,352	918,884	1,012,294
Total	964,528	1,088,775	1,132,437	1,246,585

As shown in the graph below, the Endowment market value has recovered since fiscal 2008-09. The market value of the PEF for the end of the 2015-16 fiscal year was approximately \$919 million. The PEF surpassed the billion-dollar mark in February 2017 and closed the first quarter at approximately \$1,012 million in assets.



The PEF income payout is approved annually by the Investment Committee of the Board of Trustees and is based on a hybrid formula, which is meant to preserve capital for inflationary increases while producing income to support current operations. As the formula is weighted 70% on the previous year's payout adjusted for inflation, and 30% on the most recent calendar year's ending market value, there is a significant smoothing effect and the full impact of market movements is not felt immediately. The University recently completed a review of its spending policy, and in March 2016 the Board approved a three-year adjustment to the PEF payout for 2016-17, 2017-18, and 2018-19 that implements a long-term payout target of 4.0%.

The 2016-17 PEF payout to unitholders is approximately \$33.3 million (\$29.6 million in 2015-16), of which \$4.3 million is included in investment income in the operating budget as it is from the unrestricted endowment. The remainder of the payout supports donor directed priorities such as student assistance and academic chairs, as previously noted.

An additional \$1.5 million was withdrawn from the PEF during 2016-17 (\$3.34 million in 2015-16) to support the operating budget.

VI: Debt and Liquidity

Debt

Debt Portfolio as at March 31, 2017

Issue	\$ Millions	Rate	Maturity
BNY Series A Senior unsecured debenture	\$ 90.0	6.100%	2032
Infrastructure Ontario senior unsecured debenture	\$ 75.0	5.090%	2040
Infrastructure Ontario Senior unsecured debenture	\$ 50.0	5.100%	2040
Bank of Montreal (floating rate amortizing loan & interest rate swap)	\$ 65.0	3.180%	2030
Total	\$ 280.0		

Sinking Fund

The University has a voluntary sinking fund set up for the sole purpose of paying off the principal amounts of its outstanding non-amortizing debt when it falls due. As of March 31, 2017, in accordance with the Debt Management Policy, a total amount of \$60.2 million has been invested in fixed income investments which will have a value of \$131.1 million at maturity. This represents 61% of the \$215 million in non-amortizing debt that the University has outstanding.

The ratios, excluding liabilities associated with employee future benefits and including deferred contributions, in the Board approved Debt Management Policy are as follows:

Board Debt Management Policy		April 30, 2016	April 30, 2015
Viability Ratio (1)	$\geq .1.25x$	2.13	2.23
Debt Burden Ratio (2)	$\leq 3.25\%$	1.88%	2.19%

1) Viability Ratio:	2) Debt Burden Ratio:
Unrestricted Net Assets	Annual Interest Cost + Annual Debt Principal
+ Internally Restricted Net Assets	_____
+ Internally Restricted Endowments	Total Operating Expenses
_____	- Amortization of Capital Assets
Total University External Debt	+ Annual Debt Principal

The University is within the established parameters of both the Viability Ratio and the Debt Burden Ratio.

Cash Flow

The University administration uses a cash management forecasting model to manage its short-term investment portfolio and to optimize interest income. The model will continue to evolve over time as it becomes more robust, and it's forecasting ability becomes more refined. Financial Services continues to work with stakeholders to better predict timing of future cash outflows.

The graph below shows the actual and projected short-term investment and external debt balances from April 2015 through April 2018. University cash balances are cyclical in nature with higher balances in September and October and January and February, due to tuition and residence fee receipts, and lower balances experienced during the late spring and early summer months. As a result, University administration invests its excess cash balances received from term billings in bank demand deposits, bank term deposits, guaranteed investment certificates maturing between one month and 3 years, money market and short-term investment funds with targeted maturities ranging from 7 days to 1 year (fully redeemable at any time), and with a short-term bond fund with a targeted maturity of 3 years (fully redeemable at any time). These investments are made taking into account the projected operating needs of the University with the aim of matching inflows and outflows. The investment of a portion of the University's cash balances into longer-dated maturities allows the University to earn higher interest income than would otherwise be earned in a demand deposit account.

In compliance with the University's investment policy on short-term investments, no more than \$60 million has been deposited with any one of the five major Schedule I Canadian banks.

