



**Financial Update
Report to the Board of Trustees
March 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	\$ 301.4	\$ 9.5
Government Grants	\$ 208.3	\$ 208.1	\$ (0.2)
Unrestricted Donations	\$ 1.3	\$ 1.7	\$ 0.4
Other Income	\$ 5.5	\$ 5.7	\$ 0.2
Research Overhead	\$ 3.6	\$ 3.1	\$ (0.5)
Investment Income (Note 1)	\$ 12.2	\$ 13.2	\$ 1.0
Total Operating Revenue	\$ 522.8	\$ 533.2	\$ 10.4
EXPENSE			
Faculties and Schools Allocations	\$ 310.8	\$ 317.6	\$ 6.8
Shared Services Allocations*	\$ 179.9	\$ 179.0	\$ (0.9)
Infrastructure Renewal	\$ 4.9	\$ 4.9	\$ -
Board Priorities & Compliance	\$ 2.2	\$ 2.2	\$ -
Contingency	\$ 1.8	\$ 1.8	\$ -
Total Allocations	\$ 499.6	\$ 505.5	\$ 5.9
Flow Through Expenses, net of recoveries	\$ 9.1	\$ 11.0	\$ 1.9
Indirect Costs of Research to External Entities	\$ 1.4	\$ 1.7	\$ 0.3
To Be Allocated	\$ 1.3	\$ 2.9	\$ 1.6
Total Operating Expenditures	\$ 511.4	\$ 521.1	\$ 9.7
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)	\$ (9.4)	\$ 6.1
Transfer to Pension Reserve	\$ -	\$ 6.8	\$ 6.8
Net Budget Surplus (Deficit)	\$ (16.4)	\$ (2.8)	\$ 13.6
Contribution from Carryforward balances	\$ 16.4	\$ 9.6	\$ (6.8)
Contribution to Pension Reserve	\$ -	\$ (6.8)	\$ (6.8)
Net Surplus (Deficit)	\$ -	\$ -	\$ -

*Includes Undergraduate & Graduate Student Aid and Utilities

Note 1: The PIF has experienced gains to date, but given the volatility of the markets, 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	\$ 30.1	\$ (0.6)
Environmental Health & Safety	\$ 1.5	\$ 1.5	\$ -
ITS	\$ 16.7	\$ 16.7	\$ -
Human Resources	\$ 5.1	\$ 5.1	\$ -
Graduate Studies	\$ 1.9	\$ 1.9	\$ -
University Wide Benefits & Pension Benefit Guarantee Fund	\$ 8.4	\$ 8.5	\$ 0.1
Need Based & UG Merit Student Assistance	\$ 18.2	\$ 17.5	\$ (0.7)
Graduate Students Assistance	\$ 13.4	\$ 13.4	\$ -
University Wide	\$ 12.5	\$ 12.9	\$ 0.4
Faculty Bridge Programs (QNS, QRC, FRP)	\$ 0.8	\$ 0.8	\$ -
Total Shared Services	\$ 179.9	\$ 179.0	\$ (0.9)

* 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 operating budget for 2016-17 remains balanced through the drawdown of carry-forward reserves. The budget variances relative to the projection in the approved budget are explained below.

Enrolment

Preliminary enrolment data shows that we are above target against our overall enrolment projections at the undergraduate level and 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 \$9.5M, with undergraduate tuition revenue being the most significant contributor, with a positive variance of \$9.3M. The international enrolment was higher than anticipated in the Faculty of Arts and Science and the Faculty of Engineering and Applied Science, 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 \$2.0M. Approximately \$1.1M of this relates to lower than budgeted enrolment within the Smith School of Business professional graduate programs, with the remaining \$0.9M 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 \$1.7M. This is a result of increased enrolment in the Continuing Teacher Education and School of English within the Faculty of Education (\$1.3M) and the Queen's Executive Development Centre programs in the Smith School of Business (\$0.4M).

Overall government grants are showing a negative variance of \$0.2M. 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 of approximately \$0.3M, which reflects the modest increases in enrolment at the undergraduate level offset by an increase in the International Student Recovery. In addition, the decline is further offset by a recently announced increase in the Research Support Fund grant (formerly federal indirect cost of research grant) of \$0.7M.

The targeted program grant funding increased by \$1.0M because of 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 positive variance of \$0.2M arising from an increase 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 \$0.5M lower than budgeted.

Investment Income

Investment income is showing a positive variance of \$1.0M as a result of higher than budgeted short-term investment returns.

The Pooled Investment Fund (PIF) has experienced gains in fiscal 2016-17, but given the volatility in the markets, the budget of \$5.2M has been used in this projection. The year-to-date 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 showing lower than budgeted net expenditures of \$0.9M. This is the result of savings in utilities, which is resulting in a projected net decrease of \$0.6M 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.

The above savings are offset by a projected increase in shared services costs of \$0.5M. The increase relates to additional legal fees (\$0.3M), an increase in university membership fees (\$0.1M) and a projected increase on benefit expenses relating to employees on long-term disability (\$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) and an increase in student fees relating to athletics and health. Both flow directly to the Division of Student Affairs.

The positive variance of \$1.6M 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 reserves being drawn down by \$16.4M, but current projections indicate an improvement, with an estimated drawdown of \$9.6M. 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 \$6.8M. There are additional net savings projected within the faculties (\$3.5M), 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 is offset by additional drawdowns within the shared services (\$4.2M). In particular, substantial carry forward drawdowns within the Vice-Principal Research portfolio to support faculty research initiatives; one-time expenses to support capital projects; and, acquisitions within the Library. As was previously noted, the planned contribution to undergraduate student financial aid from central cash reserves is no longer required (\$0.7M).

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 \$3.0M loss compared with the budgeted deficit of approximately \$5.2M. The significant individual variances are outlined below.

Residence is projecting a deficit of \$1.6M, 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 as water consumption is expected to decrease due to older bathroom fixtures being outfitted with newer, more efficient products. 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 \$669K 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 \$53K, a worsening of results of approximately \$179K. 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 \$1.8M. 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 to approximately break-even, compared to a budgeted surplus of \$39K. This worsening of results relates to several cancelled reservations in the fall of 2016, which represents approximately 4% of total projected revenue. With a decrease in sales, there are some marginal cost savings, which partially offset the reduction in revenue.

PARTEQ is projecting a deficit of \$48K, an improvement of \$895K 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 \$176K deficit versus the budgeted deficit of \$95K, a worsening of approximately \$81K due to lower than expected sales revenue. The new venture is continuing to develop, however, revenue is now estimated to start in late summer 2017.

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	84,417	(1,281)	3,055	4,541	1,486	88,753	88,958	205
EXPENDITURE									
Salaries & Benefits	11,336	11,149	(187)	1,462	1,403	(59)	12,798	12,552	(246)
External Contracts	31,597	30,068	(1,529)	718	356	(362)	32,315	30,424	(1,891)
Utilities	6,577	5,888	(689)	-	-	-	6,577	5,888	(689)
Repairs & Alter.	4,070	3,591	(479)	-	-	-	4,070	3,591	(479)
Interest & Bank Charges	8,764	8,856	92	90	86	(4)	8,854	8,942	88
Supplies & Misc.	5,281	4,145	(1,136)	1,823	2,920	1,097	7,104	7,065	(39)
Overhead	4,084	4,020	(64)	-	-	-	4,084	4,020	(64)
Total Expenditures	71,709	67,717	(3,992)	4,093	4,765	672	75,802	72,482	(3,320)
Net Surplus (Deficit) before Capital and Contributions to University Operations	13,989	16,700	2,711	(1,038)	(224)	814	12,951	16,476	3,525
Deferred Maintenance	(4,661)	(6,009)	(1,348)	-	-	-	(4,661)	(6,009)	(1,348)
Debt Servicing - Principal	(8,419)	(8,443)	(24)	-	-	-	(8,419)	(8,443)	(24)
Contributions to University Operations	(5,000)	(5,001)	(1)	-	-	-	(5,000)	(5,001)	(1)
SURPLUS (DEFICIT)	(4,091)	(2,753)	1,338	(1,038)	(224)	814	(5,129)	(2,977)	2,152

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	64,672	(498)	6,052	4,978	(1,074)	5,820	6,052	232
EXPENDITURE									
Salaries & Benefits	8,403	8,181	(222)	1,318	1,467	149	1,300	1,253	(47)
External Contracts	24,059	23,507	(552)	3,914	2,838	(1,076)	117	401	284
Utilities	4,429	4,056	(373)	181	179	(2)	1,278	1,071	(207)
Repairs & Alter.	2,907	2,821	(86)	24	27	3	947	568	(379)
Interest & Bank Charges	5,438	5,534	96	20	27	7	59	52	(7)
Supplies & Misc.	4,208	3,006	(1,202)	147	222	75	760	662	(98)
Overhead	3,259	3,234	(25)	303	249	(54)	291	303	12
Total Expenditures	52,703	50,339	(2,364)	5,907	5,009	(898)	4,752	4,310	(442)
Net Surplus (Deficit) before Capital and Contributions to University Operations	12,467	14,333	1,866	145	(31)	(176)	1,068	1,742	674
Deferred Maintenance	(3,091)	(4,364)	(1,273)	-	-	-	(900)	(900)	-
Debt Servicing - Principal	(7,126)	(7,126)	-	-	-	-	(57)	(61)	(4)
Contributions to University Operations	(4,502)	(4,490)	12	(19)	(22)	(3)	(29)	(30)	(1)
SURPLUS (DEFICIT)	(2,252)	(1,647)	605	126	(53)	(179)	82	751	669

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)	(1,647)	605	126	(53)	(179)	82	751	669
CLOSING RESERVE	3,000	3,605	605	927	747	(179)	1,082	1,751	669

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)	(4,506)	(2,050)	-	-	-	(450)	(585)	(135)
CLOSING RESERVE	3,992	3,215	(777)	-	-	-	5,615	5,480	(135)

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	4,478	(70)	3,027	3,114	87	1,081	1,123	42
EXPENDITURE									
Salaries & Benefits	-	-	-	238	171	(67)	77	77	-
External Contracts	2,991	2,872	(119)	469	405	(64)	47	45	(2)
Utilities	323	341	18	313	209	(104)	53	32	(21)
Repairs & Alter.	127	114	(13)	37	28	(9)	28	33	5
Interest & Bank Charges	594	572	(22)	2,469	2,487	18	184	184	-
Supplies & Misc.	62	135	73	61	86	25	43	34	(9)
Overhead	80	78	(2)	151	156	5	-	-	-
Total Expenditures	4,177	4,112	(65)	3,738	3,542	(196)	432	405	(27)
Net Surplus (Deficit) before Capital and Contributions to University Operations	371	366	(5)	(711)	(428)	283	649	718	69
Deferred Maintenance	(85)	(100)	(15)	(525)	(525)	-	(60)	(120)	(60)
Debt Servicing - Principal	(247)	(267)	(20)	(850)	(850)	-	(139)	(139)	-
Contributions to University Operations	-	-	-	-	-	-	(450)	(459)	(9)
SURPLUS (DEFICIT)	39	(1)	(40)	(2,086)	(1,803)	283	-	-	-

2016-17 ANCILLARY BUDGET (000's) OPERATING RESERVES									
OPENING RESERVE	33	33	-	(13,940)*	(13,940)*	-	-	-	-
SURPLUS (DEFICIT) - PLANNED ALLOCATION TO (FROM) RESERVES	39	(1)	(40)	(2,086)	(1,803)	283	-	-	-
CLOSING RESERVE	72	32	(40)	(16,026)	(15,743)	283	-	-	-

2016-17 ANCILLARY BUDGET (000's) CAPITAL RESERVES									
OPENING RESERVE	345	345	-	5,560	5,560	-	585	585	-
Addition to Maintenance Reserve	85	100	15	525	525	-	60	120	60
Deferred Maintenance Expenditure	(35)	(158)	(123)	(365)	(556)	(191)	(293)	(146)	147
CLOSING RESERVE	395	287	(108)	5,720	5,529	(191)	352	559	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	4,541	1,813	327	-	(327)
EXPENDITURE						
Salaries & Benefits	1,306	1,247	(59)	156	156	-
External Contracts	490	356	(134)	228	-	(228)
Utilities	-	-	-	-	-	-
Repairs & Alter.	-	-	-	-	-	-
Interest & Bank Charges	90	86	(4)	-	-	-
Supplies & Misc.	1,785	2,900	1,115	38	20	(18)
Deferred Maintenance	-	-	-	-	-	-
Total Expenditures	3,671	4,589	918	422	176	(246)
SURPLUS (DEFICIT)	(943)	(48)	895	(95)	(176)	(81)

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. The project is being jointly sponsored by the Council of Ontario Universities (for the employers) and Ontario Confederation of University Faculty Associations (for the employees). 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 December 31, 2016			Cash Flow Impact				Additional Funding	
	Approved Budget	Total Projected Costs	Expenditures to Dec'16	Funding to Dec '16	Debt to Dec '16	Cash surplus (shortfall) Dec '16	External Grants / Donations/ Debt	Notes:
Projects in Process:								
TRAQ	3,460	3,460	2,357	3,450	-	1,093	-	
Energy Service Company (ESCO) Partnership	10,727	10,727	4,485	-	-	(4,485)	10,727	1
Innovation and Wellness Centre	95,465	95,465	5,229	18,116	-	12,887	77,349	2
Biomedical Research Facility Revitalization	31,865	31,865	1,241	3,318	-	2,077	28,547	3
Smith School of Business Leasehold Improvements	4,000	3,908	39	-	-	(39)	4,000	4
Total Approved Projects in Process	145,517	145,425	13,351	24,884	-	11,533	120,623	
Projects Completed:								
David C. Smith House and Brant House	70,000	58,500	56,429	-	63,900	7,471	-	
Goodes Hall Expansion	40,000	39,880	39,848	27,418	-	(12,430)	12,604	5
Isabel Bader Performing Arts Centre	80,500	80,500	79,772	76,905	-	(2,867)	3,595	6
John Orr Tower - Window / Door Replacement	2,800	1,120	1,118	1,123	-	5	-	
Reactor Materials Testing Laboratory	18,355	18,355	16,442	17,165	-	723	1,190	7
Richardson Stadium	20,570	20,570	20,570	20,331	-	(239)	239	8
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	9
School of Medicine Building	76,846	76,846	75,286	75,312	-	26	1,534	10
Victoria Hall - Building Envelope Repairs	6,100	6,100	5,835	-	6,100	265	-	
Total Approved Completed Projects	496,406	482,369	475,774	260,506	160,564	(54,704)	36,362	

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

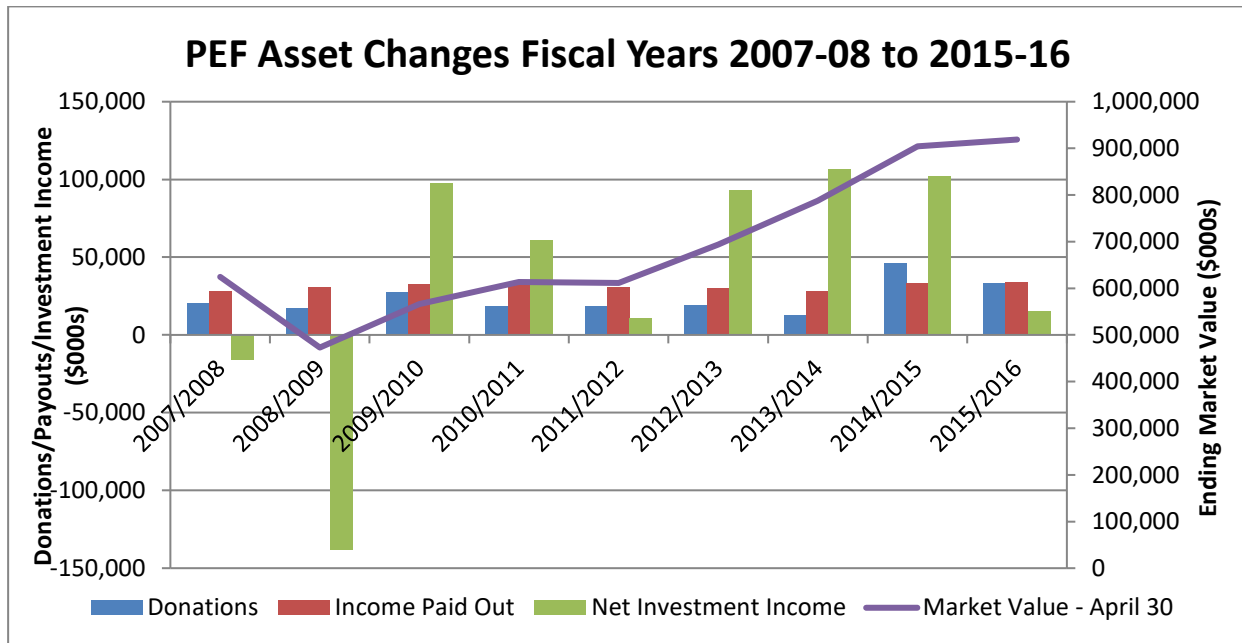
The Pooled Investment Fund ("PIF") is made up of reserve funds and unspent balances. In the past, spending from the PIF was based on a percentage of mean assets, even in periods when returns have been weak. As the PIF's primary objective is to preserve the nominal capital of the fund, the decision was 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 Dec. 31, 2016
Pooled Investment Fund (PIF)	177,054	192,423	213,553	227,514
Pooled Endowment Fund (PEF)	787,474	896,352	918,884	985,190
Total	964,528	1,088,775	1,132,437	1,212,704

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 approached the billion-dollar mark in December, closing the calendar year at approximately \$985 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 December 31, 2016

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)	\$ 66.0	3.180%	2030
Total	\$ 281.0		

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 December 31, 2016, in accordance with the Debt Management Policy, a total amount of \$54.4 million has been invested in fixed income investments which will have a value of \$126.6 million at maturity. This represents 59% 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	Total Operating Expenses
+ Internally Restricted Endowments	- Amortization of Capital Assets
Total University External Debt	+ Annual Debt Principal

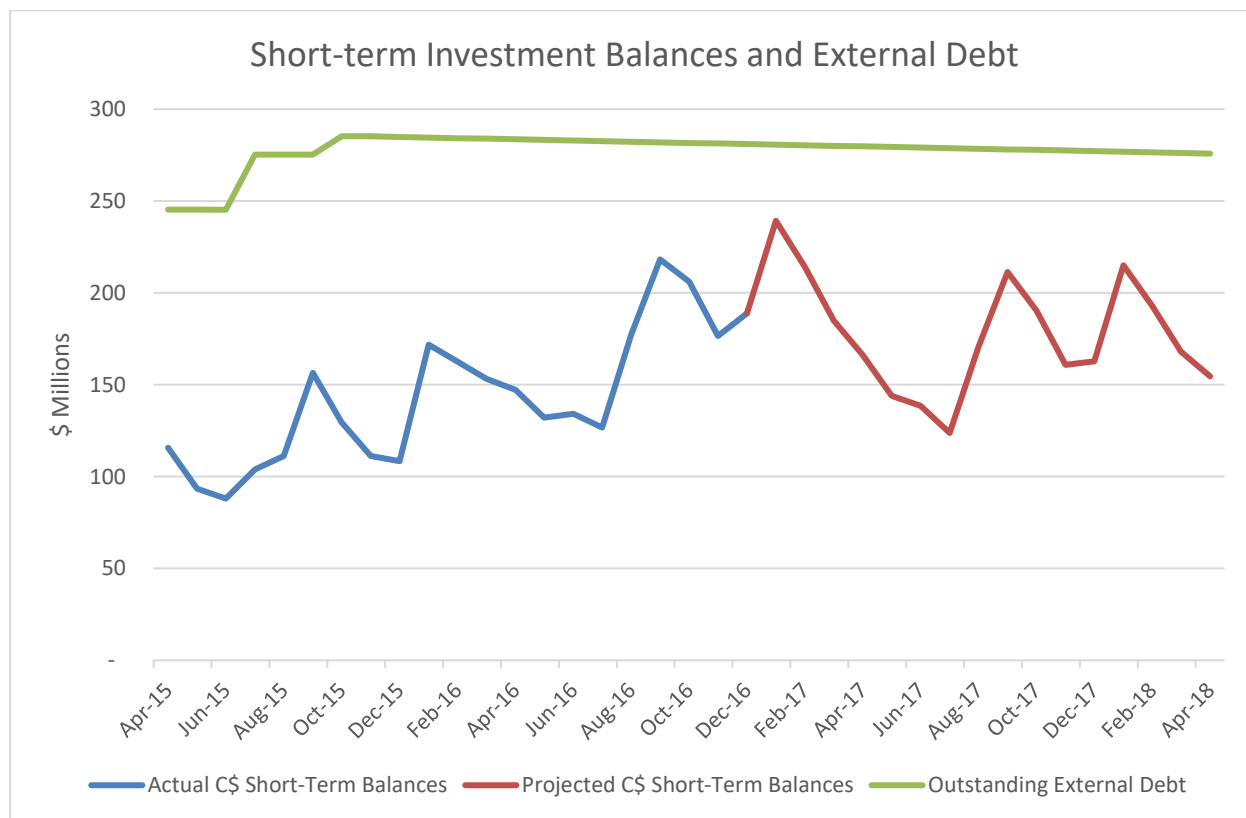
The University is within the established parameters of both the Viability Ratio and the Debt Burden Ratio.

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.

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 & October and January & 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 and guaranteed investment certificates maturing between one month and 3 years, 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.



VII: Budget Planning for 2017-2018 and Beyond

In May 2016, the Board of Trustees approved a balanced budget for 2016-2017. At that time a multi-year budget was presented for the 2016-2017 to 2018-2019-time period.

The development of the 2017-2018 to 2019-2020 multi-year budget is almost complete. The Provost and Vice-Principal (Academic) provided Shared Service Units with Comprehensive Budget Plan Guidelines and preliminary budget allocations in May 2016. All shared service units submitted their budgets by the end of July and PACB reviewed submissions at meetings in late September. Preliminary budget allocation decisions for the shared service units have been made, which allowed for the determination of preliminary Faculty and School budget allocations. These were released mid-October, and Faculties and Schools are submitted their multi-year budget plans in late November; PACB meetings to review the submissions were completed in December and budget projections were developed in January.

The plan is to develop and implement a sustainable budget for 2017-2018 to 2019-2020 that provides units with appropriate incentives to increase revenues and/or decrease costs in direct support of an ongoing commitment to academic program quality and faculty renewal.

The work of supporting and running the budget model continues to include a high level of participation by the Provost's Advisory Committee on the Budget (PACB) and by Directors and Business Officers in both the Faculties and Schools and the shared service units.

When the 2016-2017 to 2018-2019 budget was presented for approval in May it was noted that there were a number of risks to the operating budget projections including:

- Reliance on government grant support and tuition (both controlled by government) and the effect of further changes in government policy, most notably the outcome of the formula funding review that the government had indicated they would undertake in 2016-17;
- Expirations of collective agreements in the last year of the three-year planning timeframe;
- Pension solvency;
- The significant investment required in physical and technological infrastructure renewal;
- Continued volatility in capital markets.

These risks are still pertinent during the new three-year planning window. A number of agreements are due to expire in 2018 and 2019 including those with the Queen's University Faculty Association, Canadian Union of Public Employees and the United Steel Workers. The outcomes of these negotiations will bear on our ability to contain costs over the planning period.

Additional risks could materialize as a result of the funding formula review that is underway along with the announcement of a new tuition fee framework that will occur during the planning cycle.

Commencing in September 2015, Faculties and Shared Service units have been charged an additional 4.5% of salary base as an expense, to address the additional going concern special payments and to help establish a reserve for future pension solvency payments or transition costs into a JSPP, as described in Section III.

The 2016-2017 budget included allocations for deferred maintenance and technology renewal. The continuation of these allocations has been identified as a priority, along with allocations for classroom renewal, Canada First Research Excellence Fund, and the Innovation & Wellness Centre. In addition, funding has been allocated to support the recommendations stemming from the Truth and Reconciliation Commission and the Principal's Implementation Committee on Racism, Diversity and Inclusion.

The preliminary budget will be presented to the Board of Trustees at the March meeting for information and consultation; the final projections will be presented to the board for approval at its May meeting.