Financial Update
Report to the Board of Trustees
December 4, 2009
## 2009-10 Operating Budget Update

The table below shows projected variances from the approved 2009-10 operating budget.

<table>
<thead>
<tr>
<th></th>
<th>Approved Budget** 2009-10</th>
<th>Proposed Budget 2009-10</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUE</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Student Fees**</td>
<td>$ 157.6</td>
<td>$ 158.7</td>
<td>$ 1.1</td>
</tr>
<tr>
<td>Government Grants</td>
<td>$ 182.5</td>
<td>$ 187.1</td>
<td>$ 4.5</td>
</tr>
<tr>
<td>Unrestricted Donations</td>
<td>$ 1.2</td>
<td>$ 1.8</td>
<td>$ 0.6</td>
</tr>
<tr>
<td>Other Income</td>
<td>$ 4.5</td>
<td>$ 3.9</td>
<td>(0.5)</td>
</tr>
<tr>
<td>Research Overhead</td>
<td>$ 3.5</td>
<td>$ 3.5</td>
<td>-</td>
</tr>
<tr>
<td>Investment Income</td>
<td>$ 14.8</td>
<td>$ 14.2</td>
<td>(0.6)</td>
</tr>
<tr>
<td><strong>Total Operating Revenue</strong></td>
<td>$ 364.1</td>
<td>$ 369.2</td>
<td>$ 5.1</td>
</tr>
<tr>
<td><strong>EXPENSE</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Allocations:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Principal and Vice-Principals</td>
<td>$ 60.2</td>
<td>$ 60.6</td>
<td>$ 0.4</td>
</tr>
<tr>
<td>Faculties and Schools**</td>
<td>$ 175.7</td>
<td>$ 177.5</td>
<td>$ 1.8</td>
</tr>
<tr>
<td>Compensation increase</td>
<td>$ 11.3</td>
<td>$ 9.1</td>
<td>(2.2)</td>
</tr>
<tr>
<td>Indirect Costs of Research to External Entities</td>
<td>$ 1.9</td>
<td>$ 1.9</td>
<td>-</td>
</tr>
<tr>
<td>Grant &amp; Tuition Sharing to Faculties &amp; Schools</td>
<td>$ 5.0</td>
<td>$ 5.2</td>
<td>0.3</td>
</tr>
<tr>
<td><strong>Total Allocations</strong></td>
<td>$ 254.0</td>
<td>$ 254.3</td>
<td>$ 0.3</td>
</tr>
<tr>
<td><strong>Other Central Expenses:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benefits</td>
<td>$ 43.8</td>
<td>$ 43.8</td>
<td>-</td>
</tr>
<tr>
<td>Utilities</td>
<td>$ 15.4</td>
<td>$ 15.4</td>
<td>-</td>
</tr>
<tr>
<td>Library Acquisitions</td>
<td>$ 9.8</td>
<td>$ 9.8</td>
<td>-</td>
</tr>
<tr>
<td>Student Assistance*</td>
<td>$ 28.5</td>
<td>$ 28.9</td>
<td>-</td>
</tr>
<tr>
<td>Deferred Maintenance</td>
<td>-</td>
<td>$ 1.6</td>
<td>1.6</td>
</tr>
<tr>
<td>Capital Projects Debt Financing</td>
<td>$ 0.6</td>
<td>$ 0.6</td>
<td>-</td>
</tr>
<tr>
<td>Administrative System Replacement</td>
<td>$ 3.0</td>
<td>$ 3.0</td>
<td>-</td>
</tr>
<tr>
<td>Other Expenses, net of recoveries</td>
<td>$ 20.9</td>
<td>$ 20.9</td>
<td>(0.0)</td>
</tr>
<tr>
<td><strong>Total Operating Expenditures</strong></td>
<td>$ 376.0</td>
<td>$ 378.2</td>
<td>$ 2.2</td>
</tr>
<tr>
<td><strong>Budget Surplus (Deficit)</strong></td>
<td>$ (11.9)</td>
<td>$ (9.0)</td>
<td>$ 2.8</td>
</tr>
<tr>
<td>Deferral of Internal Loans</td>
<td>$ 3.6</td>
<td>$ 3.6</td>
<td>-</td>
</tr>
<tr>
<td><strong>Budget Surplus (Deficit)</strong></td>
<td>$ (8.3)</td>
<td>$ (5.4)</td>
<td>$ 2.8</td>
</tr>
</tbody>
</table>

*Includes incremental allocation of Graduate Student Aid

**Budget has been adjusted to include additional MBA programs in the Operating Fund

This had no impact on the Budget Surplus(Deficit)
The following table shows the breakdown of the Principal and Vice-Principal allocation expenditure line that is shown above.

<table>
<thead>
<tr>
<th>Budgeted Expenditures for the Principal and Vice-Principal Portfolios as per the 2009-10 Projected Operating Budget (000's)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2009-10 Projection to Y/E</strong></td>
</tr>
<tr>
<td>Principal</td>
</tr>
<tr>
<td>VP (Research) (a)</td>
</tr>
<tr>
<td>VP (Advancement) (b)</td>
</tr>
<tr>
<td>VP (Operations &amp; Finance) (c)</td>
</tr>
<tr>
<td>Information Technology Services</td>
</tr>
<tr>
<td>Physical Plant Services</td>
</tr>
<tr>
<td>VP (Human Resources) (d)</td>
</tr>
<tr>
<td>VP (Academic) (e)</td>
</tr>
<tr>
<td>University Registrar</td>
</tr>
<tr>
<td>Dean of Student Affairs (f)</td>
</tr>
<tr>
<td>Library Administration</td>
</tr>
<tr>
<td><strong>Total Principal and Vice-Principals</strong></td>
</tr>
</tbody>
</table>

a) Includes Research Services, eQUIP  
b) Includes Marketing and Communications  
c) Includes Finance, Environmental Health and Safety, Risk Management, Audit, & Procurement  
d) Includes Human Rights and Equity  
e) Includes Archives, Centre for Teaching and Learning, Institutional Research and Planning, McGill-Queen's Press...  
f) Includes Athletics, Counselling, International Centre, Career Services, JDUC, etc...

**Budget Analysis**

**Enrolment:**
November 1, 2009 enrolments in a few undergraduate programs are slightly higher than planned, resulting in a small increase in fee revenue. It is anticipated that the Provincial government will have difficulty meeting its commitment under the Reaching Higher plan due to the fiscal environment, and grant funding may not be received for these higher enrolments. Grant projections for Undergraduate growth have not been increased due to this risk. Consistent with initial undergraduate accessibility funding last year, it is assumed that any funding received will be discounted and this has been reflected in original budget and ongoing projections.

The increased fee revenue for higher than planned undergraduate enrolment is supplemented by increased fee and grant revenue for higher than planned graduate enrolment both at the Master's and PhD level. The proposed budget is showing a significant increase in the graduate accessibility grant which is due to an existing MBA program becoming eligible for Government funding. This eligibility was not anticipated during the development of the 2009-10 budget.

**Facilities Renewal:**
The 2009-10 Budget did not include the Facilities Renewal grant because signals from the government indicated that this funding would not be flowed and that funding would likely be provided for Deferred Maintenance through the Knowledge Infrastructure Funding. However, we have received a $1.6M grant from MTCU for Facilities Renewal. This is included in the variance for Government Grants.
Impact of the current economic climate:
The current economic climate is better than at this time last year. Unrestricted donations are expected to come in as budgeted. Investment income is expected to be $0.6 million lower than budgeted, primarily due to low interest rates and reduced cash on hand.

Queen’s elected to retroactively file a pension valuation as of August 31, 2008, before the market meltdown. Therefore, the next required valuation will be August 31, 2011, which gives some time for the markets to rebound and/or the Province to amend current pension legislation regarding time frames for making up unfunded pension liabilities. The impact to the pension contributions has been included in the benefits budget and we will continue to monitor and plan for mechanisms to deal with the outcome of the future valuation. Currently $6.3M in additional contributions and $20M in total pension contributions are being charged to the operating budget.

MTCU has made it clear to various COU committees that there will be no year-end funding. They have stated that commitments made under the Reaching Higher program will be honoured for Graduate Funding; however we do have a risk related to the Undergraduate Accessibility Grant. The budget has been set to assume a large discount and no increase is assumed in the projected budget regardless of our higher enrolments.

Expenditures:
Compensation increase expenses are $2.2M lower than budgeted. The University recently reached a one-year settlement with the Queens University Staff Association that accounts for $2M of the savings. The settlement was 1.25% scale with a total compensation increase of 3%. The remaining $200K in savings are due to the freeze on all P/VPs/Deans and staff earning over $150K. These savings will fall directly to the bottom line to reduce the in year deficit.

Principal & Vice-Principal allocations are higher due to the inclusion of the expenses related to generating the Unrestricted Donations revenue in Advancement. This is offset by the higher revenue projected on the Unrestricted Donations line and therefore there is no effect on the bottom line.

Faculty and School allocations are higher than budgeted as a result of the sharing of increased graduate growth funding. Grant and tuition sharing to Faculties & Schools is higher due to the sharing of fees related to the small enrolment growth and to slightly higher than budgeted clinical grants.

Student assistance has increased by the allocation of the awards portion of the sharing of graduate growth funding.

Deferred Maintenance expenditures have increased by $1.6M due to the receipt of the unexpected Facilities Renewal Grant from MTCU. The expenditure offsets the grant received and therefore has no impact to the bottom line.

In order to limit the size of the operating deficit the decision was made to defer payment of $3.6M of internal loans from 2009-10 to 2011-12. This should be a temporary suspension until 2012-13 as it has an impact on available cash and ratios used to determine debt capacity. The internal loans deferred are shown below:
Operating Budget Surplus/(Deficit):
The current estimated impact on the operating budget bottom line is a projected deficit of $8.3 million. With the continued deferral of the internal loans the deficit is reduced to $5.4M. This is $2.8M lower than originally budgeted. The variance is largely due to the savings on compensation expense due to the QUSA agreement and the increase in Graduate Accessibility Funding. Any additional in-year savings that may arise will be used to reduce this projected deficit.

II: Ancillary Operations

The total net budget for the Ancillary Operations for 2009-10 was a surplus of $2.6M. The projected surplus for the year ended April 30, 2010 is now $1.2M. The drop of approximately $1.4M can be attributed to Printing services ($0.2M), PARTEQ Innovations ($0.6M) and the International Study Centre ($0.5M) all of which are showing projected results below budget.

Residences which is the largest ancillary with revenues of over $41M, is on track to meet their budget.
III: Capital Budget

Queen’s has embarked on a number of significant capital projects over the last few years. The table below shows the planned expenditures and the sources of funds for approved capital projects.

### Approved Capital Projects in Process ($000):

<table>
<thead>
<tr>
<th>Projects in Process</th>
<th>Approved Budget</th>
<th>Expenditures to Oct '09</th>
<th>Funding to Oct '09</th>
<th>Short-term Borrowing to Oct '09*</th>
<th>Cash shortfall Oct '09</th>
<th>Additional Funding Sources</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Electrical Substation</td>
<td>10,000</td>
<td>7,592</td>
<td>957</td>
<td>(6,635)</td>
<td>-</td>
<td>900</td>
<td>1</td>
</tr>
<tr>
<td>Union Street Parking</td>
<td>34,700</td>
<td>34,271</td>
<td>1,000</td>
<td>30,000 (1)</td>
<td>(3,271)</td>
<td>33,700</td>
<td>2</td>
</tr>
<tr>
<td>QUASR</td>
<td>33,500</td>
<td>11,200</td>
<td>(11,200)</td>
<td></td>
<td></td>
<td>3,000</td>
<td>3</td>
</tr>
<tr>
<td>Medical Building</td>
<td>76,800</td>
<td>4,159</td>
<td>13,000</td>
<td></td>
<td>57,600</td>
<td>TBD</td>
<td>4</td>
</tr>
<tr>
<td>Queen’s Centre Underground Parking</td>
<td>12,200</td>
<td></td>
<td>**</td>
<td></td>
<td>-</td>
<td>12,200</td>
<td>2</td>
</tr>
<tr>
<td>Queen’s Centre Phase 1</td>
<td>169,000</td>
<td>147,834</td>
<td>7,928</td>
<td>60,000 (139,906)</td>
<td>161,072</td>
<td>19,100</td>
<td>6,000</td>
</tr>
</tbody>
</table>

**Total Approved Projects in Process**: 336,200

*To be converted to long-term debt
**Currently included in Queen’s Centre Phase 1 expenditures
(1) Converted to a 5-year amortized debenture which will be used to fund Queens Centre and QUASR cash flow shortfalls to minimize the level of long term debt.

### Notes on Funding Sources:
1. Utilities Budget
2. Parking Revenue- Ancillary Operation
3. $3M annual charge to the operating budget
4. Faculty of Health Science has committed additional $6.2M, & $57.6M to come from government
5. Principal and Interest on the long-term debt will be charged to the operating budget annually.

The Board has approved planning funds for the following projects:
- Goodes Hall Expansion
- Performing Arts centre
- West Campus Stadium

### Deferred Maintenance:
Capital budget planning includes planning for deferred maintenance and renovations and alterations. The table below shows these funding sources. For each of the government funded programs, there is a list of pre-approved projects and the expenditures are subject to external audit under the programs.

### Deferred Maintenance and R&A Funding 2009-10:

<table>
<thead>
<tr>
<th>Funding Source</th>
<th>$000's</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Operating Budget</td>
<td>-</td>
<td>1</td>
</tr>
<tr>
<td>MTCU: Facilities Renewal Program</td>
<td>1,609</td>
<td>2</td>
</tr>
<tr>
<td>MTCU: 2007-08 Campus Renewal Program</td>
<td>7,678</td>
<td>3</td>
</tr>
<tr>
<td>MTCU 2008 Campus Renewal Funds</td>
<td>9,702</td>
<td>3</td>
</tr>
<tr>
<td>MTCU: 2008 Botteral Hall Maintenance</td>
<td>5,945</td>
<td>3</td>
</tr>
</tbody>
</table>

**Total:** 24,934

### Notes:
1. No Funding is included in the Operating Budget in 2009-10 due to the projected deficit.
2. Annual Funding based on System Share.
3. One-time only funds remaining as of April 30,2009.
There are a number of completed capital projects which were not fully funded externally and thus have internal loans that are being repaid over a number of years from the operating budget. These projects are listed in the table below, along with the operating budget line items.

**Annual Capital Loan Repayments Funded from Operations ($000)**:

<table>
<thead>
<tr>
<th>Project</th>
<th>Amount ($)</th>
<th>Included in Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Electrical Substation</td>
<td>900</td>
<td>Included in Utilities Budget</td>
</tr>
<tr>
<td>CoGeneration Facility</td>
<td>1,064</td>
<td>Included in Utilities Budget</td>
</tr>
<tr>
<td>ISC Capital</td>
<td>250</td>
<td>Included in Other Central Expenses Budget</td>
</tr>
<tr>
<td>Biosciences</td>
<td>223</td>
<td>Included in Other Central Expenses Budget</td>
</tr>
<tr>
<td>Chernoff Hall*</td>
<td>900</td>
<td>Included in Other Central Expenses Budget</td>
</tr>
<tr>
<td>ILC Capital</td>
<td>125</td>
<td>Included in Other Central Expenses Budget</td>
</tr>
<tr>
<td>Richardson Hall &amp; University Avenue</td>
<td>1,500</td>
<td>Included in Deferred Maintenance Budget</td>
</tr>
<tr>
<td><strong>Total Capital Debt Servicing Paid from Operating</strong></td>
<td><strong>4,962</strong></td>
<td></td>
</tr>
</tbody>
</table>

*These funds are put towards the sinking fund for the $90 million debenture, $10 million of which was used to fund the building.

**IV: Investment Funds**

The decline in the financial markets in late 2008 and early 2009 had a substantial impact on University investments. While the markets have improved recently, the drop in value last year was extensive and it will take time for the market values to recover.

The University has two investment portfolios, the Pooled Endowment Fund and the Pooled Investment Fund.

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 fund scholarships, academic chairs, book funds, lectureships, as well as a diverse range of university programs.

The Pooled Investment Fund ("PIF") comprises the investment of monies in reserve and other unspent balances. Amounts withdrawn from the PIF each year are based on spending targets proposed by the University and reviewed by the Investment Committee of the Board of Trustees.

**Investment Portfolios (000,000's)**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Pooled Investment Fund (PIF)</td>
<td>175,461</td>
<td>126,665</td>
<td>144,120</td>
<td>17,455</td>
</tr>
<tr>
<td>Pooled Endowment Fund (PEF) *</td>
<td>624,754</td>
<td>472,963</td>
<td>533,022</td>
<td>60,059</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>800,215</strong></td>
<td><strong>599,628</strong></td>
<td><strong>677,142</strong></td>
<td><strong>77,514</strong></td>
</tr>
</tbody>
</table>

*Market value is reduced by year end payout
2009-10 Income from the Pooled Endowment Fund (000's)

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Operating Budget</td>
<td>4,496</td>
</tr>
<tr>
<td>Student Assistance</td>
<td>12,160</td>
</tr>
<tr>
<td>Trust (Chairs etc)</td>
<td>11,338</td>
</tr>
<tr>
<td>Research</td>
<td>1,083</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>29,077</strong></td>
</tr>
</tbody>
</table>

The PEF income payout is approved annually by the Investment Committee of the Board of Trustees and is based on the Yale formula, which is meant to preserve capital for inflationary increases and produce income of approximately 4.5%. Based on this formula, the Investment Committee approved the payout for 2009-10 which is only reduced by 1.3%. As the Yale formula is weighted 70% on the previous years’ payout adjusted for inflation, and 30% on average calendar year market values, the full impact of the market downturn will not be felt immediately. The University continues to review and monitor the PEF as a number of endowments are now “underwater” which means that their market value is below the amount of the original donation.

V: Debt and Liquidity

In October 2008, the Board of Trustees approved a resolution authorizing the University to borrow up to $180 million from Ontario Infrastructure Projects Corporation (“OPIC”). Queen’s entered into two Financing Agreements, one for the Tindall Field/Union Street Parking project and the other for Queen’s Centre Phase 1. When the Tindall Field project was completed, we were obligated to convert the short term floating rate advances into a fixed rate debenture. In July of this year $30 million of advances under the Tindall Field/Union Street financing Agreement were converted into a 5 year amortizing debenture at 3.16%. Under the Queen’s Centre Financing Agreement, we have currently drawn advances totalling $60 million at very favourable monthly floating rates.

The composition of the current debt portfolio is as shown in the table below:

<table>
<thead>
<tr>
<th>Issue</th>
<th>$ millions</th>
<th>Rate</th>
<th>Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Series A senior unsecured debenture</td>
<td>$ 90</td>
<td>6.10%</td>
<td>2032</td>
</tr>
<tr>
<td>CMHC Residences loans</td>
<td>$ 1.6</td>
<td>5.375%</td>
<td>2016</td>
</tr>
<tr>
<td>OIPC 5 year amortizing</td>
<td>$ 30</td>
<td>3.16%</td>
<td>2014</td>
</tr>
<tr>
<td>OIPC Construction Advances</td>
<td>$ 60</td>
<td>&lt; 1%</td>
<td>2010</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$ 181.6</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

In October 2008 the Board of Trustees approved a Liability Management Policy, under which Queen’s must maintain the following ratios:

- Expendable Resources to Debt $\geq 0.8$x to 1.0$x$
- Debt Burden $\leq 3.25\%$
The reduction of the unrestricted deficit through OIPC financing in July and improvement in endowment market values has improved the viability ratio.

The Office of the Vice-Principal (Operations and Finance) has been reviewing cash forecasts and long-term debt financing requirements and will be presenting proposals to the Finance Committee for approval by the Board.

**Budget Planning 2010-11 to 2012-13:**

In May the Board of Trustees was presented a Budget Plan for 2009-10 to 2011-12. The 2009-10 Operating Budget was approved, however, the Board of Trustees declined to endorse years 2 and 3 of the Budget Plan and instead directed the University to revise its budget framework in order to balance the budget by 2011-12. Over the past few months the Principal has been meeting with Deans and employee groups to identify opportunities to reduce expenditures in order to move towards a balanced budget.

In 2008-09 a number of Principal's Task Forces were established to look at opportunities for revenue generation and cost reduction. These task forces have presented their findings and these are being included in budget planning moving forward.

In order to increase transparency in the Operating Budget the decision has been made to eliminate the remaining portion of the 15% budget cut that was proposed for 2010-11 & 2011-12. In lieu of the budget cut the responsibility for paying for the salary and benefits increases will now reside with the Faculties/Departments as opposed to these increases being centrally funded. This change will help to provide Faculties/Departments with a true recognition of inflationary costs.

Further information on current budget plans will be presented by the Principal at the Board of Trustees Meeting.

All Faculties and Administrative units continue to engage in a planning exercise and will present options for dealing with the period of fiscal constraint early in the new year. The three-year planning horizon is being maintained in order to ensure that there is an opportunity to think longer term to try to preserve the mission and values of Queen's University.

<table>
<thead>
<tr>
<th>Ratio</th>
<th>Sep. 30 2009 (estimated)</th>
<th>Apr. 30 2009</th>
<th>Apr. 30 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Viability Ratio</td>
<td>≥ 0.8x to 1.0x</td>
<td>.9</td>
<td>.7</td>
</tr>
<tr>
<td>Debt Burden</td>
<td>≤ 3.25%</td>
<td>1.42%</td>
<td>1.18%</td>
</tr>
</tbody>
</table>