Rating Report

Queen's University

Scott Cherry
+1 416 597 7343
scherry@dbrs.com

Travis Shaw
+1 416 597 7582
tshaw@dbrs.com

Insight beyond the rating.

Ratings

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

Rating Update

DBRS Limited (DBRS) has confirmed the Issuer Rating and Senior Unsecured Debt rating of Queen's University (Queen's or the University) at AA with Stable trends. The ratings reflect the University's very strong academic profile, high level of endowment assets and relatively strong operating performance in recent years. The Stable trends reflect DBRS's view that, despite a declining university-age population, Queen's has a consistently strong applicant pool and profile that should support enrolment growth in the near to medium term, providing stability to tuition fee revenues and government operating grant allocations. DBRS does not expect Queen's to materially increase its debt burden over the medium term following the completion of recent construction of new residences.

In 2014-15, the University recorded a very solid consolidated surplus of $61.9 million or 7.3% of revenues, primarily because of higher-than-budgeted investment returns. In 2015-16, DBRS anticipates that another consolidated surplus will be achieved, albeit narrower than the prior year. Debt has risen in line with expectations as the University drew down the final tranche of a bank loan facility for two new residences in 2015-16, bringing debt per full-time equivalent (FTE) to an estimated $11,475, up from $10,242 in 2014-15. Queen's academic profile and strong balance sheet, including $919 million endowment assets, mitigate the elevated debt burden.

The most significant financial risk facing the University continues to be pension sustainability, namely the potential for significant special payments to address the solvency deficit, and ongoing going-concern payments. Queen's has been approved for Stage 2 provincial solvency relief, deferring solvency payments for an additional three years. The University remains a leading proponent of sector-wide efforts to establish a multi-employer jointly-sponsored pension plan (JSPP) with other Ontario universities to achieve a solvency exemption. While a JSPP is unlikely to be established in the near term, DBRS believes that the Province of Ontario (the Province or Ontario; rated AA (low) by DBRS) will continue to accommodate pension solvency deficits in the sector as discussions around a JSPP progress.

The credit profile may come under downward pressure if the University's debt burden evolves above current expectations, or if operating performance and debt service coverage deteriorate on a sustained basis because of negative developments in the operating environment, a weaker enrolment outlook or significant cash funding requirements for pension liabilities. Upward pressure on Queen's credit profile remains limited, given the University's current ratings that are above that of the provincial funder and its relatively high debt burden. The post-secondary operating environment remains challenging, given uncertainty over the provincial funding formula and tuition framework, although DBRS does not anticipate that any potential changes will be materially negative to Queen's.

Financial Information

	For the year ended April 30				
	2015	**2014**	**2013**	**2012**	**2011**
Operating balance (DBRS-adjusted, $ millions)	61.9	45.6	22.6	(24.9)	(8.7)
Surplus (deficit) to revenue (%)	7.3%	5.5%	2.8%	(3.3%)	(1.2%)
Interest coverage ratio (times)	4.1	4.2	4.0	3.6	3.1
Long-term debt per FTE ($)	10,242	9,997	10,048	10,603	10,819

Issuer Description

The University is a mid-sized institution established in 1841 by the Royal Charter of Queen Victoria. Located in Kingston, Ontario, a census metropolitan area of about 167,200 residents at the northeastern end of Lake Ontario, the University offers a comprehensive range of undergraduate, graduate and professional programs, with a student population of 24,710 FTEs in 2015-16.

Rating Considerations

Strengths

1. High level of expendable resources and endowment income
The University's total endowment assets grew by nearly 15% to $919 million at fiscal YE2015, up from $800.2 million the previous year. At $38,358 per student, Queen's has the largest endowment per FTE among DBRS-rated universities, providing considerable support to the credit profile. Unlike many other DBRS-rated universities, Queen's derives a material percentage of its annual revenue (3.9% in 2014-15) from investment returns on its endowment. Expendable resources, including internally restricted endowment assets and unrestricted reserves, totalled $476.4 million as of April 30, 2015.

2. Flagship provincial and national institution
A very strong reputation and a long history of academic excellence provide strong support for enrolment and fundraising activities. The University is internationally known and has some of the highest admission standards in Canada, with an average undergraduate entering average of 89.1% in 2014-2015, which leaves room to grow enrolment if necessary. The University benefits from a solid academic profile and reputation, ranking among the top four medical-doctoral universities in Canada and within the 200 to 300 range globally, somewhat limited by its smaller size.

3. Prudent management practices
Queen's has introduced several key measures to entrench prudent fiscal management practices and encourage departmental spending restraint. These measures include a three-year budget planning framework and the adoption of an activities-based budget model in 2013-14. The budget model attributes revenues to individual faculties based on enrolment and teaching after a deduction for a broader University Fund and other indirect costs. A more focused approach to labour relations is evident in more sustainable collective agreements as well as adjustments made to pension rules and contribution rates in re−cent years

4. Successful fundraising and advancement operations
The University has built up its fundraising capacity through leadership, an increased workforce and more sophisticated data mining techniques to tap its alumni base. Queen's is amid its Initiative Campaign and has raised over 124% of its $500 million campaign goal. Fundraising is aided by the status of the University as one of Canada's oldest universities with alumni in all stages of career and life.

Challenges

1. Sizable employee future benefit liabilities
The latest filed valuation of the University's hybrid pension plan as of August 31, 2014, showed an estimated going-concern deficit of $176 million and a solvency deficit of $285 million. Queen's was approved for Stage 2 provincial solvency relief and elected to take advantage of further relief provisions that allow it to defer solvency deficit payments for three years, with the remaining deficit amortizing over the following seven years beginning in F2019. The University had been making going-concern payments totalling $14.4 million per year for three years and commenced making annual special going-concern payments totalling $20.7 million as of September 1, 2015. DBRS notes that Queen's has prudently established a reserve fund to cover the higher going-concern payments and future solvency payments, charging all academic and service units an additional 4.5% pension charge as of September 2015 while it also explores sector-wide reforms, such as a JSPP.

2. Relatively high debt burden
At an estimated $11,475 per FTE in 2015-16, the University's debt burden is high among DBRS-rated universities. Queen's has finalized construction on two new residences, using an amortizing bank loan facility of $70 million. While the residences generate increased ancillary revenues to service-associated borrowing, the increased debt burden has exhausted much of the debt flexibility within the current rating.

3. Salary and wage pressures
The University must compete with other high-profile institutions in North America for faculty, which leads to significant salary pressures. A lower pension expense in 2014-15 allowed Queen's to reduce salary and benefit expenses by 1.0% for the year; however, as the largest expense category, this has been an area of significant pressure in recent years. The aging faculty demographic, a new collective bargaining cycle and potential for increased pension costs will only exacerbate these pressures in the years ahead.

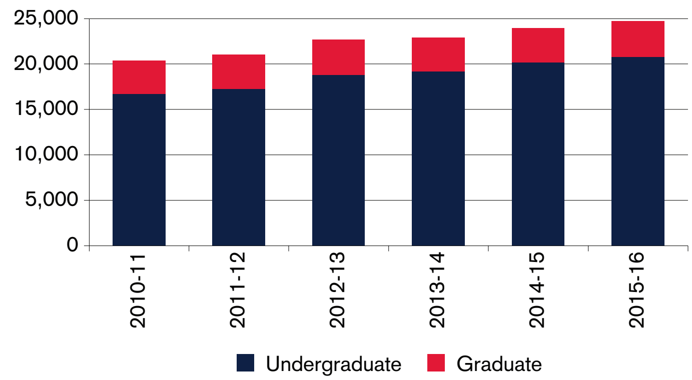
4. Limited tuition and fee-setting autonomy
In the face of escalating costs, tuition fee revenues remain a key source of incremental revenue for universities. Average annual undergraduate tuition fee increases have been capped at 3% since 2013-14 for regulated programs. The tuition fee framework is set to expire in 2017-18; however, the government has not given an indication with respect to the future permitted increases, adding a degree of uncertainty to future budget planning. DBRS does not believe, however, that changes to the tuition framework will be materially negative to Queen's.

Operating Performance

Queen's reported a solid consolidated surplus of $61.9 million or 7.3% of revenues in F2014-2015, up from $45.6 million the prior year. The sizable surplus and year-over-year (YOY) improvement was largely driven by gains within the University's investment portfolio from strong capital market performance, deemed for budget purposes to be non-recurring and one-time in nature. DBRS views this as prudent practice in light of capital market volatility and the associated impact on investment income and reported results, which may not reflect the underlying financial position of ongoing operations. A positive variance within the Pooled Investment Fund of approximately $14 million on net investment income recognized on the income statement, savings on the University's pension expense and higher-than-budgeted fee revenue produced a significant positive variance to budget, avoiding the drawdown of $7.7 million in reserve funds. Queen's has deployed the surplus funds to create a central reserve to smooth the impact of future investment income weakness or for capital renewal purposes. The University also left carry-forward balances with departments for future strategic priorities or pension payments.

Revenues expanded by a modest 1.8% in 2014-2015, primarily supported by a notable increase in revenue from student tuition and fees from the maximum permitted fee increases within the provincial tuition framework and robust growth in FTE enrolment of 4.7% YOY. Enrolment growth at Queen's stands in contrast with other DBRS-rated universities that have experienced a slowdown or outright decline in enrolment in 2014-15, highlighting the importance of the University's strong academic profile in supporting student demand and financial performance. Government operating grants, the second-largest source of revenue, declined by 0.4% on account of the final year of provincial efficiency cuts to the base operating grant and policy changes mandating a 50% reduction in Faculty of Education intake, offset by growth in accessibility funding to accommodate enrolment growth.

Total Enrolment (FTE)



Note: In 2011-12, Queen's revised its internal definiton of full-time students to - a student with a 60% course load.

Expenditures were well contained, declining by 0.1%, primarily because of a 1.0% reduction in salary and benefit expense stemming from a reduction in the financing component of the University's pension expense from stronger plan returns and a divestment of a subsidiary of a not-for-profit commercialization and innovation centre. Spending was reduced across several other categories, including reduced outlays for supplies, equipment, utilities and insurance. Minor increases in student aid spending tied to rising enrolment, modestly higher interest charges to service the University's higher debt burden and an approximately 8.0% increase in miscellaneous expenses nearly offset the significant reductions in other spending categories.

Budget 2015-2016

Queen's approved a balanced operating budget for 2015-2016, relying on the drawdown of reserves totalling $11.7 million for one-time initiatives to balance the operating fund. The drawdown of prior surpluses and carry-forward funds within faculties and schools will total $11.4 million for one-time priority items, capital upgrades or as a bridge to a sustainable budget. A further $0.3 million in central cash reserves will be used for non-recurring expenses related to a talent management initiative. University administration prudently does not permit ongoing base budget commitments to be made against departmental cash reserves.

The budget forecasts a revenue increase of 4.5% versus the prior year's budget plan. Revenue growth is expected to be driven by growth in tuition fees of 9.3% versus the prior-year budget (or 4.8% versus actual results), supported by an expansion in FTE enrolment of 3.1% and tuition fee increases to maximize revenues while remaining within the provincial framework cap. Government operating grants remain constrained, with the base operating grant budgeted to decline by $2.4 million or 1.6% from the prior year, but to be more than offset by $5.9 million in accessibility growth funding for undergraduate and graduate enrolment gains. After accounting for earmarked grants for other purposes and a federal grant for indirect research costs, total grant funding is expected to rise by 1.3% over the 2014-15 budget and 1.0% over actual results.

Total expenses are budgeted to rise by $26.5 million or 5.6% versus the prior-year budget, largely driven by higher salary and benefit costs within the faculties and schools as well as a moderate increase in shared services expenses, such as libraries, occupancy costs, information technology (IT), advancement as well as central academic and financial administration. The budget

Budget 2015-2016 (CONTINUED)

continues to include a contingency buffer of approximately $1.8 million and a $12.3 million transfer from operating accounts for capital, a reduction of $1.5 million from the prior year. The $1.5 million reduction reflects a loan repayment and is redirected to deferred maintenance, bringing up the allocation from operations to $4.2 million. A separate operating allocation for infrastructure renewal is also budgeted at $4.4 million, down slightly from the prior year, with the difference reallocated to the budget for Information Technology Services. Most faculties and schools are budgeting for expenditure increases, with the exception of the School of Policy Studies and Faculty of Education, with the most notable increases in the Faculty of Arts and Science and in the Faculty of Business reflecting student demand dynamics.

DBRS deems assumptions in the budget to be conservative, noting that positive variances on salaries and benefits in recent years have allowed the University to avoid drawing down reserves as anticipated. The 2015-16 budget is the third prepared under the activities-based revenue allocation model and the first budget year in which transitional hold harmless payments to certain faculties and schools are to be phased down. As the fiscal year nears a close, the budget plan appears to be on track with no major deviations identified by Queen's management. DBRS expects that, on a consolidated basis, the University will post another surplus in F2016.

Medium-Term Outlook

The operating environment will remain challenging for Queen's and all Ontario universities over the current planning horizon. An update to the tuition fee framework expiring in 2016-17 has yet to be announced, although DBRS does not anticipate that it will be materially negative. The government is also reviewing the results of its sector consultation regarding changes to the provincial funding formula more directly linking funding envelopes to student performance metrics and institutional differentiation. DBRS believes that changes to the funding formula will not adversely affect Queen's, given the University's notable academic and research profile and the Province's generally strong support for post-secondary education.

DBRS expects that Queen's will continue to see robust student demand over the medium term, given its academic reputation and high entrance standards, limiting downside risk to the enrolment outlook despite headwinds from a declining university-age population. In 2016, Queen's forecasts that total FTE enrolment will rise by a notable 6.4% YOY, with gains driven by a 2.1% increase in undergraduate enrolment and robust graduate growth of 8.9%, although DBRS notes that there is downside risk to this projection in the current climate. The University has not had to relax entrance standards to generate incremental enrolment growth, with entering averages stable at 89.1%, among the highest in the country. Applications and yield rates remain robust. Expansion of campus residence capacity has allowed the University to accommodate a moderate expansion in undergraduate enrolment and applications remain particularly strong for high-demand space-limited programs such as Commerce, Nursing and Engineering. Graduate enrolment gains will be supported by continued demand for professional Master's programs at Queen's, including those in Aging and Health, Management Analytics, Entrepreneurship and Innovation as well as Education. International undergraduate enrolment currently sits at 6.5%, but is targeted to increase to 10.0% through 2019, a level below other DBRS-rated institutions that have relied heavily on foreign students. International graduate enrolment is stable at roughly 20.0%.

Labour relations at the University are generally stable, with Queen's reaching four-year collective agreements with its largest labour groups, namely the faculty association and staff association, as well as heating and maintenance, technicians, IT and library staff. Outstanding agreements include a small employee health-care group. Negotiations for post-doctoral fellows commence in June 2016, while the current agreement for academic assistants expires in August 2016. Graduate teaching assistants have an agreement in place until 2017. Salary and wage increases that have been negotiated are included in the medium-term balanced-budget framework for faculties, schools and shared-service units, which are required to absorb rising salary and wage costs within the new budget model. For outstanding agreements or those set to be negotiated over the planning horizon, 2% annual increases are assumed. The University has relative cost certainty for the majority of the current budget outlook, which provides comfort that growth in the primary cost driver will remain reasonably contained.

Solvency Funding Relief

Ontario Regulation 178/11 came into force in June 2011 and allows for solvency funding relief in two stages for certain public-sector pension plans.

Stage 1:

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

Stage 2:

- Provided sufficient progress is made to improve the sustainability of pension plans, solvency deficiency can be amortized over ten years instead of five.
- For plans with a Stage 2 valuation date before 2015, updated regulations (O. Reg 118/14) create the option to make interest-only payments for the first three years of the ten-year period, amortizing the deficit balance over remaining seven years.

Medium-Term Outlook (CONTINUED)

The most significant downside risk to Queen's financial outlook remains uncertainty on the scale and timing of potential special deficit payments on its hybrid pension plan. The most recent actuarial valuation of the Queen's Pension Plan as of August 31, 2014, revealed a going-concern deficit of $53.5 million on a market basis or $175.6 million on a smoothed basis, a deterioration from the previous valuation. The University has been making going-concern payments totalling $14.4 million per year for three years, which rose to $20.7 million as of September 1, 2015.

The most recent official valuation also showed a solvency shortfall of $285.4 million, an improvement from the prior valuation driven by strong investment returns partially offset by lower interest rates. The University was approved for Stage 2 provincial solvency relief and has elected to defer solvency deficit payments for three years, with the remaining deficit amortizing over the following seven years beginning in F2019. Solvency payments are estimated at roughly $19 million. DBRS notes that Queen's has prudently established a reserve fund to cover the higher going-concern payments and future solvency payments, charging all academic and service units an additional 4.5% pension charge as of September 2015.

Queen's is a leading participant in discussions and modelling around the creation of a multi-employer JSPP, which aims to achieve a solvency test exemption and would likely move to an equal contribution and risk-sharing model between employers and employees. Although progress is being made through the University Pension Project, DBRS does not expect that a new plan will be established for several years, given the challenge in agreeing on a plan design, administrative structure and negotiated acceptance from employee groups at universities across the Province. DBRS expects, however, that the provincial government will continue to accommodate pension solvency deficits in the sector given (1) the impact that a significant increase in pension payments would have on university budgets and programming, (2) ongoing progress by universities to improve the sustainability of their defined benefit pension plans and (3) sector-wide progress on discussions around the establishment of a JSPP.

Capital Plan

The University's gross capital spending was $52.3 million in 2014-2015, down from $71.0 million the prior year as two new student residences were completed and opened in the fall of 2015, housing a total of 550 new student beds. The residences had a total estimated project cost of $63 million. Following the completion of the residences, the capital plan at Queen's is now fairly modest and largely funded through internal sources or donation pledges. In September 2015, the University also completed the Reactor Materials Testing Laboratory, an $18.4 million facility funded mostly by the provincial government. In April 2015, a new $2.0 million micro-nano research facility also opened.

The other major capital project currently underway is the renovation of Richardson Memorial Stadium, which will create a modern multi-purpose facility with new stands capable of seating 10,000 spectators. The project budget is $20.3 million and is funded primarily through donations, including a major gift of $10.0 million received in 2014, with a modest $3.0 million contribution from the University. The stadium renovation is set to be completed in the fall of 2016. Plans are also underway to renovate the Physical Education Centre building into the new Queen's Health, Wellness and Innovation Centre. The $87.0 million project will transform the building into a mixed-use academic and student facility, with the Faculty of Engineering and Applied Science being a major occupant. When completed, the building will be home to an interactive learning commons, an innovation hub, interdisciplinary laboratory space as well as high-technology design and teaching studios. The building will also house an integrated Wellness Centre with co-located student services including mental health and accessibility supports, along with three gymnasia and other athletic and recreation facilities. The project will not proceed without full funding from government or private sources, but the University has already raised a considerable portion of the required funds. The design phase is now underway.

The transfer from operations to the capital budget for repayment of prior internal loans and debt servicing was budgeted to fall by $1.5 million from the prior year to $12.3 million, reflecting the repayment of a loan related to Richardson Hall and University Avenue. The reduced transfer savings have been directed toward higher spending on deferred maintenance. As one of the oldest universities in Canada, Queen's has a significant backlog of deferred maintenance totalling roughly $253 million. In 2015-16, the University allocated $7.4 million to deferred maintenance, including a $4.2 million allocation from operations, $2.1 million from the University Fund and $1.1 million from the provincial Facilities Renewal Grant. In 2016-17, the provincial grant for deferred maintenance will rise modestly to $1.6 million from $1.1 million while Queen's will also modestly increase contributions through 2019.

Debt and Liquidity

Queen's debt burden rose in line with expectations at the time of DBRS's last review as the University drew down a $20 million tranche of the bank loan facility for the two new residence buildings in 2014-15. Long-term debt rose to $245.4 million, up from $228.8 million the prior year, translating to $10,242 per FTE, up from $9,997. DBRS notes that the University has since made a final draw of $40 million on the $70 million loan facility. To reduce interest rate risk, Queen's has obtained a total return swap with an effective annual interest rate of 3.18% for the loan. The balance of the University's debt burden comprises a $90 million Series A senior unsecured bullet debenture maturing in 2032 and two senior unsecured bullet debentures totalling $75 million and $50 million maturing in April 2040 and June 2040, respectively. Queen's has established a sinking fund to repay the debentures upon maturity, with a balance of $66.7 million at YE2014-15, up $17.6 million from the prior year.

The size of the University's endowment remains a notable strength of the credit profile and offsets the elevated debt burden. The value of endowment funds grew by nearly 15% YOY to $919 million as at April 30, 2015, or $38,358 per FTE, the highest on a per-student basis of DBRS-rated universities and second highest after the University of Toronto on a gross basis. Queen's targets a long-term drawdown rate of 3.7% on the endowment, releasing $30.5 million in 2014-15. The University's expendable resources, which comprises internally restricted endowment funds and other operating reserves including sinking funds, totalled $476 million or 194% of total debt in 2014-15, among the highest of DBRS-rated institutions. Queen's Pooled Endowment Fund returned a solid 12% for the year ending April 30, 2015, while the Pooled Investment Fund returned 10%.

Interest coverage as measured by DBRS remained largely stable at 4.1 times in 2014-15, supported by still-solid cash flows from operations from the sizable surplus. DBRS anticipates that interest coverage will likely soften somewhat as surpluses narrow and interest costs rise modestly with a higher debt burden, but is likely to remain very manageable for the rating.

Outlook

Following the final $40 million draw on the bank loan facility and after accounting for enrolment gains in 2015, Queen's debt-per-FTE ratio now totals roughly $11,475, in line with expectations at the time of the last review. The higher debt burden associated with the construction loan is viewed as manageable given the revenue-generating nature of the residences, which should repay the loan over time. The University has no current plans for additional debt over the medium term. DBRS also takes comfort from Queen's internal debt management policy and requirements that new capital projects be limited to those with a full business case and committed funding. Through 2016-17, the debt burden should trend below $11,000 based on projections indicating additional enrolment gains.

DBRS notes that Queen's debt burden is relatively high for the rating. If the University proceeds to take on significant additional debt or if operating performance meaningfully deteriorates, the credit profile may come under pressure as financial metrics weaken.

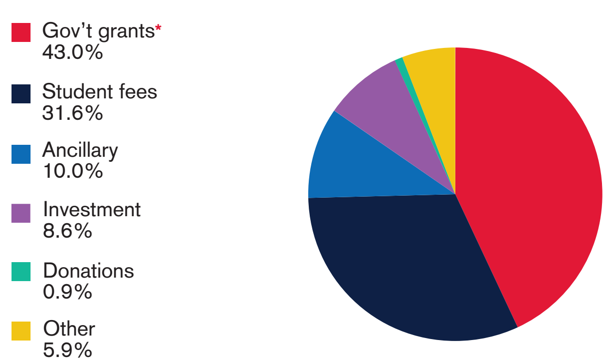
University Funding in Ontario

Canadian universities generally have access to three key sources of revenue for their core teaching research activities: (1) government grants, (2) student fees and (3) fundraising and endowment income. For Queen's, these accounted for about 76% of total revenues in 2014-2015.

Provincial government funding has historically been the primary source of revenue for universities across the country, although its relative importance remains under pressure in most provinces as a result of steady cost pressures in competing areas of provincial responsibility, notably health care, and ongoing fiscal restraint. In Ontario, the lack of indexation in base operating grants has also contributed to this trend.

Government Funding (provincial and federal, 43%): This includes operating grants, research grants and contracts as well as capital grants, of which operating grants are by far the most important and stable revenue source. They are provided exclusively by the Province, primarily through a formula that allocates a certain number of basic income units to each student based on the program in which they are enrolled. Targeted funding, which is aimed at expanding enrolment in high-demand programs, and performance-based grants also account for a small portion of provincial operating funding. No inflation adjustment is provided for base operating funding in Ontario, although the Province continues to provide full average funding for enrolment growth.

2014-2015 Consolidated Revenue Sources ($850.8 million)



* Provincial and Federal.

University Funding in Ontario (CONTINUED)

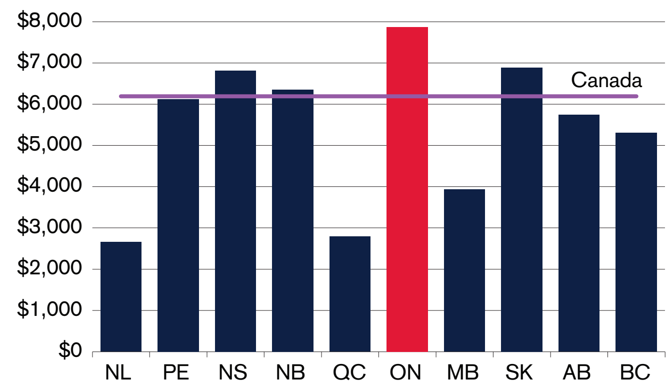
In recent years, the Ontario government has introduced refinements to its post-secondary education plan that embrace a number of priorities, including additional student spaces, tuition and financial assistance for students, long-term capital funding to support expansion and renewal of campus infrastructure as well as renegotiation of multi-year accountability agreements. Furthermore, the government has expressed its intention to reform the current enrolment-based university funding model with a focus on improving quality and student experience. In December 2015, the government released a consultation paper on university funding model reform, although DBRS notes that it is too early to determine what implications this could have on university funding in Ontario if implemented.

Government grants for research and capital projects are also an important source of funding. The federal government typically provides 65% to 75% of all public research funding while the Province provides the bulk of capital funding; however, the provincial government's increased emphasis on spending restraint to address its own budgetary challenges suggests limited flexibility for funding increases, making cost containment at universities that much more crucial.

Student Fees (32%): In March 2013, the Province announced that, starting with the 2013-2014 academic year and for the next four years, the cap on annual total tuition fee increases would be limited to 3.0%. Within the 3.0% overall cap, tuition fee increases for graduate and professional programs would be limited to 5.0%. Despite provincial tuition restraint, student fees have continued to grow faster than provincial operating grants as student fees now comprise 32% of Queen's total revenues compared with less than 21% ten years earlier; however, Queen's is less reliant on fees than some other DBRS-rated universities.

Fundraising and Endowment Contributions/Income (5%): The University is one of the few DBRS-rated universities to derive a material percentage of its revenue from fundraising and endow-ment income. Investment income on endowment assets contributed 3.9% to total revenue in 2013-14 while donations contributed 1.0%, down from 4.7% the prior year because of the large gifts in kind of artwork and lower expendable donations, offset by an increase in endowed donations. While this undoubtedly remains an underlying strength of the credit profile, it introduces an element of volatility into annual results as evidenced by the significant surplus in 2014-15. Payout to the operating fund from the endowment continues to be fairly stable as the current policy is to determine the payout based largely on the prior-year results plus inflation. A two-year payout was approved by the Board in March 2014, reflecting stability through 2015-16.

2015-16 Average Undergraduate Tuition Fees



Source: Statistics Canada

Queen's has a fundraising and advancement apparatus that is among the most sophisticated in the country. The University is in the end stages of its ten-year Initiative Campaign that has raised $622 million as of January 2016, 124% of the $500 million target. For F2015-16, Queen's has already surpassed a target of $60 million and raised $138 million, with the majority of funds coming from major gifts over $100,000. In 2015-16, $50 million was donated to the Queen's School of Business in the largest gift to a business school in Canada, significantly boosting pledges for the year. The University's fundraising efforts are aided by the status of Queen's as one of Canada's oldest universities with many alumni in all stages of career and life.

Consolidated Financial Summary (DBRS-adjusted)

($ thousands)	For the year ended April 30 2014-2015*	2013-2014*	2012-2013*	2011-2012*	2010-2011
Total operating revenue	850,794	835,410	799,164	743,436	742,467
Total expenditures	788,853	789,823	776,603	768,306	751,154
Recurring Operating Balance	**61,941**	**45,587**	**22,561**	**(24,870)**	**(8,687)**
Employee future benefits remeasurements & other items 1	n/a	n/a	n/a	5,234	n/a
Non-recurring items	-	-	-	-	4,268
Surplus/deficit as reported	**61,941**	**45,587**	**22,561**	**(19,636)**	**(4,419)**
Revenue					
Student fees 2	268,548	244,534	233,095	214,468	203,757
Government operating grants	195,169	196,041	187,472	187,127	180,210
Other grants and contracts	170,989	161,244	169,029	177,310	184,399
Ancillary operations	85,401	81,149	77,841	72,765	69,872
Investment income 3	73,357	64,958	62,033	27,570	39,942
Donations	7,413	39,896	21,496	20,757	15,750
Earned capital contributions	26,130	24,797	26,676	25,587	23,274
Other revenue	23,787	22,791	21,522	17,852	25,263
Total Revenue	**850,794**	**835,410**	**799,164**	**743,436**	**742,467**
Expenditures					
Salaries and benefits	430,108	434,425	433,581	424,122	404,834
Student aid	56,026	55,396	53,001	55,134	54,751
Supplies and minor equipment	131,387	133,887	118,164	122,081	119,899
Utilities and insurance	23,008	23,828	20,870	18,584	19,479
Interest	12,885	12,562	12,371	12,606	12,552
Amortization	51,828	52,201	57,186	57,792	55,255
Other expenses	83,611	77,524	81,430	77,987	84,384
Total Expenditures	**788,853**	**789,823**	**776,603**	**768,306**	**751,154**
Gross Capital Expenditures	**52,288**	**71,026**	**70,997**	**73,219**	**93,817**

* In 2012-2013 the University adopted Canadian accounting standards for not-for-profit organizations moving to the immediate recognition approach for its employee future benefit plans. This moved the recognition of investment and actuarial gains and losses on plan assets to the income statement. In 2013-2014, Queen's early-adopted Section 3463 that have moved the recognition of these investment and actuarial remeasurements as a charge directly to net assets, reducing volatility in reported results. The standards were retroactively applied to the transition date of May 1, 2013.

1 Comprised of actuarial gains and losses on pension plan and other benefit plans, investment gains and losses, and plan amendments. In 2013-2014, these remeasurements began being recognized directly on the Statement of Net Assets. 2 Includes fees for continuing education. 3 Investment income includes unrealized gains and losses on investments, excluding externally restricted endowments.

Consolidated Balance Sheet

($ thousands)	For the year ended April 30 2014-2015	2013-2014	2012-2013*	2011-2012	2010-2011
Assets					
Cash	95,959	84,010	46,797	46,136	66,109
Short-term investments	23,808	3,026	59,309	32,506	2,453
Receivables	37,648	41,553	46,798	45,604	44,226
Deferred and prepaid expenses	6,784	7,646	9,525	6,404	6,244
Long-term investments 1	1,180,189	1,029,856	871,781	802,251	830,019
Capital assets 2	841,432	840,972	822,147	808,336	745,893
Other assets 3	3,476	1,228	4,803	1,484	11,087
Total Assets	**2,189,296**	**2,008,291**	**1,861,160**	**1,742,721**	**1,706,031**
Liabilities and Equity					
Payables and other current liabilities	301,882	286,458	284,377	288,905	355,384
Deferred capital contributions	373,919	375,658	352,043	329,806	308,304
Employee future benefit obligations 4	111,441	67,298	150,017	220,172	72,354
Long-term debt	245,373	228,821	225,325	231,623	237,722
Other liabilities 5	-	885	15	8	1,153
Total Liabilities	**1,032,615**	**959,120**	**1,011,777**	**1,070,514**	**974,917**
Fund balances					
Committed funds 6	164,181	174,491	63,410	(25,585)	209,552
Endowment – internally restricted 7	200,742	183,780	162,501	143,238	194,881
Endowment – externally restricted 7	718,236	616,458	547,750	473,559	362,870
Equity in capital assets	222,122	236,492	244,780	246,907	194,026
Unrestricted net assets	(148,600)	(162,050)	(169,058)	(165,912)	(230,215)
Total Liability and Equity	**2,189,296**	**2,008,291**	**1,861,160**	**1,742,721**	**1,706,031**
Other Obligations ($ thousands)					
Capital commitments	23,325	49,004	127,878	106,846	127,871
Other	1,000	1,000	1,000	1,000	1,000
Pension plan deficit 8	-	-	-	-	180,104
Post-employment benefit plan deficit 8	-	-	-	-	62,869
	24,325	**50,004**	**128,878**	**107,846**	**371,844**

* In 2013-2014 the University adopted Section 3463 of Canadian accounting standards for not-for-profit organizations requiring the use of the immediate recognition approach for employee benefit plans. The University elected to account for all employee future benefit plans using funding valuation assumptions rather than accounting assumptions, resulting in an increase and restatement in net assets reported as of May 1, 2012.

1 Market value. 2 As of May 1, 2011, land assets were revalued at fair value. 3 Includes unamortized issue costs and derivative assets for interest rate hedging purposes. 4 Total funded status of pension and non-pension benefit plans. Prior to fiscal 2011-2012, represents accrued benefit liability after unamortized actuarial gains/losses & past service cost. 5 Includes unrealized losses on derivatives for currency hedging purposes. 6 Funds set aside for specific purposes (e.g., departmental carry-forwards, sinking fund, and other internal reserves etc.) 7 Externally restricted endowment assets consist of funds that are subject to restrictions imposed by the donors. Internally restricted endowment assets are funds whose use is restricted internally by the Board of Trustees. 8 As at May 1, 2011, accounting standards require presentation of full funded status of pension and non-pension benefit plans directly on the Balance Sheet as "Employee future benefit obligations".

Statement of Cash Flow (DBRS-adjusted)

($ thousands)	2014-2015	2013-2014	2012-2013*	2011-2012	2010-2011
	For the year ended April 30				
Operating balance before fund contributions	61,941	45,587	22,561	(19,636)	(8,687)
Amortization	51,828	52,201	57,186	57,792	55,255
Other non-cash adjustments 1	(73,714)	(58,162)	(42,677)	(5,416)	(20,754)
Cash flow from operations	40,055	39,626	37,070	32,740	25,814
Change in working capital	18,940	9,876	(9,429)	(9,034)	10,634
Operating cash flow after working capital	58,995	49,502	27,641	23,706	36,448
Net capital expenditures *	(27,897)	(22,614)	(22,084)	(26,130)	(16,577)
Free cash flow	31,098	26,888	5,557	(2,424)	19,871

* In 2013-2014 the University adopted Section 3463 of Canadian accounting standards for not-for-profit organizations requiring the use of the immediate recognition approach for employee benefit plans. Remeasurements including actuarial gains and losses, investment gains and losses and plan amendments are now recognized as a charge directly to the Statement of Net Assets, rather than the Statement of Operations. The standards were retroactively applied to the transition date of May 1, 2013.

1 Includes unrealized gains and losses on investments, exluding externally restricted endowments after transition date of May 1, 2011.

Summary Statistics (DBRS-adjusted)

	For the year ended April 30				
	2014-2015	**2013-2014**	**2012-2013**	**2011-2012**	**2010-2011**
Total Enrolment (FTE) 1	23,958	22,888	22,425	21,845	21,973
Undergraduate	84%	84%	84%	84%	84%
Graduate	16%	16%	16%	16%	16%
Total annual change	4.7%	2.1%	2.7%	-0.6%	5.1%
Total Employees (FTE) 2	4,039	3,978	4,022	4,095	3,940
Faculty	1,610	1,594	1,582	1,630	1,588
Operating Results					
Surplus (deficit) 3	61,941	45,587	22,561	(24,870)	(8,687)
- As a % of revenues	7.3%	5.5%	2.8%	(3.3%)	(1.2%)
Revenue Mix (as % of total DBRS-adjusted revenue)					
Government funding (federal + provincial)	43.0%	42.8%	44.6%	49.4%	49.1%
Student fees	31.6%	29.3%	29.2%	28.8%	27.4%
Ancillary	10.0%	9.7%	9.7%	9.8%	9.4%
Expendable donations	0.9%	4.8%	2.7%	2.8%	2.1%
Other	14.5%	13.5%	13.8%	9.2%	11.9%
Debt and Liquidity Analysis					
Total debt ($ millions)	245.373	228.8	225.3	231.6	237.7
- per FTE student ($)	10,242	9,997	10,048	10,603	10,819
Debt, contingencies & commitments ($ millions) 4	381.1	346.1	504.2	559.6	609.6
- per FTE student ($)	15,909	15,122	22,484	25,618	27,742
Liquid assets ($ millions)	119.8	87.0	106.1	78.6	68.6
- as % of total expenses	15.2%	11.0%	13.7%	10.2%	9.1%
- as % of current liabilities	39.7%	30.4%	37.3%	27.2%	19.3%
Interest costs as % of total expenditures	1.6%	1.6%	1.6%	1.6%	1.7%
Interest coverage ratio (times)	4.1	4.2	4.0	3.6	3.1
Endowment Funds					
Total market value ($ millions)	919.0	800.2	710.3	616.8	557.8
- per FTE student ($)	38,358	34,963	31,672	28,235	25,383
- annual change	14.8%	12.7%	15.2%	10.6%	5.8%

Payout ratio: 70% (prior year's payout plus inflation) + 30% (3.5-4.0% of current market value).
1 Full-time equivalent (FTE) enrolment excludes continuing education. In 2015, DBRS shifted reporting of FTE enrolment to a standard credit load approach to better reflect revenue potential of enrolment and to provide greater consistency across the sector. 2 FTE excludes teaching assistants and sessional lecturers. 3 Excludes employee future benefits remeasurements and other non-recurring items. 4 Includes long-term debt, funded status of pension and non-pension benefit plans and capital commitments.

Rating History

	Current	2015	2014	2013	2012	2011
Issuer Rating	AA	AA	AA	AA	AA	NR
Senior Unsecured Debt	AA	AA	AA	AA	AA	AA

Previous Action

- Confirmed, February 12, 2015.

Related Research

- *Rating Public Universities*, June 2015.

Previous Report

- Queen's University, Rating Report, February 15, 2015.

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

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on **www.dbrs.com**.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.