Rating Report
Queen's University

DBRS Morningstar
May 14, 2021

Contents

Aditi Joshi
+1 (416) 597-7343
aditi.joshi@dbrsmorningstar.com

Apurva Khandeparker
+1 416 597 7467
apurva.khandeparker@dbrsmorningstar.com

Travis Shaw
+1 (416) 597-7582
travis.shaw@dbrsmorningstar.com

Ratings

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

Rating Update

On May 12, 2021, DBRS Limited (DBRS Morningstar) confirmed the Issuer Rating and Senior Unsecured Debt rating of Queen’s University (the University or Queen’s) at AA. Both trends are Stable. The ratings reflect the University’s exceptional academic profile, strong student demand, and effective management practices, which have translated into positive operating results and a strong balance sheet despite the ongoing Coronavirus Disease (COVID-19) pandemic. The credit profile is further supported by the University’s advancement capabilities, resulting in one of the largest endowments among DBRS Morningstar-rated public universities and will provide the University with additional flexibility to withstand a challenging operating environment.

Similar to other universities, the coronavirus pandemic significantly affected the University's operations and prompted it to exercise strict cost control measures to offset revenue pressures. With cost management (capital and other expense deferrals, hiring delays, etc.), Queen's is now projecting a small operating fund surplus of $1.4 million in F2021, which is an improvement over previously budgeted deficit of $24.0 million that was presented in May 2020. DBRS Morningstar anticipates that better-than-expected tuition revenues and positive investment returns will offset deterioration in ancillary revenues.

The University's 2021–22 operating budget was recently approved by the board in May 2021. The budget is balanced after a $40.1 million drawdown from reserves (particularly departmental carryforwards). Based on the vaccine rollout plans, the University expects to resume on-campus learning in fall 2021. DBRS Morningstar recognizes that considerable uncertainty may linger around student mobility over the next few years, led by complicated travel and visa rules, ongoing or potential coronavirus waves across countries, and the implementation of vaccination plans.

However, the University has significant financial flexibility to respond to near-term pressures without jeopardizing its long-term outlook. The University continues to benefit from (1) strong ongoing demand, (2) prudent management, (3) a robust balance of expendable resources, and (4) a responsive budget model that allows faculties and shared service units to respond to changing financial circumstances. DBRS Morningstar expects the University's operations and financial results to recover quickly once the situation stabilizes. DBRS Morningstar will look to early indications of fall 2021 enrolment and any potential return to on-campus activities that support an improvement in ancillary operations as signs that the operating outlook has stabilized.

As at April 30, 2020, total debt was $392.7 million, or $13,905 per full-time equivalent (FTE). In the absence of material new borrowing, DBRS Morningstar expects the debt-per-FTE ratio will decline to approximately $11,500 by 2023–24 as existing debt amortizes.

DBRS Morningstar expects the University's ratings to remain stable through the medium term based on its strong financial ratios, stable academic profile, and demonstrated ability to withstand short-term operating pressures. A negative rating action could result from a significant and sustained deterioration in operating results, leading to considerable balance sheet deterioration.

Financial Information

	For the year ended April 30				
	2020	**2019**	**2018**	**2017**	**2016**
Consolidated operating result (DBRS Morningstar-adjusted, $ millions)	35.7	105.2	74.9	88.6	39.5
Surplus (deficit) to revenue (five-year rolling average; %)	7.1	7.8	6.9	5.9	3.4
Debt-per-FTE ($)	13,905	9,912	10,536	11,032	11,519
Expendable resources to debt (times)	1.6	2.2	1.8	1.7	1.4
Interest coverage ratio (times)	4.1	9.7	6.8	7.7	4.6

Issuer Description

Established in 1841, Queen's is a midsize institution in Kingston, Ontario, a census metropolitan area of more than 174,000 residents, located between Toronto and Montréal. The University has a long history of academic excellence and a comprehensive program offering, with student enrolment of more than 28,000 FTEs.

Rating Considerations

Strengths

1. Academic profile

Queen's is one of Canada's leading universities with a long history of academic excellence dating back to the 1840s. The University performs strongly in domestic university rankings and is well positioned in international rankings (in the 200 to 300 range globally) for a Canadian university of its size. The strength of the University's academic profile results in consistently strong student demand. The University has among the highest admissions standards in Canada.

2. Financial flexibility

Queen's has one of the strongest measures of liquidity as measures by expendable resources among DBRS Morningstar-rated universities, which provides considerable financial flexibility. As of April 30, 2020, expendable resources, as calculated by DBRS Morningstar, were 1.6 times (x) the University's total debt. The University's balance sheet has remained consistently strong over the past many years.

3. Financial management practices

The University has a multiyear planning process and a decentralized, activity-based budget model, which supports strong operating results. The budget model places greater autonomy and responsibility with faculties and shared service units and encourages units to generate revenue, constrain expenses, and set aside reserves. This has contributed to the University's positive results and rising reserve balances in recent years.

4. Fundraising and endowment

The University has well-established advancement efforts and a large alumni base, which is instrumental in its donation and endowment campaigns. Queen's also has among the largest endowments in Canada, which provides significant funding for student aid and other university priorities.

Challenges

1. Constrained policy environment and limited control of revenue

Canadian universities have limited control over their main revenue sources: tuition fees and government grants. The Province of Ontario (Ontario or the Province; rated AA (low) with a Stable trend by DBRS Morningstar) imposed a 10% reduction on tuition fees for domestic students in regulated programs for 2019–20 and has effectively frozen domestic enrolment and operating grants. This limits the University's ability to increase revenue to meet rising costs.

2. Cost pressures

Underlying cost pressures are somewhat detached from the University's revenue drivers. Universities' expense bases are largely fixed and growing in the form of tenured faculty, unionized support staff, externally mandated student aid requirements, and large infrastructure footprints. In recent years, inherent cost pressures such as negotiated wage settlements, competitive salaries for top researchers, and increasing benefit costs have outpaced provincially controlled revenue growth for many universities. The fixed nature of the expense base tends to slow the pace at which universities can respond to a significant exogenous shock to revenue. As with other universities, these factors have compelled Queen's to exercise spending restraint and implement budgetary reforms over the years.

3. Pension and post-employment benefit liabilities

The funding status of university pension plans is sensitive to changing market conditions, which can result in balance-sheet volatility and give rise to large special payments. The University reported a pension deficit of $30.5 million in F2020 owing to an adverse impact on pension assets from the financial market volatility in late F2020. The University's latest valuation report (as of August 31, 2020) showed substantial going-concern and solvency deficits. Although transition to the multiemployer jointly sponsored pension plan (the University Pension Plan or UPP; see more details in the Debt Outlook section) will eliminate solvency contribution requirements and is generally viewed positive for the operating budget, the University will be responsible for servicing any past liability. Queen's also has a large unfunded obligation for non-pension postemployment benefits.

4. Deferred maintenance (DM) and capital resources

The University has considerable DM needs, currently estimated at $494 million, which equates to a facilities condition index (FCI) of 0.22. An FCI greater than 0.15 signals that capital assets/stock is in poor condition. This is, in part, influenced by the large quantity of buildings, including a number of small ones; as a result, refurbishing or decommissioning one building does not greatly influence the overall FCI as it may for other institutions with a limited number of larger buildings. The University anticipates DM will likely remain elevated over the medium term and may require Queen's to increase future contributions to address its DM needs.

Operating Performance

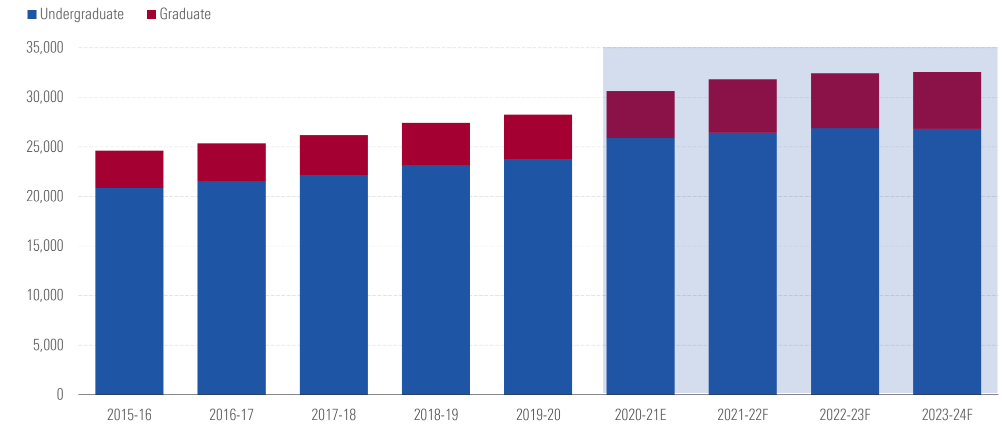
2020–21 Interim Results

Queen’s has a decentralized, activity-based budget model, which has supported its historically strong operating results. The budget model places greater autonomy and responsibility with faculties and shared service units and encourages units to generate revenue, constrain expenses, and set aside reserves to support their long-term objectives and to manage enrolment and other risks. Many faculties budget conservatively resulting in modest surpluses/reserve accumulation, which has contributed to the University’s positive results and rising reserve balances in recent years.

The University's most recent financial projections (published on May 5, 2021) forecast an operating fund surplus of $1.4 million in 2020–21, which is an improvement over previously budgeted deficit of $24.0 million that was presented in May 2020. The positive variance was mainly supported by rigorous cost containment measures.

In 2020–21, projected operating revenue increased by a modest 1.3% relative to the 2019–20 operating budget, although this was lower than prior budget estimates for F2021. Strong domestic enrolment growth helped to mitigate adverse impacts from the domestic tuition freeze and somewhat softer international enrolment trends in certain faculties. However we note that Ontario universities do not receive funding for domestic enrollments more than the negotiated corridor limits. Notwithstanding, the University estimates that fall 2020 enrolment (domestic and international) grew by a robust 8.5% (on an FTE basis). This is significantly stronger than in the past many years as well as in contrast to other DBRS Morningstar-rated universities. Queen's anticipates modest enrolment growth in the medium term partly supported by a new student residence which is expected to open in fall 2022.

Exhibit 1 Enrolment (FTEs)



E = Estimate; F = Forecast.
Sources: Queen's University and DBRS Morningstar.

Provincial operating grants are budgeted to remain largely unchanged, in line with Ontario's commitment to maintain stable funding for the sector.

According to the latest estimates, the University is anticipating an ancillary deficit of $16.0 million in 2020–21 fiscal year. This is a materially worse than the initially budgeted deficit of roughly $0.8 million. Ancillary operations were negatively affected by reduced residence occupancy, limited event services and hospitality operations, and lower revenues from parking and other campus facilities. The University may consider limiting transfers to the operating fund, and deferral of some nonessential capital and DM contributions to offset ancillary revenue pressures.

The University maintained strict spending control, with 2020–21 operating expense projected to rise by 3.4% relative to the prior year operating budget (2019–20). Salaries and benefits remain the largest drivers of growth in expenses, stemming mainly from negotiated increases.

The University recently announced a new dean, Dr. Wanda Costen, for the Smith School of Business effective July 1, 2021. Dr. Costen is currently the Dean of the School of Business at MacEwan University in Edmonton, and has extensive experience as an academic and in management roles across the private and public sectors. The board also appointed Dr. Nancy Ross as the new Vice Principal (Research), for Queen's effective August 1, 2021. Dr. Ross is currently the Associate Vice-Principal (Research and Innovation) at McGill University in Montréal, and is considered an expert in population health with extensive experience in spearheading various research initiatives and programs.

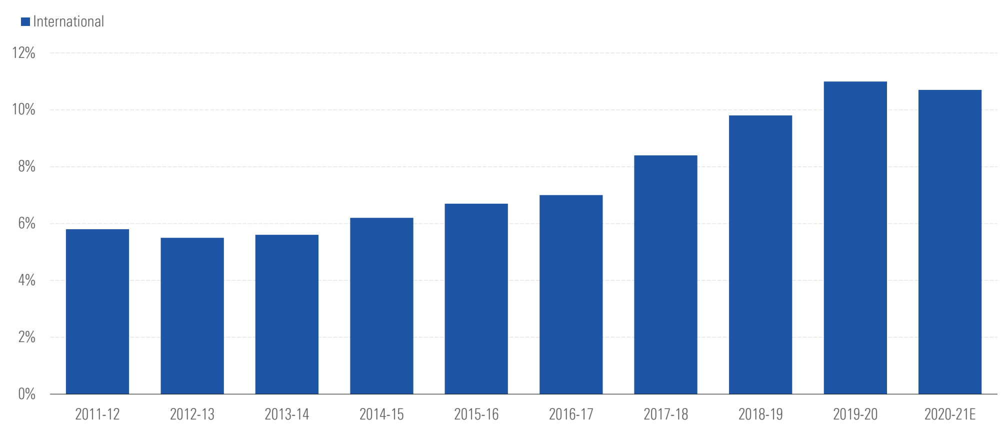
2021–22 Budget and Medium-Term Outlook

The University's 2021–22 operating budget was recently approved by the board in May 2021. The budget is balanced after a $40.1 million drawdown from reserves (particularly departmental carryforwards). The University expects to resume on-campus learning by fall 2021. DBRS Morningstar recognizes that considerable uncertainty may linger around student mobility over the next few years, led by complicated travel and visa rules, ongoing or potential coronavirus waves across countries, and the implementation of vaccination plans. Notwithstanding, Queen's benefits from a relatively strong balance sheet and a large pool of internal reserves, which provide flexibility to endure a difficult operating environment without the need to make drastic cuts that could affect its core academic mission.

On an aggregate basis, Queen's forecast FTE enrolments will increase by roughly 2.1% over the medium term. Ongoing and robust student demand for Queen's programs reaffirms DBRS Morningstar's view of the University's reputation as one of the strongest among Ontario universities.

On April 30, 2021, the provincial government announced that it will extend the domestic tuition fee freeze for an additional year, although it will allow tuition fee increases of up to 3% for domestic out-of-province students in the 2021–22 academic year. Queen's may increase tuition rates for international students by an average 5% annually.

Exhibit 2 International Students (As a Share of Total Headcount)



Sources: Queen's University and DBRS Morningstar.

Provincial operating grants will likely remain stable through the medium term, though the allocation of operating grants will shift from an enrolment-based approach to a performance-based approach. A new Strategic Mandate Agreement (SMA3) was recently signed with the Province and covers the 2020–21 to 2024–25 fiscal years. SMA3 includes a set of 10 performance metrics, with funding consequences for not meeting the negotiated performance targets. However, provincial funding has been decoupled from negotiated performance targets for a minimum of two years until 2022–23.

Collective agreements with many employee groups are due to expire over the next 12 months, presenting some uncertainty to the University's operating outlook. Nevertheless, Queen's expects compensation growth to remain in line with the provincially legislated limits on salary increments.

Queen's placed first in Canada and fifth globally in the Times Higher Education 2021 Impact Rankings. In recent years, the University has implemented several initiatives with a focus on environmental, social, and governance considerations. Some of key initiatives include the following:

- Major capital projects in progress are targeting the Leadership in Energy and Environmental Design (LEED) Gold Standard which focuses on the use of sustainable/green resources and materials.
- Significant commitment to enhancing and formalizing its approach to Responsible Investing relating to its endowment, and operational investment assets. DBRS Morningstar notes that Queen's has not yet signed the United Nations Principles for Responsible Investment (UNPRI), although the majority of the University portfolio is managed by external managers, who are signatories to the UNPRI.
- The launching of the Institute of Sustainable Finance, housed at the Smith School of Business, which provides a collaborative platform to bring together academia, private sector, and governments with a focus on increasing Canada's sustainable finance. The Institute targets to bridge any gaps in relevant data, expertise, and business-oriented solutions for sustainable finance.

2019–20 Operating Results

Following several years of reporting strong operating results, the University reported a lower surplus of $35.7 million for the year ended April 30, 2020, or 3.5% of revenue. This is a notable decline compared with a surplus of $105.2 million in the prior year.

Similar to other universities, the pandemic prompted Queen's to rapidly shift its operations to online channels. Significant volatility in capital markets in March and April 2020 led to a sharp decline in investment income, while ancillary revenues declined owing to campus and residence closures in the final weeks of the fiscal year, event cancellations, some parking fee waivers, and student fee (athletics and recreation) refunds in F2020.

In 2019–20, total revenues decreased (-4.8%), largely because of a sharp decline in investment income (-32.5%) and a decrease in donations (-39.6%) related to donated artwork. Owing to changes in accounting standards, the University will capitalize donated artwork in future years, which will likely limit any volatility in operating results related to these donations. Other revenue declined (-19.8%) and revenues from ancillary services decreased (-4.1%) as the pandemic negatively affected University operations in late F2020.

Tuition and other student fees were modestly higher (+1.3%) as increases from a combination of overall enrolment growth (+3.0%) and higher international tuition revenue largely offset the decline in revenues from the 10% tuition rate cut for domestic students in regulated programs.

Grants and contracts were lower (-2.6%). With government operating grants largely unchanged from the year prior (+0.6%), the decline was entirely attributable to other grants and contracts (-5.8%). Other grants and contracts are primarily research related. Research funding is restricted to specific purposes and is recognized as revenue when the related expenditures occur. This results in revenue and expense volatility, but has little (if any) impact on bottom-line results.

Total expense grew by 1.8%, largely reflecting higher spending on salaries and benefits from negotiated increases and staff additions guided by Queen's Faculty Renewal Plan, increased student financial aid (+3.6%), and other expenses (+2.4%). These increases offset one-time savings in utilities, lower costs related to supplies and services (-5.9%), and amortization (-1.7%). Interest charges were marginally lower (-0.5%) relative to the prior year.

Net assets fell by $38.9 million (-2.3%), which reflects the lower operating surplus, employee future benefits remeasurement (-$70.2 million), and endowment spending (-$34.9 million) offset by endowment contributions ($25.4 million).

Capital Plan

The 2014 Campus Master Plan continues to guide the University's capital plans over the longer term. The plan will allow the University's capital priorities to dynamically adapt to evolving research, learning, and social needs and trends. Key themes include increasing the use of technology and enhancing student experience as well as sustainability and health/wellness considerations.

The University completed several major projects in recent years, including the School of Kinesiology and Queen's Centre ($180.5 million), Mitchell Hall ($101.4 million), Goodes Hall expansion ($29.9 million), and the Biomedical Research Facility Revitalization ($33.3 million).

Major capital projects approved or currently underway (totalling approximately $250 million) include the following:

- **John Deutsch University Centre (the JDUC):** Revitalization of one of the central hubs of student activity, which houses social, recreational, and cultural groups. The intention is to improve student experience with a more inclusive and accessible space. Scheduled to be completed by summer 2024, the project is largely funded by the student body through a student union levy, and is contingent upon securing philanthropic support.
- **Saint Mary's of the Lake facility renovation:** Repurposing of the former hospital to house administrative functions, thus increasing academic capacity on the main campus. The project will be funded by existing debt proceeds, with completion expected by summer 2022.
- **Albert Street Residence (targets to be LEED compliant):** Construction of a student residence building on the main campus to open ahead of the 2022–23 academic year. Queen's has a first-year residence guarantee. In the absence of new facilities, the University's enrolment growth would be constrained. Construction will be funded through the use of existing debt, with Housing and Ancillary Services responsible for annual principal and interest payments.
- **Duncan McArthur Hall expansion (targets to be LEED compliant):** Improvements to the Duncan McArthur Hall to support an adaptable learning environment for students which was approved by the

board in December 2020. The project will be funded through existing debt, capital reserves, and an internal loan to the Faculty of Education ($6.0 million). It will likely be completed in late 2024.

The University has planned several smaller capital projects in the coming years, including Leonard Dining Hall renovation, Richardson Stadium, renovation of the JDUC residence, and a new state-of-the-art research facility. Queen's has indicated that it will not need to raise material new debt for these projects. The University intends to present a formal, integrated capital improvement plan in late 2021 that will better align its longer-term capital priorities with an enhanced focus on agile working, academics, and research.

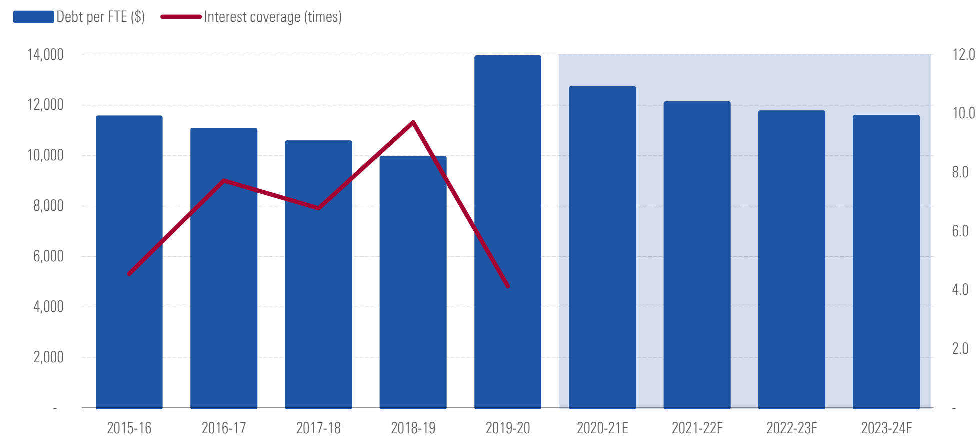
Queen’s is one of the oldest universities in Canada and has several buildings with heritage designations. As such, the University has a considerable amount of DM. The most recent assessment as per the University's 2020–21 budget was $494 million (including underground infrastructure), which equates to an Facilities Condition Index of 0.22. Queen’s is developing a three-year plan to address the backlog and increasing DM needs, which includes the construction of new facilities and annual facility renewal. The University will make annual capital contributions of more than $15.0 million in future years to address the DM backlog.

In its 2020 budget, the Province announced $466.0 million investment under the Facilities Renewal Program over three years. In 2020–21, Queen's expects to receive about $4.2 million provincial funding for critical maintenance and infrastructure renewal, among other priorities.

Debt and Liquidity

Following the issuance of $125.0 million senior unsecured debentures (maturing in April 2060), the University's long-term debt increased substantially to $392.7 million at April 30, 2020. On a per-student basis, this translated into a substantial increase despite enrolment growth. The debt burden rose to $13,905 per FTE at April 30, 2020, from $9,912 per FTE in the prior year.

Exhibit 3 Debt-per-FTE and Interest Coverage



Sources: Queen's University and DBRS Morningstar.

At April 30, 2020, the University's long-term debt comprised four series of long-dated debentures with maturities between 2033 and 2060, and an amortizing bank loan maturing in 2030. Although interest charges remained modest at $14.0 million, interest coverage declined to 4.1x in 2019–20, down from 9.7x in the prior year driven by a decline in operating cash flows.

Queen's has established a voluntary sinking fund to accumulate funds to repay the $340.0 million in debentures. As at April 30, 2020, the sinking fund had a balance of $122.7 million, up from $103.0 million a year earlier. The sinking fund is not explicitly required by the bonds' indenture and is not held by a trustee. As such, DBRS Morningstar presents debt on a gross basis with the sinking fund assets included in DBRS Morningstar's measure of expendable resources.

DBRS Morningstar assesses financial flexibility using expendable resources, which include unrestricted net assets, most internally restricted net assets, and internally restricted endowments. On April 30, 2020, the University's expendable resources totalled $620.2 million, up from $585.7 million in the year prior. The increase largely reflects growth in the University's internally restricted unspent research funds and sinking fund, as well as a decline in internally financed capital projects. However, given the increase in debt, the ratio of expendable resources-to-debt was lower at 157.9%, down from 215.5% in F2019.
As at April 30, 2020, the market value of Queen's endowment funds totalled $1.1 billion, down by 1% from a year earlier. Queen's has among the largest endowments of DBRS Morningstar-rated universities and the highest on a per-FTE basis at $40,410.

The University expects to maintain the long-term spending rate at approximately 4%, although it may look to introduce some portfolio shifts to improve returns while also managing its longer-term liability profile.

Debt Outlook

Following the $125.0 million issuance in F2020, Queen's does not anticipate any new external borrowing through the near term. In the absence of material new issuance and as debt amortizes, DBRS Morningstar projects debt-per-FTE to be $12,686 in F2021, which is considerably lower than initial projections declining to roughly $11,500 by F2024. The University has considerable balance sheet flexibility to fund capital needs internally, if needed.

Pension and Employee Future Benefits

Queen’s has a hybrid pension plan: a defined contribution plan with a defined benefit guarantee that provides a minimum level of pension benefits. The University’s most recent financial statements show a pension deficit of $30.5 million compared with a pension surplus of $21.0 million in the prior year. The increase in the pension liability resulted from an erosion of the value of pension assets following significant financial market volatility in spring 2020. The University confirmed that asset values had largely recovered as of this report.

Queen's conducts triennial actuarial valuations. The most recent actuarial valuation, as of August 31, 2020, showed a sizable going-concern deficit of $265.2 million on a smoothed basis, relative to a deficit of $32.0 million (prior valuation as of August 31, 2017). This deterioration largely resulted from an adverse change in discount rate assumptions in 2020, and reflects the impact of an ongoing low interest rate environment on the value of pension obligations. On a solvency basis, the deficit totalled $439.6 million (as of August 31, 2020). Based on the previous valuation (2017), the University was required to make special payments amounting to $19.0 million in 2020–21 to fund previous solvency shortfall of $313.4 million.

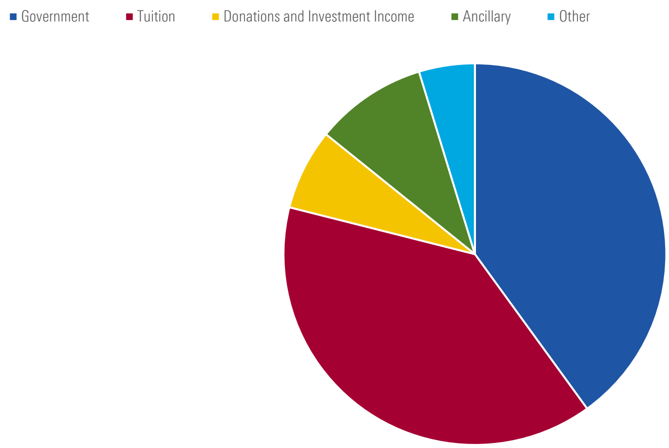
Queen's is partnering with the University of Toronto (rated AA with a Stable trend by DBRS Morningstar) and University of Guelph (rated A high with a Positive trend by DBRS Morningstar) to implement the UPP. The new plan will come into effect on July 1, 2021. Upon implementation, Queen's will no longer be required to make solvency special payments or contributions to the Pension Benefits Guarantee Fund. Furthermore, the calculation of going-concern liability under the UPP will eliminate the requirement to include provision for adverse deviation when calculating the going-concern liability and will allow any past going-concern liability (at the date of conversion) to be amortized over 15 years. DBRS Morningstar believes that materially lower future contribution requirements will support Queen's operating budget. Queen's continues to maintain a pension reserve ($47.8 million as at April 30, 2020) to address its prior service liability. Queen's will be required to file a new actuarial valuation at the date of transfer, based on the UPP's assumptions.

University Funding in Ontario

Ontario universities generally have three major revenue sources for their core teaching and research activities: (1) government grants, (2) student fees, and (3) donations and investment income. For Queen’s, these accounted for approximately 86% of total revenues in 2019–20.

Provincial government funding remains one of the primary sources of revenue for universities across the country, although its relative importance remains under pressure in most provinces because of strained provincial finances and competing priorities. Over time, this has led to a gradual shift in the relative shares of revenue provided by operating grants, which have declined, and tuition fees, which have increased.

Exhibit 4 Revenue Breakdown (2019–20)



Source: Queen's University and DBRS Morningstar.

Government Funding (Provincial and Federal, 40%)

Government funding includes operating grants, research grants, and contracts as well as capital grants. Operating grants are the most important and stable revenue source.

The Province and universities have recently signed new SMAs that establishes performance-based funding targets for the 2020–21 to 2024–25 fiscal years. This is a change from the previous enrolment-oriented funding model. SMA3 will include a set of 10 performance metrics, with funding consequences for not meeting the negotiated performance targets. However, the Province has decoupled funding from performance targets (i.e., stable funding) for two years until 2022–23.

Research and capital grants are another important source of funding. The federal government typically provides 65% to 75% of all public research funding, whereas the Province provides the bulk of capital funding. Since the announcement of the pandemic in March 2020, the federal and provincial governments announced additional financial supports for students and modest temporary funding to many Ontario universities (averaging roughly $400,000) to offset initial pandemic-related costs.

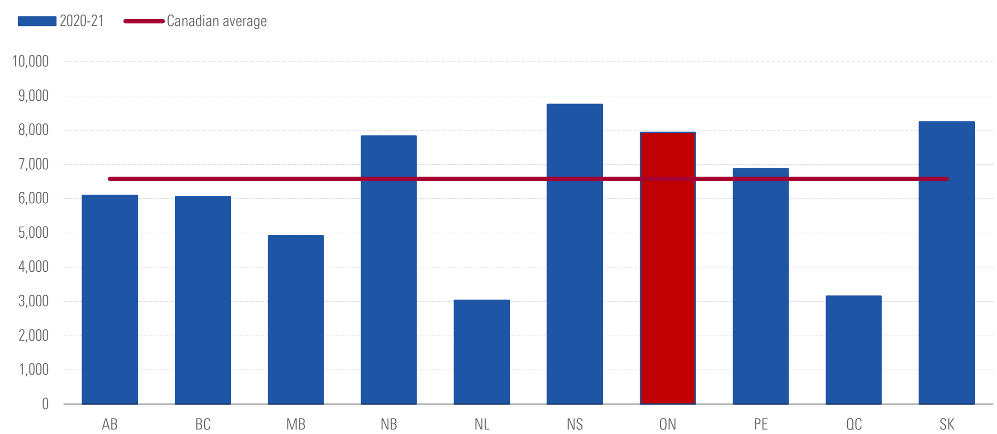
Research revenue is recognized as deferred contributions on the Statement of Financial Position until spent on research or related capital, at which time it is recognized as income. The majority of research funding at Queen's comes from several federal sources including the Tri-Councils and the Canada Foundation for Innovation, industry-sponsored research funding as well as funding from various not-for-profit organizations such as the Cancer Society and the Heart and Stroke Foundation.

Student Fees (39%)

On January 17, 2019, the Province announced a revised tuition fee framework for regulated domestic programs at Ontario universities and colleges. The framework required Ontario universities to reduce tuition fees for domestic funding (eligible programs by 10% in 2019–20) and to maintain tuition fees for eligible programs at that level for the 2020–21 academic year. Recently, Ontario extended the domestic tuition fee freeze for an additional year (i.e., the 2021–22 academic year).

International student fees are not regulated by the Province and are generally set to recover the full costs of international student enrolment.

Exhibit 5 Average Canadian Undergraduate Tuition Fees



Source: Statistics Canada.

Donations and Investment Income (7%)

Donations and investment income recognized as revenue on the statement of operations has represented approximately 8% of total revenues over the last five years at Queen’s. Endowed contributions and investment income earned by the externally restricted endowments are recognized as changes in net assets and are not captured on the statement of operations. The endowment's earnings that subsequently spent are recognized on the statement of operations.

The University has a well-established fundraising operation and a large alumni base, which provide considerable expendable donations and endowed contributions. In 2019–20, Queen’s received $19.2 million in expendable donations and a further $25.4 million in endowed contributions.

Queen’s has built up its fundraising capacity through leadership, increased resources, and more sophisticated data-mining techniques to reach and identify potential donors within its alumni base. Queen's is seeking board approval to establish a new five-year fundraising target, buoyed, in part, by distinctly strong advancement activity in 2020–21.

The University’s endowments totalled $1.1 billion at April 30, 2020, or $40,410 per FTE. This is the highest level of endowments per FTE among DBRS Morningstar-rated universities. The endowments support the University’s operating budget and provide ongoing support for student assistance programs.

Statement of Operations (Adjusted)

($ thousands)	For the year ended April 30				
	2020	**2019**	**2018**	**2017**	**2016**[1]
Revenues					
Student fees	396,553	391,372	354,021	318,600	292,239
Government grants for operations	208,916	207,665	208,065	200,914	199,330
Other grants and contracts	198,844	211,063	177,282	181,860	164,982
Sales of service and products (ancillary operations)	96,496	100,578	95,614	95,011	95,464
Investment income	50,714	75,100	47,087	79,188	30,369
Donations	19,204	31,769	15,260	23,188	20,781
Amortization of deferred capital contributions	25,471	24,760	23,902	25,065	26,112
Other revenue	22,557	28,134	26,485	20,861	24,502
Total Revenues	**1,018,755**	**1,070,441**	**947,716**	**944,687**	**853,779**
Expenses					
Salaries and benefits	526,355	493,248	464,591	451,251	441,249
Supplies and services	178,248	189,516	150,629	140,027	127,992
Student aid	68,500	66,130	63,957	60,562	60,437
Amortization	46,151	46,931	44,547	45,746	49,863
Utilities, taxes, and insurance	15,054	23,818	23,375	22,954	20,856
Interest	13,963	14,032	13,995	14,111	13,895
Other expense	134,772	131,558	111,708	121,409	99,945
Total Expenses	**983,043**	**965,233**	**872,802**	**856,060**	**814,237**
Operating Surplus (Deficit), Before Adjustments	**35,712**	**105,208**	**74,914**	**88,627**	**39,542**
Nonrecurring revenue (expenses)	-	-	-	-	-
Consolidated Operating Surplus (Deficit), As Reported	**35,712**	**105,208**	**74,914**	**88,627**	**39,542**
Capital expenditures	26,521	74,280	101,270	48,738	49,385

1 Revenue and expense exclude the donation of major artworks ($58.6 million).

Statement of Financial Position (Adjusted)

($ thousands)	As at April 30				
Assets	**2020**	**2019**	**2018**	**2017**	**2016**
Cash	142,513	161,175	141,967	149,254	146,736
Receivables	40,915	33,963	40,197	32,593	36,081
Deferred and prepaid expenses	8,216	7,734	7,196	8,923	9,086
Short-term investments	240,542	160,170	113,575	94,468	8,756
Long-term investments	1,666,524	1,521,931	1,429,033	1,367,333	1,222,831
Capital assets	911,600	931,230	900,669	843,946	840,954
Other assets	1	-	-	-	
Total Assets	**3,010,311**	**2,816,203**	**2,632,637**	**2,496,517**	**2,264,444**
Liabilities and Net Assets					
Liabilities					
Payables, accrued liabilities and deferred revenue	432,466	373,643	359,076	355,923	302,518
Deferred capital contributions	434,964	439,267	425,896	384,905	371,106
Employee future benefit obligations	132,420	74,818	94,620	35,590	130,759
Debt	392,727	271,852	275,849	279,721	283,600
Total Liabilities	**1,392,577**	**1,159,580**	**1,155,441**	**1,056,139**	**1,087,983**
Net Assets					
Unrestricted net assets[1]	(12,988)	(11,271)	(9,534)	(114,023)	(116,393)
Internally restricted net assets	279,551	293,757	198,198	328,554	175,731
Endowment – internally restricted	221,223	228,439	221,048	218,313	199,376
Endowment – externally restricted	920,129	924,183	864,438	828,218	731,492
Equity in capital assets	209,819	221,515	203,046	179,316	186,255
Total Net Assets	**1,617,734**	**1,656,623**	**1,477,196**	**1,440,378**	**1,176,461**
Total Liabilities and Net Assets	**3,010,311**	**2,816,203**	**2,632,637**	**2,496,517**	**2,264,444**
Contingencies and Commitments					
Capital commitments	2,602	4,856	33,085	64,272	14,920
Letters of credit	2,780	2,620	2,023	3,290	3,289
Other	-	-	-	-	1,000
	5,382	**7,476**	**35,108**	**67,562**	**19,209**

1 Previously, the University included internal capital project financing in the unrestricted deficit. These amounts are now reflected in internally restricted net assets.

Calculation of Free Cash Flow (Adjusted)

($ thousands)	For the year ended April 30				
	2020	**2019**	**2018**	**2017**	**2016**
Consolidated operating balance, adjusted	35,712	105,208	74,914	88,627	39,542
Amortization	46,151	46,931	44,547	45,746	49,863
Other noncash adjustments[1]	(38,117)	(29,994)	(38,498)	(39,437)	(39,960)
Cash Flow from Operations	**43,746**	**122,145**	**80,963**	**94,936**	**49,445**
Change in working capital and other	50,958	17,409	(3,228)	56,347	(547)
Operating Cash Flow After Working Capital	**94,704**	**139,554**	**77,735**	**151,283**	**48,898**
Net capital expenditures[2]	(5,353)	(36,149)	(36,377)	(9,874)	(26,086)
Free Cash Flow	**89,351**	**103,405**	**41,358**	**141,409**	**22,812**

1 Includes unrealized gains and losses on investments (excluding the externally restricted endowments).
2 Gross capital expenditures less contributions restricted for capital purposes.

Summary Statistics (Adjusted)

	For the year ended April 30				
	2020	**2019**	**2018**	**2017**	**2016**
Total Enrolment (FTEs)	**28,244**	**27,425**	**26,181**	**25,355**	**24,619**
Undergraduate (%)	84	84	85	85	85
Graduate (%)	16	16	15	15	15
Annual change (%)	3.0	4.8	3.3	3.0	3.5
Enrolment (FTE)					
Domestic (%)	89.0	90.2	91.6	93.0	93.3
International (%)	11.0	9.8	8.4	7.0	6.7
Total Staff (FTE)1	**4,686**	**4,601**	**4,399**	**4,207**	**4,115**
Faculty	1,814	1,800	1,698	1,608	1,601
Operating Results					
Surplus (deficit; $ millions)	35.7	105.2	74.9	88.6	39.5
- As % of revenues	3.5	9.8	7.9	9.4	4.6
- As % of revenues (five-year rolling average)	7.1	7.8	6.9	5.9	3.4
Revenue Mix					
Government (%)	40.0	39.1	40.7	40.5	42.7
Student fees (%)	38.9	36.6	37.4	33.7	34.2
Ancillary (%)	9.5	9.4	10.1	10.1	11.2
Donations and investment income (%)	6.9	10.0	6.6	10.8	6.0
Other (%)	4.7	4.9	5.3	4.9	5.9
Debt and Liquidity					
Total debt ($ millions)	392.7	271.9	275.8	279.7	283.6
- Per FTE student ($)	13,905	9,912	10,536	11,032	11,519
Interest costs as share of total expense (%)	1.4	1.5	1.6	1.6	1.7
Interest coverage ratio (x)	4.1	9.7	6.8	7.7	4.6
Expendable resources ($ millions)	620.2	585.7	504.3	468.4	389.5
As a share of debt (%)	157.9	215.5	182.8	167	137
Endowments					
Total market value ($ millions)	1,141.4	1,152.6	1,085.5	1,046.5	930.9
Per FTE student ($)	40,410	42,027	41,461	41,276	37,811
Annual change (%)	(1.0)	6.2	3.7	12.4	1.3

Payout ratio: Long-term target of 4.0%, based on formula of 70% of prior year's payout plus inflation and 30% on the most recent calendar year's ending market value.

1 FTE excludes teaching assistants and sessional lecturers.

Rating History

Issuer	Debt	Current	2020	2019	2018	2017	2016
Queen's University	Issuer Rating	AA	AA	AA	AA	AA	AA
Queen's University	Senior Unsecured Debt	AA	AA	AA	AA	AA	AA

Related Research

- *Rating Public Universities*, May 5, 2021.

Previous Report

- Queen's University: Rating Report, April 27, 2020.

Note:
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.dbrsmorningstar.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.

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