# Rating Report
# Queen's University

**DBRS Morningstar**
April 27, 2020

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## Ratings

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

## Rating Update

On April 20, 2020, 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. The credit profile is further supported by the University's considerable endowments.

The University's operations have been significantly affected by the Coronavirus Disease (COVID-19) pandemic. The University has mostly closed its campuses and is delivering its teaching activities remotely. The summer term will be delivered remotely, while the impact on operations for the fall term is uncertain at this time.

Financial results for 2019–20 and 2020–21 are likely to come under pressure. The University may report considerably weaker operating results for 2019–20 due to investment losses, while the outlook for 2020–21 is less clear and will depend on many factors, including investment returns, international and domestic enrolment, the pace of normalization/physical distancing requirements, provincial support, etc.

Notwithstanding this uncertainty, Queen's has significant financial flexibility to respond to near-term pressures without jeopardizing its long-term outlook. The University continues to benefit from (1) exceptional demand, (2) strong management, (3) a robust balance, and (4) a responsive budget model that incents faculties and shared service units to respond to the changing financial circumstances. DBRS Morningstar expects the University's operations and financial results to recover quickly once the situation stabilizes.

The University recently raised $125 million in long-term debt to fund several capital projects. DBRS Morningstar projects debt will rise to about $393.0 million in 2019–20 and that the ratio of debt-to-full-time-equivalent (FTE) will rise to about $13,917 from $9,912 in 2018–19.

DBRS Morningstar expects the University's ratings to remain stable over the medium term based on its strong financial ratios and stable academic profile. A positive rating action is highly unlikely in the current circumstances, while a negative rating action could result from a significant and sustained deterioration in operating results, leading to significant balance-sheet deterioration.

## Financial Information

| | For the year ended April 30 | | | | | |
|---|---|---|---|---|---|---|
| | **2019** | **2018** | **2087** | **2016** | **2015** | **2014** |
| Consolidated operating result (DBRS-adjusted, $ millions) | 105 | 75 | 89 | 40 | 62 | 46 |
| Surplus (deficit) to revenue (5-year rolling average) | 7.8% | 6.9% | 5.9% | 3.4% | 2.2% | 0.6% |
| Debt per FTE ($) | 9,912 | 10,536 | 11,032 | 11,519 | 10,319 | 9,997 |
| Expendable resources to debt (times) | 2.2 | 1.8 | 1.7 | 1.4 | 1.3 | 1.2 |
| Interest coverage ratio (times) | 9.8 | 6.8 | 7.7 | 4.6 | 6.9 | 6.4 |

## Issuer Description

Established in 1841, Queen's is a mid-sized institution in Kingston, Ontario, a census metropolitan area of about 174,000 residents, located between Toronto and Montréal. The University has a long history of academic excellence and a comprehensive program offering. Student enrolment was about 28,240 FTEs in 2019-20.

## 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. Queen's has among the highest admissions standards in Canada.

*2. Balance sheet*

Queen's has one of the strongest balance sheets among DBRS Morningstar-rated universities, which provides considerable financial flexibility. The University's balance sheet has shown consistent improvement over the past five years. In addition, the pension plan's funding status has improved and financial resources in the form of the endowments (+44.0%) and expendable resources (+122.4%) have risen strongly. Expendable resources were 2.2 times (x) the University's outstanding long-term debt at April 30, 2019.

*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 a well-established fundraising program and a large alumni base, which provide considerable donations and endowed contributions. Queen's also has among the largest endowments in Canada, which provides significant funding for student aid and other university priorities.

**Weaknesses**
*1. 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.

*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. In the years following the 2008 financial crisis, Queen's pension-funding status deteriorated sharply, but has since largely recovered. The University's pension plan is now fully funded on an accounting and going-concern basis, but there continues to be a large solvency deficit of $313 million, which requires special payments of approximately $19 million annually. Queen's also has a large unfunded obligation for non-pension post-employment benefits.

**2018–19 Operating Results**
The University reported a surplus of $105.2 million for the year ended April 30, 2019, which equates to 9.8% of revenue on a relative basis. The strong result was primarily the result of higher-than-anticipated enrolment, strong investment earnings, and efforts by faculties and shared services to prudently manage their affairs and set aside reserves for future initiatives.

Queen's has a decentralized, activity-based budget model, which has supported strong operating results in recent years. 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.

Total revenue increased by $122.0 million to $1.1 billion, an increase of nearly 13.0%. Revenue growth was broad-based with all major revenue sources contributing growth.

Tuition and other student fees were higher (+10.6%), supported by moderate enrolment growth (+4.8%) in both degree and non-degree programs, increasing internationalization, a favourable shift in student mix and fee increases. Queen's increased fees to the extent permitted by the provincial framework for domestic students (3.0% on average) and by between 5% and 11% for international students

Grants and contracts were higher (+8.7%). With government operating grants largely unchanged from the year before (-0.2%), growth was entirely attributable to other grants and contracts (+19.1%). 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.

Investment income and donations, which tend to be the most volatile revenue sources for universities, rose to $75.1 million (+59.5%) and $31.8 million (+108.2%), respectively.

Total expense increased by $91.8 million to $1.0 billion, an increase of 10.5%. The increase reflects continued growth in the University's largest expense categories. Much of the increase is attributable to rising salary and benefit costs within the faculties and schools as well as rising costs for shared services, including libraries, occupancy costs, information technology, and student aid. Salaries and benefits rose by $28.6 million (+6.2%), supplies and services rose by $38.8 million (+25.8%), and contracted services rose by $14.8 million (+23.3%).

Net assets rose by $179.4 million (+12.1%), which reflects the positive operating result ($105.2 million), endowed contributions ($25.5 million), excess earnings on the externally restricted endowment ($29.5 million), and remeasurements and other items relating to employee future benefits ($14.6 million).

**Operating Outlook**

Queen's prepares an annual operating fund budget, which differs in scope and accounting practices from the annual audited financial statements. The operating fund budget comprises about two thirds of total expenditures. The operating fund budget is indicative of the University's core teaching activities, but does not fully reflect capital, research activity and ancillary operations.

**2019–20 Budget and Interim Expectations**

The University's most recent interim financial forecast was presented to the Board of Trustees in early March. At that time, the net budget deficit was forecast to be $5.7 million, down from the earlier forecast of $17.8. The improved outlook was primarily a result of higher-than-expected enrolment.

The outlook for operating results has since deteriorated, though the full extent of the deterioration is unclear at this time and will depend, in part, on investment earnings. Excluding investment losses and their impact on the pension plan, the financial impact for 2019–20 appears relatively modest. The current running total is less than $10 million, which includes deterioration in ancillary net income (including residences and food services), added costs for online learning and remote working, and additional support costs for students.

Queen's originally budgeted for an operating fund surplus of $19.2 million before transfers to the capital fund ($12.8 million), pension reserve ($6.4 million), and a drawdown of carry-forward balances ($17.8 million). Taken together, this resulted in a net budget deficit of $17.8 million. The budget included modest contingencies.

The planned drawdown of carry-forward balances (reserves) reflects budgeted expenses by academic units, which exceeded their base budget allocations. Faculties and shared service units tend to budget conservatively, which typically results in drawdown amounts that are lower than forecast.

The deterioration in the budget outlook was largely the result of the provincially mandated 10% reduction to domestic tuition fees. When the policy announcement was made in 2019, Queen's estimated the potential revenue loss to be $35 million (about 3.5% of revenue).

**Exhibit 1** Enrolment (FTEs)

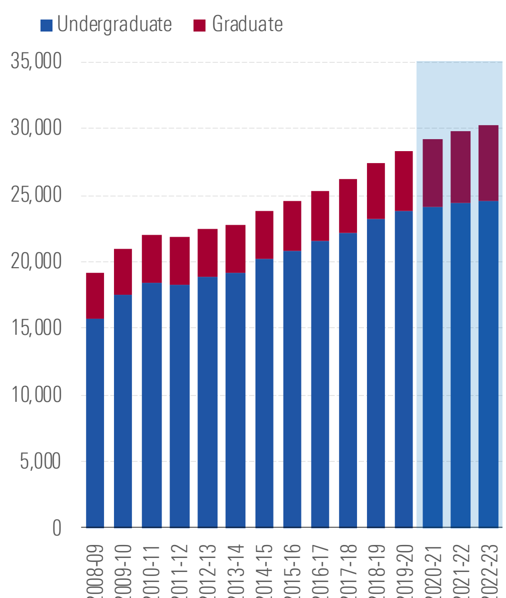
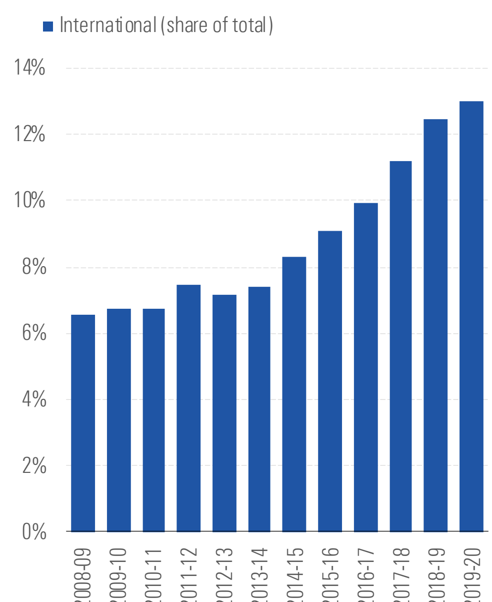



**Exhibit 2** International Undergraduate Enrolment




Source: DBRS Morningstar.

**2020–21 Budget and Operating Outlook**

The outlook for 2020–21 is highly uncertain in light of the Coronavirus Disease (COVID-19) pandemic. The University has shifted its summer session to remote programming and, as with other institutions, Queen's is planning for a variety of scenarios for the fall term (i.e., on-campus, limited on-campus presence due to physical distancing requirements, fully remote, and various hybrid approaches).

The outlook for enrolment is similarly uncertain. Initial indications suggest summer enrolment has held up well or exceeded expectations at most Ontario universities. Several universities have indicated that those international students that have remained in the country continue to take courses, while more domestic students have enrolled for the summer term because of the dearth of summer employment opportunities.

The University has prepared a budget for the 2020–21 fiscal year, which will be presented to the board of trustees for approval in May 2020. With much of the budget prepared ahead of the recent turmoil and there being significant uncertainty to the outlook, the University's budget contains a largely status quo baseline projection with scenario analyses considering possible enrolment and operational impacts.

The baseline budget forecast is similar to that of past years in that the University forecasts moderate growth in operating revenue (+6.2%) and expenditures (+5.7) (on a narrower operating fund basis). Taken together, this results in a net surplus of $16.4 million before capital expenditures.

Prior to the coronavirus pandemic, Queen's continued to see exceptional demand with high levels of domestic and international applications. The University received about 45,000 applications for fall 2020, of which more than 11,000 were international students (visa students). At this time, Queen's continues to expect modest enrolment growth (+3.6%) for the upcoming academic year, but acknowledges there is greater uncertainty than in past years.

International students accounted for 13% of undergraduate enrolment and about 15% of total enrolment in 2019–20. Like most Canadian universities, most the University’s international students are from the People’s Republic of China. Queen’s is working to diversify its international student mix by increasing its recruitment efforts in South and Southeast Asia, along with the United States.

At this time, the University expects a high proportion of upper year international students to continue with their studies this fall, though first year international enrolment may fall because of public health concerns or travel restrictions. The University is exploring options to engage with students at distance or may turn to domestic enrolment to offset international enrolment losses.

That said, DBRS Morningstar notes that a significant number of international students (for Queen's and other institutions) are already in Canada (e.g., completing high school at Canadian institutions), which diminishes some of international enrolment-related risks. Queen's estimates that about 3,300 of its international student applications for September admission were from individuals already in Canada.

With international enrolment under pressure nationally, DBRS Morningstar expects increased competition among institutions for domestic students. This competition is unlikely to have an adverse impact on Queen's as it has among the strongest academic profiles in the country.

Queen's sent out most of its acceptances before the public health emergency was declared. Ontario students are required confirm their acceptance by June 1, while out-of-province and international students are typically required to confirm their acceptance by May 1. Depending these confirmations, the University may send out further acceptances during the summer. Consequently, the outlook for fall enrolment will remain somewhat fluid until mid-summer.

In addition to the ongoing public health emergency, there is also a degree of ongoing provincial policy uncertainty. As noted in past reports, the Province has yet to provide firm guidance on several elements that have a meaningful impact on university finances.

- **Strategic Mandate Agreement (SMA):** The Province of Ontario negotiates accountability agreements with universities, which include performance objectives and some funding criteria (e.g., enrolment corridors). The existing SMA2s expire at the end of the 2019–20 academic year. While negotiations are largely complete, the Province has put renewal of the agreements on hold as it focuses on the coronavirus pandemic. DBRS Morningstar understands the new agreements are unlikely to have a meaningful impact on near-term funding, despite shifting to larger allocations for performance based funding.

- **Domestic enrolment corridors:** The Province of Ontario has yet to provide universities with guidance on funded domestic enrolment levels. Negotiations about enrolment levels were to follow the conclusion of the SMA3. At this time, Ontario has not provided clear guidance on base operating funding for the medium term, which could now come under some pressure as the Province's budgetary position deteriorates once again.

- **Tuition fee framework:** The Province reduced domestic tuition fees by 10% for 2019–20 and froze domestic tuition fees for 2020–21. The Province has yet to provide guidance for 2021–22 and subsequent years. DBRS Morningstar expects the Province to provide universities with some flexibility to raise tuition fees in the coming years.

- **Coronavirus-related funding:** The Province provided $25 million in funding to colleges and universities to address some of the initial coronavirus-related costs. Queen's received $400,000. The Province has signaled that additional supports may be forthcoming, but the extent of this support is not known.

While the outlook for near-term operating results is uncertain and there is the possibility of the university reporting losses in 2019–20 and/or 2020–21, the longer term outlook for the university remains strong. The University entered this downturn in a sustainable position with significant reserves. Going forward, the University will continue to see strong student demand and will benefit from the strength of its management team and past financial management reforms (e.g., new budget model, pension reform, etc.).

The University is set to go through a period of strategic renewal. Patrick Deane assumed the role of Principal (equivalent to President at other Ontario universities) on July 1, 2019. Deane previously served as President of McMaster University (2010–19) and Vice-Principal (Academic) at Queen's (2005–10). Deane is now engaging in discussions with students, faculty, and stakeholders to reshape the University's strategic priorities.

Labour relations remain positive and constructive at the University. The University's largest collective agreements are settled through the 2020–21 academic year and include provisions for the implementation of the multiemployer jointly sponsored pension plan (the University Pension Plan or UPP).

**Capital Plan**

The University's capital plan is guided by the 2014 Campus Master Plan, which outlines the longer-term vision for its campus. The plan contains recommendations to guide development in response to changing learning, research, and social needs and trends. Key themes include changing learning/research requirements, increasing use of technology, enhancing the student experience as well as sustainability and health/wellness considerations.

In 2018–19, capital investment fell to $74.3 million, which was somewhat higher than the previous five-year average. Over the past year, the University completed two small capital projects the Ingenuity Labs in Mitchell Hall ($8.0 million) and the West Campus District Energy Conversion project ($10.5 million).

Queen's now has several major projects in early stages of development:

- **John Deutsch University Centre ($62.3 million):** Revitalization of the university centre building, which houses social, recreational, and cultural centres. The intention is to improve the student experience with a more inclusive and accessible space. The project is largely funded by the student body through a student union levy and contingent upon securing philanthropic support.
- **Saint Mary's on the Lake facility renovation ($24.5 million):** Repurposing of former hospital to house administrative functions, thus increasing academic capacity on campus. Target completion is Fall 2021.
- **New Residence Building ($57.5 million):** Construction of a residence building on the main campus to open ahead of the 2022 academic year. Queen's has a first year residence guarantee. In the absence of new facilities, the university's enrolment growth would be constrained.

The University may have additional capital priorities in the coming years. The University is conducting a comprehensive asset and capital planning review and the new Principal's strategic shifts may prompt new capital priorities.

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 deferred maintenance (DM). The most recent assessment from May 2019 was $345 million, which equates to an Facilities Condition Index of 0.12. Queen's is addressing the elevated level of DM, which the University has sought to address through the construction of new facilities and annual facility renewal. The University is currently budgeting about $16.0 million annually for DM needs

**Debt and Liquidity**

The University's long-term debt fell slightly to $271.9 million at April 30, 2019, which reflected the amortization of an unsecured bank loan. On a per-student basis, this translated into a more pronounced decline because of ongoing enrolment growth. The debt burden fell to $9,912 per FTE at April 30, 2019, from $10,536 per FTE in the prior year.

At April 30, 2020, Queen's long-term debt comprised three series of long-dated debentures with maturities in 2032 and 2040 and an amortizing bank loan maturing in 2030. Annual principal repayments were projected to be $4.0 million through the medium term. Interest charges were similarly modest at $14.0 million, or 1.4% of total expense in 2018-19, and interest coverage remained high at 9.8x in 2018-19.

**Exhibit 3** Debt per FTE

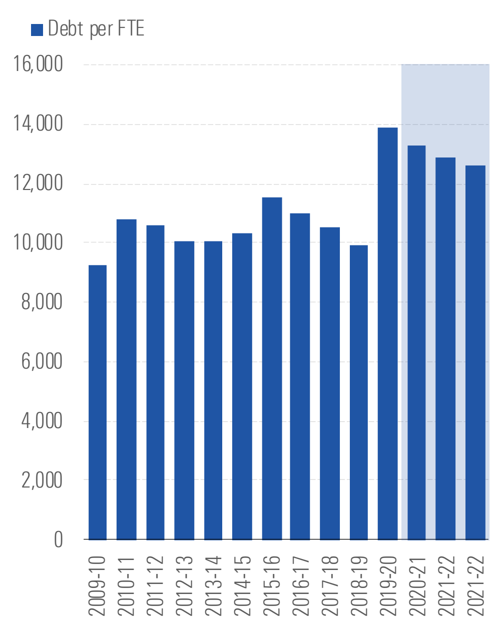
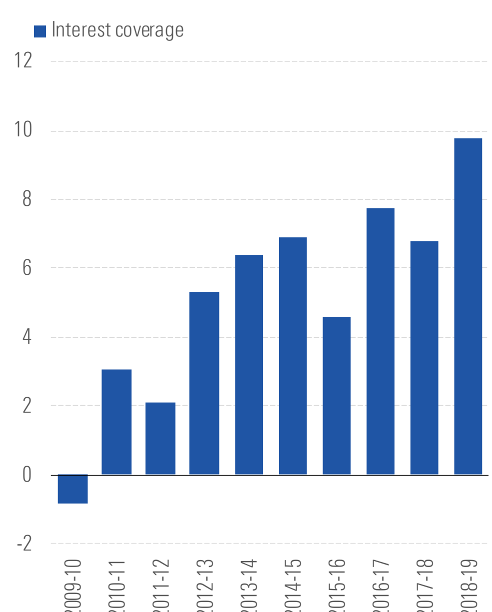



**Exhibit 4** Interest Coverage




Source: Queen's University and DBRS Morningstar.

The University has established a voluntary sinking fund to accumulate funds to repay the $215 million in debentures. At April 30, 2019, the sinking fund had a balance of $103.0 million, up from $89.3 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.

In addition to measuring debt in relation to enrolment, DBRS Morningstar assesses debt relative to expendable financial resources. DBRS Morningstar estimates universities' expendable resources as a subset of net assets, which includes unrestricted net assets, internally restricted endowments, and most internally restricted net assets. On April 30, 2019, the University's expendable resources totaled $586.1 million, up from $504.3 million the year prior. The pronounced increase reflects growth in the University's reserves and sinking fund. The ratio of expendable resources-to-debt rose to 215.6% from 182.8%

The University's endowments grew moderately (+6.2%) in 2018–19, reflecting investment returns during the year as well as ongoing endowed contributions. In aggregate, endowments increased by $67.1 million to $1.2 billion, or $42,027 per FTE. Queen's has among the largest endowments of DBRS Morningstar-rated universities and the largest on a per-student basis.

**Outlook**

The University recently raised $125 million in long-term debt to fund several capital projects. DBRS Morningstar projects debt will rise to about $393.0 million in 2019–20 and the ratio of debt-to-full-time-equivalent (FTE) will rise to about $13,917 from $9,912 in 2018–19. In subsequent years, the ratio should gradually fall towards $12,500 by 2022–23.

The near-term outlook for expendable resources is less certain, depending on the financial market conditions and the extent to which the university will draw on reserves to offset operating pressures. The University's pooled investment fund and endowment were down by 5& to 6% for the fiscal year to date through March 31, 2020. The outlook has improved somewhat with the modest recovery experienced in early April 2020. Despite the decline, Queen's will continue to have among the highest levels of expendable resources.

**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 continue to show a pension surplus, which increased modestly to $21.0 million from $8.7 million in the prior year.

Queen's conducts triennial actuarial valuations. The most recent valuation, as of August 31, 2017, showed an improvement in the pension plan's going-concern funding status. The going-concern deficit fell to $32 million on a smoothed basis from $176 million in 2014. This equates to a funding status of 98%.

The solvency valuation assumes the windup of the pension plan on the valuation date and uses prevailing long-term interest rates to value the obligations. The solvency deficit was estimated to be $313.4 million as of August 31, 2017, while the solvency ratio was 86%.

Like other Canadian public universities, Queen’s is an enduring institution, which makes the sudden windup of a pension plan highly unlikely. As such, DBRS Morningstar places less emphasis on the solvency valuation, although a large solvency deficit can put pressure on the University’s budget and financial resources (expendable resources) because provincial regulations require that universities make special payments to liquidate the going-concern and solvency deficits. Under the regulations (October 2016), Queen's was required to make special payments of $19 million in 2019–20. The Province announced further changes to pension funding requirements that will apply to Queen's after its next actuarial valuation, which will be conducted as of August 31, 2020.

Queen’s is working with the University of Guelph (rated A (high) with a Stable trend by DBRS Morningstar) and the University of Toronto (rated AA with a Stable trend by DBRS) to develop a multiemployer, jointly sponsored pension plan. The universities have made considerable progress over the past year, having submitted applications to the provincial regulator and the Canada Revenue Agency, as well as having appointed a board of trustees to oversee the new pension plan. The Province remains highly supportive of the initiative and has exempted the three Universities from the Pension Benefit Guarantee Fund effective March 1, 2020. The Universities expect to receive approval from regulators later this year for a planned conversion date of July 1, 2021.

When implemented, the universities will be responsible for their going concern deficits on the conversion date (amortized over 15 years), but will no longer be required to make special solvency payments or Pension Benefits Guarantee Fund payments.

**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 2018–19.

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.

**Government Funding (Provincial and Federal, 39%)**

In 2017–18, the previous provincial government introduced a new funding model for Ontario universities in which a large share of funding was enrolment based, but the financial incentive to increase domestic undergraduate enrolment was reduced and universities facing enrolment declines would be provided with downside protection. Under this model, funding was expected to be relatively stable for all Ontario universities over a three-year period (from 2017–18 to 2019–20).

Over the past year, the Province has negotiated the next iteration of the Strategic Mandate Agreements (SMA3). However, finalization of the agreements has been delayed due to the coronavirus pandemic. Consequently, the Province has yet to provide guidance on the enrolment corridor or operating funding. Nevertheless, DBRS Morningstar does not expect funding levels or the allocation formula to change meaningfully in the near term.

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. Research revenue is recognized as deferred contributions on the Statement of Financial Position until spent on research, at which time it is recognized as income.

**Exhibit 5** Queen's University Revenue Mix (2018–19)

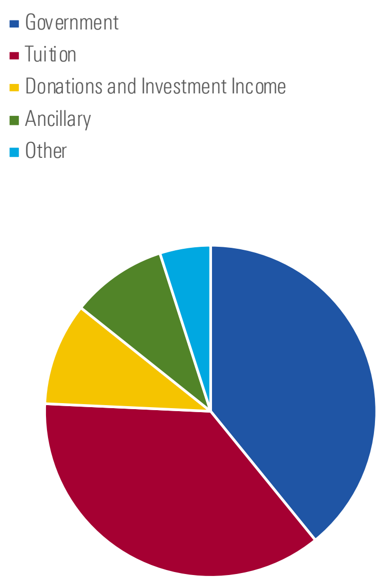
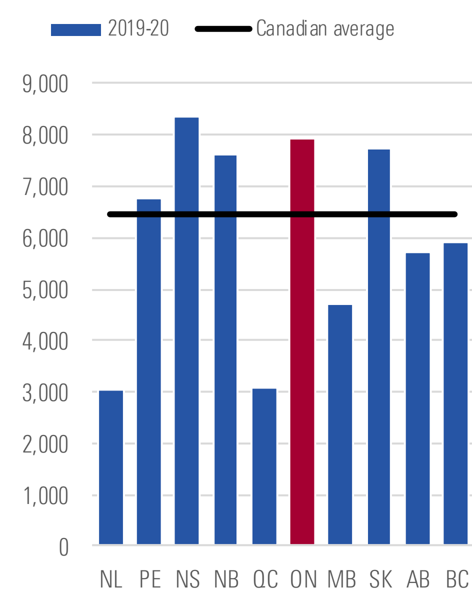



**Exhibit 6** Average Undergraduate Tuition Fees (2019–20)




Source: Queen's University and Statistics Canada.

### Tuition Fees (37%)

On January 17, 2019, the Province announced a revised tuition-fee framework for regulated domestic programs at Ontario universities and colleges. Ontario universities were required to reduce tuition fees for domestic funding (eligible programs by 10% in 2019–20) and to maintain domestic-funding-eligible program tuition fees at this level for the 2020–21 academic year. For most DBRS Morningstar-rated universities, the tuition-fee reduction resulted in a total revenue loss of between 2% and 5%. Institutions were expected to absorb revenue losses within their budgets and were required to comply with the policy or risk losing core operating funding. The Province has yet to provide guidance for 2021–22 and subsequent years.

International student fees are not regulated by the Province.

**Donations and Investment Income (10%)**

Donations and investment income recognized as revenue on the statement of operations typically represent about 9% of total revenue 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 2018–19, Queen’s received $31.8 million in expendable donations and a further $25.5 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. The University’s most recent campaign, the Initiative Campaign, raised $640 million, which exceeded the $500 million target. Queen’s is now in a quiet phase but it is targeting to raise about $60 annually.

The University’s endowments totaled $1.2 billion at April 30, 2019, or $42,123 per FTE. This is the highest level of endowments among DBRS Morningstar-rated universities. The endowments support the University’s operating budget and provide ongoing support for student assistance programs.

**Statement of Financial Position** (Adjusted; CAD millions)

| | As at April 30 | | | | |
|---|---|---|---|---|---|
| | **2019** | **2018** | **2017** | **2016** | **2015** |
| Assets | | | | | |
| Cash | 161 | 142 | 149 | 147 | 96 |
| Receivables | 34 | 40 | 33 | 36 | 38 |
| Deferred and prepaid expenses | 8 | 7 | 9 | 9 | 7 |
| Short-term investments | 160 | 114 | 94 | 9 | 24 |
| Long-term investments | 1,523 | 1,429 | 1,367 | 1,223 | 1,184 |
| Capital assets | 928 | 901 | 844 | 841 | 841 |
| **Total Assets** | **2,814** | **2,633** | **2,497** | **2,264** | **2,189** |
| | | | | | |
| **Liabilities and Net Assets** | | | | | |
| Payables, accuried liabilites and deferred revenue | 371 | 359 | 356 | 303 | 302 |
| Deferred capital contributions | 439 | 426 | 385 | 371 | 374 |
| Employee future benefit obligations | 75 | 95 | 36 | 131 | 111 |
| Debt | 272 | 276 | 280 | 284 | 245 |
| **Total liabilities** | **1,157** | **1,155** | **1,056** | **1,088** | **1,033** |
| | | | | | |
| Unrestricted Net Assets [1] | (10) | (10) | (114) | (116) | (149) |
| Internally Restricted Net Assets | 293 | 198 | 329 | 176 | 164 |
| Endowment – internally restricted | 228 | 221 | 218 | 199 | 201 |
| Endowment – externally restricted | 924 | 864 | 828 | 731 | 718 |
| Equity in capital assets | 221 | 203 | 179 | 186 | 222 |
| **Total Net Assets** | **1,657** | **1,477** | **1,440** | **1,176** | **1,157** |
| | | | | | |
| **Total Liability and Net Assets** | **2,814** | **2,633** | **2,497** | **2,264** | **2,189** |
| | | | | | |
| **Commitments and Contingencies** | | | | | |
| Capital commitments | 5 | 33 | 64 | 15 | 20 |
| Letters of credit | 3 | 2 | 3 | 3 | 4 |
| | **7** | **35** | **68** | **19** | **24** |

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

**Statement of Operations** (Adjusted; CAD millions)

| | For the year ended April 30 | | | | |
|---|---|---|---|---|---|
| | **2019** | **2018** | **2017** | **2016** [1] | **2015** |
| **Revenue** | | | | | |
| Student fees | 391 | 354 | 319 | 292 | 269 |
| Government operating grants | 208 | 208 | 201 | 199 | 197 |
| Other grants and contracts | 211 | 177 | 182 | 165 | 169 |
| Sales of service and products (ancillary operations) | 100 | 96 | 95 | 95 | 85 |
| Investment income | 75 | 47 | 79 | 30 | 73 |
| Donations | 32 | 15 | 23 | 21 | 7 |
| Amortization of deferred capital contributions | 25 | 24 | 25 | 26 | 26 |
| Other revenue | 28 | 26 | 21 | 25 | 24 |
| **Total revenue** | **1,070** | **948** | **945** | **854** | **85** |
| | | | | | |
| **Expense** | | | | | |
| Salaries and benefits | 493 | 465 | 451 | 441 | 429 |
| Supplies and services | 189 | 151 | 140 | 128 | 126 |
| Student aid | 66 | 64 | 61 | 60 | 58 |
| Amortization | 47 | 45 | 46 | 50 | 52 |
| Utilities, taxes and insurance | 24 | 23 | 23 | 21 | 25 |
| Interest | 14 | 14 | 14 | 14 | 13 |
| Other expense | 131 | 112 | 121 | 100 | 87 |
| **Total expense** | **965** | **873** | **856** | **814** | **789** |
| | | | | | |
| **Excess of revenue over expense** | **105** | **75** | **89** | **40** | **62** |
| | | | | | |
| **Capital Investment** | **74** | **101** | **49** | **49** | **52** |

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

**Calculation of Cash Flow from Operations** (Adjusted; CAD millions)

| | For the year ended April 30 | | | | |
|---|---|---|---|---|---|
| | **2019** | **2018** | **2017** | **2016** | **2015** |
| Excess of revenue over expense | 105 | 75 | 89 | 40 | 62 |
| Amortization | 47 | 45 | 46 | 50 | 52 |
| Other non-cash adjustments [1] | (30) | (38) | (39) | (40) | (38) |
| Cash flow from operations | 122 | 81 | 95 | 49 | 76 |
| Change in non-cash working capital | 18 | (3) | 56 | (1) | 19 |
| Operating cash flow after working capital | 140 | 78 | 151 | 49 | 95 |
| Net capital expenditures [2] | (36) | (36) | (10) | (26) | (28) |
| Free cash flow | 103 | 41 | 141 | 23 | 67 |

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 | | | | |
|---|---|---|---|---|---|
| | **2019** | **2018** | **2017** | **2016** | **2015** |
| **Enrolment** | | | | | |
| Total enrolment (FTEs) | 27,425 | 26,181 | 25,355 | 24,619 | 23,779 |
| Undergraduate | 84.4% | 84.5% | 84.9% | 84.8% | 84.8% |
| Graduate | 15.6% | 15.5% | 15.1% | 15.2% | 15.2% |
| Total annual change | 4.8% | 3.3% | 3.0% | 3.5% | 4.4% |
| | | | | | |
| Total enrolment (FTE) | - | - | - | - | - |
| Domestic | 90% | 92% | 93% | 93% | 94% |
| International | 10% | 8% | 7% | 7% | 6% |
| | | | | | |
| Total Employees (FTE) [1] | 4,601 | 4,399 | 4,207 | 4,115 | 4,039 |
| Faculty | 1,800 | 1,698 | 1,608 | 1,601 | 1,610 |
| | | | | | |
| **Operating Results** | | | | | |
| Surplus (deficit) ($ millions) | 105 | 75 | 89 | 40 | 62 |
| Share of revenue | 9.8% | 7.9% | 9.4% | 4.6% | 7.3% |
| Share of revenue (5-year moving average) | 7.8% | 6.9% | 5.9% | 3.4% | 2.2% |
| | | | | | |
| **Revenue Mix** | | | | | |
| Government | 39% | 41% | 41% | 43% | 43% |
| Student Fees | 37% | 37% | 34% | 34% | 32% |
| Ancillary | 9% | 10% | 10% | 11% | 10% |
| Donation and investment income | 10% | 7% | 11% | 6% | 9% |
| Other | 5% | 5% | 5% | 6% | 6% |
| | | | | | |
| **Debt and Financial Assets** | | | | | |
| Total debt ($ millions) | 272 | 276 | 280 | 284 | 245 |
| Per FTE student ($) | 9,912 | 10,536 | 11,032 | 11,519 | 10,319 |
| | | | | | |
| Interest costs as a share of total expense | 1.4% | 1.6% | 1.6% | 1.7% | 1.6% |
| Interest coverage ratio (times) | 9.8 | 6.8 | 7.7 | 4.6 | 6.9 |
| | | | | | |
| Expendable Resources ($ millions) | 586 | 504 | 468 | 389 | 328 |
| Share of debt | 216% | 183% | 167% | 137% | 134% |
| | | | | | |
| **Endowments** | | | | | |
| Total market value ($ millions) | 1,153 | 1,085 | 1,047 | 931 | 919 |
| Per FTE student ($) | 42,027 | 41,461 | 41,276 | 37,811 | 38,647 |
| Annual change | 0.1 | 0.0 | 0.1 | 0.0 | 0.1 |

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

| | Current | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|---|---|---|---|---|---|
| Issuer Rating | AA | AA | AA | AA | AA | AA |
| Senior Unsecured Debt | AA | AA | AA | AA | AA | AA |

## Previous Report

- Queen's University, Rating Report, March 20, 2019

## Related Research

- DBRS Canadian University Peer Comparison Table, March 23, 2020.
- Rating Public Universities: Business and Financial Risk Assessments, March 23, 2020.
- *Rating Public Universities*, May 8, 2019.

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