Financial Update
Report to the Board of Trustees
March 4, 2016

I: 2015-16 Operating Budget Update

The table below shows projected variances from the approved 2015-16 operating budget.

Queen's University 2015-16 Operating Budget (000,000's)

	Approved Budget 2015-16	Projected Actuals 2015-16	Variance
REVENUE			
Student Fees	$ 271.7	$ 276.0	$ 4.3
Government Grants	$ 204.5	$ 205.4	$ 0.9
Unrestricted Donations	$ 1.3	$ 2.1	$ 0.8
Other Income	$ 7.5	$ 7.5	$ -
Research Overhead	$ 4.0	$ 3.2	$ (0.8)
Investment Income (Note 1)	$ 12.5	$ 12.9	$ 0.4
Total Operating Revenue	**$ 501.5**	**$ 507.1**	**$ 5.6**
EXPENSE			
Faculties and Schools Allocation	$ 295.7	$ 297.9	$ 2.2
Shared Services Allocation	$ 174.8	$ 173.0	$ (1.8)
Undergraduate & Graduate Student Aid			
Infrastructure Renewal	$ 4.4	$ 4.4	$ -
Board Priorities & Compliance	$ 1.0	$ 1.0	$ -
Contingency	$ 1.8	$ 1.8	$ -
Total Allocations	**$ 477.7**	**$ 478.1**	**$ 0.4**
Flow Through Expenses, net of recoveries	$ 10.4	$ 12.4	$ 2.0
Indirect Costs of Research to External Entities	$ 1.4	$ 1.4	$ -
Total Operating Expenditures	**$ 489.5**	**$ 491.9**	**$ 2.4**
Net Surplus before Capital Expenditures	**$ 12.0**	**$ 15.2**	**$ 3.2**
Transfer to Capital Budget	$ 12.3	$ 12.3	$ -
Unit Expenses greater/(less) than Budget Allocation	$ 11.4	$ 2.0	$ (9.4)
Net Budget Surplus (Deficit)	**$ (11.7)**	**$ 0.9**	**$ 12.6**
Draw down/(Contribution) Cash Reserves	$ 0.3	$ (2.9)	$ (3.2)
Draw down/(Contribution) of Unit Carryforward balances	$ 11.4	$ 2.0	$ (9.4)
Net Surplus (Deficit)	**$ -**	**$ -**	**$ -**

Note 1: *The projection includes investment income from the PIF that was budgeted at $4.2M. Although it is currently projected to be $1. 3M, we continue to use the budgeted amount. If the originally budgeted amount is not reached at year's end, the difference will be funded from unbudgeted PIF gains in 2014-15.*

The following table shows the detailed breakdown of the Shared Service Allocations and projections shown above:

Queen's University at Kingston
2015-16 Shared Services Budget Allocations (000,000's)

	Approved Budget 2015-16	Projected Actuals 2015-16	Variance
Shared Services			
Principal's Office	$ 1.4	$ 1.4	$ -
Secretariat	$ 1.3	$ 1.3	$ -
Communications	$ 1.8	$ 1.8	$ -
Vice-Principal (Research)	$ 6.0	$ 6.0	$ -
Vice-Principal (Advancement)	$ 13.1	$ 13.1	$ -
Vice-Principal (Finance & Admin)	$ 7.1	$ 7.1	$ -
Provost & Vice-Principal (Academic)	$ 3.8	$ 3.8	$ -
Student Affairs	$ 8.9	$ 8.9	$ -
Library(operations & acquisitions)	$ 26.4	$ 26.1	$ (0.3)
Occupancy Costs (net of Shared Service Space Costs)*	$ 31.0	$ 29.0	$ (2.0)
Environmental Health & Safety	$ 1.5	$ 1.6	$ 0.1
ITS	$ 16.1	$ 16.1	$ -
Human Resources	$ 5.7	$ 5.6	$ (0.1)
Graduate Studies	$ 1.8	$ 1.8	$ -
University Wide Benefits & Pension Benefit Guarantee Fund	$ 8.2	$ 8.6	$ 0.4
Need Based & UG Merit Student Assistance	$ 17.5	$ 17.5	$ -
Graduate Students Assistance	$ 13.4	$ 13.4	$ -
University Wide	$ 9.2	$ 9.3	$ 0.1
Faculty Bridge Programs (QNS, QRC, FRP)	$ 0.6	$ 0.6	$ -
Total Shared Services	**$ 174.8**	**$ 173.0**	$ (1.8)

* The Occupancy Costs include $4.21M of deferred maintenance.

The following table shows the Capital Allocations from the Operating Budget.

Queen's University 2015-16 Capital Budget Allocations from Operating		
	Budget 2015-16	Projection 2015-16
Grant Revenue		
MTCU Facilities Renewal Fund	$ 1,085,500	$ 1,641,200
MTCU Graduate Capital	$ 1,700,000	$ 1,700,000
Total Revenue	$ 2,785,500	$ 3,341,200
Capital Projects Financing		
School of Kinesiology & Queen's Centre	$ 6,900,000	$ 6,900,000
QUASR	$ 3,000,000	$ 3,000,000
BISC	$ 250,000	$ 250,000
Biosciences Complex	$ 222,500	$ 222,500
Chernoff Hall	$ 900,000	$ 900,000
Electrical Substation	$ 900,000	$ 900,000
CoGeneration Facility	$ 1,064,000	$ 1,064,000
Richardson Hall & University Ave	$ -	$ -
Tools for Research Administration at Queen's (TRAQ)	$ 640,000	$ 640,000
Boiler #8	$ 166,526	$ 166,526
Deferred Maintenance		
MTCU Facilities Renewal Fund	$ 1,085,500	$ 1,641,200
Total Expenses	$ 15,128,526	$ 15,684,226
Budget Surplus (Deficit)	$ (12,343,026)	$ (12,343,026)
Transfer from Operating Budget	$ 12,343,026	$ 12,343,026
Net Budget Surplus (Deficit)	$ -	$ -

The Ministry announced in October 2015 an additional investment in the Facilities Renewal Program for the post-secondary sector, Queen's portion of this is $1.64M. The entire Facilities Renewal Program funding will continue to be allocated to deferred maintenance within the capital budget.

Budget Analysis

The projected operating budget for 2015-16 remains balanced through the drawdown of unit carry-forward reserves. Due to expenditure savings and additional revenues flowing to the University Fund there is a projected contribution to central cash reserves. Budget variances relative to the projection in the approved budget are explained below.

Enrolment

Preliminary enrolment data shows that we are above target against our overall enrolment projections at the undergraduate level. At the graduate level, overall headcount is on budget, but the mix between eligible domestic and ineligible domestic has shifted resulting in a much higher proportion of ineligible domestic graduate students. The mix has impacted the graduate grant funding.

Overall student fees are showing a positive variance of $4. 3M, with undergraduate tuition revenue being the most significant contributor, with a positive variance of $6.3M. Most of this is a result of higher than projected retention rates in the Faculty of Arts and Science and the Faculty of Engineering and Applied Science. International enrolment is also above budget in both the Faculty of Arts and Science and the Faculty of Engineering and Applied Science, further contributing to the variance. In addition, other student fees, mostly comprised of late fees, increased by approximately $0.8M. These positive variances were offset by a negative variance in graduate tuition of $0.4M and a decrease in non-credit tuition of $2.4M. This is primarily due to lower enrolment in the Queen's Executive Development Centre programs in the Smith School of Business.

Overall government grants are showing a positive variance of $0.9M. The undergraduate accessibility grant is projecting higher than budgeted due to the higher undergraduate enrolment ($1.2M). This is offset by a lower than budgeted graduate accessibility grant (-$1.9M) as the number of domestic eligible students has decreased relative to budget. The targeted program grant funding increased by $1.6M as a result of an increase in the Special Accessibility grant funding, the Regional Assessment and Resource Centre (RARC) funding, which was unbudgeted because of uncertainty about its continuation, and the municipal tax grant increase resulting from the increase in overall enrolment. There were also slight increases to the targeted grants within the Faculty of Health Sciences relative to budget.

Unrestricted Donations

Donation revenue is difficult to forecast, but based on current donations received to date, Advancement is forecasting that unrestricted donation revenues will be $2.1M which is an increase over budget of $800K.

Other Income

Other income is projecting to be on budget.

Research Overhead

Research Overhead revenues are difficult to project because they are linked to expenditures in research projects, which are somewhat unpredictable, but current projections suggest we are $800K lower than budgeted.

Investment Income

Investment income is showing a positive variance of $400K which relates to higher than budgeted returns on short-term investments. The Pooled Investment Fund (PIF) incurred some losses in early fiscal 2015-16, but has since then rebounded to a break-even position and we are now projecting a modest income of $1.3M. The returns include both realized and unrealized gains/losses and will fluctuate with market conditions before the end of the fiscal year. In fiscal 2014-15, the PIF experienced a significant gain that was unbudgeted, creating a reserve for university priorities or to mitigate against future PIF losses. This reserve can be used to offset a drop in income below budget, therefore, the revenue projections include PIF income of $4.2M, as budgeted.

Expenditures

Under the new budget model all tuition and grant revenues are attributed directly to the Faculties and Schools, resulting in higher than projected tuition and grant revenues, which have a direct effect on Faculty and School allocations. Research overhead is attributed to Faculties and Schools, so the reduction in revenue from this source will also be attributed to the Faculties and Schools.

Shared Services are showing lower than budgeted net expenditures of $1.8M. This is the result of a projected decrease of $2.0M in occupancy costs which is the result of projected savings on utilities. These savings are due to the electricity cost savings from the peak demand day program and a proactive shift in the way gas is supplied resulting in reduced transportation costs. The savings are also partially a result of a warmer than normal heating season.

The reduced library costs are also a result of the reduced occupancy cost. The size of the Library footprint results in large space costs being assigned to the Library and therefore any savings on occupancy costs will result in a savings in the Library costs that are attributed to the Faculties.

Additional savings are also projected of $0.1M in Human Resources with respect to the University Employee Assistance Program. These savings are partially offset by the increase in University Wide Benefits & Pension Benefit Guarantee Fund of $0.4M relating to increases in benefits for survivors, retirees, and long-term disability employees. There is a projected increase in Environmental Health & Safety of $0.1M due to increased cost for medical waste. In addition, there is a projected increase in University Wide of $0.1M due to an increase in university membership fees.

Flow-through expenses net of recoveries are higher than was originally budgeted. The majority of this variance relates to an unbudgeted targeted grant (RARC) and an increase to the Special Accessibility grant. Both flow directly to the Division of Student Affairs. The RARC grant could not be confirmed prior to finalizing the budget for 2015-16, and it was assumed that it would not be realized, but the grant has now been received.

Operating Budget Surplus (or Deficit)

Current projections continue to show a balanced budget.

The budget approved by the Board reflects the in-year revenue and expenses or budget allocations. Many units planned total expenditures to be higher than their budget allocation, with the additional expenditures being funded by prior-year reserves (carry-forward balances).

The approved budget projected reserves being drawn down by $11.4M, but current projections indicate an improvement, with an estimated drawdown of $2.0M. Part of the swing results from a net increase to the faculty allocations because of enrolment growth (primarily at the undergraduate level, both domestic and international). There have also been salary savings within several faculties, primarily within the Faculty of Engineering and Applied Science. The total impact of increased allocations and other savings within Faculties is a positive variance of $6.5M.

There are also combined projected savings of approximately $2.5M in undergraduate financial aid and graduate student support. These savings are due to a favourable adjustment to the Student Access Guarantee by the MTCU, a lower than budgeted level of need-based and excellence awards required compared to historical trends and a lower amount of Queen's Graduate Awards disbursed as enrolment targets were not met. The remaining positive variance of $0.4M is spread across several shared services.

The net result of all variances is a small surplus which is being contributed to cash reserves resulting in a variance of $3.2M.

II: Ancillary Operations and Consolidated Entities

Overall, the projected deficit for the Ancillary Operations and Consolidated Entities has increased to a $4.5M loss compared with the budgeted deficit of approximately $2.8M. The significant individual variances are outlined below.

Residence is now projecting a $156K surplus against the budgeted surplus of $1.9M. A decrease in revenue occurred as a result of the restoration of common rooms that were previously fee-generating residence rooms. This restoration was still under review by the Senate Residence Committee when the original budget projections were finalized. The budget also omitted costs for plate dining improvements (i.e. additional service offerings) and some related management fees which have created a variance in externally contracted services. In addition, externally contracted service costs escalated unexpectedly. Management is working diligently with the contractor to remedy overages, but some increases in the second term are expected. Savings in salaries due to new job classifications, as well as overhead expenses which are directly related to the decrease in revenue, will partially offset the increases in the externally contracted services.

Event Services is now projecting a $298K deficit which is $204K greater than budgeted. Unplanned construction disruptions in the summer resulted in additional labour costs to move, take down and set-up guest rooms. Externally contracted service costs have also escalated due to increased costs in the first term. Similar to the issue identified in Residences above, senior management are working diligently with contractor to remedy overages, but some increases in the second term are expected.

Community housing is projecting a deficit that is an $86K improvement on budget. An increase in revenue has resulted from better than excepted occupancy rates and above planned listing service revenue. There are substantial property tax savings at An Clachan, but this is being offset by an increased contribution to the capital reserve for future deferred maintenance. In addition, utilities are projecting to increase and options for cost containment are being explored.

The Computer Store is projecting a surplus of $19K, which is an improvement of $129K over budget. The majority of this relates to a very conservative revenue budget being submitted in response to the fiscal 2014-15 Ancillary Review recommending the closure of the Campus Computer Store by April 29, 2016. Currently the store has been running status quo, but there is still a level of uncertainty as the computer store depletes its existing inventory.

In the summer of 2015 the Division of Student Affairs assumed operational oversight of the Donald Gordon Centre from the School of Business. They are projecting a deficit of $71K due to one-time severance costs.

Queen's Parking is projecting results with small variances to budget. The Stuart Street Underground Parking Garage (which is a joint venture with Kingston General Hospital) is also projecting a positive variance to budget of $29K.

PARTEQ is projecting a surplus of $473K, an increase over budget of $373K. The increase in revenue is partially offset by distributions to license holders. The overall result is still a favourable positive projected variance to budget.

QCED is projecting a $253K deficit versus the budgeted $9K profit. This is due to the plan of a new venture that did not materialize. Investigations into other options are being explored.

The following tables provide budget and projection details for the Ancillary Operations as well as for the Consolidated Entities.

2015-16 ANCILLARY & CONSOLIDATED ENTITIES FINANCIAL REPORT (000's)									
	TOTAL ANCILLARY			TOTAL CONSOLIDATED ENTITIES			TOTAL ANCILLARY & CONSOLIDATED ENTITIES		
	Budget	Actual	Variance Surplus (deficit)	Budget	Actual	Variance Surplus (deficit)	Budget	Actual	Variance Surplus (deficit)
REVENUE	90,801	91,153	352	5,625	8,173	2,548	96,426	99,326	2,900
EXPENDITURE									
Salaries & Benefits	11,954	11,757	(197)	1,475	1,397	(78)	13,429	13,154	(275)
External Contracts	27,633	29,449	1,816	739	2,613	1,874	28,372	32,062	3,690
Utilities	5,967	6,214	247	-	-	-	5,967	6,214	247
Repairs & Alter.	4,123	4,018	(105)	-	-	-	4,123	4,018	(105)
Interest & Bank Charges	8,978	8,999	21	114	99	(15)	9,092	9,098	6
Supplies & Misc.	13,698	13,742	44	3,188	3,844	656	16,886	17,586	700
Overhead	2,830	2,822	(8)	-	-	-	2,830	2,822	(8)
Total Expenditures	75,183	77,001	1,818	5,516	7,953	2,437	80,699	84,954	4,255
Net Surplus (Deficit) before Capital and Contributions to University Operations	15,618	14,152	(1,466)	109	220	111	15,727	14,372	(1,355)
Deferred Maintenance	6,606	6,936	330	-	-	-	6,606	6,936	330
Debt Servicing - Principal	5,903	5,907	4	-	-	-	5,903	5,907	4
Contributions to University Operations	5,995	6,008	13	-	-	-	5,995	6,008	13
SURPLUS (DEFICIT)	(2,886)	(4,699)	(1,813)	109	220	111	(2,777)	(4,479)	(1,702)

2015-16 ANCILLARY FINANCIAL REPORT (000's)	Residence			Event Services			Community Housing			Parking		
	Budget	Projected	Variance Surplus (deficit)	Budget	Projected	Variance Surplus (deficit)	Budget	Projected	Variance Surplus (deficit)	Budget	Projected	Variance Surplus (deficit)
REVENUE	63,674	63,068	(606)	5,796	5,796	-	5,707	5,827	120	3,081	3,039	(42)
EXPENDITURE												
Salaries & Benefits	8,434	7,926	(508)	1,260	1,383	123	1,322	1,241	(81)	296	306	10
External Contracts	21,350	23,165	1,815	3,819	3,949	130	115	115	-	421	356	(65)
Utilities	4,220	4,220	-	192	151	(41)	959	1,239	280	254	224	(30)
Repairs & Alter.	3,035	3,035	-	43	25	(18)	764	764	-	61	69	8
Interest & Bank Charges	5,627	5,627	-	6	16	10	60	58	(2)	2,517	2,517	-
Supplies & Misc.	4,440	4,371	(69)	145	145	-	1,467	1,043	(424)	87	82	(5)
Overhead	2,209	2,147	(62)	93	93	-	285	291	6	114	152	38
Total Expenditures	49,315	50,491	1,176	5,558	5,762	204	4,972	4,751	(221)	3,750	3,706	(44)
Net Surplus (Deficit) before Capital and Contributions to University Operations	14,359	12,577	(1,782)	238	34	(204)	735	1,076	341	(669)	(667)	2
Deferred Maintenance	2,916	2,916	-	-	-	-	3,115	3,365	250	525	525	-
Debt Servicing - Principal	4,670	4,670	-	-	-	-	53	57	4	802	802	-
Contributions to University Operations	4,850	4,835	(15)	332	332	-	628	629	1	-	-	-
SURPLUS (DEFICIT)	1,923	156	(1,767)	(94)	(298)	(204)	(3,061)	(2,975)	86	(1,996)	(1,994)	2

2015-16 ANCILLARY BUDGET (000's) RESERVES												
OPENING RESERVE	4,674	4,674	-	751	751	-	7,939	7,939	-	(6,832) *	(6,832)*	-
Addition to Maintenance Reserve	-	-	-	-	-	-	-	-	-	525	525	-
SURPLUS (DEFICIT) - PLANNED ALLOCATION TO (FROM) RESERVES	1,923	156	(1,767)	(94)	(298)	(204)	(3,061)	(2,975)	86	(1,996)	(1,994)	2
CLOSING RESERVE	6,597	4,830	(1,767)	657	453	(205)	4,878	4,964	86	(8,303)	(8,301)	2

* The accumulated deficit, created by the debt servicing payments, is projected to be reduced to zero 7 years after the debt servicing payments are completed. The debt servicing payments have 26 years left on the amortization schedule. There is an annual reserve set aside for deferred maintenance of the surface lots and underground garages, the current balance of that reserve is $5.6M.

2015-16 ANCILLARY FINANCIAL REPORT (000's)	Creative Design			Computer Store			Donald Gordon Centre			Stuart St. Underground Parking*		
	Budget	Projected	Variance Surplus (deficit)	Budget	Projected	Variance Surplus (deficit)	Budget	Projected	Variance Surplus (deficit)	Budget	Projected	Variance Surplus (deficit)
REVENUE	220	250	30	6,900	7,607	707	4,358	4,478	120	1,065	1,088	23
EXPENDITURE												
Salaries & Benefits	-	-	-	565	535	(30)	-	289	289	77	77	-
External Contracts	17	15	(2)	-	-	-	1,865	1,807	(58)	46	42	(4)
Utilities	-	-	-	-	-	-	285	325	40	57	55	(2)
Repairs & Alter.	-	-	-	-	-	-	180	99	(81)	40	26	(14)
Interest & Bank Charges	-	-	-	-	-	-	576	589	13	192	192	-
Supplies & Misc.	10	15	5	6,400	6,998	598	1,112	1,037	(75)	37	51	14
Overhead	8	8	-	45	55	10	76	76	-	-	-	-
Total Expenditures	35	38	3	7,010	7,588	578	4,094	4,222	128	449	443	(6)
Net Surplus (Deficit) before Capital and Contributions to University Operations	185	212	27	(110)	19	129	264	256	(8)	616	645	29
Deferred Maintenance	-	-	-	-	-	-	-	80	80	50	50	-
Debt Servicing - Principal	-	-	-	-	-	-	247	247	-	131	131	-
Contributions to University Operations	185	212	27	-	-	-	-	-	-	-	-	-
SURPLUS (DEFICIT)	-	-	-	(110)	19	129	17	(71)	(88)	435	464	29

2015-16 ANCILLARY BUDGET (000's) RESERVES												
OPENING RESERVE	-	-	-	-	-	-	-	-	-	-	-	-
Addition to Maintenance Reserve	-	-	-	-	-	-	-	-	-	-	-	-
SURPLUS (DEFICIT) - PLANNED ALLOCATION TO (FROM) RESERVES	-	-	-	(110)	19	129	17	(71)	(88)	435	464	29
CLOSING RESERVE	-	-	-	(110)	19	129	17	(71)	(88)	435	464	29

* This is owned and operated with KGH and this represents a 50% share.

2015-16 Consolidated Entities Financial Report (000's)						
	PARTEQ Consolidated			QCED Inc.		
	Budget	Projected	Variance Surplus (deficit)	Budget	Projected	Variance Surplus (deficit)
REVENUE	5,180	8,169	2,989	445	4	(441)
EXPENDITURE						
Salaries & Benefits	1,283	1,235	(48)	192	162	(30)
External Contracts	535	2,525	1,990	204	88	(116)
Utilities	-	-	-	-	-	-
Repairs & Alter.	-	-	-	-	-	-
Interest & Bank Charges	114	99	(15)	-	-	-
Supplies & Misc.	3,148	3,837	689	40	7	(33)
Deferred Maintenance	-	-	-	-	-	-
Total Expenditures	5,080	7,696	2,616	436	257	(179)
SURPLUS (DEFICIT)	100	473	373	9	(253)	(262)

Note: The Bader International Study Centre is a consolidated entity but under the New Budget model its academic operations are now included as a faculty in the operating budget.

III: Pension Plan

Currently, government regulations require the university to fund both going concern and solvency deficits. Effective September 1, 2015 these going concern payments are $20.7 million annually. The actuarial valuation of the pension plan completed as of August 31, 2014 reported a solvency deficit of $285 million, funding of which will commence in September 2018 if a solution cannot be found.

The university has applied for and received Stage II solvency relief, which allows the solvency deficit to be amortized over 10 years instead of the normal 5 years. Stage II relief also provides universities with a choice to take advantage of an additional 3-year deferral of making solvency deficit payments and to amortize the solvency deficit over the remaining 7 years of Stage II relief. The university has decided to take advantage of the additional 3-year deferral and is also building a reserve in case the solvency deficit payments have to be made in future years, as outlined in the budget planning section (VII) of this report.

The Revised Pension Plan of Queen's University is not financially sustainable, and the university is committed to examining all options to make the plan financially sustainable over the long term. During the round of collective bargaining that was completed in the summer of 2015, the university and all its unions committed to participating in the project to design and build a new jointly sponsored pension plan (JSPP) for Ontario universities. The project is being jointly sponsored by the Council of Ontario Universities (for the employers) and Ontario Confederation of University Faculty Associations (for the employees). If the project is successful the Revised Pension Plan of Queen's University would be merged with the new JSPP. One condition for success would be agreement from the Government of Ontario that the new JSPP would have a permanent exemption from solvency payments. If it is not successful, Queen's and its unions are committed to exploring merging with another JSPP that does have a solvency exemption, and failing that, to discussing and negotiating such changes as may be needed to support the financial sustainability of the pension plan.

IV: Capital

The table below provides an overview of Board approved capital projects with related findings information. In May 2015, the Board of Trustees approved a revised Major Capital Projects Approval Policy (Built Environment) Board approval is required for projects in excess of $2.5 million, with the continued requirement for a business case identifying impact on operations, strategic alignment, risks etc., as well as full project funding.

As of December 31, 2015			Cash Flow Impact				Additional Funding	
	Approved Budget	Total Projected Costs	Expenditures to Dec '15	Funding to Dec '15	Debt to Dec '15	Cash surplus (shortfall) Dec '15	External Grants / Donations/ Debt	Notes:
Projects in Process:								
TRAQ	3,460	3,460	2,184	2,810	-	626	-	
Richardson Stadium	20,270	20,270	2,922	7,863	-	4,941	12,407	1
Victoria Hall - Building Envelope Repairs	4,500	4,500	3,224	-	4,500	1,276	-	
John Orr Tower - Window / Door Replacement	2,800	1,300	973	2,794	-	1,821	-	
Total Approved Projects in Process	**31,030**	**29,530**	**9,303**	**13,467**	**4,500**	**8,664**	**12,407**	
Projects Completed:								
David C. Smith House and Brant House	70,000	58,500	54,705	-	65,500	10,795	-	
Queen's Centre Underground Parking	12,235	12,235	12,235	-	12,235	-	-	
School of Kinesiology and Queen's Centre	169,000	168,263	168,235	38,465	78,329	(51,441)	24,005	2
Goodes Hall Expansion	40,000	39,880	39,841	26,871	-	(12,970)	13,392	3
Isabel Bader Performing Arts Centre	80,500	80,500	78,349	76,647	-	(1,702)	3,853	4
Reactor Materials Testing Laboratory	18,355	18,355	14,870	14,982	-	112	3,373	5
Medical Building	76,846	76,846	74,979	74,887	-	(92)	1,959	6
Jean Royce - Food Services	2,204	1,579	1,579	1,306	-	(273)	273	7
Total Approved Completed Projects	**469,140**	**456,158**	**444,793**	**233,158**	**156,064**	**(55,571)**	**46,855**	

Notes on Funding Sources:

1 Donations and University contribution
2 Provincial grant and donations
3 Donations and $12M internal loan to Smith School of Business
4 Federal grant and donations and the Faculty of Arts and Science has committed to fund any shortfall
5 Research funding
6 Donations and the Faculty of Health Science has committed to fund any shortfall
7 Housing and Hospitality Services Internal Loan

Deferred Maintenance

A Facilities Condition Audit was conducted in 2010 for most Ontario Universities so that the data could be stored in a common database. The data is updated annually to provide for inflationary increases and also offset by the deferred maintenance projects via a data management service provided by facility auditing company, VFA. The deferred maintenance for campus buildings and residences is $223.6M as shown in the table below. In 2016, VFA have been contracted to conduct a more comprehensive audit of the campus buildings to refresh the data. The audit will be complete by late November.

Facilities Condition Audit	
Deferred Maintenance	
($000's)	
Campus buildings	165,900
Residences	57,700
	223,600

In addition, there is an estimated $30M of campus infrastructure (underground systems) deferred maintenance based on a 2006 audit. In 2016, Physical Plant Services (PPS) will refresh the underground infrastructure audit. It is expected that the estimate will increase.

The University receives annual provincial funding for deferred maintenance under the Ministry of Training Colleges and Universities (MTCU) Facilities Renewal Program. The recent Provincial budget committed to an increase in this funding and as a result Queen's University allocation has been increased from $1.1M (2014-15) to $1.6M for 2015-16 and 2016-17.

Queen's also commits annual operating budget funds for deferred maintenance. The 2015-16 operating budget allocation is $6.3M, which includes a one-time allocation of $2.1M from the University Fund.

The industry standard for annual deferred maintenance funding is 1%-1.5% of Current Replacement Value (CRV). For the university campus buildings the annual number at 1% would be $14M. The table below shows Queen's projected deferred maintenance expenditures in 2015-16. For the MTCU funded program, there is a list of pre-approved projects (roofs, infrastructure in the current year) and the expenditures are subject to external audit.

Physical Plant Services has a detailed five-year deferred maintenance plan which allows for engineering design work ahead of the fiscal year for prioritized projects, with the flexibility to adjust plans based on available funding. There are also contingency funds to deal with unanticipated issues. A detailed multi-year deferred maintenance plan for the residence buildings is being developed and planned for as part of the Housing and Hospitality Services budget projections.

PPS Deferred Maintenance 2015-16: ($000's)

Funding Source:	**Available funds May 1, 2015**	**Spend and Committed to Dec 31, 2015**
Operating Budget / University Fund	6,310	5,607
MTCU: Facilities Renewal Program*	1,641	1,641
Total:	**7,951**	**7,248**

* Annual Funding based on Ontario MTCU - System Share for 2015-16

V: Investment Funds

Market volatility can have a significant impact on investment holdings and financial planning. Although the university has largely recovered from the 2008 decline in the financial markets, its investment holdings remain susceptible to further volatility.

The University has two investment portfolios, the Pooled Endowment Fund and the Pooled Investment Fund, which are now over $1 billion.

The Pooled Endowment Fund ("PEF") is an investment pool composed of funds that have been designated for University Endowment accounts. Donations received by the University are invested in the PEF and each year certain amounts are withdrawn according to the spending policy. These annual withdrawals (“payout”) fund scholarships, academic chairs, book funds, lectureships, as well as a diverse range of university programs, in accordance with donor wishes.

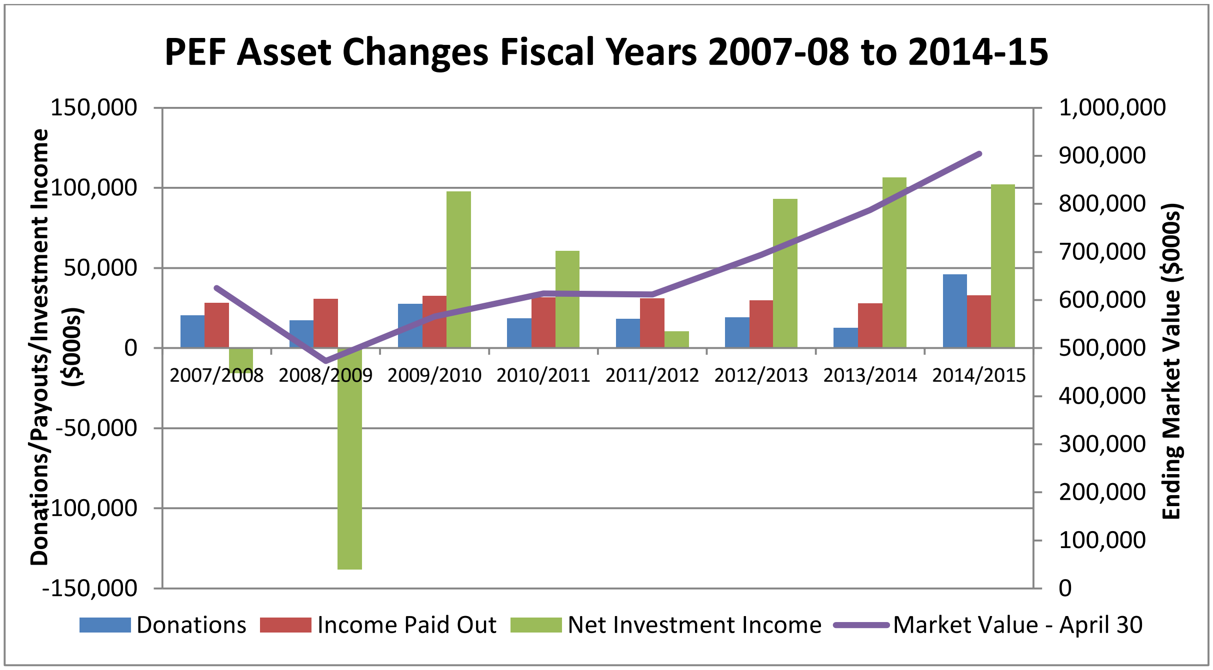
The Pooled Investment Fund (“PIF”) is made up of reserve funds and unspent balances. In the past, spending from the PIF was based on a percentage of mean assets, even in periods when returns have been weak. As the PIF’s primary objective is to preserve the nominal capital of the fund, the decision was made to limit the operating budget reliance on income from the PIF. Thus, commencing in 2012-13, budgeted income from the PIF was reduced to $4.2M.

Investment Fund balances are shown in the table below:

Investment Portfolios (000's)

	Market Value April 30, 2013	Market Value April 30, 2014	Market Value April 30, 2015	Market Value Dec. 31, 2015
Pooled Investment Fund (PIF)	156,463	177,054	192,423	215,075
Pooled Endowment Fund (PEF)	694,010	787,474	896,352	917,694
Total	**850,473**	**964,528**	**1,088,775**	**1,132,769**

As shown in the graph below, the Endowment market value has recovered strongly since fiscal 2008-09. The market value of the PEF for the end of the 2014-15 fiscal year was approximately $896 million. Since then, the market value of the PEF has increased further despite the recent volatile market environment. The market value as of December 31, 2015 was $918 million.



The PEF income payout is approved annually by the Investment Committee of the Board of Trustees and is based on a hybrid formula, which is meant to preserve capital for inflationary increases while producing income to support current operations. As the formula is weighted 70% on the previous year's payout adjusted for inflation, and 30% on the most recent calendar year's ending market value, there is a significant smoothing effect and the full impact of market movements is not felt immediately. The University recently completed a review of its spending policy, and a three-year adjustment to the PEF payout for 2016-17, 2017-18, and 2018-19 that implements a long-term payout target of 4.0% is being recommended for Board approval.

The 2015-16 PEF payout to unitholders is approximately $29.6 million ($26.7 million in 2014-15), of which $3.73 million is included in investment income in the operating budget as it is from the unrestricted endowment. The remainder of the payout supports donor directed priorities such as student assistance and academic chairs, as previously noted.

VI: Debt and Liquidity

Debt

Debt Portfolio as at December 31, 2015

Issue	$ Millions	Rate	Maturity
BNY Series A Senior unsecured debenture	$ 90.0	6.100%	2032
CMHC Residences loans	$ 0.13	5.375%	2016
Infrastructure Ontario senior unsecured debenture	$ 75.0	5.090%	2040
Infrastructure Ontario Senior unsecured debenture	$ 50.0	5.100%	2040
Bank of Montreal (floating rate amortizing loan & interest rate swap)	$ 69.7	3.180%	2030
Total	$ 284.8		

Sinking Fund

The University has a voluntary sinking fund set up for the sole purpose of paying off the principal amounts of its outstanding non-amortizing debt when it falls due. As of December 31, 2015, in accordance with the Debt Management Policy, a total amount of $54.4 million has been invested in fixed income investments which will have a value of $126.6 million at maturity. This represents 59% of the $215 million in non-amortizing debt that the University has outstanding.

The ratios, excluding liabilities associated with employee future benefits and including deferred contributions in the Board approved Debt Management Policy are as follows:

Board Debt Management Policy		Apr. 30, 2014	Apr. 30, 2015
Viability Ratio (1)	≥ .1.25x	1.97	2.23
Debt Burden Ratio (2)	≤ 3.25%	2.59%	2.18%

1) Viability Ratio:	**2) Debt Burden Ratio:**
Unrestricted Net Assets + Internally Restricted Net Assets + Internally Restricted Endowments	Annual Interest Cost + Annual Debt Principal
Total University External Debt	Total Operating Expenses - Amortization of Capital Assets + Annual Debt Principal

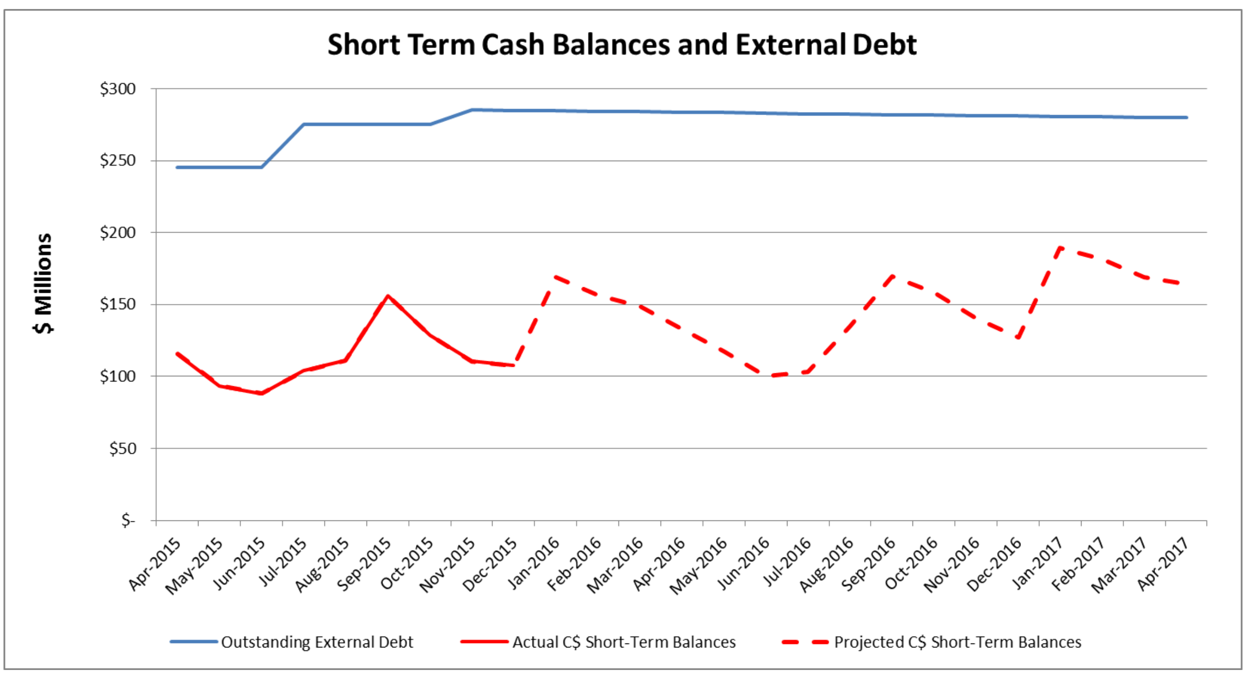
The University is within the established parameters of both the Viability Ratio and the Debt Burden Ratio.

Cash Flow

The University administration uses a cash management forecasting model to manage its short-term investment portfolio and to optimize interest income. The model will continue to evolve over time as it becomes more robust, and its forecasting ability becomes more refined.

The graph below shows the projected short-term investment and external debt balances from April 2015 through April 2017. University cash balances are cyclical in nature with higher balances in September & October and January & February, due to tuition and residence fee receipts, and lower balances experienced during the late spring and early summer months. As a result, University administration invests its excess cash balances received from term billings in bank demand deposits, bank term deposits and guaranteed investment certificates maturing between one month and 2 years, and with a short-term bond fund with a targeted maturity of 3 years (fully redeemable at any time). These investments are made taking into account the projected cash flow needs of the University with the aim of matching inflows and outflows. The investment of a portion of the University's cash balances into longer-dated maturities allows the University to earn higher interest income than could otherwise be earned in a demand deposit account.

In compliance with the University's investment policy on short-term investments, no more than $60 million has been deposited with any one of the five major Schedule I Canadian banks.



VII: Budget Planning for 2016-2017 and Beyond

In May 2015 the Board of Trustees approved a balanced budget for 2015-2016. At that time a multi-year budget was presented for the 2015-2016 to 2017-2018-time period.

The development of the 2016-2017 to 2018-2019 multi-year budget is almost complete. The plan is to develop and implement a balanced budget for 2016-2017 to 2018-2019 that provides units with appropriate incentives to increase revenues and/or decrease costs in direct support of academic priorities.

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

When the 2015-2016 to 2017-2018 budget was presented for approval in May it was noted that there were a number of risks to the operating budget projections including:

- Reliance on government grant support and tuition (both controlled by government) and the effect of further changes in government policy, most notably the outcome of the formula funding review that the government has indicated they will undertake in 2015-16;
- Pension solvency;
- The significant investment required to support infrastructure renewal, both physical plant and technology;
- A capital volatility risk that exists notwithstanding the reduced reliance on investment income from the PIF.

These risks are still pertinent during the new three-year planning window. The collective agreement risks that were also identified have been reduced because a number of collective agreements that expired in 2014 and 2015, including those with the Queen's University Faculty Association, the Canadian Union of Public Employees and the United Steel Workers, have since been renegotiated and cover the three-year planning horizon. The outcomes of the negotiations provide certainty surrounding these cost increases over the planning period.

Additional risks could materialize as a result of the uncertainty surrounding the implementation of the funding formula report, along with the announcement of a new tuition fee framework, which will occur during the planning cycle.

A plan is underway for addressing the pension solvency shortfall. The pension solvency payments have been deferred for three years, and the project to design and build a new university sector JSPP is making progress with the objective of obtaining a permanent pension solvency exemption. If the University sector JSPP project is not successful, there is a risk that the pension solvency payments will be required. As of September 2015, Faculties and Shared Service units are being charged and continue to plan an additional 4.5% of salary base as an expense, to address the additional going concern special payments and to help establish a reserve for future pension solvency payments or transition costs into a JSPP.

The 2015-2016 budget included an additional allocation for deferred maintenance and administrative system implementation and renewal. The continuation of these allocations has been included in the preliminary 2016-2017 budget, along with an allocation increase for deferred maintenance.

The short-term budget planning framework continues to be extremely challenging. The Provost and Vice-Principal (Academic) provided Shared Service Units with Comprehensive Budget Plan Guidelines and preliminary budget allocations in May 2015. The guidelines included planning parameters that work towards the planning for pension solvency payments outlined above, while still achieving a structurally balanced outlook within the three-year budget horizon. All shared service units submitted their budgets by the end of August and PACB reviewed submissions at meetings in late September. Preliminary budget allocation decisions for the shared service units have been made, which allowed for the determination of preliminary Faculty and School budget allocations. These were released mid-October, and Faculties and Schools submitted their multi-year budget plans by late November; PACB meetings to review the submissions were completed in December.

2016-2017 to 2018-2019 budget projections were developed in January. The preliminary projections will be presented to the Board of Trustees at the March meeting for information and consultation; the final projections will be presented to the board for approval at its May meeting.