Financial Update
Report to the Board of Trustees
December 2, 2016

I: 2016-17 Operating Budget Update

The table below shows projected variances from the approved 2016-17 operating budget.

Queen's University 2016-17 Operating Budget (000,000's)

	Approved Budget 2016-17	Projected Actuals 2016-17	Variance
REVENUE			
Student Fees	$ 291.9	$ 299.3	$ 7.4
Government Grants	$ 208.3	$ 207.2	$ (1.1)
Unrestricted Donations	$ 1.3	$ 1.6	$ 0.3
Other Income	$ 5.5	$ 6.0	$ 0.5
Research Overhead	$ 3.6	$ 3.2	$ (0.4)
Investment Income (Note 1)	$ 12.2	$ 12.9	$ 0.7
Total Operating Revenue	**$ 522.8**	**$ 530.2**	**$ 7.4**
EXPENSE			
Faculties and Schools Allocations	$ 310.8	$ 315.1	$ 4.3
Shared Services Allocations*	$ 179.9	$ 178.9	$ (1.0)
Infrastructure Renewal	$ 4.9	$ 4.9	$ -
Board Priorities & Compliance	$ 2.2	$ 2.2	$ -
Contingency	$ 1.8	$ 1.8	$ -
Total Allocations	**$ 499.6**	**$ 502.9**	**$ 3.3**
Flow Through Expenses, net of recoveries	$ 9.1	$ 11.4	$ 2.3
Indirect Costs of Research to External Entities	$ 1.4	$ 1.4	$ -
To Be Allocated	$ 1.3	$ 2.4	$ 1.1
Total Operating Expenditures	**$ 511.4**	**$ 518.1**	**$ 6.7**
Net Surplus before Capital Expenditures	**$ 11.4**	**$ 12.1**	**$ 0.7**
Transfer to Capital Budget	$ 12.3	$ 12.3	$ -
Unit Expenses greater/(less) than Budget Allocation	$ 15.5	$ 12.0	$ (3.5)
Transfer to Pension Reserve	$ -	$ (6.8)	$ (6.8)
Net Budget Surplus (Deficit)	**$ (16.4)**	**$ (5.4)**	**$ 11.0**
Draw down/(Contribution) of Carryforward balances	$ 16.4	$ 12.2	$ (4.2)
Draw down/(Contribution) to Pension Reserve	$ -	$ (6.8)	$ (6.8)
Net Surplus (Deficit)	**$ -**	**-**	**-**

**Includes Undergraduate & Graduate Student Aid and Utilities*

Note 1: *The PIF has experienced gains in early fiscal 2016-17, but given the volatility of the markets, only the budgeted amount of $5.2M has been used in this projection.*

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

Queen's University at Kingston
2016-17 Shared Services Budget Allocations (000,000's)

	Approved Budget 2016-17	Projected Actuals 2016-17	Variance
Shared Services			
Principal's Office	$ 1.4	$ 1.4	$ -
Secretariat	$ 1.5	$ 1.5	$ -
Communications	$ 3.6	$ 3.6	$ -
Vice-Principal (Research)	$ 6.0	$ 6.0	$ -
Vice-Principal (Advancement)	$ 10.2	$ 10.2	$ -
Vice-Principal (Finance & Admin)	$ 8.6	$ 8.6	$ -
Provost & Vice-Principal (Academic)	$ 3.9	$ 3.9	$ -
Student Affairs	$ 8.8	$ 8.8	$ -
Library(operations & acquisitions)	$ 26.7	$ 26.6	$ (0.1)
Occupancy Costs (net of Shared Service Space Costs)*	$ 30.7	$ 30.2	$ (0.5)
Environmental Health & Safety	$ 1.5	$ 1.5	$ -
ITS	$ 16.7	$ 16.7	$ -
Human Resources	$ 5.1	$ 5.1	$ -
Graduate Studies	$ 1.9	$ 1.9	$ -
University Wide Benefits & Pension Benefit Guarantee Fund	$ 8.4	$ 8.4	$ -
Need Based & UG Merit Student Assistance	$ 18.2	$ 17.5	$ (0.7)
Graduate Students Assistance	$ 13.4	$ 13.4	$ -
University Wide	$ 12.5	$ 12.8	$ 0.3
Faculty Bridge Programs (QNS, QRC, FRP)	$ 0.8	$ 0.8	$ -
Total Shared Services	**$ 179.9**	**$ 178.9**	$ (1.0)

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

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

Queen's University Capital Budget Allocations from Operating		
	Budget 2016-17	Projection 2016-17
Grant Revenue		
MAESD Facilities Renewal Fund	$ 3,457,000	$ 3,457,000
MAESD Graduate Capital	$ 1,700,000	$ 1,700,000
Total Revenue	$ 5,157,000	$ 5,157,000
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		
MAESD Facilities Renewal Fund	$ 3,457,000	$ 3,457,000
Total Expenses	$ 17,500,026	$ 17,500,026
Budget Surplus (Deficit)	$ (12,343,026)	$ (12,343,026)
Transfer from Operating Budget	$ 12,343,026	$ 12,343,026
Net Budget Surplus (Deficit)	$ -	$ -

Note: $2.4M of the Facilities Renewal Fund Grant will be allocated to capital projects funded through the Strategic Initiatives Fund (SIF). The funding for Deferred Maintenance will be maintained through the use of capital reserves originally earmarked to fund the SIF projects.

Budget Analysis

The projected operating budget for 2016-17 remains balanced through the drawdown of carry-forward reserves. The 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 and below target at the graduate level.

In addition to graduate enrolment being below projections, the mix between grant eligible domestic and grant ineligible domestic has shifted relative to budget, resulting in a much higher proportion of ineligible domestic graduate students. This shift between eligible relative to ineligible has no impact on tuition revenue, but it does impact the graduate grant funding.

Overall student fees are showing a positive variance of $7.4M, with undergraduate tuition revenue being the most significant contributor, with a positive variance of $8.7M. The international enrolment was higher than anticipated in the Faculty of Arts and Science and the Faculty of Engineering and Applied Science, in addition there was a modest increase in domestic grant eligible enrolment. This increase in undergraduate tuition is offset by a decrease in graduate tuition of $2.7M. Approximately $1.7M of this relates to lower than budgeted enrolment within the Smith School of Business professional graduate programs, with the remaining $1M in all other graduate programs. Additional increases in Student Fees comes from an increase in non-tuition fees of approximately $0.5M, primarily university council on athletics fees, which is a flow-through to the Division of Student Affairs.

Also contributing to the increase in student fees is an increase in non-credit tuition of $0.9M. This is almost entirely in the School of English within the Faculty of Education.

Overall government grants are showing a negative variance of $1.1M. The graduate accessibility grant is projecting lower than budget due to the lower graduate enrolment ($2.2M). There was also a small decrease in the Research Support Fund grant (formerly federal indirect cost of research grant) of approximately $0.2M. This is offset by a positive variance in the undergraduate accessibility funding of approximately $0.3M, which reflects the modest increases in enrolment at the undergraduate level. In addition, the targeted program grant funding increased by $1.0M as a result of an increase in the Regional Assessment and Resource Centre (RARC) funding which was unbudgeted because of uncertainty about its continuation when the budget was established for 2016-17. Since that time, funding has been confirmed through to 2018-19.

Unrestricted Donations

Donation revenue is difficult to forecast, but based on current donations received and historical trends, Advancement is forecasting that unrestricted donation revenues will be $1.6M which is an increase from the budget of $0.3M.

Other Income

Other income has a positive variance of $500K arising from an increase in flow-through revenues, primarily related to miscellaneous athletics fees within the Division of Student Affairs.

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 $400K lower than budgeted.

Investment Income

Investment income is showing a positive variance of $700K as a result of higher than budgeted short-term investment returns.

The Pooled Investment Fund (PIF) has experienced gains in early fiscal 2016-17, but given the volatility in the markets, the budget of $5.2M has been used in this projection. The year-to-date returns include both realized and unrealized gains/losses and will fluctuate with market conditions before the end of the fiscal year.

Expenditures

Under the budget model all tuition and grant revenues are attributed directly to the Faculties and Schools, which have a direct effect on Faculty and School allocations. Due to the increase in tuition and decrease in grant, the net impact is an increase to the Faculty and School allocations. Research overhead is also attributed to Faculties and Schools, so the reduction in revenue from this source will also be borne by Faculties and Schools.

Shared Services are showing lower than budgeted net expenditures of $1.0M. This is the result of savings in utilities which is resulting in a projected net decrease of $0.5M in occupancy costs. The savings in utilities are due to the deferral of a large renovation previously planned at the cogeneration facility.

The utilities savings are also the contributor to the reduced library costs of $100K. The size of the Library footprint results in large space costs being assigned to the Library and therefore any savings on utilities or occupancy costs will result in a savings in the Library costs that are attributed to the Faculties.

One-time funding of $700K for student financial assistance that was identified for 2016-17 is no longer required as the university was able to meet all merit and needs based student assistance requirements within previous year's budget allocations and a lower than planned drawdown of carryforward, which negates the need to transfer the additional $700K in 2016-17.

The above savings are offset by a projected increase in shared services costs of $300K. The increase relates to additional legal fees ($200K) and an increase in university membership fees ($100K).

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 in student fees relating to athletics and health. Both flow directly to the Division of Student Affairs.

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 originally approved budget projected reserves being drawn down by $16.4M, but current projections indicate an improvement, with an estimated drawdown of $12.2M. The majority of the swing results from an increase to the faculty allocations of $4.3M. The net increase to Faculties and Schools is the result of higher than anticipated enrolment at the undergraduate international level in the Faculty of Arts and Science and the Faculty of Engineering and Applied Science. There are additional net savings projected within the faculties ($3.5M), primarily resulting from salary savings and a delayed renovation project in the Faculty of Engineering and Applied Science. The overall improvements in the Faculties and Schools is offset by additional drawdowns within the shared services ($2.4M). In particular, substantial carry forward drawdowns within Vice-Principal Research portfolio to support faculty research initiatives, one-time expenses to support capital projects and acquisitions within the Library. In addition, undergraduate student financial aid is drawing down their carryforward as planned. However, as previously noted the current year contribution to undergraduate student financial aid from central cash reserves is no longer required ($0.7M) as their carryforward is sufficient to cover the projected drawdown ($1.9M).

The positive variance of $1.1M in the *to be allocated* line is due to the impact of shared service cost savings along with unplanned incremental revenues flowing to the university fund. The incremental revenues include; an increase in university fund contributions related to increased tuition revenue, short-term investment income, and unrestricted donations.

Contribution to Pension Reserve

In September 2015 Faculties and Shared Services began paying an additional 4.5% of salary base as an expense to address the increase to going concern payments and establish a reserve for future pension solvency payments. The 2016-17 budget reflected the additional charges to Faculties and Shared Services. Projected year end results include both the charges, and the allocation to the Pension Reserve. The pension reserve is expected to increase by approximately $6.8 million for the 2016-17 fiscal year.

II: Ancillary Operations and Consolidated Entities

Overall the projected deficit for the Ancillary Operations and Consolidated Entities has decreased to a $4.6M loss compared with the budgeted deficit of approximately $5.2M. The significant individual variances are outlined below.

Residence continues to project a $2.3M deficit, however, there are some slight fluctuations within the various expense line items. The largest swing is between supplies and miscellaneous expenses and the transfer to the capital reserve for deferred maintenance. Furniture and equipment purchases will now be funded through the deferred maintenance capital reserve, which will increase the annual transfer relative to what was budgeted in 2016-17. The offset will be a decrease in the budget for supplies and miscellaneous expenses in the future. The other most significant saving that is currently projected is in Utilities. In particular, water consumption is expected to decrease due to older bathroom fixtures being outfitted with newer, more efficient products as part of the university's CAPit project.

Community housing is projecting a slight increase to the projected surplus, approximately $128K ahead of budget. The majority of this positive variance is accounted for due to an increase in revenue of $175K which is resulting from slightly lower than budgeted vacancies. The most significant increase in the projected expenses was an unexpected increase for the snow removal contract. Offsetting that are savings in projected utilities costs, arising as the result of a water leak being identified at the An Clachan site at the end of fiscal 2016 which the University worked with the City to rectify.

Event Services is now projecting a deficit of $50K, a worsening of results of approximately $176K. A significant variance is noted on sales, which is offset by a large variance in externally contracted services. These offsetting variances relate to the discontinuance of internal charging practices within the unit, and have no impact on the overall bottom line results. The most significant variance contributing to the projected deficit is an increase in salaries and benefits. A decision has been made to hire additional staff to operate and manage a growing portfolio (particularly two new residences which are used extensively in the summer months). The intention is to expand the staff during the current fiscal year, which will result in increased sales beginning in summer 2017.

Parking is projecting a slight improvement on the original deficit budgeted of $2.1M, to a projected deficit of $1.9M. The improvement results from salary savings and expected savings in the Utilities budget. The Stuart Street Underground joint venture parking garage is projecting to be on budget, with one noted variance, an increase to the annual transfer to the deferred maintenance capital reserve; this increase was approved by the Parking Commission subsequent to the budget being submitted.

The Donald Gordon Centre is now projecting a deficit of $40K compared to a budgeted surplus of $39K. This worsening of results relates to several cancelled reservations in the fall of 2016 which represents approximately 4% of total projected revenue. With a decrease in sales, there are some marginal cost savings which partially offset the reduction in revenue.

PARTEQ is projecting a deficit of $412K, an improvement of $531K over budget. Revenue is up by $1.7M due to one license significantly exceeding expected performance in the first quarter of the fiscal year. The increase in revenue is offset with increases in supplies and miscellaneous, which accounts for distributions to inventors and generally moves in correlation to license revenue.

QCED is projecting a $143K deficit verses the budgeted deficit of $95K, a worsening of approximately $48K. This is due to lower than expected sales revenue. The decrease in sales is partially offset by lower cost of goods sold and a decrease in expenditures such as travel.

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

2016-17 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	85,698	84,519	(1,179)	3,055	4,618	1,563	88,753	89,137	384
EXPENDITURE									
Salaries & Benefits	11,336	11,281	(55)	1,462	1,414	(48)	12,798	12,695	(103)
External Contracts	31,597	30,138	(1,459)	718	695	(23)	32,315	30,833	(1,482)
Utilities	6,577	5,914	(663)	-	-	-	6,577	5,914	(663)
Repairs & Alter.	4,070	4,041	(29)	-	-	-	4,070	4,041	(29)
Interest & Bank Charges	8,764	8,835	71	90	86	(4)	8,854	8,921	67
Supplies & Misc.	5,281	4,341	(940)	1,823	2,978	1,155	7,104	7,319	215
Overhead	4,084	4,031	(53)	-	-	-	4,084	4,031	(53)
Total Expenditures	71,709	68,581	(3,128)	4,093	5,173	1,080	75,802	73,754	(2,048)
Net Surplus (Deficit) before Capital and Contributions to University Operations	13,989	15,938	1,949	(1,038)	(555)	483	12,951	15,383	2,432
Deferred Maintenance	4,661	6,510	1,849	-	-	-	4,661	6,510	1,849
Debt Servicing - Principal	8,419	8,443	24	-	-	-	8,419	8,443	24
Contributions to University Operations	5,000	4,996	(4)	-	-	-	5,000	4,996	(4)
SURPLUS (DEFICIT)	(4,091)	(4,011)	80	(1,038)	(555)	483	(5,129)	(4,566)	563

2016-17 ANCILLARY FINANCIAL REPORT (000's)									
	Residence			**Event Services**			**Community Housing**		
	Budget	**Projected**	**Variance** Surplus (deficit)	**Budget**	**Projected**	**Variance** Surplus (deficit)	**Budget**	**Projected**	**Variance** Surplus (deficit)
REVENUE	65,170	65,170	-	6,052	4,835	(1,217)	5,820	5,995	175
EXPENDITURE									
Salaries & Benefits	8,403	8,313	(90)	1,318	1,439	121	1,300	1,303	3
External Contracts	24,059	23,658	(401)	3,914	2,733	(1,181)	117	391	274
Utilities	4,429	4,044	(385)	181	179	(2)	1,278	1,071	(207)
Repairs & Alter.	2,907	3,059	152	24	24	-	947	795	(152)
Interest & Bank Charges	5,438	5,534	96	20	24	4	59	54	(5)
Supplies & Misc.	4,208	3,010	(1,198)	147	222	75	760	880	120
Overhead	3,259	3,259	-	303	242	(61)	291	300	9
Total Expenditures	52,703	50,877	(1,826)	5,907	4,863	(1,044)	4,752	4,794	42
Net Surplus (Deficit) before Capital and Contributions to University Operations	12,467	14,293	1,826	145	(28)	(173)	1,068	1,201	133
Deferred Maintenance	3,091	4,865	1,774	-	-	-	900	900	-
Debt Servicing - Principal	7,126	7,126	-	-	-	-	57	61	4
Contributions to University Operations	4,502	4,554	52	19	22	3	29	30	1
SURPLUS (DEFICIT)	(2,252)	(2,252)	-	126	(50)	(176)	82	210	128

2016-17 ANCILLARY BUDGET (000's) OPERATING RESERVES									
OPENING RESERVE	5,252	5,252	-	800	800	-	1,000	1,000	-
SURPLUS (DEFICIT) - PLANNED ALLOCATION TO (FROM) RESERVES	(2,252)	(2,252)	-	126	(50)	(176)	82	210	128
CLOSING RESERVE	3,000	3,000	-	927	750	(176)	1,082	1,210	128

2016-17 ANCILLARY BUDGET (000's) CAPITAL RESERVES									
OPENING RESERVE	3,357	3,357	-	-	-	-	5,165	5,165	-
Planned Contribution	3,091	4,865	1,774	-	-	-	900	900	-
Deferred Maintenance Expenditure	2,456	5,258	2,802	-	-	-	450	750	300
CLOSING RESERVE	3,992	2,964	(1,028)	-	-	-	5,615	5,315	(300)

2016-17 ANCILLARY FINANCIAL REPORT (000's)									
	Donald Gordon Centre			Parking			Stuart St. Underground Parking**		
	Budget	Projected	Variance Surplus (deficit)	Budget	Projected	Variance Surplus (deficit)	Budget	Projected	Variance Surplus (deficit)
REVENUE	4,548	4,378	(170)	3,027	3,060	33	1,081	1,081	-
EXPENDITURE									
Salaries & Benefits	-	-	-	238	149	(89)	77	77	-
External Contracts	2,991	2,840	(151)	469	469	-	47	47	-
Utilities	323	341	18	313	226	(87)	53	53	-
Repairs & Alter.	127	98	(29)	37	37	-	28	28	-
Interest & Bank Charges	594	570	(24)	2,469	2,469	-	184	184	-
Supplies & Misc.	62	125	63	61	61	-	43	43	-
Overhead	80	77	(3)	151	153	2	-	-	-
Total Expenditures	4,177	4,051	(126)	3,738	3,564	(174)	432	432	-
Net Surplus (Deficit) before Capital and Contributions to University Operations	371	327	(44)	(711)	(504)	207	649	649	-
Deferred Maintenance	85	100	15	525	525	-	60	120	60
Debt Servicing - Principal	247	267	20	850	850	-	139	139	-
Contributions to University Operations	-	-	-	-	-	-	450	390	(60)
SURPLUS (DEFICIT)	39	(40)	(79)	(2,086)	(1,879)	207	-	-	-

2016-17 ANCILLARY BUDGET (000's) OPERATING RESERVES									
OPENING RESERVE	33	33	-	(13,940) *	(13,940)*	-	-	-	-
SURPLUS (DEFICIT) - PLANNED ALLOCATION TO (FROM) RESERVES	39	(40)	(79)	(2,086)	(1,879)	207	-	-	-
CLOSING RESERVE	72	(7)	(79)	(16,026)	(15,819)	207	-	-	-

2016-17 ANCILLARY BUDGET (000's) CAPITAL RESERVES									
OPENING RESERVE	345	345	-	5,560	5,560	-	585	585	-
Addition to Maintenance Reserve	85	100	15	525	525	-	60	120	60
Deferred Maintenance Expenditure	35	158	123	365	552	187	293	293	-
CLOSING RESERVE	395	287	(108)	5,720	5,533	(187)	352	412	60

* 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 25 years left on the amortization schedule.

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

2016-17 Consolidated Entities Financial Report (000's)						
	PARTEQ Consolidated			**QCED Inc.**		
	Budget	**Projected**	**Variance** Surplus (deficit)	**Budget**	**Projected**	**Variance** Surplus (deficit)
REVENUE	2,728	4,443	1,715	327	175	(152)
EXPENDITURE						
Salaries & Benefits	1,306	1,258	(48)	156	156	-
External Contracts	490	553	63	228	142	(86)
Utilities	-	-	-	-	-	-
Repairs & Alter.	-	-	-	-	-	-
Interest & Bank Charges	90	86	(4)	-	-	-
Supplies & Misc.	1,785	2,958	1,173	38	20	(18)
Deferred Maintenance	-	-	-	-	-	-
Total Expenditures	3,671	4,855	1,184	422	318	(104)
SURPLUS (DEFICIT)	(943)	(412)	531	(95)	(143)	(48)

Note: The Bader International Study Centre is a consolidated entity but under the 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 university has applied for and received Stage II solvency relief, which provided for a three-year deferral of making solvency deficit payments. The Ministry of Finance initiated a solvency funding review and a consultation paper was issued in July 2016, to which Queen's submitted a response. It is anticipated that further information will be presented early in the new year with a view to permanent changes to solvency funding requirements at some point in the future. In the interim, a new regulation was issued at the end of October 2016, which provides additional partial solvency relief for those in Stage II relief with a valuation date on or before December 31, 2018. These additional payments will be determined using the next required actuarial valuation, as of August 31, 2017, and will commence a year later, on September 1, 2018.

The actuarial valuation of the pension plan completed as of August 31, 2014 reported a solvency deficit of $285 million. As outlined in Section VII of this report, the university is building a reserve to assist with future solvency funding requirements.

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 September 30, 2016			Cash Flow Impact				Additional Funding	
	Approved Budget	Total Projected Costs	Expenditures to Sep '16	Funding to Sep '16	Debt to Sep '16	Cash surplus (shortfall) Sep '16	External Grants / Donations/ Debt	Notes:
Projects in Process:								
TRAQ	3,460	3,460	2,278	3,450	-	1,172	-	
Richardson Stadium	20,570	20,570	16,371	16,934	-	563	3,636	1
Victoria Hall - Building Envelope Repairs	6,100	6,100	5,774	-	6,100	326	-	
Energy Service Company (ESCo) Partnership	12,004	12,004	4,036	-	-	(4,036)	12,004	2
Innovation and Wellness Centre	87,465	87,465	822	11,029	-	10,206	76,436	3
Biomedical Research Facility Revitalization	31,865	31,865	174	169	-	(4)	31,696	4
Total Approved Projects in Process	**161,464**	**161,464**	**29,455**	**31,582**	**6,100**	**8,228**	**123,772**	
Projects Completed:								
David C. Smith House and Brant House	70,000	58,500	56,197	-	63,900	7,703	-	
Goodes Hall Expansion	40,000	39,880	39,844	27,344	-	(12,500)	12,678	5
Isabel Bader Performing Arts Centre	80,500	80,500	79,769	76,905	-	(2,864)	3,595	6
John Orr Tower - Window / Door Replacement	2,800	1,120	1,118	1,123	-	5	-	
Reactor Materials Testing Laboratory	18,355	18,355	14,953	15,338	-	385	3,017	7
Queen's Centre Underground Parking	12,235	12,235	12,235	-	12,235	-	-	
School of Kinesiology and Queen's Centre	169,000	168,263	168,239	42,252	78,329	(47,658)	17,200	8
School of Medicine Building	76,846	76,846	75,284	75,302	-	18	1,544	9
Total Approved Completed Projects	**469,736**	**455,699**	**447,639**	**238,264**	**154,464**	**(54,911)**	**38,033**	

Notes on Funding Sources:

1 Donations and University contribution
2 Residences and utility budget funded internal loan
3 Strategic investment fund, provincial grants, donations, capital reserves and University fund contributions
4 Strategic investment fund, provincial grants and internal contributions shared between central administration, FHS, FAS and FEAS
5 Donations and $12M internal loan to Smith School of Business
6 Federal grant and donations and the Faculty of Arts and Science has committed to fund any shortfall
7 Research funding
8 Provincial grant and donations
9 Donations and the Faculty of Health Science has committed to fund any shortfall

Deferred Maintenance

In 2010 a Facilities Condition Audit was conducted for most Ontario Universities so that 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 services provided by a facility auditing company, VFA. The deferred maintenance for campus buildings and residences is $223.6M as detailed 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 is expected to be complete by late November.

Facilities Condition Audit Deferred Maintenance ($M)	
Campus buildings	$165.9
Residences	57.7
Total	**$223.6**

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.

In support of deferred maintenance priorities, annual deferred maintenance budgets have been steadily increasing over the past few years.

The University receives annual provincial funding of $1.6M for deferred maintenance under the Ministry of Advanced Education and Skills Development (MAESD) Facilities Renewal Program. For 2016-17 only, there is an additional one-time top up funding of $1.8M. In support of ongoing capital renewal, all but $1M in provincial funding for the current fiscal year has been allocated to capital projects funded by the Strategic Initiatives Fund (SIF).

Queen's also commits annual operating budget funds for deferred maintenance. The 2016-17 operating budget allocation is $8.7M, which includes a one-time allocation of $4.5M from the University Fund. Total funding for deferred maintenance initiatives (excluding SIF funded projects) for the 2016-17 fiscal year is $9.7M. All current year deferred maintenance funds are projected to be spent by April 30th.

The industry standard for annual deferred maintenance funding is 1%-1.5% of the Current Replacement Value (CRV). For the university campus buildings, the annual number at 1% would be $14M.

Physical Plant Services has developed 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 has also been developed. Information on budgeted allocations to ancillary deferred maintenance reserves as well as planned spending is included in the ancillary section of the report.

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 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.

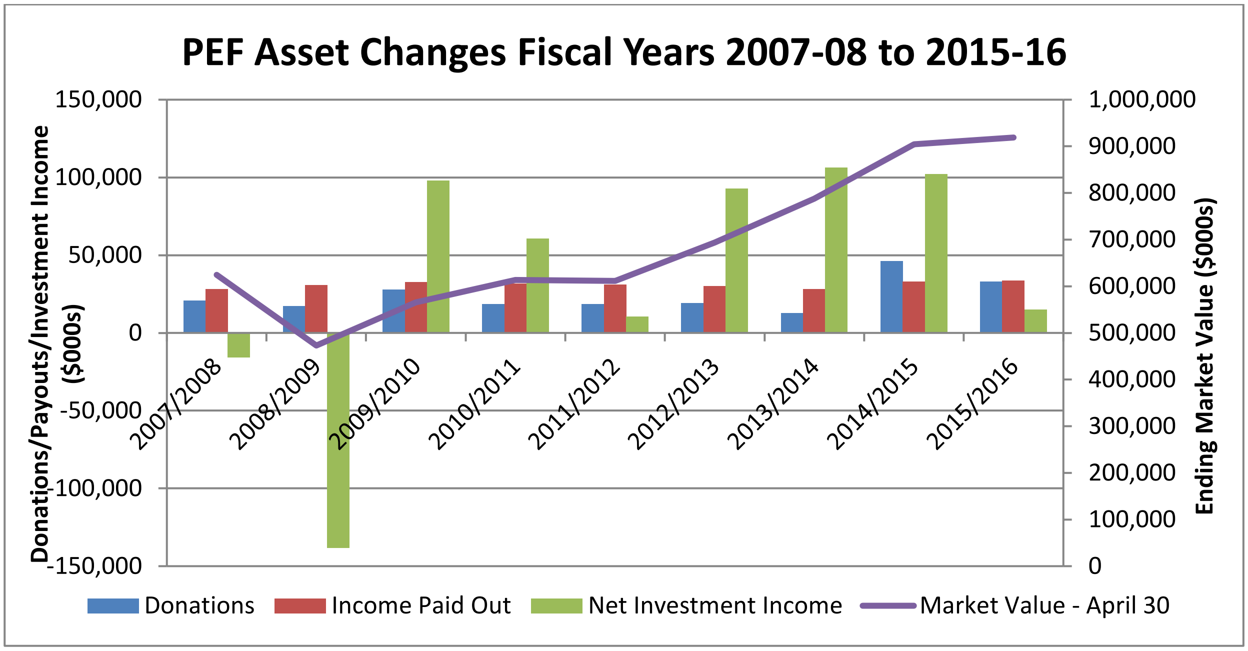
The Pooled Investment Fund ("PIF") is made up of reserve funds and unspent balances. In the past, spending from the PIF was based on a percentage of mean assets, even in periods when returns have been weak. As the PIF's primary objective is to preserve the nominal capital of the fund, the decision was 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. As the market value of the PIF has grown, this amount has been conservatively increased to $5.2 million.

Investment Fund balances are shown in the table below. Note that $20 million in surplus cash was transferred to the PIF in August 2015, which accounts for part of the change in market value in fiscal 2016:

Investment Portfolios (000's)

	Market Value April 30, 2014	Market Value April 30, 2015	Market Value April 30, 2016	Market Value Sept. 30, 2016
Pooled Investment Fund (PIF)	177,054	192,423	213,553	226,619
Pooled Endowment Fund (PEF)	787,474	896,352	918,884	967,810
Total	**964,528**	**1,088,775**	**1,132,437**	**1,194,429**

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 2015-16 fiscal year was approximately $919 million. The market value as of September 30, 2016 was approximately $968 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 in March 2016 the Board approved 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% (previously 3.7%).

The 2016-17 PEF payout to unitholders is approximately $33.5 million ($29.6 million in 2015-16), of which $4.3 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.

An additional $3.34 million was withdrawn from the PEF during 2015-16 to support the operating budget. In 2016-17, this annual withdrawal has been reduced to $1.5 million.

VI: Debt and Liquidity

Debt

Debt Portfolio as at September 30, 2016

Issue	$ Millions	Rate	Maturity
BNY Series A Senior unsecured debenture	$ 90.0	6.100%	2032
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)	$ 66.9	3.180%	2030
Total	$ 281.9		

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 September 30, 2016, 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 $126.7 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		April 30, 2016	April 30, 2015
Viability Ratio (1)	≥ .1.25x	2.13	2.23
Debt Burden Ratio (2)	≤ 3.25%	1.88%	2.19%

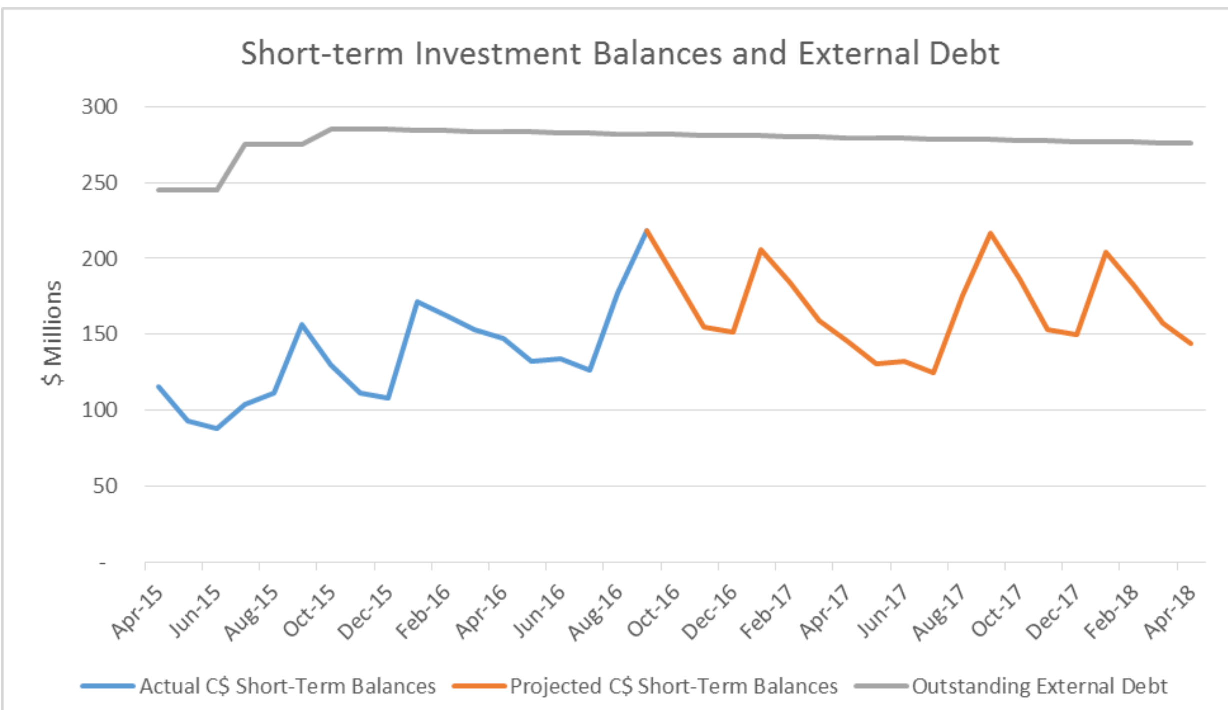
1) Viability Ratio:	**2) Debt Burden Ratio:**
Unrestricted Net Assets + Internally Restricted Net Assets + Internally Restricted Endowments	Annual Interest Cost + Annual Debt Principal
Total University External Debt	Total Operating Expenses - Amortization of Capital Assets + Annual Debt Principal

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 actual and projected short-term investment and external debt balances from April 2015 through April 2018. 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 3 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 operating 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 would 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 2017-2018 and Beyond

In May 2016 the Board of Trustees approved a balanced budget for 2016-2017. At that time a multi-year budget was presented for the 2016-2017 to 2018-2019-time period.

The development of the 2017-2018 to 2019-2020 multi-year budget is well underway. The plan is to develop and implement a sustainable budget for 2017-2018 to 2019-2020 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 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 2016-2017 to 2018-2019 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 2016-17;
- Expirations of collective agreements in the last year of the three-year planning timeframe;
- Pension solvency;
- The significant investment required in physical and technological infrastructure renewal;
- Continued volatility in capital markets.

These risks are still pertinent during the new three-year planning window. A number of agreements are due to expire in 2018 and 2019 including those with the Queen's University Faculty Association, Canadian Union of Public Employees and the United Steel Workers. The outcomes of these negotiations will bear critically on our ability to contain costs over the planning period.

Additional risks could materialize as a result of the funding formula review that is underway along with the announcement of a new tuition fee framework that will occur during the planning cycle.

A plan is underway for addressing the pension solvency shortfall. The pension solvency payments have been deferred for 3 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. Commencing in September 2015, Faculties and Shared Service units have been charged 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 2016-2017 budget included allocations for deferred maintenance and technology renewal. The continuation of these allocations has been identified as a priority, along with additional allocations for classroom renewal, Canada First Research Excellence Fund, and the Innovation & Wellness Centre (PEC).

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 2016. All shared service units submitted their budgets by the end of July 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 are required to submit their multi-year budget plans by late November; PACB meetings to review the submissions are scheduled for December.

Following this, 2017-2018 to 2019-2020 budget projections will be developed in January. The preliminary projections will be presented to the Board of Trustees at its March meeting for information and consultation; the final projections will be presented to the board for approval at its May meeting.