



**Financial Update
Report to the Board of Trustees
December 5, 2014**

I: 2014-15 Operating Budget Update

The table below shows projected variances from the approved 2014-15 operating budget.

Queen's University 2014-15 Operating Budget (000,000's)			
	Approved Budget 2014-15	Projected Actuals 2014-15	Variance
REVENUE			
Student Fees	\$ 248.4	\$ 253.5	\$ 5.1
Government Grants	\$ 201.9	\$ 201.5	\$ (0.4)
Unrestricted Donations	\$ 1.3	\$ 1.3	\$ -
Other Income	\$ 7.3	\$ 6.7	\$ (0.6)
Research Overhead	\$ 3.9	\$ 3.8	\$ (0.1)
Investment Income (Note 1)	\$ 12.2	\$ 12.9	\$ 0.7
Total Operating Revenue	\$ 475.0	\$ 479.7	\$ 4.7
EXPENSE			
Faculties and Schools Allocation	\$ 270.9	\$ 276.2	\$ 5.3
Shared Services Allocation	\$ 167.7	\$ 168.0	\$ 0.3
Infrastructure Renewal	\$ 4.6	\$ 4.6	\$ -
Board Priorities & Compliance	\$ 0.9	\$ 0.9	\$ -
Contingency	\$ 1.8	\$ 1.8	\$ -
Total Allocations	\$ 445.9	\$ 451.5	\$ 5.6
Flow Through Expenses, net of recoveries	\$ 11.5	\$ 11.0	\$ (0.5)
Indirect Costs of Research to External Entities	\$ 1.5	\$ 1.4	\$ (0.1)
To Be Allocated	\$ 2.3	\$ 2.1	\$ (0.2)
Total Operating Expenditures	\$ 461.3	\$ 466.0	\$ 4.7
Net Surplus before Capital Expenditures	\$ 13.7	\$ 13.7	\$ -
Transfer to Capital Budget	\$ 13.8	\$ 13.8	\$ -
Unit Expenses greater than Budget Allocation	\$ 7.5	\$ 9.5	\$ 2.0
Net Budget Surplus (Deficit)	\$ (7.7)	\$ (9.7)	\$ (2.0)
Draw down/(Contribution) Employee Future Benefit or Cash Reserves*	\$ 0.2	\$ 0.2	\$ -
Draw down of Unit Carryforward balances	\$ 7.5	\$ 9.5	\$ 2.0
Net Surplus (Deficit)	\$ -	\$ -	\$ -

*The drawdown of cash reserves is for Talent Management Initiative

Note 1: Income from the PIF is estimated to be \$5.7M. Only the budgeted amount of \$4.2M is reflected here. The \$1.5M variance will be used, if needed, to fund in year expenses.

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

Queen's University at Kingston
2014-15 Shared Services Budget Allocations (000,000's)

	Approved Budget 2014-15	Projected Actuals 2014-15	Variance
Shared Services			
Principal's Office	\$ 1.6	\$ 1.6	\$ -
Secretariat	\$ 0.9	\$ 0.9	\$ -
Communications	\$ 1.7	\$ 1.7	\$ -
Vice-Principal (Research)	\$ 5.5	\$ 5.5	\$ -
Vice-Principal (Advancement)	\$ 13.0	\$ 13.0	\$ -
Vice-Principal (Finance & Admin)	\$ 6.8	\$ 6.8	\$ -
Provost & Vice-Principal (Academic)	\$ 3.8	\$ 3.8	\$ -
Student Affairs	\$ 9.7	\$ 9.7	\$ -
Library (operations & acquisitions)	\$ 25.7	\$ 25.7	\$ -
Occupancy Costs (net of Shared Service Space Costs)*	\$ 29.3	\$ 29.3	\$ -
Environmental Health & Safety	\$ 1.4	\$ 1.4	\$ -
ITS	\$ 14.3	\$ 14.3	\$ -
Human Resources	\$ 5.5	\$ 5.5	\$ -
Graduate Studies	\$ 1.8	\$ 1.8	\$ -
University Wide Benefits & Pension Benefit Guarantee Fund	\$ 8.2	\$ 8.2	\$ -
Need Based & UG Merit Student Assistance	\$ 16.2	\$ 16.2	\$ -
Graduate Students Assistance	\$ 13.4	\$ 13.4	\$ -
University Wide	\$ 8.4	\$ 8.7	\$ 0.3
Faculty Bridge Programs (QNS, QRC, FRP)	\$ 0.5	\$ 0.5	\$ -
Total Shared Services	\$ 167.7	\$ 168.0	\$ 0.3

* The Occupancy Costs include \$2.71M of deferred maintenance.

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

Queen's University		
2014-15 Capital Budget Allocations from Operating		
	Budget 2014-15	Projected 2014-15
Grant Revenue		
MTCU Facilities Renewal Fund	\$ 1,085,500	\$ 1,085,500
MTCU Graduate Capital	\$ 1,700,000	\$ 1,700,000
Total Revenue	\$ 2,785,500	\$ 2,785,500
Budget Allocations		
<u>Capital Projects Financing</u>		
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	\$ 1,500,000	\$ 1,500,000
Tools for Research Administration at Queen's (TRAQ)	\$ 640,000	\$ 640,000
Boiler #8	\$ 166,526	\$ 166,526
<u>Deferred Maintenance</u>		
MTCU Facilities Renewal Fund	\$ 1,085,500	\$ 1,085,500
Total Expenses	\$ 16,628,526	\$ 16,628,526
Budget Surplus (Deficit)	\$ (13,843,026)	\$ (13,843,026)
Transfer from Operating Budget	\$ 13,843,026	\$ 13,843,026
Surplus (Deficit)	\$ -	\$ -

There are no projected changes to the capital budget transfer and allocation.

Budget Analysis

The latest projection of the 2014-15 projected operating budget is that it will be a balanced budget. The budget variances relative to the projection in the approved budget are explained below.

Enrolment

Preliminary enrolment data suggests that we are above target against our overall enrolment projections at the undergraduate level and below target at the graduate level.

Graduate tuition fee revenue has increased by \$0.4M, which reflects a \$1.4M loss in revenues related to research stream master's and PhD enrolments offset by an increase of \$1.8M related to higher than planned international enrolments in the MBA and MFin programs. Government graduate accessibility funding has decreased by \$1.3M because we did not achieve our domestic enrolment targets.

Undergraduate tuition revenue is showing a positive variance of \$4.3M. Enrolments in Arts and Science, Queen's School of Business and Engineering are higher than planned. The remaining differential on student fees of \$400K is mainly the result of an increase in non-tuition student fees of \$700K, which is a direct result of the increase in undergraduate enrolment. This increase is offset by a net decrease in non-credit tuition of \$300K because of low enrolment in the Queen's Executive Development Centre programs in the School of Business.

The higher than planned undergraduate enrolment is producing a positive variance on the Undergraduate Accessibility grant of \$0.8M. This figure presumes that the provincial government will fully fund our 2014-2015 undergraduate enrolment. Preliminary indications are that the system overall did not grow, so overall enrolment is probably within the government funding envelope, so the risk of the funding for our growth funding being discounted is almost certainly very low. The Basic Operating Grant decreased by \$0.2M because of an increase in the International Student Recovery, which is a result of higher than budgeted international enrolment. The targeted program funding increased by \$0.3M as a result of a higher than budgeted enrolment in the advanced track nursing program.

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 remain on budget.

Other Income

Other income has a negative variance arising from a decline in flow-through revenues, miscellaneous athletic income and rental income.

Research Overhead

Research Overhead revenues are difficult to project because they are linked to expenditures in research projects, but current projections suggest we are \$150K lower than budgeted.

Investment Income

Investment income is showing a positive variance of \$0.7M as a result of higher than budgeted short-term investment returns. The operating budget currently assumes revenue from the Pooled Investment Fund (PIF) of \$4.2M, but current projections suggest the revenue may exceed \$5.7M. Prudence dictates that we include only the budgeted amount of \$4.2M in the updated projections and use the surplus income, if needed, to fund in year expenses.

Expenditures

Under the new budget model all tuition and grant revenues are attributed directly to the Faculties and Schools, which means the higher than projected tuition and grant revenues have a direct effect on Faculty and School allocations. All research overhead is 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 higher than projected expenditures of \$300K. This is due to an increase in legal costs for certification of Graduate TA's.

To date expenses on utilities expenses are tracking within budget.

Indirect costs to external entities have decreased because the hospitals' share of tri-council grants has come in lower than budget. The total grant to Queen's has remained unchanged, which means that the Faculties and Schools are now receiving a higher allocation than was originally budgeted.

Flow-through expenses net of recoveries are lower than was originally budgeted because of higher than expected ancillary overhead recoveries and lower flow-through revenues.

Operating Budget Surplus (or Deficit)

Current projections continue to show a balanced budget. The most significant risks to this projection are the possibility of discounting on Undergraduate Accessibility Grant funding and utilities costs exceeding the budget costs because of colder than normal winter temperatures.

The budget approved by the Board reflects the in-year revenue and expenses or budget allocations. Many units are planning total expenditures that are higher than their budget allocation, with the additional expenditures being funded by prior-year reserves (carry-forwards). The originally approved budget projected reserves being drawn down by \$7.5M, but the revised projection is for \$9.5M because of unplanned renovation and construction costs in the Faculty of Law and unplanned expenditures in the Faculty of Health Sciences on construction costs and the support of additional academic and research initiatives. In addition, a planned reduction in the value of Excellence scholarships was not implemented because of the associated risk, which led to higher than budgeted expenditures on scholarships. These increases in expenses are currently being offset by a larger surplus than planned in Queen's School of Business as a result of higher than planned enrolments and reduced expenditures on graduate student support because enrolment targets were not met.

The budgeted drawdown of the Employee Future Benefits and Cash reserve is unchanged at \$0.2M. This drawdown of cash is furthermore explicitly matched to one-time expenses.

It is important to note that there are a number of non-cash year end accounting adjustments for employee future benefits and derivatives that are dependent on year-end accounting valuations and are therefore not included in the Board approved operating budget. These accounting transactions will affect the operating surplus (or deficit) per the audited financial statements.

II: Ancillary Operations and Consolidated Entities

Overall the projected deficit for the Ancillary Operations and Consolidated Entities of \$4.47M has improved compared with the budgeted deficit of approximately \$5.16M. The significant individual variances are outlined below.

Residence is now projecting a \$1.5M loss (after capital contributions and contribution to University operations) against a budgeted deficit of \$2.1M. The additional revenue of \$3.8M results from 168 additional spaces over the spaces budgeted and the replacement of 140 “room only” occupants with students paying for “room and board”. This revenue is largely offset by an increase in external contract expenses related to the meal plan costs for the rooms converted to “room and board”. Additional overhead expenses and contributions to University operations account for the remainder of the change in expenses which is directly related to the increase in revenue.

Community housing is projecting a deficit that is \$126K ahead of budget. The majority of this positive variance is accounted for by additional revenue (\$214K) generated from budgeted vacancies offset by increased salary and benefit costs of (\$107K) related to servicing the additional students.

Parking is projecting a positive variance of \$65K which is primarily a result of reduced hours for the west campus shuttle operation and the reduction of one parking attendant. The business case for the Union Street and Queen’s Centre underground parking garages noted that the payback would be over 40 years. The reserve deficit will continue to increase until payment of the debt servicing has completed at which time the revenues will flow and begin reducing the accumulated deficit.

Originally budgeting to break even, the Computer Store is now projecting a loss of \$180K. Although internal sales are tracking on budget, retail sales are well below budget. Staff and students are now going directly to manufacturers rather than purchasing from the computer store. Options to restructure the computer store are part of the ancillary review, which will make recommendations on how to proceed.

PARTEQ is projecting a surplus of \$14K, an increase over budget of \$149K. License revenue from major licensees has been exceeding expectations resulting in an increase of \$1.76M. This is being offset by an increase in distributions to inventors resulting from the higher than budgeted license revenues.

The following tables provide budget and projection details for the Ancillary Operations as well as for the Consolidated Entities. In an effort to provide more detailed information about the operating results of the ancillary operations, we have altered the layout of the Ancillary Operation Financial Reports. The budget information presented is the same as that presented to the Board in May 2014, but in a slightly altered format. To improve on what was previously presented, we have categorized the budget and projections to separate normalized expenditures in-year versus the drawdowns that are a result of the principal portion of payments on debt servicing, deferred maintenance allocations to reserve, and/or Contributions to University Operations.

2014-15 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	52,693	56,455	3,762	3,881	3,881	-	5,666	5,880	214	2,963	2,876	(87)
EXPENDITURE												
Salaries & Benefits	7,553	7,553	-	1,229	1,229	-	1,220	1,326	106	293	213	(80)
External Contracts	19,437	22,303	2,866	2,259	2,259	-	220	220	-	640	561	(79)
Utilities	3,669	3,669	-	188	188	-	896	896	-	271	272	1
Repairs & Alter.	2,608	2,608	-	-	42	42	816	816	-	60	34	(26)
Interest & Bank Charges	4,672	4,672	-	23	23	-	58	58	-	2,562	2,562	-
Supplies & Misc.	5,759	5,759	-	108	108	-	1,363	1,345	(18)	56	87	31
Overhead	1,806	2,063	257	89	89	-	300	294	(6)	100	101	1
Total Expenditures	45,504	48,627	3,123	3,896	3,938	42	4,873	4,955	82	3,982	3,830	(152)
Net Surplus (Deficit) before Capital and Contributions to University Operations	7,189	7,828	639	(15)	(57)	(42)	793	925	132	(1,019)	(954)	65
Deferred Maintenance	2,491	2,491	-	-	-	-	284	284	-	525	525	-
Debt Servicing - Principal	3,142	3,142	-	-	-	-	53	53	-	757	757	-
Contributions to University Operations	3,658	3,688	30	357	357	-	741	746	5	-	-	-
SURPLUS (DEFICIT)	(2,102)	(1,493)	609	(372)	(414)	(42)	(285)	(158)	127	(2,301)	(2,236)	65

2014-15 ANCILLARY BUDGET (000's) RESERVES				
	Budget	Projected	Variance	
OPENING RESERVE	4,583	4,583	-	(4,358)*
Addition to Maintenance Reserve	-	-	-	525
SURPLUS (DEFICIT) - PLANNED ALLOCATION TO (FROM) RESERVES	(2,102)	(1,493)	609	(2,301)
CLOSING RESERVE	2,481	3,090	609	(6,134)

* The parking reserve is net of a \$5M reserve that has been set aside for deferred maintenance. The accumulated deficit, created by the debt servicing payments, is projected to be reduced to nil 8 years after the debt servicing payments are completed. The debt servicing payments have 27 years left on the amortization schedule.

2014-15 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	229	9	7,500	7,161	(339)	4,184	3,999	(185)	984	1,015	31
EXPENDITURE												
Salaries & Benefits	-	-	-	660	586	(74)	-	-	-	75	75	-
External Contracts	30	30	-	-	-	-	1,750	1,681	(69)	43	44	1
Utilities	-	-	-	-	-	-	250	270	20	53	50	(3)
Repairs & Alter.	-	-	-	-	-	-	185	192	7	28	38	10
Interest & Bank Charges	-	-	-	-	-	-	595	595	-	199	199	-
Supplies & Misc.	17	26	9	6,796	6,709	(87)	1,012	988	(24)	40	38	(2)
Overhead	8	8	-	44	46	2	73	70	(3)	-	-	-
Total Expenditures	55	64	9	7,500	7,341	(159)	3,865	3,796	(69)	438	444	6
Net Surplus (Deficit) before Capital and Contributions to University Operations	165	165	-	-	(180)	(180)	319	203	(116)	546	571	25
Deferred Maintenance	-	-	-	-	-	-	80	-	80	20	47	(27)
Debt Servicing - Principal	-	-	-	-	-	-	228	228	-	124	124	-
Contributions to University Operations	165	165	-	-	-	-	-	-	-	402	400	(2)
SURPLUS (DEFICIT)	-	-	-	-	(180)	(180)	11	(25)	(36)	-	-	-

2014-15 ANCILLARY BUDGET (000's) RESERVES		
OPENING RESERVE	-	-
Addition to Maintenance Reserve	(456)	(456)
SURPLUS (DEFICIT) - PLANNED ALLOCATION TO (FROM) RESERVES	-	(180)
CLOSING RESERVE	(456)	(636)

2014-15 Consolidated Entities Financial Report (000's)						
	PARTEQ Consolidated			QCED Inc.		
	Budget	Projected	Variance Surplus (deficit)	Budget	Projected	Variance Surplus (deficit)
REVENUE	3,726	5,488	1,762	799	489	(310)
EXPENDITURE						
Salaries & Benefits	1,406	1,408	2	194	194	-
External Contracts	146	99	(47)	523	261	(262)
Utilities	-	-	-	-	-	-
Repairs & Alter.	-	-	-	-	-	-
Interest & Bank Charges	114	115	1	-	-	-
Supplies & Misc.	2,195	3,852	1,657	58	8	(50)
Deferred Maintenance	-	-	-	-	-	-
Total Expenditures	3,861	5,474	1,613	775	463	(312)
SURPLUS (DEFICIT)	(135)	14	149	24	26	2

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

The University is required to file a pension plan valuation as of August 31, 2014. The pension committee of the Board of Trustees discussed valuation assumptions at their meeting in September and will be presented with the preliminary valuation results at the December meeting. This will inform special payments effective September 1, 2015. The valuation must be filed by May 2015.

The August 31, 2013 updated pension plan valuation resulted in a going concern deficit of \$164.0M on a smoothed basis, and a solvency deficit of \$291.8M.

The 2014-15 budget includes the required going concern payments of \$14.4 million which commenced on September 1, 2012, and are based on an August 31, 2011 going-concern deficit of \$126.4 million on a smoothed basis. The University is currently in Stage I solvency relief, and will apply for Stage II solvency relief in January 2015. Stage II relief allows the solvency deficit to be amortized over 10 years instead of 5. Recent changes to the Pension Benefits Act in Ontario provide universities with a further choice to amortize the solvency deficit over the 10 year period, or take advantage of an additional 3 year extension to pension solvency relief and amortize the solvency deficit over the remaining 7 years of Stage II relief. The university continues to explore options relating to a Jointly Sponsored Pension Plan (JSPP) to obtain long-term pension plan financial sustainability.

IV: Capital:

The table below provides an overview of Board approved capital projects with related information on funding. In May 2014, the Board of Trustees approved a revised Major Capital Projects Approval Policy (Built Environment) <http://www.queensu.ca/secretariat/policies/board/mcpapolicy.html>. 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, 2014	Approved Budget	Cash Flow Impact				Additional Funding		Notes:
		Expenditures to Sep '14	Funding to Sep '14	Debt to Sep '14	Cash surplus (shortfall) Sep '14	External Grants / Donations/ Debt	Annual Operating Budget Impact	
Projects in Process:								
Isabel Bader Performing Arts Centre	80,500	76,599	74,190		(2,409)	6,310		1
Reactor Materials Testing Laboratory	18,355	13,955	11,134		(2,820)	7,221		2
New Residence Buildings	70,000	25,438	-	30,000	4,562	40,000		3
TRAQ	3,460	1,569	1,920		351		640	
Ellis Hall - Innovative Learning renovation	2,270	1,758	2,270		513	-		
Innovation Park - Micro / Nano Facility	2,000	803	312		(491)	1,688		4
Total Approved Projects in Process	186,285	120,122	89,827	30,000	(295)	55,219	640	
Projects Completed:								
Queen's Centre Underground Parking	12,235	12,235		12,235	-	-		
School of Kinesiology and Queen's Centre Phase 1	169,000	168,216	33,329	78,329	(56,558)	57,342	6,900	
Goodes Hall Expansion	40,000	40,000	24,493		(15,507)	15,507		5
Stuart Street Underground Parking	7,500	7,500	881		(6,619)	6,619		6
West Campus Fields	3,122	3,030	2,708		(322)	414		7
Mackintosh-Corry Food Services	1,345	1,752	1,231		(520)	520		8
Waldron Tower	2,500	2,143	1,434		(709)	709		8
Medical Building	76,846	74,920	74,663		(257)	2,183		9
Nixon Field	2,300	2,397	2,351		(46)	46		7
Jean Royce - Food Services	2,204	1,573	886		(686)	1,318		8
JDUC - Sidewalk café	1,515	1,414	629		(785)	886		8
Total Approved Completed Projects	318,567	315,179	142,605	90,564	(82,011)	85,545	6,900	

Notes on Funding Sources:

- 1 Federal grant and donations
- 2 Research funding
- 3 Housing and Hospitality Services - external debt
- 4 Research funding, CMC Microsystems and Innovation Park grant
- 5 Donations and \$12M internal loan to Queen's School of Business
- 6 Parking Revenue - funding shared 50/50 with Kingston General Hospital
- 7 Donation pledges
- 8 Housing and Hospitality Services Internal Loan
- 9 Donations and the Faculty of Health Science has committed to fund any shortfall

The table below provides information on projects where the Board approved planning funds to investigate potential capital projects.

Project- planning funds (\$000's)	Planning funds approved to Sep '14	Expenditures to Sep '14	Funding to Sep '14	Net Cash Position
Teaching Space Complex	620	634	620	(14)
Engineering Building	300	312	4,754	4,442
Total	920	946	5,374	4,428

Deferred Maintenance:

A Facilities Condition Audit was conducted in 2010 for all Ontario Universities so that the data could be stored in a common database. The data is updated to provide for inflationary increases offset by deferred maintenance projects. The deferred maintenance for campus buildings and residences is \$223 million as shown the table below.

Facilities Condition Audit	
Deferred Maintenance	(\$000's)
Campus buildings	165,900
Residences	57,200
	223,100

In addition, there is an estimated \$30M of campus infrastructure (underground systems) deferred maintenance based on a 2006 audit. In 2015, Physical Plant Services (PPS) will refresh the underground infrastructure audit. It is expected that the estimate will increase.

The University receives a small amount of annual provincial funding for deferred maintenance under the MTCU Facilities Renewal Program. The allocation to this funding envelope was cut in 2010-11, which, along with Queen's declining system share, has reduced Queen's allocation from \$1.7M a few years ago to \$1.1M annually. The recent provincial budget committed to an increase in this funding over the period 2015-16 to 2019-20, however there are no details on how this will be allocated.

Queen's also allocates annual operating budget funds for deferred maintenance. The 2014-15 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 the annual number at 1% would be \$14M. The table below shows Queen's projected deferred maintenance expenditures in 2014-15. For the MTCU funded program, there is a list of pre-approved projects (roofs in the current year) and the expenditures are subject to external audit.

Over the past year PPS 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.

Deferred Maintenance 2014-15: (\$000's)

Funding Source:	Available funds May 1, 2014	Spent and Committed to Sept 30, 2014	Notes
Operating Budget / University Fund	6,310	4,383	
MTCU: Facilities Renewal Program	1,085	1,085	1
Total:	7,395	5,468	
Note 1 - Annual Funding based on Ontario MTCU - System Share for 2014-15			

V: Investment Funds:

The decline in the financial markets in late 2008 and early 2009 had a substantial impact on University investments. Since then, markets have broadly recovered, although they have been susceptible to further volatility. Market volatility can have a significant impact on investment holdings and financial planning.

The University has two investment portfolios, the Pooled Endowment Fund and the Pooled Investment Fund.

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.

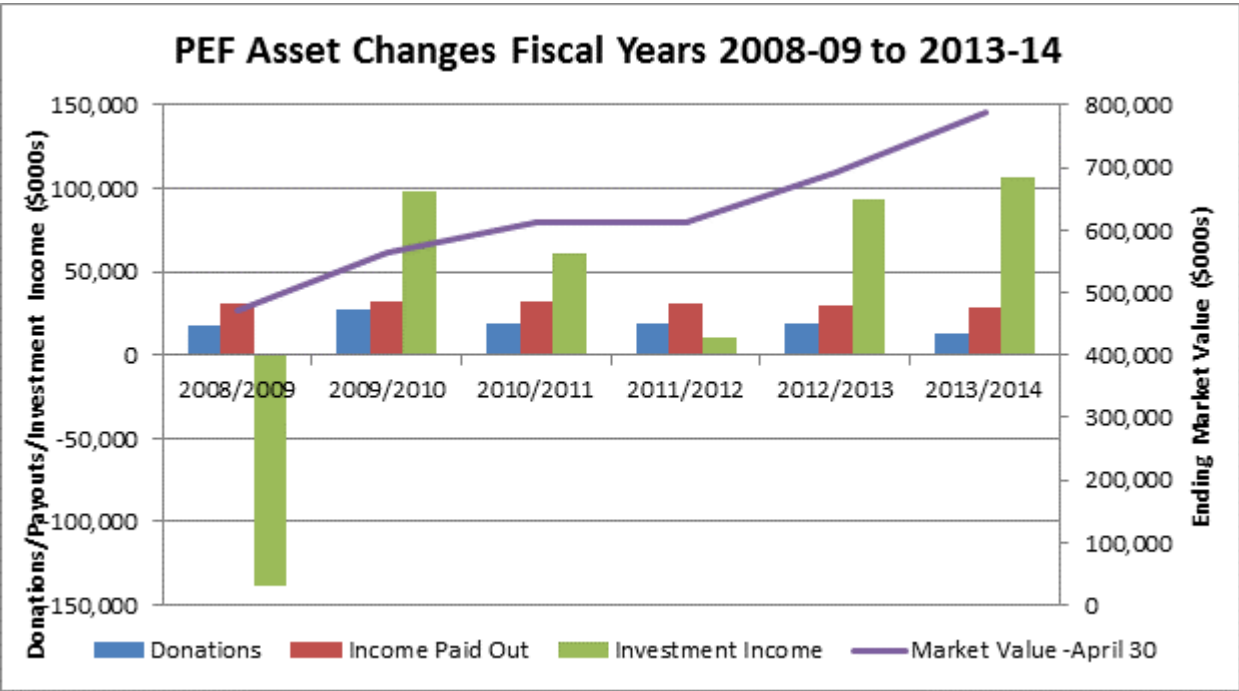
The Pooled Investment Fund ("PIF") is made up of reserve funds and unspent balances. In the past, spending from the PIF has been based on a percentage of mean assets, even in periods when returns have been weak. Due to the PIF's primary objective to preserve the nominal capital of the fund, the decision 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, 2012	Market Value April 30, 2013	Market Value April 30, 2014	Market Value Sept 30, 2014
Pooled Investment Fund (PIF)	168,436	156,463	177,054	180,477
Pooled Endowment Fund (PEF)	611,732	694,010	787,474	814,992
Total	780,168	850,473	964,528	995,469

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 2013-14 fiscal year was approximately \$787 million. Since then, the PEF has continued to grow amidst a positive market environment. The market value as of September 30, 2014 was \$815 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 a substantial level of 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 market value, there is a significant smoothing effect and the full impact of market movements is not felt immediately. In the past year, the University completed a thorough review of its spending policy, and in March the Board approved a two-year adjustment to the PEF payout for 2014-15 and 2015-16 that implements a long-term payout target of 3.7%, as well as adding upper and lower bands.

The 2014-15 PEF payout is approximately \$26.1 million, of which \$3.4 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

Balances at September 30, 2014:

Debt Portfolio			
Issue	\$ Millions	Rate	Maturity
Series A Senior unsecured debenture	\$ 90.0	6.100%	2032
CMHC Residences loans	\$ 0.5	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)	\$ 30.0	3.180%	2030
Total	\$ 245.5		

*A further \$40M will be drawn on this facility in 2015-16

In October 2013 the Board approved a revised Debt Management Policy. The ratios in the policy are as follows:

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

* Excluding liabilities associated with employee future benefits and including deferred contributions.

Board Debt Management Policy		Apr. 30, 2013	Apr. 30, 2014
Viability Ratio (1)	≥ .1.25x	1.80	1.97
Debt Burden Ratio (2)	≤ 3.25%	2.60%	2.59%

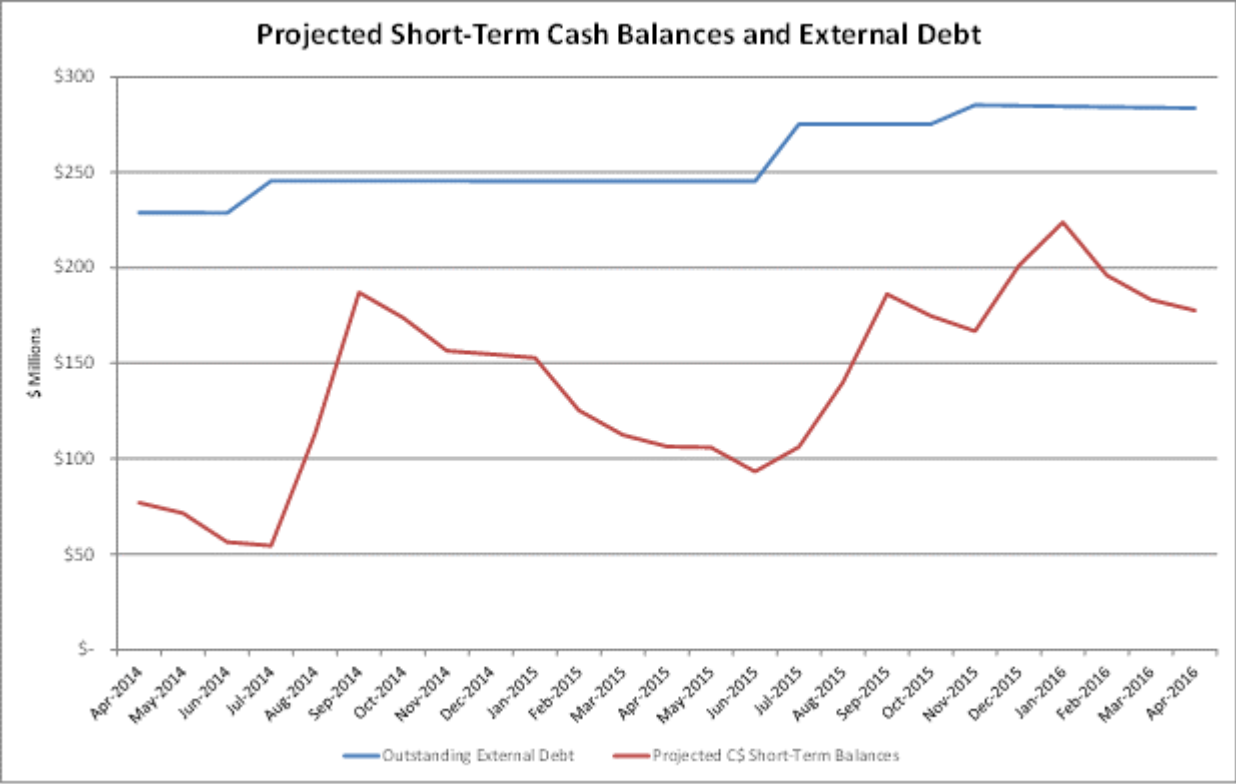
The University is within the established parameters of both the Viability Ratio and the Debt Burden Ratio.

Cash Flow

The University administration has been developing a cash management forecasting model to better track the University's cash inflows and outflows. The expectation is that this tool will allow the University to better manage its short-term investment portfolio and to optimize interest income through the increased confidence in the timing of the University's sources and uses of cash. The cash forecasting 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 for the current and following fiscal year. University cash balances are cyclical in nature with higher balances in the fall

months due to tuition and residence fee receipts, and lower balances experienced during the late spring and early summer months. In the fall, the University administration invested its cash balances in bank demand deposits, bank term deposits and guaranteed investment certificates maturing between one month and 1 year, and with a short-term bond fund with a targeted maturity of 3 years (fully redeemable at any time). These investments were made taking into account the projected cash flow needs of the University with the aim of matching assets and liabilities as much as possible. 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. 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.



VII: Budget Planning for 2015-2016 and Beyond

In May 2014 the Board of Trustees approved a balanced budget for 2014-2015. At that time a multi-year budget was presented for the 2014-2015 to 2016-2017 time period.

The development of the 2015-2016 to 2017-2018 multi-year budget is well underway. The plan is to develop and implement a sustainable budget for 2015-2016 to 2017-2018 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 2014-2015 to 2016-2017 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 2014-15;
- The expiry of collective agreements during the 3 year planning timeframe and the uncertainty regarding the outcome of future negotiations;
- 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 provincial government's Differentiation Framework and the universities' Strategic Mandate Agreements with the province are finalized and Queen's University has received their allotment of targeted graduate spaces from the government. Unfortunately we have not achieved the enrolment required at the graduate level to meet the targeted allocations. On the other hand we have exceeded our undergraduate enrolment targets in a year where many other universities struggled to meet their targets and in many cases are significantly below them.

A number of collective agreements are due to expire in 2014 and 2015 including those with the Queen's University Faculty Association, the 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.

Plans are underway for addressing the pension solvency shortfall in 2015-16. As is outlined below, shared service units and Faculties and Schools have been asked to incorporate impacts of estimated pension solvency shortfalls into their plans to allow for the potential that pension solvency payments will be required. The extent of this shortfall is currently under evaluation based on the value of the pension as at August 31, 2014.

The 2014-2015 budget included an additional allocation for deferred maintenance and administrative system implementation and renewal. The continuation of, and, if possible, an increase in, this allocation have been identified as priorities for the 2015-2016 budget planning cycle.

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. The guidelines included planning parameters that work towards the management of a pension solvency payment that would begin in September 2015, while still achieving a structurally balanced outlook within the 3 year budget horizon. All shared service units submitted their budgets by the end of August and PACB meetings to discuss the submissions were held in early October. 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 late-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, 2015-2016 to 2017-2018 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.