Financial Update
Report to the Board of Trustees
May 6, 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	$ 276.1	$ 4.4
Government Grants	$ 204.5	$ 206.0	$ 1.5
Unrestricted Donations	$ 1.3	$ 2.3	$ 1.0
Other Income	$ 7.5	$ 7.6	$ 0.1
Research Overhead	$ 4.0	$ 3.2	$ (0.8)
Investment Income (Note 1)	$ 12.5	$ 8.9	$ (3.6)
Total Operating Revenue	**$ 501.5**	**$ 504.1**	**$ 2.6**
EXPENSE			
Faculties and Schools Allocations	$ 295.7	$ 298.4	$ 2.7
Shared Services Allocations*	$ 174.8	$ 172.3	$ (2.5)
Infrastructure Renewal	$ 4.4	$ 4.4	$ -
Board Priorities & Compliance	$ 1.0	$ 1.0	$ -
Contingency	$ 1.8	$ 1.8	$ -
Total Allocations	**$ 477.7**	**$ 477.9**	**$ 0.2**
Flow Through Expenses, net of recoveries	$ 10.4	$ 12.6	$ 2.2
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**	**$ 12.2**	**$ 0.2**
Transfer to Capital Budget	$ 12.3	$ 12.3	$ -
Unit Expenses greater/(less) than Budget Allocation	$ 11.4	$ (1.9)	$ (13.3)
Net Budget Surplus (Deficit)	**$ (11.7)**	**$ 1.8**	**$ 13.5**
Draw down/(Contribution) Cash Reserves	$ 0.3	$ 0.1	$ (0.2)
Draw down/(Contribution) of Unit Carryforward balances	$ 11.4	$ (1.9)	$ (13.3)
Net Surplus (Deficit)	**$ -**	**$ -**	**$ -**

**Includes Undergraduate & Graduate Student Aid and Utilities*

Note 1: *The projection includes no investment income from the PIF against a budget of $4.2M. As the fiscal year end approaches, a nil projection was deemed appropriate as the PIF has experienced a year of significant fluctuations. If the PIF does result in a loss, the drawdown 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	$ 3.3	$ 3.3	$ -
Vice-Principal (Research)	$ 6.0	$ 6.0	$ -
Vice-Principal (Advancement)	$ 11.6	$ 11.6	$ -
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	$ 26.0	$ (0.4)
Occupancy Costs (net of Shared Service Space Costs)*	$ 31.0	$ 28.2	$ (2.8)
Environmental Health & Safety	$ 1.5	$ 1.6	$ 0.1
ITS	$ 16.1	$ 16.1	$ -
Human Resources	$ 5.7	$ 5.8	$ 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**	**$ 172.3**	$ (2.5)

* 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
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

Since the report of March 2016, the most significant change to the projections relates to investment income, which is now showing an unfavourable variance of $3.6M, as opposed to a small positive variance. This is due to the failure of the PIF to rebound over the remaining months of the fiscal year, but the reserve that was created in 2014-15 from unbudgeted PIF gains will be used to offset this drop in income so that the budget remains balanced. The projected variances relative to the approved budget are explained below.

Enrolment

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 than was budgeted. Domestic ineligible students are those that are no longer eligible for grant funding, which resulted in lower graduate grant funding.

Overall student fees are showing a positive variance of $4.4M, 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 student tuition of $0.7M and a decrease in non-credit tuition of $2.0M, the latter due to lower enrolment in the Queen's Executive Development Centre programs in the Smith School of Business, offset to a limited degree by increases in Continuing Teacher Education and the School of English in the Faculty of Education.

Overall government grants are showing a positive variance of $1.5M. The undergraduate accessibility grant is projecting higher than budgeted because of 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 Performance fund increased by $0.2M and the targeted program grant funding increased by $2.0M. The targeted program grant funding increases are related to 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 increases in overall enrolment. In addition, there were slight increases, relative to budget, to the targeted grants within the Faculty of Health Sciences and the Faculty of Education.

Unrestricted Donations

Donation revenue is difficult to forecast, but based on donations received to date, Advancement is projecting that unrestricted donation revenues will be $2.3M, which is an increase over budget of $1M.

Other Income

Other income has a positive variance of $100K arising from a slight increase in flow-through revenues in the Division of Student Affairs; an increase in health fees and athletic fee revenue is being offset by lower than budgeted enrichment studies revenue.

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 below what was budgeted.

Investment Income

Investment income is showing a negative variance of $3.6M which relates to a projection of nil income from the Pooled Investment Fund, offset by higher than budgeted returns on short-term investments. The Pooled Investment Fund (PIF) encountered significant fluctuations in fiscal 2015-16, and in recent months the market has showed some signs of rebounding. The returns include both realized and unrealized gains/losses, but it is highly unlikely the PIF will rebound to the budgeted amount of $4.2M. As a result, it was deemed prudent to project no income from the PIF at this point in 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, along with in-year savings, will be used to offset this year's drop in income below budget.

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 $2.5M. This is the result of significant savings in utilities which is resulting in a projected net decrease of $2.8M in occupancy costs. The savings in utilities are due to 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 utilities savings are also the major contributor to the reduced library costs of $400K. 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.

Additional expenses of $0.1M are projected in Human Resources due to savings within the University Employee Assistance Program, which are offsetting additional costs related to supporting the tuition assistance program. There were a higher number of employees accessing the tuition assistance program this year. There is also a projected increase in University Wide Benefits and the Pension Benefit Guarantee Fund of $0.4M relating to increases in benefits for survivors, retirees, and long-term disability employees. Environmental Health & Safety costs are expected to be over budget by $0.1M due to increased cost for medical waste. In addition, there is a projected increase in University-wide expenses 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; see above) 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 estimated surplus of $1.9M. Part of the swing results from a net increase to the faculty and school allocations because of enrolment growth (primarily at the undergraduate level, both domestic and international). There have also been turnover salary savings within several faculties, primarily within the Faculty of Engineering and Applied Science and the Faculty of Arts and Science. The total impact of increased allocations and other savings within Faculties and Schools is a positive variance of $10.5M.

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 $0.3M is spread across the shared services.

The net result of all variances is a small drawdown of central cash reserves and a positive variance from budget of $200K; the original projection was that cash reserves would be drawn down by $300K.

II: Ancillary Operations and Consolidated Entities

Overall the projected deficit for the Ancillary Operations and Consolidated Entities has increased to a $3.3M loss compared with the budgeted deficit of approximately $2.8M. The significant individual variances are outlined below.

Residence is now projecting a $587K 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 budget was 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. Externally contracted service costs escalated unexpectedly due to rising food costs. 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. Some savings have been found in utilities due to seasonal fluctuations and in supplies and miscellaneous due to cost containment initiatives. In addition, $685K of unspent funds in repairs and alterations have been redistributed to deferred maintenance.

Event Services is now projecting a $272K deficit which is $178K 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 food costs.

Community housing is projecting a deficit that is a $62K 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 saving at An Clachan and the John Orr window project costs came in slightly under budget. The resulting savings from the John Orr window project will be contributed to the capital reserve. Offsetting these savings are an increase in utilities, and options for future cost containment are being explored both at the building sites and with the City of Kingston.

The Computer Store is projecting a surplus of $16K, which is an improvement of $126K over budget. Most of this relates to a very conservative revenue budget being submitted in response to plans to close the Computer Store by the end of the fiscal year. There have also been savings in supplies and miscellaneous which is consistent with the decrease in sales, as well as the liquidation of 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 $69K due to one-time severance and slightly higher utility costs. Offsetting these costs are savings in supplies and miscellaneous. In addition, $80K not spent in repairs and alterations was transferred to deferred maintenance.

Queen’s Parking is projecting a deficit of approximately $2.0M. This is the result of savings from utilities that are being offset by lower than budgeted revenue. The Stuart Street Underground Parking Garage (which is a joint venture with Kingston General Hospital) is projecting a positive variance to budget of $51K. This is the result of savings in utilities ($21K) paired with a projected increase in revenue over budget ($31K).

PARTEQ is projecting a surplus of $668K, an increase over budget of $568K. The increase in revenue is partially offset by distributions to license holders. The overall result is still a favourable positive projected variance to budget.

Queen's Centre for Enterprise Development (QCED) is projecting a $230K deficit verses the budgeted $9K profit. This is due to the transition year, during which QCED will ramp up work with a new partner. QCED is planning to sign a new partnership agreement resulting in renewed revenues beginning in May 2016. This agreement would see a return to a profitable position by 2018-19.

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	90,269	(532)	5,625	7,937	2,312	96,426	98,206	1,780
EXPENDITURE									
Salaries & Benefits	11,954	11,705	(249)	1,475	1,392	(83)	13,429	13,097	(332)
External Contracts	27,633	29,433	1,800	739	2,284	1,545	28,372	31,717	3,345
Utilities	5,967	6,078	111	-	-	-	5,967	6,078	111
Repairs & Alter.	4,123	3,340	(783)	-	-	-	4,123	3,340	(783)
Interest & Bank Charges	8,978	8,635	(343)	114	98	(16)	9,092	8,733	(359)
Supplies & Misc.	13,698	12,720	(978)	3,188	3,725	537	16,886	16,445	(441)
Overhead	2,830	2,821	(9)	-	-	-	2,830	2,821	(9)
Total Expenditures	75,183	74,732	(451)	5,516	7,499	1,983	80,699	82,231	1,532
Net Surplus (Deficit) before Capital and Contributions to University Operations	15,618	15,537	(81)	109	438	329	15,727	15,975	248
Deferred Maintenance	6,606	7,096	490	-	-	-	6,606	7,096	490
Debt Servicing - Principal	5,903	6,200	297	-	-	-	5,903	6,200	297
Contributions to University Operations	5,995	5,966	(29)	-	-	-	5,995	5,966	(29)
SURPLUS (DEFICIT)	(2,886)	(3,725)	(839)	109	438	329	(2,777)	(3,287)	(510)

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	3,000	(81)
EXPENDITURE												
Salaries & Benefits	8,434	7,926	(508)	1,260	1,383	123	1,322	1,251	(71)	296	282	(14)
External Contracts	21,350	23,165	1,815	3,819	3,949	130	115	94	(21)	421	356	(65)
Utilities	4,220	4,117	(103)	192	150	(42)	959	1,239	280	254	216	(38)
Repairs & Alter.	3,035	2,345	(690)	43	25	(18)	764	799	35	61	31	(30)
Interest & Bank Charges	5,627	5,257	(370)	6	19	13	60	58	(2)	2,517	2,517	-
Supplies & Misc.	4,440	4,125	(315)	145	117	(28)	1,467	1,043	(424)	87	120	33
Overhead	2,209	2,147	(62)	93	93	-	285	291	6	114	150	36
Total Expenditures	49,315	49,082	(233)	5,558	5,736	178	4,972	4,775	(197)	3,750	3,672	(78)
Net Surplus (Deficit) before Capital and Contributions to University Operations	14,359	13,986	(373)	238	60	(178)	735	1,052	317	(669)	(672)	(3)
Deferred Maintenance	2,916	3,601	685	-	-	-	3,115	3,365	250	525	525	-
Debt Servicing - Principal	4,670	4,963	293	-	-	-	53	57	4	802	802	-
Contributions to University Operations	4,850	4,835	(15)	332	332	-	628	629	1	-	-	-
SURPLUS (DEFICIT)	1,923	587	(1,336)	(94)	(272)	(178)	(3,061)	(2,999)	62	(1,996)	(1,999)	(3)

2015-16 ANCILLARY BUDGET (000's) RESERVES

	Residence			Event Services			Community Housing			Parking		
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	587	(1,336)	(94)	(272)	(178)	(3,061)	(2,999)	62	(1,996)	(1,999)	(3)
CLOSING RESERVE	6,597	5,261	(1,336)	657	479	(179)	4,878	4,940	62	(8,303)	(8,306)	(3)

* 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.

**A portion of the reserves will be set aside for deferred maintenance and will be transferred into the capital fund as part of the 2015-16 year-end.

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	249	29	6,900	6,756	(144)	4,358	4,478	120	1,065	1,095	30
EXPENDITURE												
Salaries & Benefits	-	-	-	565	499	(66)	-	289	289	77	75	(2)
External Contracts	17	16	(1)	-	-	-	1,865	1,807	(58)	46	46	-
Utilities	-	-	-	-	-	-	285	320	35	57	36	(21)
Repairs & Alter.	-	-	-	-	-	-	180	99	(81)	40	41	1
Interest & Bank Charges	-	-	-	-	-	-	576	592	16	192	192	-
Supplies & Misc.	10	55	45	6,400	6,185	(215)	1,112	1,037	(75)	37	38	1
Overhead	8	8	-	45	56	11	76	76	-	-	-	-
Total Expenditures	35	79	44	7,010	6,740	(270)	4,094	4,220	126	449	428	(21)
Net Surplus (Deficit) before Capital and Contributions to University Operations	185	170	(15)	(110)	16	126	264	258	(6)	616	667	51
Deferred Maintenance	-	-	-	-	-	-	-	80	80	50	50	-
Debt Servicing - Principal	-	-	-	-	-	-	247	247	-	131	131	-
Contributions to University Operations	185	170	(15)	-	-	-	-	-	-	-	-	-
SURPLUS (DEFICIT)	-	-	-	(110)	16	126	17	(69)	(86)	435	486	51
		-										

2015-16 ANCILLARY BUDGET (000's) RESERVES

OPENING RESERVE	-	-	-	-	-	-	-	-	-	-	-	-
Addition to Maintenance Reserve**	-	-	-	-	-	-	-	-	-	-	-	-
SURPLUS (DEFICIT) - PLANNED ALLOCATION TO (FROM) RESERVES	-	-	-	(110)	16	126	17	(69)	(86)	435	486	51
CLOSING RESERVE	-	-	-	(110)	16	126	17	(69)	(86)	435	486	51

* This is owned and operated with KGH and this represents a 50% share.
**A portion of the reserves will be set aside for deferred maintenance and will be transferred into the capital fund as part of the 2015-16 year-end.

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.

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	7,914	2,734	445	23	(422)
EXPENDITURE						
Salaries & Benefits	1,283	1,230	(53)	192	162	(30)
External Contracts	535	2,195	1,660	204	89	(115)
Utilities	-	-	-	-	-	-
Repairs & Alter.	-	-	-	-	-	-
Interest & Bank Charges	114	98	(16)	-	-	-
Supplies & Misc.	3,148	3,723	575	40	2	(38)
Deferred Maintenance	-	-	-	-	-	-
Total Expenditures	5,080	7,246	2,166	436	253	(183)
SURPLUS (DEFICIT)	100	668	568	9	(230)	(239)

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 February 29, 2016			Cash Flow Impact				Additional Funding	
	Approved Budget	Total Projected Costs	Expenditures to Feb '16	Funding to Feb '16	Debt to Feb '16	Cash surplus (shortfall) Feb '16	External Grants / Donations/ Debt	Notes:
Projects in Process:								
TRAQ	3,460	3,460	2,213	2,810	-	597	-	
Richardson Stadium	20,270	20,270	4,784	14,248	-	9,464	6,022	1
Victoria Hall - Building Envelope Repairs	6,100	6,100	3,278	-	6,100	2,822	-	
John Orr Tower - Window / Door Replacement	2,800	1,300	1,109	2,794	-	1,685	-	
Energy Service Company (ESCo) Partnership	12,004	12,004	2,391	-	-	(2,391)	12,004	2
Total Approved Projects in Process	**44,634**	**43,134**	**13,774**	**19,852**	**6,100**	**12,178**	**18,026**	
Projects Completed:								
David C. Smith House and Brant House	70,000	58,500	55,588	-	63,900	8,312	-	
Queen's Centre Underground Parking	12,235	12,235	12,235	-	12,235	-	-	
School of Kinesiology and Queen's Centre	169,000	168,263	168,236	38,465	78,329	(51,442)	18,905	3
Goodes Hall Expansion	40,000	39,880	39,842	26,872	-	(12,970)	13,391	4
Isabel Bader Performing Arts Centre	80,500	80,500	78,481	76,647	-	(1,834)	3,853	5
Reactor Materials Testing Laboratory	18,355	18,355	14,869	14,982	-	113	3,373	6
Medical Building	76,846	76,846	75,010	74,892	-	(118)	1,954	7
Jean Royce - Food Services	2,204	1,579	1,579	1,306	-	(273)	273	8
Total Approved Completed Projects	**469,140**	**456,158**	**445,840**	**233,164**	**154,464**	**(58,212)**	**41,750**	

Notes on Funding Sources:

1 Donations and University contribution
2 Residences and Utilities budget funded internal loan
3 Provincial grant and donations
4 Donations and $12M internal loan to Smith School of Business
5 Federal grant and donations and the Faculty of Arts and Science has committed to fund any shortfall
6 Research funding
7 Donations and the Faculty of Health Science has committed to fund any shortfall
8 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 a 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 Feb 29, 2016
Operating Budget / University Fund	6,310	5,880
MTCU: Facilities Renewal Program*	1,641	1,641
Total:	**7,951**	**7,521**

* 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.

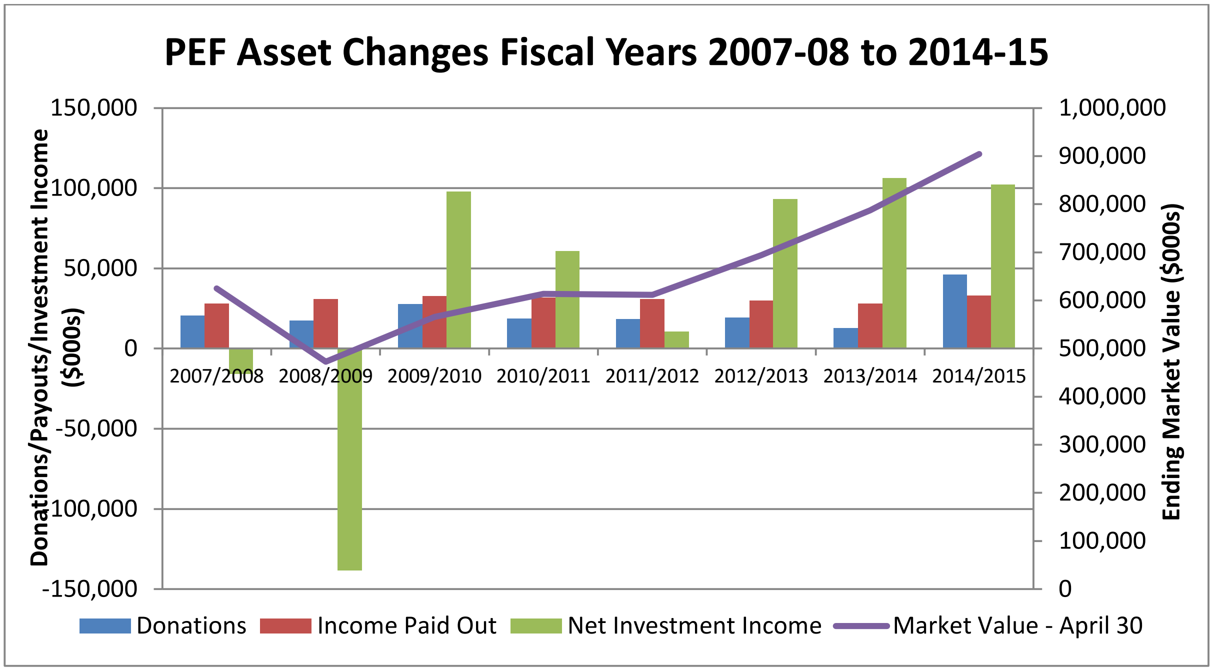
The Pooled Investment Fund ("PIF") is made up of reserve funds and unspent balances. In the past, spending from the PIF was based on a percentage of mean assets, even in periods when returns have been weak. As the PIF's primary objective is to preserve the nominal capital of the fund, the decision was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

Investment Portfolios (000's)

	Market Value April 30, 2013	Market Value April 30, 2014	Market Value April 30, 2015	Market Value Feb 29, 2016
Pooled Investment Fund (PIF)	156,463	177,054	192,423	209,493
Pooled Endowment Fund (PEF)	694,010	787,474	896,352	896,983
Total	**850,473**	**964,528**	**1,088,775**	**1,106,476**

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. The market value as of February 29, 2016 was approximately $897 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%.

The 2015-16 PEF payout to unitholders is approximately $29.5 million ($26.7 million in 2014-15), of which $3.7 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.

An additional $3.34 million is being withdrawn from the PEF during 2015-16 to support the operating budget. In 2016-17, this annual withdrawal will be reduced to $1.5 million.

VI: Debt and Liquidity

Debt

Debt Portfolio as at February 29, 2016

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)	$ 69.1	3.180%	2030
Total	$ 284.2		

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 February 29, 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 $126.6 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	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

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 it's 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 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.