



BOARD OF TRUSTEES Report

To:	Board of Trustees & Capital Assets and Finance Committee	Date of Report: Apr 12, 2018
From:	Vice-Principal Finance and Administration	Date of Approval: NA
Subject:	Financial Update to the Board of Trustees	Date of Board Committee Meeting: May 11, 2018
Responsible Portfolio:	Vice-Principal Finance and Administration	Date of Board Meeting: May 11, 2018

1.0 PURPOSE

For Approval For Information

2.0 RECOMMENDATION/MOTION

This report is for information only.

3.0 EXECUTIVE SUMMARY

This report provides the Board of Trustees and the Capital Assets and Finance Committee with an overview of projected financial results for both the Operating and Ancillary Funds.

2017-18 Projected Financial Results

The Operating Fund is currently projecting a favourable variance that will reduce the planned drawdown on reserves by \$19.4 million, from a \$17.9 million drawdown to a \$1.5 million contribution. The variance is driven largely by higher than planned international undergraduate enrolment and strong performance in non-credit programs within the various Faculties. In addition, Faculties are projecting savings which include delays in one-time expenditures, faculty and staff salary savings and postponed renovation expenditures.

Ancillary Operations are currently expecting a favourable variance of \$4.9 million against budget. The variance is due to higher than budgeted occupancy of residences and community housing properties combined with cost savings associated with lower utilization of the food venues, utilities savings associated with the CAPit energy conservation program and the global adjustment savings on electricity.

Additional details are presented in the analysis section of this report.

4.0 INPUT FROM OTHER SOURCES

- Budget and Planning

5.0 ANALYSIS

Operating Budget

A summary version of the 2017-18 operating budget is presented in the table below.

	Amounts presented in millions		
	Approved budget	Projected actuals	Variance
Student Fees	321.6	334.0	12.4
Government Grants	210.8	212.0	1.2
Investment Income	13.2	15.2	2.0
Other revenue*	9.6	12.2	2.6
Total revenues	555.2	573.4	18.2
Expenditures			
Faculties & Schools Allocations	331.1	344.5	13.4
Shared Services Allocations	185.8	187.8	2.0
Other Allocations**	14.5	16.4	1.9
Flow through expenses, net of recoveries	10.7	11.4	0.7
Indirect costs of research to external entities	1.4	1.6	0.2
Transfer to Pension reserve	(6.9)	(10.1)	(3.2)
Unit spending greater / (less) than budget allocation	17.9	(1.5)	(19.4)
Transfer to capital budget	11.7	11.7	-
Total expenditures	566.2	561.8	(4.4)
(Deficit)/surplus	(11.0)	11.6	22.6
Funded from / (contributions to) reserves	17.9	(1.5)	(19.4)
Contributed to pension reserve	(6.9)	(10.1)	(3.2)
Drawdown of / (contribution to) reserves	11.0	(11.6)	(22.6)

*Other revenue is comprised of unrestricted donations, other income, and research overhead.

**Other allocations is comprised of infrastructure renewal, board priorities and compliance, and contingency.

Revenues

The bulk of revenues in the operating fund are driven by enrolment. Based on final enrolment information, we are above target against our overall enrolment projections at the undergraduate level and slightly below target at the graduate level. At the undergraduate level, the mix between domestic and international has shifted, and a higher proportion of international undergraduate students than budgeted is resulting in higher than budgeted student fee revenue.

Student Fees

Overall student fees are showing a positive variance of \$12.4M.

Amounts presented in millions		
Type	Variance	Comments
For Credit	8.3	Undergraduate tuition projecting a \$11.3M positive variance primarily due to higher than planned international enrolment in the Faculty of Arts and Science, offset by a \$3.0M decrease in graduate tuition, primarily related to lower than budgeted enrolment within the Smith School of Business professional graduate programs.
Non-credit	3.6	All non-credit programs across four Faculties are experiencing increases over budget due to higher than expected enrolment.
Other	0.5	Nominal increases in the Student Assistance Levy and other fees.
Total	12.4	

Government Grants

Overall government grants are showing a positive variance of \$1.2 million. The undergraduate and graduate grant funding for 2017-18 are calculated under the new funding formula. We will receive the 2016-17 level of funding, graduate growth funding up to our Strategic Mandate Agreement targets, and some flow through growth for 2017-18 undergraduate enrolment increases. The Ministry has not yet communicated the calculation of the graduate growth funding. This projection continues to incorporate some conservative assumptions until final information is received from the Ministry.

Investment Income

Investment income is showing a positive variance of \$2.0 million as a result of higher than budgeted short-term investment returns due to both higher than budgeted interest rates and short-term cash balances. Although the Pooled Investment Fund has experienced income to date of \$7.6 million as at March 31st, given the volatility of financial markets only the budgeted revenue of \$5.2 million has been included in the projected revenue.

Other Revenue

Other revenue is projected to be \$2.6 million higher than budgeted, due largely to unrestricted donation revenues being higher than expected along with an increase in projected research overhead.

Expenditures

Faculties & Schools Allocations

Faculties and Schools Allocations are expected to be \$13.4 million higher than budget as a result of the projected increase in tuition and grant revenues. Under the budget model, tuition and grant revenues are attributed directly to the Faculties and Schools.

Shared Services Allocations

Shared service allocations are expected to be \$2.0 million higher than budgeted as a result of projected funding increases in centrally funded employee benefits (\$0.8 million), legal fees (\$0.9 million) resulting from projected cost increases, and an increase in occupancy costs due to some property tax reassessments that occurred in year netting against savings in utilities (\$0.3 million).

Other Allocations

The increase of \$1.9 million in other allocations is due to 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, offset by the impact of increased shared service allocations.

Unit spending greater than budget allocation

Units are projecting a contribution to carryforwards of \$1.5 million, an improvement of \$19.4 million over the originally budgeted drawdown of \$17.9 million. Details on these variances are reported below.

Amounts presented in millions	
	Variance
Faculties and Schools	19.2
Shared Services / Central units	0.2
Total	19.4

Faculties and Schools are expected to drawdown their carryforward by \$19.2 million less than originally budgeted, due partially to the increased allocations resulting from unplanned international enrolment and strong performance in non-credit programs. In addition, Faculties are also projecting savings which include delays in one-time expenditures, faculty and staff salary savings and postponed renovation expenditures.

Overall projected financial results for shared service units are tracking close to budget, with a projected favourable variance of \$0.2 million.

In March, units projected drawdowns of carryforwards of \$3.6 million. The improvement from the \$3.6 million drawdown reported in March to the current projected contribution of \$1.5 million is the result of higher student fees and grant revenue flowing to the Faculties, and additional savings and deferral of expenditures in both faculties and shared services.

Transfer to Pension reserve

Contributions to the pension reserve are expected to be \$3.2 million higher than budgeted. In fiscal 2015-16, Faculties and Departments were asked to plan and budget for an additional pension charge to provide for increased special payments, with any balance remaining to be set aside as a reserve to cover future solvency payments and/or to aid in the transition to a Jointly Sponsored Pension Plan (JSPP).

Following approval by the Pension Committee in March 2018, the pension plan valuation as of August 31, 2017 was filed with regulatory authorities. Under the pension funding regulations, for the first year after the valuation date the university is required to make special payments equal to the interest on the pension solvency deficit. Year to date payments to the pension fund have already met this requirement. Accordingly, all funding related to the additional pension charge is being allocated to the pension reserve until special payments resume in September 2018.

Ancillary Operations

See Appendix I for the Queen's University 2017-18 Ancillary Financial Report.

The projected surplus for the Ancillary Operations is \$2.5 million compared with the budgeted deficit of approximately \$2.4 million.

Housing and Hospitality

Housing and hospitality includes Residences, Community Housing, Event Services, and the Donald Gordon Centre. The total projected surplus for this group is \$4.5 million compared with the budgeted deficit of \$437 thousand. Actual year-end surpluses will be used to finalize contributions to university operations.

Projected revenue has increased \$2.5 million, due to lower than budgeted vacancies, and new conference business.

Expenditures are \$1.9 million lower than budget due to the following:

- The utilization at food venues is lower than budgeted resulting in projected savings of \$1.6 million from food costs in external contracts.
- Projected utilities have decreased \$0.8 million, due to efficiencies experienced from the CAPit energy conservation program and the global adjustment savings on electricity.
- Variances above are offset by an increase in expenditures due to increased conference business, increase snow removal costs, and the required replacement of janitorial equipment.

Principal debt payments are projected to decrease \$0.6 million, as the Waldron and Jean Royce loans were budgeted in 2017/18 but paid in full in 2016/17.

Projected deferred maintenance expenditures are \$1.4 million higher than budget due to projects planned for fiscal 2018-19 being funded during the current fiscal year.

Parking

Parking is projecting a deficit \$0.1 million higher than budget. Although there is an increase in projected revenue from event parking at the Isabel Bader Centre for the Performing Arts and Richardson Stadium this is offset by higher external contract expenses due to service agreements for the garages and snow removal costs.

Parking deferred maintenance projects have been delayed as planned projects for the current fiscal year could not be undertaken due to on-going construction in the surrounding buildings.

Other

Ancillary functions also include the Enrichment Studies Unit, which has experienced a lower demand than budgeted. Budgets for this unit were not included in the budget presented to the Board of Trustees, but will be incorporated going forward.

6.0 STRATEGIC ALIGNMENT / COMPLIANCE

A key responsibility of the Board of Trustees and the Capital Assets and Finance Committee is approval of the operating budget. The financial update provides information on projections against the approved budget and an opportunity for the Board to ask questions of management. It is an important element of Board fiduciary oversight.

7.0 FINANCIAL IMPLICATIONS

The primary purpose of the Financial Update is to report on expected financial results of the Operating Fund and ancillary operations. Maintaining a balanced operating budget is critical to Queen's financial health and its ability to meet objectives.

8.0 ENTERPRISE RISK ASSESSMENT

Review of financial progress reports compared to Board approved budgets is an important mitigation factor in addressing a number of the top ten risks in the enterprise risk framework.

9.0 COMMUNICATIONS STRATEGY

This document is posted on the Queen's University website and is available to the public. See [Financial Services - Publications](#) for all reports.

ATTACHMENTS:

APPENDIX I – Queen's University 2017-18 Ancillary Budget

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Queen’s University 2017-18 Ancillary Financial Report (000’s)												
	Housing and Hospitality			Parking			Other**			Total Ancillary		
	Budget 2017-18	Projected Actuals	Variance	Budget 2017-18	Projected Actuals	Variance	Budget 2017-18	Projected Actuals	Variance	Budget 2017-18	Projected Actuals	Variance
REVENUE	\$ 82,540	\$ 85,094	\$ 2,554	\$ 3,103	\$ 3,233	\$ 130	\$ 959	\$ 915	\$ (44)	\$ 86,602	\$ 89,242	\$ 2,640
Non-interest expenditures	\$ 61,798	\$ 60,104	\$ (1,694)	\$ 1,181	\$ 1,378	\$ 197	\$ 959	\$ 915	\$ (44)	\$ 63,938	\$ 62,397	\$ (1,541)
Interest	\$ 5,358	\$ 5,191	\$ (167)	\$ 2,418	\$ 2,430	\$ 12	\$ -	\$ -	\$ -	\$ 7,776	\$ 7,621	\$ (155)
EXPENDITURES	\$ 67,156	\$ 65,295	\$ (1,861)	\$ 3,599	\$ 3,808	\$ 209	\$ 959	\$ 915	\$ (44)	\$ 71,714	\$ 70,018	\$ (1,695)
Net Surplus (Deficit) before Capital and Contributions to University Operations	\$ 15,384	\$ 19,799	\$ 4,415	\$ (496)	\$ (575)	\$ (79)	\$ -	\$ -	\$ -	\$ 14,888	\$ 19,224	\$ 4,336
Deferred Maintenance	\$ (6,305)	\$ (6,305)	\$ -	\$ (525)	\$ (525)	\$ -	\$ -	\$ -	\$ -	\$ (6,830)	\$ (6,830)	\$ -
Debt Servicing - Principal	\$ (6,778)	\$ (6,217)	\$ 561	\$ (902)	\$ (902)	\$ -	\$ -	\$ -	\$ -	\$ (7,680)	\$ (7,119)	\$ 561
Contributions to University Operations	\$ (2,738)	\$ (2,764)	\$ (26)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (2,738)	\$ (2,764)	\$ (26)
SURPLUS (DEFICIT)	\$ (437)	\$ 4,513	\$ 4,950	\$ (1,923)	\$ (2,002)	\$ (79)	\$ -	\$ -	\$ -	\$ (2,360)	\$ 2,511	\$ 4,870

Queen’s University 2017-18 Ancillary Budget (000’s) Operating Reserves												
OPENING RESERVE	\$ 5,328	\$ 5,328	\$ -	\$ (16,074)*	\$ (16,074)*	\$ -	\$ (99)	\$ (99)	\$ -	\$ (10,845)	\$ (10,845)	\$ -
SURPLUS (DEFICIT) - PLANNED ALLOCATION TO (FROM) RESERVES	\$ (437)	\$ 4,513	\$ 4,950	\$ (1,923)	\$ (2,002)	\$ (79)	\$ -	\$ -	\$ -	\$ (2,360)	\$ 2,511	\$ 4,870
CLOSING RESERVE	\$ 4,891	\$ 9,841	\$ 4,950	\$ (17,997)	\$ (18,075)	\$ (79)	\$ (99)	\$ (99)	\$ -	\$ (13,205)	\$ (8,334)	\$ 4,870

2017-18 ANCILLARY BUDGET (000’s) CAPITAL RESERVES												
OPENING RESERVE	\$ 12,640	\$ 12,640	\$ -	\$ 5,566	\$ 5,566	\$ -	\$ -	\$ -	\$ -	\$ 18,206	\$ 18,206	\$ -
Planned Contribution	\$ 6,305	\$ 6,305	\$ -	\$ 525	\$ 525	\$ -	\$ -	\$ -	\$ -	\$ 6,830	\$ 6,830	\$ -
Deferred Maintenance Expenditure	\$ (6,444)	\$ (7,856)	\$ (1,412)	\$ (627)	\$ -	\$ 627	\$ -	\$ -	\$ -	\$ (7,071)	\$ (7,856)	\$ (785)
CLOSING RESERVE	\$ 12,501	\$ 11,089	\$ (1,412)	\$ 5,464	\$ 6,091	\$ 627	\$ -	\$ -	\$ -	\$ 17,965	\$ 17,180	\$ (785)

* 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 will be repaid in full in fiscal 2040/41.

** Other is comprised of the Enrichment Studies Unit.