Rating Report

Report Date:
January 23, 2014

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Insight beyond the rating.

Queen's University

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The University

Queen's University is a mid-sized institution established in 1841 by Royal Charter of Queen Victoria. Located in Kingston, Ontario, a census metropolitan area of about 163,950 residents at the northeastern end of Lake Ontario, the University offers a comprehensive range of undergraduate, graduate and professional programs, with a student population of 21,379 full-time equivalents in 2012-13.

Rating

Debt	Rating	Rating Action	Trend
Issuer Rating	AA	Confirmed	Stable
Senior Unsecured Debt	AA	Confirmed	Stable

Rating Update

DBRS has confirmed the Issuer Rating and Senior Unsecured Debt rating of Queen's University (Queen's or the University) at AA with Stable trends. The ratings reflect the University's improving operating performance, sizable endowment resources and a solid academic profile. The recent implementation of a new activities-based budget model should support spending discipline and more stable operating performance over the medium term. Notwithstanding these strengths, Queen's continues to face a tight operating environment amidst provincial funding restraint, rising costs associated with employee future benefit obligations, and growing debt needs to address capacity constraints.

In 2012-2013, Queen's posted a DBRS-adjusted operating surplus of $22.9 million or 2.9% of revenues. After remeasurements for actuarial and investment gains on employee benefit plans from the adoption of new accounting standards, however, the reported operating surplus stood at $67.1 million. Revenues grew by 7.5%, driven primarily by growing enrolment and maximum fee schedule increases within the Province of Ontario's (the Province; rated AA (low)) tuition framework, and by a notable 125% year-over-year increase in investment income on strong capital market performance. Expenditures were well contained, growing by just 1% year over year, as modest growth in salary and benefit expenses of 2.1% were offset by declines across most other spending categories. (Continued on page 2.)

Rating Considerations

Strengths

(1) Very high level of expendable resources and material endowment income
(2) One of Canada's flagship institutions
(3) Prudent management practices
(4) Successful fundraising operations

Challenges

(1) Sizable post-employment liabilities
(2) Relatively high debt burden
(3) Salary pressures
(4) Limited tuition fee-setting autonomy

Financial Information

	For the year ended April 30				
	2012-2013*	2011-2012*	2010-2011	2009-2010	2008-2009
Operating balance (DBRS-adjusted, $ millions) (1)	22.9	(24.9)	(8.7)	(5.1)	(62.7)
Surplus (deficit) to revenue	2.9%	(3.3%)	(1.2%)	(0.7%)	(10.0%)
Long-term debt ($ millions)	225.3	231.6	237.7	193.6	120.1
Interest coverage ratio (times)	4.0	3.6	3.1	(0.9)	(0.1)
Total endowment ($ millions) (2)	710.3	616.8	557.8	527.2	466.3
Expendable resources to debt	167%	146%	170%	191%	274%
Total enrolment (FTEs) (3)	21,379	21,028	20,382	19,801	19,119
Long-term debt per FTE ($)	10,540	11,015	11,663	9,779	6,283
Endowment per FTE ($)	33,222	29,332	27,365	26,627	24,388

(1) Excludes employee future benefits remeasurements and other items resulting from new accounting standards
(2) Market value basis
(3) Full time equivalents, as reported by the University.
* As of the transition date of May 1, 2011, the University has adopted new accounting standards. The University has elected to revalue land at fair value. Actuarial gains and losses on employee pension and non-pension benefit plans are now recognized immediately rather than smoothed. Unrealized gains and losses on investments (excluding externally restricted) now flow through investment income on the Statement of Operations.

Rating Update (Continued from page 1.)

The 2013-2014 budget plan (the first plan to employ the new activities-based revenue attribution model) projects a shortfall in the operating fund of $9.3 million. However, as mandated by the Board of Trustees (the Board), balance will be achieved through the drawdown of $3.3 million in central cash reserves for non-recurring items and $6.0 million in departmental carry-forward balances. Although departments tend to budget conservatively and have used some of these funds for one-time transitional initiatives, the budgeted drawdowns highlight the continued structural challenges facing the University amid provincial funding restraint and steady inflationary pressures.

Interest coverage for the year remained solid at 4.0 times in 2012-2013, up slightly from the previous year, while Queen's endowment funds grew by an impressive 15.1% to $33,222 per full time equivalent student (FTE) on strong equity market returns, the highest such level among DBRS-rated universities. The University's long-term debt burden eased slightly to $225.3 million, or $10,540 per FTE, owing to scheduled debt repayments and moderate FTE enrolment growth. However, this debt burden is still among the highest of DBRS-rated universities and is expected to increase with new borrowing related to two new student residences. Queen's intends to borrow $70 million to finance the project, higher than the $55 million indicated at the time of the last DBRS review, which could push leverage above $12,500 per FTE by 2015-2016. DBRS views the project to be manageable within the rating given the moderate projected impact on leverage and the revenue-generating nature of the assets through residence fees, along with tuition and government grants that accompany increased enrolment. However, should operating results deteriorate or if pension and benefit costs grow markedly above expectation, the higher debt burden could pressure the current rating.

Liabilities associated with the Queen's Pension Plan and non-pension benefit plan remain the most serious financial challenge facing the University, with the most recent estimated actuarial valuation results indicating a solvency shortfall of $292 million and a going-concern deficit of $108 million. Assuming the University qualifies for Stage 2 solvency relief, recently announced regulatory measures will provide three years of additional relief, allowing for interest-only payments for three years with the deficit balance to be amortized in equal monthly payments over the remaining seven years, instead of the previous requirement to make solvency payments of approximately $16.0 million and additional going-concern payments beginning in 2015-2016. A number of options are being considered to manage these future obligations, including further plan reforms and the potential use of a letter of credit (LC) to fund the solvency deficit, as is contemplated in draft provincial legislative amendments for employer sponsors of public-sector pension plans.

Rating Considerations Details

Strengths

(1) At approximately $33,222 per student, Queen's has the largest endowment fund per FTE among DBRS-rated universities and access to over $375 million in expendable resources as of April 30, 2013, including $162 million in internally restricted endowment assets, which could be called upon if needed. Unlike many other DBRS-rated universities, Queen's derives a material percentage of its annual revenue (4.1% in 2012-2013) from returns on its endowment.

(2) A very strong reputation and a long history of academic excellence provide strong support for enrolment and fundraising activities. The University is internationally known and has some of the highest admission standards in Canada, which leaves room to grow enrolment if necessary. The average undergraduate entering grade at Queen's is among the highest in the country, at 88.9% in 2013-14. Queen's also has a notable high graduation rate with over 92% of first-year undergraduates graduating in 4.5 years or less.

(3) The University has introduced several key measures meant to entrench prudent fiscal management practices and encourage departmental spending restraint. These measures include a three-year budget planning framework, a new Provost model and the adoption of an activity-based budget model for 2013-14 and future years. A more focused approach to labour relations is evident in more sustainable collective agreements and recently agreed upon changes to pension rules and contribution rates.

(4) Queen's has built up its fundraising capacity through leadership, an increased workforce and more sophisticated data mining techniques to tap its alumni base. The University is in the midst of its Initiative Campaign and has raised over 77% of its $500 million campaign goal. Fundraising is aided by the status of Queen's as one of Canada's oldest universities with alumni at all stages of career and life.

Challenges

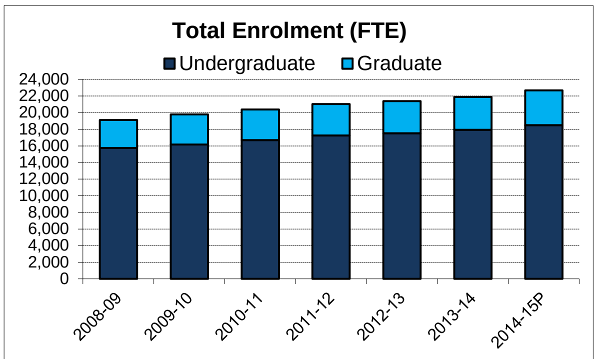
(1) The latest actuarial valuation of the University's pension plans as of August 31, 2013, shows an estimated going-concern deficit of $108 million and a solvency deficit of $292 million. The University has been required to make three years of going-concern special payments of $14.4 million per year since 2012. The University qualified for Stage 1 solvency relief under the provincial government's framework for public-sector employers, thereby enabling it to defer solvency payments for three years. Assuming the University qualifies for Stage 2, recently announced measures will allow for interest-only payments for the first three years of the ten-year amortization period, with the balance to be paid off over the remaining seven years. The University is also considering the eventual use of an LC to fund the solvency deficit, which the Province has tabled in draft legislative amendments as an option for employer sponsors of public-sector plans.

(2) At $10,540 per FTE as at April 30, 2013, debt has receded from a peak of $11,663 per FTE in 2010-2011 but remains high relative to other DBRS-rated universities. Queen's has moved forward with plans to borrow $70 million through a long-term amortizing bank loan to construct two new residence buildings with a total of 550 beds. While the residences are generally considered affordable given the increased revenues that will accompany them, this project could push debt above $12,500 per FTE by 2015-2016, resulting in pressure on the current rating should the operating outlook deteriorate or if pension liabilities maintain an upward trend. Considering the constrained operating outlook and costs associated with pension challenges, this would exhaust much of the flexibility in the current rating.

(3) Queen's must compete with other high-profile institutions in North America for faculty, which leads to significant salary pressures. The aging faculty demographic will only exacerbate these pressures in the years ahead.

(4) For six years, Ontario universities were limited to a 5% annual average increase in tuition fees, with different limits depending on the type of program and year of study. This has left enrolment growth as one of few options available to universities needing to increase revenue in the face of ever-escalating costs. Starting with the 2013–2014 academic year, average annual undergraduate tuition fee increases have been capped at 3% for the next four years for regulated programs. This policy change further limits the flexibility of a key revenue source.

2012-13 Operating Performance



Note: In 2011-12, Queen's revised its internal definiton of full-time students to - a student with a 60% course load. P = Projected

Queen's reported a DBRS-adjusted operating surplus of $22.9 million, or 2.9% of revenue, in 2012-2013, representing a significant improvement over a restated DBRS-adjusted operating deficit of $24.9 million in 2011-2012. This excludes $44.1 million in employee future benefits remeasurements, including net actuarial gains and investment gains stemming from the adoption of new accounting standards. These remeasurements do not represent expendable funds to the University but rather are used to reduce the unfunded liability of the pension plan. After these adjustments, Queen's reported a surplus of $67.1 million. DBRS also notes that unrealized gains and losses on the University's investment portfolio (excluding externally restricted endowments) now flow through investment income, which will add additional market-driven volatility to operating results as presented going forward.

Total revenues increased by 7.5%, driven primarily by a 125% year-over-year increase in investment income and 8.7% growth in student fees attributable to a 1.7% increase in FTE enrolment and maximum allowable tuition fee increases permitted under provincial regulations. The Province's revised tuition framework allows for a 3% average tuition fee increase across the University, down from the previous 5% cap. Operating grants were flat year over year, indicative of funding envelope reductions and fiscal restraint at the provincial level. Rounding out revenue gains was a 3.6% increase in donations and solid growth of 7.0% for sales of ancillary services.

Cost containment across the University remained evident in 2012-2013, with growth in total expenditures of just 1.0%. Salary and benefit expenses, the primary institutional cost drivers, rose by 2.1% but were offset by declines across most other spending categories including supplies and equipment, and interest expenses. Utilities, insurance and other general expenses such as contracted services and employee travel rose modestly but together represent a relatively small share of overall spending. The University has made good progress in aligning revenues with expenditures on a more sustainable basis in recent years. In 2012-2013, Queen's had budgeted drawdowns in cash reserves and departmental carry-forward balances in order to achieve balance; however, conservative estimates, better-than-expected enrolment and investment income, and cost containment efforts led to a significant positive variance, and reserves actually increased.

Operating Outlook

The operating budget is prepared annually and accounts for approximately 55% to 60% of consolidated expenditures. It covers the academic activities of the University. It excludes ancillary operations, which are run on a cost-recovery basis, as well as research, capital and trust envelopes.

2013-14 Budget

The 2013-2014 budget is the first presented under the new activities-based budget model, which attributes revenues and expenses to the academic faculties and departments that generate the revenue in order to incent the development of cost-effective and innovative programs. In May 2013, the Board approved a balanced operating budget achieved through $3.3 million in drawdowns of central cash reserves and $6.0 million in departmental carry-forward balances to cover an initial budgetary shortfall. While DBRS remains concerned about the use of reserves and carry-forwards to achieve balance in 2013-2014, departments are expected to continue to employ a prudent approach to budgeting and cost containment. The budget also includes an additional $2.8 million for infrastructure renewal and information technology upgrades, and $1.5 million in annual contingency funds.

Much of the projected 5.5% revenue growth in the operating fund in 2013-2014 is expected to be derived from an expected increase in FTE enrolment of 2.3% from the previous year. The Province has moved to reduce or eliminate a number of operating grants, including international student fee recoveries, and to impose additional "policy lever" funding reductions intended to produce new efficiency savings. These funding reductions, combined with lower permitted tuition fees, increase under the revised provincial framework, further limiting the autonomy of the University to raise incremental revenues except through expanding FTE enrolment.

The most recent quarterly financial report points to the budget remaining balanced, with anticipated drawdowns and use of cash reserves shifting slightly in composition but still totalling approximately $9.2 million. Undergraduate enrolment is tracking slightly below target for 2013-2014; however, projected financial results for the year do not deviate materially from the budget as the new activities-based model ties faculty allocations directly to actual enrolment. The update also points to a higher deficit for ancillary services and other entities not captured by the operating fund, owing primarily to restructuring costs at the University's not-for-profit commercialization centre, PARTEQ, and from lower community housing and conference facility revenues.

Medium-Term Outlook

The current multi-year budget plan projects balanced budgets through 2015-2016, with incremental revenues to be allocated to future expenses such as employee future benefit payments, totalling $12.5 million in 2014-2015 and $33.4 million in 2015-2016.

In 2014-2015, FTE enrolment growth is projected to be more robust at 3.7%, and the University plans to focus enrolment growth in areas of higher student demand, including distance offerings, laddered credentials, diploma programs and professional Master's degrees not subject to the same stringent tuition framework as regulated undergraduate programs. However, a number of risks to the budget outlook exist. These include changes in government policy as part of ongoing negotiations surrounding differentiation within the sector, the evolution of pension deficit payments and labour agreements, significant infrastructure renewal needs and capital market volatility.

Labour negotiations add a significant degree of uncertainty to the evolution of compensation costs, which comprised 53% of total expenditures in 2012-2013. The University has collective agreements in place for nine of eleven bargaining groups covering the majority of faculty and staff; however, these agreements are all set to expire by the end of 2015-2016. The University has recently concluded a renewed collective agreement with the union representing graduate teaching assistants and teaching fellows, and has reached a first collective agreement with the union representing post-doctoral fellows.

DBRS is encouraged by the University's progress to date in managing the growth of expenses and in the implementation of the new budget model. Employee future benefit plans have also undergone significant reforms, with contribution rate increases from employees and the University secured in recent negotiations, although more work is likely required to achieve pension plan sustainability. Although risks associated with the multi-year plan remain skewed to the downside, DBRS is hopeful that the University will continue to manage financial resources prudently, including working to eliminate unsustainable draws on carry-forwards and cash reserves, in order to maintain flexibility to manage unforeseen developments.

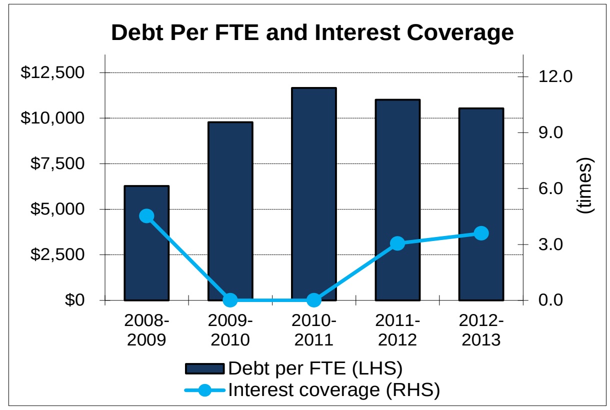
Capital Projects

Queen's capital plan emphasizes improvements in student experience and the creation of new capacity on campus to accommodate growth. One of the few options available to Ontario universities for increasing revenue is through higher enrolment. Queen's also guarantees first-year undergraduate students a place in student housing, placing a constraint on the University's ability to grow enrolment beyond current residence capacity. For these reasons, the University has approved and begun construction on two new residence facilities, with a total of 550 new student beds, set to be completed for September 2015. In moving forward with the residence project, the University acquired debt to fund the residences, as the project is considered by the University to be self-supporting with residence revenues covering debt servicing obligations.

A number of other prominent projects have been completed on campus in recent years, including the official opening of a $40 million, 75,000 square foot alumni-funded addition to Goodes Hall, home to Queen's School of Business. The Isabel Bader Centre for the Performing Arts is also currently in the advanced phase of construction and is on track to open in 2014, with joint-funding from municipal, provincial and federal governments and significant private donations funding the $80.5 million project.

As one of the oldest universities in Canada, Queen's has a significant backlog of deferred maintenance. The most recent study of deferred maintenance at the University identified $243 million in projects, including $30 million in underground systems infrastructure and $49 million related to residence buildings. Provincial funding for maintenance through the Facilities Renewal Program totals just $1.0 million annually, down from $1.8 million, as the funding envelope has been cut and Queen's has declined as a share of the overall system. The University has allocated $4.2 million to maintenance issues in 2013-2014, $1.5 million of which is for completed projects, leaving $2.7 million for priority projects with the highest risk to health and safety. In 2013-2014, and for each remaining year of the three-year budget plan, $2.8 million has also been allocated to address infrastructure renewal and information technology upgrades.

Debt and Liquidity



In fiscal 2012-2013, Queen's debt receded moderately to $225.3 million as a result of payments on a long-term amortizing debenture and a mortgage held by the Canada Mortgage and Housing Corporation. On a per capita basis, leverage fell to $10,540 from $11,015 per FTE in 2012-2013 as enrolment grew modestly by 1.7%. Interest coverage for the year was solid at 4.0 times – a comfortable level for the rating.

Since year-end 2012-2013, the University has commenced new borrowing related to two residence facilities. The University has indicated that $70 million will be borrowed via a 15-year floating rate amortizing bank loan. As of October 2013, $10 million had been drawn on the loan, with an additional $20 million draw expected in the summer of 2014. To reduce interest rate risk, the University obtained a total return swap with an effective annual interest rate of 3.18%. The planned borrowing for the residences is higher than the $55 million initially anticipated by DBRS during the last review.

The size of the University's endowment funds remains a notable strength of the credit profile. These funds grew by 15.2% year over year to $710.3 million as at April 30, 2013, or $33,222 per FTE, the highest of all DBRS-rated universities. At fiscal year-end 2013, Queen's had access to $375.9 million in expendable resources, or 1.7 times debt, consisting of internally restricted endowments and unrestricted reserves.

Unfunded pension plan liabilities remain the greatest financial challenge facing Queen's. The operating environment over the medium term will be influenced in large measure by the evolution of the University's pension and non-pension benefit plan liabilities and required cash injections. The University qualified for Stage 1 solvency relief, which delayed special solvency payments by three years to September, 2015. The most recent valuation estimates indicated that special solvency payments of $10.7 million would have been required in 2015-2016, rising to $16.1 million per year thereafter. Going-concern payments would have increased by $5 million. The University will file an updated valuation as of August 31, 2014, which will determine the size of required payments.

Assuming the University qualifies for Stage 2 solvency relief as it anticipates, additional measures announced by the Province in 2013 provide for the option to make interest-only payments for the first three years of the ten-year amortization period. This would provide significant short-term relief while further plan sustainability reforms are undertaken, but it still does not address the underlying deficiencies. In addition to recent contribution level increases and the ongoing process to move toward more equal cost sharing, benefit adjustments may be required to place the plans on more sustainable footing.

If plan changes do not sufficiently address long-term deficiencies, the University is considering the use of an LC to fund the solvency deficit, as is currently contemplated in draft provincial legislative amendments for use by employer sponsors of public-sector plans. Standby fees on an LC would be lower than required solvency payments, thereby reducing pressure to fund the cash injections out of operations. The use of an LC would not affect special going-concern payments. Furthermore, the Province is considering establishing a single-pooled university or post-secondary pension plan, although this proposal remains in the preliminary stages, and uncertainty exists as to how it will transpire.

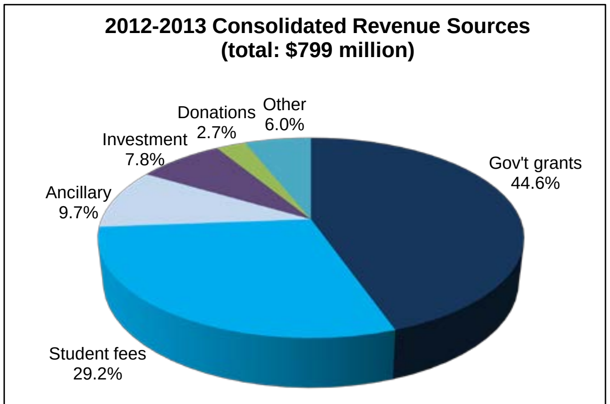
Outlook

The vast majority of the University's debt, constituting over 90% of obligations, consists of long-term debentures coming due in 2032 and 2040. Excluding the plan to incur $70 million in debt to finance the construction of the residence facilities, DBRS is not aware of plans to issue debt over the medium term. The leverage associated with the residences could push debt-per-FTE above $12,500, which would leave little flexibility within the current rating and is likely to pressure debt coverage metrics. If enrolment growth materializes as projected by the University, leverage is likely to begin to recede in 2015-2016. Given the revenue-generating nature of residence assets, the moderately higher debt burden appears manageable; however, should operating performance or pension obligations meaningfully deteriorate from projections, the rating may come under pressure. The University has instituted an internal debt management policy and maintains that new capital projects will be limited to those with a full business case and committed funding, which should both help to curb further capital debt growth.

University Funding in Ontario

Canadian universities generally have access to three key sources of revenue for their core teaching and research activities: (1) government grants, (2) student fees and (3) fundraising and endowment income. For Queen's, these accounted for about 81% of total revenues in 2012-2013.

Provincial government funding remains the primary source of revenue for universities across the country, although its relative importance remains under pressure in most provinces as a result of accelerating costs in competing areas of provincial responsibility, notably health care. In Ontario, the lack of indexation and recent cuts in base operating grants has also contributed to this trend.

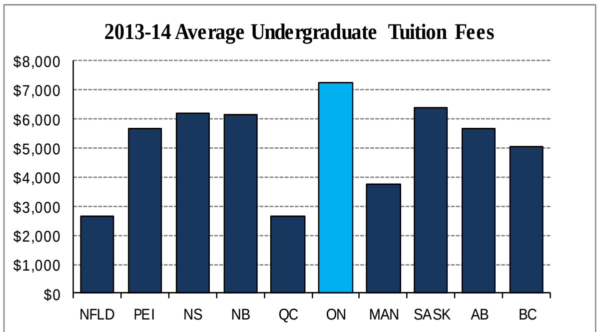


* DBRS-adjusted. ** Federal and provincial.

Government Funding (provincial and federal, 45%): This includes operating grants, research grants and contracts and capital grants, of which operating grants are by far the most important and stable revenue source. They are provided exclusively by the Province, primarily through a formula that allocates a certain number of basic income units to each student based on the program in which they are enrolled. Targeted funding, which is aimed mainly at expanding enrolment in high-demand programs, and performance-based grants also account for a small portion of provincial operating funding. The Province continues to provide full average funding for enrolment growth. However, no inflation adjustment is provided in Ontario and recently there have been modest reductions in base operating funding.

In 2011, the Ontario government introduced refinements to its post-secondary education plan that embraced a number of priorities, including 60,000 additional spaces by 2015–2016 (of which 41,000 would go to the university sector), tuition and financial assistance for students, long-term capital funding to support expansion and renewal of campus infrastructure, and renegotiation of multi-year accountability agreements. Government grants for research and capital projects are also an important source of funding. The federal government typically provides 65% to 75% of all public research funding, while the Province provides the bulk of capital funding. However, the provincial government's increased emphasis on spending restraint to help address its own budgetary challenges suggests limited flexibility for funding increases, making cost containment at universities that much more crucial.

Student Fees (29%): From 2006-2007 to 2012-2013 the Province permitted universities to raise average tuition fees by 5% annually, with fee increase limits varying across programs and years of study. For example, arts and sciences tuition can be increased by 4.5% for the first year of study and 4% for the following years, while graduate and professional program tuition fees can be increased by 8% for the first year of study and 4% per year for the remaining years.



Source: Statistics Canada.

In March 2013, the Province announced that starting with the 2013-2014 academic year and for the next four years, the cap on annual undergraduate tuition fee increases will be reduced to 3%. Additionally, tuition fee increases for graduate and professional programs were also reduced, and will now be capped at 5%.

Fundraising and Endowment Contributions/Income (7%):
Queen's is one of the few DBRS-rated universities to derive a material percentage of its revenue from fundraising and endowment income. Earnings on endowment investments contributed 4.1% to total revenue in 2012-2013. While this undoubtedly remains an underlying strength of the credit profile, it introduces an element of volatility into annual results, especially in light of new accounting standards, which flow a greater share of investment returns through the income statement. Payout to the operating fund continues to be fairly stable as the current policy is to determine the payout based largely on the prior-year results plus inflation. However, payout from the endowment has been reduced from time to time in the interest of maintaining capital. A change in asset mix was approved in March 2012 to include real asset classes.

Queen's has a sophisticated fundraising apparatus and the previous campaign exceeded its $200 million goal. The University is now in the midst of its Initiative Campaign and has raised more than 70% of its goal of raising $500 million over ten years. Fundraising is aided by the status of Queen's as one of Canada's oldest universities with many alumni at all stages of career and life.

Queen's University

Report Date:
January 23, 2014

Queen's University

Consolidated Balance Sheet

($ thousands)	For the year ended April 30				
Assets	**2012-2013***	**2011-2012***	**2010-2011**	**2009-2010**	**2008-2009**
Cash	46,797	46,136	66,109	66,111	6,500
Short-term investments	59,309	32,506	2,453	2,441	19,706
Receivables	46,798	45,604	44,226	48,769	43,007
Deferred and prepaid expenses	9,525	6,404	6,244	6,362	5,948
Long-term investments (1)	871,781	802,251	830,019	731,192	607,408
Capital assets (2)	822,147	808,336	745,893	707,331	644,151
Other assets (3)	4,803	1,484	11,087	7,759	15,350
Total Assets	1,861,160	1,742,721	1,706,031	1,569,965	1,342,070
Liabilities and Equity					
Payables and other current liabilities	284,377	288,905	355,384	349,257	254,146
Deferred capital contributions	352,043	329,806	308,304	254,338	269,947
Employee future benefit obligations (4)	175,979	220,172	72,354	62,151	48,648
Long-term debt	225,325	231,623	237,722	193,642	120,133
Other liabilities (5)	15	8	1,153	2,093	-
Total liabilities	1,037,739	1,070,514	974,917	861,481	692,874
Fund balances					
Committed funds (6)	37,448	(25,585)	209,552	188,487	173,905
Endowment – internally restricted (7)	162,501	143,238	194,881	182,317	155,121
Endowment – externally restricted (7)	547,750	473,559	362,870	344,924	311,156
Equity in capital assets	244,780	246,907	194,026	254,435	259,963
Unrestricted net assets	(169,058)	(165,912)	(230,215)	(261,679)	(250,949)
Total Liability and Equity	1,861,160	1,742,721	1,706,031	1,569,965	1,342,070

Other Obligations ($ thousands)	**2012-2013***	**2011-2012***	**2010-2011**	**2009-2010**	**2008-2009**
Capital commitments	127,878	106,846	127,871	166,047	79,887
Other	1,000	1,000	1,000	1,000	1,000
Pension plan deficit (8)	-	-	180,104	170,630	121,156
Post-employment benefit plan deficit (8)	-	-	62,869	56,220	36,833
	128,878	107,846	371,844	393,897	238,876

***** As at the Transition Date of May 1, 201, Queen's adopted CICA Handbook Part III accounting standards for not-for-profits.

(1) Market value. (2) As of May 1, 2011, land assets were revalued at fair value.

(3) Includes unamortized issue costs and derivative assets for interest rate hedging purposes.

(4) Total funded status of pension and non-pension benefit plans. Prior to fiscal 2011-2012, represents accrued benefit liability after unamortized actuarial gains/losses & past service cost.

(5) Includes unrealized losses on derivatives for currency hedging purposes.

(6) Funds set aside for specific purposes (e.g., departmental carry-forwards, etc.). As of 2009, equity in assets invested in capital is recorded under committed funds .

(7) Externally restricted endowment assets consist of funds that are subject to restrictions imposed by the donors. Internally restricted endowment assets are funds whose use is restricted internally by the Board of Trustees.

(8) Accounting basis. After May 1, 2011, accounting standards require presentation of full funded status of pension and non-pension benefit plans directly on Balance Sheet as "Employee future benefit obligations."

Queen's University

Report Date:
January 23, 2014

Queen's University

Consolidated Financial Summary (DBRS-adjusted)

($ thousands)	For the year ended April 30				
	2012-2013*	2011-2012*	2010-2011	2009-2010	2008-2009
Total operating revenue	799,164	743,436	742,467	734,561	624,220
Total expenditures	776,215	768,306	751,154	739,614	686,902
Recurring Operating Balance	22,949	(24,870)	(8,687)	(5,053)	(62,682)
Employee future benefits remeasurements & other items	44,110	5,234			
Non-recurring items	-	-	4,268	(9,683)	11,507
Surplus/deficit as reported	67,059	(19,636)	(4,419)	(14,736)	(51,175)
Revenue					
Student fees (2)	233,095	214,468	203,757	197,681	167,818
Government operating grants	187,472	187,127	180,210	179,868	167,229
Other grants and contracts	169,029	177,310	184,399	175,295	176,834
Ancillary operations	77,841	72,765	69,872	62,347	71,525
Investment income (3)	62,033	27,570	39,942	48,746	(17,815)
Donations	21,496	20,757	15,750	24,805	7,452
Earned capital contributions	26,676	25,587	23,274	24,257	23,590
Other revenue	21,522	17,852	25,263	21,562	27,587
Total Revenue	799,164	743,436	742,467	734,561	624,220
Expenditures					
Salaries and benefits	433,193	424,122	404,834	409,304	376,267
Student aid	53,001	55,134	54,751	56,804	57,277
Supplies and minor equipment	118,164	122,081	119,899	120,877	109,414
Utilities and insurance	20,870	18,584	19,479	18,946	20,099
Interest	12,371	12,606	12,552	6,750	6,858
Amortization	57,186	57,792	55,255	52,641	49,204
Other expenses	81,430	77,987	84,384	74,292	67,783
Total Expenditures	776,215	768,306	751,154	739,614	686,902
Gross Capital Expenditures	70,997	73,219	93,817	115,719	151,718

* As of the Transition Date of May 1, 2011, the University has adopted the immediate recognition approach for employee benefit plans resulting in the recognition of a employee future benefits remeasurements and other items on the Statement of Operations. Unrealized gains and losses on investments (excluding externally restricted endowments) are now also presented as part of investment income.

(1) Comprised of actuarial gains and losses on pension plan and other benefit plans, investment gains and losses, and plan amendments.

(2) Includes fees for continuing education.

(3) Investment income includes unrealized gains and losses on investments, excluding externally restricted endowments.

Statement of Cash Flow (DBRS-adjusted)

($ thousands)	For the year ended April 30				
	2012-2013*	2011-2012*	2010-2011	2009-2010	2008-2009
Operating balance before fund contributions	67,059	(19,636)	(8,687)	(5,053)	(62,682)
Amortization	57,186	57,792	55,255	52,641	49,204
Other non-cash adjustments (1)	(87,175)	(5,416)	(20,754)	(60,102)	5,621
Cash flow from operations	37,070	32,740	25,814	(12,514)	(7,857)
Change in working capital	(9,429)	(9,034)	10,634	72,827	(32,760)
Operating cash flow after working capital	27,641	23,706	36,448	60,313	(40,617)
Net capital expenditures*	(22,084)	(26,130)	(16,577)	(91,402)	(120,841)
Free cash flow	5,557	(2,424)	19,871	(31,089)	(161,458)

* As of the Transition Date of May 1, 2011, the University has adopted the immediate recognition approach for employee benefit plans resulting in the recognition of a employee future benefits remeasurements and other items on the Statement of Operations. Unrealized gains and losses on investments (excluding externally restricted endowments) are now also presented as part of investment income.

(1) Includes unrealized gains and losses on investments, exluding externally restricted endowments after transition date of May 1, 2011.

(2) Defined as gross capital expenditures less contributions restricted for capital purposes.

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Summary Statistics (DBRS-adjusted)

	For the year ended April 30				
	2012-2013*	**2011-2012***	**2010-2011**	**2009-2010**	**2008-2009**
Total Enrolment (FTE) (1)	21,379	21,028	20,382	19,801	19,119
Undergraduate	82%	82%	82%	82%	82%
Graduate	18%	18%	18%	18%	18%
Total annual change	1.7%	3.2%	2.9%	3.6%	7.4%
Total Employees (FTE) (2)	4,022	4,095	3,940	3,899	3,816
Faculty	1,582	1,630	1,588	1,495	1,460
Operating Results					
Surplus (deficit) (3)	22,949	(24,870)	(8,687)	(5,053)	(62,682)
- As a % of revenues (4)	2.9%	(3.3%)	(1.2%)	(0.7%)	(10.0%)
Revenue Mix (as % of total DBRS-adjusted revenue)					
Government funding (federal + provincial)	44.6%	49.4%	49.1%	51.7%	58.9%
Student fees	29.2%	28.8%	27.4%	26.9%	26.9%
Ancillary	9.7%	9.8%	9.4%	8.5%	11.5%
Expendable donations	2.7%	2.8%	2.1%	3.4%	1.2%
Other	13.8%	9.2%	11.9%	9.6%	1.6%
Debt and Liquidity Analysis					
Total debt ($ millions)	225.3	231.6	237.7	193.6	120.1
- per FTE student ($)	10,540	11,015	11,663	9,779	6,283
Debt, contingencies & commitments ($ millions) (5)	530.2	559.6	609.6	587.5	359.0
- per FTE student ($)	24,799	26,614	29,907	29,672	18,778
Liquid assets ($ millions)	106.1	78.6	68.6	68.6	26.2
- as % of total expenses	13.7%	10.2%	9.1%	9.3%	3.8%
- as % of current liabilities	37.3%	27.2%	19.3%	19.6%	10.3%
Interest costs as % of total expenditures	1.6%	1.6%	1.7%	0.9%	1.0%
Interest coverage ratio (times)	4.0	3.6	3.1	(0.9)	(0.1)
Endowment Funds					
Total market value ($ millions)	710.3	616.8	557.8	527.2	466.3
- per FTE student ($)	33,222	29,332	27,365	26,627	24,388
- annual change	15.2%	10.6%	5.8%	13.1%	(25.4%)

Payout ratio: 70% (prior year's payout plus inflation) + 30% (3.0% of current market value).

* As at the Transition Date of May 1, 201, Queen's adopted CICA Handbook Part III accounting standards for not-for-profits.

(1) Full-time equivalent (FTE), excluding continuing education. (2) FTE excludes teaching assistants and sessional lecturers.

(3) Excludes employee future benefits remeasurements and other items. (4) Revenue excludes provincial grant for medical expenses.

(5) Includes long-term debt, funded status of pension and non-pension benefit plans and capital commitments.

Note: In 2011-12, Queen's revised its internal definiton of full-time student to students with a 60% course load. Prior year FTE figures have been re-stated up to 2008-09, under the new methodology. Adjustments have been made to applicable metrics.

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Rating

Debt	Rating	Rating Action	Trend
Issuer Rating	AA	Confirmed	Stable
Senior Unsecured Debt	AA	Confirmed	Stable

Rating History

	Current	2012	2011	2010	2009	2008
Issuer Rating	AA	AA	NR	NR	NR	NR
Senior Unsecured Debt	AA	AA	AA	AA	AA (high)	AA (high)

Related Research

- Rating Public Universities, October 3, 2012.
- Canada's Universities: No Break from Challenging Environment, June 5, 2012.

Notes:
All figures are in Canadian dollars unless otherwise noted.

For the definition of Issuer Rating, please refer to Rating Definitions under Rating Policy on www.dbrs.com.

Generally, Issuer Ratings apply to all senior unsecured obligations of an applicable issuer, except when an issuer has a significant or unique level of secured debt.