Rating Report

Queen's University

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DBRS

Insight beyond the rating.

Ratings

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

Rating Update

DBRS Limited (DBRS) 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 are supported by the University's superior academic profile, strong operating performance and high level of expendable resources and endowment assets. The ratings are constrained by a relatively high level of debt per full-time equivalent (FTE) student for the assigned ratings, a challenging operating environment and pension-related liabilities. Despite a weak demographic outlook for university-age students domestically, Queen's strong applicant pool and superior academic profile should support plans for modest enrolment growth over the medium term.

In 2016–17, Queen's reported a healthy surplus of $88.6 million, or 9.4% of revenues, up from $39.5 million the previous year, as strong investment income and growth in student fees outpaced expense growth. DBRS anticipates another consolidated surplus in 2017–18, although potentially reduced from the prior year due to weaker investment returns. International undergraduate enrolment is currently tracking above plan, which points to favourable performance relative to budget. Over the medium term, the University continues to plan for balanced operating budgets after modest contributions to the capital fund, assuming a continuation of the current tuition framework, modest enrolment growth and the successful renegotiation of labour agreements along affordable terms.

Queen's debt burden remains high for the assigned ratings but has evolved in line with expectations. No new debt was incurred in 2016–17, and as a result, debt fell to $11,022 per FTE, down from $11,552 a year earlier. As existing debt continues to amortize, and enrolment grows modestly, debt is expected to fall to approximately $10,550 per FTE in 2017–18 and trend down toward $10,000 per FTE over the next two to three years.

Sizable unfunded pension liabilities continue to present a considerable challenge for Queen's but are being addressed. Based on updated valuation, the going concern shortfall has improved notably, although the solvency deficit has widened. Queen's, along with two other universities, continues to pursue a multi-employer jointly sponsored pension plan (JSPP), which, if successful, could be positive for the University and help to remove uncertainty around the outlook for future pension costs.

The credit profile may come under pressure if debt rises above current levels, if balance sheet flexibility (e.g., expendable resources) deteriorates notably or if operating performance weakens on a sustained basis. Upward pressure on Queen's credit profile remains unlikely given the University's current ratings, which are above that of the provincial funder.

Financial Information

	For the year ended April 30				
	2016-2017	**2015-2016**	**2014-2015**	**2013-2014**	**2012-2013**
Consolidated operating result (DBRS-adjusted, $ millions)	88.6	39.5	61.9	45.6	22.6
Surplus (deficit) to revenue (5-year rolling average)	5.9%	3.4%	2.2%	0.6%	(2.5%)
Debt per FTE ($) 1	11,022	11,552	10,319	9,997	10,048
Expendable resources to debt (times)	1.67	1.37	1.34	1.15	0.92
Interest coverage ratio (times)	7.7	4.6	6.9	6.4	5.3

1 Full-time equivalent (FTE) enrolment excludes continuing education. In 2015, DBRS shifted reporting of FTE enrolment to a standard credit load approach resulting in a one-time downward adjustment in debt-per-FTE. Historial figures have been restated.

Issuer Description

Established in 1841, Queen's is a mid-sized institution based in Kingston, Ontario, a census metropolitan area of about 174,000 residents located at the northeastern end of Lake Ontario. The University is a medical-doctoral institution that offers a comprehensive range of undergraduate, graduate and professional programs, with FTE student enrolment of more than 26,100 in 2017–18.

Rating Considerations

Strengths	Challenges

Strengths

1. High level of endowment assets and expendable resources

The University's total endowment assets grew by 12.4% to $1.05 billion at April 30, 2017, up from $930.9 million the previous year. At $41,236 per FTE, Queen's has the largest endowment per student among DBRS-rated universities, providing considerable support to the credit profile. Unlike many other DBRS-rated universities, Queen's derives a material percentage of its annual revenue from investment and donation income (10.8 % in 2016–17), which can add volatility to operating results. In addition, the University receives considerable externally restricted endowment contributions and investment income that is recorded directly as an increase to net assets. Expendable resources totalled $468.4 million, or 167% of debt outstanding at April 30, 2017, up from $389.5 million the prior year. DBRS defines expendable resources as internally restricted endowment assets and internally restricted net assets (excluding investment in capital and employee future benefits), less the unrestricted deficit.

2. Flagship provincial and national institution

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, with an average undergraduate entering average of roughly 90% in 2016–17, which leaves room for enrolment growth if necessary. The University benefits from a solid academic profile and reputation, ranking among the top four medical-doctoral universities in Canada and within the 200 to 300 range globally.

3. Prudent management practices

Queen's has introduced several key measures to entrench prudent fiscal management practices and encourage departmental spending restraint. These measures include a three-year budget-planning framework and the adoption of an activities-based budget model. The budget model attributes revenues to individual faculties based on enrolment and teaching after a deduction for the broader University Fund and other indirect costs. Furthermore, Queen's focused approach to labour relations has contributed to the achievement of sustainable collective agreements in recent years.

4. Successful fundraising and advancement operations

The University has built up its fundraising capacity through leadership, an increased workforce and more sophisticated data-mining techniques to tap its alumni base. Queen's most recent formal campaign — the Initiative Campaign — raised $640 million, well above the $500 million target. Fundraising efforts are aided by the University's status as one of the oldest universities, with alumni in all career and life stages and an increasingly sophisticated advancement operation.

Challenges

1. Sizable employee future benefit liabilities

Based on the latest pension plan valuation as of August 31, 2017, Queen's going concern shortfall improved to $32 million from $175 million in 2014, while the solvency deficit has widened to $313 million from $285 million. Queen's has been approved for Stage 3 provincial solvency relief, which requires the University to make special payments sufficient to eliminate 25% of the solvency deficiency over seven years and pay interest on the remaining 75% of the deficiency that is not being amortized. This will entail annual special payments of $19.0 million from 2018–19 through 2020–21, relatively unchanged from special payments under the previous relief program. Queen's, along with two other universities, is continuing to pursue the creation of a multi-employer JSPP, which would be considered positive and help to remove uncertainty around the outlook for future pension costs.

2. Relatively high debt burden

At $11,022 per FTE in 2016–17, the University's debt burden is high for the assigned ratings and among the highest of DBRS-rated universities. Following the completion of two new residences in 2015–16, which were funded with an amortizing bank facility, no new debt has been incurred. In the near term, no new debt is anticipated beyond any modest participation in Ontario's interest-free energy retrofit loan program, and when combined with expectations for modest enrolment growth, debt is expected to trend down toward $10,000 per FTE over the next two to three years.

3. Salary and wage pressures

The University must compete with other high-profile institutions in North America for faculty, which leads to significant salary pressures. As the largest expense category, salary and benefit expenses are a source of significant budgetary pressure. In 2016–17, compensation rose by 2.3% year over year (YOY). The aging faculty demographic, upcoming collective bargaining cycle and elevated pension costs will only exacerbate this pressure in the years ahead.

4. Limited ability to grow revenue

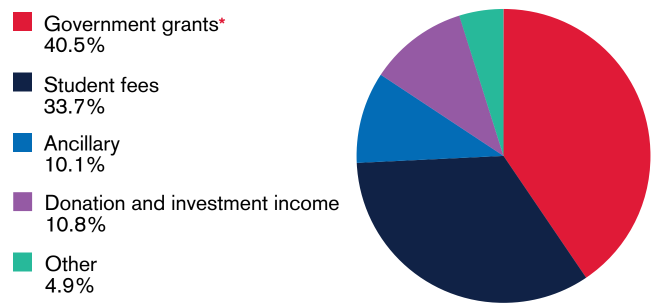
A revised provincial funding framework, with an enrolment corridor set at roughly 2016–17 levels, will result in roughly stable grant funding in 2017–18 and the subsequent two years, while the current provincial tuition fee framework provides universities with limited flexibility to raise tuition fees for domestic students (3.0% on average). With only modest enrolment growth anticipated over the medium term, Queen's will be challenged to generate revenue growth that keeps pace with expense pressures.

2016–17 Operating Performance

In 2016–17, Queen's reported a healthy surplus of $88.6 million, or 9.4% of revenues, up from $39.5 million the previous year, as strong investment income and growth in student fees outpaced expense growth. On an operating-fund basis, the University recorded a surplus of $54.4 million before transfers to the capital fund, various reserves and to reduce the unrestricted deficit. This handily exceeded budget expectations, which had projected an operating fund deficit of $4.1 million before transfers.

Total revenues grew by 10.6% YOY in 2016–17, after excluding a large donation of artwork recorded in 2015–16. This improvement largely reflected higher student fee revenue, increased research grants and contracts and strong investment earnings. Tuition and student fee revenues rose by 9.0% on account of a 3.4% increase in enrolment to 25,379 FTEs, which slightly exceeded expectations, increases in tuition fees in accordance with the provincial tuition fee framework and favourable student mix. Research grants and contract revenues are recognized when the related expenditure occurs and grew by 10.2%, indicating increased research activity, in part due to privately funded clinical trials. Strong capital markets performance and higher investment balances boosted investment income sharply to $79.2 million, up from $30.4 million in 2015–16. Ancillary revenues declined slightly, reflecting the closure of the computer store in April 2016, while amortization of deferred capital contributions and other revenues also contracted modestly YOY.

Exhibit 1: 2016-17 Consolidated Revenue Sources
($944.7 million)



* Provincial and federal.
Source: Queen's and DBRS.

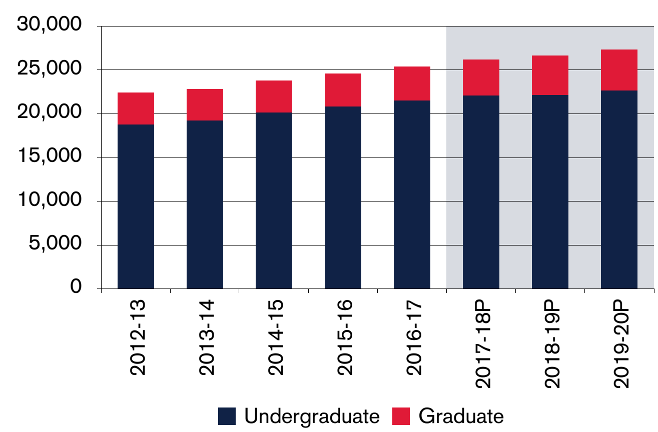
Total expenditures grew by 5.1% in 2016–17, after excluding the corresponding expense for the fair value of artwork donated in 2015–16. This largely reflected the increase in research-related spending noted above and a 2.3% increase in employee salaries and benefit expense, which reflects a combination of negotiated salary increases and increased staff. No significant collective agreements came up for renewal during the year. Utilities, taxes and insurance costs increased by 10.1%, largely a result of property tax amendments recognized the prior year. Interest charges grew by 1.6%, reflecting the full-year impact of increased debt incurred the prior year, partially offset by a gradual amortization of existing debt.

Operating Outlook

For 2017–18, the University budgeted for an operating fund surplus of $11.7 million before transfers to the capital fund ($11.7 million), pension reserve ($6.9 million) and drawdown of carry-forwards of $17.9 million, resulting in a net budget deficit of $11.0 million. The drawdown of carry-forwards reflects expenses budgeted by academic units more than their base budget allocations to fund one-time expenses, which are not expected to contribute to a structural deficit going forward. DBRS notes that in actual practice, the drawdown amounts tend to be much less than forecast due to in-year savings achieved. This marks the fifth year of activity-based budgeting and the second-last year of hold-harmless transition payments to departments, as the full implementation of this model remains on track.

Revenues were budgeted to rise by 6.2% in 2017–18, or $32.4 million (excluding non-centrally budgeted revenues), relative to the prior year's budget plan. Based on the forecast developed by the Strategic Enrolment Management Group, FTE enrolment is forecast to rise by 2.1%, including 1.1% growth in undergraduate enrolment and 6.9% growth in graduate enrolment. The increase largely reflects the maturation of previously introduced programs that will flow through to reach a steady state in 2018–19. Tuition fee rates continue to be increased in line with the provincial tuition fee framework for regulated domestic students (by 3.0% on average) and at a faster rate for international students. When combined with anticipated enrolment growth, student fee revenues are projected to increase by 10.2%.

Exhibit 2: Total Enrolment (FTE)



P = Projected.
Source: Queen's.

Operating Outlook (CONTINUED)

Government grants are forecast to rise by just 1.2%, while most other revenues, including investment income, are projected to see little change.

Based on the budget, operating expenses (excluding non-centrally budgeted expenses) are forecast to grow by 6.3% in 2017–18, or $32.1 million compared with the prior year's budget. This is largely being driven by higher salary and benefit costs within the faculties and schools along with increased costs for shared services, including libraries, occupancy costs, information technology and student aid. The collective agreement for graduate teaching assistants came up for renewal in 2017–18 and was settled in line with budget expectations.

Outlook

Based on a March 2018 financial update, the operating fund is projecting a favourable variance in 2017–18, driven by higher-than-planned international undergraduate enrolment (an area explicitly targeted by Queen's) and strong performance in non-credit programs in various faculties. FTE enrolment has grown by 3.0% to 26,151 FTEs. International enrolment represented 7.0% of total students (by headcount) in 2016–17, and growing this segment of the student body remains a strategic target of the University. Overall, this stronger-than-expected performance will result in the drawdown of carry-forwards being less than budgeted, which is consistent with performance in recent years. On a consolidated basis, DBRS anticipates another consolidated surplus, although potentially reduced from the prior year due to weaker investment returns.

Over the medium term, the University continues to plan for balanced operating budgets after modest contributions to the capital fund. Although the current tuition framework expires in 2018–19, the University has assumed a continuation of the 3.0% global cap for 2019–20 in the absence of new information. The revenue outlook includes negotiated enrolment growth at the graduate level and assumes a modest increase ($1.9 million) in flow-through growth at the undergraduate level. In addition, several labour agreements, including those with support staff and faculty, expire in 2018–19, which could pressure the expenditure outlook, especially considering a strong provincial economy and expectations for rising inflation, which could lead to increased demands from labour groups.

Addressing unfunded pension liabilities continues to present a considerable challenge for Queen's. The latest valuation, completed as of August 31, 2017, revealed a going concern shortfall of $31.6 million, down from $175.6 million in 2014, and a solvency deficiency of $313.4 million, up from $285.4 million previously. Based on current provincial solvency relief regulations, Queen's is required to make special payments sufficient to eliminate 25% of the solvency deficiency over seven years and interest on the remaining 75% of the deficiency that is not being amortized. This will entail annual special payments of $19.0 million from 2018–19 through 2020–21 (see Debt and Liquidity for more discussion on pensions).

Capital Plan

In 2016–17, gross capital expenditures totalled $48.7 million and were largely related to completion of the Richardson Stadium that opened in September 2016 and the construction of the Innovation and Wellness Centre and the Biomedical Research Facility Revitalization Project.

For 2017–18, projects currently under development are not debt funded and include the following:

- Innovation and Wellness Centre ($97.9 million): The Centre will be home to a new Innovation Connector incubator, experiential learning paces, engineering facilities, the Queen's University International Centre and a new exam centre, along with an integrated Wellness Centre with co-located student services, including mental health and accessibility supports, three gymnasia and other athletic and recreational facilities. This project is funded through the Government of Canada's Post-Secondary Strategic Investment Fund (SIF) ($21.9 million), University contributions ($34.9 million) and donor pledges ($41.1 million).
- Biomedical Research Facility Revitalization ($31.9 million): Construction began in 2016 on a state-of-the-art research facility to expand Queen's capacity in key areas of neurological, cardiovascular and cancer research. Completion is expected by November 2018. This is being funded in part through the SIF ($14.7 million) and University reserves ($17.2 million).

Queen's has been successful in its proposal and received funding under the Ontario Greenhouse Gas Campus Retrofits grant program ($8.9 million), which is aimed at reducing greenhouse gas emissions and addressing deferred maintenance for a district heating system. In addition, the Province of Ontario (the Province, rated AA (low), Stable by DBRS) is making available up to $300 million in interest-free loans to retrofit post-secondary facilities under the program. While details are not yet available, DBRS expects that Queen's would have projects to apply for that could entail a modest amount of new debt.

Capital Plan (CONTINUED)

Based on the most recent Facilities Condition Audit (2016), there is a $235 million deferred maintenance backlog, translating to a Facility Condition Index score of 0.10, which is considered fair and slightly better than the provincial average. In 2017–18, funding received under the provincial Facilities Renewal Program ($2.5 million) is being dedicated to SIF projects noted above, which will help to reduce deferred maintenance. Operating fund contributions to deferred maintenance are forecast to be $7.8 million. In addition, the University is allocating $7.0 million for deferred maintenance at residences, community housing and the Donald Gordon Centre, funded through reserves and in-year revenues from these facilities.

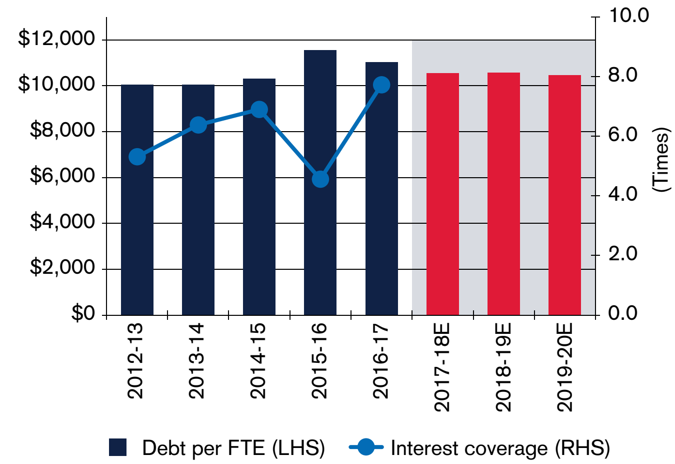
DBRS notes that the Major Capital Projects Approval Policy was recently updated; the key changes include bringing projects for approval sooner in the planning process, and the threshold requiring Board approval is increasing to $5.0 million from $2.5 million previously. These changes are not deemed to be material by DBRS, as smaller projects will continue to require approval and oversight by the Vice Principal's Operations Committee.

Debt and Liquidity

Queen's debt burden remains high for the assigned ratings but has evolved in line with expectations. In 2016–17, total debt declined by 1.4% to $279.7 million, as no new debt was incurred and existing debt continues to amortize. This equates to $11,022 per FTE, down from $11,552 a year earlier. As a result of strong operating performance, interest coverage improved to 7.7 times from 4.6 times in 2015–16, which demonstrates that debt affordability remains strong. Queen's has established a sinking fund to repay debenture debt upon maturity, with a balance of $83.7 million at April 30, 2017.

Expendable resources, as measured by DBRS, amounted to $468.4 million at YE2017, which equates to 167% of debt and is among the highest of DBRS-rated institutions. These include internally restricted endowment funds and internally restricted net assets (excluding investment in capital assets and employee future benefits), less the unrestricted deficit.

Exhibit 3: Debt per FTE and Interest Coverage



Queen's recently completed an updated valuation of its hybrid pension plan, which includes a meaningful defined benefit component, as of August 31, 2017. The going concern shortfall improved to $32 million from $175 million in 2014, primarily owing to strong investment gains. On a solvency basis, the deficit widened to $313 million from $285 million in 2014, resulting in a solvency-funded ratio of 86.3%.

The Province has introduced legislation to change funding requirements for defined benefit pension plans, but the regulations are still being finalized. Key elements of the framework are as follows:

- Universities will only be required to make special solvency payments if their solvency funding is less than 85%.
- The amortization period is for amortizing the going-concern deficit will be reduced to ten years from 15 years, and universities will be required to establish a reserve ((Provision for Adverse Deviations (PfADs)).
- The Province will increase the Pension Benefits Guarantee Fund monthly guarantee, which will likely necessitate higher premiums.

Initial indications suggest that these changes are not likely to result in a significant change in payments, but they may alter the mix of payments. Regardless, these changes will not take effect until Queen's next required valuation and may be irrelevant if the JSPP moves forward.

The other major development under way is the work by Queen's and two other universities to create a multi-employer JSPP, the University Pension Plan. DBRS understands that the universities are working with an aggressive timeline that could see the launch of the new plan for January 2020. While the University will be responsible for addressing past funding deficiencies, it is expected that the new plan will be exempt from solvency funding requirements. Going forward, pension governance and oversight would largely be in the purview of a jointly appointed board.

At April 30, 2017, non-pension post-employment liabilities totalled $90.7 million, up from $83.4 million in 2015–16. Universities are not required to set aside funds for the expected future costs, although DBRS notes that some institutions have begun to set aside modest reserves for this purpose.

Debt and Liquidity (CONTINUED)

Outlook

DBRS takes comfort in the University's debt-management policy and robust framework for the approval of major capital projects, requiring a full business case and committed funding for projects in excess of $5.0 million. While the University does not forecast any debt needs over the medium term, DBRS expects that they could participate in the Ontario Greenhouse Gas Campus Retrofits interest-free loan program, which could result in modest increase in debt obligations. As existing debt continues to amortize and enrolment grows modestly, debt is expected to fall to approximately $10,550 per FTE in 2017–18 and trend down toward $10,000 per FTE over the next two to three years.

As noted previously, DBRS views Queen's debt burden as relatively high for the assigned ratings. If the University were to take on a material amount of new debt, or if the level of expendable resources on the balance sheet were to weaken considerably, the credit profile may come under pressure.

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 investment income. For Queen's, these sources accounted for about 85% of total revenue in 2016–17.

Provincial government funding remains one of the primary sources of revenue for universities across the country, although its relative importance remains under pressure in most provinces because of accelerating costs in competing areas of provincial responsibility, notably health care. In Ontario, the lack of indexation in base operating grants has led to a gradual shift in the relative shares of revenue provided by operating grants and tuition. With constrained provincial funding, the share of university operations funded by operating grants has declined, while the share funded by tuition fees has increased.

Government Funding (Provincial and Federal; 40.5%): This includes operating grants, research grants and contracts, and capital grants, of which operating grants are the most important and stable revenue source.

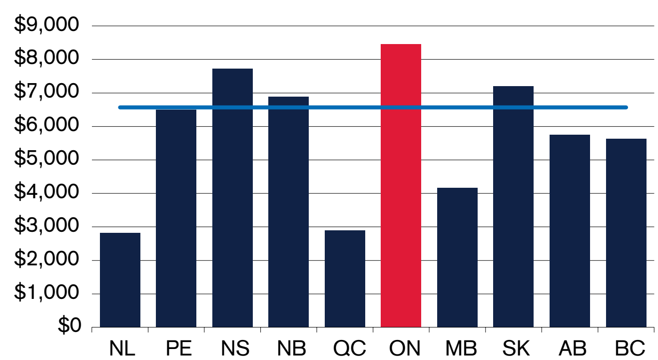
The Province introduced a new funding model for Ontario universities in 2017–18. The model is broadly similar to the previous funding model, with a large share of funding being enrolment based. The new model, however, will seek to reduce some of the financial incentives to increase enrolment and will provide Ontario universities facing enrolment declines with downside protection. Ultimately, funding is expected to be relatively stable for all Ontario universities over the next three years. (For more information about Ontario's new funding model, see *DBRS Comments on Ontario's New University Funding Model*, published on March 9, 2017.)

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, whereas the Province provides the bulk of capital funding. In the 2016 federal budget, a $2.0 billion SIF was announced that will support up to 50% of eligible costs for shovel-ready projects that will enhance research and innovation capacity or improve environmental performance and can be completed within two years. The federal SIF program will contribute $31 million to the new Queen's Innovation and Wellness Centre and the revitalization of biomedical research facilities at the University, along with provincial funds, internal contributions and significant donor support.

Student Fees (33.7%): The current tuition fee framework was introduced by the Province in 2013–14. The framework caps annual undergraduate tuition fee increases to 3.0% for most programs and 5.0% for most graduate and professional programs. The overall institutional average increase may not exceed 3.0%. The Province has not provided any guidance for the tuition fee framework beyond 2018–19.

Student fees for international students are not regulated by the Province. International student fees are set to recover the full costs of international student enrolment.

Exhibit 4: 2017-2018 Average Undergraduate Tuition Fees



Source: Statistics Canada.

University Funding in Ontario (CONTINUED)

Donation and Investment Income (10.8%): Unrestricted donations and investment income, recognized on the statement of operations, accounted for 10.8% of total revenues in 2016–17, down from 12.0% (including non-recurring donations of artwork) in 2015–16.

DBRS notes that the endowments funded by unrestricted donations are recorded as unrestricted revenue on the Statement of Operations and transferred to internal endowments, while endowed funds accepted with external restrictions are added directly as endowment contributions on the Statement of Net Assets. Unrealized gains and losses on investments (excluding externally restricted endowments) are recognized on the Statement of Operations as investment income, while gains and losses on external endowments are recorded directly as a change in net assets.

In 2016–17, investment income on externally restricted endowments totalled $97.5 million, which exceeded the amount made available for spending by business units of $28.1 million. Contributions to externally restricted endowments for the year totalled $21.7 million, which equates to a net increase of $96.7 million, bringing the balance of external endowments to $828.2 million at April 30, 2017. Internally restricted endowments generated $26.0 million in investment income, while $7.4 million was made available for spending. At YE2017, internally restricted endowments totalled $218.3 million. The endowment capital preservation policy allows the amount made available for spending from the Pooled Endowment Fund to be maintained, despite lower investment income in some years, by using gains from strong years such as 2016–17 to be invested in the preservation of capital, smoothing the effects of volatility in investment performance. As at December 31, 2017, the Pooled Endowment Fund returned 9.6% and stood at $1,071 million, while the Pooled Investment Fund returned 8.2% and stood at $245 million.

Queen's total endowments (internal and external) totalled $1.05 billion at April 30, 2017, or $41,236 per FTE. This remains the highest level of endowments among DBRS-rated universities. These endowment assets provide meaningful ongoing financial support to the University's operating budget and longer-term support for strategic priorities and capital development, potentially avoiding the use of debt financing. DBRS considers Queen's endowment resources, long history of fundraising and sophisticated advancement function as credit positive.

Consolidated Financial Summary (DBRS-adjusted)

($ thousands)	For the year ended April 30				
	2016-2017	2015-2016	2014-2015	2013-2014	2012-2013*
Total operating revenue	944,687	853,779	850,794	835,410	799,164
Total expenditures	856,060	814,237	788,853	789,823	776,603
Recurring Operating Balance	**88,627**	**39,542**	**61,941**	**45,587**	**22,561**
Non-recurring revenue 1	-	58,607	-	-	-
Non-recurring expense 1	-	(58,607)	-	-	-
Consolidated operating result as reported	88,627	39,542	61,941	45,587	22,561
Revenue					
Student fees 2	318,600	292,239	268,548	244,534	233,095
Government operating grants	200,914	199,330	196,930	196,041	187,472
Other grants and contracts	181,860	164,982	169,228	161,244	169,029
Sales of service and products (ancillary operations)	95,011	95,464	85,401	81,149	77,841
Investment income 3	79,188	30,369	73,357	64,958	62,033
Donations	23,188	20,781	7,413	39,896	21,496
Amortization of deferred capital contributions	25,065	26,112	26,130	24,797	26,676
Other revenue	20,861	24,502	23,787	22,791	21,522
Total Revenue	**944,687**	**853,779**	**850,794**	**835,410**	**799,164**
Expenditures					
Salaries and benefits	451,251	441,249	428,570	434,425	433,581
Supplies and minor equipment	131,040	127,992	126,027	133,887	118,164
Student aid	60,562	60,437	57,564	55,396	53,001
Amortization	45,746	49,863	51,828	52,201	57,186
Utilities, taxes and insurance	22,954	20,856	24,875	23,828	20,870
Interest	14,111	13,895	12,885	12,562	12,371
Other expenses	130,396	99,945	87,104	77,524	81,430
Total Expenditures	**856,060**	**814,237**	**788,853**	**789,823**	**776,603**
Gross Capital Expenditures	**48,738**	**49,385**	**52,288**	**71,026**	**70,997**

* In 2012-2013 the University adopted Canadian accounting standards for not-for-profit organizations moving to the immediate recognition approach for its employee future benefit plans. This moved the recognition of investment and actuarial gains and losses on plan assets to the income statement. In 2013-2014, Queen's early-adopted Section 3463 that have moved the recognition of these investment and actuarial remeasurements as a charge directly to net assets, reducing volatility in reported results. The standards were retroactively applied to the transition date of May 1, 2013.

1 Non-recurring revenue and expense related to donation of artwork in 2015-16.

2 Includes fees for continuing education.

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

Consolidated Balance Sheet

($ thousands) For the year ended April 30

Assets	2016-2017	2015-2016	2014-2015	2013-2014	2012-2013
Cash	149,254	146,736	95,959	84,010	46,797
Short-term investments	94,468	8,756	23,808	3,026	59,309
Receivables	32,593	36,081	37,648	41,553	46,798
Deferred and prepaid expenses	8,923	9,086	6,784	7,646	9,525
Long-term investments 1	1,376,334	1,216,287	1,180,189	1,029,856	871,781
Capital assets 2	843,946	840,954	841,432	840,972	822,147
Other assets 3	(9,001)	6,544	3,476	1,228	4,803
Total Assets	**2,496,517**	**2,264,444**	**2,189,296**	**2,008,291**	**1,861,160**
Liabilities and Equity					
Payables and other current liabilities	355,923	302,518	301,882	286,458	284,377
Deferred capital contributions	384,905	371,106	373,919	375,658	352,043
Employee future benefit obligations	35,590	130,759	111,441	67,298	150,017
Long-term debt	279,721	283,600	245,373	228,821	225,325
Other liabilities 4	-	-	-	885	15
Total liabilities	**1,056,139**	**1,087,983**	**1,032,615**	**959,120**	**1,011,777**
Net Assets					
Unrestricted Net Assets	(114,023)	(116,393)	(148,600)	(162,050)	(169,058)
Internally Restricted Net Assets 5	328,554	175,731	164,181	174,491	63,410
Endowment – internally restricted 6	218,313	199,376	200,742	183,780	162,501
Endowment – externally restricted 6	828,218	731,492	718,236	616,458	547,750
Equity in capital assets	179,316	186,255	222,122	236,492	244,780
Total Liability and Equity	**2,496,517**	**2,264,444**	**2,189,296**	**2,008,291**	**1,861,160**

Other Obligations ($ thousands)	2016-2017	2015-2016	2014-2015	2013-2014	2012-2013
Capital commitments	67,562	18,209	23,325	49,004	127,878
Other	-	1,000	1,000	1,000	1,000
	67,562	**19,209**	**24,325**	**50,004**	**128,878**

* In 2013-2014 the University adopted Section 3463 of Canadian accounting standards for not-for-profit organizations requiring the use of the immediate recognition approach for employee benefit plans. The University elected to account for employee future benefit plans using funding valuation assumptions rather than accounting assumptions, resulting in an increase and restatement in net assets reported as of May 1, 2012. 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 Includes unrealized losses on derivatives for currency hedging purposes. 5 Funds set aside for specific purposes (e.g., departmental carry-forwards, sinking funds, and other internal reserves etc.). Excludes equity investment in capital assets presented separately. 6 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.

Statement of Cash Flow (DBRS-adjusted)

($ thousands) For the year ended April 30

	2016-2017	2015-2016	2014-2015	2013-2014	2012-2013
Operating balance before fund contributions	88,627	39,542	61,941	45,587	22,561
Amortization	45,746	49,863	51,828	52,201	57,186
Other non-cash adjustments 1	(39,437)	(39,960)	(37,779)	(30,167)	(26,371)
Cash flow from operations	94,936	49,445	75,990	67,621	53,376
Change in non-cash working capital	56,347	(547)	18,940	9,876	(9,429)
Operating cash flow after working capital	151,283	48,898	94,930	77,497	43,947
Net capital expenditures 2	(9,874)	(26,086)	(27,897)	(22,614)	(22,084)
Free cash flow	141,409	22,812	67,033	54,883	21,863

1 Includes unrealized gains and losses on investments, excluding externally restricted endowments after transition date of May 1, 2011.
2 Defined as gross capital expenditures less contributions restricted for capital purposes.

Summary Statistics (DBRS-adjusted)

($ thousands)	For the year ended April 30				
	2016-2017	2015-2016	2014-2015	2013-2014	2012-2013
Total Enrolment (FTE) 1	**25,379**	**24,550**	**23,779**	**22,778**	**22,425**
Undergraduate	85%	85%	85%	84%	84%
Graduate	15%	15%	15%	16%	16%
Total annual change	3.4%	3.2%	4.4%	1.6%	2.7%
Domestic (headcount, %)	93.0%	93.3%	93.8%	94.4%	94.5%
International (headcount, %)	7.0%	6.7%	6.2%	5.6%	5.5%
Total Employees (FTE) 2	**4,207**	**4,115**	**4,039**	**3,978**	**4,022**
Faculty	1,608	1,601	1,610	1,594	1,582
Operating Results					
Surplus (deficit) ($ millions) 3	88.6	39.5	61.9	45.6	22.6
- As a % of revenues	9.4%	4.6%	7.3%	5.5%	2.8%
-As a % of revenues (5-year rolling average)	5.9%	3.4%	2.2%	0.6%	(2.5%)
Revenue Mix (as % of total DBRS-adjusted revenue)					
Government funding (federal + provincial)	40.5%	42.7%	43.0%	42.8%	44.6%
Student fees	33.7%	34.2%	31.6%	29.3%	29.2%
Ancillary	10.1%	11.2%	10.0%	9.7%	9.7%
Donation and investment income	10.8%	6.0%	9.5%	12.6%	10.5%
Other	4.9%	5.9%	5.9%	5.7%	6.0%
Debt and Liquidity Analysis					
Total debt ($ millions)	279.7	283.6	245.4	228.8	225.3
- per FTE student ($)	11,022	11,552	10,319	10,046	10,048
Debt, contingencies & commitments ($ millions) 4	382.9	433.6	381.1	346.1	504.2
- per FTE student ($)	15,086	17,661	16,028	15,195	22,484
Cash and cash equivalents ($ millions)	243.7	155.5	119.8	87.0	106.1
- as % of total expenses	28.5%	19.1%	15.2%	11.0%	13.7%
- as % of current liabilities	68.5%	51.4%	39.7%	30.4%	37.3%
Expendable Resources ($ millions) 5	468.4	389.5	327.8	263.5	206.9
- As % of total debt	167%	137%	134%	115%	92%
Interest costs as % of total expenditures	1.6%	1.7%	1.6%	1.6%	1.6%
Interest coverage ratio (times)	7.7	4.6	6.9	6.4	5.3
Endowment Funds					
Total market value ($ millions)	1,046.5	930.9	919.0	800.2	710.3
- per FTE student ($)	41,236	37,917	38,647	35,132	31,672
- annual change	12.4%	1.3%	14.8%	12.7%	15.2%

Note: Payout ratio: Long-term target of 4.0%, based on formula of 70% of prior year's payout plus inflation and 30% on the most recent calendar year's ending market value.
1 In 2015, DBRS shifted reporting of FTE enrolment to a standard credit load approach to better reflect revenue potential of enrolment and to provide greater consistency across the sector. 2 FTE excludes teaching assistants and sessional lecturers. 3 Excludes employee future benefits remeasurements and other non-recurring items. 4 Includes long-term debt, capital commitments and guarantees. 5 Expendable resources have been restated historically in 2016-17 for comparability across DBRS rated institutions. Expendable resources include internally-restricted endowments, internally-restricted net assets (excluding investment in capital assets and employee future benefits), and the unrestricted surplus (deficit).

Rating History

	Current	2017	2016	2015	2014	2013
Issuer Rating	AA	AA	AA	AA	AA	AA
Senior Unsecured Debt	AA	AA	AA	AA	AA	AA

Related Research

- *Relief and Reform: Changes in Ontario's University Pension Landscape*, February 14, 2018.
- *DBRS Canadian University Peer Comparison Table*, February 1, 2018.
- *Rating Public Universities: Business and Financial Risk Assessments*, February 1, 2018.
- *DBRS Gives Ontario's Changes to Student Financial Assistance a Passing Grade*, September 6, 2017.
- *Rating Public Universities*, May 2017.

Previous Report

- Queen's University: Rating Report, April 11, 2017.

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.

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