Financial Update
Report to the Board of Trustees
March 6, 2015

I: 2014-15 Operating Budget Update

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

Queen's University 2014-15 Operating Budget (000,000's)

	Approved Budget 2014-15	Projected Actuals 2014-15	Variance
REVENUE			
Student Fees	$ 248.4	$ 252.7	$ 4.3
Government Grants	$ 201.9	$ 202.2	$ 0.3
Unrestricted Donations	$ 1.3	$ 1.1	$ (0.2)
Other Income	$ 7.3	$ 7.0	$ (0.3)
Research Overhead	$ 3.9	$ 3.8	$ (0.1)
Investment Income (Note 1)	$ 12.2	$ 12.9	$ 0.7
Total Operating Revenue	**$ 475.0**	**$ 479.7**	**$ 4.7**
EXPENSE			
Faculties and Schools Allocation	$ 270.9	$ 275.6	$ 4.7
Shared Services Allocation	$ 167.7	$ 168.0	$ 0.3
Infrastructure Renewal	$ 4.6	$ 4.6	$ -
Board Priorities & Compliance	$ 0.9	$ 0.9	
Contingency	$ 1.8	$ 1.8	$ -
Total Allocations	**$ 445.9**	**$ 450.9**	**$ 5.0**
Flow Through Expenses, net of recoveries	$ 11.5	$ 11.3	$ (0.2)
Indirect Costs of Research to External Entities	$ 1.5	$ 1.5	$ -
To Be Allocated	$ 2.3	$ 2.2	$ (0.1)
Total Operating Expenditures	**$ 461.3**	**$ 466.0**	**$ 4.7**
Net Surplus before Capital Expenditures	**$ 13.7**	**$ 13.7**	**$ -**
Transfer to Capital Budget	$ 13.8	$ 13.8	$ -
Unit Expenses greater than Budget Allocation	$ 7.5	$ 10.3	$ 2.8
Net Budget Surplus (Deficit)	**$ (7.7)**	**$ (10.5)**	**$ (2.8)**
Draw down/(Contribution) Employee Future Benefit or Cash Reserves*	$ 0.2	$ 0.2	$ -
Draw down of Unit Carryforward balances	$ 7.5	$ 10.3	$ 2.8
Net Surplus (Deficit)	**$ -**	**$ -**	**$ -**

**The drawdown of cash reserves is for Talent Management Initiative*

Note 1: *Income from the PIF is estimated to be $8.8M. Only the budgeted amount of $4.2M is reflected here.*

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

Queen's University at Kingston

2014-15 Shared Services Budget Allocations (000,000's)

	Approved Budget 2014-15	Projected Actuals 2014-15	Variance
Shared Services			
Principal's Office	$ 1.6	$ 1.6	$ -
Secretariat	$ 0.9	$ 0.9	$ -
Communications	$ 1.7	$ 1.7	$ -
Vice-Principal (Research)	$ 5.5	$ 5.5	$ -
Vice-Principal (Advancement)	$ 13.0	$ 13.0	$ -
Vice-Principal (Finance & Admin)	$ 6.8	$ 6.8	$ -
Provost & Vice-Principal (Academic)	$ 3.8	$ 3.8	$ -
Student Affairs	$ 9.7	$ 9.7	$ -
Library(operations & acquisitions)	$ 25.7	$ 25.7	$ -
Occupancy Costs(net of Shared Service Space Costs)*	$ 29.3	$ 29.1	$ (0.2)
Environmental Health & Safety	$ 1.4	$ 1.5	$ 0.1
ITS	$ 14.3	$ 14.3	$ -
Human Resources	$ 5.5	$ 5.5	$ -
Graduate Studies	$ 1.8	$ 1.8	$ -
University Wide Benefits & Pension Benefit Guarantee Fund	$ 8.2	$ 8.3	$ 0.1
Need Based & UG Merit Student Assistance	$ 16.2	$ 16.2	$ -
Graduate Students Assistance	$ 13.4	$ 13.4	$ -
University Wide	$ 8.4	$ 8.7	$ 0.3
Faculty Bridge Programs (QNS, QRC, FRP)	$ 0.5	$ 0.5	$ -
Total Shared Services	**$ 167.7**	**$ 168.0**	$ 0.3

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

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

Queen's University 2014-15 Capital Budget Allocations from Operating		
	Budget 2014-15	Projected 2014-15
Grant Revenue		
MTCU Facilities Renewal Fund	$ 1,085,500	$ 1,085,500
MTCU Graduate Capital	$ 1,700,000	$ 1,700,000
Total Revenue	$ 2,785,500	$ 2,785,500
Budget Allocations		
<u>Capital Projects Financing</u>		
School of Kinesiology & Queen's Centre	6,900,000	6,900,000
QUASR	$ 3,000,000	$ 3,000,000
BISC	$ 250,000	$ 250,000
Biosciences Complex	$ 222,500	$ 222,500
Chernoff Hall	$ 900,000	$ 900,000
Electrical Substation	$ 900,000	$ 900,000
CoGeneration Facility	$ 1,064,000	$ 1,064,000
Richardson Hall & University Ave/Deferred Maintenance	$ 1,500,000	$ 1,500,000
Tools for Research Administration at Queen's (TRAQ)	$ 640,000	$ 640,000
Boiler #8	$ 166,526	$ 166,526
<u>Deferred Maintenance</u>	$ 1,085,500	$ 1,085,500
MTCU Facilities Renewal Fund		
Total Expenses	$ 16,628,526	$ 16,628,526
Budget Surplus (Deficit)	$ (13,843,026)	$ (13,843,026)
Transfer from Operating Budget	$ 13,843,026	$ 13,843,026
Surplus (Deficit)	$ -	$ -

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

Budget Analysis

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

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

Graduate tuition fee revenue has decreased by $0.7M because of a $1.6M loss in revenues related to research stream master's and PhD enrolments offset by an increase of $0.9M related to higher than planned international enrolments in the MBA and MFin programs. Graduate accessibility grant funding has decreased by $1.2M because we did not achieve our domestic enrolment targets.

Undergraduate tuition revenue is showing a positive variance of $4.6M. Enrolments in Arts and Science, Queen's School of Business and Engineering are higher than planned. The remaining increase is due to non-tuition student fees of $0.8M which is a direct result of the increase in undergraduate enrolment. This increase is offset by a decrease in non-credit tuition of $0.4M because of lower enrolment in the Queen's Executive Development Centre programs in the School of Business.

The higher than planned undergraduate enrolment is producing a positive variance of $0.8M on the Undergraduate Accessibility grant. This presumes that the provincial government will fully fund our 2014-2015 undergraduate enrolment. The system overall did not grow, so overall enrolment is within the government funding envelope, so the risk of the funding for our growth funding being discounted is almost certainly very low. The Basic Operating Grant decreased slightly because of an increase in the International Student Recovery, which is a result of higher than budgeted international enrolment. The targeted program funding increased by $0.7M as a result of a higher than budgeted enrolment in the advanced track nursing program and the International medical graduate program.

Unrestricted Donations
Donation revenue is difficult to forecast, but based on current donations received and historical trends, Advancement is forecasting that unrestricted donation revenues will be $1.1M which is $200K under budget.

Other Income
Other income has a negative variance arising from a decline in flow-through revenues, primarily related to health fees.

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

Investment Income
Investment income is showing a positive variance of $0.7M as a result of higher than budgeted short-term investment returns. The operating budget currently assumes revenue from the Pooled Investment Fund (PIF) of $4.2M, but current projections suggest the revenue may exceed $8.8M.

Prudence dictates that we include only the budgeted amount of $4.2M in the updated projections. The returns include both realized and unrealized gains/losses and will fluctuate with market conditions.

Expenditures

Under the new budget model all tuition and grant revenues are attributed directly to the Faculties and Schools, which means the higher than projected tuition and grant revenues have a direct effect on Faculty and School allocations. All research overhead is attributed to Faculties and Schools, so the reduction in revenue from this source will also be borne by Faculties and Schools.

Shared Services are showing higher than projected net expenditures of $300K. This is the result of an increase in legal costs for certification of Graduate TA's, unbudgeted membership costs, and a projected increase to environment health and safety waste disposal costs. These increases are offset slightly by a $200K projected reduction in occupancy costs which relates primarily to projected savings on utilities. This of course is highly variable and weather dependent.

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

Operating Budget Surplus (or Deficit)

Current projections continue to show a balanced budget. The most significant risk to this projection is the possibility of discounting on Undergraduate Accessibility Grant funding. The unpredictability of winter weather continues to be a risk as it could impact the projected utilities savings if temperatures are colder than expected.

The budget approved by the Board reflects the in-year revenue and expenses or budget allocations. Many units are planning total expenditures that are higher than their budget allocation, with the additional expenditures being funded by prior-year reserves (carry-forward balances). The originally approved budget projected reserves being drawn down by $7.5M, but the revised projection is for $10.3M. This relates to unplanned renovation and construction costs in the Faculty of Law, unplanned expenditures in the Faculty of Health Sciences on construction costs and the support of additional academic and research initiatives, and additional infrastructure renewal and renovations within ITS. In addition, a planned reduction in the value of Excellence scholarships was not implemented because of the associated risk, which led to higher than budgeted expenditures on scholarships. These increases in expenses are currently being offset by a somewhat larger surplus than planned in Queen's School of Business as a result of higher than planned enrolments, and one-time cost savings within Faculty of Applied Science.

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

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

II: Ancillary Operations and Consolidated Entities

Overall the projected deficit for the Ancillary Operations and Consolidated Entities of $3.56M has improved compared with the budgeted deficit of approximately $5.16M. The significant individual variances are outlined below.

Residence is now projecting a $631K loss (after capital contributions and contribution to University operations) against a budgeted deficit of $2.1M. The additional revenue of $2.6M results from 168 additional spaces over the spaces budgeted and the replacement of 140 “room only” occupants with students paying for “room and board”. This revenue is somewhat offset by an increase in externally contracted expenses related to the meal plan costs for the rooms converted to “room and board”. Additional overhead expenses and contributions to University operations account for the remainder of the change in expenses which is directly related to the increase in revenue.

Community housing is projecting a deficit that is $106K ahead of budget. The majority of this positive variance is accounted for by additional revenue generated from rooms that are filled but were budgeted as vacancies.

Parking is projecting a positive variance of $48K which is primarily a result of reduced hours for the west campus shuttle operation and the reduction of one parking attendant. The business case for the Union Street and Queen’s Centre underground parking garages noted that the payback would be over 40 years. The reserve deficit will continue to increase until payment of the debt servicing has completed at which time the revenues will flow and begin reducing the accumulated deficit.

Originally budgeting to break even, the Computer Store is now projecting a loss of $115K. Although internal sales are tracking on budget, retail sales are well below budget. Staff and students are now going directly to manufacturers rather than purchasing from the computer store. Options to restructure the computer store are considered as part of the ancillary review, which will make recommendations on how to proceed.

The Donald Gordon Centre is projecting a deficit of $98K, a negative variance from the budget of $109K, resulting from a downturn in projected revenues because of lower than planned occupancy. The lower than planned occupancy is a result of under enrolment in the non-degree programs run by the School of Business.

PARTEQ is projecting a surplus of $123K, an increase over budget of $260K. License revenue from major licensees has been exceeding expectations resulting in an increase of $1.76M. This is being offset by an increase in distributions to inventors resulting from the higher than budgeted license revenues.

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

2014-15 ANCILLARY & CONSOLIDATED ENTITIES FINANCIAL REPORT (000's)									
	TOTAL ANCILLARY			TOTAL CONSOLIDATED ENTITIES			TOTAL ANCILLARY & CONSOLIDATED ENTITIES		
	Budget	**Actual**	**Variance** Surplus (deficit)	**Budget**	**Actual**	**Variance** Surplus (deficit)	**Budget**	**Actual**	**Variance** Surplus (deficit)
REVENUE	78,091	80,487	2,396	4,525	5,947	1,422	82,616	86,434	3,818
EXPENDITURE									
Salaries & Benefits	11,030	10,845	(185)	1,600	1,627	27	12,630	12,472	(158)
External Contracts	24,379	25,098	719	669	360	(309)	25,048	25,458	410
Utilities	5,327	5,311	(16)	-	-	-	5,327	5,311	(16)
Repairs & Alter.	3,697	3,882	185	-	-	-	3,697	3,882	185
Interest & Bank Charges	8,109	8,109	-	114	116	2	8,223	8,225	2
Supplies & Misc.	15,151	15,085	(66)	2,253	3,712	1,459	17,404	18,797	1,393
Overhead	2,420	2,654	234	-	-	-	2,420	2,654	234
Total Expenditures	70,113	70,984	871	4,636	5,815	1,179	74,749	76,799	2,050
Net Surplus (Deficit) before Capital and Contributions to University Operations	7,978	9,503	1,525	(111)	132	243	7,867	9,635	1,768
Deferred Maintenance	3,400	3,184	(216)	-	-	-	3,400	3,184	(216)
Debt Servicing - Principal	4,304	4,304	-	-	-	-	4,304	4,304	-
Contributions to University Operations	5,323	5,709	386	-	-	-	5,323	5,709	386
SURPLUS (DEFICIT)	(5,049)	(3,694)	1,355	(111)	132	243	(5,160)	(3,562)	1,598

2014-15 ANCILLARY FINANCIAL REPORT (000's)

	Residence			Event Services			Community Housing			Parking		
	Budget	Projected	Variance Surplus (deficit)	Budget	Projected	Variance Surplus (deficit)	Budget	Projected	Variance Surplus (deficit)	Budget	Projected	Variance Surplus (deficit)
REVENUE	52,693	55,268	2,575	3,881	4,195	314	5,666	5,862	196	2,963	2,846	(117)
EXPENDITURE												
Salaries & Benefits	7,553	7,553	-	1,229	1,243	14	1,220	1,220	-	293	189	(104)
External Contracts	19,437	20,226	789	2,259	2,259	-	220	220	-	640	571	(69)
Utilities	3,669	3,669	-	188	188	-	896	896	-	271	272	1
Repairs & Alter.	2,608	2,608	-	-	59	59	816	979	163	60	28	(32)
Interest & Bank Charges	4,672	4,672	-	23	23	-	58	58	-	2,562	2,562	-
Supplies & Misc.	5,759	5,759	-	108	108	-	1,363	1,455	92	56	95	39
Overhead	1,806	2,057	251	89	71	(18)	300	293	(7)	100	100	-
Total Expenditures	45,504	46,544	1,040	3,896	3,951	55	4,873	5,121	248	3,982	3,817	(165)
Net Surplus (Deficit) before Capital and Contributions to University Operations	7,189	8,724	1,535	(15)	244	259	793	741	(52)	(1,019)	(971)	48
Deferred Maintenance	2,491	2,491	-	-	-	-	284	121	(163)	525	525	-
Debt Servicing - Principal	3,142	3,142	-	-	-	-	53	53	-	757	757	-
Contributions to University Operations	3,658	3,722	64	357	662	305	741	746	5	-	-	-
SURPLUS (DEFICIT)	(2,102)	(631)	1,471	(372)	(418)	(46)	(285)	(179)	106	(2,301)	(2,253)	48

2014-15 ANCILLARY BUDGET (000's) RESERVES

	Residence Budget	Residence Projected	Residence Variance	Event Services Budget	Event Services Projected	Event Services Variance	Community Housing Budget	Community Housing Projected	Community Housing Variance	Parking Budget	Parking Projected	Parking Variance
OPENING RESERVE	4,583	4,583	-	1,147	1,147	-	7,989	7,989	-	(4,358) *	(4,358) *	-
Addition to Maintenance Reserve	-	-	-	-	-	-	-	-	-	525	125	(400)
SURPLUS (DEFICIT) - PLANNED ALLOCATION TO (FROM) RESERVES	(2,102)	(631)	1,471	(372)	(418)	(46)	(285)	(179)	106	(2,301)	(2,253)	48
CLOSING RESERVE	2,481	3,952	1,471	775	729	(46)	7,704	7,810	106	(6,134)	(6,486)	(352)

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

2014-15 ANCILLARY FINANCIAL REPORT (000's)

	Creative Design			Computer Store			Donald Gordon Centre			Stuart St. Underground Parking		
	Budget	Projected	Variance Surplus (deficit)	Budget	Projected	Variance Surplus (deficit)	Budget	Projected	Variance Surplus (deficit)	Budget	Projected	Variance Surplus (deficit)
REVENUE	220	278	58	7,500	7,061	(439)	4,184	3,945	(239)	984	1,032	48
EXPENDITURE												
Salaries & Benefits	-	-	-	660	565	(95)	-	-	-	75	75	-
External Contracts	30	30	-	-	-	-	1,750	1,748	(2)	43	44	1
Utilities	-	-	-	-	-	-	250	233	(17)	53	53	-
Repairs & Alter.	-	-	-	-	-	-	185	170	(15)	28	38	10
Interest & Bank Charges	-	-	-	-	-	-	595	595	-	199	199	-
Supplies & Misc.	17	73	56	6,796	6,557	(239)	1,012	1,000	(12)	40	38	(2)
Overhead	8	10	2	44	54	10	73	69	(4)	-	-	-
Total Expenditures	55	113	58	7,500	7,176	(324)	3,865	3,815	(50)	438	447	9
Net Surplus (Deficit) before Capital and Contributions to University Operations	165	165	-	-	(115)	(115)	319	130	(189)	546	585	39
Deferred Maintenance	-	-	-	-	-	-	80	-	(80)	20	47	27
Debt Servicing - Principal	-	-	-	-	-	-	228	228	-	124	124	-
Contributions to University Operations	165	165	-	-	-	-	-	-	-	402	414	12
SURPLUS (DEFICIT)	-	-	-	-	(115)	(115)	11	(98)	(109)	-	-	-

2014-15 ANCILLARY BUDGET (000's) RESERVES

OPENING RESERVE	-	-	-	(456)	(456)	-	(5,630)	(5,630)	-	-	-	-
Addition to Maintenance Reserve	-	-	-	-	-	-	-	-	-	-	-	-
SURPLUS (DEFICIT) - PLANNED ALLOCATION TO (FROM) RESERVES	-	-	-	-	(115)	(115)	11	(98)	(109)	-	-	-
CLOSING RESERVE	-	-	-	(456)	(571)	(115)	(5,619)	(5,728)	(109)	-	-	-

2014-15 Consolidated Entities Financial Report (000's)						
	PARTEQ Consolidated			QCED Inc.		
	Budget	**Projected**	**Variance** Surplus (deficit)	**Budget**	**Projected**	**Variance** Surplus (deficit)
REVENUE	3,726	5,482	1,756	799	465	(334)
EXPENDITURE						
Salaries & Benefits	1,406	1,433	27	194	194	-
External Contracts	146	125	(21)	523	235	(288)
Utilities	-	-	-	-	-	-
Repairs & Alter.	-	-	-	-	-	-
Interest & Bank Charges	114	116	2	-	-	-
Supplies & Misc.	2,195	3,683	1,488	58	29	(29)
Deferred Maintenance	-	-	-	-	-	-
Total Expenditures	3,861	5,357	1,496	775	458	(317)
SURPLUS (DEFICIT)	(135)	125	260	24	7	(17)

Note: The Bader International Study Centre is a consolidated entity but under the New Budget model its academic operations are now included as a faculty in the operating budget.

III: Pension Plan

The University is required to file a pension plan valuation as of August 31, 2014. The Pension Committee of the Board of Trustees discussed the preliminary valuation results at the December meeting. The valuation must be filed by August 2015.

The preliminary August 31, 2014 valuation results reflect an increase in the going concern deficit to $175 million on a smoothed basis ($126 million at August 31, 2011). The increased going concern payments, which commence on September 1, 2015, are being built into the 2015-16 to 2017-18 budget plans.

The solvency deficit has decreased to $285 million at August 31, 2014 from $332 million at August 31, 2011.

The University is currently in Stage I solvency relief, and has applied for Stage II solvency relief. Stage II relief allows the solvency deficit to be amortized over 10 years instead of 5, and provides universities with a further choice to amortize the solvency deficit over the 10 year period, or take advantage of an additional 3 year extension to pension solvency relief and amortize the solvency deficit over the remaining 7 years of Stage II relief.   The university is awaiting approval of its Stage II solvency relief application.

IV: Capital

The table below provides an overview of Board approved capital projects with related information on funding. In May 2014, the Board of Trustees approved a revised Major Capital Projects Approval Policy (Built Environment) http://www.queensu.ca/secretariat/policies/board/mcpapolicy.html. Board approval is required for projects in excess of $2.5 million, with the continued requirement for a business case identifying impact on operations, strategic alignment, risks etc., as well as full project funding.

As of December 31, 2014			Cash Flow Impact				Additional Funding		Notes:
	Approved Budget	Total Projected Costs	Expenditures to Dec '14	Funding to Dec '14	Debt to Dec '14	Cash surplus (shortfall) Dec '14	External Grants / Donations/ Debt	Annual Operating Budget Impact	
Projects in Process:									
Isabel Bader Performing Arts Centre	80,500	80,500	77,461	74,195		(3,266)	6,305		1
Reactor Materials Testing Laboratory	18,355	18,355	14,067	11,134		(2,933)	7,221		2
David C. Smith House and Brant House*	70,000	63,000	32,049	-	30,000	(2,049)	40,000		3
TRAQ	3,460	3,460	1,671	2,170		499		640	
Ellis Hall - Innovative Learning renovation	2,270	2,270	1,891	2,270		379	-		
Innovation Park - Micro / Nano Facility	2,000	2,000	1,789	312		(1,477)	1,688		4
Richardson Stadium	20,270	20,270	293	1,013		720	19,257		5
Total Approved Projects in Process	**196,855**	**189,855**	**129,222**	**91,095**	**30,000**	**(8,127)**	**74,470**	**640**	
Projects Completed:									
Queen's Centre Underground Parking	12,235	12,235	12,235		12,235	-	-		
School of Kinesiology and Queen's Centre Phase 1	169,000	168,253	168,226	36,504	78,329	(53,393)	25,810	6,900	6
Goodes Hall Expansion	40,000	39,800	39,738	25,690		(14,048)	14,433		7
Stuart Street Underground Parking	7,500	7,500	7,500	881		(6,619)	6,619		8
West Campus Fields	3,122	3,030	3,030	2,708		(322)	322		9
Mackintosh-Corry Food Services	1,345	1,752	1,752	1,231		(520)	520		10
Waldron Tower	2,500	2,210	2,143	1,434		(709)	1,066		10
Medical Building	76,846	76,443	74,931	74,702		(229)	1,741		11
Nixon Field	2,300	2,398	2,398	2,363		(35)	35		9
Jean Royce - Food Services	2,204	1,600	1,573	886		(686)	1,318		10
JDUC - Sidewalk café	1,515	1,423	1,423	629		(794)	886		10
Total Approved Completed Projects	**318,567**	**316,643**	**314,947**	**147,027**	**90,564**	**(77,356)**	**52,751**	**6,900**	

* Previously reported as "New Residence Buildings"

Notes on Funding Sources:

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

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

Planned Projects- budget approved ($000's)	Planning funds approved to Dec '14	Expenditures to Dec '14	Funding to Dec '14	Net Cash Position
Teaching Space Complex	620	634	620	(14)
Engineering Building	300	312	6,083	5,771
Total	920	946	6,703	5,757

Deferred Maintenance:

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

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

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

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

Queen's also allocates annual operating budget funds for deferred maintenance. The 2014-15 operating budget allocation is $6.3M, which includes a one-time allocation of $2.1M from the University Fund. The industry standard for annual deferred maintenance funding is 1%-1.5% of Current Replacement Value (CRV). For the university the annual number at 1% would be $14M. The table below shows Queen's projected deferred maintenance expenditures in 2014-15. For the MTCU funded program, there is a list of pre-approved projects (roofs in the current year) and the expenditures are subject to external audit.

Over the past year Physical Plant Services has developed a detailed five-year deferred maintenance plan which allows for engineering design work ahead of the fiscal year for prioritized projects, with the flexibility to adjust plans based on available funding. There are also contingency funds to deal with unanticipated issues.

Funding Source:	Available funds May 1, 2014	Spent and Committed to Dec 31, 2014
Operating Budget / University Fund	**6,310**	**5,322**
MTCU: Facilities Renewal Program	**1,085**	**1,085**
Total:	**7,395**	**6,407**

V: Investment Funds

Market volatility can have a significant impact on investment holdings and financial planning. Although the university has largely recovered from the 2008 decline in the financial markets, its investment holdings remain susceptible to further volatility.

The University has two investment portfolios, the Pooled Endowment Fund and the Pooled Investment Fund, which are now over $1 billion.

The Pooled Endowment Fund ("PEF") is an investment pool composed of funds that have been designated for University Endowment accounts. Donations received by the University are invested in the PEF and each year certain amounts are withdrawn according to the spending policy. These annual withdrawals (“payout”) fund scholarships, academic chairs, book funds, lectureships, as well as a diverse range of university programs, in accordance with donor wishes.

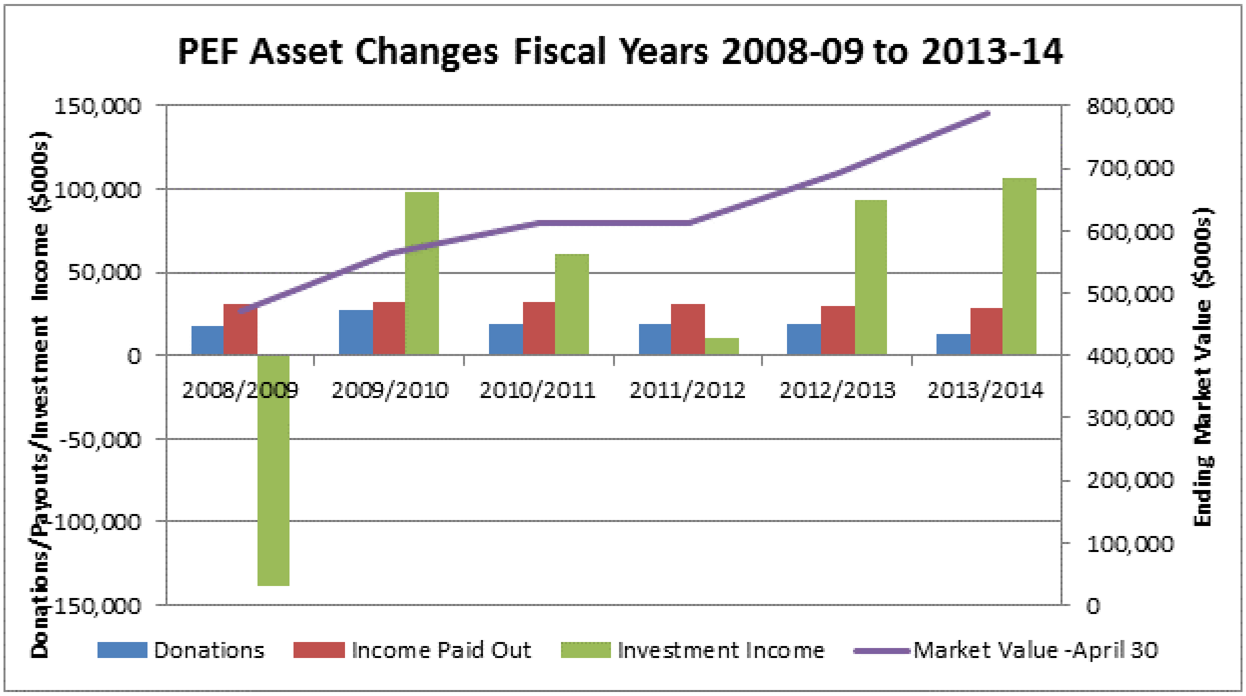
The Pooled Investment Fund (“PIF”) is made up of reserve funds and unspent balances. In the past, spending from the PIF has been based on a percentage of mean assets, even in periods when returns have been weak. As the PIF’s primary objective is to preserve the nominal capital of the fund, the decision was made to limit the operating budget reliance on income from the PIF. Thus, commencing in 2012-13, budgeted income from the PIF was reduced to $4.2M.

Investment Fund balances are shown in the table below:

Investment Portfolios ($000's)

	Market Value April 30, 2012	Market Value April 30, 2013	Market Value April 30, 2014	Market Value Dec 31, 2014
Pooled Investment Fund (PIF)	168,436	156,463	177,054	183,960
Pooled Endowment Fund (PEF)	611,732	694,010	787,474	852,109
Total	**780,168**	**850,473**	**964,528**	**1,036,069**

As shown in the graph below, the Endowment market value has recovered strongly since fiscal 2008-09. The market value of the PEF for the end of the 2013-14 fiscal year was approximately $787 million. Since then, the PEF has continued to grow amidst a positive market environment. The market value as of December 31, 2014 was $852 million.



The PEF income payout is approved annually by the Investment Committee of the Board of Trustees and is based on a hybrid formula, which is meant to preserve capital for inflationary increases while producing a substantial level of income to support current operations. As the formula is weighted 70% on the previous year's payout adjusted for inflation, and 30% on the most recent calendar year's ending market value, there is a significant smoothing effect and the full impact of market movements is not felt immediately. In 2013-14, the University completed a thorough review of its spending policy, and in March 2014 the Board approved a two-year adjustment to the PEF payout for 2014-15 and 2015-16 that implements a long-term payout target of 3.7%, as well as adding upper and lower bands.

The 2014-15 PEF payout is approximately $26.1 million, of which $3.4 million is included in investment income in the operating budget as it is from the unrestricted endowment. The remainder of the payout supports donor directed priorities such as student assistance and academic chairs as previously noted.

VI: Debt and Liquidity

Debt

Balances at December 31, 2014:

Debt Portfolio

Issue	$ Millions		Rate	Maturity
BNY Series A Senior unsecured debenture	$	90.0	6.100%	2032
CMHC Residences loans	$	0.4	5.375%	2016
Infrastructure Ontario senior unsecured debenture	$	75.0	5.090%	2040
Infrastructure Ontario Senior unsecured debenture	$	50.0	5.100%	2040
Bank of Montreal (floating rate amortizing loan & interest rate swap)*	$	30.0	3.180%	2030
Total	$	245.4		

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

Sinking Fund

The University has a voluntary sinking fund set up for the sole purpose of paying off the principal amounts of its outstanding non-amortizing debt when it falls due. As of December 31, 2014, in accordance with the Debt Management Policy, a total amount of $43.4 million has been invested in fixed income investments which will have a value of $111.4 million at maturity. This represents 51.8% of the $215 million in non-amortizing debt that the University has outstanding.

The ratios in the Board approved Debt Management Policy are as follows:

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

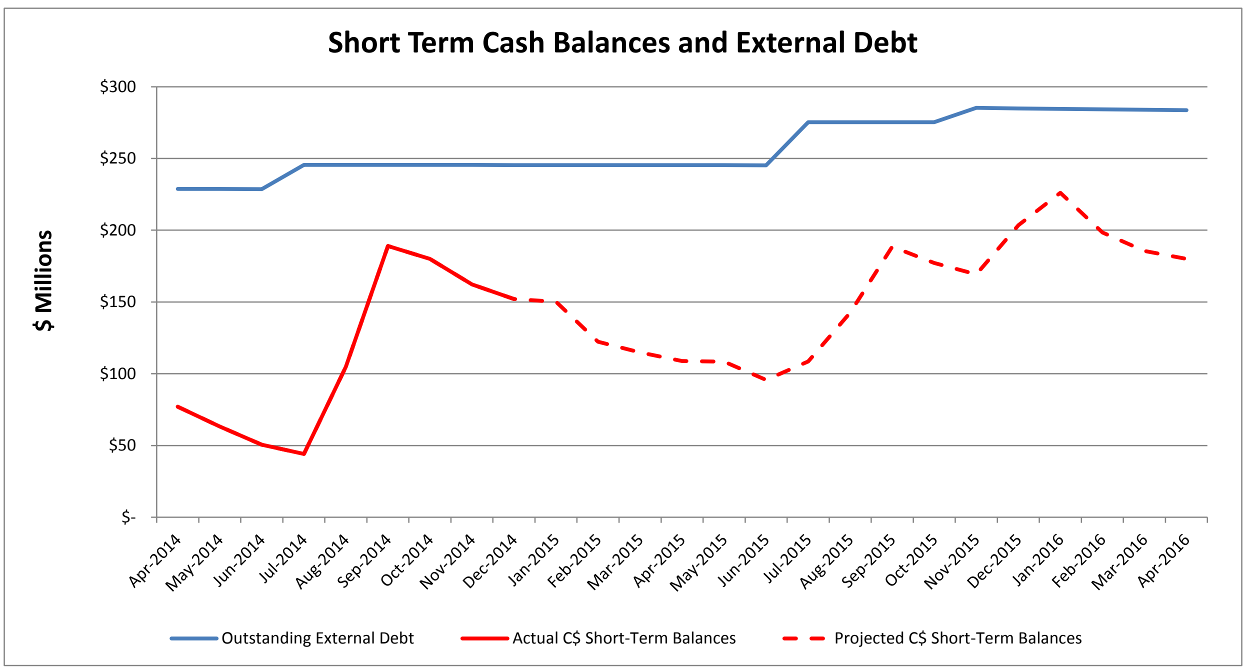
* Excluding liabilities associated with employee future benefits and including deferred contributions.

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

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

Cash Flow
The University administration has been developing a cash management forecasting model to better track the University's cash inflows and outflows. The expectation is that this tool will allow the University to better manage its short-term investment portfolio and to optimize interest income through the increased confidence in the timing of the University's sources and uses of cash. The cash forecasting model will continue to evolve over time as it becomes more robust, and its forecasting ability becomes more refined.

The graph below shows the projected short-term investment and external debt balances for the current and following fiscal year. University cash balances are cyclical in nature with higher balances in the fall months due to tuition and residence fee receipts, and lower balances experienced during the late spring and early summer months. In the fall, the University administration invested its cash balances in bank demand deposits, bank term deposits and guaranteed investment certificates maturing between one month and 1 year, and with a short-term bond fund with a targeted maturity of 3 years (fully redeemable at any time). These investments were made taking into account the projected cash flow needs of the University with the aim of matching assets and liabilities as much as possible. In compliance with the University's investment policy on short-term investments, no more than $60 million has been deposited with any one of the five major Schedule I Canadian banks. The investment of a portion of the University's cash balances into longer-dated maturities allows the University to earn higher interest income than could otherwise be earned in a demand deposit account.



VII: Budget Planning for 2015-2016 and Beyond

The short-term budget planning framework continues to be extremely challenging.

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

The development of the 2015-2016 to 2017-2018 multi-year budget is almost complete. The plan is to develop and implement a sustainable budget for 2015-2016 to 2017-2018 that provides units with appropriate incentives to increase revenues and/or decrease costs in direct support of academic priorities.

The work of supporting and running the new budget model continues to include a high level of participation by the Provost’s Advisory Committee on the Budget (PACB) and by Directors and Business Officers in both the Faculties and Schools and the shared service units.

When the 2014-2015 to 2016-2017 budget was presented for approval in May it was noted that there were a number of risks to the operating budget projections including:

- Reliance on government grant support and tuition (both controlled by government) and the effect of further changes in government policy, most notably the outcome of the formula funding review that the government has indicated they will undertake in 2014-15;
- The expiry of collective agreements during the 3 year planning timeframe and the uncertainty regarding the outcome of future negotiations;
- Pension solvency;
- The significant investment required to support infrastructure renewal, both physical plant and technology;
- A capital volatility risk that exists notwithstanding the reduced reliance on investment income from the PIF.

These risks are still pertinent during the new three-year planning window.

The provincial government’s Differentiation Framework and the universities’ Strategic Mandate Agreements with the province are finalized and Queen’s University has received their allotment of targeted graduate spaces from the government. Unfortunately we have not achieved the enrolment required at the graduate level to meet the targeted allocations. On the other hand we have exceeded our undergraduate enrolment targets in a year where many other universities struggled to meet their targets and in many cases are significantly below them.

A number of collective agreements are due to expire in 2014 and 2015 including those with the Queen’s University Faculty Association, the Canadian Union of Public Employees and the United Steel Workers. The outcomes of these negotiations will bear critically on our ability to contain costs over the planning period.

The university continues to explore options relating to a Jointly Sponsored Pension Plan (JSPP) to obtain long-term pension plan financial sustainability. We shall begin addressing the pension solvency shortfall in 2015-16. As is outlined below, shared service units and Faculties and Schools were asked to incorporate impacts of estimated pension solvency shortfalls into their plans.

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

The Provost and Vice-Principal (Academic) provided Shared Service Units with Comprehensive Budget Plan Guidelines and preliminary budget allocations in May. The guidelines included planning parameters that included pension solvency payments beginning in September 2015, while still requiring each unit to achieve a structurally balanced outlook within the 3 year budget horizon. All shared service units submitted their budgets by the end of August and PACB meetings to discuss the submissions were held in early October. At this time, the amount of the pension solvency deficit was unknown. We therefore made preliminary budget allocation decisions for the shared service units, which allowed for the determination of preliminary Faculty and School budget allocations. These were released late-October, and Faculties and Schools were required to submit their multi-year budget plans by late November; PACB meetings to review the submissions were held in December.

Following this, 2015-2016 to 2017-2018 budget projections were developed in January incorporating all updated enrolment information and the latest pension solvency deficit estimate, which allowed us to finalize shared service allocations. The preliminary budget will be presented to the Board of Trustees at the March meeting for information and consultation; the final projections will be presented to the board for approval at its May meeting.