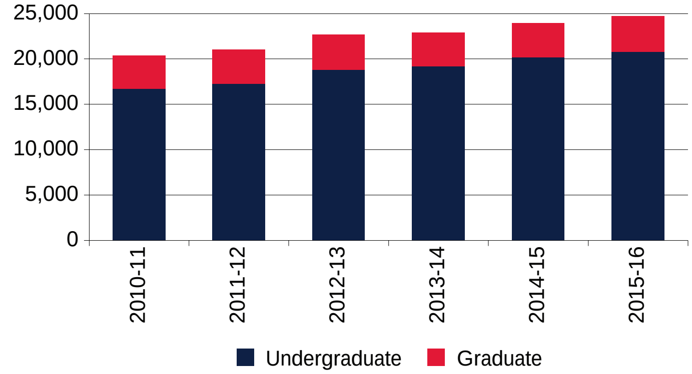
The University's total endowment assets grew by nearly 15% to

Queen's reported a solid consolidated surplus of $61.9 million or 7.3% of revenues in F2014-2015, up from $45.6 million the prior year. The sizable surplus and year-over-year (YOY) improvement was largely driven by gains within the University's investment portfolio from strong capital market performance, deemed for budget purposes to be non-recurring and one-time in nature. DBRS views this as prudent practice in light of capital market volatility and the associated impact on investment income and reported results, which may not reflect the underlying financial position of ongoing operations. A positive variance within the Pooled Investment Fund of approximately $14 million on net investment income recognized on the income statement, savings on the University's pension expense and higher-than-budgeted fee revenue produced a significant positive variance to budget, avoiding the drawdown of $7.7 million in reserve funds. Queen's has deployed the surplus funds to create a central reserve to smooth the impact of future investment income weakness or for capital renewal purposes. The University also left carry-forward balances with departments for future strategic priorities or pension payments.

Revenues expanded by a modest 1.8% in 2014-2015, primarily supported by a notable increase in revenue from student tuition and fees from the maximum permitted fee increases within the provincial tuition framework and robust growth in FTE enrolment of 4.7% YOY. Enrolment growth at Queen's stands in contrast with other DBRS-rated universities that have experienced a slowdown or outright decline in enrolment in 2014-15, highlighting the importance of the University's strong academic profile in supporting student demand and financial performance. Government operating grants, the second-largest source of revenue, declined by 0.4% on account of the final year of provincial efficiency cuts to the base operating grant and policy changes mandating a 50% reduction in Faculty of Education intake, offset by growth in accessibility funding to accommodate enrolment growth.

Total Enrolment (FTE)



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

Expenditures were well contained, declining by 0.1%, primarily because of a 1.0% reduction in salary and benefit expense stemming from a reduction in the financing component of the University's pension expense from stronger plan returns and a divestment of a subsidiary of a not-for-profit commercialization and innovation centre. Spending was reduced across several other categories, including reduced outlays for supplies, equipment, utilities and insurance. Minor increases in student aid spending tied to rising enrolment, modestly higher interest charges to service the University's higher debt burden and an approximately 8.0% increase in miscellaneous expenses nearly offset the significant reductions in other spending categories.

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continues to include a contingency buffer of approximately $1.8 million and a $12.3 million transfer from operating accounts for capital, a reduction of $1.5 million from the prior year. The $1.5 million reduction reflects a loan repayment and is redirected to deferred maintenance, bringing up the allocation from operations to $4.2 million. A separate operating allocation for infrastructure renewal is also budgeted at $4.4 million, down slightly from the prior year, with the difference reallocated to the budget for Information Technology Services. Most faculties and schools are budgeting for expenditure increases, with the exception of the School of Policy Studies and Faculty of Education, with the most notable increases in the Faculty of Arts and Science and in the Faculty of Business reflecting student demand dynamics.

DBRS deems assumptions in the budget to be conservative, noting that positive variances on salaries and benefits in recent years have allowed the University to avoid drawing down reserves as anticipated. The 2015-16 budget is the third prepared under the activities-based revenue allocation model and the first budget year in which transitional hold harmless payments to certain faculties and schools are to be phased down. As the fiscal year nears a close, the budget plan appears to be on track with no major deviations identified by Queen's management. DBRS expects that, on a consolidated basis, the University will post another surplus in F2016.

The operating environment will remain challenging for Queen's and all Ontario universities over the current planning horizon. An update to the tuition fee framework expiring in 2016-17 has yet to be announced, although DBRS does not anticipate that it will be materially negative. The government is also reviewing the results of its sector consultation regarding changes to the provincial funding formula more directly linking funding envelopes to student performance metrics and institutional differentiation. DBRS believes that changes to the funding formula will not adversely affect Queen's, given the University's notable academic and research profile and the Province's generally strong support for post-secondary education.

DBRS expects that Queen's will continue to see robust student demand over the medium term, given its academic reputation and high entrance standards, limiting downside risk to the enrolment outlook despite headwinds from a declining university-age population. In 2016, Queen's forecasts that total FTE enrolment will rise by a notable 6.4% YOY, with gains driven by a 2.1% increase in undergraduate enrolment and robust graduate growth of 8.9%, although DBRS notes that there is downside risk to this projection in the current climate. The University has not had to relax entrance standards to generate incremental enrolment growth, with entering averages stable at 89.1%, among the highest in the country. Applications and yield rates remain robust. Expansion of campus residence capacity has allowed the University to accommodate a moderate expansion in undergraduate enrolment and applications remain particularly strong for high-demand space-limited programs such as Commerce, Nursing and Engineering. Graduate enrolment gains will be supported by continued demand for professional Master's programs at Queen's, including those in Aging and Health, Management Analytics, Entrepreneurship and Innovation as well as Education. International undergraduate enrolment currently sits at 6.5%, but is targeted to increase to 10.0% through 2019, a level below other DBRS-rated institutions that have relied heavily on foreign students. International graduate enrolment is stable at roughly 20.0%.

Labour relations at the University are generally stable, with Queen's reaching four-year collective agreements with its largest labour groups, namely the faculty association and staff association, as well as heating and maintenance, technicians, IT and library staff. Outstanding agreements include a small employee health-care group. Negotiations for post-doctoral fellows commence in June 2016, while the current agreement for academic assistants expires in August 2016. Graduate teaching assistants have an agreement in place until 2017. Salary and wage increases that have been negotiated are included in the medium-term balanced-budget framework for faculties, schools and shared-service units, which are required to absorb rising salary and wage costs within the new budget model. For outstanding agreements or those set to be negotiated over the planning horizon, 2% annual increases are assumed. The University has relative cost certainty for the majority of the current budget outlook, which provides comfort that growth in the primary cost driver will remain reasonably contained.

Solvency Funding Relief

Ontario Regulation 178/11 came into force in June 2011 and allows for solvency funding relief in two stages for certain public-sector pension plans.

Stage 1:

- Allows universities up to three years to make changes that will improve the sustainability of their plans.
- Special payments are only required to ensure that the solvency shortfall does not increase.

Stage 2:

- Provided sufficient progress is made to improve the sustainability of pension plans, solvency deficiency can be amortized over ten years instead of five.
- For plans with a Stage 2 valuation date before 2015, updated regulations (O. Reg 118/14) create the option to make interest-only payments for the first three years of the ten-year period, amortizing the deficit balance over remaining seven years.

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The most significant downside risk to Queen's financial outlook remains uncertainty on the scale and timing of potential special deficit payments on its hybrid pension plan. The most recent actuarial valuation of the Queen's Pension Plan as of August 31, 2014, revealed a going-concern deficit of $53.5 million on a market basis or $175.6 million on a smoothed basis, a deterioration from the previous valuation. The University has been making going-concern payments totalling $14.4 million per year for three years, which rose to $20.7 million as of September 1, 2015.

The most recent official valuation also showed a solvency shortfall of $285.4 million, an improvement from the prior valuation driven by strong investment returns partially offset by lower interest rates. The University was approved for Stage 2 provincial solvency relief and has elected to defer solvency deficit payments for three years, with the remaining deficit amortizing over the following seven years beginning in F2019. Solvency payments are estimated at roughly $19 million. DBRS notes that Queen's has prudently established a reserve fund to cover the higher going-concern payments and future solvency payments, charging all academic and service units an additional 4.5% pension charge as of September 2015.

Queen's is a leading participant in discussions and modelling around the creation of a multi-employer JSPP, which aims to achieve a solvency test exemption and would likely move to an equal contribution and risk-sharing model between employers and employees. Although progress is being made through the University Pension Project, DBRS does not expect that a new plan will be established for several years, given the challenge in agreeing on a plan design, administrative structure and negotiated acceptance from employee groups at universities across the Province. DBRS expects, however, that the provincial government will continue to accommodate pension solvency deficits in the sector given (1) the impact that a significant increase in pension payments would have on university budgets and programming, (2) ongoing progress by universities to improve the sustainability of their defined benefit pension plans and (3) sector-wide progress on discussions around the establishment of a JSPP.

The University's gross capital spending was $52.3 million in 2014-2015, down from $71.0 million the prior year as two new student residences were completed and opened in the fall of 2015, housing a total of 550 new student beds. The residences had a total estimated project cost of $63 million. Following the completion of the residences, the capital plan at Queen's is nowl oveoglng mo

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Queen's debt burden rose in line with expectations at the time of DBRS's last review as the University drew down a $20 million tranche of the bank loan facility for the two new residence buildings in 2014-15. Long-term debt rose to $245.4 million, up from $228.8 million the prior year, translating to $10,242 per FTE, up from $9,997. DBRS notes that the University has since made a final draw of $40 million on the $70 million loan facility. To reduce interest rate risk, Queen's has obtained a total return swap with an effective annual interest rate of 3.18% for the loan. The balance of the University's debt burden comprises a $90 million Series A senior unsecured bullet debenture maturing in 2032 and two senior unsecured bullet debentures totalling $75 million and $50 million maturing in April 2040 and June 2040, respectively. Queen's has established a sinking fund to repay the debentures upon maturity, with a balance of $66.7 million at YE2014-15, up $17.6 million from the prior year.

The size of the University's endowment remains a notable strength of the credit profile and offsets the elevated debt burden. The value of endowment funds grew by nearly 15% YOY to $919 million as at April 30, 2015, or $38,358 per FTE, the highest on a per-student basis of DBRS-rated universities and second highest after the University of Toronto on a gross basis. Queen's targets a long-term drawdown rate of 3.7% on the endowment, releasing $30.5 million in 2014-15. The University's expendable resources, which comprises internally restricted endowment funds and other operating reserves including sinking funds, totalled $476 million or 194% of total debt in 2014-15, among the highest of DBRS-rated institutions. Queen's Pooled Endowment Fund returned a solid 12% for the year ending April 30, 2015, while the Pooled Investment Fund returned 10%.

Interest coverage as measured by DBRS remained largely stable at 4.1 times in 2014-15, supported by still-solid cash flows from operations from the sizable surplus. DBRS anticipates that interest coverage will likely soften somewhat as surpluses narrow and interest costs rise modestly with a higher debt burden, but is likely to remain very manageable for the rating.

Following the final $40 million draw on the bank loan facility and after accounting for enrolment gains in 2015, Queen's debt-per-FTE ratio now totals roughly $11,475, in line with expectations at the time of the last review. The higher debt burden associated with the construction loan is viewed as manageable given the revenue-generating nature of the residences, which should repay the loan over time. The University has no current plans for additional debt over the medium term. DBRS also takes comfort from Queen's internal debt management policy and requirements that new capital projects be limited to those with a full business case and committed funding. Through 2016-17, the debt burden should trend below $11,000 based on projections indicating additional enrolment gains.

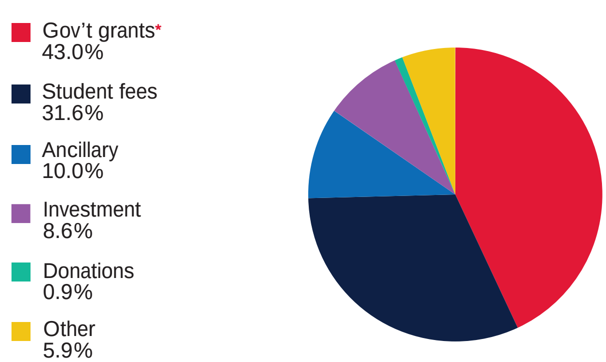
DBRS notes that Queen's debt burden is relatively high for the rating. If the University proceeds to take on significant additional debt or if operating performance meaningfully deteriorates, the credit profile may come under pressure as financial metrics weaken.

Canadian universities generally have access to three key sources of revenue for their core teaching research activities: (1) government grants, (2) student fees and (3) fundraising and endowment income. For Queen's, these accounted for about 76% of total revenues in 2014-2015.

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

(, %) This includes operating grants, research grants and contracts as well as 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 at expanding enrolment in high-demand programs, and performance-based grants also account for a small portion of provincial operating funding. No inflation adjustment is provided for base operating funding in Ontario, although the Province continues to provide full average funding for enrolment growth.

2014-2015 Consolidated Revenue Sources ($850.8 million)



* Provincial and Federal.

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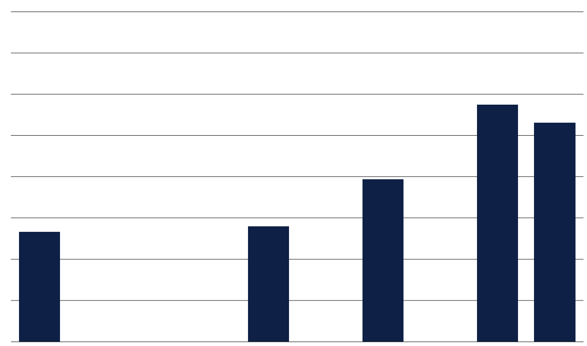
In recent years, the Ontario government has introduced refinements to its post-secondary education plan that embrace a number of priorities, including additional student spaces, tuition and financial assistance for students, long-term capital funding to support expansion and renewal of campus infrastructure as well as renegotiation of multi-year accountability agreements. Furthermore, the government has expressed its intention to reform the current enrolment-based university funding model with a focus on improving quality and student experience. In December 2015, the government released a consultation paper on university funding model reform, although DBRS notes that it is too early to determine what implications this could have on university funding in Ontario if implemented.



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 address its own budgetary challenges suggests limited flexibility for funding increases, making cost containment at universities that much more crucial.

(%) In March 2013, the Province announced that, starting with the 2013-2014 academic year and for the next four years, the cap on annual total tuition fee increases would be limited to 3.0%. Within the 3.0% overall cap, tuition fee increases for graduate and professional programs would be limited to 5.0%. Despite provincial tuition restraint, student fees have continued to grow faster than provincial operating grants as student fees now comprise 32% of Queen's total rmic 4yfo1(e also dthe 20ls o).115 Tw 37[(to gr)1univ

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(DBRS-adjusted)

($ thousands)	For the year ended April 30				
Total operating revenue	850,794	835,410	799,164	743,436	742,467
Total expenditures	788,853	789,823	776,603	768,306	751,154
Employee future benefits remeasurements & other items	n/a	n/a	n/a	5,234	n/a
Non-recurring items	-	-	-	-	4,268
Student fees	268,548	244,534	233,095	214,468	203,757
Government operating grants	195,169	196,041	187,472	187,127	180,210
Other grants and contracts	170,989	161,244	169,029	177,310	184,399
Ancillary operations	85,401	81,149	77,841	72,765	69,872
Investment income	73,357	64,958	62,033	27,570	39,942
Donations	7,413	39,896	21,496	20,757	15,750
Earned capital contributions	26,130	24,797	26,676	25,587	23,274
Other revenue	23,787	22,791	21,522	17,852	25,263
Salaries and benefits	430,108	434,425	433,581	424,122	404,834
Student aid	56,026	55,396	53,001	55,134	54,751
Supplies and minor equipment	131,387	133,887	118,164	122,081	119,899
Utilities and insurance	23,008	23,828	20,870	18,584	19,479
Interest	12,885	12,562	12,371	12,606	12,552
Amortization	51,828	52,201	57,186	57,792	55,255
Other expenses	83,611	77,524	81,430	77,987	84,384

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.

Comprised of actuarial gains and losses on pension plan and other benefit plans, investment gains and losses, and plan amendments. In 2013-2014, these remeasurements began being recognized directly on the Statement of Net Assets. Includes fees for continuing education. Investment income includes unrealized gains and losses on investments, excluding externally restricted endowments.

(DBRS-adjusted)

	For the year ended April 30				
	23,958	22,888	22,425	21,845	21,973
Undergraduate	84%	84%	84%	84%	84%
Graduate	16%	16%	16%	16%	16%
Total annual change	4.7%	2.1%	2.7%	-0.6%	5.1%
	4,039	3,978	4,022	4,095	3,940
Faculty	1,610	1,594	1,582	1,630	1,588
Surplus (deficit)	61,941	45,587	22,561	(24,870)	(8,687)
- As a % of revenues	7.3%	5.5%	2.8%	(3.3%)	(1.2%)
(as % of total DBRS-adjusted revenue)					
Government funding (federal + provincial)	43.0%	42.8%	44.6%	49.4%	49.1%
Student fees	31.6%	29.3%	29.2%	28.8%	27.4%
Ancillary	10.0%	9.7%	9.7%	9.8%	9.4%
Expendable donations	0.9%	4.8%	2.7%	2.8%	2.1%
Other	14.5%	13.5%	13.8%	9.2%	11.9%
Total debt ($ millions)	245.373	228.8	225.3	231.6	237.7
- per FTE student ($)	10,242	9,997	10,048	10,603	10,819