10-11 FINANCIAL STATEMENTS

APRIL 30 2011

QUEEN'S UNIVERSITY
KINGSTON, ONTARIO, CANADA

Financial Statements

Queen's University at Kingston

30 April 2011

Queen's University at Kingston
Consolidated Financial Statements
April 30, 2011

Index

SUMMARY OF ACTUAL RESULTS FOR 2010-11

The audited Financial Statements report on the consolidated activities of Queen's University, the Bader International Study Centre, PARTEQ Research and Development Innovations, the U.S. Foundation for Queen's University at Kingston, the Crown Foundation at Queen's University at Kingston and the Queen's Centre for Enterprise Development.

Consolidated Statement of Operations

The University completed its 2010-11 fiscal year with a deficiency of revenue over expenses of $4.4 million, an improvement of $10.3 million over 2009-10.

Some of the key drivers of the Statement of Operations are summarized below:

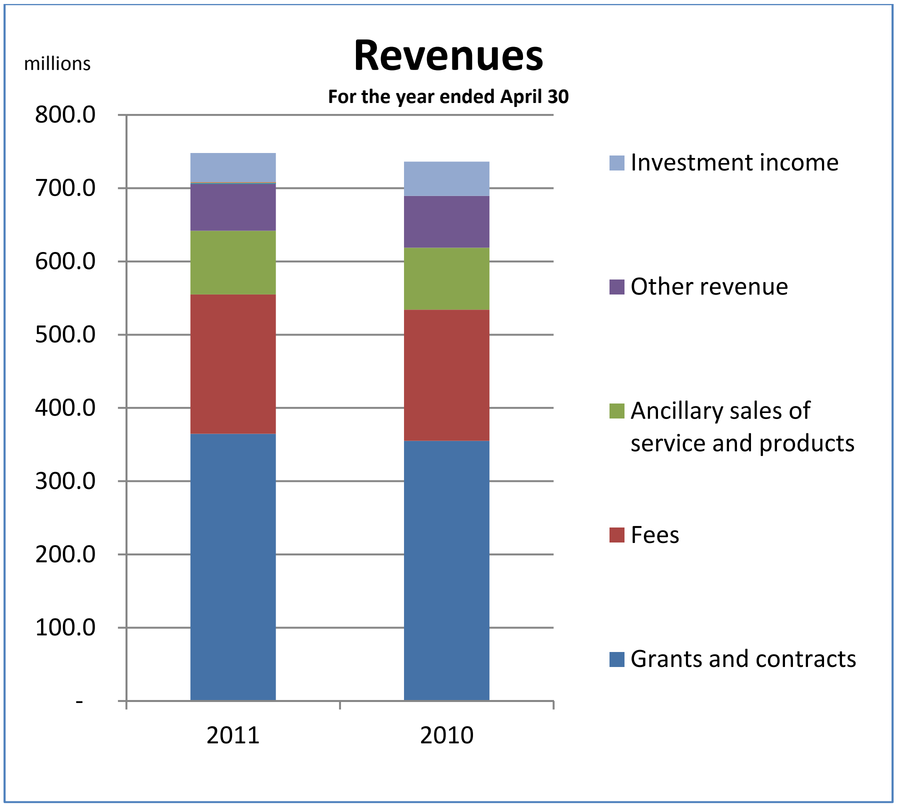
- Growth in student enrolment, which increases government operating grants and student fee revenues, increases to which are guided by Ministry of Training, Colleges and Universities policies.
- Human resources changes which impact salaries and benefits, the largest University expenditure.
- Growth in research activity, which affects research grants and contracts revenue, and related expenses in the research fund;
- Growth in physical space, which affects building renovations, interest, and amortization expense;
- Philanthropic funding (donations); and
- Investment performance.

Highlights of the Consolidated Statement of Operations are presented below.

FINANCIAL HIGHLIGHTS Year ended April 30	2011	2010	Increase
Total Revenues ($ millions)	742.5	734.6	7.9
Total Expenses excluding unrealized gain / (loss) on derivatives ($ millions)	751.2	739.6	11.6
Unrealized gain / (loss) on derivatives ($ millions)	4.3	(9.7)	14.0
Deficiency of Revenues over Expenses ($ millions)	(4.4)	(14.7)	10.3
Deficiency of Revenues over Expenses Operating Fund only ($ millions)	(2.0)	(30.2)	28.2

Revenues

Revenues of the University increased by 1.1% in 2011, from $734.6 million in 2010 to $742.5 million. A breakdown of revenues is presented in the chart below.



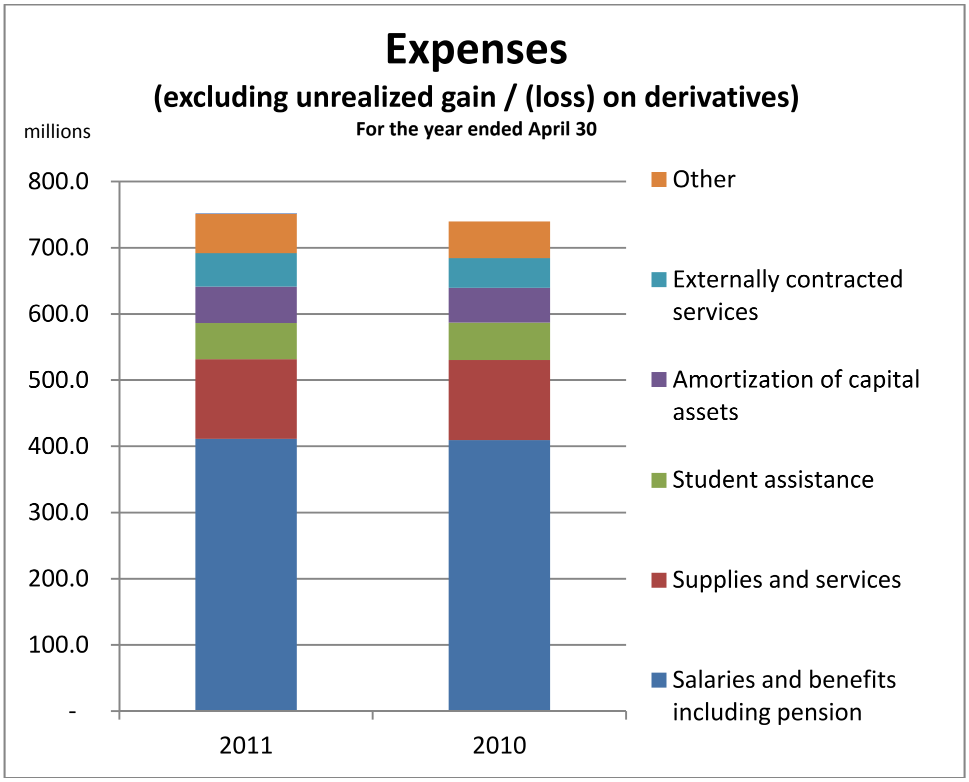
Key factors contributing to the increase in revenue in 2011 include higher enrolment in the current year, and higher ancillary revenues due to higher residence occupancy. Tuition fees also increased in accordance with approved tuition fee increases under provincial regulations. These increases in revenue were offset by decreases in Other revenue and Investment income.

Other revenue in the chart above, which is comprised of donations, amortization of deferred capital contributions, and other revenue, decreased by $6.3 million in 2011. This change is largely due to lower donation revenues. In 2010, the university received a non-cash artwork donation of $8.8 million that was presented in donation revenue.

Investment income decreased by $8.8 million in 2011, a decline that is reflective of market conditions during the year. In 2010 financial markets performed very strongly with overall investment performance exceeding 20% for the year. In 2011, university investments continued to be strong, posting returns between 10% and 11%.

Expenses

Growth in the university's expenses continues to outpace the growth in revenues. In 2011, total expenses, excluding the unrealized gain or loss on derivatives, grew by 1.5% year over year, from $739.6 million to $751.2 million.



Salaries and benefits (excluding pension) grew at a modest rate during the year, which reflects the university's continued recognition of the work of faculty and staff balanced by a necessary effort to constrain costs. It also reflects a reduction in research salary and benefit expenditures. Because of the way Generally Accepted Accounting Principles (GAAP) require pension expense to be calculated, this expense is volatile from year to year. Pension expense declined $5.2 million in 2011, due largely to expected investment returns on a higher pension plan asset investment base. Despite this reduction in pension expense, the liability related to the Queen's Pension Plan deficit grew from $170.6 million to $180.1 million, as can be seen in note 15 to the financial statements.

Supplies and services are comprised of several different types of expenses. Overall expenditures in the category declined by $1.0 million year over year, as increases within the group of expenses are offset by a decrease in expenses related to the acquisition of artwork. Artwork donations are recorded as offsetting donation revenue and expenses, and in 2010 expenses were unusually high due to the previously mentioned $8.8 million artwork donation. The offsetting increase in 2011 is due to numerous factors, including an increase in external printing costs due to volumes, increased legal and professional fees due primarily to increased activity around labour negotiations, increased courier and shipping costs due to higher fuel surcharges, and higher marketing and communication costs. Expenses related to one of the university's consolidated entities, Parteq, also increased.

Student assistance decreased by $2.1 million year over year. Although the university's commitment to funding student assistance from the operating fund increased over the prior year, not all student assistance funds were disbursed in the current year. Unspent funds have been restricted and will be paid out in future years.

Amortization of capital assets continues to increase as the university completes capital expansion and improvements across campus.

Externally contracted services expenses are comprised primarily of expenses related to campus food services within the university's ancillary operations, and lab and other medical services related to research activity. Externally contracted services increased by $5.5 million in 2011. Ancillary operations generated $2.1 million of this increase, due primarily to increased costs related to food services as a result of increased enrolment and residence occupancy, as well as increased costs related to security enhancements implemented on campus and higher snow removal costs for 2011.

Other expenses in the preceding chart are comprised of expenses related to travel and conferences, utilities, renovations and alterations, and interest on long term debt. In total, these expenses increased by $4.2 million, from $55.4 million to $59.6 million. The bulk of this difference is explained by a decrease in travel and conferences as cost control continues to be of paramount importance, offset by an increase in interest on long term debt due to additional debt outstanding in the 2011 fiscal year. Travel expenses have declined primarily within the research and trust funds.

Unrealized gain on derivatives

The university invests in derivatives to manage interest rate and foreign currency risks. In 2011 the university reported a $4.3 million gain on its derivatives, which is a $14.0 million increase over the previous fiscal year. This gain had no cash impact on operations. The value of derivatives is volatile and fluctuates with market conditions.

Consolidated Statement of Financial Position

Some of the key drivers of the Consolidated Statement of Financial Position are summarized below:

- Growth in capital infrastructure to support increasing student enrolment and research activity, which affects capital assets and has increased long term debt. Government grants and philanthropic funding received to fund capital infrastructure increases deferred capital contributions, which are amortized into income over the same life as the asset the contribution was intended to fund;
- Growth in pension and benefit costs impacts liabilities. If the liabilities are unfunded, this also increases the university's unrestricted deficit.
- Growth in endowments is a result of endowed donations and investment returns which are reinvested into endowments

Highlights of the Consolidated Statement of Financial Position are presented below.

FINANCIAL HIGHLIGHTS As at April 30	2011	2010	Increase (Decrease)
Total Assets ($ millions)	1,701.6	1,565.4	136.2
Investments ($ millions)	832.5	733.6	98.9
Capital Assets ($ milliions)	745.9	707.3	38.6
Total Liabilities ($ millions)	970.5	856.9	113.6
Deferred Capital Contributions ($millions)	308.3	254.3	54.0
Long-term debt ($ millions)	233.3	189.1	44.2
Employee Future Benefits liability ($ millions)	72.4	62.1	10.3
Total Employee Future Benefit Unfunded Obligation - ($ millions) See Note 15 to Financial Statements	243.0	226.8	16.2
Total Net Assets ($ millions)			
Endowments	557.7	527.3	30.4
Internally Restricted	403.6	442.9	(39.3)
Unresricted	(230.2)	(261.7)	31.5
	731.1	708.5	22.6

Increases in the university's assets are due primarily to increases in the university's investments and continued capital expansion on campus.

Investments are reported in the financial statements at fair value. Of the $98.9 million increase in investments for the 2011 fiscal year, approximately $63.5 million is due to additional net investments of cash (either donations received or reinvestment of investment income), and the remainder is due primarily to gains on investments that have not yet been realized.

Capital assets increased by $38.6 million in 2011, due primarily to the capital investments made on Queen's campus. During the fiscal year, the construction of the new School of Medicine building was substantially completed, the expansion of Goodes Hall commenced, and improvements to Botterell Hall were undertaken. In addition, investments were made to further the replacement of the university's outdated administrative systems.

Increases in the university's liabilities are predominantly a result of an increase in deferred capital contributions and long term debt. The increase of $54.0 million in deferred capital contributions is comprised mainly of government funding received to help fund the new School of Medicine building. With respect to long term debt, the university issued a $50.0 million dollar debenture in the 2011 fiscal year to assist in funding the capital expansion on campus.

In accordance with GAAP, only a portion of the liability related to the employee future benefits is recorded on the university's Consolidated Statement of Financial Position, $72.4 million. The university has obligations, that are not recorded in the financial statements, of $170.6 million related to employee future benefits that will be recorded in the financial statements over time in acccordance with GAAP. Further information on liabilities related to employee future benefit plans can be found in Note 15 to the financial statements.

Net Assets reflect the university's net worth. Net assets change over time through:

- the excess or deficiency of revenue over expenses for the year;
- the change in endowments resulting from endowment contributions, reinvestment of income in endowment assets, and unrealized gains or losses on endowment assets that are not externally restricted; and
- the change in the unrealized gain or loss on other investment assets.

Net assets increased by $22.6 million in 2011, mainly due to endowment contributions of $14.2 million, and an increase in unrealized gains on endowment and other assets of $11.8 million. These increases were offset by the university's deficiency of revenue over expenses of $4.4 million for the year.

Information on the university's restricted net assets is presented in Note 12 to the financial statements. Unrestricted net assets are comprised primarily of a deficit related to employee future benefits of $72.4 million, and to internal financing of capital construction of $137.5 million.

The Consolidated Statement of Operations by fund

The audited Financial Statements provide a consolidated picture of all Queen's business segments. These business segments include the Operating Fund, Ancillary Enterprises, Capital, Trust and Endowment, and Research as well as the Consolidated Entities

The **Operating fund** includes teaching and administrative activities at the University. Operating fund revenue includes government operating grants, tuition fees, and unrestricted investment income.

Ancillary Enterprises includes business units that provide goods and services to the University Community and are expected to operate on a break-even basis after covering their full operating costs, including a payment to the University for the provision of administrative services.

The **Capital fund** includes activity related to the capital infrastructure on campus. The capital fund reflects amortization of both costs and deferred capital contributions, the capitalization of assets purchased through other funds, and renovations and alterations activity.

Trust and Endowment funds capture funds received within the University that is restricted for a particular purpose. Each external donation received for a specific purpose is usually supported by an agreement between the University and the donor, recorded in its own fund, and managed according to the terms and conditions of the donation. The capital of endowment donations is maintained in perpetuity. Investment of endowment capital generates revenue in the form of investment income which is available for spending.

Research funds capture activity on campus related to research. Queen's continues to be one of Canada's leading research-intensive Universities. Funding for research is received from a number of sources including the federal government, the provincial government, and various not-for-profit organizations such as the Cancer Society and the Heart and Stroke Foundation.

Consolidated Entities include the Bader International Study Centre, PARTEQ Research and Development Innovations, the U.S. Foundation for Queen's University at Kingston, the Crown Foundation at Queen's University at Kingston, and Queen's Centre for Enterprise Development.

The Consolidated Statement of Operations by Fund

The table below presents the activities of the university for the year ended April 30, 2011 by fund and supplements the information presented in the audited financial statements.

	Operating	Ancillaries	Trust & Endowments	Research	Capital	Consolidated Entities	2011 TOTAL
REVENUE							
Grants and Contracts	194,040	-	22,541	147,703	(3,714)	4,040	364,609
Fees	172,517	7,468	5,068	470	-	4,898	190,421
Sales and Service	6,590	71,934	215	412	-	4,056	83,208
Other	8,192	-	10,559	3,976	778	1,757	25,263
Amortization of deferred capital contributions	-	-	-	-	22,305	969	23,274
Donations	4,561	-	7,874	315	1,002	1,999	15,750
Investment Income	16,170	-	21,865	1,706	95	106	39,942
	402,070	79,402	68,122	154,581	20,466	17,826	742,467
EXPENSES							
Salaries and benefits (including pension)	290,309	19,743	23,263	71,428	-	6,796	411,539
Supplies and other expenses	46,947	17,737	15,367	55,615	(21,944)	6,178	119,899
Student Assistance	29,917	-	21,271	1,965	-	1,599	54,751
Amortization	-	-	-	-	53,625	1,630	55,255
Externally Contracted Services	7,543	21,121	1,747	17,675	-	1,979	50,065
Travel	5,938	566	2,444	8,405	-	160	17,512
Utilities	13,570	5,104	230	576	-	-	19,479
Renovations and Alterations	(3,014)	4,742	1,208	1,972	4,785	409	10,102
Interest on Long Term Debt	5,365	7,187	-	-	-	-	12,552
	396,573	76,200	65,529	157,636	36,466	18,751	751,154
Surplus / (deficiency) before items below	5,497	3,202	2,594	(3,055)	(16,000)	(925)	(8,687)
Interfund Transfers out / (in)	11,740	2,749	(821)	(6,895)	(6,774)	-	-
	(6,244)	452	3,415	3,840	(9,226)	(925)	(8,687)
Unrealized gain on derivatives	4,268	-	-	-	-	-	4,268
Surplus / (deficiency)	**(1,976)**	**452**	**3,415**	**3,840**	**(9,226)**	**(925)**	**(4,419)**
Change in unrealized gains on investments Operating Fund	5,171	-	-	-	-	-	5,171
Transfer (to) / from Internally Restricted Net Assets	(5,848)	(2,073)	(3,415)	(3,840)	46,539	(650)	30,712
(Increase) / decrease in Unrestricted Deficit	(2,653)	(1,621)	-	-	37,313	(1,575)	31,464
Unrestricted Deficit, beginning of year	(76,042)	(2,641)	-	-	(166,021)	(16,975)	(261,679)
Unrestricted Deficit, end of year	(78,695)	(4,262)	-	-	(128,708)	(18,550)	(230,215)

Note: some numbers may not add due to rounding

Performance of the Operating Fund

The Board of Trustees approves the operating fund budget and monitors the performance of the operating fund throughout the year. The operating fund represented 55% of consolidated revenue in fiscal 2011.

Some of the key drivers of the operating fund are summarized below:

- Enrolment planning and provincial grant and tuition fee policies;
- Physical and information technology infrastructure upkeep and expansion;
- Student support;
- Employee support;
- Queen's Pension Plan sustainability;
- Growth in research activity which requires administrative and infrastructure support from general operations;
- Philanthropic funding (donations); and
- Investment performance.

The Board approved a 2010-11 operating fund deficit of $3.8 million, which was subsequently revised to a projected deficit of $4.9 million.

Actual results for the year generated a $2.7 million increase to the operating fund deficit after appropriation of $5.8 million of unspent departmental allocations to restricted reserves. The $2.2 million reduction from the projected deficit is primarily due to higher-than-projected savings on utilities and insurance costs of $1.5 million, as well as unexpected recoveries on taxes and other miscellaneous items of $1.5M. These gains were partially offset by net non-cash expenses of $0.8 million that are not budgeted and are dependent on year-end valuations. These non-cash expenses are a $10.3 million increase in the employee future benefits liability, offset by unrealised gains on derivatives and investments of $9.5 million.

The accumulated unrestricted deficit in the operating fund at April 30, 2011 is $78.7 million and is included in Unrestricted Net Assets. The components of the deficit are as follows (comparative figures are presented for 2010):

As at April 30	2011	2010
Employee Future Benefits	(72,354)	(62,151)
Cumulative unrealized gains on derivatives and loans receivable	9,686	5,271
Cumulative unrealized gains on the Pooled Investment Fund	21,125	16,095
Operating budget deficit, net of items listed above	(37,152)	(35,257)
Total Operating Fund Unrestricted Deficit	(78,695)	(76,042)

The University is committed to returning to balanced operating fund budgets by 2012-13.

FISCAL OUTLOOK – KEY DRIVERS AND CHALLENGES

The economic turmoil of 2008 and 2009 and related losses in the university's investment portfolio, coupled with the challenges associated with the university's unfunded pension plan liability, and the debt required to fund capital expansion, have generated significant fiscal pressures for Queen's. To address these pressures, in 2009-10 the university implemented a multi-year budget planning framework to move towards elimination of its operating deficit. As we look ahead, we will continue to address our financial challenges with careful planning and conscientious, realistic decision-making.

Queen's Pension Plan deficit

The most significant financial challenge facing the university at the moment is the pension plan deficit. The last valuation of the plan was completed on August 31, 2008 and the next valuation is required on August 31, 2011. Preliminary August 31, 2010 valuation results projected a deficit of $325 million on a solvency basis. Currently, we do not expect a significant change in this figure by August 31, 2011, but it is possible that the amounts shown in the next paragraph could change due to changes in acturial assumptions.

To date several employee groups have agreed to changes to the plan that will make it sustainable for future service, and position the university to apply for temporary solvency relief under the new provincial regulations. This will allow Queen's to temporarily defer solvency payments for three years. Further, when the solvency payments commence, they can be amortized over 10 years rather than five. Despite the solvency relief, Queen's payments to the pension plan will increase by $8 million in 2011-12, increasing to $17 million in 2013-14, and doubling to $34 million when the solvency payments start. The alternative, which would require the solvency shortfall to be paid over five years with additional payments of $70 million, is not feasible. The university will draw down on an $8 million employee future benefits reserve to assist with these additional costs in 2011-12 and 2012-13.

Government funding

Over the last two decades, the provincial funding model for universities has shifted. The level of government operational support has declined from 80% in 1990 to just over 50% today. Provincial operating grants have not matched inflation, which has made maintaining current programs at existing quality extremely challenging.

The Ontario budget, released at the end of March 2011, commited to funding an additional 41,000 university spaces over the next five years. This commitment presents an opportunity for universities to generate additional revenue from increased enrolment over the next few years; however, there are challenges for Queen's to tap into this potential, as increased enrolment brings its own set of issues around accomodation and classroom space. The university does not have much room to grow within its current facilities. In recent years, governments have provided infrastructure support, and Queen's will require further infrastructure funding to support enrolment expansion.

Enrolment planning

Enrolment planning has a significant impact on Queen's financial projections. The Queen's Enrolment Planning Task Force, chaired by the Provost and Vice-Principal (Academic), recommended a modest growth of 100 students in fall 2011 with additional growth in both undergraduate and graduate programs over the next five years. Solidifying longer-term enrolment plans will be a priority in the coming year.

Compensation

The labour landscape has changed significantly over the last year and university administration is working through an uprecendented volume of labour negotiations. The university remains committed to working with all employee groups to secure agreements that balance the need to preserve quality while respecting the limitations dictated by the university's current financial realities. A summary of the status of employee group contracts is presented in the table below:

Employee Group	Unit / Association	Status
Academic Assistants	USW	Notice to bargain July 2010
Allied Health Care Professionals (Family Health Team)	OPSEU	Notice to bargain August 2010
General Support Staff	USW 2010	Notice to bargain January 2011
Graduate Teaching Assistants and Teaching Fellows	PSAC 901	Three year agreement reached to April 2013.
Kingston Heating & Maintenance Workers	CUPE 229	Four year agreement reached to June 2014.
Kingston Technicians	CUPE 254	Four year agreement reached to June 2014.
Library Technicians	CUPE 1302	Four year agreement reached to June 2014.
Post Doctoral Fellows	PSAC	Certified July 2011
Queen's University Faculty Association	QUFA	Four year agreement reached to April 2015.
Registered Nurses and Nurse Practitioners (Family Health Team)	ONA 68	Three year agreement reached to April 2013.

Capital funding requirements

The university has embarked on a number of significant capital projects over the last few years, such as the School of Kinesiology and the Queen's Centre, the new School of Medicine building, the expansion of Goodes Hall, the Isabel Bader Centre for the Performing Arts, and West Campus Fields. In the coming fiscal year, planning will continue for the new Teaching Space Complex and an Engineering and Applied Science building, both of which are contingent on full funding to move beyond the planning stage. These projects have been undertaken as part of a comprehensive campus revitalization that will enhance the Queen's learning experience, improve student life on campus and further support environmentally friendly practices. These initiatives will further enhance the university's strong standing, but they will place additional pressure on the capital and operating budgets. Also imposing budget pressure is the university's deferred maintenance backlog, which is currently estimated at $234 million.

In closing

Queen's stands for excellence and has continued to deliver outstanding academic and research programs, despite the current fiscal challenges. This excellence extends to attracting highly qualified students, faculty and staff, while remaining among the highest ranking research intensive universities in Canada. Our faculty consistenty receive prestigious national teaching and research awards. Our students are among those with the highest entering averages and retention rates across the nation. We are in a good position to face our challenges together and build a stronger and more sustainable university as a result.

Caroline E. Davis, FCA
Vice-Principal (Finance and Administration)

STATEMENT OF ADMINISTRATIVE RESPONSIBILITY

The administration of the University is responsible for the preparation of the consolidated financial statements and the notes to the consolidated financial statements.

The administration has prepared the accompanying consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles as issued by the Canadian Institute of Chartered Accountants. In order to achieve the objective of fair presentation in all material respects, the use of reasonable estimates and judgments were employed. The administration believes the consolidated financial statements present fairly the University's financial position as at April 30, 2011 and the results of its operations for the year then ended.

In fulfilling its responsibilities and recognizing the limits inherent in all systems, the administration has developed and maintains a system of internal control designed to provide reasonable assurance that University assets are safeguarded from loss and that the accounting records are a reliable basis for the preparation of consolidated financial statements.

Mercer Human Resource Consulting Limited has been retained by the University in order to provide an estimate of the University's pension and other employee future benefit liabilities. Administration has provided the valuation actuary with the information necessary for the completion of the University's report and retains ultimate responsibility for the determination and estimation of the employee future benefit liability reported.

The Board of Trustees is responsible for ensuring that administration fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board of Trustees carries out its responsibility for review of the consolidated financial statements principally through the Audit Committee. The majority of the members of the Audit Committee are not officers or employees of the University. The Audit Committee meets with the administration, as well as the internal and the external auditors, to discuss the results of audit examinations and financial reporting matters and to satisfy itself that each party is properly discharging its responsibilities. The external and internal auditors have full access to the Audit Committee with and without the presence of the administration.

The consolidated financial statements for the year ended April 30, 2011 have been reported on by KPMG LLP, Chartered Accountants, the auditors appointed by the Board of Trustees. The auditors' report outlines the scope of their audit and their opinion on the presentation of the information included in the consolidated financial statements.

Daniel R. Woolf

Principal and Vice-Chancellor
September 23, 2011

Vice-Principal (Finance and Administration)

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of Queen's University at Kingston

We have audited the accompanying consolidated financial statements of Queen's University at Kingston, which comprise the consolidated statement of financial position as at April 30, 2011 and the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Queen's University at Kingston as at April 30, 2011, and its consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
September 23, 2011
Kingston, Canada

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 April
(Thousands of dollars)

	2011	2010
ASSETS		
Cash	$ 66,109	$ 66,111
Accounts receivable (note 3)	40,397	44,878
Loans receivable (note 4)	3,829	3,891
Prepaid expenses	1,789	1,815
Derivative assets (note 5)	11,087	7,759
Investments (note 6)	832,472	733,633
Capital assets (note 7)	745,893	707,331
	$ 1,701,576	$ 1,565,418
LIABILITIES AND NET ASSETS		
Accounts payable and accrued liabilities	$ 81,237	$ 87,347
Derivative liabilities (note 5)	1,153	2,093
Deferred revenue, contributions and related investment revenue (note 8)	274,147	261,910
Deferred capital contributions (note 9)	308,304	254,338
Long-term debt (note 10)	233,267	189,095
Employee future benefits liability (note 15)	72,354	62,151
	970,462	856,934
Net Assets		
Endowments (note 11)	557,751	527,241
Internally restricted (note 12)	403,578	442,922
Unrestricted	(230,215)	(261,679)
	731,114	708,484
	$ 1,701,576	$ 1,565,418

See accompanying notes to consolidated financial statements.

Commitments and Contingent liabilities (note 19)

Approved by the Board of Trustees

William L. Young
Trustee

Karyn A. Brooks, FCA
Trustee

CONSOLIDATED STATEMENT OF OPERATIONS

Year ended 30 April
(Thousands of dollars)

		2011		2010
REVENUE				
Grants and contracts	$	364,609	$	355,163
Fees		190,421		179,049
Ancillary sales of service and products		83,208		80,979
Other		25,263		21,562
Amortization of deferred capital contributions		23,274		24,257
Donations		15,750		24,805
Investment income		39,942		48,746
		742,467		734,561
EXPENSES				
Salaries and benefits		378,527		371,116
Pension		33,012		38,188
Supplies and services		119,899		120,877
Student assistance		54,751		56,804
Amortization of capital assets		55,255		52,641
Externally contracted services		50,065		44,587
Travel and conferences		17,512		19,180
Utilities		19,479		18,946
Renovations and alterations		10,102		10,525
Interest on long-term debt		12,552		6,750
		751,154		739,614
		(8,687)		(5,053)
Unrealized gain / (loss) on derivatives		4,268		(9,683)
Deficiency of revenue over expenses	$	(4,419)	$	(14,736)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Year ended 30 April
(Thousands of dollars)

	Endowment	Internally Restricted	Unrestricted	**Total 2011**	**Total 2010**
Net assets, beginning of year	527,241	442,922	(261,679)	708,484	649,196
Deficiency of revenue over expense	-	-	(4,419)	(4,419)	(14,736)
Change in internally restricted net assets	-	(30,712)	30,712	-	-
Investment gain charged directly to endowments (note 11)	931	-	-	931	11,371
Investment income credited directly to endowments (note 11)	8,632	(8,632)	-	-	-
Endowment contributions (note 11)	14,167	-	-	14,167	22,988
Change in unrealized gains on available for sale financial assets (note 11)	6,780	-	5,023	11,803	39,562
Unrealized gains on loans and receivables	-	-	148	148	103
Net assets, end of year	$ 557,751	$ 403,578	$ (230,215)	$ 731,114	$ 708,484

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 30 April 2011
(Thousands of dollars)

	2011	2010
OPERATING ACTIVITIES:		
Deficiency of revenue over expense	$ (4,419)	$ (14,736)
Add non-cash items:		
Amortization of deferred capital contributions	(23,274)	(24,257)
Amortization of capital assets	55,255	52,641
Unrealized gains on available-for-sale financial assets	(11,951)	(39,665)
Unrealized gains on externally restricted investments	(23,561)	(34,202)
Increase in employee future benefits liability	10,203	13,503
Net change in non-cash working capital (note 14)	10,634	72,827
Cash provided by operating activities	12,887	26,111
INVESTING ACTIVITIES:		
Net change in loans receivable (net of unrealized gains and losses)	210	456
Net change in derivative assets	(3,328)	7,591
Net change in investments	(63,475)	(32,755)
Net purchases of capital assets	(93,817)	(115,719)
Net change in derivative liabilities	(940)	2,093
Contributions and investment income reported as direct increase in net assets	27,049	73,921
Cash used in investing activities	(134,301)	(64,413)
FINANCING ACTIVITIES:		
Issue of long-term debt	50,000	102,293
Repayment of long-term debt	(5,828)	(28,697)
Contributions received for capital purposes	77,240	24,317
Cash provided by financing activities	121,412	97,913
Net (decrease) increase in cash	(2)	59,611
Cash, beginning of year	66,111	6,500
Cash, end of year	$ 66,109	$ 66,111

See accompanying notes to consolidated financial statements.

Supplemental information:		
Interest paid	$ 12,635	$ 7,030
Interest received	22,323	15,083

1. AUTHORITY

Queen's University at Kingston (the University) operates under the authority of the Royal Charter of 184l and subsequent federal and provincial statutes. The mission of the University includes post secondary and graduate education, research and community service. The University is a registered charity and is therefore, under section 149 of the Income Tax Act, exempt from payment of income tax.

The University controls PARTEQ Research and Development Innovations, the Bader International Study Centre, the Crown Foundation at Queen’s University at Kingston, the U.S. Foundation for Queen’s University at Kingston, and QCED Inc. Accordingly, these financial statements consolidate the accounts of these organizations.

PARTEQ Research and Development Innovations is incorporated by letters patent as a corporation without share capital under the Ontario Corporations Act. PARTEQ Research and Development Innovations, the not-for-profit technology transfer office of Queen’s University at Kingston, works with researchers and the business and venture capital communities, helping to bring the benefits of scientific discovery to the public while returning proceeds to inventors and the University. PARTEQ Research and Development Innovations is exempt from income tax under section 149 of the Income Tax Act.

The Bader International Study Centre was established in 1993 to enhance Queen’s University at Kingston’s role in international education and research through the establishment of a meeting place for students, scholars, and professionals from around the world. The Bader International Study Centre operates in East Sussex, England and is incorporated under the laws of the United Kingdom as a Company Limited by Guarantee. It is registered as a charity with the United Kingdom Charity Commissioners and is therefore exempt from tax to the extent that income or gains are applied exclusively to charitable purposes.

The Crown Foundation at Queen's University at Kingston was established by Regulation 731/93 under the University Foundations Act, 1992 and is an agent of Her Majesty in right of Ontario. The Foundation was established to solicit, receive, manage and distribute money and other property to support education and research at the University. The Foundation is exempt from income tax under section 149 of the Income Tax Act.

The U.S. Foundation for Queen's University at Kingston was incorporated under the applicable provisions of the District of Columbia Non-Profit Corporation Act in 1995. The U.S. Foundation works to promote, encourage and foster an appreciation by the American public of the work conducted by Queen's. It does this by financing in whole or in part various programs, projects and facilities of Queen's University at Kingston necessary for the accomplishment of its charitable and educational mission. The U.S. Foundation for Queen's University at Kingston is exempt from income tax under section 501(c) (3) of the United States Internal Revenue Code.

Queen’s Centre for Enterprise Development (QCED Inc.) was incorporated under the Canada Business Corporation Act on February 2, 2001 and began operations on June 1, 2001. QCED Inc. is a wholly owned subsidiary of the University. QCED Inc. was formed for the purposes of building on the knowledge base of Queen’s School of Business to develop and deliver knowledge to small and medium-sized enterprises to foster success in this sector. QCED Inc. also supports academic research activities within the University and within this sector.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies of the University are described below.

(a) Accounting estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires administration to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates. These estimates are reviewed annually and as adjustments become necessary they are recognized in the financial statements in the period in which they become known. Significant areas requiring the use of management estimates relate to the assumptions used in the determination of fair value of financial instruments, the valuation of pension and other employee future benefits, the carrying value of capital assets, the valuation of accounts receivable and the valuation of derivative financial instruments.

(b) Investments and investment income

Investments are measured at fair value upon initial recognition. Subsequent to initial recognition, investments are measured according to their classification.

Investments are designated as available-for-sale and are recorded at fair value. Unrealized gains and losses on these available-for-sale investments are recorded in deferred revenue to the extent there are external restrictions on the related investments or in the consolidated statement of changes in net assets where investments are unrestricted.

Sales and purchases of investments are recorded on the settlement date. Transaction costs related to the acquisition of investments are expensed as incurred.

Investment income related to endowment contributions is recognized as revenue when the restriction is met. Realized investment income that is externally restricted is deferred and when the restriction has been met is recognized as revenue.

All other realized investment income is recorded in the consolidated statement of operations in the year it is earned.

(c) Derivative financial instruments

Derivative financial instruments are classified as held-for-trading and are recorded at fair value. Unrealized gains and losses on these held-for-trading investments are recorded in the consolidated statement of operations.

The University has elected not to separately account for derivatives embedded in leases, derivatives embedded in insurance contracts, contracts to buy or sell non-financial items including derivatives embedded therein, and derivatives embedded in contracts to buy or sell a non-financial item. This is in accordance with the University's expected purchase, sale or usage requirements.

(d) Translation of foreign currency

Transactions denominated in foreign currencies are accounted for at the exchange rate in effect at the date of the transaction. At year end, monetary assets or liabilities denominated in foreign currencies are translated to Canadian dollars at the rates of exchange prevailing at the statement of financial position dates. The resulting gains and losses are included in other revenue.

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

(e) Capital assets

Purchased capital assets are recorded at cost. Donated capital assets are recorded at fair market value at the date of contribution.

Intangible assets are non-monetary assets without physical substance. The University's intangible assets consist of computer software. Costs that are directly associated with the acquisition or internal development of identifiable software which will, in administration's best estimate, provide a future economic benefit are recognized as intangible assets.

Amortization is provided on a straight line basis over the estimated useful life of the asset as follows:

Asset	Useful Life
Buildings	40 years
Cogeneration facility	20 years
Equipment and furnishings	5 years
Intangible assets	5 years
Library acquisitions	5 years
Leasehold improvements	Term of lease

The 2011 financial statements include 20 years of library acquisitions and related amortization.

When completed and put into use, costs of construction in process are transferred to the appropriate category and amortized in accordance with the category's useful life.

(f) Works of art

Queen's University at Kingston maintains a collection of fine art that includes European art, historical and modern Canadian art, contemporary American and Canadian art, Inuit art, and African sculpture. The collection is subject to a University policy that requires proceeds from the sale of any items in the collection be used to acquire other items to be added to the collection.

Contributions of collection items are recorded as revenue and expensed, at fair market value, at the date of contribution. Artwork purchases are expensed as acquired. The collection is fully insured through a fine arts policy, with a market value of $114,761 at 30 April 2011. During the year ended 30 April 2011, the University acquired 59 pieces of artwork with a total appraised value of $1,654.

(g) Revenue recognition

The University follows the deferral method of accounting for contributions, which include donations and government grants.

Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Contributions externally restricted for purposes other than endowments and capital assets are deferred and recognized as revenue in the year in which related expenses are recognized. Endowment contributions are recognized as direct increases in net assets in the year in which they are received.

Externally restricted contributions for capital assets are deferred and amortized to operations on the same basis as the related capital asset.

Pledges are recorded as revenue in the period in which they are received.

Student fees are recognized as revenue in the year courses and seminars are held.

Sales and services revenue are recognized at point of sale or when the service has been provided.

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

(h) Employee benefit plans

The University has a defined contribution pension plan, which has a defined benefit component that provides a minimum level of pension benefits. The University also provides other employee future benefits such as medical, dental and life insurance to eligible active and retired employees. The University accrues its obligations under these benefit plans and the related costs, net of plan assets. The costs and the obligations of the plans are actuarially determined using the projected benefit method pro-rated on services rendered and administration's best estimate of a number of future conditions, including investment returns, compensation changes, withdrawals, mortality rates, and expected health care costs.

The benefit plan expense for the year consists of the current service cost, the interest cost on the benefit obligation, the expected return on plan assets, and the amortization of actuarial losses or gains. The calculation of the expected return on assets for the year is based on the fair value of plan assets.

The excess of the net accumulated actuarial loss (gain) over 10 % of the greater of the fair value of assets and the accrued benefit obligation is amortized over the expected average remaining service life of plan members.

Assets of the pension plan are valued using fair values at 30 April. Liabilities of the pension plan and post employment benefits other than pensions are discounted using current interest rates on long-term high quality Canada corporate bonds.

(i) Contributed services

Volunteers, including volunteer efforts from the staff of the University, contribute an indeterminable number of hours per year to assist the University in carrying out its service delivery activities. The cost that would otherwise be involved with these contributed services is not recognized in these consolidated financial statements.

(j) Agency obligations

The University acts as an agent which holds resources and makes disbursements on behalf of various unrelated individuals or groups. The University has no discretion over such agency transactions. Resources received in connection with such agency transactions are reported as liabilities, not revenue, and subsequent distributions are reported as decreases to these liabilities.

3. ACCOUNTS RECEIVABLE

Accounts receivable is comprised primarily of balances receivable for research projects and trade accounts receivable.

Since pledges are not legally enforceable, they are recorded as revenue on a cash basis and accordingly are not set up as assets in the consolidated financial statements. The total amount of pledges outstanding is approximately $35,588 at 30 April 2011, and is expected to be received as follows:

2011-2012	$	10,339
2012-2013		7,894
2013-2014		6,593
Subsequent years		10,762
Outstanding pledges at 30 April	$	35,588

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

4. LOANS RECEIVABLE

Loans receivable is comprised primarily of an amount receivable regarding the sale of a property of $1,464 (2010 - $2,035), relocation loans to employees in the amount of $868 (2010-$1,128), microcomputer loans to employees in the amount of $776 (2010 -$728) and a loan to the Kingston General Hospital / Queen's Parking Commission in the amount of $721 (2010 – Nil). As loans are designated as available-for-sale they are carried at fair value.

5. DERIVATIVES

The University is party to an interest rate swap contract and foreign exchange contracts to manage interest rate and currency exposures for economic hedging and risk management purposes. Further details on the University's derivatives can be found in Note 16. The University also enters into electricity and natural gas contracts to manage the risk of fluctuating energy costs.

6. INVESTMENTS

The University's investments are managed primarily in three funds – the Short-term fund, the Pooled Endowment fund, and the Pooled Investment fund.

Investment details by fund are as follows:

	Cost		Fair value	
	2011	2010	2011	2010
Short-term	2,469	2,449	2,453	2,441
Pooled Endowment fund	542,194	522,454	610,713	565,086
Pooled Investment fund	181,114	141,875	202,332	154,700
Other	10,676	6,072	16,974	11,406
	$ 736,453	$ 672,850	$ 832,472	$ 733,633

Investments are exposed to foreign currency risk, interest rate volatility, and market and credit risks. The University manages the risk through policies and procedures governing asset mix among equity and fixed income and requiring diversification within categories and setting limits on the size of exposure to individual investments.

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

7. CAPITAL ASSETS

Capital assets consist of the following:

	2011			2010		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	$ 30,442	$ -	$ 30,442	$ 30,774	$ -	$ 30,774
Buildings	811,936	276,300	535,636	807,864	258,592	549,272
Leasehold improvements	5,379	3,476	1,903	4,948	2,465	2,483
Equipment and furnishings	149,059	99,478	49,581	150,007	93,603	56,404
Cogeneration facility	14,555	3,362	11,193	14,665	2,640	12,025
Library acquisitions	147,542	136,746	10,796	148,932	133,825	15,107
Software	17,467	4,306	13,161	4,063	813	3,250
Construction in process	93,181	-	93,181	38,016	-	38,016
	$ 1,269,561	$ 523,668	$ 745,893	$ 1,199,269	$ 491,938	$ 707,331

8. DEFERRED REVENUE, CONTRIBUTIONS AND RELATED INVESTMENT REVENUE

	2011	2010
Research funds	$ 93,500	$ 106,521
Student fees	16,375	14,414
Other	19,676	16,504
Trust funds	36,803	33,107
Capital funds	41,238	48,162
Gift annuities	8,792	9,000
Unrealized gains on externally restricted endowments	57,763	34,202
	$ 274,147	$ 261,910

Research funds are the unexpended portion of research grants and contracts received during the year.

Student fees represent fees paid prior to 30 April for courses and special programs offered after that date.

Other deferred revenue represents deferred government funding that relates to the next fiscal year.

Trust funds are the unexpended portion of restricted donations and income from restricted endowments.

Capital funds are the unexpended portion of funds restricted for future capital expenditures.

Under the gift annuity program, a donor may gift an amount to the University and receive a tax preferred life annuity in return. The annuity capital reverts to the University on the death of the donor. The deferred revenue portion represents the lump sum contributed without adjustment for the time value of money.

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

9. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represent the unamortized amount of donations and grants received for the purchase of capital assets. The amortization of deferred capital contributions is recorded as revenue in the statement of operations. The changes in the deferred capital contributions balance are as follows:

		2011		2010
Balance, beginning of year	$	254,338	$	269,947
Change in classification of deferred capital contributions to deferred revenue		-		(15,668)
Less amortization of deferred capital contributions		(23,274)		(24,258)
Net change in contributions received for capital purposes		77,240		24,317
	$	308,304	$	254,338

10. LONG-TERM DEBT

(a) Long term debt consists of the following:

	Maturity in Fiscal Year Ending	Interest Rate		2011 Principal Outstanding		2010 Principal Outstanding
Debentures						
Series A senior unsecured bullet debenture maturing on 19 November 2032	2033	6.10%	$	85,545	$	85,453
Senior unsecured amortizing debenture maturing 2 July 2014	2015	3.16%		21,488		27,207
Senior unsecured bullet debenture maturing 30 June 2040	2040	5.10%		50,000		-
Senior unsecured bullet debenture maturing 1 April 2040	2040	5.09%		75,000		75,000
			$	232,033	$	187,660
Mortgages						
Canada Mortgage and Housing Corporation	2017	5.38%	$	1,234	$	1,422
SMS Canada	2011	0.00%		-		13
			$	1,234	$	1,435
			$	233,267	$	189,095

Certain assets have been pledged as collateral for mortgages.

The University has established sinking funds to provide funds to repay both the Series A senior unsecured debenture maturing on 19 November 2032 and the Senior unsecured debentures maturing in 2040. At 30 April 2011 the value of the sinking funds is $28,455 (2010 - $23,318). The sinking fund is included in internally restricted net assets.

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

(b) Long-term debt repayments

Anticipated requirements to meet the principal portion of long-term debt repayments over the next five years are as follows:

Fiscal year		
2012	$	6,006
2013		6,198
2014		6,397
2015		3,335
2016		124
Thereafter		211,207
	$	233,267

11. ENDOWMENTS

Contributions restricted for endowments consist of restricted donations received by the University and contributions internally restricted by the Board of Trustees, in exercising its discretion. The endowment principal is required to be maintained intact. The investment income generated from endowments must be used in accordance with the various purposes established by donors or the Board of Trustees. The University ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose are expended for the purpose for which they were provided.

Investment income on endowments, which is comprised of interest, dividend and realized gains and losses, that is available for spending at the discretion of the University or is available for spending as conditions have been met, has been recorded in the consolidated statement of operations. University policy has been established with the objective of protecting the real value of the endowments by limiting the amount of income available for spending and requiring the re-investment of a certain amount of the earned income.

Details of year-end balances are as follows:

	Externally Endowed	Internally Endowed	2011 Total Endowments	2010 Total Endowments
Endowments, beginning of year	$ 344,924	$ 182,317	$ 527,241	$ 466,277
Net contributions	13,670	497	14,167	22,988
Recapitalized investment income	3,345	5,287	8,632	2,793
Net investment gain	931	-	931	11,371
Change in unrealized investment gain	-	6,780	6,780	23,812
	$ 362,870	$ 194,881	$ 557,751	$ 527,241

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

12. INTERNALLY RESTRICTED

Details of year-end balances are as follows:

	2011	2010
Departmental carryforward funds	$ 47,791	$ 38,350
Ancilllary enterprises - major repairs and renovations	24,562	20,077
Unspent research funds	28,559	24,708
Unspent trust funds	39,210	51,337
Reserves		
Employee future benefits	8,000	8,000
Insurance	980	980
Investment in capital assets	194,026	254,435
Sinking funds	28,455	23,318
Other capital reserves	31,995	21,717
	$ 403,578	$ 442,922

In order to encourage judicious expenditure of funds, the University's policy permits faculties, libraries, and administrative units to carry forward unexpended budget allocations and unrestricted donations to the succeeding years.

Some Ancillary enterprises, primarily residences, establish annual budget allocations to fund periodic major repairs and alterations.

Unspent research funds are primarily overheads or internally funded research grants.

Departments are permitted to carry forward trust funds with no external restrictions.

Funds are internally restricted for employee future benefits and pension.

Funds are internally restricted to protect the University from losses not covered by insurance.

Investment in capital assets represents the net amount of capital assets funded using internal unrestricted resources.

Sinking funds have been established to fund the principal repayments of the bullet debentures held by the University.

Other capital reserves represent internal funds committed to complete deferred maintenance and capital projects planned or in progress.

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

13. CAPITAL MANAGEMENT

The University manages its cash flow on a consolidated basis, aiming to maintain sufficient liquidity to meet regular operating needs and planned capital project funding. Consolidated cash flow forecasts are regularly updated integrating operating and capital budgeting data and monitored and evaluated against actual cash flows. In the event additional liquidity is required, the University maintains a $25,000 operating line of credit that is available for direct advances, letters of credit, and US dollar advances.

14. NET CHANGE IN NON-CASH WORKING CAPITAL

The net change in non-cash working capital balances related to operations consists of the following:

		2011		2010
Net change in non-cash working capital:				
Accounts receivable	$	4,481	$	(6,115)
Prepaid expenses		26		(501)
Accounts payable and accrued liabilities		(6,110)		4,645
Deferred revenue, contributions and related investment income		12,237		74,798
	$	10,634	$	72,827

15. EMPLOYEE FUTURE BENEFITS

The University has a defined contribution pension plan, which has a defined benefit component that provides a minimum level of pension benefits, and also provides other employee future benefits such as medical, dental and life insurance to eligible active and retired employees.

At retirement, plan members can elect to take a pension payable from the fund that secures the benefit payments promised by the University sponsored pension plan. Following retirement, this pension payout is indexed based on excess interest over 6%, and pensions are guaranteed not to reduce.

The assets of the plan are managed by a number of external investment managers, are held by an independent custodian, and are completely separate and apart from the assets of the University.

The University measures its accrued benefit obligations and fair value of plan assets for accounting purposes at 30 April each year. The most recent actuarial valuation for funding purposes of the pension plan was performed as of 31 August 2008 and the next required valuation will be as of 31 August 2011. The most recent actuarial valuation of the other employee benefit plans was performed as of 31 March 2009 and results have been extrapolated to 30 April 2011.

Salaries and benefits expense for the year includes non-pension post retirement and post employment benefit expenses of $6,285 (2010 – $4,460).

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

Information about the University's benefit plans at 30 April is as follows:

	2011		2010	
	Pension benefit plan	Other benefit plans	Pension benefit plan	Other benefit plans
Accrued benefit liability				
Accrued benefit obligation	$ (1,574,305)	$ (62,869)	$ (1,463,125)	$ (56,220)
Fair value of plan assets	1,394,201	-	1,292,495	-
Plan deficit	(180,104)	(62,869)	(170,630)	(56,220)
Unamortized net actuarial loss / (gain)	171,905	(1,286)	167,754	(3,055)
Accrued benefit liability	$ (8,199)	$ (64,155)	$ (2,876)	$ (59,275)
Benefit plan expense				
Current service cost	$ 24,673	$ 2,083	$ 20,721	$ 1,128
Interest cost	89,766	3,268	93,566	2,912
Actual return on plan assets	(137,267)	-	(218,963)	-
Actuarial loss on accrued benefit obligation	59,991	2,703	181,484	17,158
Benefit plan expense , before adjustments to recognize the long term nature of employee future benefit costs	37,163	8,054	76,808	21,198
Adjustments:				
Difference between expected return and actual return on plan assets for the year	54,411	-	142,468	-
Difference between amortization of actuarial loss for the year and actuarial loss on accrued benefit obligation for the year	(58,562)	(1,769)	(181,088)	(16,738)
Benefit plan expense recognized in the year	$ 33,012	$ 6,285	$ 38,188	$ 4,460

Pension benefit plan assets are invested as follows:

	2011	2010
Equity securities	62%	61%
Debt securities	31%	32%
Other	7%	7%
	100%	100%

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

The significant actuarial assumptions adopted in measuring the University's accrued benefit obligation and benefit costs are as follows:

	2011		2010	
	Pension benefit plan	Other benefit plans	Pension benefit plan	Other benefit plans
Accrued benefit obligation:				
Discount rate	5.8%	4.7% to 5.8%	6.0%	5.0% to 6.0%
Rate of compensation increase	4.5%	4.5%	4.5%	4.5%
Benefit plan expense:				
Discount rate	6.0%	5.0% to 6.0%	8.3%	6.5% to 8.3%
Expected long-term rate of return on plan assets	6.5%	N/A	7.0%	N/A
Rate of compensation increase	4.5%	4.5%	4.5%	4.5%
Assumed health-care cost trend:				
Initial health-care cost trend rate	N/A	6.95% to 7.21%	N/A	7.07% to 7.35%
Health-care cost trend rate declines to	N/A	4.50%	N/A	4.50%
Year that the rate reaches the ulimate trend rate	N/A	2029	N/A	2029

Details of annual contributions and benefits paid are as follows:

	2011		2010	
	Pension benefit plan	Other benefit plans	Pension benefit plan	Other benefit plans
Employer contributions	27,689	1,148	27,334	1,478
Employee contributions	16,803	-	15,849	-
Benefits paid	80,053	1,148	80,369	1,478

Regulations governing provincially regulated pension plans establish certain solvency requirements that assume that the plans are wound up on the valuation date. The actuarial valuation of the pension plan completed at 31 August 2008 reported a solvency deficit of $24,900 and a going concern deficit of $44,600. $5,600 in special going concern and solvency employer contributions will be required in the year ended 30 April 2012, with additional payments also expected to be required once the next actuarial valuation is completed. The next actuarial valuation of the pension plan will be completed at 31 August 2011. It is expected that this valuation will result in significant increases to the required employer special payment contributions to the pension plan in the year ended 30 April 2012.

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

16. FINANCIAL INSTRUMENTS

a) Fair value

The carrying values of cash, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to the relatively short periods to maturity of the instruments.

The carrying value of loans receivable is fair value as they are designated available-for-sale.

The fair value of investments is disclosed in Note 6.

The fair value of the interest rate swap contract is as follows:

	Interest rate until fiscal year ending	Notional Value	2011 Fair value	2010 Fair value
Royal Bank (floating rate)	2033	$ 30,000	$ 7,352	$ 6,557

The notional and fair values of the foreign currency contracts are as follows:

	2011 Notional value	2011 Fair value	2010 Notional Value	2010 Fair value
US Dollar	$ 149,355	$ 3,920	$ 169,885	$ 1,126
UK Pound Sterling	19,483	(1,301)	25,360	(2,657)
Other	49,988	(37)	56,111	640
	$ 218,826	$ 2,582	$ 251,356	$ (891)

The fair value of long-term debt is as follows:

	2011 Carrying value	2011 Fair value	2010 Carrying value	2010 Fair value
Mortgages	$ 1,234	$ 1,312	$ 1,435	$ 1,498
Debentures	232,033	258,623	187,660	202,927
	$ 233,267	$ 259,935	$ 189,095	$ 204,425

Fair value is determined based on quoted market prices. The calculation of fair value is based upon market conditions at a specific point in time and may not be reflective of future fair values.

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

b) Financial Risk

The primary risk exposures for investments are foreign currency, interest rate volatility, and market and credit risk. The University, through the work of its Investment Committee, has formal policies and procedures in place governing asset mix among equity, fixed income and alternative investments, requiring diversification within categories, and setting limits on the size of exposure to individual investments and counterparties. In addition, derivative instruments are used in the management of these risks. All derivative financial instruments are classified as held-for-trading and therefore all unrealized gains and losses are recorded on the consolidated statement of operations.

Gains and losses on forward foreign exchange contracts are recognized when they mature. The carrying amounts of derivative financial instruments, which are comprised of accrued gains and losses not yet realized, are not included in the consolidated financial statements.

The University has entered into forward foreign exchange contracts to minimize exchange rate fluctuations and to mitigate any uncertainty for future financial results.

17. ONTARIO STUDENT OPPORTUNITY TRUST FUND (OSOTF) AND ONTARIO TRUST FOR STUDENT SUPPORT (OTSS)

Under terms of agreement with the Ministry of Training, Colleges and Universities, separate note disclosure or separate audited year-end reports are required to comply with reporting requirements.

Externally restricted endowments (see Note 11) include monies provided by the Government of Ontario from the Ontario Student Opportunity Trust Fund and Ontario Trust for Student Support matching programs to award student aid as a result of raising an equal amount of endowed donations.

The University has recorded the following amounts under phase 1 of the program:

(for the year ended 31 March)		2011		2010
Endowment Funds:				
Opening balance	$	71,096	$	71,112
Capitalized funds expended in the year		(160)		(16)
Endowment fund balance at end of year		70,936		71,096
Expendable Funds:				
Opening balance		428		428
Investment income		3,701		4,016
Bursaries awarded		(3,861)		(4,032)
Capitalized funds expended in the year		160		16
Expendable funds available for awards	$	428	$	428
Number of bursaries awarded		1,079		1,121

The market value of the OSOTF phase 1 endowment at 30 April 2011 was $80,206 (2010 - $76,454).

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

The University has recorded the following amounts under phase 2 of the program:

(for the year ended 31 March)	OSOTF II	OTSS	2011 Total	2010 Total
Endowment Funds:				
Opening balance	$ 11,965	$ 18,667	$ 30,632	$ 28,104
Donations received	-	1,392	1,392	1,189
Government matching received	-	1,431	1,431	1,301
Government matching receivable	-	-	-	-
Other	-	2	2	7
Expendable funds capitalized in the year	114	174	288	31
Endowment capital	12,079	21,666	33,745	30,632
Expendable Funds:				
Opening balance	470	468	938	246
Donations received	-	-	-	12
Investment income	438	667	1,105	1,764
Bursaries awarded	(490)	(745)	(1,235)	(1,046)
Expendable funds capitalized in the year	(114)	(174)	(288)	(38)
Expendable funds available for awards	$ 304	$ 216	$ 520	$ 938
Number of bursaries awarded	165	251	416	399

The market value of the OSOTF phase 2 endowment at 31 March 2011 was $32,493 (2010 - $28,396).

18. RELATED ENTITIES

This section addresses disclosure requirements regarding the University's relationships with related entities. The relationship can be one of economic interest, significant influence, or joint control.

(a) Investment in Parking Commission
Queen's University entered into a joint venture with Kingston General Hospital (KGH) for the construction and operation of an underground parking garage managed and governed by a joint Parking Commission established by the parties and including an equal number of members appointed by both parties. The University's initial capital investment in the partnership was repaid by the Parking Commission over a twenty-five year period ending 31 December 2007. In 2010-11 the Parking Commission embarked on a significant restoration project. The University's share of these capital expenditures as at April 30, 2011 was $770. The University's share of the Parking Commission's excess of revenue over expense of $565 (2010 – $702) is reported in the statement of operations. The investment in the Parking Commission is accounted for using the equity method.

(b) Investment in Cogeneration Facility
Queen's University entered into a joint venture with KGH for the construction and operation of a cogeneration facility governed by a Management Board consisting of representatives of Queen's and KGH. The purpose of the facility is to produce electricity and steam. The University's proportionate share of the joint venture is 60% and Kingston General Hospital's proportionate share is 40%. The University's capital investment in the joint venture is repaid from the operating fund over a twenty-five year period ending 30

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

April 2031. The University's proportionate share of the cogeneration facility's excess of revenue over expense is $72 (2010 – deficiency of $44), reported in the statement of operations.

(c) McGill-Queen's University Press
Queen's University has significant influence in McGill-Queen's University Press. McGill-Queen's University Press was incorporated by letters patent as a corporation without share capital under Part II of the Canada Corporations Act. The objective of the Press is to stimulate scholarship, research and debate through the publication of materials for scholars and the community at large. The Press is exempt from income tax under section 149 of the Income Tax Act. The University is responsible for a 50% share of any deficit accumulated by McGill-Queen's University Press. Queen's share of the accumulated deficit at 31 May 2010 was $213 (2009 - $670). The University provided an annual contribution of $447 (2009 - $422) to fund operating costs of McGill-Queen's University Press.

(d) Sudbury Neutrino Observatory Institute and SNOLAB Institute
Sudbury Neutrino Observatory Institute was created on December 2, 1997 as a joint venture of the University and four other Canadian universities, to perform research in sub-atomic physics. Subsequently, the SNOLAB Institute at Queen's University was created to perform research in astro-particle physics and succeed the Sudbury Neutrino Observatory Institute. This joint venture included the same university member institutions. In July 2010, one of the members removed itself as a member institution. The University's proportionate share (25%) of the joint venture's operations has been included in these consolidated financial statements.

(e) Tri-universities Meson Facility
The University is a member, with ten other universities, of a joint venture called the Tri-universities Meson Facility ("TRIUMF"), Canada's national laboratory for particle and nuclear physics located on the University of British Columbia ("UBC") campus. TRIUMF is an unincorporated registered charity and each university has an undivided 1/11 interest in its assets, liabilities and obligations. The land and buildings it occupies are owned by UBC. The facilities and its operations are funded by Federal government grants and the University has made no direct financial contribution to date. TRIUMF's net assets are not contemplated to be and are not readily realizable by the University. The University's interest in the assets, liabilities and results of operations are not included in these financial statements (see also Note 19(c)).

The following financial information at 31 March 2011 for TRIUMF was prepared in accordance with Canadian generally accepted accounting principles except that all capital assets and related provisions for decommissioning costs, if any, are expensed in the year in which the costs are incurred.

	2011 (unaudited)	2010
Total assets	24,673	17,931
Total liabilities	16,675	14,055
Total fund balances	7,998	3,876
Revenues	69,517	65,003
Expenses	65,926	64,486
Excess of revenues over expenses	3,591	517

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

19. COMMITMENTS AND CONTINGENCIES

(a) Litigation
The nature of the University's activities are such that there may be litigation pending or in prospect at any time. With respect to claims at 30 April 2011, administration believes that the University has valid defenses and that appropriate insurance coverage is in place wherever it is possible to do so. In the event any claims are successful, administration believes that such claims are not expected to have a material effect on the University's financial position. No provision has been accrued in these financial statements in respect of the above litigation.

(b) Insurance
The University is a member of the Canadian University Reciprocal Insurance Exchange (CURIE). CURIE insures general liability, university property and errors and omissions. Annual premiums paid by the University are determined by the CURIE Board, on the advice of the actuary. There is a provision under the agreement for assessments to all member universities if these premiums are not sufficient to cover losses. As of December 31, 2010, the date of the latest financial statements available, CURIE had a surplus of $43.3 million (2009 - $32.0 million).

Additional insurance for automobiles, artwork, miscellaneous property, and major construction projects is purchased through commercial insurers to provide coverage for losses not insured by CURIE.

(c) TRIUMF

The members of the TRIUMF joint venture and the Canadian Nuclear Safety Commission ("CNSC") approved a decommissioning plan which requires all members to be severally responsible for their share of the decommissioning costs, which were estimated at $44,000 as of November 2007, as well as provide financial covenants to the CNSC for the amount of these costs. While there are no current intentions of decommissioning the facilities, the University's share was estimated at $4,000 at 30 April 2011. TRIUMF has put in place a plan for funding the cost of decommissioning which does not require any payments from the joint venture partners.

(d) Capital Commitments
As of 30 April 2011 the estimated cost to complete construction in process for the extension of facilities is approximately $126,231 (2010 - $164,588). These costs will be financed by a combination of gifts, grants, ancillary income, and allocations from operations.

The university leases premises and equipment. The remaining aggregate minimum rental payments under operating leases are as follows:

Fiscal year		
2012	$	2,225
2013		1,680
2014		1,212
2015		1,245
2016		1,162
Thereafter		3,773
	$	11,297

(e) Bank loan guarantees
The University has a program under which it guarantees bank loans to faculty and staff members to assist in the purchase or refinancing of their homes. The University holds mortgages as collateral security against such guarantees. At 30 April 2011, the amount of loans guaranteed was $389 (2010 - $436). The University's estimated exposure under these guarantees is not material.

(f) Asset Retirement Obligations

As stipulated within the Constitution for the SNOLAB Institute at Queen's University, this joint-venture research project's assets and liabilities are to be divided among the member institutions. The agreements also indicate decommissioning costs for the former Sudbury Neutrino Observatory as well as SNOLAB facility expansions are the responsibility of member institutions based on their proportionate share.

Current decommissioning costs are estimated to be in the order of $2,000. The total value of assets at the time of decommissioning is expected to exceed total decommissioning costs. There are no immediate plans for decommissioning of the facilities or a reasonable estimate of when such decommissioning may occur. Currently, new experiments are being developed through use of the facility and decommissioning is not expected to occur sooner than fiscal 2020. No accrual has been made in the financial statements.

(g) Other
In addition to the construction commitments disclosed in Note 19(d) and the pension solvency payments disclosed in Note 15, the University has issued letters of credit of $1,640 primarily for capital construction, and has guaranteed an operating line of credit of $1,000 for PARTEQ.

20. COMPARATIVE FIGURES

Certain prior years' figures have been reclassified to conform with the current year's presentation.

21. SUBSEQUENT EVENT

Subsequent to the University's year end, there has been volatility in the capital markets. This has resulted in losses on investments held in both the University's Pooled Endowment and Pooled Investment funds.

Between April 30, 2011 and August 31, 2011 the University realized investment income on the Pooled Endowment and Pooled Investment funds of $11,210 and incurred unrealized losses on the Pooled Endowment and Pooled Investment funds of $49,759.