



16-17 CONSOLIDATED FINANCIAL STATEMENTS

APRIL 30 2017

Consolidated Financial Statements

Queen's University at Kingston

April 30, 2017

**QUEEN'S UNIVERSITY AT KINGSTON
CONSOLIDATED FINANCIAL STATEMENTS
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Queen's University had a big number to celebrate this past year. It was our 175th anniversary and a chance for the university community to pause and celebrate all that has been accomplished as one of Canada's oldest degree granting institutions.

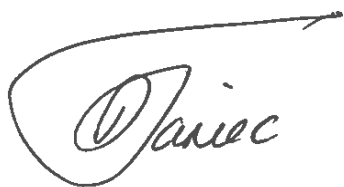
Now that a new academic and fiscal year is underway, we can look towards our future and the many milestones to come with a renewed sense of pride, and optimism. This is due in large part to the significant progress we have made on improving our financial sustainability. Still, there is a need for a cautious approach as we must also address the financial risks to which the university is exposed.

As these Consolidated Financial Statements detail, during the 2016-17 fiscal year Queen's achieved a surplus of \$88.6 million, which provides the university with some much needed financial flexibility. This surplus was driven mainly by favourable investment returns and higher than expected student enrolment, and reflects the continuing effort of faculties and shared services to help the university stabilize our financial situation and plan for future strategic investments. In addition, since investment returns can be volatile, the favorable returns from the current year provide capacity to counter losses in years of poor investment returns.

Surpluses in the trust and endowment fund are driven by returns in the Pooled Endowment Fund and have been reinvested to protect the capital value of the portfolio against inflation, and surpluses in the research fund have been restricted for research purposes. The operating fund surplus, which is primarily driven by high investment returns and higher than expected enrolment, has been set aside in accordance with multi-year plans that will see us prudently invest in faculty renewal and other strategic priorities such as advancing Indigenous and diversity and inclusion initiatives, along with capital investment in academic and research infrastructure.

We continue to address and manage our ongoing financial risks. These risks include our continued reliance on grant support and tuition revenue, both of which are controlled by the provincial and federal governments. We also have a significant deferred maintenance backlog and a financially unsustainable pension plan. These are financial challenges we share with many other universities in the province and we are actively managing them in our ongoing forecasting and planning to maintain our long-term financial competitiveness, and support the academic mission of the university.

Thanks to our strong foundation built over the last 175 years and our engaged and highly qualified community of faculty, staff and students, Queen's University is well placed to meet these challenges and to look ahead to future milestones with a renewed sense of optimism and confidence.

A handwritten signature in dark ink, reading "Janiec", with a large, sweeping loop at the beginning and a long, thin horizontal stroke extending to the right.

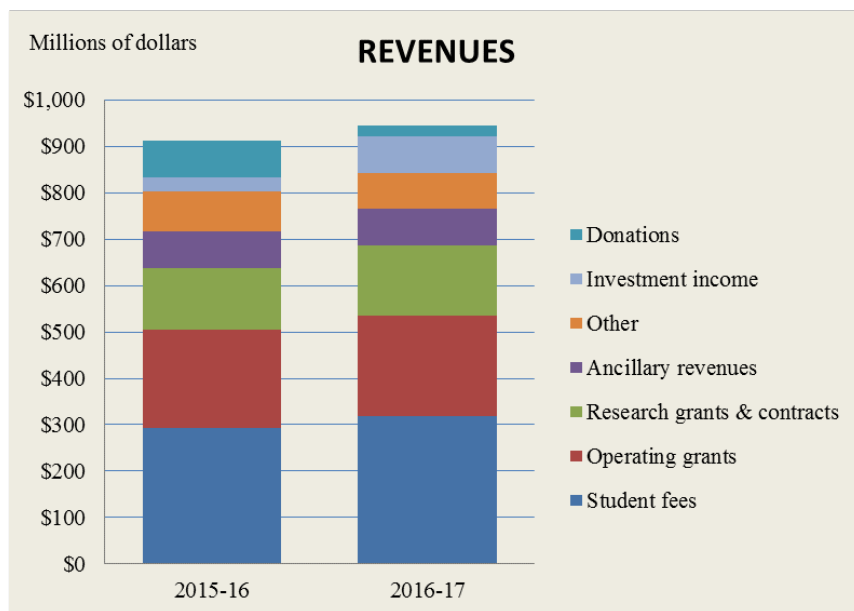
Donna M. Janiec, CPA, CA
Vice-Principal (Finance and Administration)

THE YEAR IN REVIEW

In 2016-17 the university completed the year in a stable financial position with a surplus of \$88.6 million, driven primarily by favourable investment returns and higher than planned student enrolment.

YEAR ENDED APRIL 30		
(Millions of dollars)	2017	2016
Consolidated Statement of Operations		
Revenue	\$ 944.7	\$ 912.3
Expenses	856.1	872.8
Excess of revenues over expenses	<u>\$ 88.6</u>	<u>\$ 39.5</u>
Consolidated Statement of Financial Position		
Assets	\$ 2,492.8	\$ 2,260.6
Liabilities	1,052.4	1,084.1
Net assets	<u>\$ 1,440.4</u>	<u>\$ 1,176.5</u>
Net Assets is comprised of:		
Endowments	\$ 1,046.5	\$ 930.9
Internally restricted	507.9	362.0
Unrestricted deficiency	(114.0)	(116.4)
	<u>\$ 1,440.4</u>	<u>\$ 1,176.5</u>

REVENUES



At a glance....

Total revenues grew by 4 per cent in 2016-17 due largely to favorable investment returns, higher enrolment, and increased research grants and contracts revenues. In 2015-16 donation revenue was exceptionally high due to a generous donation of artwork.

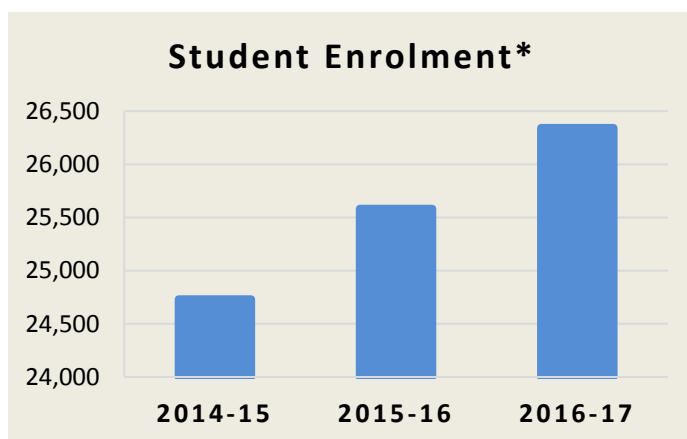
Donation revenue includes unrestricted donations, restricted donations expended during the year, and donated gifts-in-kind (for example, artwork). Donated gifts-in-kind are expensed as received.

Donations for capital assets are recognized as revenue (amortization of deferred capital contributions) as the asset is depreciated and included in "Other" in this chart. Endowment contributions are recorded as a direct increase in net assets, and are not reflected in revenue

Student fees

Student fee revenue includes tuition fees as well as other fees related to activities such as student health, recreation, and athletics. In 2016-17, student fee revenue from all fee sources increased by 9 per cent, driven primarily by Board of Trustee approved fee increases within the provincial tuition framework, enrolment increase in both degree and non-degree programs, and domestic/international student mix. Student enrolment for the past three years is displayed in the chart to the right.

The university continues to operate under the tuition policy framework originally announced by the provincial government in March 2013, restricting aggregate tuition fee increases across the institution to 3 per cent annually. In December 2016 the government extended the tuition framework for an additional two years to the 2018-19 fiscal year.

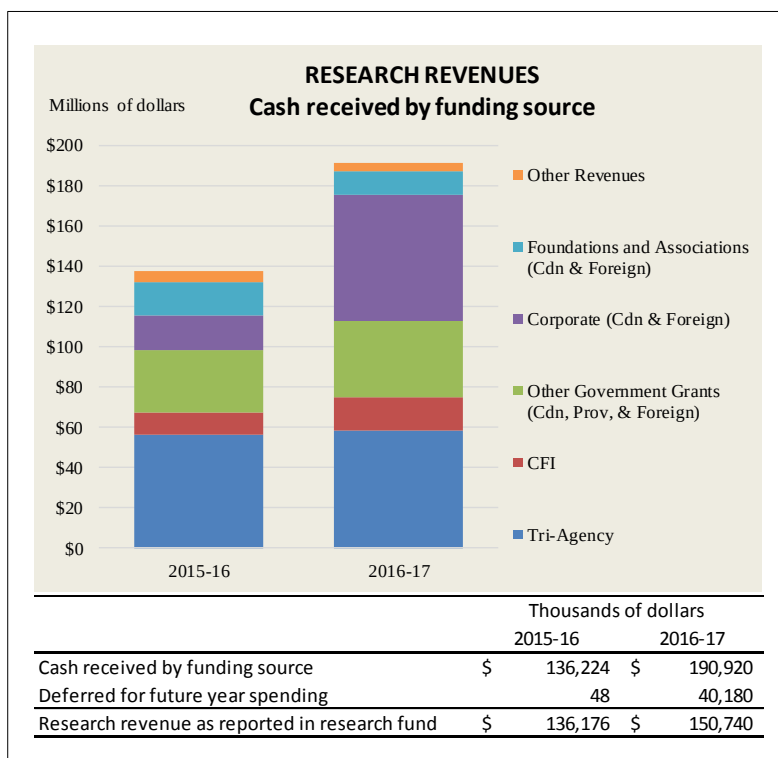


*Figures include non-credit and exchange students. Prior year figures have been restated to conform with current year presentation.

Research grants and contracts

Research grants and contracts are received from a variety of sources with the largest contributions coming from the federal government through the Tri-Agencies and the Canada Foundation for Innovation. Because research funding is restricted for purposes specified by the funding agency, revenue is only recorded when the related expenditure occurs. Unspent externally sponsored research monies are recorded on the statement of financial position as deferred revenue.

Research grant and contract revenues received by funder is presented in the chart to the right. This chart is presented on a cash basis before any adjustment for funds deferred for spending in future years. Cash received from corporate funding sources increased significantly in 2016-17, due mainly to clinical trials funding received.



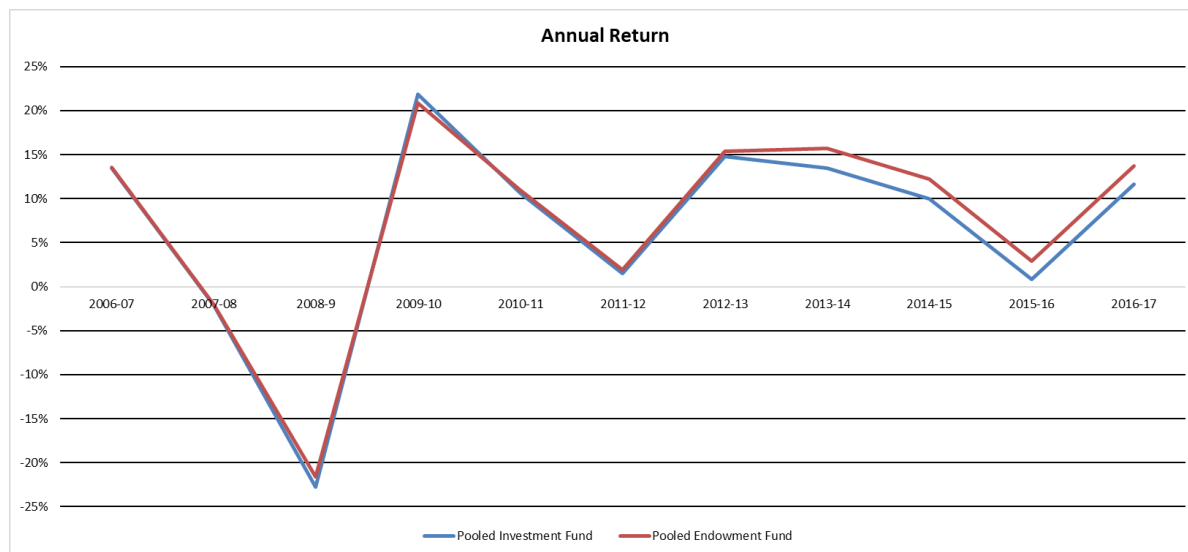
Ancillary revenues

Ancillary operations include business units that provide goods and services to the university community. These units are expected to cover their full operating costs, and may also defray general operating expenditures. The table to the right provides a detailed breakdown of revenues in the Ancillary fund as shown on page 11. The decrease in revenues and internal sales is due largely to the closure of the computer store in April 2016.

SALES BY ANCILLARY OPERATION	Thousands of dollars	
	2016-17	2015-16
Residences and housing	\$ 70,965	\$ 69,903
Hospitality and conferences services	9,714	10,801
Parking	3,088	2,969
Other	1,258	1,167
Computer store	-	7,106
	85,025	91,946
Less: Internal sales	(5,874)	(13,407)
	\$ 79,151	\$ 78,539

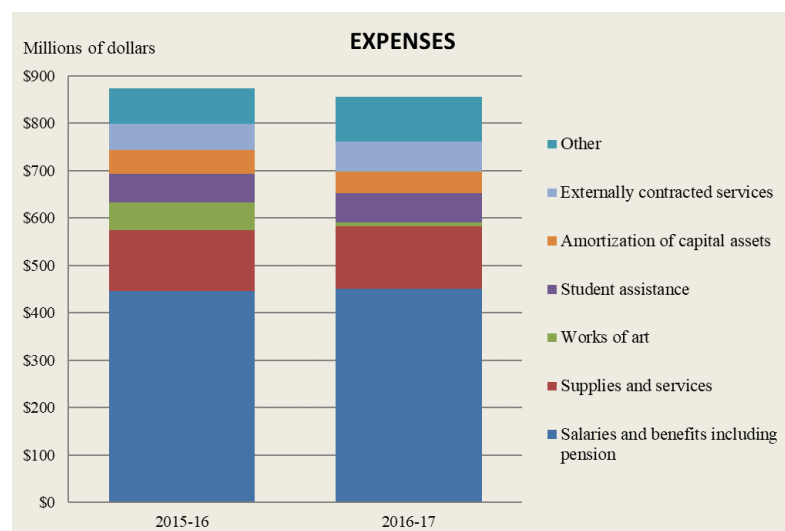
Investment income

Both the Pooled Endowment Fund and the Pooled Investment Fund are invested in accordance with a Board approved Statement of Investment Policies and Procedures which establish risk and return objectives for each Fund. While the aim of these objectives is to produce steady and predictable investment returns over the medium and/or long term there is considerable volatility in investment returns on an annual basis. Investment income for 2016-17 increased significantly from \$30.4 million in 2015-16, to \$79.2 million. Annual rates of return for the last ten years for the Pooled Endowment Fund and the Pooled Investment Fund are presented below.



Because business units rely heavily on the annual payout from the Pooled Endowment Fund, the payout calculation is smoothed and mitigates the impact of any volatility in investment income from year to year. In years of strong investment returns like this year, excess gains are re-invested in the preservation of capital to offset years such as 2015-16 where the amount made available for spending exceeded investment income.

EXPENSES



At a glance...

Total expenses declined by 2 per cent in 2016-17, driven by a reduction in expenses related to works of art. As described in the previous revenues section, 2015-16 was an exceptional year due to a generous donation of artwork. Donated artwork is expensed as received.

SALARIES AND BENEFITS

	Thousands of dollars	
	2016-17	2015-16
Salaries and benefits expense		
Salary and benefits	\$ 415,437	\$ 408,582
Non-pension employee future benefits	8,345	7,887
Pension		
Current service cost	24,722	23,030
Financing cost	2,747	1,750
Total	\$ 451,251	\$ 441,249
% of total expenses	53%	51%
Employee Future Benefits Liability		
Pension (surplus) / liability	\$ (55,137)	\$ 47,362
Non-pension employee future benefits	90,727	83,397
Total	\$ 35,590	\$ 130,759

At a glance...

Salaries and benefits comprise over half of the total expenses of the university.

In 2016-17, salaries and benefits grew by 2.3 per cent. Growth in the year is due both to negotiated salary increases as well as an increase in staff in faculties and schools to support program development and revenue generation across the university.

Strong returns in the pension plan during the year flipped the 2016 pension plan liability to a pension plan asset as at April 30, 2017 (on a going concern valuation basis).

Salary and benefit increases are influenced by collective agreement negotiations. Overall increases in salaries and benefits expenses are carefully constrained through a strong focus on managing overall staffing levels within the university. The majority of employees are covered by various collective agreements. The table below provides a summary of employee groups and the date of their associated employee contracts:

Employee Group	Unit / Association	Contract effective until
Academic Assistants	USW 2010-01	August 2020
Allied Health Care Professionals (Family Health Team)	OPSEU 452	June 2018
General Support Staff	USW 2010	December 2018
Graduate Teaching Assistants and Teaching Fellows	PSAC 901, Unit 1	April 2017
Kingston Heating & Maintenance Workers	CUPE 229	June 2018
Kingston Technicians	CUPE 254	June 2018
Library Technicians	CUPE 1302	June 2018
Post-Doctoral Fellows	PSAC 901, Unit 2	June 2020
Queen's University Faculty Association	QUFA	April 2019
Registered Nurses and Nurse Practitioners (Family Health Team)	ONA 67	March 2017

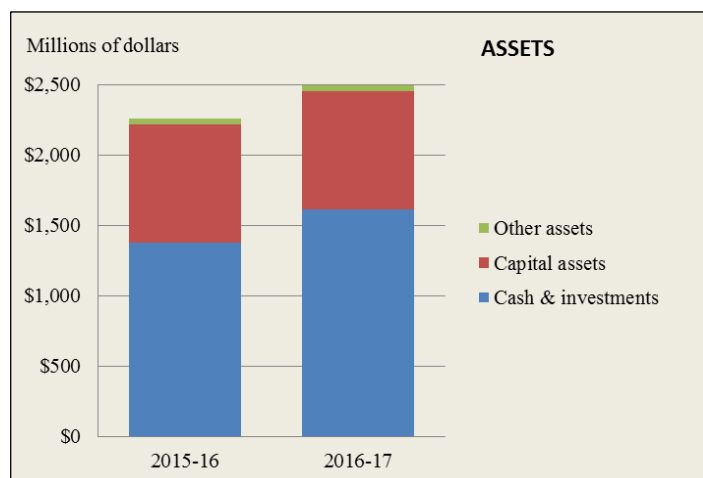
CAPITAL PROJECTS

During the 2016-17 fiscal year the university received a \$31 million investment from the Government of Canada under the Post-Secondary Institutions Strategic Investment Fund. The investment, in addition to a \$4.9 million investment from the Government of Ontario and the contributions of a number of benefactors, will support two capital projects on campus – the creation of the Queen’s Innovation and Wellness Centre and a revitalization of on-campus biomedical research facilities. These important projects will enhance innovation programming at Queen’s and strengthen the university’s position in world-leading research in addition to enhancing our student health and wellness services.

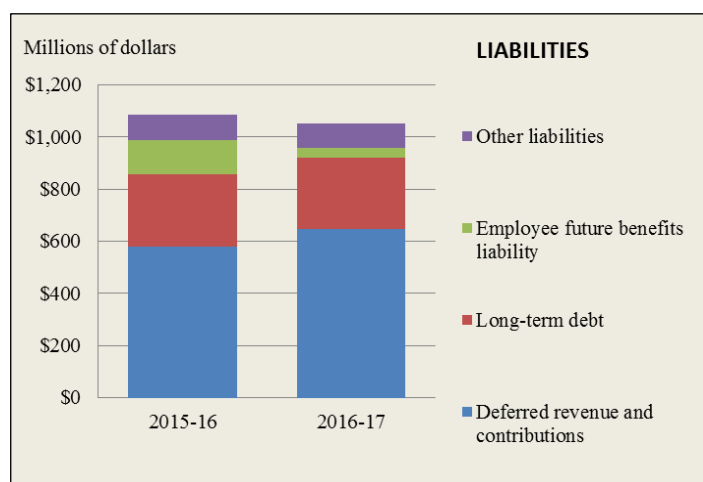
The university’s capital expenditures of \$48.7 million in 2016-17 are presented in the table below, with comparative information for the prior year. The bulk of the spending on building projects relates to the completion of Richardson Stadium that opened in September 2016 (\$9.9 million), the Innovation and Wellness Centre (\$16.3 million), and the Biomedical Research Facility Revitalization Project (\$2.9 million).

CAPITAL ASSET ADDITIONS	Thousands of dollars	
	2016-17	2015-16
Building projects and construction in progress	\$ 31,834	\$ 32,696
Equipment and furnishings	15,904	15,018
Other asset purchases	972	1,717
	\$ 48,709	\$ 49,431

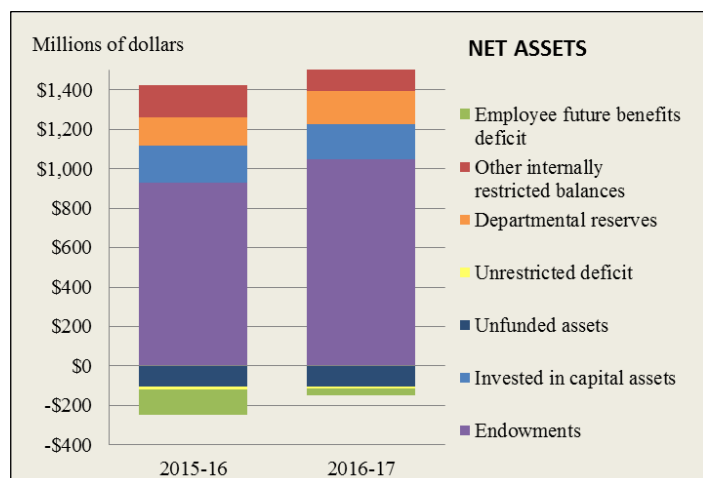
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT A GLANCE



Assets of the university increased by \$232 million or 10 per cent overall, due primarily to growth in the university's investments. While strong investment returns drove a significant portion of this growth, donor contributions to the Pooled Endowment Fund as well as an increase in funds received but not yet spent for deferred capital contributions and deferred revenue also contributed to the increase.



Liabilities of the university decreased by 3 per cent. The significant decrease in Employee Future Benefits driven by strong investment returns in the Pension Plan has been offset by an increase in deferred revenue and contributions due to unspent research and capital funds. Further information on Employee Future Benefits is provided in the previous Salaries and Benefits section and in Note 11 to the financial statements.



Net Assets grew by \$264 million in 2016-17. This increase is comprised primarily by growth in Endowments (\$116 million) driven by investment returns and donor contributions, a reduction in the deficit related to employee future benefits (\$95 million) resulting from strong investment returns, and higher reserves to support faculty and university academic and research priorities.

CONSOLIDATED STATEMENT OF OPERATIONS BY FUND

The university's financial statements are prepared in accordance with Canadian accounting standards for not-for-profit organizations, described in Note 2 to the financial statements. Under these accounting standards, the financial results of the university are presented on a consolidated basis, in a single column, and present an overall accounting of the financial stewardship of the institution as a whole.

University budgets and internal reporting are prepared using the concepts of fund accounting. Under fund accounting, activities of the institution are segregated by fund to enhance accountability and control of funds. The university maintains the following funds:

Operating includes teaching and administrative activities at the university. Operating fund revenue includes government operating grants, student fees, and unrestricted investment income. For information on the performance of the Operating fund, please refer to the Performance of the Operating Fund section.

Ancillaries includes business units that provide goods and services to the university community and cover their full operating costs, including indirect costs, and may also contribute to general operating expenditures.

Trust and Endowments capture funds received within the university that are 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 captures activity on campus related to research. The university 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.

Capital includes activity related to the capital infrastructure on campus. The Capital fund reflects amortization of both costs and deferred capital contributions, interest on debt to fund capital expenditures, the capitalization of assets purchased through other funds, the deferral of funding received to purchase assets, and renovations and alterations activity.

Consolidated Entities include PARTEQ Innovations, Bader International Study Centre, the U.S. Foundation for Queen's University at Kingston, the Queen's Centre for Enterprise Development, the Queen's University Pooled Trust Fund, and the Queen's Prison Law Clinic.

Interfund Transfers, as presented on the consolidated statement of operations by fund, represents transfers of money between funds. Transfers from the Operating fund are comprised primarily of transfers to the Capital fund resulting from operating budget commitments, and departmental transfers to the Research fund in support of internally sponsored research. Ancillaries fund transfers include transfers to the Operating fund to support operations and transfers to the Capital fund for interest on long term debt.

THE CONSOLIDATED STATEMENT OF OPERATIONS BY FUND

The table below presents the activities of the university by fund, for the year ended April 30, 2017, and supplements the information presented in the financial statements. Amounts are presented in thousands of dollars.

(amounts in '000s)	Operating	Ancillaries	Trust and Endowment	Research	Capital	Consolidated Entities	Total 2017
REVENUE							
Grants and contracts	217,558	-	25,206	149,861	(9,929)	78	382,774
Student fees	314,826	-	-	-	-	3,774	318,600
Sales of service and products	8,967	79,151	-	8	-	6,885	95,011
Investment income	32,587	-	42,338	92	4,139	32	79,188
Amortization of deferred capital contributions	-	-	-	-	24,772	293	25,065
Donations	2,005	-	21,028	155	-	-	23,188
Other	19,059	-	-	624	570	608	20,861
	595,002	79,151	88,572	150,740	19,552	11,670	944,687
EXPENSES							
Salaries and benefits	356,204	9,942	18,170	61,113	-	5,822	451,251
Supplies and services	85,462	3,590	9,583	47,770	(16,096)	731	131,040
Externally contracted services	9,525	24,550	277	26,624	-	3,020	63,996
Student assistance	34,694	-	25,560	263	-	45	60,562
Amortization of capital assets	-	-	-	-	44,257	1,489	45,746
Renovations and alterations	11,016	9,000	540	3,884	13,585	668	38,693
Utilities, taxes and insurance	17,465	5,858	71	356	-	(796)	22,954
Travel and conferences	9,135	98	1,391	7,963	-	133	18,720
Interest on long-term debt	-	-	-	-	14,111	-	14,111
Works of art	-	-	8,987	-	-	-	8,987
Interfund transfers out / (in)	17,149	26,143	4,160	(6,059)	(41,393)	-	-
	540,650	79,181	68,739	141,914	14,464	11,112	856,060
Excess / (deficiency) of revenues over expenses	54,352	(30)	19,833	8,826	5,088	558	88,627
Transfer (to) / from internally restricted net assets	(54,271)	30	(19,833)	(8,826)	(3,329)	(28)	(86,257)
Net change in unrestricted surplus	81	-	-	-	1,759	530	2,370
Unrestricted surplus / (deficit), beginning of year	903	-	-	-	(96,429)	(20,867)	(116,393)
Unrestricted surplus / (deficit), end of year (see Appendix IV)	984	-	-	-	(94,670)	(20,337)	(114,023)

FINANCIAL RISK

The university manages the financial risks it faces as part of a broader enterprise risk management framework which is monitored by and reported on regularly to the Board of Trustees. The major financial risks to which the university is exposed include:

A financially unsustainable pension plan

The 2008 financial market decline and a prolonged period of low interest rates continues to make funding the university's pension plan challenging. The actuarial valuation of the pension plan completed as of August 31, 2014 reported a solvency deficit of \$285 million. The university applied for and received Stage II solvency relief, which provided for a three-year deferral of making solvency deficit payments. Effective September 1, 2015, going concern payments are \$20.7 million annually. Partial funding of the solvency deficit will commence in September 2018 under the new regulation issued at the end of October 2016 which provides additional partial solvency relief for those in Stage II relief with a valuation date on or before December 31, 2018. Under this regulation, the university is required to make minimum special payments equal to 25 per cent of the solvency deficiency over seven years and to cover interest on the remaining 75 per cent of the solvency deficiency not being amortized, based on the required August 31, 2017 valuation. In May 2017 the province announced additional reforms to pension funding requirements. Associated regulations have not yet been finalized and as a result the full impact of these funding reforms on the university are not yet known.

To mitigate this significant financial risk and to develop a sustainable pension plan, the university began building a reserve to help fund future solvency payments, and has negotiated a commitment with employee groups to participate in the project to design and build a new Ontario University Jointly Sponsored Pension Plan which would have a permanent solvency exemption. Work continues on this initiative.

The table below shows the change in the funded status of the plan on a going concern basis for each of the last two years. The improvement from a defined benefit liability of \$47.4 million to a defined benefit surplus of \$55.1 million is the result of strong investment performance during the year. In 2016-17 the plan experienced \$67.8 million in investment gains versus the \$54.4 million in losses experienced in 2015-16. These figures demonstrate that investment returns are subject to considerable volatility, but are a significant contributor to the annual improvement or deterioration of the financial position of the plan for the year.

In determining the long term financial viability of the plan, the university continues to focus not on the point-in-time measurement of the pension plan asset or liability, but rather on the need to achieve a pension plan design that is sustainable for the long term.

CHANGE IN FUNDED STATUS OF PENSION PLAN		Thousands of dollars	
GOING CONCERN (MARKET VALUE) BASIS		2016-17	2015-16
Deficit, opening balance	\$	47,362	\$ 30,179
Pension benefit plan expense			
Current service cost		24,722	23,030
Financing cost		2,747	1,750
		27,469	24,780
Remeasurements and other items			
Investment (gains) / losses		(67,823)	54,403
Liability experience (gains) / losses		(14,820)	(18,203)
		(82,643)	36,200
Less: university contributions		(47,325)	(43,797)
(Surplus) / deficit, closing balance	\$	(55,137)	\$ 47,362

Additional information on pension and other employee future benefits is available in Note 11 of the financial statements.

Deferred maintenance

Maintaining the university's space to appropriate standards puts significant pressure on university budgets. Based on a recently completed Facilities Condition Audit there is currently \$235 million in deferred maintenance costs that should be completed in the next five years. The industry standard for annual deferred maintenance funding is 1 to 1.5 per cent of the current replacement value. For the university academic buildings, the annual number at 1 per cent would be \$15 million.

Although annual budget allocations to deferred maintenance have been increasing over the last several years (from \$5.2 million in 2012-13 to \$9.7 million in 2016-17), the university must work diligently to apply deferred maintenance spending to the most critical priorities. The university has developed and manages to a five-year deferred maintenance plan that ensures the highest priority deferred maintenance needs are addressed. Significant repairs completed during the 2016-17 fiscal year include masonry repairs on Grant and Ontario Hall and roofing repairs on a number of buildings across the campus.

Reliance on grant support and tuition revenue

The university relies heavily on grant support and tuition to fund its operations, both of which are controlled largely by the Provincial Government. In late 2015, the Ministry of Advanced Education and Skills Development (MAESD) began a review of university funding and ultimately recommended that funding should be more closely linked to student success and outcomes and institutional differentiation, rather than being focused primarily on enrolment. The new framework includes three grant envelopes: enrolment, differentiation, and special purpose grants. Universities will be held harmless with respect to the grant revenue effects of the new framework during 2017-18 to 2019-20; enrolment growth and funding arrangements have not yet been finalized. Transition to the new formula commenced in 2017-18; funded enrolment and reporting requirements will be specified in updated bilateral Strategic Mandate Agreements.

In December 2016, MAESD extended the current tuition framework for the next two years which will continue to limit tuition fee growth to an institutional average of 3 per cent.

FINANCIAL HEALTH

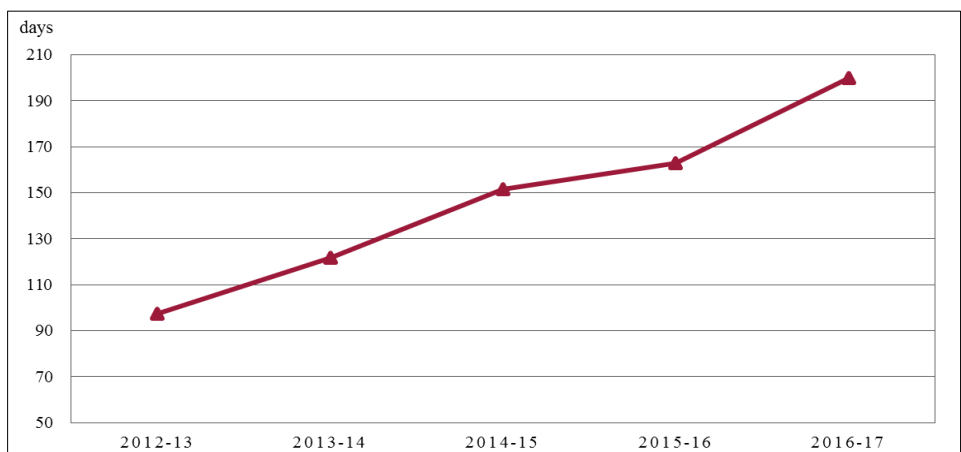
In March 2014 the university launched its strategic framework for the years 2014 to 2019. The overarching goal of the framework is to strengthen the university’s vision of combining an outstanding student experience with research excellence.

In support of financial sustainability (one of the four strategic drivers), the university has established metrics to monitor and report on the university’s financial health. Because unrealized investment gains and losses flow through income, there will always be volatility in the university’s financial results. The solid financial results and strong investment performance in 2016-17 led to an improvement in the ratios.

The value in these ratios is not the point-in-time measurement, but rather the information provided by looking at the trend over time. Five-year trends on these metrics are presented below¹.

Primary Reserve Ratio

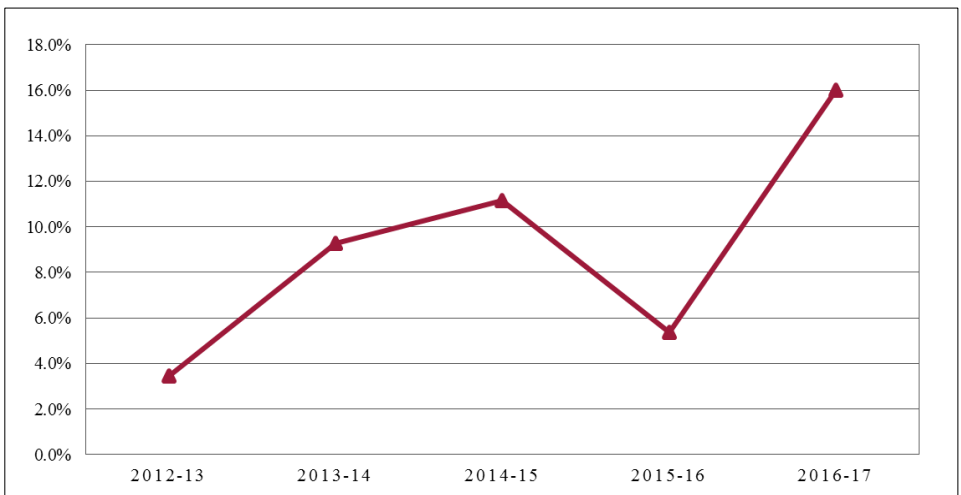
The primary reserve ratio helps to determine whether the university’s resources are sufficient and flexible enough to support the mission. It summarizes the financial health and flexibility by indicating how long the university could function using only its reserves with no external restrictions.



Definition: Expendable net assets divided by total expenses x 365 days

Net Operating Revenues Ratio

The net operating revenues ratio is a measure of financial performance. Positive cash flow from operations indicates a strengthening position, and, conversely, structural negative cash flows are almost always an indication of financial pressures.

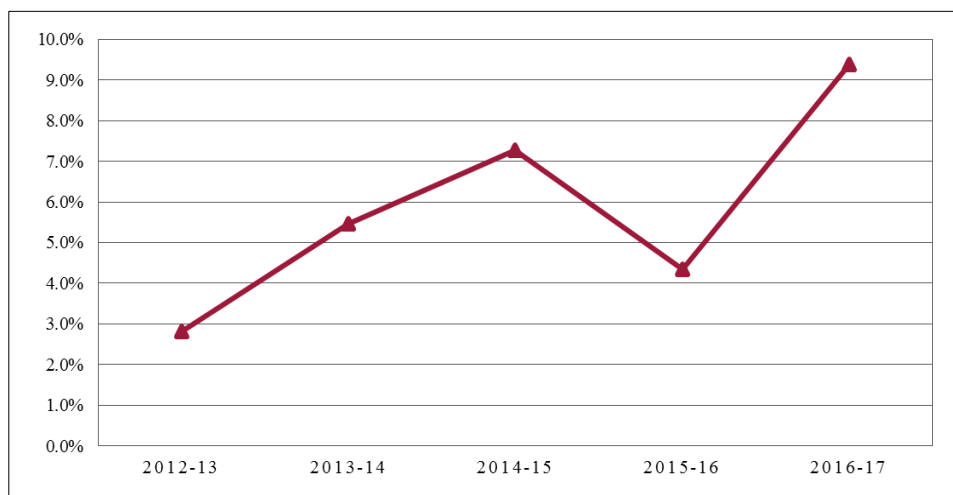


Definition: Cash flow from operating activities divided by total revenues

¹ 2012-13 figure does not include retrospective restatements related to the adoption of new accounting standards.

Net Income / Loss Ratio

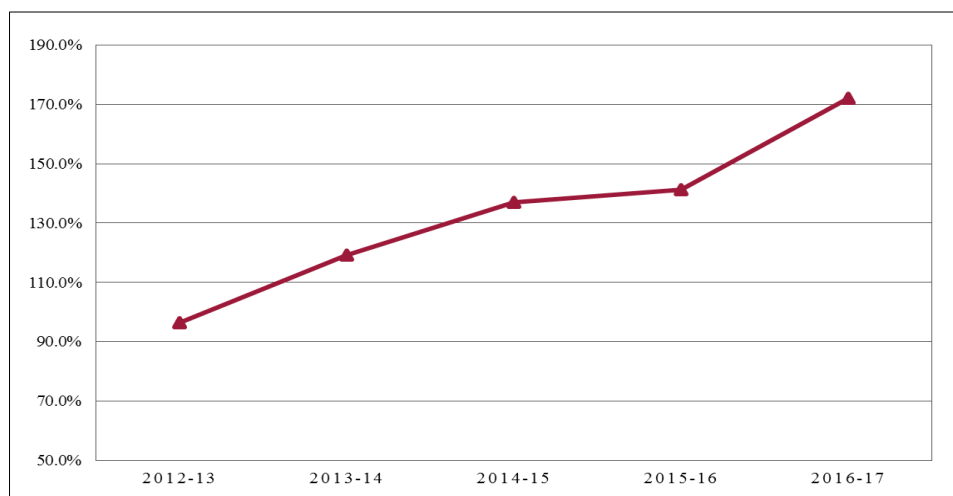
The net income / loss ratio measures the percentage of revenues that contribute to net assets. The objective of this ratio is to track trends in an institution's net earnings. An increase in this ratio indicates greater future financial flexibility.



Definition: Net income or loss divided by total revenues

Viability Ratio

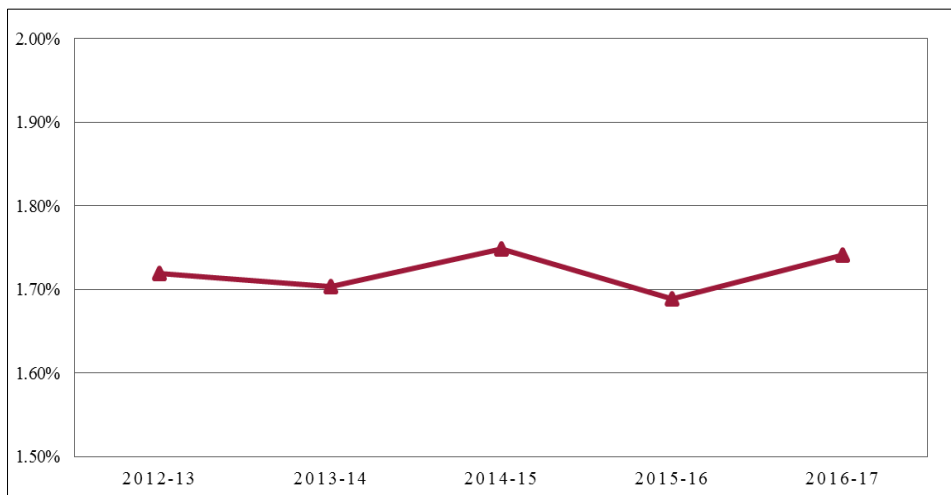
The viability ratio provides an indication of the funds on hand to settle the university's long-term debt obligations at a point in time. This ratio provides assistance in evaluating debt affordability.



Definition: Expendable net assets divided by long-term debt

Interest Burden Ratio

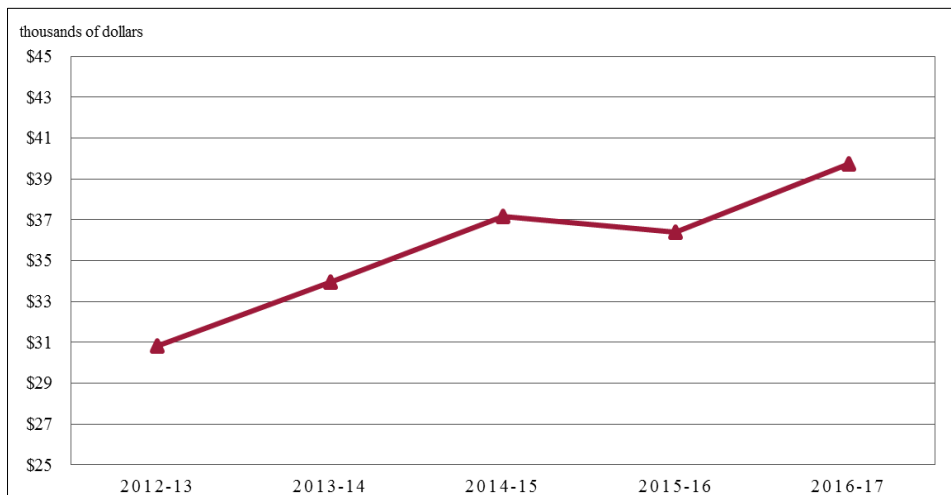
The interest burden ratio is an indicator of debt affordability. It indicates the percentage of total expenses used to cover the cost of servicing the university's debt.



Definition: Interest expense divided by total expenses excluding amortization

Endowment per Student FTE

The endowment value per student FTE provides information on the relative importance of the endowments in relation to the size of the student population and is a measure of the long-term strength of the university.



Definition: Endowment value at end of year divided by student FTE

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 63 per cent of consolidated revenue in 2016-17.

The Board of Trustees pays careful attention to the allocation and use of resources within the operating fund and remains focused on achieving a balanced budget. Budgets are prepared on a cash basis and may include drawdowns of cash reserves to balance.

2016-17 Operating Fund	Thousands of dollars		
	Actual	Budget	Variance
Revenue	595,002	555,107	39,895
Less: expenditures	(540,650)	(571,445)	30,795
Surplus / (deficit)	54,352	(16,338)	70,690
Transfer (to) / from internally restricted net assets	(54,271)	16,338	(70,609)
Increase in unrestricted surplus	81	-	81
Operating surplus - beginning of year	903		
Operating surplus - end of year	984		

For 2016-17, the university budgeted a deficit of \$16.3 million before drawdowns of reserves. Strong investment returns, higher enrolment and student fee revenue, and adjustments to pension and other post-employment benefit program costs (\$14.3 million) required for audited financial statements (which make actual expenses lower than budgeted cash contributions) contributed to an operating surplus of \$54.4 million. The surplus will provide important flexibility for future strategic priorities, including capital renewal and a reserve for future pension payments. Surpluses have been set aside in departmental reserves in accordance with multi-year plans for the prudent use of reserves in support of academic and research priorities.

The university remains focused on managing its resources responsibly in order to protect and advance its academic mission and strategic priorities in the midst of significant financial challenges. In May 2017, the Board of Trustees approved the 2017-18 operating budget, which is balanced after a \$11.0 million draw-down of reserves.

STATEMENT OF ADMINISTRATIVE RESPONSIBILITY

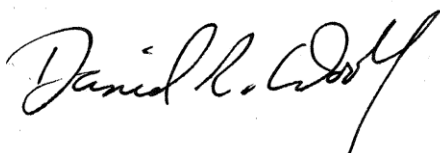
The administration of the university is responsible for the preparation of the consolidated financial statements and the notes to the consolidated financial statements.

The administration has prepared the accompanying consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations as issued by the Chartered Professional Accountants of Canada. 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, 2017 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.

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 and Risk Committee. The majority of the members of the Audit and Risk Committee are not officers or employees of the university. The Audit and Risk 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 internal and external auditors have full access to the Audit and Risk Committee with and without the presence of the administration.

The consolidated financial statements for the year ended April 30, 2017 have been reported on by KPMG LLP, Chartered Professional Accountants, the independent auditors appointed by the Board of Trustees. The independent auditors' report outlines the scope of their audit and their opinion on the consolidated financial statements.



Dr. Daniel Woolf
Principal and Vice-Chancellor
October 13, 2017



Donna Janiec, CPA, CA
Vice-Principal (Finance and Administration)
October 13, 2017

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, 2017, 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 accounting standards for not-for-profit organizations, 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, 2017, and its consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, stylized font. Below the signature is a horizontal line that starts under the "K" and ends under the "P", with a small upward tick at the end.

Chartered Professional Accountants, Licensed Public Accountants
October 13, 2017
Kingston, Canada

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at April 30

(Thousands of dollars)

	2017	2016
ASSETS		
Current		
Cash	\$ 149,254	\$ 146,736
Accounts receivable (note 3)	29,152	32,068
Loans receivable (note 4)	236	511
Prepaid expenses	5,168	5,194
Investments (note 5)	94,468	8,756
Total current assets	278,278	193,265
Loans receivable (note 4)	3,205	3,502
Investments (note 5)	1,367,333	1,222,831
Capital assets (note 6)	843,946	840,954
	\$ 2,492,762	\$ 2,260,552
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities (note 7)	\$ 95,089	\$ 95,088
Current portion of long-term debt (note 10)	3,727	3,742
Deferred revenue and contributions (note 8)	260,834	207,430
Total current liabilities	359,650	306,260
Deferred capital contributions (note 9)	384,905	371,106
Long-term debt (note 10)	272,239	275,966
Employee future benefits liability (note 11)	35,590	130,759
	1,052,384	1,084,091
Net Assets		
Endowments (note 12)	1,046,531	930,868
Internally restricted (note 13)	507,870	361,986
Unrestricted deficiency	(114,023)	(116,393)
	1,440,378	1,176,461
	\$ 2,492,762	\$ 2,260,552

See accompanying notes to consolidated financial statements.

Commitments and contingencies (note 18)

Approved on behalf of the Board of Trustees:



Donald M. Raymond
Chair, Board of Trustees



Mary Wilson Trider
Chair, Audit and Risk Committee

CONSOLIDATED STATEMENT OF OPERATIONS

Year ended April 30
(Thousands of dollars)

	2017	2016
REVENUES		
Grants and contracts	\$ 382,774	\$ 364,312
Student fees	318,600	292,239
Sales of service and products	95,011	95,464
Investment income (note 5)	79,188	30,369
Amortization of deferred capital contributions (note 9)	25,065	26,112
Donations	23,188	79,388
Other	20,861	24,502
	944,687	912,386
EXPENSES		
Salaries and benefits	451,251	441,249
Supplies and services	131,040	127,992
Externally contracted services	63,996	60,371
Student assistance	60,562	60,437
Amortization of capital assets	45,746	49,863
Renovations and alterations	38,693	21,389
Utilities, taxes and insurance	22,954	20,856
Travel and conferences	18,720	18,185
Interest on long-term debt	14,111	13,895
Works of art	8,987	58,607
	856,060	872,844
Excess of revenues over expenses	\$ 88,627	\$ 39,542

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Year ended April 30
(Thousands of dollars)

	Endowments	Internally Restricted	Unrestricted	Total 2017	Total 2016
Net assets / (deficit), beginning of year	\$ 930,868	\$ 361,986	\$ (116,393)	\$ 1,176,461	\$ 1,156,681
Excess of revenues over expenses	-	-	88,627	88,627	39,542
Employee future benefits remeasurements and other items (note 11)	-	-	80,797	80,797	(33,166)
Change in internally restricted net assets	-	148,469	(148,469)	-	-
Endowment contributions (note 12)	21,931	-	-	21,931	27,601
Excess / (deficiency) of investment earnings over endowment spending (note 12)	87,959	-	(18,585)	69,374	(17,726)
Departmental transfers and other contributions (note 12)	5,773	(2,585)	-	3,188	3,529
Net assets / (deficit), end of year	\$ 1,046,531	\$ 507,870	\$ (114,023)	\$ 1,440,378	\$ 1,176,461

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOW

Year ended April 30
(Thousands of dollars)

	2017	2016
OPERATING ACTIVITIES:		
Excess of revenues over expenses	\$ 88,627	\$ 39,542
Non-cash items:		
Amortization of deferred capital contributions	(25,065)	(26,112)
Amortization of capital assets	45,746	49,863
Employee future benefits	(14,372)	(13,848)
Net change in non-cash working capital (note 14)	56,347	(547)
Cash provided by operating activities	151,283	48,898
INVESTING ACTIVITIES:		
Net change in loans receivable	572	321
Net change in investments	(230,214)	(24,114)
Purchases (net of disposals) of capital assets	(48,738)	(49,385)
Investment gain / (loss) reported as direct increase in net assets	69,374	(17,726)
Cash used in investing activities	(209,006)	(90,904)
FINANCING ACTIVITIES:		
Issuance of long-term debt	-	40,000
Repayment of long-term debt	(3,742)	(1,646)
Contributions received for capital purposes	38,864	23,299
Contributions reported as direct increase in net assets	25,119	31,130
Cash provided by financing activities	60,241	92,783
Net increase in cash	2,518	50,777
Cash, beginning of year	146,736	95,959
Cash, end of year	\$ 149,254	\$ 146,736

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2017

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

1. AUTHORITY

Queen's University at Kingston ("the university") operates under the authority of the Royal Charter of 1841 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 (Canada), exempt from payment of income tax.

The university controls PARTEQ Innovations, the Bader International Study Centre, the U.S. Foundation for Queen's University at Kingston, QCED Inc., Queen's University Pooled Trust Fund, and Queen's Prison Law Clinic. Accordingly, these financial statements consolidate the accounts of these organizations.

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

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 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 the university. 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.

QCED Inc. (Queen's Centre for Enterprise Development) 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.

Queen's University Pooled Trust Fund (QUPTF) was established as a unit trust under paragraph 108(2)(a) of the Income Tax Act on December 17, 2013. QUPTF was established for the purposes of holding in trust, certain investments and other assets of the Queen's Pooled Endowment Fund and provide for certain matters relating to its undertaking and governance. The university is the sole holder of units of QUPTF.

Queen's Prison Law Clinic (QPLC) was incorporated without share capital under the laws of the Province of Ontario on November 24, 2014 through supplementary letters patent. It was originally incorporated on February 23, 2000 under the name Correctional Law Project. QPLC was established to provide equal access to quality legal services for inmates incarcerated in the federal penitentiaries in the Kingston area.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2017

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These consolidated financial statements (“the financial statements”) have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. The significant accounting policies of the university are described below.

(a) Accounting estimates

The preparation of the financial statements requires administration to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the year. 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 valuation of financial instruments, the valuation of pension and other employee future benefits, the carrying value of capital assets, and the valuation of accounts receivable. Actual results could differ from those estimates.

(b) Financial instruments

i. Investments

Investments are recorded at fair value. The fair value of investments recorded in the financial statements is determined as follows:

- 1) Short-term notes and treasury bills maturing within one year are stated at cost, which together with accrued interest income approximates fair value given the short-term nature of these investments.
- 2) Bonds and equities are valued at year-end quoted market prices using closing prices. Where quoted prices are not available, estimated fair values are calculated using comparable securities.
- 3) Pooled fund investments are valued at the unit values supplied by the pooled fund administrator, which represent the university’s proportionate share of underlying net assets at fair values determined using quoted market prices or alternative valuation methods where quoted market prices are not available.
- 4) Limited partnership investments are valued at fair values using values supplied by the fund managers who are directly investing the funds in the underlying operating units. The fund managers use a valuation methodology that is based upon the best available information that may incorporate management assumptions and best estimates after considering a variety of internal and external factors. Limited partnership investments are only held in the Pooled Endowment Fund.

ii. Derivative and other financial instruments

Derivative financial instruments are used to manage market and currency exposure risk primarily associated with the university’s debt and investments, and are measured at fair value.

The university follows hedge accounting for its interest rate swap which results in the interest expense related to certain long-term debt being recorded in the financial statements at the hedged rate rather than at the original contractual interest rate. At the inception of the hedging relationship, the university designates that hedge accounting will be applied. The university formally documents the hedging relationship between the hedging instruments and hedged item. At the inception of the hedge and throughout its term, the terms of the hedging item and hedged item are the same.

Other financial instruments, including accounts receivable, accounts payable and debt are recorded at fair value upon initial recognition, which represents costs, and are subsequently recorded at cost, net of any provisions for impairment.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition. Financing costs are amortized using the amortized cost method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2017

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

(c) Capital assets

Purchased capital assets are recorded at cost. Donated capital assets are recorded at fair 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:

<u>Asset</u>	<u>Useful Life</u>
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

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.

(d) Employee future 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 retirement and post-employment benefits such as medical, dental and life insurance to eligible employees. Post-employment benefits are benefits provided to employees on long-term disability.

The university accrues its obligations and the related costs for funded employee future benefit plans based on the latest going concern funding valuation. The actuarial valuation is performed at least every three years. In the years between valuations, pension plan results are prepared based on extrapolations of the latest available funding valuation results. The university has elected to accrue its obligations and related costs for unfunded plans on a basis consistent with funded plans. Assets of the employee future benefit plans are valued using fair values at the date of the consolidated balance sheet.

The benefit plan expense for the year consists of the current service and finance costs.

(e) Revenue recognition

The university follows the deferral method of accounting for contributions for not-for-profit organizations, which include donations and government grants. Unrestricted contributions are recognized as revenue when received or receivable if the amount receivable 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. External endowment contributions and income / (losses) that impact the capital preservation of externally restricted endowments are recognized as direct increases / (decreases) in net assets. Income / (losses) impacting the capital preservation of internally restricted endowments are recorded as unrestricted revenue and transferred to internal endowments.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2017

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

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

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

Externally restricted investment income is recognized as revenue when the restriction is met. Unrestricted investment income is recognized as revenue during the period in which it is earned.

(f) Works of art

The university 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.

Contributions of collection items are recorded as donation revenue and expense at fair market value at the date of contribution. Artwork purchases are expensed as acquired. During the year ended April 30, 2017, the university's collection increased by 113 pieces of artwork with a total appraised value of \$8,987. The collection, which is fully insured through a fine arts policy, has a market value of \$207,856 at April 30, 2017.

(g) 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 and liabilities denominated in foreign currencies are translated to Canadian dollars at the rates of exchange prevailing at the statement of financial position date. The resulting gains and losses are included in other revenue.

(h) 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 the financial statements.

(i) 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2017

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

3. ACCOUNTS RECEIVABLE

Accounts receivable is comprised primarily of balances receivable for research projects and trade accounts receivable, including tuition net of an allowance for doubtful accounts of \$4,116 (2016 - \$3,830).

a) Pledges receivable

Since pledges are not legally enforceable, they are recorded as revenue on a cash basis and accordingly are not recognized as assets in the financial statements. The total amount of pledges outstanding and the expected year of collection are as follows:

Fiscal year		
2018	\$	27,972
2019		15,171
2020		15,082
2021		8,770
2022		6,678
Subsequent years		23,125
Outstanding pledges at April 30	\$	96,798

Included in the outstanding pledges is \$345 (2016 - \$302) in cash surrender value on life insurance policies that are owned by the university.

4. LOANS RECEIVABLE

Loans receivable is comprised of an amount receivable regarding relocation loans to employees in the amount of \$200 (2016 - \$200), microcomputer loans to employees in the amount of \$265 (2016 - \$697) and a loan to the Kingston General Hospital / Queen's Parking Commission in the amount of \$2,976 (2016 - \$3,116). The loan to the Kingston General Hospital / Queen's Parking Commission bears interest at 6 per cent per annum and matures in October 2030.

5. INVESTMENTS AND INVESTMENT INCOME

a) Investments

Fair value details of investments are as follows:

	2017	2016
Current		
Short-term	\$ 94,468	\$ 8,756
Non-Current		
Pooled Endowment Fund	1,028,080	918,833
Pooled Investment Fund	237,794	213,553
Other	101,459	90,445
	1,367,333	1,222,831
Total investments	\$ 1,461,801	\$ 1,231,587

Derivative financial instruments, as disclosed in Note 15 are included in non-current investments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2017

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

b) Uncalled commitments

As at April 30, 2017, a portion of the university's investment portfolio is invested in private funds managed by third-party managers ("the manager"). These private funds typically take the form of limited partnerships managed by a General Partner. The legal terms and conditions of these private investment funds, which cover various areas of private equity investments and real estate and infrastructure investments, require that investors initially make an unfunded commitment and then remit funds over time (cumulatively up to a maximum of the total committed amount) in response to a series of capital calls issued to the investors by the manager. As at April 30, 2017, the university had uncalled commitments of approximately \$40,168 (2016 - \$12,246), which will be funded using funds within the investment portfolio. The capital committed is called by the manager over a pre-defined investment period, which varies by fund.

c) Investment income

Investment income is comprised of the following:

		2017		2016
Realized income on investments	\$	30,678	\$	89,595
Unrealized (losses) / gains on investments		51,376		(56,007)
		82,054		33,588
Investment management fees and transaction costs		(2,866)		(3,219)
Investment income	\$	79,188	\$	30,369

6. CAPITAL ASSETS

Capital assets consist of the following:

2017				2016			
	Cost	Accumulated Amortization	Net Book Value		Cost	Accumulated Amortization	Net Book Value
Land	\$ 84,638	\$ -	\$ 84,638	\$ 84,638	\$ -	\$ 84,638	
Buildings	1,096,653	405,497	691,156	1,070,301	381,109	689,192	
Leasehold improvements	7,476	6,593	883	7,476	6,406	1,070	
Equipment and furnishings	208,531	173,914	34,617	196,511	159,619	36,892	
Cogeneration facility	15,333	7,772	7,561	15,303	7,006	8,297	
Library acquisitions	128,726	125,575	3,151	133,545	129,324	4,221	
Software	31,366	31,157	209	31,366	30,971	395	
Construction in process	21,731	-	21,731	16,249	-	16,249	
	\$ 1,594,454	\$ 750,508	\$ 843,946	\$ 1,555,389	\$ 714,435	\$ 840,954	

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities is comprised primarily of trade accounts payable, government remittances, payroll related accruals and the present value of future annuity payments. The university's government remittances payable at the end of the year were current and amounted to \$10,715 (2016 - \$10,629).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2017

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

8. DEFERRED REVENUE AND CONTRIBUTIONS

	2017	2016
Research funds	\$ 125,102	\$ 89,449
Trust funds	57,886	60,325
Student fees	25,503	26,022
Capital funds	40,474	20,764
Other	8,375	6,911
Gift annuities	3,494	3,959
	<u>\$ 260,834</u>	<u>\$ 207,430</u>

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

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

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

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

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

Under the now suspended gift annuity program, a donor was able to 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 current residual value of the donor's gift, net of the present value of future annuity payments.

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 consolidated statement of operations. The changes in the deferred capital contributions balance are as follows:

	2017	2016
Balance, beginning of year	\$ 371,106	\$ 373,919
Amortization of deferred capital contributions	(25,065)	(26,112)
Contributions received for capital purposes	38,864	23,299
	<u>\$ 384,905</u>	<u>\$ 371,106</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2017

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

10. LONG-TERM DEBT

(a) Long-term debt consists of the following:

			2017	2016
	Maturity in Fiscal Year Ending	Interest Rate	Principal Outstanding	Principal Outstanding
Amortizing unsecured bank loan maturing November 1, 2030	2031	variable	\$ 64,721	\$ 68,472
Series A senior unsecured bullet debenture maturing on November 19, 2032	2033	6.10%	90,000	90,000
Senior unsecured bullet debenture maturing April 1, 2040	2040	5.09%	75,000	75,000
Senior unsecured bullet debenture maturing June 1, 2040	2041	5.10%	50,000	50,000
Canada Mortgage and Housing Corporation mortgages	2017	5.38%	-	128
			279,721	283,600
Unamortized transaction costs/bond discount			(3,755)	(3,892)
			275,966	279,708
Less current portion			(3,727)	(3,742)
			\$ 272,239	\$ 275,966

The university has established sinking funds to provide funds to repay both the Series A senior unsecured debenture maturing on November 19, 2032 and the Senior unsecured debentures maturing in April and June 2040. At April 30, 2017 the value of the sinking funds is \$83,719 (2016 - \$74,264).

The university has in place an interest rate swap agreement for 17 years which expires in fiscal 2031. Under the terms of the agreement, the university agrees to receive a floating interest rate on its amortizing unsecured bank loan maturing November 1, 2030, while paying an effective rate of 3.18 per cent.

(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	
2018	\$ 3,727
2019	3,842
2020	3,961
2021	4,083
2022	4,209
Thereafter	256,144
	\$ 275,966

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2017

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

11. 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. The university also provides other retirement and post-employment benefits such as medical, dental and life insurance to eligible employees. Post-employment benefits are benefits provided to employees on long-term disability.

At retirement, pension 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 6.0 per cent, and pensions are guaranteed not to reduce.

The assets of the pension 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.

Salaries and benefits expense for the year includes pension benefit expenses of \$27,469 (2016 - \$24,780) and non-pension retirement and post-employment benefit expenses of \$8,345 (2016 – \$7,887).

The university measures its accrued benefit obligations and fair value of pension plan assets at April 30 each year.

The discount rate used in the actuarial measurement of the employee future benefit plans obligation was 5.8 per cent (2016 – 5.8 per cent).

The discount rate used in the actuarial measurement of the benefit plans expense was 5.8 per cent (2016 – 5.8 per cent).

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

	2017			2016		
	Pension benefit plan	Other benefit plans	Total	Pension benefit plan	Other benefit plans	Total
Accrued benefit liability						
Accrued benefit obligation	\$ (1,965,339)	\$ (90,727)	\$ (2,056,066)	\$ (1,849,611)	\$ (83,397)	\$ (1,933,008)
Fair value of plan assets	2,020,476	-	2,020,476	1,802,249	-	1,802,249
Accrued benefit asset / (liability)	\$ 55,137	\$ (90,727)	\$ (35,590)	\$ (47,362)	\$ (83,397)	\$ (130,759)
Benefit plan expense						
Current service cost	\$ 24,722	\$ 3,508	\$ 28,230	\$ 23,030	\$ 3,174	\$ 26,204
Finance costs	2,747	4,837	7,584	1,750	4,713	6,463
Net benefit cost	\$ 27,469	\$ 8,345	\$ 35,814	\$ 24,780	\$ 7,887	\$ 32,667
Remeasurements and other items						
Investment (gains) / losses	\$ (67,823)	\$ -	\$ (67,823)	\$ 54,403	\$ -	\$ 54,403
Actuarial (gain) / loss on accrued benefit obligation	(14,820)	1,846	(12,974)	(18,203)	(3,034)	(21,237)
Net remeasurements and other items (gains) / losses	\$ (82,643)	\$ 1,846	\$ (80,797)	\$ 36,200	\$ (3,034)	\$ 33,166

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2017

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

Details of annual contributions and benefits paid are as follows:

	2017		2016	
	Pension benefit plan	Other benefit plans	Pension benefit plan	Other benefit plans
Employer contributions	47,325	2,861	43,797	2,718
Employee contributions	27,292	-	25,877	-
Benefits paid	103,445	2,861	99,717	2,718

The most recent actuarial valuation of the pension plan was performed as of August 31, 2014, and the results have been extrapolated to April 30, 2017. The date of the next required valuation is August 31, 2017.

The most recent actuarial valuation of non-pension retirement benefits was performed as of January 31, 2016 and results have been extrapolated to April 30, 2017. The date of the next required valuation is January 31, 2019.

The most recent actuarial valuation of post-employment benefits was performed as of April 30, 2017.

Regulations governing provincially regulated pension plans establish certain solvency requirements that assume that the plans are wound up on the valuation date. During the 2015 fiscal year, the university applied and qualified for stage two of the public sector pension plan temporary solvency funding relief program. Under this program the university has elected to defer solvency deficit payments for three years and pay down the solvency deficit over the following seven years, beginning in fiscal 2019.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2017

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

12. ENDOWMENTS

Contributions restricted for endowments consist of externally restricted donations received by the university and contributions internally restricted by the university, in exercising its discretion. The endowment principal is required to be maintained intact. The university ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose and investment income thereon, are expended for the purpose for which they were provided.

The university protects the capital value of endowment investments using a spending policy designed to meet the competing objectives of releasing current income into the operating budget and protecting the value of endowment assets against inflation.

For endowments without sufficient accumulated investment income, temporary encroachment on capital is permitted. The encroached amounts will be recovered from future investment returns.

Details of changes in year-end balances are as follows:

	2017			2016		
	External	Internal	Total	External	Internal	Total
Investment income on endowments	\$ 97,503	\$ 25,991	\$ 123,494	\$ 8,658	\$ 3,380	\$ 12,038
Less: available for spending	(28,129)	(7,406)	(35,535)	(26,384)	(7,188)	(33,572)
Excess / (deficiency) of investment earnings over endowment spending	69,374	18,585	87,959	(17,726)	(3,808)	(21,534)
Endowment contributions	21,662	269	21,931	27,364	237	27,601
Departmental transfers and other contributions	5,690	83	5,773	3,618	2,205	5,823
Net increase / (decrease) in net assets	96,726	18,937	115,663	13,256	(1,366)	11,890
Net assets, beginning of year	731,492	199,376	930,868	718,236	200,742	918,978
Net assets, end of year	\$ 828,218	\$ 218,313	\$ 1,046,531	\$ 731,492	\$ 199,376	\$ 930,868

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2017

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

13. INTERNALLY RESTRICTED NET ASSETS

Details of year-end balances are as follows:

	2017	2016
Departmental carryforward funds	\$ 166,516	\$ 146,964
Ancillary enterprises	7,457	7,241
Unspent special purpose funds	5,030	3,868
Unspent research funds	39,260	30,433
Insurance reserve	1,000	980
Investment in capital assets	179,316	186,255
Sinking funds	83,719	74,264
Other capital reserves	45,597	33,989
Employee future benefits		
Pension and other benefit plans	(35,590)	(130,759)
Reserve	15,565	8,751
	\$ 507,870	\$ 361,986

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 as departmental carryforward funds.

Ancillary enterprises balances represent amounts that these units are permitted to carry forward and include related capital reserves.

Departments are permitted to carry forward unspent special purpose funds with no external restrictions.

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

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, as disclosed in Note 10.

Other capital reserves represent amounts set aside to complete deferred maintenance, capital projects planned or in progress, and other future commitments.

Employee future benefit balances represent the deficit associated with the Pension and other benefit plans, offset by associated internally restricted reserve balances.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2017

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

14. NET CHANGE IN NON-CASH WORKING CAPITAL

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

	2017	2016
Net change in non-cash working capital:		
Accounts receivable	\$ 2,916	\$ 1,246
Prepaid expenses	26	(2,429)
Accounts payable and accrued liabilities	1	3,652
Deferred revenue and contributions	53,404	(3,016)
	\$ 56,347	\$ (547)

15. 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 fair value of investments is disclosed in Note 5.

Derivative financial instruments

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

	2017		2016	
	Notional value	Fair value	Notional Value	Fair value
US Dollar	\$ 177,512	\$ (5,150)	\$ 160,001	\$ 4,652
Other	76,433	(3,851)	124,541	1,892
	\$ 253,945	\$ (9,001)	\$ 284,542	\$ 6,544

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. The fair value of the foreign currency contracts is reported as \$(9,001) (2016 - \$6,544) in investments (Note 5). The change in the fair value of the foreign currency contracts is accounted for consistent with investment returns in the consolidated statements of operations and statement of changes in net assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2017

(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.

Gains and losses on forward foreign exchange contracts are recognized when they mature. The notional amounts of derivative financial instruments are not included in the 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.

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

Under terms of agreement with the Ministry of Advanced Education and Skills Development, note disclosure or separate audited year-end reports are required.

Externally restricted endowments, as described in Note 12, 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:

	2017	2016
Endowment Funds:		
Opening balance	\$ 69,231	\$ 69,504
Transfer to expendable funds	(258)	(273)
Endowment capital	\$ 68,973	\$ 69,231
Expendable Funds:		
Opening balance	\$ 428	\$ 428
Investment income	3,617	3,331
Bursaries awarded	(3,875)	(3,604)
Transfer from endowment funds	258	273
Expendable funds available for awards	\$ 428	\$ 428
Number of bursaries awarded	1,282	1,273

The market value of the OSOTF phase 1 endowment fund at April 30, 2017 is \$110,661 (2016 - \$101,391).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2017

(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:

			2017	2016
(for the year ended March 31)	OSOTF II	OTSS	Total	Total
Endowment Funds:				
Opening balance	\$ 12,282	\$ 30,861	\$ 43,143	\$ 40,198
Donations received	-	1,251	1,251	1,875
Other revenue capitalized in the year	-	-	-	781
Transfer from expendable funds	21	127	148	289
Endowment capital	\$ 12,303	\$ 32,239	\$ 44,542	\$ 43,143
Expendable Funds:				
Opening balance	\$ 158	\$ 147	\$ 305	\$ 419
Internal transfers to expendable funds	-	10	10	-
Investment income	544	1,352	1,896	1,685
Bursaries awarded	(510)	(1,118)	(1,628)	(1,510)
Transfer to endowment funds	(21)	(127)	(148)	(289)
Expendable funds available for awards	\$ 171	\$ 264	\$ 435	\$ 305
Number of bursaries awarded	177	439	616	646

The market value of the OSOTF phase 2 endowment fund at March 31, 2017 was \$58,084 (2016 - \$52,509).

17. RELATED ENTITIES

This section addresses disclosure requirements regarding the university's relationships with related entities. The relationships include economic interest, significant influence, or joint control.

(a) Investment in Parking Commission

Queen's University at Kingston 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 commission members appointed by both parties. In fiscal 2011 the Parking Commission embarked on a significant restoration project. The project has been completed, with the university's share of these capital expenditures being \$3,750 (2016 - \$3,750). The university's share of the capital expenditures will be repaid by the Parking Commission over a 20 year period ending in fiscal 2031. The university's share of the Parking Commission's excess of revenues over expenses of \$592 (2016 - \$558) is reported in the consolidated statement of operations. The investment in the Parking Commission is accounted for using the equity method.

(b) Investment in Cogeneration Facility

Queen's University at Kingston 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 the university and KGH. The purpose of the facility is to produce electricity and steam. The university's proportionate share of the joint venture is 60 per cent and Kingston General Hospital's proportionate share is 40 per cent. The university's capital investment in the joint venture is repaid from the operating fund over a twenty-five year period ending April 30, 2031. The university's proportionate share of the cogeneration facility's assets, liabilities and operations have been included in the financial statements. The university's proportionate share of the deficiency of revenues over expenses for the current fiscal year is \$1,112 (2016 - \$939).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2017

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

(c) McGill-Queen's University Press

Queen's University at Kingston 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 / entitled to, a 50 per cent share of any deficit / surplus accumulated by McGill-Queen's University Press. The university's proportionate share of the Press' assets, liabilities and operations have not been included in the financial statements. The university's proportionate share of the accumulated surplus at April 30, 2016 was \$208 (2015 - \$118).

		2016		2015
Total assets	\$	2,658	\$	2,422
Total liabilities		2,242		2,185
Total fund balances	\$	416	\$	237
Revenues	\$	4,631	\$	4,362
Expenses		4,452		4,474
Excess / (deficiency) of revenues over expenses	\$	179	\$	(112)

(d) SNOLAB Institute

The SNOLAB Institute at Queen's University was created to perform research in particle astrophysics and succeeds the Sudbury Neutrino Observatory Institute which was decommissioned in 2007. This is a joint venture of the university and four other Canadian universities. The university's proportionate share (20 per cent) of the joint venture's assets, liabilities and operations have been included in the financial statements (see also Note 18(e)).

(e) Tri-universities Meson Facility

The university is a member, with eleven 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 / 12 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 the financial statements (see also Note 18(c)).

The following financial information at March 31, 2017 for TRIUMF was prepared in accordance with Canadian public sector accounting standards (PSAS), including accounting standards that apply to government not-for-profit organizations, except that all property, plant and equipment purchased or constructed for use at TRIUMF and related decommissioning costs (if any) are expensed in the period in which the costs are incurred.

		2017		2016
Total assets	\$	47,730	\$	32,020
Total liabilities		20,262		8,322
Total fund balances	\$	27,468	\$	23,698
Revenues	\$	74,694	\$	71,873
Expenses		70,925		68,286
Excess of revenues over expenses	\$	3,769	\$	3,587

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

18. 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 April 30, 2017, 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. Accordingly, no provision has been made in the financial statements.

(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, 2016, the date of the latest financial statements available, CURIE had a surplus of \$84,908 (2015 - \$69,679).

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 – Asset retirement obligation

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, 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, TRIUMF has complied with federal legislation by putting in place a decommissioning plan, including a funding plan. This decommissioning plan does not require any payments from the joint venture partners. All decommissioning costs are expensed in the period in which the costs are incurred.

(d) Capital commitments

As of April 30, 2017 the estimated cost to complete construction in process for the extension of facilities is approximately \$64,272 (2016 - \$14,920). These costs will be financed by a combination of external debt, 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	
2018	\$ 3,569
2019	3,035
2020	2,635
2021	1,831
2022	1,474
Thereafter	6,530
	\$ 19,074

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2017

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

(e) SNOLAB - Asset retirement obligation

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.

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 using the facility and decommissioning is not expected to occur sooner than fiscal 2020. No accrual has been made in the financial statements.

(f) Other

In addition to the capital commitments disclosed in Note 18(d), the university has issued letters of credit of \$3,290 primarily for capital construction.

19. COMPARATIVE FIGURES

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