



2017-18 CONSOLIDATED FINANCIAL STATEMENTS

APRIL 30 2018

Consolidated Financial Statements

Queen's University at Kingston

April 30, 2018

**QUEEN'S UNIVERSITY AT KINGSTON
CONSOLIDATED FINANCIAL STATEMENTS
APRIL 30, 2018**

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When it comes to planning for the university's future and maintaining our positive momentum, perhaps nothing is more fundamental than ensuring our ongoing financial sustainability. It underpins everything we do.

As these Consolidated Financial Statements detail, during the 2017-18 fiscal year Queen's had another successful year, achieving a surplus of \$74.9 million. This surplus was primarily the result of higher than anticipated student enrolments in degree and non-degree programs, and also reflects the efforts of faculties and shared services to help the university manage its finances and plan for future strategic investments.

These financial results put us in good stead and will allow Queen's to make prudent investments into our strategic priorities, such as our faculty renewal plan which will see us hire 200 new faculty over five years, new diversity, inclusivity and reconciliation initiatives, and ongoing investments aimed at supporting research excellence across Queen's.

At the same time, Queen's is actively assessing and managing a number of ongoing financial risks. Along with other universities in the province, Queen's has a significant deferred maintenance backlog and we continue to rely on grant and tuition revenue, both of which are controlled by the provincial and federal governments. We also have a financially unsustainable pension plan which we are working to solve with the help of our labour group partners and several other universities. Taken together, these are financial challenges that we take into account in our operational plans and governance oversight as we continue to monitor and mitigate the risks to help ensure our long-term financial competitiveness.

Under the leadership of Principal Daniel Woolf, Queen's has worked hard over the past nine-years to achieve a strong financial position and it is now serving us well. This coming year, we will open a new building on campus, Mitchell Hall. It will be a hub for wellness and innovation activities and, as with all things at Queen's, it will feature a seamless blend of our heritage and traditions with the latest modern thinking and design. It is a fitting symbol of the progress underway at our university and the bright future we are navigating towards together.

A handwritten signature in dark ink, appearing to read 'Daniec', with a long, sweeping horizontal line extending from the top of the signature.

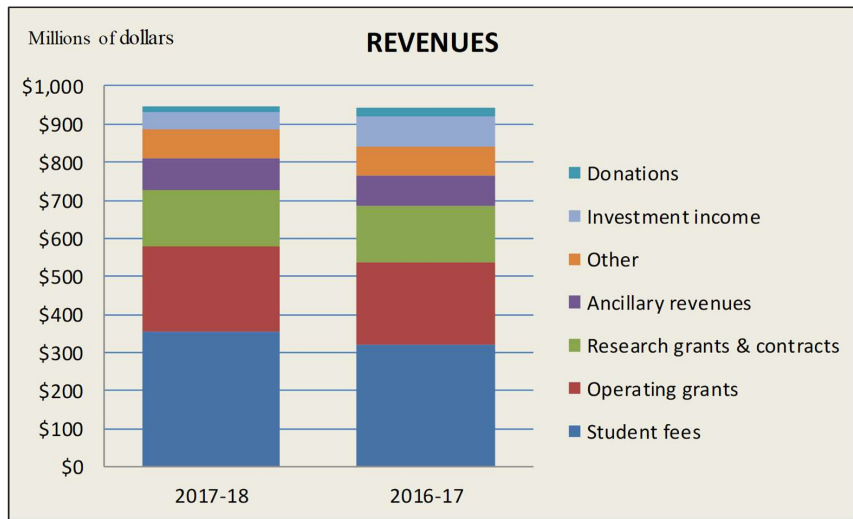
Donna Janiec, CPA, CA
Vice-Principal (Finance and Administration)

THE YEAR IN REVIEW

In 2017-18 the university completed the year in a stable financial position with a surplus of \$74.9 million, driven primarily by higher than planned student enrolment.

YEAR ENDED APRIL 30		
(Millions of dollars)	2018	2017
Consolidated Statement of Operations		
Revenue	\$ 947.7	\$ 944.7
Expenses	872.8	856.1
Excess of revenues over expenses	<u>\$ 74.9</u>	<u>\$ 88.6</u>
Consolidated Statement of Financial Position		
Assets	\$ 2,629.0	\$ 2,492.8
Liabilities	1,151.8	1,052.4
Net assets	<u>\$ 1,477.2</u>	<u>\$ 1,440.4</u>
Net Assets is comprised of:		
Endowments	\$ 1,085.5	\$ 1,046.5
Internally restricted	512.7	507.9
Unrestricted deficiency	(121.0)	(114.0)
	<u>\$ 1,477.2</u>	<u>\$ 1,440.4</u>

REVENUES

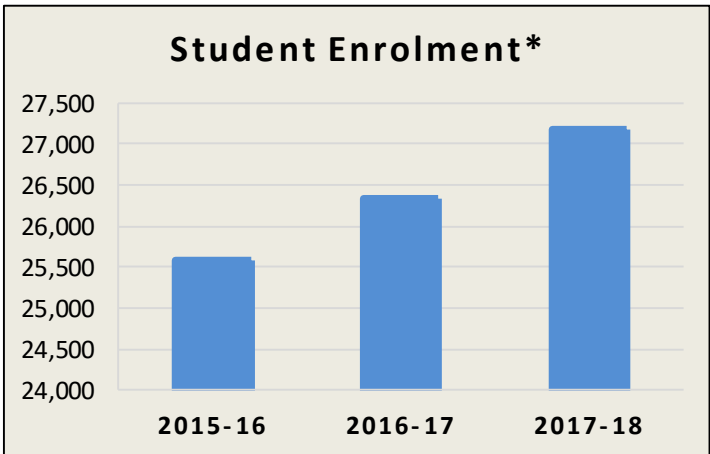


At a glance....
Total revenues grew by less than 1 per cent over the prior year. Growth in student fees and operating grants was offset by lower investment income.

Student fees

Student fee revenue includes tuition fees as well as other fees related to activities such as student health, recreation, and athletics. In 2017-18, student fee revenue from all fee sources increased by 11 per cent, driven primarily by enrolment increase in both degree and non-degree programs, domestic/international student mix, and Board of Trustee approved fee increases within the provincial tuition framework. 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.

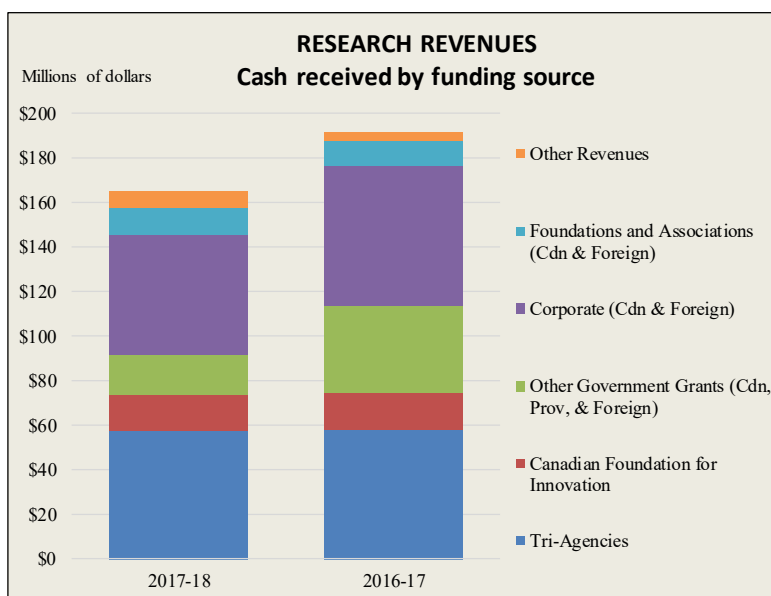


**Figures include non-credit and exchange students.*

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 (CFI). 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 other government grants and corporate funding sources decreased significantly in 2017-18, due mainly to a reduction of provincial payments related to infrastructure projects as well as a reduction in clinical trials funding received.



	Thousands of dollars	
	2017-18	2016-17
Cash received by funding source	\$ 164,793	\$ 190,920
Adjustment to deferral for future year spending	11,143	40,180
Research revenue as reported in research fund	\$ 153,649	\$ 150,740

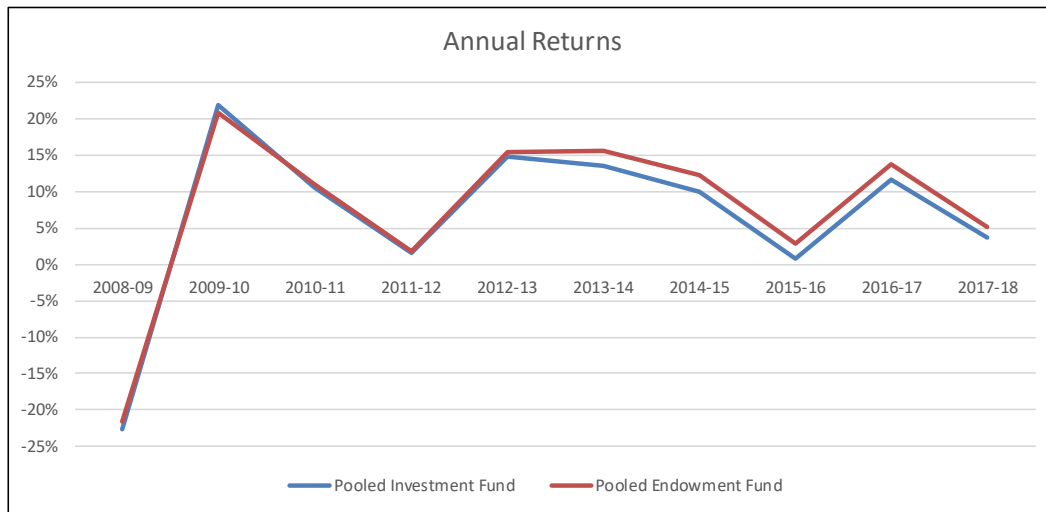
Ancillary revenues

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 breakdown of revenues in the Ancillary fund by ancillary operations. Ancillary revenue has increased due to higher admissions in residence and new conference business.

	Thousands of dollars	
SALES BY ANCILLARY OPERATION	2017-18	2016-17
Housing and hospitality	\$ 85,768	\$ 80,679
Parking	3,228	3,088
Other	1,290	1,258
	90,286	85,025
Less: Internal sales	(6,982)	(5,874)
	\$ 83,304	\$ 79,151

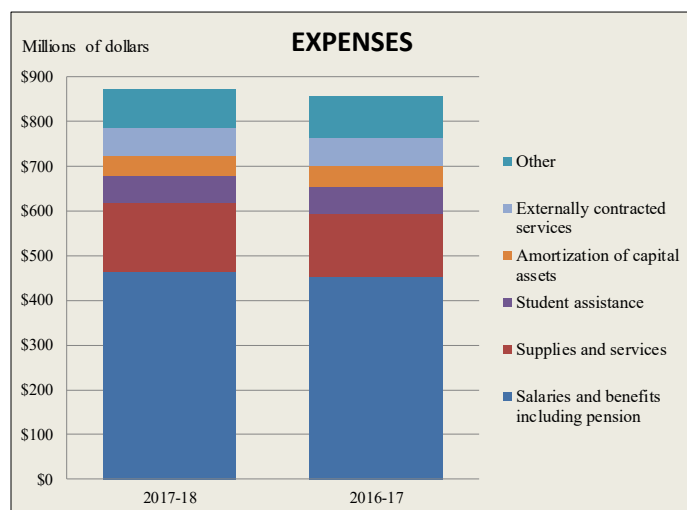
Investment income

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 2017-18 decreased significantly from \$79.2 million in 2016-17 to \$47.1 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, excess gains are re-invested in the preservation of capital to offset years where the amount made available for spending exceeds investment income.

EXPENSES



At a glance...

Total expenses increased by 2 per cent in 2017-18, driven by a an increase in expenses related to salaries and benefits and supplies and services. The increase was offset by a reduction in the remaining expense categories

SALARIES AND BENEFITS

	Thousands of dollars	
	2017-18	2016-17
Salaries and benefits expense		
Salary and benefits	\$ 430,878	\$ 415,437
Non-pension employee future benefits	9,189	8,345
Pension		
Current service cost	27,722	24,722
Finance (income) / cost	(3,198)	2,747
Total	\$ 464,591	\$ 451,251
% of total expenses	54%	52%
Employee Future Benefits Liability		
Pension surplus	\$ (8,669)	\$ (55,137)
Non-pension employee future benefits liability	103,289	90,727
Total	\$ 94,620	\$ 35,590

At a glance...

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

In 2017-18, salaries and benefits grew by 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.

Lower returns in the pension plan during the year decreased the pension plan asset as at April 30, 2018 (on a going concern valuation basis).

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 2021
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 2018

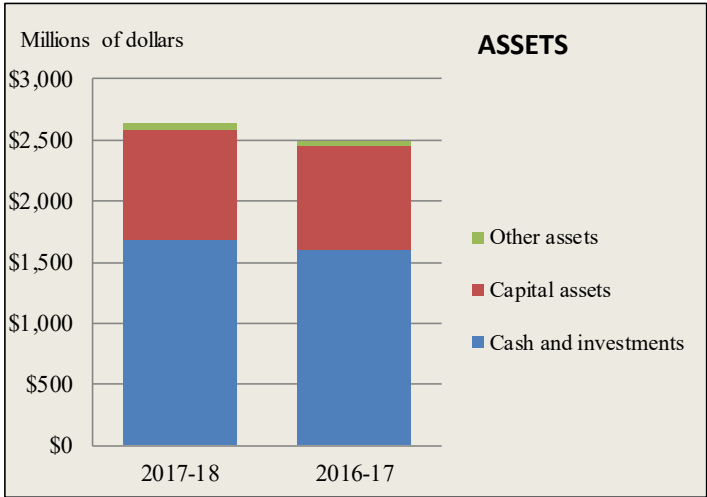
CAPITAL PROJECTS

In the 2017-18 fiscal year the university continued with year two of development of two significant capital projects – the creation of the Queen’s Innovation and Wellness Centre (Mitchell Hall) and a revitalization of campus biomedical research facilities. These projects are being funded by a \$31 million investment from the Government of Canada under the Post-Secondary Institutions Strategic Investment Fund, along with the contributions of a number of benefactors and a \$4.9 million investment from the Government of Ontario. 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.

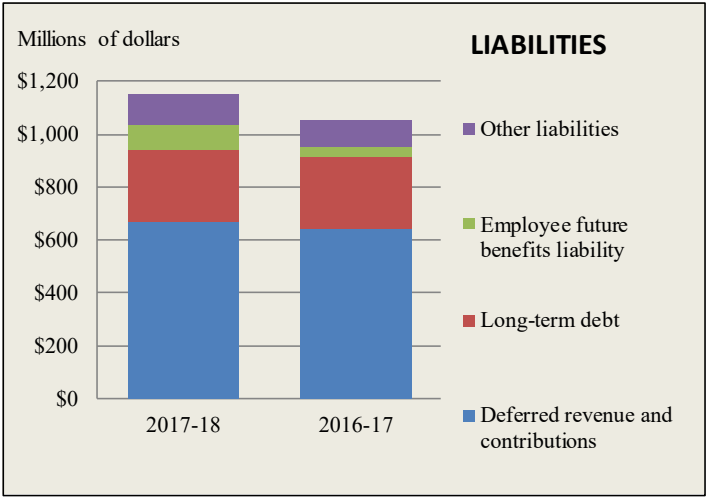
The university’s capital expenditures of \$101.3 million in 2017-18 are presented in the table below, with comparative information for the prior year. The bulk of the spending on building projects and construction in progress relates to the Mitchell Hall (\$51.5 million) and the Biomedical Research Facility Revitalization Project (\$20.8 million).

		Thousands of dollars	
CAPITAL ASSET ADDITIONS		2017-18	2016-17
Building projects and construction in progress	\$	88,543	\$ 31,834
Equipment and furnishings		11,656	15,904
Other asset purchases		1,084	972
	\$	101,283	\$ 48,709

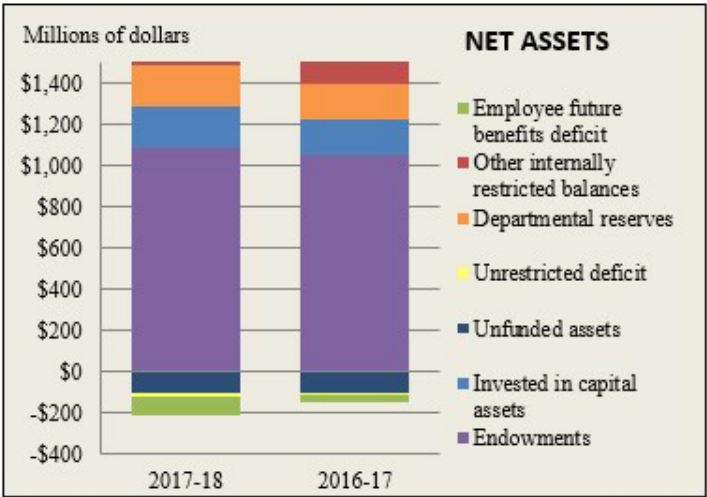
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT A GLANCE



Assets of the university increased by \$136 million or 5 per cent overall, due primarily to growth in the university’s investments and capital assets. Investment returns, donor contributions to the Pooled Endowment Fund and an increase in capital assets were the main contributors to the increase.



Liabilities of the university increased by 9 per cent due primarily to the significant increase in employee future benefits liability driven by lower investment returns in the Pension Plan and changes to the assumptions as a result of the new funding valuation as of August 31, 2017. The increase is also attributed to higher deferred revenue and contributions due to unspent capital contributions. 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 \$37 million in 2017-18. This increase is comprised primarily by growth in Endowments (\$39 million) driven by investment returns and donor contributions. The increase in departmental reserves which support academic and research priorities is offset by an increase to the employee future benefits deficits due to the factors explained in the liabilities section above.

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, the 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

April 30, 2018

(Thousands of dollars)

The table below presents the activities of the university by fund, for the year ended April 30, 2018, and supplements the information presented in the financial statements.

	Operating	Ancillaries	Trust and Endowment	Research	Capital	Consolidated Entities	Total 2018
REVENUES							
Grants and contracts	223,738	-	21,790	147,982	(8,163)	-	385,347
Student fees	349,672	-	-	-	-	4,349	354,021
Sales of service and products	8,637	83,304	-	-	-	3,673	95,614
Investment income	17,663	-	28,565	29	828	2	47,087
Other	18,835	-	-	5,638	1,027	985	26,485
Amortization of deferred capital contributions	-	-	-	-	23,609	293	23,902
Donations	2,708	-	12,552	-	-	-	15,260
	621,253	83,304	62,907	153,649	17,301	9,302	947,716
EXPENSES							
Salaries and benefits	365,944	10,560	18,494	64,369	-	5,224	464,591
Supplies and services	95,547	6,268	10,275	52,068	(12,740)	(789)	150,629
Student assistance	36,520	-	26,573	286	-	578	63,957
Externally contracted services	10,756	25,699	376	26,881	-	18	63,730
Amortization of capital assets	-	-	-	-	43,049	1,498	44,547
Renovations and alterations	8,446	8,632	1,146	463	9,362	32	28,081
Utilities, taxes and insurance	17,635	5,086	50	454	-	150	23,375
Travel and conferences	9,901	68	1,488	8,301	-	139	19,897
Interest on long-term debt	-	-	-	-	13,995	-	13,995
Interfund transfers out / (in)	34,922	26,134	1,535	(2,099)	(60,492)	-	-
	579,671	82,447	59,937	150,723	(6,826)	6,850	872,802
Excess / (deficiency) of revenues over expenses	41,582	857	2,970	2,926	24,127	2,452	74,914
Transfer (to) / from internally restricted net assets	(42,049)	(857)	(2,970)	(2,926)	(33,536)	441	(81,897)
Net change in unrestricted surplus / (deficit)	(467)	-	-	-	(9,409)	2,893	(6,983)
Unrestricted surplus / (deficit), beginning of year	984	-	-	-	(94,670)	(20,337)	(114,023)
Unrestricted surplus / (deficit), end of year	517	-	-	-	(104,079)	(17,444)	(121,006)

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 new actuarial valuation of the pension plan completed as of August 31, 2017 reported a solvency deficit of \$313 million. The university applied for and received Stage II solvency relief in 2014-15, which provided for a three-year deferral of making solvency deficit payments until 2018-19. 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.

Effective September 1, 2018, going concern payments are \$3.4 million annually and solvency payments are \$15.6 million annually.

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. Significant progress has been made in the last year, and 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 deterioration of the going concern (market value) surplus of \$55.1 million to \$8.7 million is the result of lower investment returns during the year and changes to the assumptions as a result of the new funding valuation as at August 31, 2017. In 2017-18, the difference between the actual and expected return resulted in the plan experiencing a loss of \$11.5 million versus a gain of \$67.8 million in 2016-17. 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 GOING CONCERN (MARKET VALUE) BASIS	Thousands of dollars	
	2017-18	2016-17
(Surplus) / deficit, opening balance	\$ (55,137)	\$ 47,362
Pension benefit plan expense		
Current service cost	27,722	24,722
Finance (income) / cost	(3,198)	2,747
	24,524	27,469
Remeasurements and other items		
Difference between actual and expected return	11,455	(67,823)
Liability experience losses / (gains)	55,777	(14,820)
	67,232	(82,643)
Less: university contributions	(45,288)	(47,325)
Surplus, closing balance	\$ (8,669)	\$ (55,137)

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 Facilities Condition Audit, completed in December 2016, 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 and residence buildings, the annual number at 1 per cent would be \$20 million.

Annual budget allocations to deferred maintenance have been increasing over the last several years (from \$14.4 million in 2012-13 to \$17.3 million in 2017-18), and the university manages these funds within a five-year deferred maintenance plan that ensures the highest priority deferred maintenance needs are addressed. Significant repairs completed during the 2017-18 fiscal year include masonry repairs on Nicol and Flemming Halls and supply/exhaust/generator renovations within Botterell Hall.

Reliance on grant support and tuition revenue

The university relies heavily on tuition and grant support to fund its operations, both of which are controlled largely by the Provincial Government. The Ministry of Advanced Education and Skills Development (MAESD) introduced a new framework in 2017-18 which 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. In 2017, MAESD and the University finalized the Strategic Mandate Agreement (SMA) which will cover fiscal 2017-18 to 2019-20. This agreement allows for additional grant revenue linked to graduate level growth over 2016-17 levels. The undergraduate level funding will be held constant at the 2016-17 level. In 2017-18, MAESD provided one-time transitional funding for undergraduate growth over the 2016-17 level. The enrolment funding envelope will be linked to the management of enrolment levels within a corridor of plus or minus three per cent of a mid-point which MAESD set at the 2016-17 enrolment levels. The differentiation envelope will continue to be provided to universities during the period covered by this SMA (2017-18 to 2019-20). Note that effective July 2018 MAESD has been changed to Ministry of Training, Colleges and Universities (MTCU).

Following the election of a new provincial government in June 2018, the potential priorities and directions of the government with respect to postsecondary education are still to be determined. As part of its ongoing relationship with the provincial government, and in partnerships with the Council of Ontario Universities, Queen's continues to work closely with MAESD to better understand the priorities of the government and to advocate for policies and programs that are aligned with Queen's strategic priorities.

FINANCIAL HEALTH

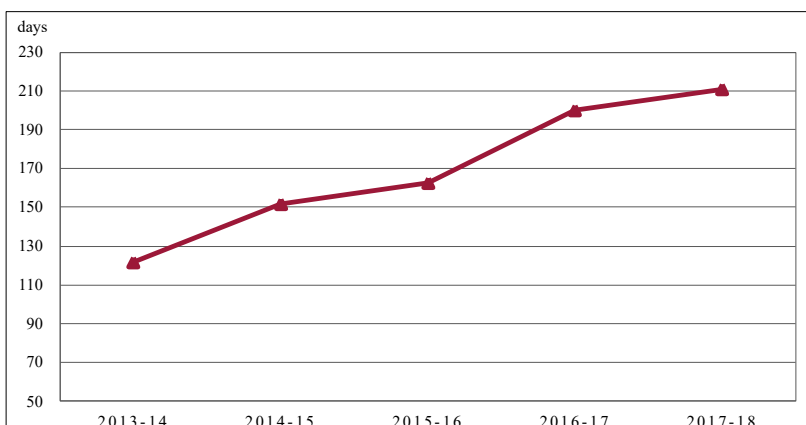
In March 2014 the university launched its strategic framework for the years 2014 to 2019. The overarching goal of the framework is to strengthen the university's vision of combining an outstanding student experience with research excellence.

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. Both the Net Operating Revenues Ratio and the Net Income / Loss Ratio show declines in 2017-18 as a result of the decline in investment income in the current year.

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 below.

Primary Reserve Ratio

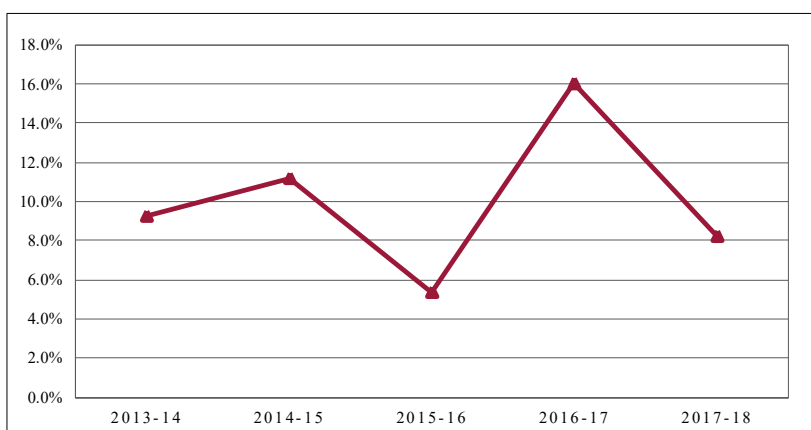
The primary reserve ratio helps to determine whether the university's resources are sufficient and flexible enough to support the mission. It summarizes the financial health and flexibility by indicating how long the university could function using only its reserves with no external restrictions.



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

Net Operating Revenues Ratio

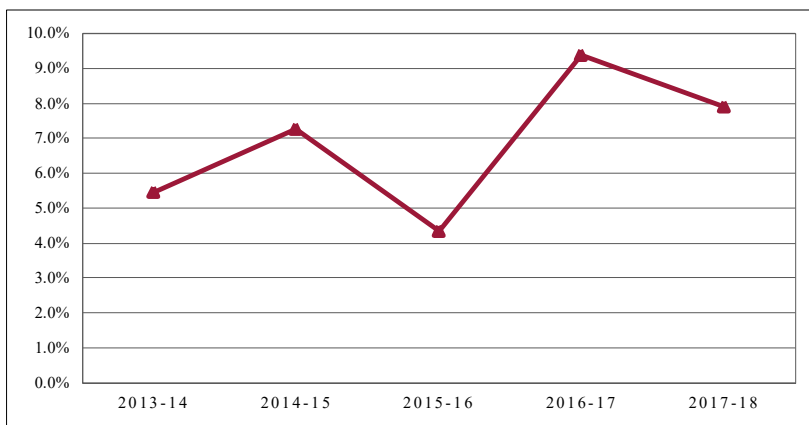
The net operating revenues ratio is a measure of financial performance. Positive cash flow from operations indicates a strengthening position, and, conversely, structural negative cash flows are almost always an indication of financial pressures.



Definition: Cash flow from operating activities divided by total revenues

Net Income / Loss Ratio

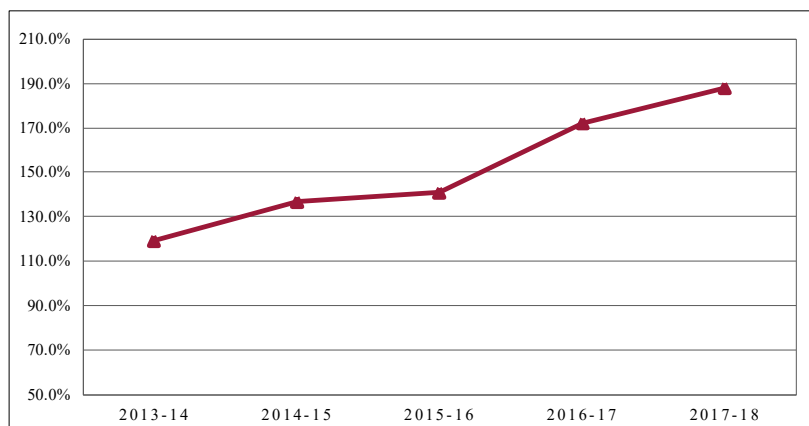
The net income / loss ratio measures the percentage of revenues that contribute to net assets. The objective of this ratio is to track trends in an institution's net earnings. An increase in this ratio indicates greater future financial flexibility.



Definition: Net income or loss divided by total revenues

Viability Ratio

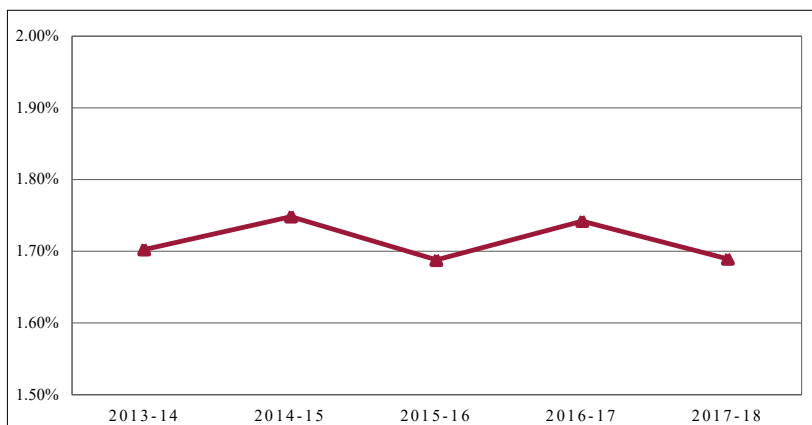
The viability ratio provides an indication of the funds on hand to settle the university's long-term debt obligations at a point in time. This ratio provides assistance in evaluating debt affordability.



Definition: Expendable net assets divided by long-term debt

Interest Burden Ratio

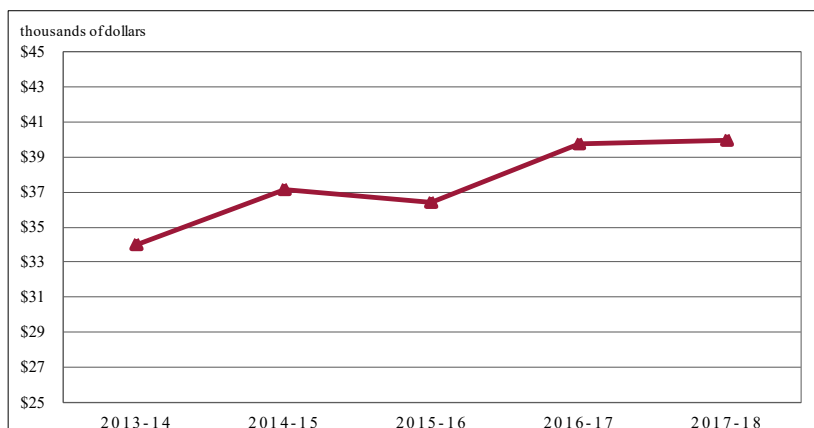
The interest burden ratio is an indicator of debt affordability. It indicates the percentage of total expenses used to cover the cost of servicing the university's debt. The university is well below the suggested maximum of 5 to 7 per cent established by the industry.



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 66 per cent of consolidated revenue in 2017-18.

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.

2017-18 Operating Fund	Thousands of dollars		
	Actual	Budget	Variance
Revenue	621,253	579,825	41,428
Less: expenditures	(579,671)	(590,775)	11,104
Surplus / (deficit)	41,582	(10,950)	52,532
Transfer (to) / from internally restricted net assets	(42,049)	10,950	(52,999)
Decrease in unrestricted surplus	(467)	-	(467)
Operating surplus - beginning of year	984		
Operating surplus - end of year	517		

For 2017-18, the university budgeted a deficit of \$11.0 million before drawdowns of reserves. Higher enrolment and student fee revenue, and adjustments to pension and other post-employment benefit program costs (\$15 million) required for audited financial statements (which make actual expenses lower than budgeted cash contributions) contributed to an operating surplus of \$41.6 million. The surplus will provide important flexibility for future strategic priorities, including faculty renewal, 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 2018, the Board of Trustees approved the 2018-19 operating budget, which is balanced after a \$8.3 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, 2018 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, 2018 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 12, 2018



Donna Janiec, CPA, CA
Vice-Principal (Finance and Administration)
October 12, 2018

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, 2018, 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, 2018, 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.



Chartered Professional Accountants, Licensed Public Accountants
October 12, 2018
Kingston, Canada

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at April 30

(Thousands of dollars)

	2018	2017
ASSETS		
Current		
Cash	\$ 141,967	\$ 149,254
Accounts receivable (note 3)	37,115	29,152
Loans receivable (note 4)	275	236
Prepaid expenses	3,586	5,168
Investments (note 5)	113,575	94,468
Total current assets	296,518	278,278
Loans receivable (note 4)	2,807	3,205
Investments (note 5)	1,429,033	1,367,333
Capital assets (note 6)	900,669	843,946
	\$ 2,629,027	\$ 2,492,762
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities (note 7)	\$ 115,368	\$ 99,384
Current portion of long-term debt (note 10)	3,842	3,727
Deferred revenue and contributions (note 8)	243,708	256,539
Total current liabilities	362,918	359,650
Deferred capital contributions (note 9)	425,896	384,905
Long-term debt (note 10)	268,397	272,239
Employee future benefits liability (note 11)	94,620	35,590
	1,151,831	1,052,384
Net Assets		
Endowments (note 12)	1,085,486	1,046,531
Internally restricted (note 13)	512,716	507,870
Unrestricted deficit	(121,006)	(114,023)
	1,477,196	1,440,378
	\$ 2,629,027	\$ 2,492,762

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)

	2018	2017
REVENUES		
Grants and contracts	\$ 385,347	\$ 382,774
Student fees	354,021	318,600
Sales of service and products	95,614	95,011
Investment income (note 5)	47,087	79,188
Other	26,485	20,861
Amortization of deferred capital contributions (note 9)	23,902	25,065
Donations	15,260	23,188
	947,716	944,687
EXPENSES		
Salaries and benefits	464,591	451,251
Supplies and services	150,629	140,027
Student assistance	63,957	60,562
Externally contracted services	63,730	65,460
Amortization of capital assets	44,547	45,746
Renovations and alterations	28,081	37,229
Utilities, taxes and insurance	23,375	22,954
Travel and conferences	19,897	18,720
Interest on long-term debt	13,995	14,111
	872,802	856,060
Excess of revenues over expenses	\$ 74,914	\$ 88,627

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 2018	Total 2017
Net assets / (deficit), beginning of year	\$ 1,046,531	\$ 507,870	\$ (114,023)	\$ 1,440,378	\$ 1,176,461
Excess of revenues over expenses	-	-	74,914	74,914	88,627
Employee future benefits remeasurements and other items (note 11)	-	-	(73,626)	(73,626)	80,797
Change in internally restricted net assets	-	5,960	(5,960)	-	-
Endowment contributions (note 12)	22,168	-	-	22,168	21,931
Excess / (deficiency) of investment earnings over endowment spending (note 12)	10,794	-	(2,311)	8,483	69,374
Departmental transfers and other contributions (note 12)	5,993	(1,114)	-	4,879	3,188
Net assets / (deficit), end of year	\$ 1,085,486	\$ 512,716	\$ (121,006)	\$ 1,477,196	\$ 1,440,378

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended April 30

(Thousands of dollars)

	2018	2017
OPERATING ACTIVITIES:		
Excess of revenues over expenses	\$ 74,914	\$ 88,627
Non-cash items:		
Amortization of deferred capital contributions	(23,902)	(25,065)
Amortization of capital assets	44,547	45,746
Employee future benefits	(14,596)	(14,372)
Net change in non-cash working capital (note 14)	(3,228)	56,347
Cash provided by operating activities	77,735	151,283
INVESTING ACTIVITIES:		
Net change in loans receivable	359	572
Net change in investments	(80,807)	(230,214)
Purchases (net of disposals) of capital assets	(101,270)	(48,738)
Investment gain reported as direct increase in net assets	8,483	69,374
Cash used in investing activities	(173,235)	(209,006)
FINANCING ACTIVITIES:		
Repayment of long-term debt	(3,727)	(3,742)
Contributions received for capital purposes	64,893	38,864
Contributions reported as direct increase in net assets	27,047	25,119
Cash provided by financing activities	88,213	60,241
Net (decrease) / increase in cash	(7,287)	2,518
Cash, beginning of year	149,254	146,736
Cash, end of year	\$ 141,967	\$ 149,254

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2018

(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, 2018

(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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2018

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

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.

(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:

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

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 statement of financial position.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2018

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

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.

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) Collections

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 as well as a collection of rare and historical books.

Contributions of collection items are recorded as donation revenue and expense at fair market value at the date of contribution. Collection purchases are expensed as acquired. The art and book collections are fully insured through a fine arts policy. At April 30, 2018, the art collection had a market value of \$208,527 and the book collection had a market value of \$699.

(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, 2018

(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 \$3,347 (2017 - \$4,116).

(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		
2019	\$	24,950
2020		15,335
2021		10,295
2022		7,964
2023		7,010
Thereafter		14,993
Outstanding pledges at April 30	\$	80,547

4. LOANS RECEIVABLE

Loans receivable is comprised of an amount receivable regarding relocation loans to employees in the amount of \$200 (2017 - \$200), microcomputer loans to employees in the amount of \$54 (2017 - \$265) and a loan to the Kingston Health Sciences Centre / Queen's Parking Commission in the amount of \$2,828 (2017 - \$2,976). The loan to the Kingston Health Sciences Centre / Queen's Parking Commission bears interest at 6 per cent per annum and matures in October 2030. The other loans have varying maturity dates and do not bear interest.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2018

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

5. INVESTMENTS AND INVESTMENT INCOME

(a) Investments

Fair value details of investments are as follows:

	2018	2017
Current		
Short-term	\$ 113,575	\$ 94,468
Non-current		
Pooled Endowment Fund	1,075,064	1,028,080
Pooled Investment Fund	245,726	237,794
Other	108,243	101,459
	1,429,033	1,367,333
Total investments	\$ 1,542,608	\$ 1,461,801

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

(b) Uncalled commitments

As at April 30, 2018, 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, 2018, the university had uncalled commitments of approximately \$35,156 (2017 - \$40,168), 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:

	2018	2017
Realized income on investments	\$ 70,139	\$ 31,352
Unrealized (losses) / gains on investments	(17,678)	51,529
	52,461	82,881
Investment management fees and transaction costs	(5,374)	(3,693)
Investment income	\$ 47,087	\$ 79,188

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2018

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

(d) Greenhouse gas emissions allowance

Under the Ontario's Cap and Trade Program, the university, a mandatory participant, has received free greenhouse gas (GHG) emissions allowances in 2017 which are reasonably expected to exceed the university's GHG emissions during the year. The allowances are granted on an annual basis and, in return, the university is required to remit allowances equal to its actual emissions at the end of the compliance period of December 31, 2020.

The university records the emissions allowances under other investments and deferred contributions at fair market value. At the end of the year, other investments include \$894 of emissions allowance with \$46 under deferred contributions. The emissions allowances contributions are amortized each period and recorded in grants and contracts. The associated emissions expense is recorded each period in utilities. The emissions allowances will be surrendered at the end of the compliance period and used to settle the liability which at year end amounts to \$848.

6. CAPITAL ASSETS

Capital assets consist of the following:

	2018			2017		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	\$ 86,462	\$ -	\$ 86,462	\$ 84,638	\$ -	\$ 84,638
Buildings	1,100,122	423,962	676,160	1,096,653	405,497	691,156
Leasehold improvements	12,587	7,104	5,483	7,476	6,593	883
Equipment and furnishings	200,514	170,899	29,615	208,531	173,914	34,617
Cogeneration facility	15,494	8,549	6,945	15,333	7,772	7,561
Library acquisitions	123,050	120,498	2,552	128,726	125,575	3,151
Software	31,366	31,343	23	31,366	31,157	209
Construction in process	93,429	-	93,429	21,731	-	21,731
	\$ 1,663,024	\$ 762,355	\$ 900,669	\$ 1,594,454	\$ 750,508	\$ 843,946

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 \$12,741 (2017 - \$10,715).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2018

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

8. DEFERRED REVENUE AND CONTRIBUTIONS

	2018	2017
Research funds	\$ 129,208	\$ 120,807
Trust funds	62,772	57,886
Student fees	28,225	25,503
Capital funds	11,310	40,474
Other	9,024	8,375
Gift annuities	3,169	3,494
	<u>\$ 243,708</u>	<u>\$ 256,539</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:

	2018	2017
Balance, beginning of year	\$ 384,905	\$ 371,106
Amortization of deferred capital contributions	(23,902)	(25,065)
Contributions received for capital purposes	64,893	38,864
	<u>\$ 425,896</u>	<u>\$ 384,905</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2018

(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:

			2018	2017
	Maturity in Fiscal Year Ending	Interest Rate	Principal Outstanding	Principal Outstanding
Amortizing unsecured bank loan maturing November 1, 2030	2031	variable	\$ 60,849	\$ 64,721
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
			275,849	279,721
Unamortized transaction costs/bond discount			(3,610)	(3,755)
			272,239	275,966
Less current portion			(3,842)	(3,727)
			\$ 268,397	\$ 272,239

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, 2018 the value of the sinking funds is \$89,333 (2017 - \$83,719).

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	
2019	\$ 3,842
2020	3,961
2021	4,083
2022	4,209
2023	4,338
Thereafter	251,806
	\$ 272,239

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2018

(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 guarantee 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 \$24,524 (2017 - \$27,469) and non-pension retirement and post-employment benefit expenses of \$9,189 (2017 – \$8,345).

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 5.6 per cent (2017 – 5.8 per cent).

The discount rate used in the actuarial measurement of the benefit plans expense was 5.8 per cent (2017 – 5.8 per cent).

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2018

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

	2018			2017		
	Pension benefit plan	Other benefit plans	Total	Pension benefit plan	Other benefit plans	Total
Accrued benefit liability						
Accrued benefit obligation	\$ (2,071,930)	\$ (103,289)	\$ (2,175,219)	\$ (1,965,339)	\$ (90,727)	\$ (2,056,066)
Fair value of plan assets	2,080,599	-	2,080,599	2,020,476	-	2,020,476
Accrued benefit asset / (liability)	\$ 8,669	\$ (103,289)	\$ (94,620)	\$ 55,137	\$ (90,727)	\$ (35,590)
Benefit plan expense						
Current service cost	\$ 27,722	\$ 3,926	\$ 31,648	\$ 24,722	\$ 3,508	\$ 28,230
Finance (income) / costs	(3,198)	5,263	2,065	2,747	4,837	7,584
Net benefit cost	\$ 24,524	\$ 9,189	\$ 33,713	\$ 27,469	\$ 8,345	\$ 35,814
Remeasurements and other items						
Difference between actual and expected return	\$ 11,455	\$ -	\$ 11,455	\$ (67,823)	\$ -	\$ (67,823)
Actuarial (gain) / loss on accrued benefit obligation	55,777	6,394	62,171	(14,820)	1,846	(12,974)
Net remeasurements and other items (gains) / losses	\$ 67,232	\$ 6,394	\$ 73,626	\$ (82,643)	\$ 1,846	\$ (80,797)

Details of annual contributions and benefits paid are as follows:

	2018		2017	
	Pension benefit plan	Other benefit plans	Pension benefit plan	Other benefit plans
Employer contributions	45,288	3,021	47,325	2,861
Employee contributions	27,013	-	27,292	-
Benefits paid	105,486	3,021	103,445	2,861

The most recent actuarial valuation of the pension plan was performed as of August 31, 2017, and the results have been extrapolated to April 30, 2018. The date of the next required valuation is August 31, 2020.

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, 2018. 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, 2018.

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

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(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:

	2018			2017		
	External	Internal	Total	External	Internal	Total
Investment income on endowments	\$ 39,593	\$ 10,269	\$ 49,862	\$ 97,503	\$ 25,991	\$ 123,494
Less: available for spending	(31,110)	(7,958)	(39,068)	(28,129)	(7,406)	(35,535)
Excess of investment earnings over endowment spending	8,483	2,311	10,794	69,374	18,585	87,959
Endowment contributions	22,168	-	22,168	21,662	269	21,931
Departmental transfers and other contributions	5,569	424	5,993	5,690	83	5,773
Net increase in net assets	36,220	2,735	38,955	96,726	18,937	115,663
Net assets, beginning of year	828,218	218,313	1,046,531	731,492	199,376	930,868
Net assets, end of year	\$ 864,438	\$ 221,048	\$ 1,085,486	\$ 828,218	\$ 218,313	\$ 1,046,531

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2018

(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:

	2018	2017
Departmental carryforward funds	\$ 193,613	\$ 166,516
Ancillary enterprises	8,314	7,457
Unspent special purpose funds	5,360	5,030
Unspent research funds	42,186	39,260
Insurance reserve	1,000	1,000
Investment in capital assets	203,046	179,316
Sinking funds	89,333	83,719
Other capital reserves	38,878	45,597
Employee future benefits		
Pension and other benefit plans	(94,620)	(35,590)
Reserve	25,606	15,565
	\$ 512,716	\$ 507,870

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 carry forward 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2018

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

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

14. NET CHANGE IN NON-CASH WORKING CAPITAL

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

	2018	2017
Net change in non-cash working capital:		
Accounts receivable	\$ (7,963)	\$ 2,916
Prepaid expenses	1,582	26
Accounts payable and accrued liabilities	15,984	4,296
Deferred revenue and contributions	(12,831)	49,109
	<u>\$ (3,228)</u>	<u>\$ 56,347</u>

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:

	2018		2017	
	Notional value	Fair value	Notional value	Fair value
US Dollar	\$ 176,395	\$ 21	\$ 177,512	\$ (5,150)
Other	86,796	844	76,433	(3,851)
	<u>\$ 263,191</u>	<u>\$ 865</u>	<u>\$ 253,945</u>	<u>\$ (9,001)</u>

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 \$865 (2017 - \$(9,001)) 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, 2018

(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:

	2018	2017
Endowment Funds:		
Opening balance	\$ 68,973	\$ 69,231
Transfer to expendable funds	(229)	(258)
Endowment capital	\$ 68,744	\$ 68,973
Expendable Funds:		
Opening balance	\$ 428	\$ 428
Investment income	3,862	3,617
Bursaries awarded	(4,091)	(3,875)
Transfer from endowment funds	229	258
Expendable funds available for awards	\$ 428	\$ 428
Number of bursaries awarded	1,358	1,282

The market value of the OSOTF phase 1 endowment fund at April 30, 2018 is \$112,098 (2017 - \$110,661).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2018

(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 March 31)	OSOTF II	OTSS	2018 Total	2017 Total
Endowment Funds:				
Opening balance	\$ 12,304	\$ 32,238	\$ 44,542	\$ 43,143
Donations received	-	729	729	1,251
Transfer from expendable funds	53	167	220	148
Endowment capital	\$ 12,357	\$ 33,134	\$ 45,491	\$ 44,542
Expendable Funds:				
Opening balance	\$ 171	\$ 264	\$ 435	\$ 305
Internal Transfers to expendable funds	-	-	-	10
Investment income	546	1,311	1,857	1,896
Bursaries awarded	(555)	(1,167)	(1,722)	(1,628)
Transfer to endowment funds	(53)	(167)	(220)	(148)
Expendable funds available for awards	\$ 109	\$ 241	\$ 350	\$ 435
Number of bursaries awarded	188	485	673	616

The market value of the OSOTF phase 2 endowment fund at March 31, 2018 was \$60,163 (2017 - \$58,084).

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 Health Sciences Centre (KHSC) 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 \$587 (2017 - \$592) is reported in the consolidated statement of operations. The investment in the Parking Commission is accounted for using the equity method.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2018

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

(b) Investment in Cogeneration Facility

Queen's University at Kingston entered into a joint venture with KHSC for the construction and operation of a cogeneration facility governed by a management board consisting of representatives of the university and KHSC. 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 Health Sciences Centre'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 \$1,156 (2017 - \$1,112).

(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, 2017 was \$309 (2016 - \$208).

	2017	2016
Total assets	\$ 3,297	\$ 2,658
Total liabilities	2,679	2,242
Total fund balances	\$ 618	\$ 416
Revenues	\$ 4,613	\$ 4,631
Expenses	4,411	4,452
Excess of revenues over expenses	\$ 202	\$ 179

(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)).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2018

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

(e) Tri-universities Meson Facility

The university is a member, with twelve 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 / 13 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, 2018 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.

	2018	2017
Total assets	\$ 50,147	\$ 47,730
Total liabilities	9,095	20,262
Total fund balances	\$ 41,052	\$ 27,468
Revenues	\$ 95,214	\$ 74,694
Expenses	81,630	70,925
Excess of revenues over expenses	\$ 13,584	\$ 3,769

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, 2018, 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, 2017, the date of the latest financial statements available, CURIE had a surplus of \$81,232 (2016 - \$84,908).

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.

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)

(c) TRIUMF - Asset retirement obligation

The joint venture partners of the TRIUMF joint venture and the Canadian Nuclear Safety Commission (CNSC) approved a decommissioning plan which requires all partners 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, 2018 the estimated cost to complete construction in process for the extension of facilities is approximately \$33,085 (2017 - \$64,272). These costs will be financed by a combination of gifts, grants, and allocations from operations.

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

Fiscal year		
2019	\$	3,382
2020		3,177
2021		2,216
2022		1,624
2023		1,080
Total thereafter		5,493
	\$	16,972

(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 \$2,023 primarily for capital construction.

19. COMPARATIVE FIGURES

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