15-16 CONSOLIDATED FINANCIAL STATEMENTS

APRIL 30 2016

QUEEN'S UNIVERSITY
KINGSTON, ONTARIO, CANADA

Consolidated Financial Statements

Queen's University at Kingston

April 30, 2016

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CONSOLIDATED FINANCIAL STATEMENTS
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As we prepare to enter the third year of our strategic framework and celebrate our 175th anniversary, Queen's University at Kingston ("the university") remains focussed on the overarching goal to strengthen the university's vision as Canada's quintessential balanced academy, recognized equally for research excellence and a transformative student learning experience. Underpinning the success of this vision is long term financial sustainability. To this end we continue to carefully manage our financial risks which include our unsustainable pension plan, a significant deferred maintenance backlog, and continued reliance on grant support and tuition revenue (both of which are controlled by the government).

As presented in the attached consolidated financial statements ("the financial statements"), the university completed the year ended April 30, 2016 in a stable position with a surplus of $39.5 million. This surplus is driven primarily by higher than planned student enrolment and significant efforts across the university to constrain costs. Despite the surplus, the financial position of the university was negatively impacted by weak investment returns. In accordance with the university's commitment to ensuring that as much revenue growth as possible remains available to support the ongoing enhancement of the university's academic mission, faculties and schools retain all surpluses to support academic priorities in future years.

In the coming year, the university will continue to invest in improvements to the campus infrastructure in ways that will enhance our student experience and research prominence. Planning for the Queen's Innovation and Wellness Centre continues. This facility will co-locate interactive learning facilities, leading edge design and teaching studios, interdisciplinary laboratory space, innovation programming and a new wellness centre.

Queen's remains one of Canada's most highly regarded universities and continues to deliver a transformative student learning experience while advancing its research prominence. Our continued success is due to the dedication and contributions of the many students, staff, faculty, alumni and others who make up our exceptional university community. We will continue our focus of managing the university's resources prudently and effectively in the coming year.

Other documents that provide additional information on the financial situation of the university include annual budget reports, quarterly financial updates, and rating agency reports.

CEDavis, FCPA, FCA

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

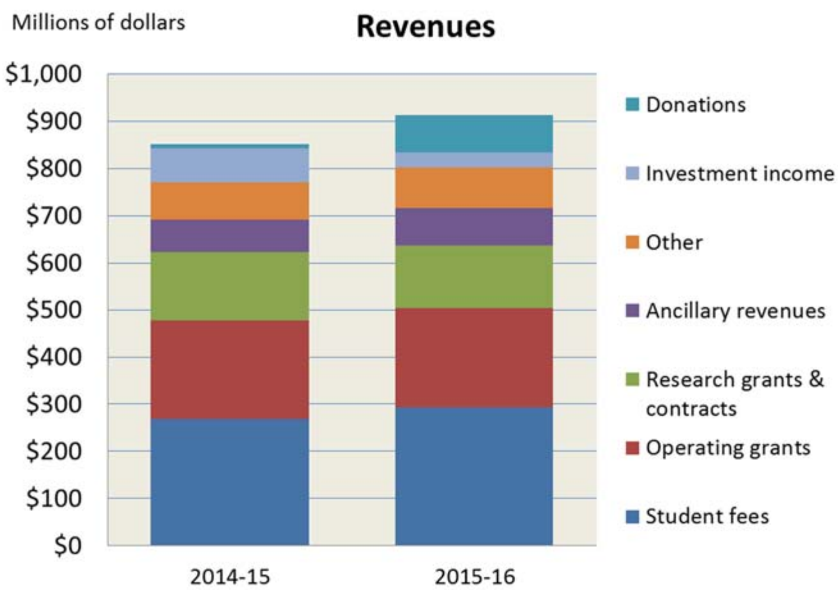
THE YEAR IN REVIEW

In 2015-16 the university completed the year in a stable financial position with a surplus of $39.5 million, driven primarily by higher than planned student enrolment and significant efforts across the university to constrain costs.

Volatility in the financial markets led to a reduction in investment income during the year. Financial risks and challenges including low interest rates, an unsustainable pension plan, and significant deferred maintenance continue to be part of the environment in which the university must operate. More information on financial risks faced by the university is presented in the financial risk section.

YEAR ENDED APRIL 30 (Millions of dollars)		2016		2015
Consolidated Statement of Operations				
Revenue	$	912.3	$	850.8
Expenses		872.8		788.9
Excess of revenues over expenses	$	39.5	$	61.9
Consolidated Statement of Financial Position				
Assets	$	2,260.6	$	2,185.3
Liabilities		1,084.1		1,028.6
Net assets	$	1,176.5	$	1,156.7
Net Assets is comprised of:				
Endowments	$	930.9	$	919.0
Internally restricted		362.0		386.3
Unrestricted deficiency		(116.4)		(148.6)
	$	1,176.5	$	1,156.7

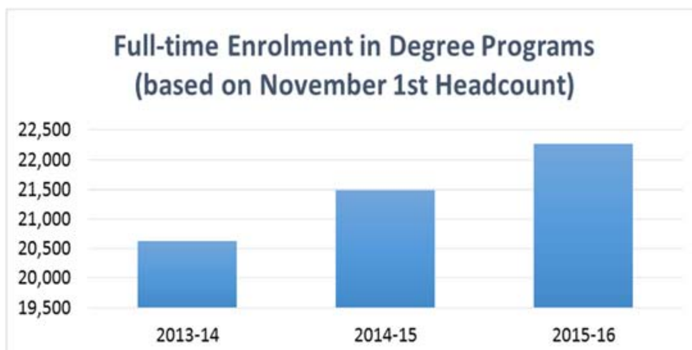
REVENUES



At a glance….
Revenues grew by 7.1% in 2015-16 due largely to an increase in donation revenue as a result of a generous donation of artwork during the year. Growth in student fees and other revenues was offset by lower investment income and research grants and contracts.

Student fees

Student fee revenue includes tuition fee as well as other fees related to activities such as student health, recreation, and athletics. In 2015-16, student fee revenue from all fee sources increased by 8.8%, driven primarily by a modest increase in enrolment and tuition fee increases approved by the Board of Trustees in accordance with the provincial tuition fee framework. Student enrolment in degree programs for the past three years is displayed in the chart to the right.

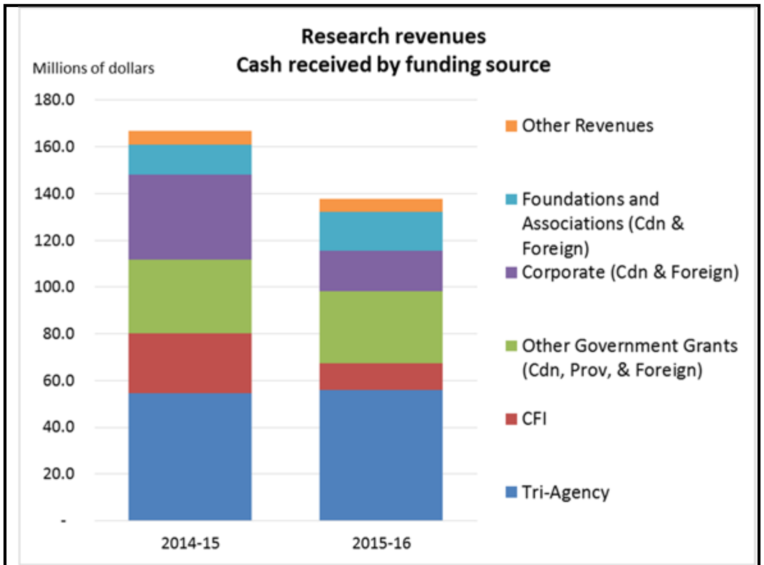


The university continues to operate under the four-year tuition policy framework announced by the provincial government in March 2013, restricting aggregate tuition fee increases across the institution to 3% annually.

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. The table below the chart provides a reconciliation to the research revenues as shown on page 9.



	Thousands of dollars			
		2014-15		2015-16
Cash received by funding source	$	166,884	$	136,224
Deferred for future year spending	$	15,949	$	48
Research revenue as reported in research fund	$	150,935	$	136,176

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 9. The increase in revenues is primarily due to the opening of two new residences: the David C. Smith House and Brant House.

	Thousands of dollars			
SALES BY ANCILLARY OPERATION		2015-16		2014-15
Residences and housing	$	69,903	$	61,435
Hospitality and conferences services		10,801		9,274
Computer store		7,106		7,338
Parking		2,969		2,784
Other		1,167		1,667
		91,946		82,498
Less: Internal sales		(13,407)		(13,850)
	$	**78,539**	**$**	**68,648**

Investment income

Unrealized gains and losses on the university's investments (excluding externally endowed investments) flow through investment income, which generates volatility in the university's statement of operations from year to year. Investment income for 2015-16 declined significantly from the $73.4 million in 2014-15, to $30.4 million.

Because business units rely heavily on the annual payout from the Pooled Endowment Fund, the 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 invested in the preservation of capital to offset years such as 2015-16 where the amount made available for spending exceeded 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.

SALARIES AND BENEFITS

	Thousands of dollars 2015-16	2014-15
Salaries and benefits expense		
Salary and benefits	$ 413,252	$ 399,231
Non-pension employee future benefits	7,887	7,529
Pension		
Current service cost	23,030	22,254
Financing cost	1,750	(444)
Total	**$ 445,919**	**$ 428,570**
% of total expenses	51%	54%
Employee Future Benefits Liability		
Pension (surplus) / liability	47,362	30,179
Non-pension employee future benefits	83,397	81,262
Total	**$ 130,759**	**$ 111,441**

At a glance…
Salaries and benefits comprise over half of the total expenses of the university.

In 2015-16, salaries and benefits grew by 4%. 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 than expected returns on pension investments also drove up pension financing costs.

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	In collective bargaining
Allied Health Care Professionals (Family Health Team)	OPSEU 452	In collective bargaining
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	In collective bargaining
Queen’s University Faculty Association	QUFA	April 2019
Registered Nurses and Nurse Practitioners (Family Health Team)	ONA 67	March 2017

CAPITAL PROJECTS

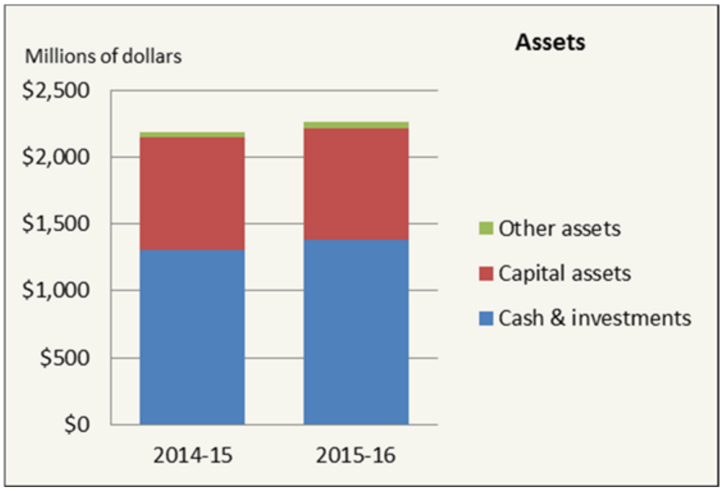
In September 2016 the university opened its revitalized Richardson Stadium, one of the top facilities of its kind in Ontario. The revitalization of the stadium is not just the building of a new stadium, it's the building of a strong varsity sports program and the building of a strong, leading university overall. Richardson Stadium is the latest phase of the Fields and Stadium project, supporting athletics and recreation through the construction of Nixon, Tindall, and Miklas-McCarney fields. More than $17 million has been raised to support this project to date.

As part of the Queen's commitment to enhancing the sustainability of its operations, in December 2015 the Board of Trustees approved a $10.7 million energy performance contract and in March 2016 Queen's released its Climate Action Plan. The energy performance contract is the next step in the university's CAPit project, which aims to reduce the university's carbon footprint and generate annual savings in its utility costs. Work on this project began in the spring of 2016 and will be completed over an 18-month time period.

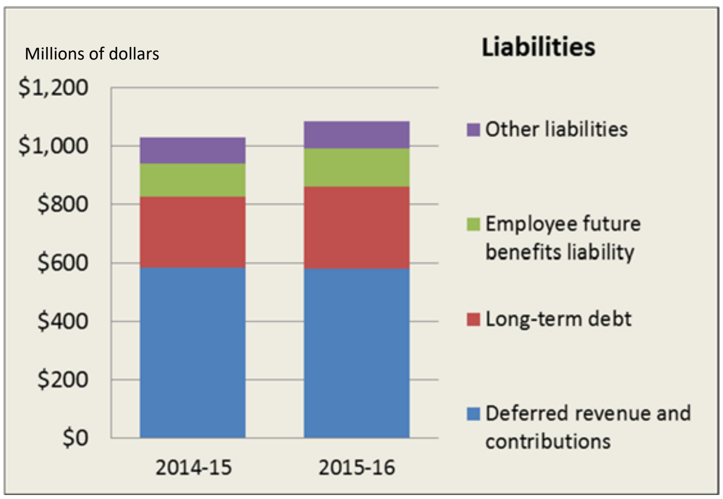
The university's capital expenditures were $49.4 million in 2015-16, as presented in the table below, with comparative information for the prior year. The bulk of the spending on building projects relates to the completion of the David C. Smith House and Brant House residences as well as Richardson Stadium.

	Thousands of dollars	
CAPITAL ASSET ADDITIONS	2015-16	2014-15
Building projects and construction in progress	$ 32,696	$ 34,519
Equipment and furnishings	15,018	18,099
Other asset purchases	1,717	2,110
	$ 49,431	$ 54,728

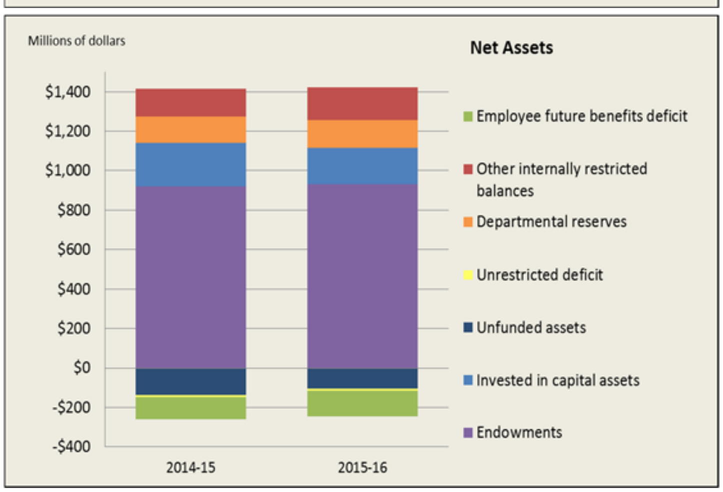
CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT A GLANCE



Assets of the university increased by 3.4% overall, due primarily to the growth in cash and investments.



Liabilities of the university increased by 5% largely as a result of the increase in debt related to the construction of the new residences as well as an increase in the liabilities related to employee future benefits. 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 of the university have remained almost flat year over year. Modest increases in internally restricted reserve balances and endowments have been offset by an increase in the employee future benefits deficit and a reduction in the amount invested in capital assets.

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. These funds include Operating, Ancillaries, Trust, Endowments, Research, Capital and Consolidated Entities.

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, and the Queen's University Pooled Trust Fund.

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, 2016, and supplements the information presented in the financial statements. Amounts are presented in thousands of dollars.

	Operating	Ancillaries	Trust and Endowment	Research	Capital	Consolidated Entities	Total 2016
REVENUE							
Grants and contracts	212,202	-	26,532	133,012	(7,499)	65	364,312
Student fees	289,087	-	-	-	-	3,152	292,239
Sales of service and products	7,816	78,539	-	807	-	8,302	95,464
Donations	61,519	-	16,752	92	1,025	-	79,388
Investment income	10,166	-	18,465	16	1,693	29	30,369
Amortization of deferred capital contributions	-	-	-	-	25,819	293	26,112
Other	16,419	-	-	2,249	2,196	3,638	24,502
	597,209	78,539	61,749	136,176	23,234	15,479	912,386
EXPENSES							
Salaries and benefits	343,013	10,062	18,282	68,513	-	6,049	445,919
Supplies and services	87,121	5,406	7,553	42,074	(15,602)	1,440	127,992
Student assistance	33,115	-	26,193	1,076	-	53	60,437
Works of art	58,607	-	-	-	-	-	58,607
Externally contracted services	7,938	24,826	169	16,363	-	6,405	55,701
Amortization of capital assets	-	-	-	-	48,417	1,446	49,863
Renovations and alterations	4,470	5,037	1,230	2,245	9,015	(608)	21,389
Utilities, taxes and insurance	13,914	6,205	62	707	-	(32)	20,856
Travel and conferences	8,635	115	1,637	7,663	-	135	18,185
Interest on long-term debt	-	-	-	-	13,895	-	13,895
Interfund transfers out / (in)	7,827	25,355	8,981	(2,553)	(39,610)	-	-
	564,640	77,006	64,107	136,088	16,115	14,888	872,844
Excess / (deficiency) of revenues over expenses	**32,569**	**1,533**	**(2,358)**	**88**	**7,119**	**591**	**39,542**
Transfer (to) / from internally restricted net assets	(32,553)	(1,533)	2,358	(88)	24,889	(408)	(7,335)
Net change in unrestricted surplus / (deficit)	16	-	-	-	32,008	183	32,207
Unrestricted surplus / (deficit), beginning of year	887	-	-	-	(128,437)	(21,050)	(148,600)
Unrestricted surplus / (deficit), end of year	903	-	-	-	(96,429)	(20,867)	(116,393)

Note: some numbers may not add due to rounding

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

Currently, government regulations require the university to fund both going concern and solvency deficits. Effective September 1, 2015 these going concern payments are $20.7 million annually. The university has applied for and received a deferral of solvency payments until the August 31, 2017 valuation is filed. The actuarial valuation of the pension plan completed as of August 31, 2014 reported a solvency deficit of $285 million, funding of which will commence in September 2018 if a solution cannot be found.

To mitigate this financial risk, the university has negotiated a commitment with employee groups to design and build a new Ontario University Jointly Sponsored Pension Plan, which would have a permanent solvency exemption. In addition, in September 2015 all units began paying an additional 4.5% in pension charges to cover the cost of the additional going concern payments, with any excess funds being kept as a reserve to fund future solvency payments.

Assets of the Revised Pension Plan of Queen's University ("the plan") are managed by external investment managers under the direction of the Pension Committee in accordance with a Board-approved Statement of Investment Policies and Procedures, and are held by an independent custodian. Low interest rates continue to create substantial pressure on the plan.

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 funded status of the plan is determined using actuarial valuation methods that are inherently volatile. Investment returns of 0.4% in 2015-16 did not meet targeted levels which resulted in higher financing costs. The plan's long term performance remains strong and has a 15 year return that exceeds benchmark.

CHANGE IN FUNDED STATUS OF PENSION PLAN	Thousands of dollars	
GOING CONCERN (MARKET VALUE) BASIS	2015-16	2014-15
Deficit / (Surplus), opening balance	30,179	(7,400)
Pension benefit plan expense		
Current service cost	23,030	22,254
Financing cost	1,750	(444)
	24,780	21,810
Remeasurements and other items		
Investment losses / (gains)	54,403	(24,367)
Liability experience (gains) / losses	(18,203)	79,066
	36,200	54,699
Less: university contributions	(43,797)	(38,930)
Deficit, closing balance	**47,362**	**30,179**

The university manages financial risk around its $84 million other benefit plans liability by funding premium costs annually, and prudently plans for future premium increases as part of the budget process. Additional information on pension and other employee future benefits is available in Note 11 of the financial statements.

Deferred maintenance

Deferred maintenance continues to be a critical issue for the university; there is currently a $253 million deferred maintenance backlog. This figure is based on a facilities condition audit completed in 2010 and updated annually based on inflation and work complete. A new audit scheduled to be completed by the end of 2016 will provide a comprehensive update to this deferred maintenance figure.

Projects completed during the year include the replacement of roofs on Kingston and Grant Halls, restoration and repair of stone work on Theological Hall, and upgrading fire alarms in Ellis Hall and the John Deutsch University Center. The university received $1.6 million of annual provincial facilities renewal funding and allocated an additional $6.3 million from its operating budget to address deferred maintenance priorities. The provincial government has announced a plan to increase renewal funding from $40 million in 2016-17 to $100 million by 2019-20, and will undertake consultations to discuss approaches to allocating amounts in excess of the $40 million. The industry standard for annual deferred maintenance funding is 1%-1.5% of current replacement value. For the university campus buildings, annual spending at 1% equates to $14 million. The university has developed, and is managing to, a 5-year deferred maintenance plan that will ensure the highest priority deferred maintenance needs are addressed.

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 to a large extent by the provincial government. The effect of further changes in government policy, most notably the outcomes from the funding formula review undertaken by the government in 2015-16 and the expected announcement of the new tuition fee framework for 2017-18 and forward, could present significant financial risk to the university. Recent public policy has limited funding increases to enrolment growth and substantial enrolment growth could be restrained in the future. In 2015-16, a funding model review was undertaken by the Ministry of Training, Colleges, and Universities (now the Ministry of Advanced Education and Skills Development). The review consultation paper, released in April 2015, stated that the $3.5 billion invested by the provincial government would “remain stable”. This review proposed that, in the future, grant funding should be more strongly linked to outcomes rather than solely to enrolment.

Under the leadership of the Provost and Vice-Principal (Academic) and the Vice-Principal (University Relations), the university is involved in impact analysis and sector wide consultations to inform ministry work on the funding formula and the tuition fee framework.

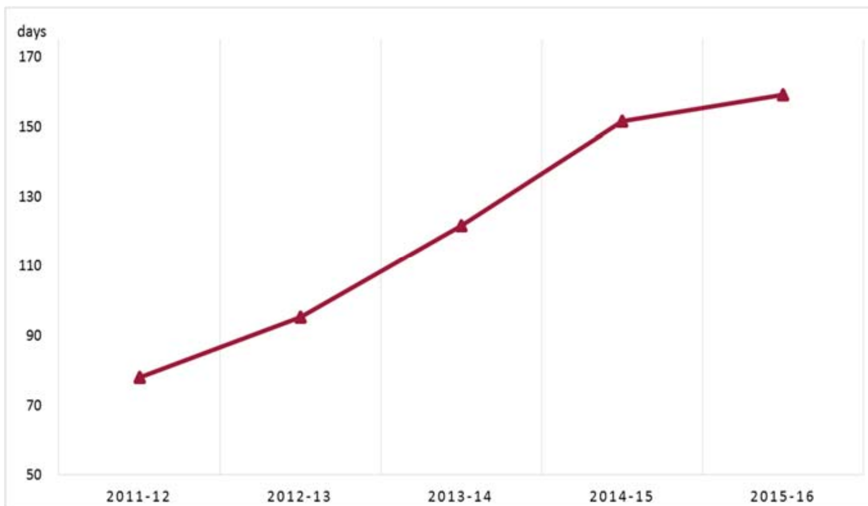
FINANCIAL HEALTH

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 as Canada's quintessential balanced academy, ensuring we remain a university recognized equally for research excellence and a transformative student learning experience.

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 2015-16 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[1].

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.

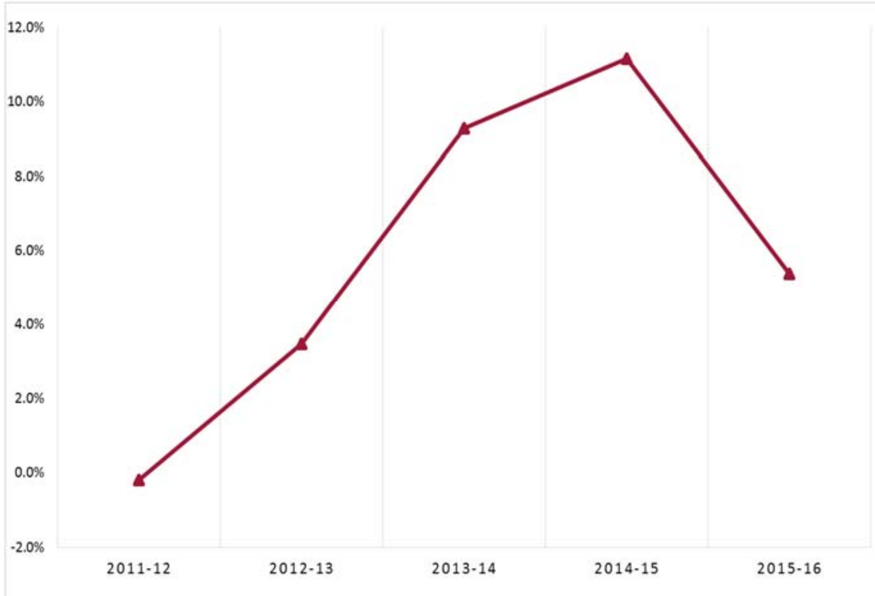


Definition: Expendable net assets divided by total expenses x 365 days

[1] 2011-12 and 2012-13 figures do not include retrospective restatements related to the adoption of new accounting standards.

Net Operating Revenues Ratio

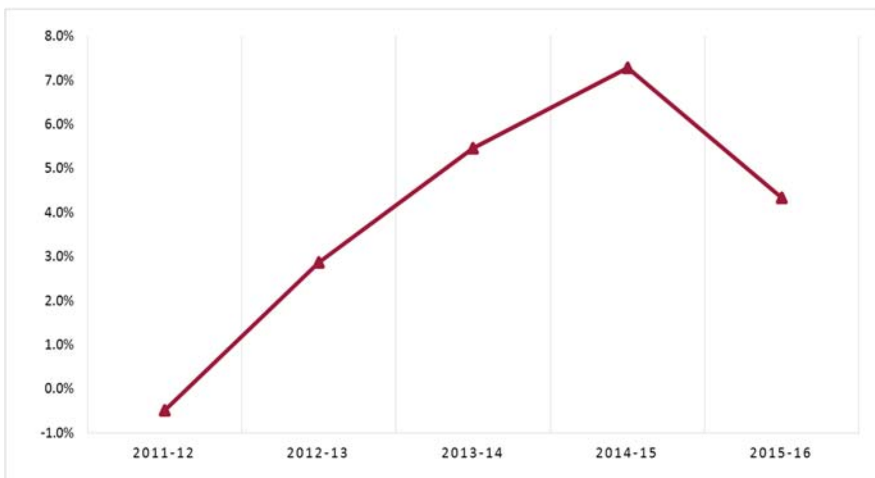
The net operating revenues ratio is a measure of financial performance. Positive cash flow from operations indicates a strengthening position, and, conversely, structural negative cash flows are almost always an indication of financial pressures.



Definition: Cash flow from operating activities divided by total revenues

Net Income / Loss Ratio

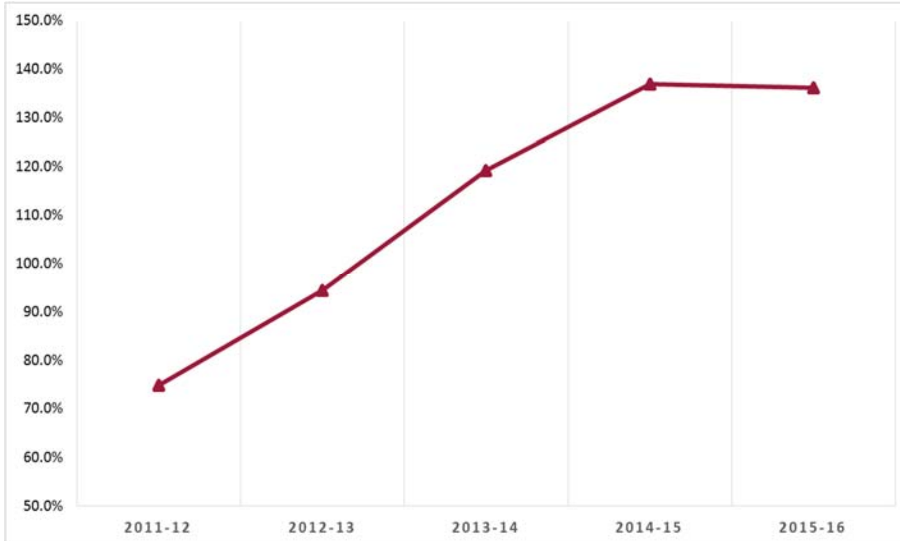
The net income / loss ratio measures the percentage of revenues that contribute to net assets. The objective of this ratio is to track trends in an institution's net earnings. An increase in this ratio indicates greater future financial flexibility.



Definition: Net income or loss divided by total revenues

<u>Viability Ratio</u>

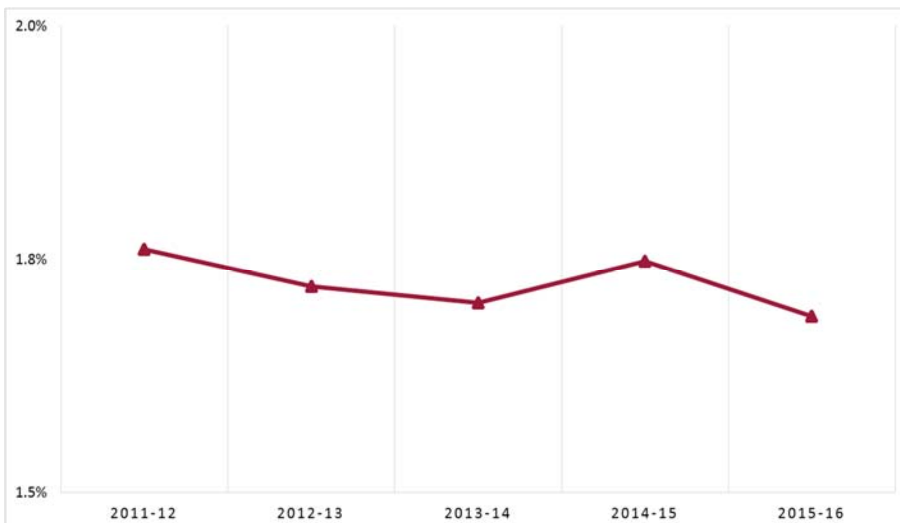
The viability ratio provides an indication of the funds on hand to settle the university's long-term debt obligations at a point in time. This ratio provides assistance in evaluating debt affordability.



Definition: Expendable net assets divided by long-term debt

<u>Interest Burden Ratio</u>

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

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 65% of consolidated revenue in 2015-16.

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.

	Thousands of dollars		
2015-16 Operating Fund	Actual	Budget	Variance
Revenue	597,209	519,027	78,182
Less: expenditures	(564,640)	(530,772)	(33,868)
Surplus / (deficit)	32,569	(11,745)	44,314
Transfer (to) / from internally restricted net assets	(32,553)	11,745	(44,298)
Increase in unrestricted surplus	16	-	16
Operating surplus - beginning of year	887		
Operating surplus - end of year	903		

For 2015-16 the university budgeted a deficit of $11.7 million before drawdowns of reserves but higher fee revenue and actuarially defined pension expenses lower than budget led to an operating fund surplus of $32.6 million. The surplus will provide important flexibility for future strategic priorities including capital renewal and a reserve for future pension payments. Surpluses accrued by faculties have been set aside in departmental reserves in accordance with multi-year plans for the prudent use of reserves in support of academic priorities. The major driver of both the revenue and the expenditure variances above is donated artwork which was recorded as both a revenue and expense in the year.

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 2016, the Board of Trustees approved the 2016-17 operating budget, which is balanced after a $16.4 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, 2016 and the results of its operations for the year then ended.

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

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

The Board of Trustees is responsible for ensuring that administration fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements. The Board of Trustees carries out its responsibility for review of the consolidated financial statements principally through the Audit 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, 2016 have been reported on by KPMG LLP, Chartered Professional Accountants, the auditors appointed by the Board of Trustees. The independent auditors' report outlines the scope of their audit and their opinion on the presentation of the information included in the consolidated financial statements.

Daniel R. Woolf

Principal and Vice-Chancellor
September 30, 2016

C. Davis, FCPA, FCA

Vice-Principal (Finance and Administration)

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Queen's University at Kingston, which comprise the consolidated statement of financial position as at April 30, 2016, 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, 2016, 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants
September 30, 2016
Kingston, Canada

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at April 30
(Thousands of dollars)

		2016		2015
ASSETS				
Current				
Cash	$	146,736	$	95,959
Accounts receivable (note 3)		32,068		33,314
Loans receivable (note 4)		511		658
Prepaid expenses		5,194		2,765
Investments (note 5)		8,756		23,808
Total current assets		193,265		156,504
Loans receivable (note 4)		3,502		3,676
Investments (note 5)		1,222,831		1,183,665
Capital assets (note 6)		840,954		841,432
	$	2,260,552	$	2,185,277
LIABILITIES AND NET ASSETS				
Current				
Accounts payable and accrued liabilities (note 7)	$	95,088	$	91,436
Current portion of long-term debt (note 10)		3,742		1,954
Deferred revenue and contributions (note 8)		207,430		210,446
Total current liabilities		306,260		303,836
Deferred capital contributions (note 9)		371,106		373,919
Long-term debt (note 10)		275,966		239,400
Employee future benefits liability (note 11)		130,759		111,441
		1,084,091		1,028,596
Net Assets				
Endowments (note 12)		930,868		918,978
Internally restricted (note 13)		361,986		386,303
Unrestricted deficiency		(116,393)		(148,600)
		1,176,461		1,156,681
	$	2,260,552	$	2,185,277

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)

		2016		2015
REVENUES				
Grants and contracts	$	364,312	$	366,158
Student fees		292,239		268,548
Sales of service and products		95,464		85,401
Donations		79,388		7,413
Investment income (note 5)		30,369		73,357
Amortization of deferred capital contributions (note 9)		26,112		26,130
Other		24,502		23,787
		912,386		850,794
EXPENSES				
Salaries and benefits		445,919		428,570
Supplies and services		127,992		126,027
Student assistance		60,437		57,564
Works of art		58,607		3,493
Externally contracted services		55,701		47,747
Amortization of capital assets		49,863		51,828
Renovations and alterations		21,389		17,499
Utilities, taxes and insurance		20,856		24,875
Travel and conferences		18,185		18,365
Interest on long-term debt		13,895		12,885
		872,844		788,853
Excess of revenues over expenses	$	39,542	$	61,941

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 2016**	**Total 2015**
Net assets (deficiency), beginning of year	$ 918,978	$ 386,303	$ (148,600)	$ 1,156,681	$ 1,049,171
Excess of revenues over expenses	-	-	39,542	39,542	61,941
Employee future benefits remeasurements and other items (note 11)	-	-	(33,166)	(33,166)	(55,792)
Change in internally restricted net assets	-	(22,023)	22,023	-	-
Endowment contributions (note 12)	31,130	-	-	31,130	43,867
(Deficiency) / excess of investment earnings over endowment spending (note 12)	(21,534)	-	3,808	(17,726)	57,494
Departmental contributions and other transfers (note 12)	2,294	(2,294)	-	-	-
Net assets / (deficiency), end of year	$ 930,868	$ 361,986	$ (116,393)	$ 1,176,461	$ 1,156,681

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
Year ended April 30
(Thousands of dollars)

	2016	2015
OPERATING ACTIVITIES:		
Excess of revenues over expenses	$ 39,542	$ 61,941
Non-cash items:		
Amortization of deferred capital contributions	(26,112)	(26,130)
Amortization of capital assets	49,863	51,828
Change in employee future benefits	(13,848)	(11,649)
Net change in non-cash working capital (note 14)	(547)	18,940
Cash provided by operating activities	48,898	94,930
INVESTING ACTIVITIES:		
Net change in loans receivable	321	247
Net change in investments	(24,114)	(173,363)
Purchases (net of disposals) of capital assets	(49,385)	(52,288)
Investment (loss) / gain reported as direct increase in net assets	(17,726)	57,494
Cash used in investing activities	(90,904)	(167,910)
FINANCING ACTIVITIES:		
Issuance of long-term debt	40,000	20,000
Repayment of long-term debt	(1,646)	(3,329)
Contributions received for capital purposes	23,299	24,391
Contributions reported as direct increase in net assets	31,130	43,867
Cash provided by financing activities	92,783	84,929
Net increase in cash	50,777	11,949
Cash, beginning of year	95,959	84,010
Cash, end of year	$ 146,736	$ 95,959

See accompanying notes to consolidated financial statements.

1. AUTHORITY

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

The university controls PARTEQ Innovations, the Bader International Study Centre, the U.S. Foundation for Queen's University at Kingston, QCED Inc., and Queen's University Pooled Trust Fund. 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.

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.

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.

(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 disabled employees.

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, 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.

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, 2016, the university's collection increased by 49 pieces of artwork with a total appraised value of $58,607. The collection is fully insured through a fine arts policy, with a market value of $198,027 at April 30, 2016.

(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.

(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 $3,830 (2015 - $3,461).

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		
2017	$	28,684
2018		16,120
2019		13,076
2020		11,434
2021		7,731
Subsequent years		28,368
Outstanding pledges at April 30	$	105,413

Included in the outstanding pledges is $302 (2015 - $285) 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 (2015 - $350), microcomputer loans to employees in the amount of $697 (2015 - $737) and a loan to the Kingston General Hospital / Queen’s Parking Commission in the amount of $3,116 (2015 - $3,247).

5. INVESTMENTS AND INVESTMENT INCOME

Fair value details of investments are as follows:

		2016		2015
Current				
Short-term	$	8,756	$	23,808
Non-Current				
Pooled Endowment Fund		918,833		904,274
Pooled Investment Fund		213,553		192,423
Other		90,445		86,968
		1,222,831		1,183,665
Total investments	$	1,231,587	$	1,207,473

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

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

Uncalled commitments

As at April 30, 2016, a portion of the university's investment portfolio is invested in private funds managed by third-party managers. 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, 2016, the university had uncalled commitments of approximately $12,246 (2015 - $19,275), 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.

Investment income is comprised of the following:

	2016	2015
Realized income on investments	$ 89,595	$ 40,886
Unrealized (losses) / gains on investments	(56,007)	35,935
	33,588	76,821
Investment management fees and transaction costs	(3,219)	(3,464)
Investment income	$ 30,369	$ 73,357

6. CAPITAL ASSETS

Capital assets consist of the following:

	2016			2015		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	$ 84,638	$ -	$ 84,638	$ 84,709	$ -	$ 84,709
Buildings	1,070,301	381,109	689,192	1,014,523	357,457	657,066
Leasehold improvements	7,476	6,406	1,070	7,476	6,155	1,321
Equipment and furnishings	196,511	159,619	36,892	182,751	143,601	39,150
Cogeneration facility	15,303	7,006	8,297	14,573	6,278	8,295
Library acquisitions	133,545	129,324	4,221	137,423	132,460	4,963
Software	31,366	30,971	395	31,366	29,004	2,362
Construction in process	16,249	-	16,249	43,566	-	43,566
	$ 1,555,389	$ 714,435	$ 840,954	$ 1,516,387	$ 674,955	$ 841,432

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities is comprised primarily of trade accounts payable, government remittances, payroll related accruals, a demand loan facility 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 $10,629 (2015 - $11,015).

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

8. DEFERRED REVENUE AND CONTRIBUTIONS

	2016	2015
Research funds	$ 89,449	$ 92,827
Trust funds	60,325	67,492
Student fees	26,022	22,991
Capital funds	20,764	17,794
Other	6,911	4,898
Gift annuities	3,959	4,444
	$ 207,430	$ 210,446

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:

	2016	2015
Balance, beginning of year	$ 373,919	$ 375,658
Amortization of deferred capital contributions	(26,112)	(26,130)
Contributions received for capital purposes	23,299	24,391
	$ 371,106	$ 373,919

(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:

	Maturity in Fiscal Year Ending	Interest Rate	2016 Principal Outstanding	2015 Principal Outstanding
Canada Mortgage and Housing Corporation mortgages	2017	5.38%	$ 128	$ 373
Amortizing unsecured bank loan maturing November 1, 2030	2031	3.18%	68,472	30,000
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
			283,600	245,373
Unamortized transaction costs/bond discount			(3,892)	(4,019)
			279,708	241,354
Less current portion			(3,742)	(1,954)
			$ 275,966	$ 239,400

Certain assets have been pledged as collateral for mortgages.

The university has established sinking funds to provide funds to repay both the Series A senior unsecured debenture maturing on November 19, 2032 and the Senior unsecured debentures maturing in April and June 2040. At April 30, 2016 the value of the sinking funds is $74,264 (2015 - $66,732).

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%.

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

(b) Long-term debt repayments

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

Fiscal year		
2017	$	3,742
2018		3,727
2019		3,842
2020		3,961
2021		4,083
Thereafter		260,353
	$	279,708

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 disabled employees.

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%, 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 $24,780 (2015 - $21,810) and non-pension retirement and post-employment benefit expenses of $7,887 (2015 – $7,529).

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% (2015 – 5.8%).

The discount rate used in the actuarial measurement of the benefit plans expense was 5.8% (2015 – 6.0%).

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

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

	2016			2015		
	Pension benefit plan	Other benefit plans	Total	Pension benefit plan	Other benefit plans	Total
Accrued benefit liability						
Accrued benefit obligation	$ (1,849,611)	$ (83,397)	$ (1,933,008)	$ (1,864,142)	$ (81,262)	$ (1,945,404)
Fair value of plan assets	1,802,249	-	1,802,249	1,833,963	-	1,833,963
Accrued benefit (liability) / asset	$ (47,362)	$ (83,397)	$ (130,759)	$ (30,179)	$ (81,262)	$ (111,441)
Benefit plan expense						
Current service cost	$ 23,030	$ 3,174	$ 26,204	$ 22,254	$ 3,047	$ 25,301
Finance costs	1,750	4,713	6,463	(444)	4,482	4,038
Net benefit cost	$ 24,780	$ 7,887	$ 32,667	$ 21,810	$ 7,529	$ 29,339
Remeasurements and other items						
Investment losses / (gains)	$ 54,403	$ -	$ 54,403	$ (24,367)	$ -	$ (24,367)
Actuarial (gain) / loss on accrued benefit obligation	(18,203)	(3,034)	(21,237)	79,066	1,093	80,159
Net remeasurements and other items	$ 36,200	$ (3,034)	$ 33,166	$ 54,699	$ 1,093	$ 55,792

Details of annual contributions and benefits paid are as follows:

	2016		2015	
	Pension benefit plan	Other benefit plans	Pension benefit plan	Other benefit plans
Employer contributions	43,797	2,718	38,930	2,058
Employee contributions	25,877	-	24,830	-
Benefits paid	99,717	2,718	92,919	2,058

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, 2016. 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, 2016. 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, 2016.

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.

(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:

	2016			2015		
	Externally restricted	Internally restricted	Total	Externally restricted	Internally restricted	Total
Investment income on endowments	$ 8,658	$ 3,380	$ 12,038	$ 81,326	$ 22,994	$ 104,320
Less: available for spending	(26,384)	(7,188)	(33,572)	(23,832)	(6,705)	(30,537)
(Decrease) / increase in accumulated endowed investment income	(17,726)	(3,808)	(21,534)	57,494	16,289	73,783
Endowment contributions	30,893	237	31,130	43,376	491	43,867
Departmental transfers	89	2,205	2,294	908	182	1,090
Net increase / (decrease) in net assets	13,256	(1,366)	11,890	101,778	16,962	118,740
Net assets, beginning of year	718,236	200,742	918,978	616,458	183,780	800,238
Net assets, end of year	$ 731,492	$ 199,376	$ 930,868	$ 718,236	$ 200,742	$ 918,978

(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:

	2016	2015
Departmental carryforward funds	$ 140,764	$ 134,072
Ancillary enterprises	7,241	5,709
Unspent special purpose funds	3,868	4,650
Unspent research funds	30,433	30,345
Insurance reserve	980	980
Investment in capital assets	186,255	222,122
Sinking funds	74,264	66,732
Other capital reserves	40,189	28,786
Employee future benefits		
Pension and other benefit plans	(130,759)	(111,441)
Reserve	8,751	4,348
	$ 361,986	$ 386,303

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.

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

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

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

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

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

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

Other capital reserves represent 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.

(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:

	2016	2015
Net change in non-cash working capital:		
Accounts receivable	$ 1,246	$ 3,658
Prepaid expenses	(2,429)	743
Accounts payable and accrued liabilities	3,652	(7,704)
Deferred revenue and contributions	(3,016)	22,243
	$ (547)	$ 18,940

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:

	2016		2015	
	Notional value	Fair value	Notional Value	Fair value
US Dollar	$ 160,001	$ 4,652	$ 140,956	$ 2,727
Other	124,541	1,892	70,163	749
	$ 284,542	$ 6,544	$ 211,119	$ 3,476

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 $6,544 (2015 - $3,476) 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.

(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:

		2016		2015
Endowment Funds:				
Opening balance	$	69,504	$	69,733
Transfer to expendable funds		(273)		(229)
Endowment capital	$	69,231	$	69,504
Expendable Funds:				
Opening balance	$	428	$	428
Investment income		3,331		3,128
Bursaries awarded		(3,604)		(3,357)
Transfer from endowment funds		273		229
Expendable funds available for awards	$	428	$	428
Number of bursaries awarded		1,273		1,083

The market value of the OSOTF phase 1 endowment fund at April 30, 2016 is $101,391 (2015 - $102,526).

(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	2016 Total	2015 Total
Endowment Funds:				
Opening balance	$ 12,265	$ 27,933	$ 40,198	$ 39,021
Donations received	-	1,875	1,875	1,088
Other revenue capitalized in the year	-	781	781	-
Transfer from expendable funds	17	272	289	89
Endowment capital	$ 12,282	$ 30,861	$ 43,143	$ 40,198
Expendable Funds:				
Opening balance	$ 189	$ 230	$ 419	$ 361
Internal transfers to expendable funds	-	-	-	15
Investment income	501	1,184	1,685	1,505
Bursaries awarded	(515)	(995)	(1,510)	(1,373)
Transfer to endowment funds	(17)	(272)	(289)	(89)
Expendable funds available for awards	$ 158	$ 147	$ 305	$ 419
Number of bursaries awarded	196	450	646	580

The market value of the OSOTF phase 2 endowment fund at March 31, 2016 was $52,509 (2015 - $50,366).

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 (2015 - $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 $558 (2015 - $495) 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% and Kingston General Hospital's proportionate share is 40%. The university's capital investment in the joint venture is repaid from the operating fund over a twenty-five year period ending 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 $216 (2015 - $166).

(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% 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, 2015 was $118 (2014 - $175).

		2015		2014
Total assets	$	2,422	$	2,630
Total liabilities		2,185		2,281
Total fund balances	$	237	$	349
Revenues	$	4,362	$	3,882
Expenses		4,474		4,085
Deficiency of revenues over expenses	$	(112)	$	(203)

(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%) of the joint venture's assets, liabilities and operations have been included in the financial statements (see also Note 18(f)).

(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, 2016 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.

		2016 (unaudited)		2015
Total assets	$	32,020	$	26,369
Total liabilities		8,322		6,257
Total fund balances	$	23,698	$	20,112
Revenues	$	71,873	$	69,133
Expenses		68,286		66,654
Excess of revenues over expenses	$	3,587	$	2,479

(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, 2016, 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 accrued 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, 2015, the date of the latest financial statements available, CURIE had a surplus of $69,679 (2014 - $74,231).

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, 2016 the estimated cost to complete construction in process for the extension of facilities is approximately $14,920 (2015 - $19,729). 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	
2017	$ 1,458
2018	899
2019	798
2020	477
2021	328
Thereafter	338
	$ 4,298

(e) Bank loan guarantees
The university has a program under which it guarantees bank loans to faculty and staff members to assist in the purchase or refinancing of their homes. The university holds mortgages as collateral security against such guarantees. At April 30, 2016, the amount of loans guaranteed was $159 (2015 - $175). The university's estimated exposure under these guarantees is not material.

(f) 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.

(g) Other

In addition to the capital commitments disclosed in Note 18(d) and the pension special payments disclosed in Note 11, the university has issued letters of credit of $3,289 primarily for capital construction, and has guaranteed an operating line of credit of $1,000 for PARTEQ Innovations.

19. COMPARATIVE FIGURES

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