Queen's UNIVERSITY

13-14 FINANCIAL STATEMENTS

APRIL 30 2014

QUEEN'S UNIVERSITY
KINGSTON, ONTARIO, CANADA

Financial Statements

Queen’s University at Kingston

30 April 2014

QUEEN'S UNIVERSITY AT KINGSTON
CONSOLIDATED FINANICAL STATEMENTS
April 30, 2014

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These financial statements report on Queen's consolidated activities over the 2013-14 fiscal year, and show that the university has recovered from the 2008 financial market crisis. For the second year in a row, the university is reporting a surplus of revenues over expenses, which this year amounts to $45.6 million.

The most significant driver of the surplus is the performance of the investment portfolio. Strong returns within the Pooled Investment Fund have allowed the university to eliminate its cumulative operating deficit, while a significant portion of the investment returns in the Pooled Endowment Fund have been reinvested to protect the capital value of the portfolio against inflation.

A number of financial challenges remain on the horizon, including uncertainties around government funding, a prolonged period of low interest rates, significant deferred maintenance, and a pension plan that is not financially sustainable. These underscore the need for continued careful stewardship of university resources.

During the course of 2013-14, Queen's established its strategic framework to advance the university's vision as the Canadian research-intensive university with a transformative student learning experience. The framework will guide the university while ensuring its financial sustainability.

The information in this report is meant to provide the reader with financial information for the fiscal year ended April 30, 2014. Other documents that provide additional information on the financial situation of the university include:

- Annual Budget Reports
- Quarterly Financial Updates
- Rating agency reports

Queen's remains one of Canada's most highly regarded universities, known equally for its exceptional learning environment as for the high calibre of its research. 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.

CEDavis, FCPA, FCA

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

THE YEAR IN REVIEW

In 2013-14 the university completed the year with a $45.6 million surplus. Investment returns in excess of 13% on the Pooled Endowment Fund and Pooled Investment Fund were the largest contributor to the surplus. Returns in the Pooled Endowment Fund have been reinvested for capital appreciation purposes and returns within the Pooled Investment Fund have allowed for the elimination of the 2013 cumulative operating fund deficit that arose from poor investment returns in past years. Surpluses in the Research Fund have been restricted for future specified expenditures. Additional information on the financial results of each fund can be found on Page 10.

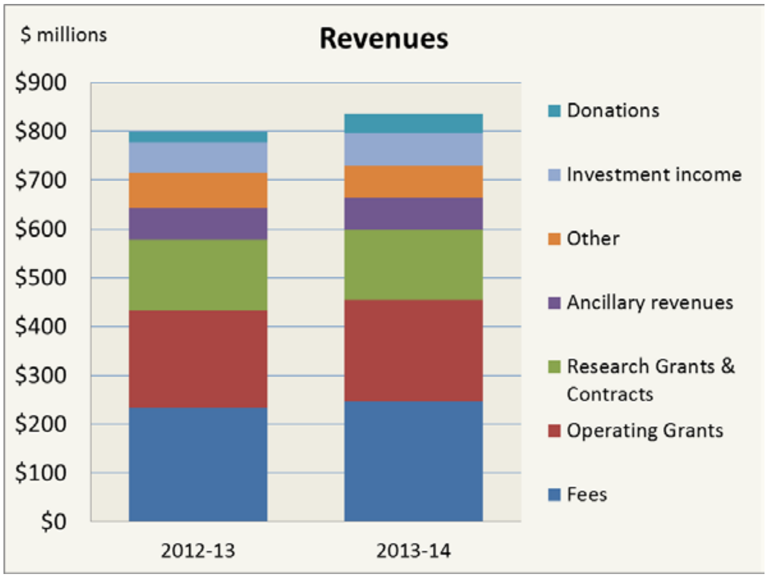
Significant financial challenges remain ahead. Uncertainties around government funding, a prolonged period of low interest rates, a pension plan that is not financially sustainable, and $242 million of deferred maintenance will continue to require the careful management of resources to enable the advancement of strategic priorities.

YEAR ENDED APRIL 30 ($ millions)	2014	2013
Consolidated Statement of Operations		
Revenue	$ 835.4	$ 799.2
Expenses	789.8	776.6
Excess of revenues over expenses	$ 45.6	$ 22.6
Consolidated Statement of Financial Position		
Assets	$ 2,004.2	$ 1,856.9
Liabilities	955.0	1,007.5
Net Assets	$ 1,049.2	$ 849.4
Net Assets is comprised of:		
Endowments	$ 800.2	$ 710.3
Internally restricted	411.0	308.2
Unrestricted	(162.0)	(169.1)
	$ 1,049.2	$ 849.4

In 2013-14 a new accounting standard that impacts the accounting for Employee Future Benefits was adopted retroactively to May 1, 2012, resulting in restated 2013 figures. The standard requires any difference in the actual return on employee future benefit plan assets and the return used in valuing employee future benefit obligations, as well as any actuarial gains or losses to be recorded directly in net assets. The standard also provides an organization with the option to account for all employee benefit plans using the same assumptions as its funded plans, and Queen's has adopted this option. Note 4 of the audited financial statements provides information on the impact of the changes.

These accounting changes have no impact on university resources, or on the financial position of the university's pension plan.

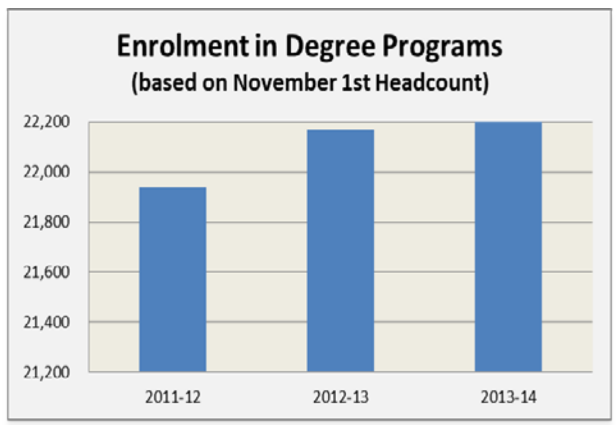
REVENUES



At a glance….
Revenues in 2013-14 were $835.4 million, an increase of 4.5% from the previous year.

This increase is due primarily to an increase in Donations and Fees revenue.

Fees
Fees revenue includes tuition fee as well as other fees related to activities such as student health, recreation, and athletics. In 2013-14, revenue from all fee sources increased by 5.5%, driven primarily by a modest increase in enrolment growth and tuition fee increases approved by the Board in accordance with provincial regulations. 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 in March 2013, restricting aggregate tuition fee increases across the institution to 3%.

Donations
Donations revenue has increased by $18.4 million, due to a large unrestricted bequest received during the year, an increase in donated artwork, and higher donation revenue in Trust, Endowment, and Special Purpose Funds. Externally restricted donation revenue received in Trust, Endowment, and Special Purpose Funds is recorded in the year in which the related expense occurs.

Research grants and contracts

Research revenue is recorded in the research fund in the year in which the expense occurs. Unspent externally sponsored research monies are recorded on the Statement of Financial Position as deferred revenue.

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 contribute to general operating expenditures. The table to the right provides a detailed breakdown of revenues in the Ancillary Fund as shown on page 10.

	$ thousands	
REVENUES BY ANCILLARY OPERATION	2013-14	2012-13
Residences and Housing	$ 58,882	$ 56,061
Hospitality and Conference Services	9,528	8,264
Computer Store	7,232	7,532
Parking	2,796	2,526
Non-credit educational programs (Note 1)	-	15,799
Other	231	3,885
	$ 78,669	$ 94,067
Less: Internal Sales	(13,009)	(11,414)
	$ 65,660	$ 82,653

Note 1: In 2013-14 the university reclassified its non-credit educational programs from the Ancillary Fund to the Operating Fund.

Investment income

During the year, investments performed strongly and the Pooled Endowment Fund managed a return of 15.7% for the year ending April 30, 2014. The portfolio for the Pooled Investment Fund returned 13.5%. Both the Pooled Endowment Fund and the Pooled Investment Fund are invested in accordance with a Board approved Statement of Investment Policies and Procedures.

All unrealized gains and losses (excluding externally endowed investments) flow through investment income which will generate volatility in the university's Statement of Operations over the longer term.

	2013-14 ($ thousands)	2012-13 restated
Salaries and benefits expense		
Salary and benefits	$ 399,661	$ 394,663
Non-pension employee future benefits	7,073	7,188
Pension		
Current service cost	23,166	23,365
Financing cost	4,525	8,365
Total	**$ 434,425**	**$ 433,581**
% of total expenses	55%	56%
Employee Future Benefits Liability		
Non-pension employee future benefits	74,698	69,443
Pension (surplus) / liability	(7,400)	80,574
Total	67,298	150,017

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

In 2013-14 overall salaries and benefits expenses increased by less than 1%, partly due to strong returns in the pension plan which contributed to a lower financing cost component of the pension expense.

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 Queen's employees are covered by various collective agreements. The table below provides a summary of employee groups and the date of their associated employee contracts:

Employee Group	Unit / Association	Contract effective until
Academic Assistants	USW 2010-01	August 2016
Allied Health Care Professionals (Family Health Team)	OPSEU 452	June 2015
General Support Staff	USW 2010	December 2014
Graduate Teaching Assistants and Teaching Fellows	PSAC 901, Unit 1	April 2017
Kingston Heating & Maintenance Workers	CUPE 229	June 2014 – in negotiations
Kingston Technicians	CUPE 254	June 2014 – in negotiations
Library Technicians	CUPE 1302	June 2014 – in negotiations
Post-Doctoral Fellows	PSAC 901, Unit 2	June 2016
Queen's University Faculty Association	QUFA	April 2015
Queen's University excluded General Support Staff Grades 2-9	QUSA	June 2014 – in negotiations
Registered Nurses and Nurse Practitioners (Family Health Team)	ONA 67	March 2014 – in negotiations

Queen's University Revised Pension Plan

The university does not have a financially sustainable pension plan. Potential measures to make the plan financially sustainable over the long term continue to be reviewed, including options that might lead to a permanent exemption from funding the plan on a solvency basis. Government regulations require the university to fund both going concern and solvency deficits and the university currently funds special going concern payments of $14.4 million annually as required after the August 31, 2011 pension plan valuation. The actuarial valuation of the pension plan completed as of August 31, 2013 (for information purposes) reported a solvency deficit of $292 million, which would require additional estimated annual payments into the plan of $22 million.

The university qualified for Stage I solvency relief from the Province of Ontario, which provides a three year exemption from having to make payments into the plan to reduce the solvency deficit. Queen's will apply for Stage II solvency relief in 2014-15, which coincides with when the next valuation will be filed with regulators. Recent regulations made under the Pension Benefits Act in Ontario provide a choice of funding the solvency deficit over a 10 year period, or taking advantage of an additional 3 year extension to pension solvency relief and funding the solvency deficit over the remaining 7 years of Stage II relief. The estimated solvency payments of $22 million above assume the university will qualify for Stage II solvency relief and the solvency deficit will be funded over 10 years.

Assets of the Revised Pension Plan of Queen's University 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. In 2013-14 plan assets generated a return of 16.9%. As a result, at April 30, 2014 pension assets exceed the pension liability by $7.4 million on a going concern (market value) basis. Investment returns were not, however, sufficient to address the solvency deficit. Low interest rates continue to create substantial pressure and on a solvency basis the plan's liabilities remain higher than the value of its assets. Queen's is required to file a valuation as of August 31, 2014, which will determine the level of future going concern and solvency payments.

The table below shows the change in the funded status of the pension plan on a going concern basis for each of the last two years:

	April 30	
CHANGE IN FUNDED STATUS OF PENSION PLAN	$ thousands	
GOING CONCERN (MARKET VALUE) BASIS	2014	2013
Deficit, opening balance	80,574	143,675
Pension expense		
Current Service cost	23,166	23,365
Financing cost	4,525	8,365
	27,691	31,730
Remeasurements and other items		
Investment gains	(66,244)	(43,173)
Liability experience gains	(11,170)	(14,495)
	(77,414)	(57,668)
Less: University contributions	(38,251)	(37,163)
(Surplus) / Deficit, closing balance	(7,400)	80,574

Additional information on Pension and other Employee Future Benefits is available in Note 14 of the Financial Statements.

CAPITAL PROJECTS

In March of 2014 the Board of Trustees approved the new Campus Master Plan. This plan establishes a vision and framework to guide how the university will physically change over the next 10 to 15 years to accommodate Queen's evolving programs and activities. The plan is supported by polices and strategies related to

- enhancing our research and learning experiences;
- reinforcing the strategic and academic goals of the university; and
- influencing where and how students, faculty and staff learn, do research, and interact.

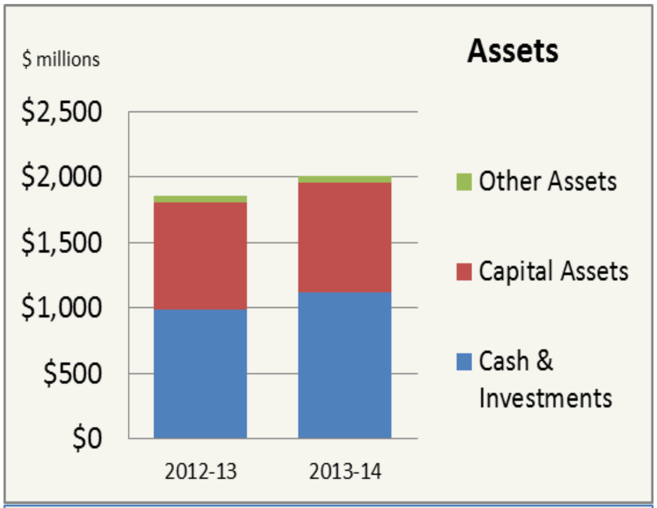
In the last year, construction on the Isabel Bader Centre for the Performing Arts (IBCPA) was substantially completed and the official opening is scheduled for September 2014. This 80,000 square-foot world class facility will create exceptional experiences for students and audiences in Kingston. In addition, construction of two new residence buildings on campus commenced during the fiscal year. These new residences will provide 550 beds to support the current and future need for student living space. The new residences are expected to be completed by the fall of 2015.

Deferred maintenance continues as a critical issue for the university. Of the $242 million of deferred maintenance projects identified, $39 million relates to issues that should be dealt with within 1-2 years. Queen's receives $1 million of annual provincial funding and allocates an additional $6.3 million from its operating budget to address deferred maintenance priorities, with health and safety requirements being addressed first.

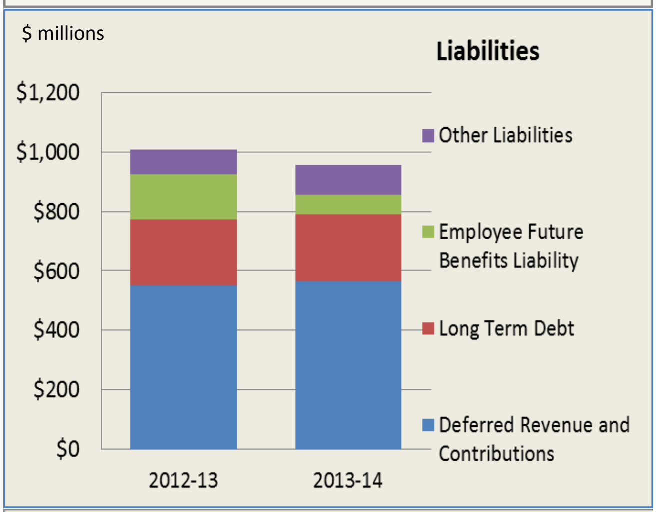
The university's capital expenditures were $71 million in 2013-14, as presented in the table below, with comparative information for the prior year. The bulk of the spending on building projects relates to the Isabel Bader Centre for the Performing Arts, as well as the new residence buildings.

	$ thousands	
CAPITAL ASSET ADDITIONS	2013-14	2012-13
Building projects and Construction in Progress	$ 48,203	$ 49,884
Equipment and Furnishings	20,178	18,012
Other asset purchases	2,645	3,101
	$ 71,026	$ 70,997

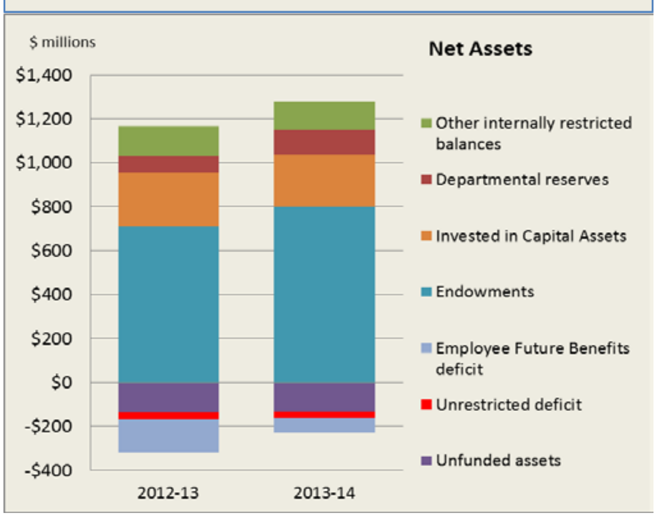
Consolidated Statement of Financial Position at a glance…



Assets of the university increased by 8% overall, due primarily to the growth in the Pooled Endowment Fund as a result of strong investment returns and endowment contributions. Capital Assets also increased further with the capital projects underway across campus.



Liabilities of the university decreased by 6% or $52.5 million largely as a result of the decrease in liabilities related to employee future benefits. Further information on this decrease is explained in the previous Compensation and Benefits Section and in Note 14 to the Financial Statements. This decrease is offset by an increase of $12.1 million in overall deferred revenue and deferred capital contributions due primarily to an increase in capital funding, as well as an increase in accounts payable and accrued liabilities primarily due to the timing of funds received, and payments made, on behalf of agencies.



Net Assets of the university have increased by $199.8 million. This increase is principally a result of higher endowment balances further to strong investment returns and endowment contributions and a reduction in the employee future benefits deficit.

Consolidated Statement of Operations by Fund

The university's audited 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.

Conversely, 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 the Operating Fund, Ancillary Operations, Capital, Trust, Endowment, Special Purpose, Research, and Consolidated Entities.

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

Ancillary Operations 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.

The **Capital fund** 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.

Trust, Endowment and Special Purpose funds 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. Special Purpose funds are funds that have been internally segregated to be used for specific objectives.

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

Consolidated Entities include the Bader International Study Centre, PARTEQ Research and Development Innovations, the U.S. Foundation for Queen's University at Kingston, the Queen's Centre for Enterprise Development, the Queen's University Pooled Trust Fund and prior to 2014 the Crown Foundation at Queen's University at Kingston.

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. Ancillary 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, for the year ended April 30, 2014 by fund and supplements the information presented in the audited financial statements. Amounts are presented in thousands of dollars.

	Operating	Ancillaries	Trust, Endowment & Special Purpose	Research	Capital	Consolidated Entities	Total 2014
REVENUE							
Grants and Contracts	209,156	-	16,178	143,367	(14,497)	3,081	357,285
Fees	236,271	-	1,242	45	-	8,263	245,821
Ancillary sales of service and products	7,874	65,660	268	1,062	365	5,920	81,149
Donations	19,939	-	19,059	12	977	(91)	39,896
Amortization of deferred capital contributions	-	-	-	-	23,735	1,062	24,797
Other	11,466	-	4,904	2,928	549	1,657	21,504
Investment income	27,637	-	36,196	58	1,018	49	64,958
	512,343	65,660	77,847	147,472	12,147	19,941	835,410
EXPENSES							
Salaries and benefits (including pension)	324,986	8,854	17,649	72,949	-	9,987	434,425
Supplies and services	71,725	10,829	12,318	51,797	(22,861)	9,336	133,144
Student assistance	33,727	-	21,225	382	-	62	55,396
Amortization of capital assets	-	-	-	-	50,404	1,797	52,201
Externally contracted services	7,101	21,550	747	13,093	-	3,099	45,590
Utilities and insurance	17,558	6,395	65	553	-	-	24,571
Travel and conferences	7,184	87	2,018	8,872	-	177	18,338
Renovations and alterations	2,126	6,727	1,108	991	2,334	310	13,596
Interest on long-term debt	-	-	-	-	12,562	-	12,562
Interfund transfers out / (in)	24,906	12,867	2,001	(8,250)	(31,524)	-	-
	489,313	67,309	57,131	140,387	10,915	24,768	789,823
Excess / (Deficiency) of revenues over expenses	**23,030**	**(1,649)**	**20,716**	**7,085**	**1,232**	**(4,827)**	**45,587**
Transfer (to) / from Internally Restricted Net Assets	(14,356)	1,739	(20,716)	(7,085)	1,428	411	(38,579)
(Increase) / decrease in Unrestricted Deficit	8,674	90	-	-	2,660	(4,416)	7,008
Unrestricted Deficit, beginning of year	(8,096)	(5,580)	-	-	(137,254)	(18,128)	(169,058)
Unrestricted Surplus (Deficit), end of year	578	(5,490)	-	-	(134,594)	(22,544)	(162,050)

Note: some numbers may not add due to rounding

Performance of the Operating Fund

The Board of Trustees approves the operating fund budget and monitors the performance of the operating fund throughout the year. The operating fund represented 61% of consolidated revenue in 2013-14.

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	
2013-14 Operating Fund	Actual	Budget	Variance
Revenue	512,343	475,222	37,121
Less: Expenditures	(489,313)	(482,842)	(6,471)
Surplus / (Deficit)	23,030	(7,620)	30,650
Appropriations			
Transfer (to) / from departmental reserves	(14,356)	4,320	(18,676)
Amount funded by Employee Future Benefit reserves	-	3,300	(3,300)
Total transfer (to) / from restricted net assets	(14,356)	7,620	(21,976)
Decrease in unrestricted deficit	8,674	-	8,674

For 2013-14, the university was projecting a budgeted deficit of $7.6 million before drawdowns of reserves, but several factors, most notably very favorable investment returns, contributed to an operating fund surplus of $23.0 million. This surplus has allowed the university to eliminate the operating deficit that arose primarily from investment losses in 2008-09 and will provide crucial flexibility for faculties to pursue opportunities that align with the university's strategic framework. Uncertainties around government funding, funding requirements for the pension plan, and significant deferred maintenance continue to place substantial pressure on the operating fund.

In May 2014, the Board of Trustees approved the 2014-15 operating budget which is balanced after a $7.5 million draw-down of departmental 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, 2014 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, 2014 have been reported on by KPMG LLP, Chartered Public Accountants, the auditors appointed by the Board of Trustees. The auditors' report outlines the scope of their audit and their opinion on the presentation of the information included in the consolidated financial statements.

Daniel R. Woolf

Principal and Vice-Chancellor
September 19, 2014

CBDavis, 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, 2014, 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, 2014, 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 Public Accountants, Licensed Public Accountants
September 19, 2014
Kingston, Canada

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at April 30
(Thousands of dollars)

		2014		2013 (Note 3 & 4)
ASSETS				
Current				
Cash	$	84,010	$	46,797
Accounts receivable (note 5)		36,972		42,131
Loans receivable (note 6)		918		589
Prepaid expenses		3,508		5,274
Investments (note 8)		3,026		59,309
Total current assets		128,434		154,100
Loans receivable (note 6)		3,663		4,078
Derivative assets (note 7)		1,228		4,803
Investments (note 8)		1,029,856		871,781
Capital assets (note 9)		840,972		822,147
	$	2,004,153	$	1,856,909
LIABILITIES AND NET ASSETS				
Current				
Accounts payable and accrued liabilities (note 10)	$	98,255	$	84,660
Current portion of long-term debt (note 13)		3,449		6,503
Deferred revenue and contributions (note 11)		188,203		199,717
Total current liabilities		289,907		290,880
Derivative liabilities (note 7)		885		15
Deferred capital contributions (note 12)		375,658		352,043
Long-term debt (note 13)		221,234		214,571
Employee future benefits liability (note 14)		67,298		150,017
		954,982		1,007,526
Net Assets				
Endowments (note 15)		800,238		710,251
Internally restricted (note 16)		410,983		308,190
Unrestricted deficiency		(162,050)		(169,058)
		1,049,171		849,383
	$	2,004,153	$	1,856,909

See accompanying notes to consolidated financial statements.

Commitments and Contingencies (note 21)

Approved by the Board of Trustees

Barbara Palk
Chair, Board of Trustees

Daniel Woolf
Principal and Vice-Chancellor

CONSOLIDATED STATEMENT OF OPERATIONS

Year ended April 30
(Thousands of dollars)

		2014		2013 (Note 3 & 4)
REVENUES				
Grants and contracts	$	357,285	$	356,501
Fees		245,821		233,095
Ancillary sales of service and products		81,149		77,841
Donations		39,896		21,496
Amortization of deferred capital contributions (note 12)		24,797		26,676
Other		21,504		21,522
Investment income (note 8)		64,958		62,033
		835,410		799,164
EXPENSES				
Salaries and benefits		434,425		433,581
Supplies and services		133,144		118,164
Student assistance		55,396		53,001
Amortization of capital assets		52,201		57,186
Externally contracted services		45,590		50,979
Utilities and insurance		24,571		20,870
Travel and conferences		18,338		16,844
Renovations and alterations		13,596		13,607
Interest on long-term debt		12,562		12,371
		789,823		776,603
Excess of revenues over expenses	$	45,587	$	22,561

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 2014**
Net assets (deficiency), beginning of year	$ 710,251	$ 308,190	$ (169,058)	$ 849,383
Excess of revenues over expenses	-	-	45,587	45,587
Employee future benefits remeasurements and other items (note 14)	-	-	77,349	77,349
Change in internally restricted net assets	-	97,409	(97,409)	-
Endowment contributions (note 15)	18,000	-	-	18,000
Excess of investment earnings over endowment spending (note 15)	77,371	-	(18,519)	58,852
Departmental contributions and other transfers (note 15)	(5,384)	5,384	-	-
Net assets (deficiency), end of year	$ 800,238	$ 410,983	$ (162,050)	$ 1,049,171

	Endowments	Internally Restricted	Unrestricted	**Total 2013 (Note 3 & 4)**
Net assets (deficiency), beginning of year	$ 616,797	$ 233,691	$ (165,912)	$ 684,576
Excess of revenues over expenses	-	-	22,561	22,561
Employee future benefits remeasurements and other items (note 14)	-	-	58,091	58,091
Change in internally restricted net assets	-	69,693	(69,693)	-
Endowment contributions (note 15)	23,972	-	-	23,972
Excess of investment earnings over endowment spending (note 15)	67,020	7,268	(14,105)	60,183
Departmental contributions and other transfers (note 15)	2,462	(2,462)	-	-
Net assets (deficiency), end of year	$ 710,251	$ 308,190	$ (169,058)	$ 849,383

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended April 30
(Thousands of dollars)

	2014	2013 (Note 3 & 4)
OPERATING ACTIVITIES:		
Excess of revenues over expenses	$ 45,587	$ 22,561
Non-cash items:		
Amortization of deferred capital contributions	(24,797)	(26,676)
Amortization of capital assets	52,201	57,186
Change in fair value of investments and derivatives	(27,995)	(16,306)
Change in employee future benefits liability	(5,370)	305
Net change in non-cash working capital (note 17)	9,006	(9,429)
Cash provided by operating activities	48,632	27,641
INVESTING ACTIVITIES:		
Net change in loans receivable	86	480
Net change in investments (excluding changes in fair value)	(71,600)	(81,151)
Purchases of capital assets	(71,026)	(70,997)
Investment gain reported as direct increase in net assets (excluding changes in derivative fair value)	61,100	50,727
Cash used in investing activities	(81,440)	(100,941)
FINANCING ACTIVITIES:		
Issuance of long-term debt	10,000	-
Repayment of long-term debt	(6,391)	(6,192)
Contributions received for capital purposes	48,412	48,913
Contributions and transfers reported as direct increase in net assets	18,000	31,240
Cash provided by financing activities	70,021	73,961
Net increase in cash	37,213	661
Cash, beginning of year	46,797	46,136
Cash, end of year	$ 84,010	$ 46,797

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

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

The Crown Foundation at Queen's University at Kingston was established by Regulation 731/93 under the University Foundations Act, 1992 and is an agent of Her Majesty in right of Ontario. The Foundation was established to solicit, receive, manage and distribute money and other property to support education and research at the university. The Foundation was exempt from income tax under section 149 of the Income Tax Act before being wound up in fiscal 2013.

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 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 determination of fair value of financial instruments, the valuation of pension and other employee future benefits, the carrying value of capital assets, the valuation of accounts receivable and the valuation of derivative financial instruments. Actual results could differ from those estimates.

(b) Financial instruments

Financial instruments are recorded at fair value upon initial recognition. Investments and derivative instruments, other than contracts to buy or sell electricity and gas, are subsequently measured at fair value. All other financial instruments are subsequently recorded at amortized cost.

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) 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.

(d) 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.

(e) 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 revenue and expensed, at fair market value, at the date of contribution. Artwork purchases are expensed as acquired. During the year ended April 30, 2014, the university's collection increased by 259 pieces of artwork with a total appraised value of $9,793. The collection is fully insured through a fine arts policy, with a market value of $135,156 at April 30, 2014.

(f) 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 preserved as capital protection on externally restricted endowments are recognized as direct increases in net assets in the year in which they are received. Income preserved as capital protection on internally restricted endowments is 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.

(g) 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 medical, dental, and life insurance benefits provided to employees on long-term disability.

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

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

(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 these consolidated financial statements.

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

(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.

3. CHANGE IN ACCOUNTING POLICIES

The university has early adopted Section 3463 – Reporting Employee Future Benefits with a date of initial application of May 1, 2013. This change in accounting policy is made in accordance with its transitional provisions and requires retrospective application. The standard requires the use of the immediate recognition method to account for employee future benefits while providing the choice of using either a valuation prepared for accounting purposes or a funding valuation. The standard also allows for unfunded plans to be measured using the same valuation method as funded plans, provided there is a funded plan. Remeasurements and other items are recognized as a direct charge to net assets.

4. IMPACT OF CHANGE IN ACCOUNTING POLICY

The university has elected to account for all of its employee future benefit plans obligations using funding assumptions rather than using accounting assumptions. Other benefit plans, which are unfunded plans, are now measured using the same valuation method as the funded pension plan. Previously, other benefit plans were measured using accounting assumptions. Remeasurements and other items are now recognized as a direct charge to net assets while previously these were charged to excess of revenues over expenses.

The following table summarizes the impact of the early adoption of Section 3463 – Reporting Employee Future Benefits on the university's statement of net assets:

Net Assets:		
As previously reported, at May 1, 2012	$	672,207
Change in accounting policy related to Other Benefit Plans		12,369
Restated, May 1, 2012	$	684,576

As a result of the above noted elections and the retrospective application of the new standard, the university recorded the following adjustments to excess of revenue over expenses for the comparative year ended April 30, 2013:

Excess of revenues over expenses:		
As previously reported for the year ended April 30, 2013	$	67,059
Employee future benefits remeasurements and other items direct to net assets		(44,110)
Impact of use of funding assumptions on benefit plan expense		(388)
Restated, for the year ended April 30, 2013	$	22,561

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

5. ACCOUNTS RECEIVABLE

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

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

2014-2015	$	20,119
2015-2016		13,179
2016-2017		10,069
2017-2018		6,932
Subsequent years		9,329
Outstanding pledges at April 30	$	59,628

Included in the preceding amount is $357 (2013 - $399) in cash surrender value on life insurance policies that are owned by the university.

6. LOANS RECEIVABLE

Loans receivable is comprised of an amount receivable regarding relocation loans to employees in the amount of $550 (2013 - $700), microcomputer loans to employees in the amount of $660 (2013 - $767) and a loan to the Kingston General Hospital / Queen’s Parking Commission in the amount of $3,371 (2013 - $3,200).

7. DERIVATIVES

The university is party to foreign exchange contracts to manage currency exposures for economic hedging and risk management purposes. Refer to note 18(a) for additional information. The university also enters into electricity and natural gas contracts to manage the risk of fluctuating energy costs.

8. INVESTMENTS AND INVESTMENT INCOME

Fair value details of investments are as follows:

		2014		2013
Current				
Short-term	$	3,026	$	59,309
Non-Current				
Pooled Endowment Fund		786,544		690,155
Pooled Investment Fund		176,968		155,609
Other		66,344		26,017
		1,029,856		871,781
Total investments	$	1,032,882	$	931,090

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

Investment income is comprised of the following:

	2014	2013
Realized income on investments	$ 40,120	$ 48,452
Unrealized gains on investments	30,192	15,182
Unrealized gains / (losses) on derivatives	(2,197)	1,124
Interest income	975	648
	69,090	65,406
Investment management fees and transaction costs	(4,132)	(3,373)
Investment income	$ 64,958	$ 62,033

9. CAPITAL ASSETS

Capital assets consist of the following:

	2014 Cost	2014 Accumulated Amortization	2014 Net Book Value	2013 Cost	2013 Accumulated Amortization	2013 Net Book Value
Land	$ 85,759	$ -	$ 85,759	$ 84,925	$ -	$ 84,925
Buildings	933,643	335,125	598,518	929,547	314,978	614,569
Leasehold improvements	7,476	5,594	1,882	7,476	4,975	2,501
Equipment and furnishings	175,318	134,387	40,931	158,146	116,562	41,584
Cogeneration facility	14,555	5,547	9,008	14,555	4,819	9,736
Library acquisitions	140,882	135,259	5,623	143,253	137,195	6,058
Software	31,250	22,730	8,520	30,435	16,480	13,955
Construction in process	90,731	-	90,731	48,819	-	48,819
	$ 1,479,614	$ 638,642	$ 840,972	$ 1,417,156	$ 595,009	$ 822,147

10. 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 $8,666 (2013 - $10,416).

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

11. DEFERRED REVENUE AND CONTRIBUTIONS

		2014		2013
Research funds	$	78,175	$	100,520
Student fees		20,703		18,595
Other		3,745		6,243
Trust funds		68,056		48,616
Capital funds		13,267		17,037
Gift annuities		4,257		8,706
	$	188,203	$	199,717

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

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

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

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

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

Under the gift annuity program, a donor may gift an amount to the university and receive a tax preferred life annuity in return. The annuity capital reverts to the university on the death of the donor. The deferred revenue portion represents the current residual value of the donor’s gift, net of the present value of future annuity payments.

12. 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:

		2014		2013
Balance, beginning of year	$	352,043	$	329,806
Amortization of deferred capital contributions		(24,797)		(26,676)
Contributions received for capital purposes		48,412		48,913
	$	375,658	$	352,043

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

13. LONG-TERM DEBT

(a) Long term debt consists of the following:

	Maturity in Fiscal Year Ending	Interest Rate	2014 Principal Outstanding	2013 Principal Outstanding
Debentures				
Series A senior unsecured bullet debenture maturing on November 19, 2032	2033	6.10%	$ 90,000	$ 90,000
Senior unsecured amortizing debenture maturing July 2, 2014	2015	3.16%	3,216	9,499
Senior unsecured bullet debenture maturing June 1, 2040	2041	5.10%	50,000	50,000
Senior unsecured bullet debenture maturing April 1, 2040	2040	5.09%	75,000	75,000
Amortizing unsecured bank loan maturing November 1, 2030 (note 21(g))	2031	3.18%	10,000	-
			228,216	224,499
Mortgages				
Canada Mortgage and Housing Corporation	2017	5.38%	605	826
Unamortized transaction costs/bond discount			(4,138)	(4,251)
			224,683	221,074
Less current portion			(3,449)	(6,503)
			$ 221,234	$ 214,571

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, 2014 the value of the sinking funds is $49,071 (2013 - $42,202).

(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	
2015	$ 3,449
2016	2,062
2017	3,896
2018	3,882
2019	532
Thereafter	210,862
	$ 224,683

14. 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 medical, dental, and life insurance 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%, 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.

The university measures its accrued benefit obligations and fair value of pension plan assets at April 30 each year. The most recent actuarial valuation for going-concern funding purposes of the pension plan was performed as of August 31, 2011. A valuation was conducted for information purposes at August 31, 2013 and the results have been extrapolated to April 30, 2014. The date of the next required valuation is August 31, 2014. The most recent actuarial valuation of non-pension retirement benefits was performed as of January 31, 2013 and results have been extrapolated to April 30, 2014. The most recent actuarial valuation of post-employment benefits was performed as of April 30, 2014.

Salaries and benefits expense for the year includes pension benefit expenses of $27,691 (2013 - $31,730) and non-pension post-retirement and post-employment benefit expenses of $7,073 (2013 – $7,188).

(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:

	2014			2013		
	Pension benefit plan	Other benefit plans	Total	Pension benefit plan	Other benefit plans	Total
Accrued benefit liability						
Accrued benefit obligation	$ (1,702,670)	$ (74,698)	$ (1,777,368)	$ (1,578,885)	$ (69,443)	$ (1,648,328)
Fair value of plan assets	1,710,070	-	1,710,070	1,498,311	-	1,498,311
Plan (deficit) / accrued benefit liability	$ 7,400	$ (74,698)	$ (67,298)	$ (80,574)	$ (69,443)	$ (150,017)
Benefit plan expense						
Current service cost	$ 23,166	$ 2,906	$ 26,072	$ 23,365	$ 3,319	$ 26,684
Interest cost	4,525	4,167	8,692	8,365	3,869	12,234
	27,691	7,073	34,764	31,730	7,188	38,918
Remeasurements and other items						
Investment gains	(66,244)	-	(66,244)	(43,173)	-	(43,173)
Actuarial (gain) / loss on accrued benefit obligation	(11,170)	65	(11,105)	(14,495)	(423)	(14,918)
	(77,414)	65	(77,349)	(57,668)	(423)	(58,091)
Total	$ (49,723)	$ 7,138	$ (42,585)	$ (25,938)	$ 6,765	$ (19,173)

Details of annual contributions and benefits paid are as follows:

	2014		2013	
	Pension benefit plan	Other benefit plans	Pension benefit plan	Other benefit plans
Employer contributions	38,251	1,883	37,163	1,801
Employee contributions	23,317	-	20,533	-
Benefits paid	91,274	1,883	85,022	1,801

Regulations governing provincially regulated pension plans establish certain solvency requirements that assume that the plans are wound up on the valuation date. Annual special going concern employer contributions of $14,412 are required based on the August 31, 2011 funding valuation. During the 2012 fiscal year, the university applied and qualified for stage one of the public sector pension plan temporary solvency funding relief program. This allows the university three years of relief from making solvency special payments. If Queen's receives stage two solvency relief at the time of the next required valuation, August 31, 2014, it will allow the solvency deficit to be funded over ten years, requiring an increase in special payment contributions of approximately $22,000 annually commencing in fiscal 2016 (based on calculations of the August 2013 valuation completed for information purposes). Alternatively, under stage two relief the university has the option to defer solvency special payments for a further three years. The solvency deficiency would then be funded over seven years as opposed to ten years without exercising the deferral option.

The next actuarial valuation of the pension plan will be completed as at August 31, 2014.

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

15. ENDOWMENTS

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

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:

	2014	2013
Endowments, beginning of year	$ 710,251	$ 616,797
Endowment contributions	18,000	23,972
Surplus of investment earnings over endowment spending on:		
Externally restricted endowments	58,852	52,915
Internally restricted endowments	18,519	14,105
Internal transfers to (from) endowments		
Departmental contributions and other transfers	(5,384)	2,462
	$ 800,238	$ 710,251

In 2014, investment earnings, net of fees, of $105,578 (2013 – $94,965) were earned on endowments. An amount of $28,207 (2013 - $27,945) was made available for spending.

An amount of $21,697 (2013 – $21,146) was made available for spending on externally restricted endowments and recorded as investment income. The difference between the amount available for spending and the investment earnings was recorded as a direct increase to endowments.

An amount of $6,510 (2013 - $6,799) was made available for spending on internally restricted endowments. Investment earnings were recorded as investment income and the difference between the amount available for spending and the investment earnings was transferred between endowments and unrestricted net assets.

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

16. INTERNALLY RESTRICTED NET ASSETS

Details of year-end balances are as follows:

	2014	2013
Departmental carryforward funds	$ 111,955	$ 74,476
Ancillary enterprises - major repairs and renovations	8,361	22,205
Unspent special purpose funds	20,634	41,822
Unspent research funds	24,020	16,937
Insurance reserve	980	980
Investment in capital assets	236,492	244,780
Sinking funds	49,071	42,202
Other capital reserves	22,420	10,457
Employee future benefits		
Pension and other benefit plans	(67,298)	(150,017)
Reserve	4,348	4,348
	$ 410,983	$ 308,190

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

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

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

Departments are permitted to carry forward 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)

17. NET CHANGE IN NON-CASH WORKING CAPITAL

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

	2014	2013
Net change in non-cash working capital:		
Accounts receivable	$ 5,159	$ (1,674)
Prepaid expenses	1,766	(3,227)
Accounts payable and accrued liabilities	13,595	(4,656)
Deferred revenue and contributions	(11,514)	128
	$ 9,006	$ (9,429)

18. 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 8.

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

	2014		2013	
	Notional value	Fair value	Notional Value	Fair value
US Dollar	$ 224,765	$ 420	$ 190,092	$ 3,143
Other	107,422	(77)	101,218	1,645
	$ 332,187	$ 343	$ 291,310	$ 4,788

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.

b) Financial risk

The primary risk exposures for investments are foreign currency, interest rate volatility, and market and credit risk. The university, through the work of its Investment Committee, has formal policies and procedures in place governing asset mix among equity, fixed income and alternative investments, requiring diversification within categories, and setting limits on the size of exposure to individual investments and counterparties. In addition, derivative instruments are used in the management of these risks.

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 consolidated financial statements.

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

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

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

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

Externally restricted endowments, as described in Note 15, include monies provided by the Government of Ontario from the Ontario Student Opportunity Trust Fund and Ontario Trust for Student Support matching programs to award student aid as a result of raising an equal amount of endowed donations.

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

(for the year ended April 30)	2014	2013
Endowment Funds:		
Opening balance	$ 70,262	$ 70,737
Transfer to expendable funds	(529)	(475)
Endowment fund balance at end of year	$ 69,733	$ 70,262
Expendable Funds:		
Opening balance	$ 428	$ 428
Investment income	2,971	3,212
Bursaries awarded	(3,500)	(3,687)
Transfer from endowment funds	529	475
Expendable funds available for awards	$ 428	$ 428
Number of bursaries awarded	1,117	1,258

The market value of the OSOTF phase 1 endowment at April 30, 2014 is $95,041 (2013 - $85,489).

(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	2014 Total	2013 Total
Endowment Funds:				
Opening balance	$ 12,238	$ 25,766	$ 38,004	$ 36,401
Donations received	-	904	904	1,370
Transfer from expendable funds	7	106	113	233
Endowment capital	$ 12,245	$ 26,776	$ 39,021	$ 38,004
Expendable Funds:				
Opening balance	$ 228	$ 138	$ 366	$ 393
Internal transfers to expendable funds	(2)	(4)	(6)	5
Investment income	446	952	1,398	1,472
Bursaries awarded	(443)	(841)	(1,284)	(1,271)
Transfer to endowment funds	(7)	(106)	(113)	(233)
Expendable funds available for awards	$ 222	$ 139	$ 361	$ 366
Number of bursaries awarded	182	390	572	647

The market value of the OSOTF phase 2 endowment at March 31, 2014 was $44,820 (2013 - $39,166).

20. RELATED ENTITIES

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

(a) Investment in Parking Commission
Queen's University 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. The university's initial capital investment in the partnership was repaid by the Parking Commission over a twenty-five year period ending December 31, 2007. In fiscal 2011 the Parking Commission embarked on a significant restoration project. In fiscal 2014, the project was substantially completed, with the university's share of these capital expenditures being $3,750 (2013 - $3,463). The university's share of the Parking Commission's excess of revenues over expenses of $464 (2013 - $275) 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 excess of revenues over expenses is $245 (2013 - $137), and is reported in the Consolidated Statement of Operations.

(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 share of the accumulated surplus at April 30, 2013 was $276 (2012 - $152).

(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 operations has been included in these consolidated financial statements (see also Note 21(f)).

(e) Tri-universities Meson Facility
The university is a member, with ten other universities, of a joint venture called the Tri-universities Meson Facility ("TRIUMF"), Canada's national laboratory for particle and nuclear physics located on the University of British Columbia ("UBC") campus. TRIUMF is an unincorporated registered charity and each university has an undivided 1 / 11 interest in its assets, liabilities and obligations. The land and buildings it occupies are owned by UBC. The facilities and its operations are funded by federal government grants and the university has made no direct financial contribution to date. TRIUMF's net assets are not contemplated to be and are not readily realizable by the university. The university's interest in the assets, liabilities and results of operations are not included in these financial statements (see also Note 21(c)).

The following financial information at March 31, 2014 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.

	2014 (Unaudited)	2013
Total assets	$ 25,501	$ 28,601
Total liabilities	7,868	9,806
Total fund balances	$ 17,633	$ 18,795
Revenues	$ 81,032	$ 87,856
Expenses	82,195	88,150
Deficiency of revenues over expenses	$ (1,163)	$ (294)

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

21. 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, 2014, 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 these 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, 2013, the date of the latest financial statements available, CURIE had a surplus of $71,331 (2012 - $60,500).

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, 2014 the estimated cost to complete construction in process for the extension of facilities is approximately $45,396 (2013 - $122,832). 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	
2015	$ 2,371
2016	2,141
2017	852
2018	392
2019	310
Thereafter	666
	$ 6,732

(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, 2014, the amount of loans guaranteed was $147 (2013 - $173). 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 through use of the facility and decommissioning is not expected to occur sooner than fiscal 2020. No accrual has been made in these financial statements.

(g) Long-term debt

During the 2013 fiscal year, the university entered into a loan agreement to finance capital construction costs. The total available under this loan is $70,000 and is to be borrowed through a series of drawdowns occurring between July 2013 and November 2015. The university obtained an interest rate swap with an effective rate of 3.18% to reduce the interest rate risk associated with this floating interest rate loan. During the year, the university made the first draw of $10,000 on the loan. Subsequent to April 30, 2014, the university made a second draw of $20,000 on the loan.

(h) Other

In addition to the capital commitments disclosed in Note 21(d) and the pension special payments disclosed in Note 14, the university has issued letters of credit of $3,608 primarily for capital construction, and has guaranteed an operating line of credit of $1,000 for PARTEQ.