11-12 FINANCIAL STATEMENTS

APRIL 30 2012

QUEEN'S UNIVERSITY
KINGSTON, ONTARIO, CANADA

Financial Statements

Queen's University at Kingston

30 April 2012

QUEEN'S UNIVERSITY AT KINGSTON
CONSOLIDATED FINANICAL STATEMENTS
April 30, 2012

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SUMMARY OF ACTUAL RESULTS FOR 2011-12

THE YEAR IN REVIEW

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

YEAR ENDED APRIL 30 (Millions of dollars)	2012	2011	% increase / (decrease)
Consolidated Statement of Operations			
Revenues	$ 769.9	$ 742.5	3.7%
Expenses	773.7	751.2	3.0%
Deficiency of revenues over expenses before unrealized gain on derivatives	(3.8)	(8.7)	(56.3%)
Unrealized gain on derivatives	0.2	4.3	(95.3%)
Net loss	$ (3.6)	$ (4.4)	(18.2%)
Consolidated Statement of Financial Position			
Assets	$ 1,691.2	$ 1,701.6	(0.6%)
Liabilities	955.0	970.5	(1.6%)
Net Assets	$ 736.2	$ 731.1	0.7%
Net Assets is comprised of:			
Endowments	$ 584.4	$ 557.7	4.8%
Internally restricted	394.5	403.6	(2.3%)
Unrestricted	(242.7)	(230.2)	5.4%
	$ 736.2	$ 731.1	0.7%

The University completed its 2011-12 year with a deficiency of revenues over expenses of $3.6 million which reflects a trend of continued improvement in financial performance since the large deficiency experienced in 2008-09 as a result of the downturn of the financial markets.

Some of the key drivers of financial performance are summarized below:

- Student enrolment, which impacts government operating grants and student fee revenues, increases to which are guided by the policies of the Ministry of Training, Colleges and Universities;
- Human resources changes which impact salaries and benefits, the University's largest expenditure;
- The pension plan deficit which impacts liabilities and the unrestricted deficit;
- Level of research activity, which affects research grants and contracts revenue, and related expenses in the research fund, along with infrastructure requirements and other support services;
- Enhancements to physical space, which affects building operations and renovations and to the extent that long-term debt is required, increases liabilities and interest expense. Capital grants or donations increase liabilities (deferred capital contributions), which are recorded as revenue over time to match the amortization expense;
- Philanthropic funding (donations); and
- Investment performance.

The improved financial results of the last fiscal year are a result of unrelenting efforts to manage expenses and liabilities whilst maintaining steady increases to our revenue streams.

Despite the continued turmoil in global financial markets, the Pooled Endowment Fund and the Pooled Investment Fund achieved net positive returns for the year. Investments remain the largest asset of the University and diligence around risk management in our investment policies remains a central focus.

Salaries and benefits are the University's largest expense, and during the year, changes to the University's pension plan were negotiated and accepted by staff groups, which will mitigate some of the pressures on the plan in the long term. The University's pension plan deficit remains one of the most significant risks to the organization, and the willingness of staff to agree to the proposed changes demonstrates support to address the institution's financial challenges in a united fashion. In addition, negotiations on a first contract with one of the University's largest employee groups, the administrative staff represented by the United Steelworkers Union, have progressed well and a first collective agreement was ratified in August 2012. The United Steelworkers Union represents approximately 1,100 General Support Staff employees of the University. This follows the successful negotiation of a number of multi-year employee agreements in the prior year, allowing for improved planning.

With respect to capital spending, the University's commitment to revitalizing infrastructure was demonstrated through investments of over $45 million in capital projects to improve the experience of our students and the community around us. These investments include the completion of the new School of Medicine building, the Goodes Hall expansion, and the commencement of construction of the new Isabel Bader Centre for the Performing Arts. These investments would not have been possible without government grants and the support of our donors.

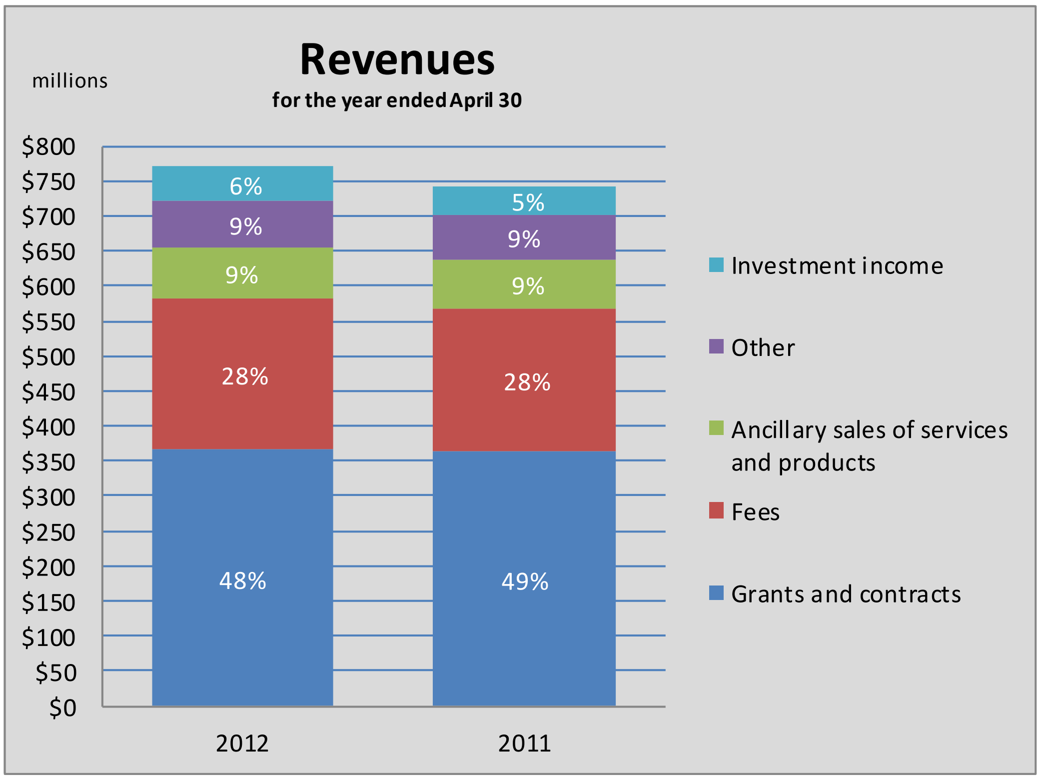
FINANCIAL STATEMENT HIGHLIGHTS

The information presented in this financial report has been prepared to provide the reader with financial information for the fiscal year ended April 30, 2012. Information on the changes in the University's Consolidated Statement of Operations and Statement of Financial Position can be found on the pages that follow. In addition, more specific information on the performance of the University's Operating Fund, which accounts for over half of the revenues of the University, has been included.

Consolidated Statement of Operations

Revenues

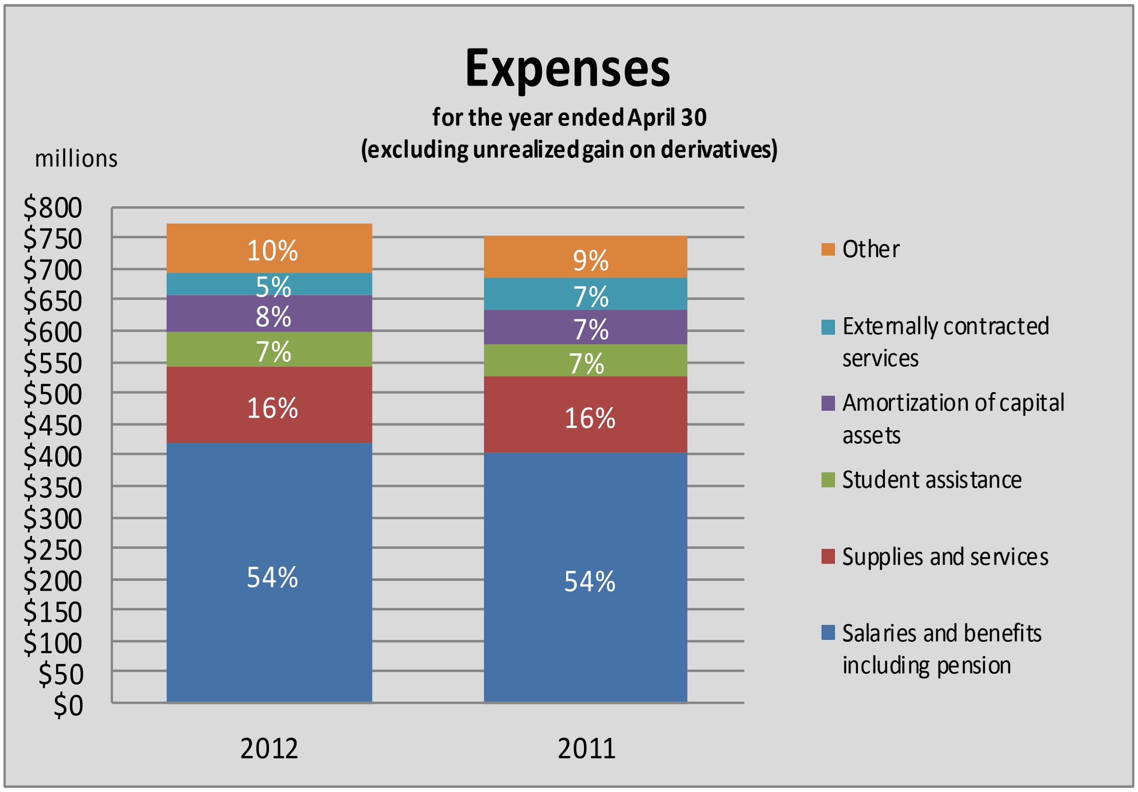
Revenues of the University increased by 3.7%, from $742.5 million in 2010-11 to $769.9 million in 2011-12. A breakdown of revenues is presented in the chart below.



Key factors contributing to the increase in revenue in 2011-12 include higher fees and higher investment income. Fees increased due to higher enrolment and Board approved fee increases in accordance with provincial regulations. Investment income increased due to gains realized during the year on the University's Endowment Fund and other investment holdings, and includes a gain on the sale of the University's interest rate swap. These gains have been partially offset by unrealized losses as presented in the University's Statement of Changes in Net Assets.

Expenses

The University's total expenses, excluding the unrealized gain on derivatives, grew by 3.0% year over year, from $751.2 million to $773.7 million.



Salaries and benefits increased by 3.6%, or $13.4 million during the year. The increase is a result of modest increases to both salaries and the work force.

Pension expense has remained relatively constant year over year. Increased interest and current service costs have been offset by lower costs resulting from the plan amendments negotiated during the year with staff.

Supplies and services are comprised of several different types of expenses and can fluctuate year over year. Overall, expenses in the category increased by $5.8 million during the year, due predominantly to a one-time $7 million contribution provided to the City of Kingston as part of the Isabel Bader Centre for the Performing Arts capital project. The contribution, which was a condition of receiving substantial federal government funding for the project, will assist in renovating a City property that is adjacent to the University's new building. This will further the objective of creating a world class arts cluster to bring together students, artists, and the community.

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

Externally contracted services decreased by $12.6 million in 2011-12 almost entirely due to a decline in research expenses related to one large Natural Sciences and Engineering Research Council of Canada funded project. Within the ancillary fund, snow removal costs also decreased as a result of a mild winter and minimal snowfall.

Other expenses in the preceding chart are comprised of clinical member fees, travel and conferences, utilities, renovations and alterations, and interest on long term debt. In total, these expenses increased by $13.1 million, from $66.4 million to $79.5 million. The increase is explained predominantly by an increase in renovations and alterations expenditures due to a focus on maintenance across campus.

Unrealized gain on derivatives

The University invests in derivatives to manage interest rate and foreign currency risks. In 2010-11, the University reported a $4.3 million gain on its derivatives, a gain largely attributable to the interest rate swap held by the University. This instrument was sold in 2012. The $0.2 million in gains in the current year are attributable to foreign currency swaps, the only instruments that remain in the University's derivative portfolio.

Consolidated Statement of Financial Position

Assets

The total assets of the University decreased in the current year, primarily due to a decrease in cash and derivative assets. These decreases were offset by increases in the University's capital assets.

Cash balances have decreased since 2011 due to the establishment of a new Investment Committee policy on maximum cash balances with single counterparties. Excess cash balances are now invested in diversified investments to reduce the organization's counterparty exposure. With respect to derivative assets, in 2011-12 the University sold its interest rate swap, realizing a significant gain and reducing derivative asset balances.

The University's investment in capital expansion continued in the current year, with the bulk of expenditures being made to complete the new School of Medicine building, ongoing work on the expansion of Goodes Hall, and the construction of the Isabel Bader Centre for the Performing Arts.

Investments continue to be the largest asset reported in the financial statements, and are presented at fair value. In 2011-12, investments increased by only $2.3 million over the April 30, 2011 values. Despite strong realized investment income, investments incurred unrealized losses of $46.5 million during the year.

Liabilities

Decreases in the University's liabilities are predominantly a result of a decrease in deferred revenue and long term debt, offset by an increase in deferred capital contributions, accounts payable, and employee future benefits.

Deferred revenue decreased during the year primarily as a result of a $25.4 million decline in unrealized gains on externally restricted endowments, a $7.7 million decrease in deferred revenue related to research funding, and the application of external funding to capital projects. These decreases were offset by an increase in deferred revenue related to externally restricted trust funds.

Deferred capital contributions increased during the year as a result of government grants and donations received for capital expansion, offset by the amortization of deferred capital contributions. The most significant government contributions received during the year include $7.7 million for the new School of Medicine building, $6 million for the Isabel Bader Centre for the Performing Arts, and $6 million in government grants applied to the Goodes Hall expansion. During the year the University also received $3.4 million in donations for the Goodes Hall expansion and $4.7 million in funding for the Queen's Centre.

The increase in the employee future benefits liability relates primarily to the University's other benefit plans, and is largely a result of the decrease in the discount rate year over year. Although the liability related to the pension plan, as presented on the Statement of Financial Position, did not increase significantly, the University's pension plan deficit, as calculated on an accounting basis, has climbed by $109.2 million to $289.3 million. The increase is due partially to a decrease in the discount rate used to calculate the liability year over year, and partially due to investment performance of the pension plan asset portfolio. Compared to prior year, the value of the pension plan assets declined by $36.4 million. The funded status of the pension plan, based on an August 31, 2011 valuation, is highlighted in the "Fiscal Outlook" section of this report.

Net Assets

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

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

Net assets increased by $5.1 million in 2011-12. The increase was driven largely by endowment contributions of $24.3 million. These increases are offset by the deficiency of revenues over expenses of $3.6 million and unrealized losses on investment portfolios of $20.9 million.

Information on the University's restricted net assets is presented in Note 12 to the Financial Statements. Unrestricted net assets are comprised primarily of a deficit related to employee future benefits of $76.7 million, and to internal financing of capital construction of $125.2 million.

Consolidated Statement of Operations by fund

The audited Financial Statements provide a consolidated picture of all Queen's University at Kingston's business segments. These business segments include the Operating Fund, Ancillary Enterprises, 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 Enterprises includes business units that provide goods and services to the University community and aim to operate on a break-even basis after covering their full operating costs, including a payment to the University for the provision of administrative services. Ancillary operations experienced a decline in surplus in the year due primarily to lower enrolment in continuing education programs.

The **Capital fund** includes activities related to the capital infrastructure on campus. The Capital fund reflects amortization of both costs and deferred capital contributions, the capitalization of assets purchased through other funds, 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 University at Kingston 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. The deficiency reported in the Research fund in the current year is a result of the expenditure of University funds allocated to research activities in prior years.

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

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, departmental transfers to the Research fund in support of internally sponsored research, and department transfers to trust funds in support of student assistance. Ancillary fund transfers include transfers to the Operating fund to support operations.

Consolidated Statement of Operations by Fund

The table below presents the activities of the University for the year ended April 30, 2012 by fund and supplements the information presented in the audited financial statements. Amounts are presented in thousands of dollars.

	Operating	Ancillaries	Trust, Endowments & Special Purpose Funds	Research	Capital	Consolidated Entities	2012 TOTAL
REVENUE							
Grants and contracts	199,742	-	23,291	149,491	(10,876)	5,252	366,900
Fees	185,756	17,696	6,805	(72)	-	5,579	215,764
Ancillary sales of service and products	6,638	60,176	478	1,057	-	4,416	72,765
Other	5,924	-	10,036	924	547	2,063	19,494
Amortization of deferred capital contributions	-	-	-	-	24,540	1,047	25,587
Donations	5,322	-	8,497	92	7,020	(174)	20,757
Investment income	21,664	-	25,685	615	693	20	48,677
	425,046	77,872	74,792	152,107	21,924	18,203	769,944
EXPENSES							
Salaries and benefits (including pension)	301,054	19,948	19,797	69,880	-	7,473	418,152
Clinical members fees	1,500	5	6,037	25	-	-	7,567
Supplies and services	40,672	26,444	12,043	66,641	(27,631)	7,523	125,692
Student assistance	27,836	18	25,520	1,717	-	43	55,134
Amortization of capital assets	-	-	-	-	55,993	1,799	57,792
Externally contracted services	8,074	20,300	2,103	4,690	-	2,315	37,482
Travel	5,326	491	2,706	8,118	-	165	16,806
Utilities	12,761	5,238	250	335	-	-	18,584
Renovations and alterations	1,308	5,390	335	6,142	10,396	329	23,900
Interest on long-term debt	-	60	-	-	12,546	-	12,606
	398,531	77,894	68,791	157,548	51,304	19,647	773,715
Surplus / (deficiency) before items below	26,515	(22)	6,001	(5,441)	(29,380)	(1,444)	(3,771)
Interfund Transfers (out) / in	(14,802)	(3,516)	(375)	868	17,825	-	-
	11,713	(3,538)	5,626	(4,573)	(11,555)	(1,444)	(3,771)
Unrealized gain / (loss) on derivatives	621	-	(413)	-	-	-	208
Surplus / (deficiency)	**12,334**	**(3,538)**	**5,213**	**(4,573)**	**(11,555)**	**(1,444)**	**(3,563)**
Change in cumulative unrealized gains (losses) on available-for-sale financial assets	(10,931)	-	-	-	1,632	-	(9,299)
Transfer (to) / from internally restricted net assets	(16,772)	3,791	(5,213)	4,573	13,386	612	377
(Increase) / decrease in unrestricted deficit	(15,369)	253	-	-	3,463	(832)	(12,485)
Unrestricted deficit, beginning of year	(78,695)	(4,262)	-	-	(128,708)	(18,550)	(230,215)
Unrestricted deficit, end of year	(94,064)	(4,009)	-	-	(125,245)	(19,382)	(242,700)

Note: some numbers may not add due to rounding

Performance of the Operating Fund

The Board of Trustees approves the Operating fund budget and monitors the performance of the Operating fund throughout the year. The Operating fund represented 55% of consolidated revenue in fiscal 2012.

In early 2011 the Board of Trustees reluctantly approved a 2011-12 operating fund deficit of $3 million. Actual results for the year generated a surplus of $12.3 million. This surplus was reduced to a $15.4 million deficit after appropriation of $16.8 million of unspent departmental allocations to restricted reserves, and unrealized losses on the Pooled Investment Fund. The significant unspent departmental allocations reflect conservative budgeting and restrained spending by units given the current fiscal pressures.

The increase in the deficit is primarily a result of a $4.3 million increase in the employee future benefits liability and $10.9 million of unrealized losses on the Pooled Investment Fund, both of which are based on fiscal year-end valuations.

The accumulated unrestricted deficit in the Operating fund at April 30, 2012 is $94.1 million and is included in unrestricted net assets. The components of the deficit are as follows (comparative figures are presented for 2011):

As at April 30 (thousands of dollars)	2012	2011
Employee Future Benefits	(76,660)	(72,354)
Cumulative unrealized gains on derivatives and loans receivable	348	9,686
Cumulative unrealized gains on the Pooled Investment Fund	7,720	21,125
Operating budget deficit, net of items listed above	(25,472)	(37,152)
Total Operating Fund Unrestricted Deficit	(94,064)	(78,695)

The University is working within a balanced operating fund budget for 2012-13.

FISCAL OUTLOOK – KEY DRIVERS AND CHALLENGES

The improved results of the last fiscal year reflect the University's move towards balanced budgets while representing the continued fiscal challenges of the post-secondary education sector. The most significant budgetary challenge faced by the University remains its pension plan deficit. In addition, risks around the volatility of capital markets, the provincial deficit projections, and a significant backlog of deferred maintenance on the institution's physical infrastructure continue to cause concern.

These financial challenges are being met with careful planning and decision-making. The University is following an integrated planning framework in which the operating and capital financial plans will inform, and be informed by, the Academic Plan, the Strategic Research Plan, the Strategic Enrolment Plan, and the Campus Master Plan. A Planning and Budget portfolio was created in 2012, amalgamating the functions of budget planning and analysis, institutional research and planning and campus planning in order to bring a more integrated approach to University planning. In addition, the University will adopt a new activity-based budget model commencing in 2013-14 which will increase transparency and will be strongly linked to academic goals and priorities. The change in the resource allocation methodology will position the University well to address the current fiscal realities while continuing to foster excellence in teaching, learning, and research.

Queen's Pension Plan deficit

A valuation of the plan was completed on August 31, 2011, revealing a deficit of $126 million on a going concern basis, and $332 million on a solvency basis versus the $45 million going concern and $69 million solvency deficits at August 31, 2008. Plan changes approved by employee groups, together with low interest rates, contributed to more favorable going concern valuation results and led to success in obtaining approval for Stage 1 solvency relief from the Province of Ontario. This provides the University with a three year exemption from having to make major payments into the plan to reduce the solvency deficit.

Although significant strides have been made towards a viable pension plan for future service, the University remains challenged to deal with the deficit due to past service. Despite the Stage 1 solvency relief, the University's annual special payments to the pension plan will increase to $14 million by September 2012, and by a further $25 million annually in 2015-16 if stage 2 solvency relief is approved. Stage 2 will allow payment of the solvency deficit over ten years rather than five, and the University is optimistic that the Queen's Pension Plan will qualify for it based on the changes to the plan that have already been made.

The University is looking at all options to reduce the ongoing operating budget impact of these significant increases in pension plan payments. The three-year solvency relief period gives some time to develop a strategy. Options being explored include a letter of credit, early lump sum payments, sale of assets, and repaying debt over a longer time frame.

The 2012 Provincial Budget included proposed reforms to the framework that governs public sector pension plans to make them more sustainable. Public consultations have commenced and the University is providing input and exploring options.

Government funding

Over the last two decades, the provincial funding model for universities has shifted. The level of government operational support has declined from 80% in 1990 to under 50% today. Provincial operating grants have not matched inflation in university costs, which has challenged the post-secondary sector in maintaining quality.

The 2012-13 Provincial Budget presents a challenging future, concentrating on the government's plan to eliminate the deficit, while protecting investments in health care and education. The Province continues to allocate incremental funding for universities through growth, maintaining their commitment to fund undergraduate growth while slowing down the funding model for graduate expansion. The existing tuition framework has been rolled forward for 2012-13, but the lack of a framework beyond this point makes long term planning a challenge. Several measures are expected to be introduced in 2013-14 to reduce base operating grants based on "international student recovery" and "efficiency targets".

The Ministry of Training, Colleges and Universities released a June 2012 consultation paper, *STRENGTHENING Ontario's Centres of Creativity, Innovation and Knowledge*, as the Ministry moves to developing a transformation strategy for post-secondary education in Ontario. The University is participating in the consultation sessions over the summer.

The 2012-13 Ontario Budget also made little provision for new capital funding, indicating only that 'capital allocations for unannounced projects would be reduced' and that there was no additional funding provided for deferred maintenance, which represents a risk to Queen's University at Kingston and most other Ontario universities.

Enrolment planning

Enrolment planning has a significant impact on the University's financial projections. Acting on the recommendation of the Principal's Enrolment Planning Task Force, a Strategic Enrolment Management Committee, chaired by the Provost, was established to guide the development of an enrolment strategy at Queen's University at Kingston in accordance with the values and mission of the University. As part of the integrated planning process mentioned earlier, the Committee is working on the development of a longer-term enrolment strategy.

For the 2012-13 academic year, in recognition of the current infrastructure limitations of the University, there will be a modest increase in first-entry undergraduate enrolment of approximately 100. Residence expansion would be required to accommodate further first-year undergraduate growth in line with the commitment to provide places in residence for all first year students. Further efforts to increase graduate enrolment will continue through the development of new programs and the expansion of existing programs where there is capacity, student demand, and alignment with government priorities which will be identified in the Putting Students First Program.

Compensation

The labour landscape has changed significantly over the last couple of years and University administration is working through an unprecedented volume of labour negotiations. The University remains committed to working with all employee groups to secure agreements that balance quality of compensation with the limitations dictated by the University's current financial realities. A summary of the status of employee group contracts is presented in the following tables.

The contract expiry dates for employee groups with agreements are as follows:

Employee Group	Unit / Association	Contract / Agreement effective until
Graduate Teaching Assistants and Teaching Fellows	PSAC 901	April 2013
Kingston Heating and Maintenance Workers	CUPE 229	June 2014
Kingston Technicians	CUPE 254	June 2014
Library Technicians	CUPE 1302	June 2014
Queen's University Faculty Association	QUFA	April 2015
Registered Nurses and Nurse Practitioners (Family Health Team)	ONA 67	March 2014
Queen's University excluded General Support Staff Grades 2-9	QUSA	June 2014
General Support Staff	USW 2010	December 2014

The following groups are engaged in ongoing contract negotiations:

Employee Group	Unit / Association	Status
Academic Assistants	USW	Ongoing
Allied Health Care Professionals (Family Health Team)	OPSEU	Ongoing
Post-Doctoral Fellows	PSAC	Ongoing

Capital funding requirements

The University has embarked on a number of significant capital projects over the last few years as part of a comprehensive campus revitalization to enhance the Queen's University at Kingston learning experience and improve student life on campus.

In the coming fiscal year, the expansion of Goodes Hall will be completed, which has allowed an expansion of the Commerce programs. Construction will continue on the Isabel Bader Centre for the Performing Arts which will enable the consolidation and expansion of the University's four visual and performing arts programs, and will provide state-of-the-art performance, teaching and research space. Planning will continue for the new Teaching Space Complex and an Engineering and Applied Science building, both of which are contingent on full business case and committed funding to move beyond the planning stage. In order to facilitate enrolment growth and expanded residence programming, planning is underway for additional residence space.

While these capital initiatives will further enhance the University's strong standing, they will place additional pressure on the capital and operating budgets. Also imposing budget pressure is the University's deferred maintenance backlog. The University conducted a full facilities audit in 2010-11 resulting in a clear picture of the deferred maintenance requirements of $248 million, and of the urgent priorities that should be addressed in the next few years.

In closing

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

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

STATEMENT OF ADMINISTRATIVE RESPONSIBILITY

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

The administration has prepared the accompanying consolidated financial statements in accordance with Canadian Generally Accepted Accounting Principles as issued by the Canadian Institute of Chartered Accountants. In order to achieve the objective of fair presentation in all material respects, the use of reasonable estimates and judgments were employed. The administration believes the consolidated financial statements present fairly the University's financial position as at April 30, 2012 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, 2012 have been reported on by KPMG LLP, Chartered Accountants, the auditors appointed by the Board of Trustees. The auditors' report outlines the scope of their audit and their opinion on the presentation of the information included in the consolidated financial statements.

Daniel R. Woolf

Principal and Vice-Chancellor
September 28, 2012

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, 2012 and the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Queen's University at Kingston as at April 30, 2012, and its consolidated results of its operations and its consolidated cash flows for the year then ended in accordance with Canadian Generally Accepted Accounting Principles.

KPMG LLP

Chartered Accountants, Licensed Public Accountants
September 28, 2012
Kingston, Canada

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 April
(Thousands of dollars)

		2012		2011
ASSETS				
Cash	$	46,136	$	66,109
Accounts receivable (note 3)		40,457		40,397
Loans receivable (note 4)		5,019		3,829
Prepaid expenses		2,047		1,789
Derivative assets (note 5)		1,484		11,087
Investments (note 6)		834,757		832,472
Capital assets (note 7)		761,320		745,893
	$	1,691,220	$	1,701,576
LIABILITIES AND NET ASSETS				
Accounts payable and accrued liabilities	$	89,316	$	81,237
Derivative liabilities (note 5)		8		1,153
Deferred revenue, contributions and related investment revenue (note 8)		231,932		274,147
Deferred capital contributions (note 9)		329,806		308,304
Long-term debt (note 10)		227,266		233,267
Employee future benefits liability (note 15)		76,660		72,354
		954,988		970,462
Net Assets				
Endowments (note 11)		584,454		557,751
Internally restricted (note 12)		394,478		403,578
Unrestricted deficiency		(242,700)		(230,215)
		736,232		731,114
	$	1,691,220	$	1,701,576

See accompanying notes to consolidated financial statements.

Commitments and Contingencies (note 19)

Approved by the Board of Trustees

Barbara Palk
Trustee

Karyn A. Brooks, FCA
Trustee

CONSOLIDATED STATEMENT OF OPERATIONS

Year ended 30 April
(Thousands of dollars)

		2012		2011
REVENUES				
Grants and contracts	$	366,900	$	364,609
Fees		215,764		203,757
Ancillary sales of service and products		72,765		69,872
Other		19,494		25,263
Amortization of deferred capital contributions		25,587		23,274
Donations		20,757		15,750
Investment income		48,677		39,942
		769,944		742,467
EXPENSES				
Salaries and benefits		385,287		371,822
Pension (note 15)		32,865		33,012
Clinical members fees		7,567		6,705
Supplies and services		125,692		119,899
Student assistance		55,134		54,751
Amortization of capital assets		57,792		55,255
Externally contracted services		37,482		50,065
Travel and conferences		16,806		17,512
Utilities		18,584		19,479
Renovations and alterations		23,900		10,102
Interest on long-term debt		12,606		12,552
		773,715		751,154
Deficiency of revenues over expenses before the undernoted		(3,771)		(8,687)
Net unrealized gain on derivatives (note 5)		208		4,268
Deficiency of revenues over expenses	$	(3,563)	$	(4,419)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Year ended 30 April
(Thousands of dollars)

	Endowments	Internally Restricted	Unrestricted	**Total 2012**	**Total 2011**
Net assets (deficiency), beginning of year	557,751	403,578	(230,215)	731,114	708,484
Deficiency of revenues over expenses	-	-	(3,563)	(3,563)	(4,419)
Change in internally restricted net assets (note 12)	-	(9,100)	9,100	-	-
Realized investment gain recorded directly to endowments (note 11)	14,236	-	-	14,236	931
Internal transfers to endowments (note 11)	2,221	-	(2,221)	-	-
Investment income credited to endowments (note 11)	11,797	-	(11,797)	-	-
Endowment contributions (note 11)	10,078	-	-	10,078	14,167
Change in cumulative unrealized gains on available-for-sale financial assets (note 11)	(11,629)	-	(9,418)	(21,047)	11,803
Unrealized gains on loans and receivables	-	-	119	119	148
Funding received for purchase of land	-	-	5,295	5,295	-
Net assets (deficiency), end of year	$ 584,454	$ 394,478	$ (242,700)	$ 736,232	$ 731,114

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 30 April
(Thousands of dollars)

	2012	2011
OPERATING ACTIVITIES:		
Deficiency of revenues over expenses	$ (3,563)	$ (4,419)
Add non-cash items:		
Amortization of deferred capital contributions	(25,587)	(23,274)
Amortization of capital assets	57,792	55,255
Increase in employee future benefits liability	4,306	10,203
Net change in non-cash working capital (note 14)	(34,454)	10,634
Cash provided by (used in) operating activities	(1,506)	48,399
INVESTING ACTIVITIES:		
Net change in loans receivable (net of unrealized gains and losses)	(1,071)	210
Net change in derivative assets	9,603	(3,328)
Net change in investments	(2,404)	(98,987)
Net purchases of capital assets	(73,219)	(93,817)
Net change in derivative liabilities	(1,145)	(940)
Contributions and investment income reported as direct increase in net assets	8,681	27,049
Cash used in investing activities	(59,555)	(169,813)
FINANCING ACTIVITIES:		
Issuance of long-term debt	-	50,000
Repayment of long-term debt	(6,001)	(5,828)
Contributions received for capital purposes	47,089	77,240
Cash provided by financing activities	41,088	121,412
Net decrease in cash	(19,973)	(2)
Cash, beginning of year	66,109	66,111
Cash, end of year	$ 46,136	$ 66,109

See accompanying notes to consolidated financial statements.

Supplemental information:		
Interest paid	$ 12,866	$ 12,635
Interest received	26,417	22,323

1. AUTHORITY

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

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

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

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

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

The U.S. Foundation for Queen's University at Kingston was incorporated under the applicable provisions of the District of Columbia Non-Profit Corporation Act in 1995. The U.S. Foundation works to promote, encourage and foster an appreciation by the American public of the work conducted by 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These consolidated financial statements have been prepared in accordance with Canadian Generally Accepted Accounting Principles. The significant accounting policies of the University are described below.

(a) Accounting estimates

The preparation of financial statements in conformity with Canadian Generally Accepted Accounting Principles requires administration to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of 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) Investments and investment income

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

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

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

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

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

(c) Derivative financial instruments

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

The University has elected not to separately account for contracts to buy or sell electricity and gas. This is in accordance with the University's expected purchase, sale or usage requirements.

(d) Translation of foreign currency

Transactions denominated in foreign currencies are accounted for at the exchange rate in effect at the date of the transaction. At year end, monetary assets 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.

(e) Capital assets

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

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

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

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

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

(f) Works of art

Queen's University at Kingston maintains a collection of fine art that includes European art, historical and modern Canadian art, contemporary American and Canadian art, Inuit art, and African sculpture.

Contributions of collection items are recorded as revenue and expensed, at fair market value, at the date of contribution. Artwork purchases are expensed as acquired. The collection is fully insured through a fine arts policy, with a market value of $121,199 at 30 April 2012. During the year ended 30 April 2012, the University acquired 247 pieces of artwork with a total appraised value of $6,293.

(g) Revenue recognition

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

Unrestricted contributions are recognized as revenue when received or receivable if the amount 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 are recognized as direct increases in net assets in the year in which they are received.

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

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

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

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

(h) Employee benefit plans

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

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

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

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

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

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

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

(k) Future accounting policy changes
In November 2010, the Canadian Accounting Standards Board issued a new accounting framework applicable to not-for-profit organizations. Effective for fiscal years beginning on or after January 1, 2012, not-for-profit organizations will be required to select from either International Financial Reporting Standards or Part III of the CICA Handbook (“the Handbook”), used in conjunction with Part II. Early adoption of these new standards is permitted. The University is adopting Part III of the Handbook for its fiscal year beginning on May 1, 2012. The impact of these standards and the various elections and options available is currently being evaluated by the University.

3. ACCOUNTS RECEIVABLE

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

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

2012-2013	$	20,153
2013-2014		7,960
2014-2015		6,320
Subsequent years		9,510
Outstanding pledges at 30 April	$	43,943

Included in the preceding amount is $372 in cash surrender value on life insurance policies that are owned by the University.

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

4. LOANS RECEIVABLE

Loans receivable is comprised of an amount receivable regarding the sale of a property of $754 (2011 - $1,464), relocation loans to employees in the amount of $830 (2011 - $868), microcomputer loans to employees in the amount of $812 (2011 - $776) and a loan to the Kingston General Hospital / Queen's Parking Commission in the amount of $2,623 (2011 - $72l). As loans are designated as available-for-sale they are carried at fair value.

5. DERIVATIVES

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

6. INVESTMENTS

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

Investment details by fund are as follows:

	Cost		Fair value	
	2012	2011	2012	2011
Short-term	32,534	2,469	32,506	2,453
Pooled Endowment fund	579,340	542,194	610,731	610,713
Pooled Investment fund	160,391	176,732	168,205	195,596
Other	11,693	15,058	23,315	23,710
	$ 783,958	$ 736,453	$ 834,757	$ 832,472

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

7. CAPITAL ASSETS

Capital assets consist of the following:

	2012			2011		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	$ 36,243	$ -	$ 36,243	$ 30,442	$ -	$ 30,442
Buildings	882,661	295,500	587,161	811,936	276,300	535,636
Leasehold improvements	6,801	4,229	2,572	5,379	3,476	1,903
Equipment and furnishings	156,709	109,362	47,347	149,059	99,478	49,581
Cogeneration facility	14,555	4,090	10,465	14,555	3,362	11,193
Library acquisitions	145,659	137,862	7,797	147,542	136,746	10,796
Software	30,435	10,393	20,042	17,467	4,306	13,161
Construction in process	49,693	-	49,693	93,181	-	93,181
	$ 1,322,756	$ 561,436	$ 761,320	$ 1,269,561	$ 523,668	$ 745,893

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

8. DEFERRED REVENUE, CONTRIBUTIONS AND RELATED INVESTMENT REVENUE

	2012	2011
Research funds	$ 85,804	$ 93,500
Student fees	15,106	16,375
Other	9,589	19,676
Trust funds	47,454	36,803
Capital funds	32,041	41,238
Gift annuities	9,595	8,792
Unrealized gains on externally restricted endowments	32,343	57,763
	$ 231,932	$ 274,147

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

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

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

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

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

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

9. DEFERRED CAPITAL CONTRIBUTIONS

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

	2012	2011
Balance, beginning of year	$ 308,304	$ 254,338
Less amortization of deferred capital contributions	(25,587)	(23,274)
Net change in contributions received for capital purposes	47,089	77,240
	$ 329,806	$ 308,304

(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	2012 Principal Outstanding	2011 Principal Outstanding
Debentures				
Series A senior unsecured bullet debenture maturing on 19 November 2032	2033	6.10%	$ 85,643	$ 85,545
Senior unsecured amortizing debenture maturing 2 July 2014	2015	3.16%	15,588	21,488
Senior unsecured bullet debenture maturing 30 June 2040	2041	5.10%	50,000	50,000
Senior unsecured bullet debenture maturing 1 April 2040	2040	5.09%	75,000	75,000
			226,231	232,033
Mortgages				
Canada Mortgage and Housing Corporation	2017	5.38%	1,035	1,234
			$ 227,266	$ 233,267

Certain assets have been pledged as collateral for mortgages.

The University has established sinking funds to provide funds to repay both the Series A senior unsecured debenture maturing on 19 November 2032 and the Senior unsecured debentures maturing in April and June 2040. At 30 April 2012 the value of the sinking funds is $35,840 (2011 - $28,455). The sinking funds are included in internally restricted net assets.

(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	
2013	$ 6,298
2014	6,504
2015	3,448
2016	245
2017	128
Thereafter	210,643
	$ 227,266

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

11. ENDOWMENTS

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

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

Details of year-end balances are as follows:

	2012	2011
Endowments, beginning of year	$ 557,751	$ 527,241
Net contributions	10,078	14,167
Recapitalized investment income	11,797	8,632
Internal transfers to endowments	2,221	-
Net realized investment gain	14,236	931
Increase / (decrease) in cumulative unrealized investment gains	(11,629)	6,780
	$ 584,454	$ 557,751

12. INTERNALLY RESTRICTED NET ASSETS

Details of year-end balances are as follows:

	2012	2011
Departmental carryforward funds	$ 63,070	$ 47,791
Ancillary enterprises - major repairs and renovations	20,770	24,562
Unspent research funds	23,987	28,559
Unspent special purpose funds	33,133	39,210
Reserves		
Employee future benefits	6,648	8,000
Insurance	980	980
Investment in capital assets	199,891	194,026
Sinking funds	35,840	28,455
Other capital reserves	10,159	31,995
	$ 394,478	$ 403,578

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.

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

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 for employee future benefits and pension.

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

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

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

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

13. CAPITAL MANAGEMENT

The University manages its cash flow on a consolidated basis, aiming to maintain sufficient liquidity to meet regular operating needs and planned capital project funding. Consolidated cash flow forecasts are regularly updated integrating operating and capital budgeting data and monitored and evaluated against actual cash flows. In the event additional liquidity is required, the University maintains a $25,000 operating line of credit that is available for direct advances, letters of credit, and US dollar advances. The University is not subject to externally imposed capital requirements.

14. NET CHANGE IN NON-CASH WORKING CAPITAL

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

	2012	2011
Net change in non-cash working capital:		
Accounts receivable	$ (60)	$ 4,481
Prepaid expenses	(258)	26
Accounts payable and accrued liabilities	8,079	(6,110)
Deferred revenue, contributions and related investment income	(42,215)	12,237
	$ (34,454)	$ 10,634

15. EMPLOYEE FUTURE BENEFITS

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

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

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

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

The University measures its accrued benefit obligations and fair value of plan assets for accounting purposes at 30 April each year. The most recent actuarial valuation for funding purposes of the pension plan was performed as of 31 August 2011 and the date of the next required valuation is 31 August 2014. The most recent actuarial valuation of non-pension post-retirement benefits was performed as of 31 March 2009 and results have been extrapolated to 30 April 2012. The most recent actuarial valuation of post-employment benefits was performed as of 30 April 2012.

Salaries and benefits expense for the year includes non-pension post-retirement and post-employment benefit expenses of $5,889 (2011 – $6,285).

During the year, changes were made to certain key plan provisions. These changes include increases to the employee and University money purchase contribution rate, higher early retirement reductions, and the application of the Income Tax Act maximum pension limit prior to the Plan early retirement reductions, in respect of minimum guarantee benefits accrued from September 1, 2012. Also included is the use of the market value of money purchase account balances at the retirement date to determine money purchase pensions, the application of an increased charge to the money purchase account balances to reflect the cost of non-reduction, and various changes to the calculation of post-retirement indexation for pensioners who retire after August 31, 2012.

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

	2012		2011	
	Pension benefit plan	Other benefit plans	Pension benefit plan	Other benefit plans
Accrued benefit liability				
Accrued benefit obligation	$ (1,647,105)	$ (76,497)	$ (1,574,305)	$ (62,869)
Fair value of plan assets	1,357,810	-	1,394,201	-
Plan deficit	(289,295)	(76,497)	(180,104)	(62,869)
Unamortized past service cost	(21,811)	-	-	-
Unamortized net actuarial loss / (gain)	302,769	8,174	171,905	(1,286)
Accrued benefit liability	$ (8,337)	$ (68,323)	$ (8,199)	$ (64,155)
Benefit plan expense				
Current service cost	$ 28,150	$ 2,303	$ 24,673	$ 2,083
Interest cost	94,348	3,515	89,766	3,268
Actual (return) loss on plan assets	4,405	-	(137,267)	-
Plan amendments	(22,825)	-	-	-
Actuarial loss on accrued benefit obligation	37,841	9,531	59,991	2,703
Benefit plan expense, before adjustments to recognize the long term nature of employee future benefit costs	141,919	15,349	37,163	8,054
Adjustments:				
Difference between expected return and actual return on plan assets for the year	(93,989)	-	54,411	-
Unamortized plan amendments	21,811	-	-	-
Difference between amortization of actuarial loss for the year and actuarial loss on accrued benefit obligation for the year	(36,876)	(9,460)	(58,562)	(1,769)
Benefit plan expense recognized in the year	$ 32,865	$ 5,889	$ 33,012	$ 6,285

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

Pension benefit plan assets are invested as follows:

	2012	2011
Equity securities	61%	62%
Debt securities	32%	31%
Other	7%	7%
	100%	100%

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

	2012		2011	
	Pension benefit plan	Other benefit plans	Pension benefit plan	Other benefit plans
Accrued benefit obligation:				
Discount rate	5.0%	4.1% to 5.0%	5.8%	4.7% to 5.8%
Rate of compensation increase	3.25% to 4.50%	4.5%	4.5%	4.5%
Benefit plan expense:				
Discount rate	5.8%	4.7% to 5.8%	6.0%	5.0% to 6.0%
Expected long-term rate of return on plan assets	6.5%	N/A	6.5%	N/A
Rate of compensation increase	4.5%	4.5%	4.5%	4.5%
Assumed health-care cost trend:				
Initial health-care cost trend rate	N/A	6.85% to 7.06%	N/A	6.95% to 7.21%
Health-care cost trend rate declines to	N/A	4.50%	N/A	4.50%
Year that the rate reaches the ultimate trend rate	N/A	2029	N/A	2029

Details of annual contributions and benefits paid are as follows:

	2012		2011	
	Pension benefit plan	Other benefit plans	Pension benefit plan	Other benefit plans
Employer contributions	32,727	1,721	27,689	1,405
Employee contributions	17,068	-	16,803	-
Benefits paid	81,782	1,721	80,053	1,405

Regulations governing provincially regulated pension plans establish certain solvency requirements that assume that the plans are wound up on the valuation date. The actuarial valuation of the pension plan completed at 31 August 2011 reported a solvency deficit of $332,269 and a going concern deficit of $126,411. Annual special going concern employer contributions of $12,181 will be required for the year ending 31 August 2012, and $14,412 for the year ending 31 August 2013. The next actuarial valuation of the pension plan will be completed by 31 August 2014.

During the 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, 31 August 2014, it will allow the solvency deficit to be funded over ten years, requiring an increase in special payment contributions of approximately $25,000 annually commencing in fiscal 2016.

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

16. FINANCIAL INSTRUMENTS

a) Fair value

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

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

The fair value of investments is disclosed in Note 6.

The interest rate swap contract was terminated in fiscal 2012 with proceeds amounting to $9,013.

	Interest rate until fiscal year ending	Notional value	2012 Fair value	2011 Fair value
Royal Bank (floating rate)	Not applicable	$ -	$ -	$ 7,352

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

	2012 Notional value	2012 Fair value	2011 Notional Value	2011 Fair value
US Dollar	$ 173,835	$ 1,638	$ 149,355	$ 3,920
UK Pound Sterling	24,354	(174)	19,483	(1,301)
Other	75,619	12	49,988	(37)
	$ 273,808	$ 1,476	$ 218,826	$ 2,582

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

	2012 Carrying value	2012 Fair value	2011 Carrying value	2011 Fair value
Mortgages	$ 1,035	$ 1,127	$ 1,234	$ 1,312
Debentures	226,231	286,346	232,033	258,623
	$ 227,266	$ 287,473	$ 233,267	$ 259,935

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. All derivative financial instruments are classified as held-for-trading and, therefore, all unrealized gains and losses are recorded on the consolidated statement of operations.

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

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.

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

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

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

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

(for the year ended 30 April)	2012	2011
Endowment Funds:		
Opening balance	$ 70,936	$ 71,096
Transfer to expendable funds	(199)	(160)
Endowment fund balance at end of year	70,737	70,936
Expendable Funds:		
Opening balance	428	428
Investment income	3,530	3,701
Bursaries awarded	(3,729)	(3,861)
Transfer from endowment funds	199	160
Expendable funds available for awards	$ 428	$ 428
Number of bursaries awarded	1,283	1,079

The market value of the OSOTF phase 1 endowment at 30 April 2012 is $77,563 (2011 - $80,206).

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

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

(for the year ended 31 March)	OSOTF II	OTSS	2012 Total	2011 Total
Endowment Funds:				
Opening balance	$ 12,079	$ 21,666	$ 33,745	$ 30,632
Donations received	-	1,283	1,283	1,392
Government matching received	-	1,016	1,016	1,431
Other	-	-	-	2
Transfer from expendable funds	129	228	357	288
Endowment capital	12,208	24,193	36,401	33,745
Expendable Funds:				
Opening balance	304	216	520	938
Investment income	557	982	1,539	1,105
Bursaries awarded	(474)	(835)	(1,309)	(1,235)
Transfer to endowment funds	(129)	(228)	(357)	(288)
Expendable funds available for awards	$ 258	$ 135	$ 393	$ 520
Number of bursaries awarded	194	341	535	416

The market value of the OSOTF phase 2 endowment at 31 March 2012 was $34,797 (2011 - $32,493).

18. RELATED ENTITIES

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

(a) Investment in Parking Commission
Queen's University 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 31 December 2007. In fiscal 2011 the Parking Commission embarked on a significant restoration project. The University's share of these capital expenditures as at April 30, 2012 was $2,776 (2011 - $770). The University's share of the Parking Commission's excess of revenues over expenses of $395 (2011 - $565) is reported in the statement of operations. The investment in the Parking Commission is accounted for using the equity method.

(b) Investment in Cogeneration Facility
Queen's University 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 30 April 2031. The University's proportionate share of the cogeneration facility's excess of revenues over expenses is $280 (2011 - $72), and is reported in the 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 / (deficit) at 30 April 2011 was $276 (31 May 2010 - $(213)). The University provided an annual contribution of $434 (2010 - $447) to fund operating costs of McGill-Queen's University Press.

(d) Sudbury Neutrino Observatory Institute and SNOLAB Institute
Sudbury Neutrino Observatory Institute was created on December 2, 1997 as a joint venture of the University and four other Canadian universities, to perform research in sub-atomic physics. Subsequently, the SNOLAB Institute at Queen's University was created to perform research in astro-particle physics and succeed the Sudbury Neutrino Observatory Institute. This joint venture included the same university member institutions. In July 2010, one of the members removed itself as a member institution. The University's proportionate share (25%) of the joint venture's operations has been included in these consolidated financial statements (see also Note 19(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 19(c)).

The following financial information at 31 March 2012 for TRIUMF was prepared in accordance with Canadian Generally Accepted Accounting Principles except that all capital assets and related provisions for decommissioning costs, if any, are expensed in the year in which the costs are incurred.

	2012 (unaudited)	2011
Total assets	27,750	24,934
Total liabilities	18,855	16,936
Total fund balances	8,895	7,998
Revenues	77,398	70,308
Expenses	76,501	66,186
Excess of revenues over expenses	897	4,122

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

19. COMMITMENTS AND CONTINGENCIES

(a) Litigation
The nature of the University's activities are such that there may be litigation pending or in prospect at any time. With respect to claims at 30 April 2012, 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, 2011, the date of the latest financial statements available, CURIE had a surplus of $48,600 (2010 - $43,300).

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, which were estimated at $44,200 as of November 2011, as well as provide financial covenants to the CNSC for the amount of these costs. While there are no current intentions of decommissioning the facilities, the University's share was estimated at $4,018 as of November 2011. TRIUMF has put in place a plan for funding the cost of decommissioning which does not require any payments from the joint venture partners.

(d) Capital commitments
As of 30 April 2012 the estimated cost to complete construction in process for the extension of facilities is approximately $101,767 (2011 - $126,231). These costs will be financed by a combination of gifts, grants, ancillary income, and allocations from operations.

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

Fiscal year		
2013	$	1,680
2014		1,212
2015		1,245
2016		1,162
2017		1,042
Thereafter		2,731
	$	9,072

(e) Bank loan guarantees
The University has a program under which it guarantees bank loans to faculty and staff members to assist in the purchase or refinancing of their homes. The University holds mortgages as collateral security against such guarantees. At 30 April 2012, the amount of loans guaranteed was $192 (2011- $389). 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.

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

(g) Other

In addition to the construction commitments disclosed in Note 19(d) and the pension special payments disclosed in Note 15, the University has issued letters of credit of $5,079 primarily for capital construction, and has guaranteed an operating line of credit of $1,000 for PARTEQ.

20. COMPARATIVE FIGURES

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

21. SUBSEQUENT EVENT

On May 1, 2012, Queen's Theological College (the College) merged with the University. The College will operate within the Faculty of Arts and Science and the School of Graduate Studies. At the time of the merger, the College's net assets amounted to $5,463.