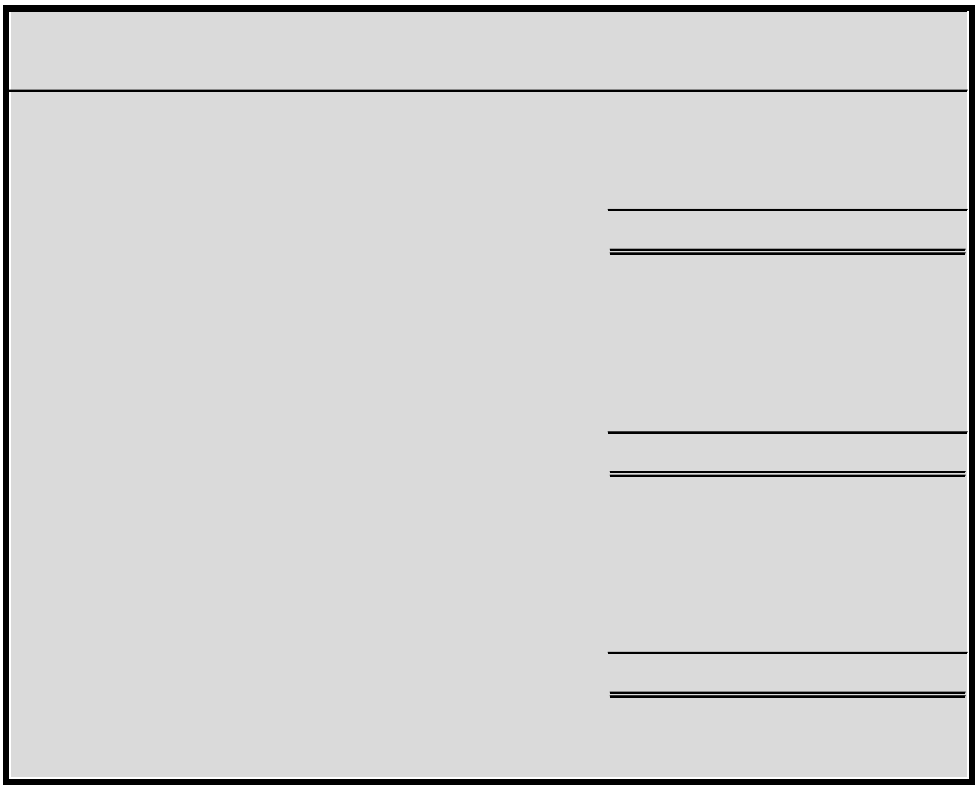
Financial Statements

Queen's University at Kingston

30 April 2014



	$ thousands	
	2013-14	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 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	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 at 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 2014 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:

CHANGE IN FUNDED STATUS OF PENSION PLAN GOING CONCERN (MARKET VALUE) BASIS	April 30 $ thousands 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 contrib(23)		

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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 $224 million of deferred maintenance projects identified, $139 million relates to issues that should be dealt with within 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	$	
Equipment and Furnishings		
Other asset purchases		

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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

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.

2013-14 Operating Fund	Actual	$ thousands Budget	Variance
Revenue	512,343	475,222	37,121

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 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.

[redacted]

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

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.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

Theseconsolidated financial statements have been prepar

	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

Investment income is comprised of the following:

	2014	2013
Realized income 432.BDC 7E03 Tw 6.0727ea69 Td 9 -1.157 TD [(()-5 Tw ( )Tj 0.003 Tw(o)		0

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 equates the benefit with payments promised by the university sponsored pension plan. Following retirement, this pension payout is indexed based on excess interest over 6%, and pen

	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

		2014	2013
Departmental carryforward funds	$	111,955	$ 74,476

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

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

	2014	2013

21. COMMITMENTS AND CONTINGENCIES

(a) Litigation

The nature of the university