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4 X H H Q ¶ V 8 Q L Y H U V L W \ H D U , W Z D V R X U university community to pause and celebrate all that has been accomplished at Queen's and across Canada's post-secondary institutions.

Now that a new academic and fiscal year is underway, we can look towards our future and the many milestones to come with a renewed sense of pride, and optimism. This is due in large part to the significant progress we have made on improving our financial sustainability. Still, there is a need for a cautious approach as we must also address the financial risks to which the university is exposed.

As these Consolidated Financial Statements detail, during the 2016 fiscal year Queen's achieved a surplus of $16 million, which provides the university with some much needed financial flexibility. This surplus was driven mainly by favourable investment returns and higher than expected student enrolment, and reflects the continuing effort of faculties and shared services to help the university stabilize our financial situation and plan for future strategic investments. In

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In 2016-17 the university completed the year in a stable financial position with a surplus of $88.6 million, driven primarily by favourable investment returns and higher than planned student enrolment.

YEAR ENDED APRIL 30		
(Millions of dollars)	**2017**	**2016**
Consolidated Statement of Operations		
Revenue	**$ 944.7**	**944.7**

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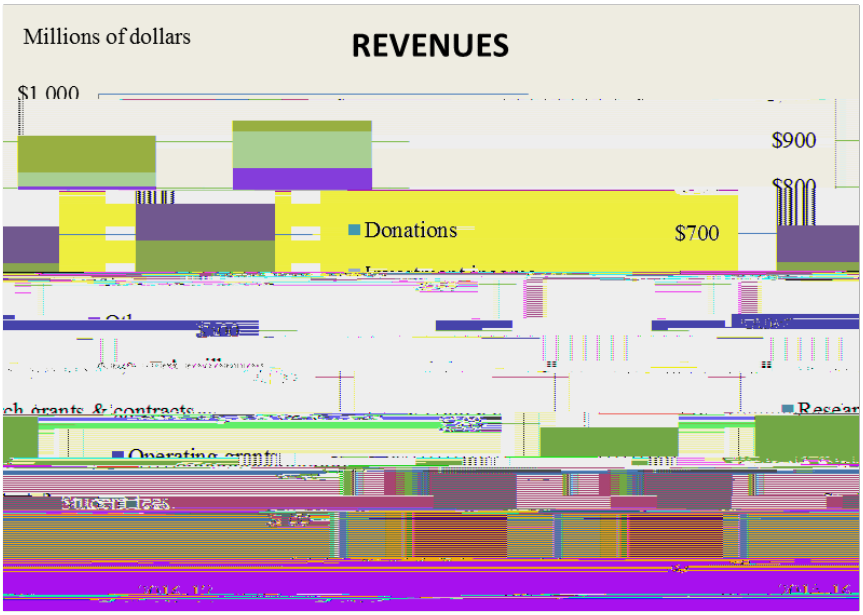

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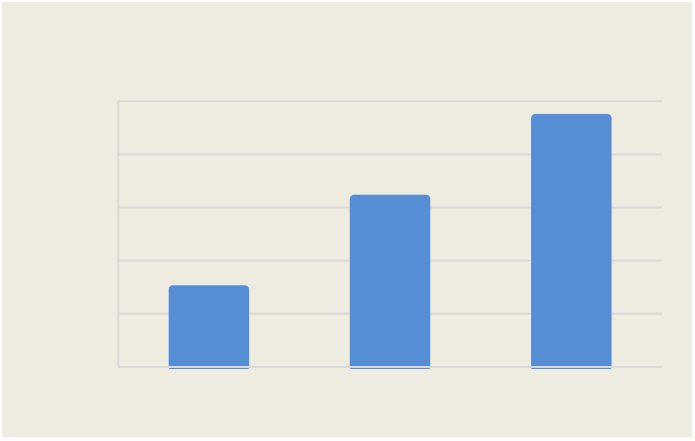
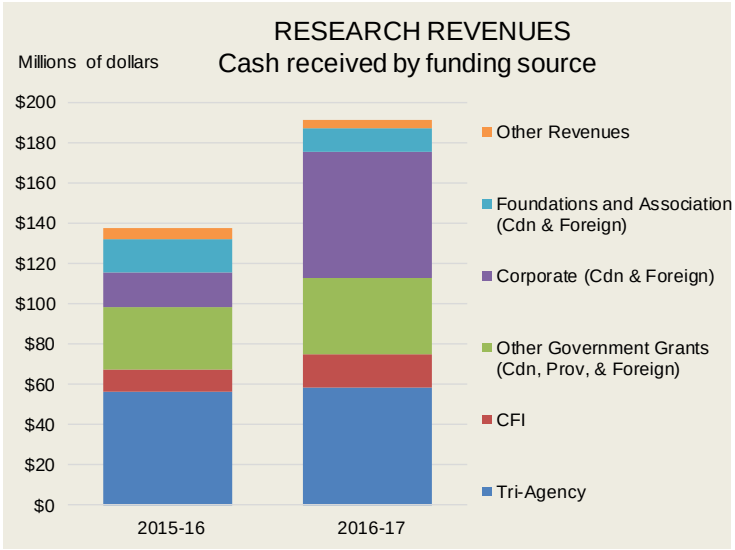
Total revenues grew by 4 per cent in 2016-17 due largely to favorable investment returns, higher enrolment and increased research grants and contracts revenues.



Research grants and contracts

Research grants and contracts are received from a variety of sources with the largest contributions coming from the federal government through the Tri-Agencies and the Canada Foundation for Innovation. Because research funding is restricted for purposes specified by the funding agency, revenue is only recorded when the related expenditure occurs. Unspent externally sponsored research monies are recorded on the statement of financial position as deferred revenue.

Research grant and contract revenues received by funder is presented in the chart to the right. This chart is presented on a cash basis before any adjustment for funds deferred for spending in future years. Cash received from corporate funding sources increased significantly in 2016-17, due mainly to clinical trials funding received.



	Thousands of dollars	
	2015-16	2016-17
Cash received by funding source	$ 136,224	$ 190,920
Deferred for future year spending	48	40,180
Research revenue as reported in research fund	$ 136,176	$ 150,740

Ancillary revenues

Ancillary operations include business units that provide goods and services to the university community. These units are expected to cover the full operating costs, and may also defray general operating expenditures. The table to the right provides a detailed breakdown of revenues in the Ancillary fund as shown on page 11. The decrease in revenues and internal sales is due largely to the closure of the computer store in April 2016.

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organizations, described in Note 2 to the financial statements. Under these accounting standards, the financial results of the university are presented on a consolidated basis, in a single column, and present an overall accounting of the financial stewardship of the institution as a whole.

University budgets and internal reporting are prepared using the concepts of fund accounting. Under fund accounting, activities of the institution are segregated by fund to enhance accountability and control of funds. The university maintains the following funds:

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

Ancillaries includes business units that provide goods and services to the university community and cover their full operating costs, including 5 (os)ng 3 ( )4 (f)4ec4 (ntr)4 (rev)4 --2 c unity and c (rati)3 (ng ibu(5 (oshe Peh)-c)5 (g-4.635 -1.e incl)2 c)l-5 (-

Deferred maintenance

0 D L Q W D L Q L Q J W K H X Q L Y H U V L W \ ¶ V W D F L O L W L H V Z L W K D Q G D U G V recently completed Facilities Condition Audit there is currently $235 million in deferred maintenance costs that should be completed in the next five years. The industry standard for annual deferred maintenance funding is 1 to 1.5 per cent of the current replacement value. For the university academic buildings, the annual number at 1 per cent would be $15 million.

Although annual budget allocations to deferred maintenance have been increasing over the last several years (from $5.2 million in 2012-13 to $9.7 million in 2016-17), the university must work diligently to apply deferred maintenance spending to the most critical priorities. The university has developed and manages to a five-year deferred maintenance plan that ensures the highest priority deferred maintenance needs are addressed. Significant repairs completed during the 2016-17 fiscal year include masonry repairs on Grant and Ontario Hall and roofing repairs on a number of buildings across the campus.

Reliance on grant support and tuition revenue

The university relies heavily on grant support and tuition to fund its operations, both of which are controlled largely by the Provincial Government. In late 2015, the Ministry of Advanced Education and Skills Development (MAESD) began a review of university funding and ultimately recommended that funding should be more closely linked to student success and outcomes and institutional differentiation, rather than being focused primarily on enrolment. The new framework includes three grant envelopes: enrolment, differentiation, and special purpose grants. Universities will be held harmless with respect to the grant revenue effects of the new framework during 2017-18 to 2019-20; enrolment growth and funding arrangements have not yet been finalized. Transition to the new formula commenced in 2017-18; funded enrolment and reporting requirements will be specified in updated bilateral Strategic Mandate Agreements.

In December 2016, MAESD extended the current tuition framework for the next two years which will continue to limit tuition fee growth to an institutional average of 3 per cent.

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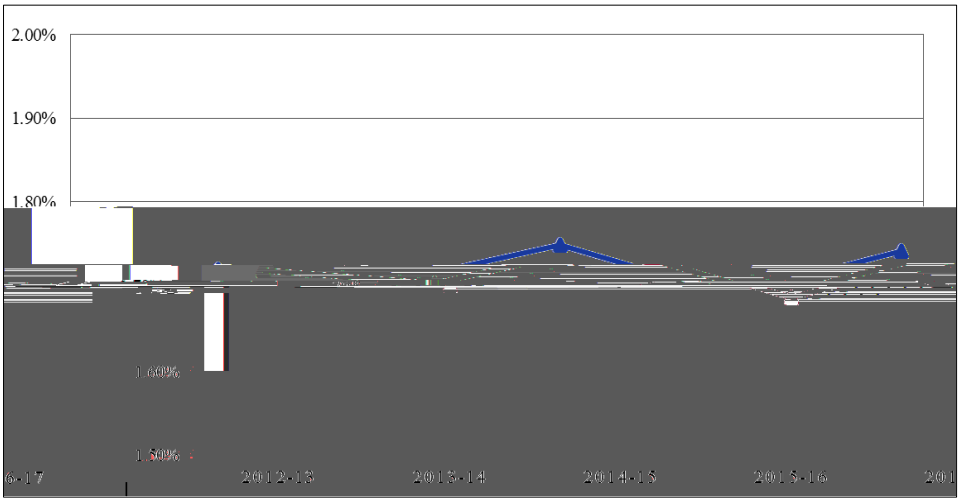
In March 2014 the university launched its strategic framework for the years 2014 to 2019. The overarching goal of the

Interest Burden Ratio

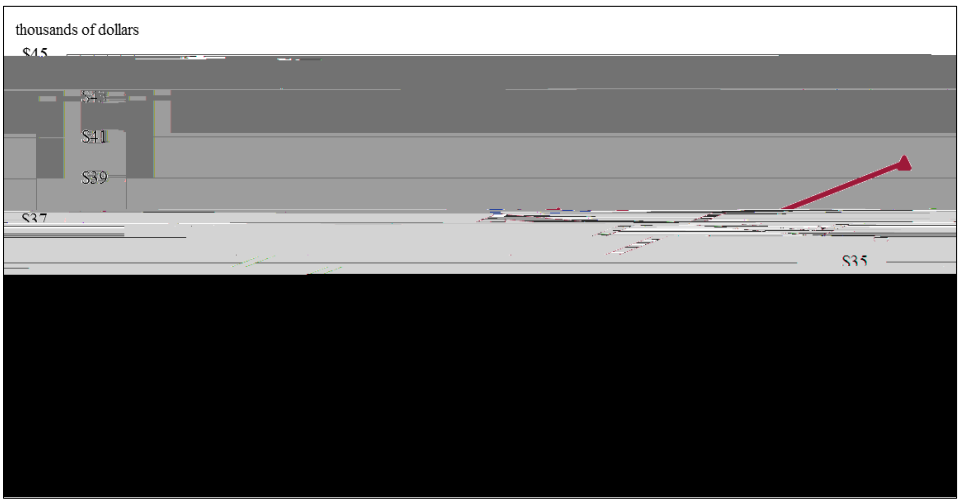
The interest burden ratio is an indicator of debt affordability. It indicates the percentage of total expenses used to cover the cost of V H U Y L F L Q J W K H X Q L Y



Definition: Interest expense divided by total expenses excluding amortization

Endowment per Student FTE

The endowment value per student FTE provides information on the relative importance of the endowments in relation to the size of the student population and is a measure of the long-term strength of the university.



Definition: Endowment value at end of year divided by student FTE

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The Board of Trustees approves the operating fund budget and monitors the performance of the operating fund throughout the year. The operating fund represented 63 per cent of consolidated revenue in 2016-17.

The Board of Trustees pays careful attention to the allocation and use of resources within the operating fund and remains focused on achieving a balanced budget. Budgets are prepared on a cash basis and may include drawdowns of cash reserves to balance.

	Thousands of dollars		
2016-17 Operating Fund	Actual	Budget	Variance
Revenue	595,002	555,107	39,895
Less: expenditures	(540,650)	(571,445)	30,795
Surplus / (deficit)	54,352	(16,338)	70,690
Transfer (to) / from internally restricted net assets	(54,271)	16,338	(70,609)
Increase in unrestricted surplus	81	-	81
Operating surplus - beginning of year	903		
Operating surplus - end of year	984		

For 2016-17, the university budgeted a deficit of $16.3 million before drawdowns of reserves. Strong investment returns, higher enrolment and student fee revenue, and adjustments to pension and other post-employment benefit program costs ($14.3 million) required for audited financial statements (which make actual expenses lower than budgeted cash contributions) contributed to an operating surplus of $54.4 million. The surplus will provide important flexibility for future strategic priorities, including capital renewal and a reserve for future pension payments. Surpluses have been set aside in departmental reserves in accordance with multi-year plans for the prudent use of reserves in support of academic and research priorities.

The university remains focused on managing its resources responsibly in order to protect and advance its academic mission and strategic priorities in the midst of significant financial challenges. In May 2017, the Board of Trustees approved the 2017-18 operating budget, which is balanced after a $11.0 million draw-down of reserves.

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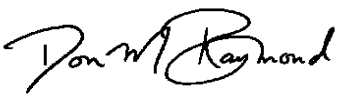
As at April 30
(Thousands of dollars)

	2017	2016
$66(76		
Current		
Cash	$ 149,254	

See accompanying notes to consolidated financial statements.

Commitments and contingencies (note 18)

Approved on behalf of the Board of Trustees:



Donald M. Raymond
Chair, Board of Trustees

Mary Wilson Trider
Chair, Audit and Risk Committee

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Year ended April 30
(Thousands of dollars)

See accompanying notes to consolidated financial statements.

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Year ended April 30
(Thousands of dollars)

	2017	2016
23(5$7,1* $&7,9,7,(6		
Excess of revenues over expenses	$ 88,627	$ 39,542
Non-cash items:		
Amortization of deferred capital contributions	(25,065)	(26,112)
Amortization of capital assets	45,746	49,863
Employee future benefits	(14,372)	(13,848)
Net change in non-cash working capital (note 14)	56,347	(547)
Cash provided by operating activities	151,283	48,898
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Net change in loans receivable	572	321
Net change in investments	(230,214)	(24,114)
Purchases (net of disposals) of capital assets	(48,738)	(49,385)
Investment gain / (loss) reported as direct increase in net assets	69,374	(17,726)
Cash used in investing activities	(209,006)	(90,904)
),1$1&,1* $&7,9,7,(6		
Issuance of long-term debt	-	40,000
Repayment of long-term debt	(3,742)	(1,646)
Contributions received for capital purposes	38,864	23,299
Contributions reported as direct increase in net assets	25,119	31,130
Cash provided by financing activities	60,241	92,783
Net increase in cash	2,518	50,777
Cash, beginning of year	146,736	95,959
Cash, end of year	$ 149,254	$ 146,736

See accompanying notes to consolidated financial statements.

(c) Capital assets

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

Intangible assets are non-monetary assets without physical substance. The university ¶V intangible assets consist of computer software. Costs that are directly associated with the acquisition or internal development of identifiable software which will, in administration ¶V E H V W H V W L P D W H S U R Y L G H D las W X U H H F R Q R P 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 E D W H J Useful lifeV

(d) Employee future benefit plans

The university has a defined contribution pension plan, which has a defined benefit component that provides a minimum level of pension benefits. The university also provides other retirement and post-employment benefits such as medical, dental and life insurance to eligible employees. Post-employment benefits are benefits provided to employees on long-term disability.

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

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

(e) Revenue recognition

The university follows the deferral method of accounting for contributions for not-for-profit organizations, which include donations and government grants. Unrestricted contributions are recognized as revenue when received or receivable if the amount receivable can be reasonably estimated and collection is reasonably assured.

Contributions externally restricted for purposes other than endowments and capital assets are deferred and recognized as revenue in the year in which related expenses are recognized. External endowment contributions and income/ (losses) that impact the capital preservation of externally restricted endowments are recognized as direct increases/ (decreases) in net assets. Income/ (losses) impacting the capital preservation of internally restricted endowments are recorded as unrestricted revenue and transferred to internal endowments.

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

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

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Accounts receivable is comprised primarily of balances receivable for research projects and trade accounts receivable including tuition net of an allowance for doubtful accounts of $4,116 (2016 - $3,839).

a) Pledges receivable

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

Fiscal year	
2018	$ 27,972
2019	15,171
2020	15,082
2021	8,770
2022	6,678
Subsequent years	23,125
Outstanding pledges at April 30	$ 96,798

Included in the outstanding pledges is $345 (2016 - $302) in cash surrender value on life insurance policies that are owned by the university.

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Loans receivable is comprised of an amount receivable regarding relocation loans to employees in the amount of $200 (2016 - $200), microcomputer loans to employees in the amount of $265 (2016 - $697) and a loan to the Kingston * H Q H U D O + R V S L W D O Parking Commission in the amount of $2,976 (2016 - $3,136). The loan to the Kingston * H Q H U D O + R V S L W D O Commission bears interest at 6 per cent per annum and matures in October 2030.

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a) Investments

Fair value details of investments are as follows:

	2017	2016
Current		
Short-term	$ 94,468	$ 8,756
Non-Current		
Pooled Endowment Fund	1,028,080	918,833
Pooled Investment Fund	237,794	213,553
Other	101,459	90,445
	1,367,333	1,222,831
Total investments	$ 1,461,801	$ 1,231,587

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

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(a) Long-term debt consists of the following:

			2017	2016
2031	variable		64,70 (,)rember ,	

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, 2017 the value of the sinking funds is $83,719 (2016 - $74,264).

The university has in place an interest rate swap agreement for 17 years which expires in fiscal 2031. Under the terms of the agreement, the university agrees to receive a floating interest rate on its amortizing unsecured bank loan maturing November 1, 2030, while paying an effective rate of 3.18 per cent

(b) Long-term debt repayments

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

Fiscal year	
2018	$ 3,727
2019	3,842
2020	3,961
2021	

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The university has a defined contribution pension plan, which has a defined benefit component that provides a minimum

Details of annual contributions and benefits paid are as follows:

	2017		2016	
	Pension benefit plan	Other benefit plans	Pension benefit plan	Other benefit plans
Employer contributions	47,325	2,861	43,797	2,718
Employee contributions	27,292	-	25,877	-
Benefits paid	103,445	2,861	99,717	2,718

The most recent actuarial valuation of the pension plan was performed as of August 31, 2014, and the results have been extrapolated to April 30, 2017. The date of the next required valuation is August 31, 2017.

The most recent actuarial valuation of non-pension retirement benefits was performed as of January 31, 2016 and results have been extrapolated to April 30, 2017. The date of the next required valuation is January 31, 2019.

The most recent actuarial valuation of post-employment benefits was performed as of April 30, 2017.

Regulations governing provincially regulated pension plans establish certain solvency requirements that assume that the plans are wound up on the valuation date. During the 2015 fiscal year, the university applied and qualified for stage two of the public sector pension plan temporary solvency funding relief program. Under this program the university has elected to defer solvency deficit payments for three years and pay down the solvency deficit over the following seven years, beginning in fiscal 2019.

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Contributions restricted for endowments consist of externally restricted donations received by the university and contributions internally restricted by the university, in exercising its discretion. The endowment principal is required to be maintained intact. The university ensures, as part of its fiduciary responsibilities, that all funds received with a restricted purpose and investment income thereon, are expended for the purpose for which they were provided.

The university protects the capital value of endowment investments using a spending policy designed to meet the competing objectives of releasing current income into the operating budget and protecting the value of endowment assets

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Details of year-end balances are as follows:

	2017	2016
Departmental carryforward funds	$ 166,516	$ 146,964
Ancillary enterprises	7,457	7,241
Unspent special purpose funds	5,030	3,868
Unspent research funds	39,260	30,433
Insurance reserve	1,000	980
Investment in capital assets	179,316	186,255
Sinking funds	83,719	74,264
Other capital reserves	45,597	33,989
Employee future benefits		
Pension and other benefit plans	(35,590)	(130,759)
Reserve	15,565	8,751
	$ 507,870	$ 361,986

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

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

(for the year ended March 31)	OSOTF II	OTSS	2017 Total	2016 Total
Endowment Funds:				
Opening balance	$ 12,282	$ 30,861	$ 43,143	$ 40,198
Donations received	-	1,251	1,251	1,875
Other revenue capitalized in the year	-	-	-	781
Transfer from expendable funds	21	127	148	289
Endowment capital	$ 12,303	$ 32,239	$ 44,542	$ 43,143
Expendable Funds:				
Opening balance	$ 158	$ 147	$ 305	$ 419
Internal transfers to expendable funds	-	10	10	-
Investment income	544	1,352	1,896	1,685
Bursaries awarded	(510)	(1,118)	(1,628)	(1,510)
Transfer to endowment funds	(21)	(127)	(148)	(289)
Expendable funds available for awards	$ 171	$ 264	$ 435	$ 305
Number of bursaries awarded	177	439	616	646

The market value of the OSOTF phase 2 endowment fund at March 31, 2017 was $58,084 (2016 - $52,509).

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This section addresses disclosure requirements regarding the university ¶V UHODWLRQVKLSV WR RWKHU HQWLWLHV relationships include economic interest, significant influence, or joint control.

(a) Investment in Parking Commission

4 X H HQ ¶V LQ ¶V University at Kingston entered into a joint venture with Kingston General Hospital (KGH) for the construction and operation of an underground parking garage managed and governed by a joint Parking Commission established by the parties and including an equal number of commission members appointed by both parties. In fiscal 2011 the Parking Commission embarked on a significant restoration project. The project has been completed, with the university ¶V VKDUH RI FDSLWDO H[SHQGLWXUHV EHLQJ $3,750 (2016 - $3,750). The XQLYHUVLW\ ¶V FDSLWDO H[SHQGLWXUHV ZLOO EH UHSDLG by the Parking Commission over a 20 year period ending in fiscal 2031. The university ¶V VKDUH RI WKH 3DUNLQJ &RPPLVVLRQ ¶V UHYHQXHV RYHU H[SHQVHV IRU ¶V H[HUFLVH $592 (2016 - $558) is reported in the consolidated statement of operations. The investment in the Parking Commission is accounted for using the equity method.

(b) Investment in Cogeneration Facility

4 X H HQ ¶V 8QLYHUVLW\ 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 for the university ¶V S U R S R U W L R Q D W H V K D U H R