Annual Financial Report
2002-03

Queen's University at Kingston

Report to the Queen's Community

Queen's University is pleased to present the 2002-03 Annual Financial Report as one element of its overall accountability to the broader community we serve. We are pleased to report positive results for 2002-03: the operating fund of the University recorded a surplus of $417 thousand, increasing the accumulated operating surplus (before employee future benefits) to $1.1 million.

The *Campaign for Queen's* concluded on April 30, 2003, raising $262 million for the University. For 2002-03, Provincial Government operating funding increased by 2.4% from the previous year. In March 2003, the Provincial Government announced a $200 million Quality Assurance Fund which will provide an additional $75 million in base funding to Ontario universities (approximately a 4% increase in Provincial grants) in 2003-04. Queen's share of the Quality Assurance Fund for 2003-04 is estimated to be $4.5 million.

We continue to work to improve the quality of our academic programs, our research, our management and our accountability, and on many fronts we are achieving considerable success. Many academic programs and researchers are benefiting from a campus revitalized by impressive new facilities and learning technologies – Chernoff Hall, the new facility for the Chemistry Department, Goodes Hall, the new School of Business building and the new Cancer Research Institute are just a few examples. Overall research funding has doubled in the past five years as faculty compete successfully for external support of their research. In 2002, Queen's was awarded four of seventeen new Killam Research Fellowships, the most of any university in Canada. In addition, Queen's continues to be a leader in the commercialization of its research, through PARTEQ.

We are striving to create at Queen's a learning environment second to none in Canada and among the leaders in North America. To this end, we will continue to diversify and expand our revenue sources, and to create a climate of innovation within which teaching and research will flourish.

On behalf of the Board of Trustees and the more than 3,100 faculty and staff at Queen's, we thank you for your continuing support.

John A. Rae

John Rae
Chair, Board of Trustees

William C. Leggett
Principal and Vice-Chancellor

Queen’s Vision

To be the quality leader in Canadian higher learning, developing exceptional students and scholars for citizenship and leadership in a global society.

Queen’s Mission

The University will build on the strength that is Queen’s – students, faculty, staff and alumni – to be among the best of internationally-known universities in Canada recognized for:

- The exceptional quality of undergraduate and graduate students and programs in the arts, sciences and professions;
- The intellectual power and value of research and scholarship by faculty members and students;
- The exemplary service of the University and that of its graduates to the community and the nation and the community of nations.

Queen’s Goals

- *Goal 1*: To attract and retain students with outstanding potential and diverse backgrounds from across Canada and around the world ~ admission will be determined by the potential to contribute as citizens and leaders, not the ability to pay.
- *Goal 2*: To strengthen an environment which stimulates exceptional research and teaching ~ a dynamic relationship between scholarly inquiry and creative teaching is essential to the achievement of the Queen's Mission and Vision.
- *Goal 3*: To provide rigorous, relevant and challenging programs of study ~ Queen's undergraduate and graduate programs will encourage students to expand their personal horizons, and will provide a framework for continued personal and intellectual growth.
- *Goal 4*: To prepare graduates for roles as citizens and leaders of a sustainable global society ~ Queen's must use its unique "broader learning environment" to nurture the life and leadership skills necessary for a global society.

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Executive Summary

Over the past decade of financial constraint, Queen's has remained focused on the following key objectives: 1) maintaining the high quality of our students, faculty and academic programs and continuing to build our research and scholarly base; 2) strengthening our financial position to reduce our dependence on government funding; 3) enhancing accessibility to Queen's for students with limited financial means; 4) expanding international opportunities for students and faculty; and 5) striving to maintain an equitable balance of resources across different faculties and disciplines.

Queen's is proud of its accomplishments in each of these areas. In nine of the past ten years, Queen's students have ranked first in the country in entering grades and academic accomplishment. In addition, the student body is more national and international in scope than most universities in Canada. Queen's faculty are among the most honoured in Canada for their accomplishments in teaching and scholarship. External research support has doubled over the past five years to its current level of $133 million (before deferrals). Queen's and its Herstmonceux affiliate are the nation's recognized leaders in the provision of international study opportunities for its students, with more than 900 students per year engaged in study-abroad activities.

On the financial side, Queen's has achieved consistently strong results. Unfortunately, 2002-03 was a difficult year for capital markets in general and for the market value of Queen's endowment and new private giving softened. Fortunately, the receipt of prior pledges to Queen's continued to be very strong. Nonetheless, the trend has been steadily positive over this past decade. Investment income and restricted endowment-supported expenditures now account for more than 11% of the operating budget, up from approximately 4% a decade ago. A sizeable portion of income from the Queen's endowment along with other operating funds now supports scholarships and bursaries for students ($37 million per year). This is the highest level of support per student of any university in Canada. Queen's is proud of this achievement.

In this year's Annual Financial Report, we provide an overview of the University's financial performance, the audited financial statements, and a discussion and analysis of factors that may impact the University's funding and policy decisions in the coming years. This report also includes useful and timely information related to non-financial "performance indicators", such as the quality of our students compared to other Canadian post-secondary institutions. Finally, the Report describes the governance structure of Queen's, and provides background information on our faculty, students, and academic programs.

While we can be proud of the exceptional quality of our students, faculty and staff, and the widely-acknowledged richness of the Queen's learning environment much remains to be accomplished if we are to fully realize our vision of being the quality leader in Canadian higher education and to do so on a sustained basis.

Our view of the external forces that will influence both positively and negatively our near-term and longer-term future include:

- Provincial Government and Federal Government continuing to take positive steps to acknowledge the importance of increased investment in post-secondary education. In their most recent fiscal year, the Federal Government has committed to base funding for the indirect costs of research, and the Ontario Government has established the Quality Assurance Fund which will provide new funding to universities over the next three years.

- Additional provincial operating grant increases that are likely to continue to be tied closely to enrolment growth and performance measures linked to graduation rates and the post-graduation employment rates of our students.

- Increased demand for access to a Queen's education resulting from the broad recognition of Queen's high standards of quality, the "double cohort", higher participation rates in post-secondary education, and demographic changes that are increasing the proportion of university-aged men and women in the total population.

- An increasingly competitive global employment market for faculty over the next decade as significant world-wide increases in faculty retirements, coupled with enrolment growth, lead to a wave of hiring reminiscent of the 1960s. This tightening of the market for new faculty and increased pressure on our ability to retain existing faculty is already putting strong upward pressure on salaries and will result in major shortages of supply of highly qualified candidates in all disciplines.

- Continued increases in the funding available for research as Canada and the Provinces recognize the importance of, and provide funding for, innovation in both basic and applied research. Federal and Provincial Government research funding will continue to focus primarily on pure and applied science research, health and technology initiatives, multi-disciplinary projects and private-public sector partnerships. The challenge for Queen's will be to ensure that research endeavours within the humanities, social sciences and fine arts receive the support they require to be internationally successful.

- Increasing reliance on private funding and philanthropy as significant contributors to the total operating budget of the University, and to the quality of the University's educational and research performance.

- New learning technologies and initiatives (such as Integrated Learning in the Faculty of Applied Science, the Clinical Education Centre in the Faculty of Health Sciences), which will dramatically alter how students learn, and will have important implications for the design of curriculum and teaching facilities.

These challenges, opportunities and initiatives serve to stimulate and facilitate positive change. Despite the challenges, we're confident that the Vision will be achieved.

Queen's at a Glance 2002-03

History

- Queen's was established by Royal Charter of Queen Victoria in 1841, 26 years before Canadian confederation. Classes were first held in 1842. The earliest degree-granting institution in the united Province of Canada, Queen's has reflected and helped shape Canadian values and policies, educating many of the country's most notable political and cultural figures.

Students

- 15,717 full-time graduate and undergraduate students
- 3,206 part-time graduate and undergraduate students
- First in Canada for average entering grade for undergraduate students in 9 of the past 10 years
- Highest proportion of students who complete their undergraduate degree
- A leader in Canada for Academic All Canadians (students who combine academic and athletic excellence)
- A leader in Canada for students holding national scholarships and awards
- A leader in participation rate for international study opportunities, including exchanges with more than 70 institutions in 20 countries

Faculty and Staff

- 991 faculty (tenured and tenure-track)
- 2,201 support staff

Alumni

- 123,152 in 166 countries

Innovative Programs

- Executive MBA program ranked #1 in Canada by *Canadian Business Magazine*; MBA for Science and Technology program ranked #1 in Canada and #2 outside the US by *Business Week* (US); Executive Development Centre ranked #1 in Canada and amongst the best in the world by *Financial Times* (UK)
- Unique clinical education program allowing medical, nursing and rehabilitation therapy students to practice diagnostic and communication skills in a simulated health care setting
- Canada's first specialized program in biomedical computing, combining computational biology and medical informatics

Academic Units

- Faculty of Applied Science
- Faculty of Arts and Science (includes Schools of Computing, English, Environmental Studies, Music, and Physical and Health Education)
- School of Business
- Faculty of Education
- School of Graduate Studies and Research (includes Schools of Industrial Relations, Policy Studies, and Urban and Regional Planning)
- Faculty of Health Sciences (includes Schools of Medicine, Nursing and Rehabilitation Therapy)
- Faculty of Law
- Queen's International Study Centre at Herstmonceux
- Queen's Theological College (affiliate)

Research

- $133 million in sponsored research
- 91% success rate (national average 78%) for Natural Science and Engineering Research Council (NSERC) operating grants with an average grant of $130,170
- A leader in Canada in technology transfer with over $30 million invested in spin-off companies from Queen's-based research

Student Life

- Guaranteed residence room for first-year undergraduate students
- More than 220 student clubs, organizations and societies
- 50 varsity teams and competitive clubs, Canada's largest Inter-university sports program
- Oldest student government in Canada (Alma Mater Society) involving more than 10% of the undergraduate student population in volunteer positions

New Academic Chairs Approved by Senate/Ratified by the Board of Trustees

- Bracken Chair in Genetics and Molecular Medicine, Faculty of Health Sciences
- Connell Professorship in Palliative Care Medicine

New Academic Centres Approved by Senate/Ratified by the Board of Trustees

- Human Mobility Research Centre

Honorary Degree Recipients

May 2002

- Anne Carson, (LLD), Poet, scholar, essayist and Professor of History, McGill University
- Manuel Castells, (LLD), Professor of Sociology and City and Regional Planning, University of California, Berkeley
- David Dodge, (LLD), Governor of the Bank of Canada
- Margaret Hooey, (LLD), Former University Secretary, widely known as the "Guardian of Due Process" at Queen's University
- Thomas Kinnear, (LLD), Eugene Applebaum Professor of Entrepreneurial Studies at the University of Michigan
- Horace Krever, (LLD), Retired Justice of the Court of Appeal of Ontario
- Sheila McDonough, (DD), First female graduate student of McGill's Institute of Islamic Studies and first female Islamic scholar in Canada
- Shirley Tilghman, (D.Sc.), First woman President, Princeton University

October 2002

- Angela Hewitt, (LLD), Distinguished musician and pre-eminent Bach pianist
- Balfour Mount, (LLD), Physician and outstanding contributor nationally and internationally to the development of palliative care
- Sadako Ogata, (LLD), United Nations High Commissioner for Refugees, from 1991 to 2000
- Julian Porter, (LLD), Lawyer and specialist in civil litigation
- Matthew Teitelbaum, (LLD), Director of the Art Gallery of Ontario

Indicators of Performance

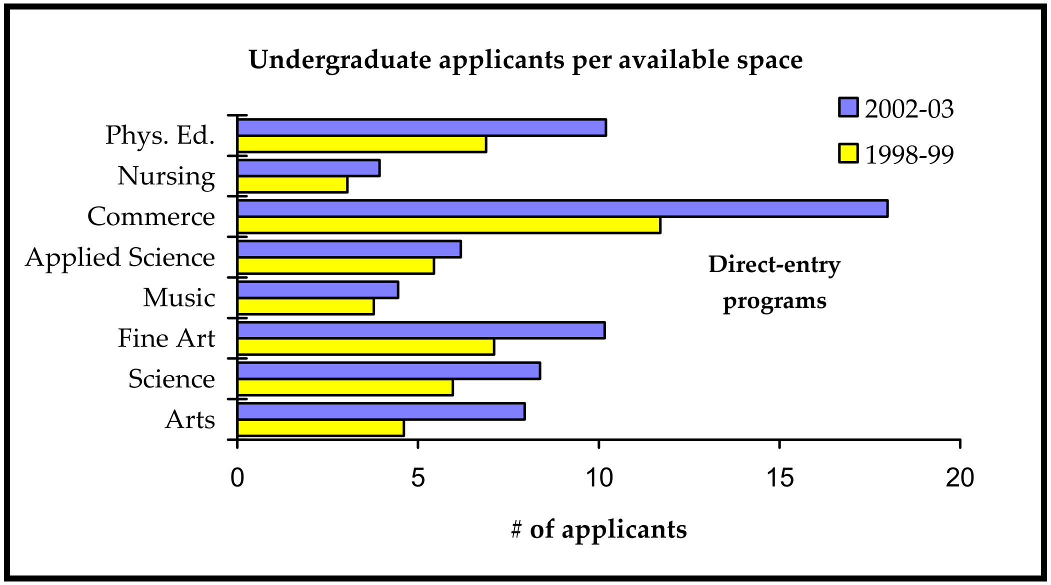
Measuring Excellence

"Our twenty-first century Vision…demands an unyielding commitment to excellence in our laboratories, in the application of information technology, and in the broader learning environment at Queen's…The unparalleled involvement by our students, coupled with excellence in the classroom and laboratory, is what makes Queen's graduates unique. It is also the key to the legendary Queen's spirit."[1]

Queen's University has achieved an extraordinary level of success since its establishment, and the new century holds opportunities to surpass these already high standards. The University's Vision for the new century serves as the foundation for this ascent to new levels of accomplishment. "Queen's will earn its place among the world's best universities. Indeed…no other university in Canada is better positioned to succeed."[1]

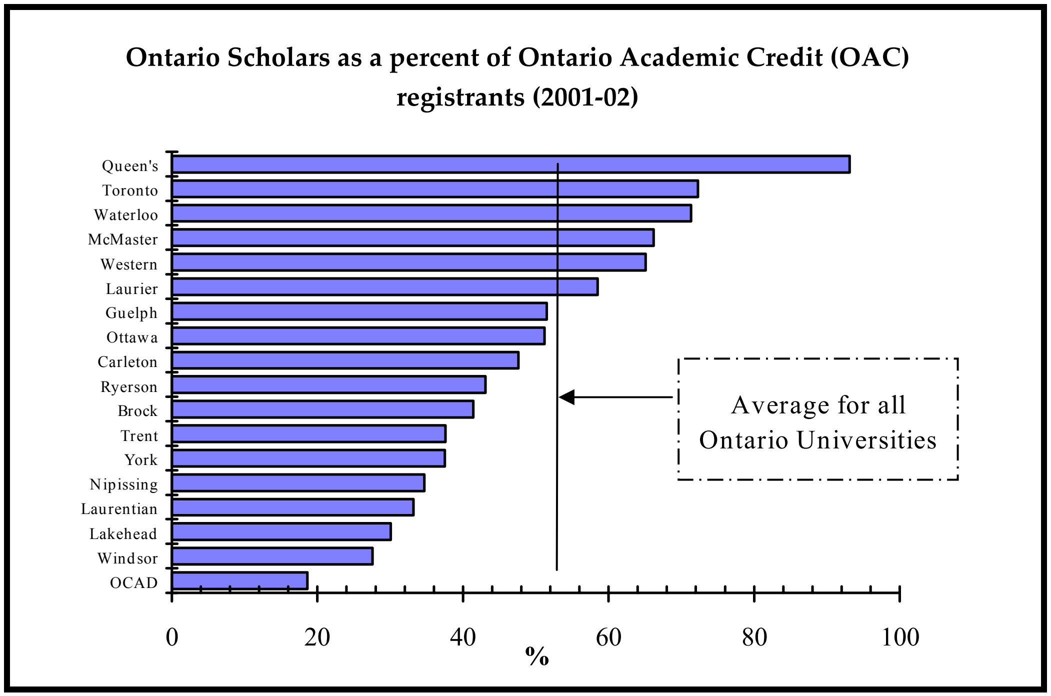
In the following charts, Queen's performance is quantified according to a number of co-ordinates: the number of undergraduate applicants per available space (demand for a Queen's education compared with other universities), the entering grade of full-time first-year students and the percentage of Ontario Scholars (quality of students who attend Queen's), and the funding levels for library and scholarship allocation (quality of resources available to Queen's students). These indicators reveal both stand-alone figures and comparisons to other institutions across the country. This set of Canadian institutions, deemed to be "similar" by virtue of their size and breadth of undergraduate and graduate activity and level of research activity, represents many of the major universities in Canada, however, there are still significant differences among them. For example, total full-time enrolment ranges from 11,432 at Dalhousie to 44,126 at Toronto. Montreal, Toronto and UBC are large urban campuses with significant part-time enrolments. Some universities are recognized by their provincial governments as centres of specialization (Guelph – agriculture, Ottawa – bilingual higher learning) and receive additional funding as a result. Funding levels vary from province to province. Despite these differences, it is important for Queen's to continually review its performance relative to others and to use the results to further improve the learning environment. An updated and revised performance indicators report is expected to be available in late 2003.

[1] Principal Leggett's *"Queen's at the Crossroads"*, Queen's Alumni Review, September/October 2000.



Demand for a Queen's Education

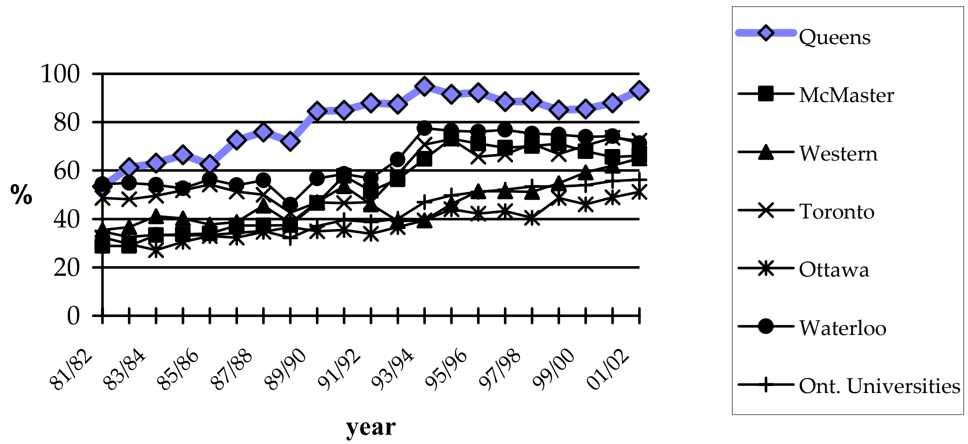
Applications to Queen's direct-entry programs are presented in the graph to the left. The ratio of applicants to available places is increasingly competitive, thereby maintaining a high admission standard. The demand for Commerce continues to grow and currently attracts almost eighteen applicants for every available space.



Top Notch Entrants to First Year

Strong application demand translates into very high admission standards. The graph to the left illustrates the percentage of incoming students from Ontario secondary schools designated as Ontario Scholars. Queen's remains well above the provincial average for all Ontario universities, with over 91 percent of 2001-02 applicants earning this distinction.

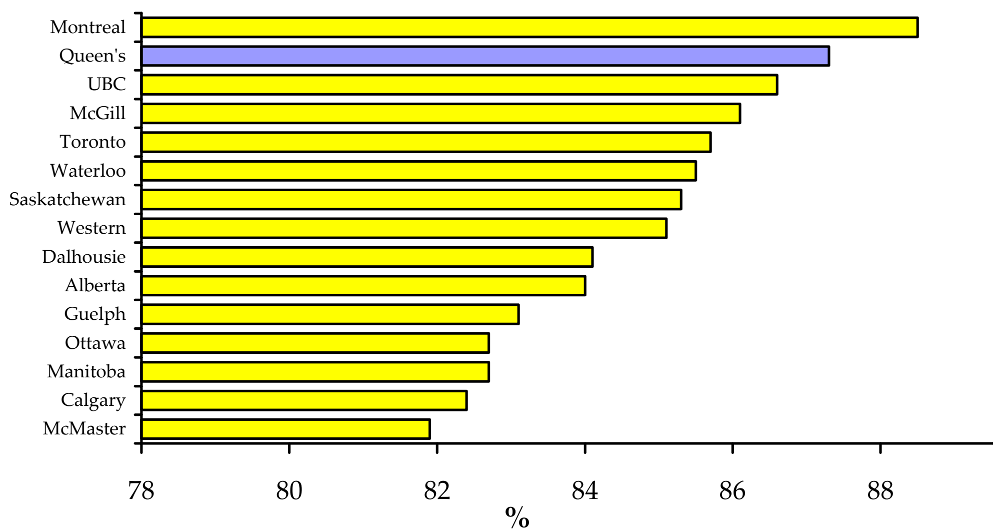
Ontario Scholars as a percent of Ontario Academic Credit (OAC) registrants (1982 to 2002)



Consistently High Proportion of Ontario Scholars

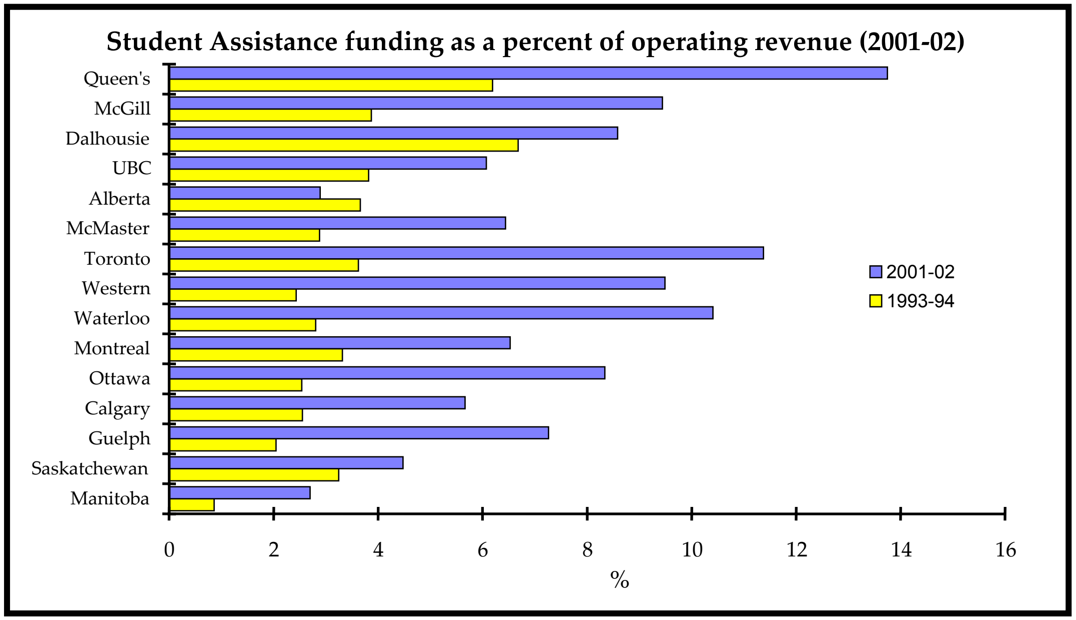
Queen's relative position for incoming students designated as Ontario Scholars has continued to remain significantly higher than other Ontario universities over the past two decades.

Average entering grade of full-time first year students (2001-02)



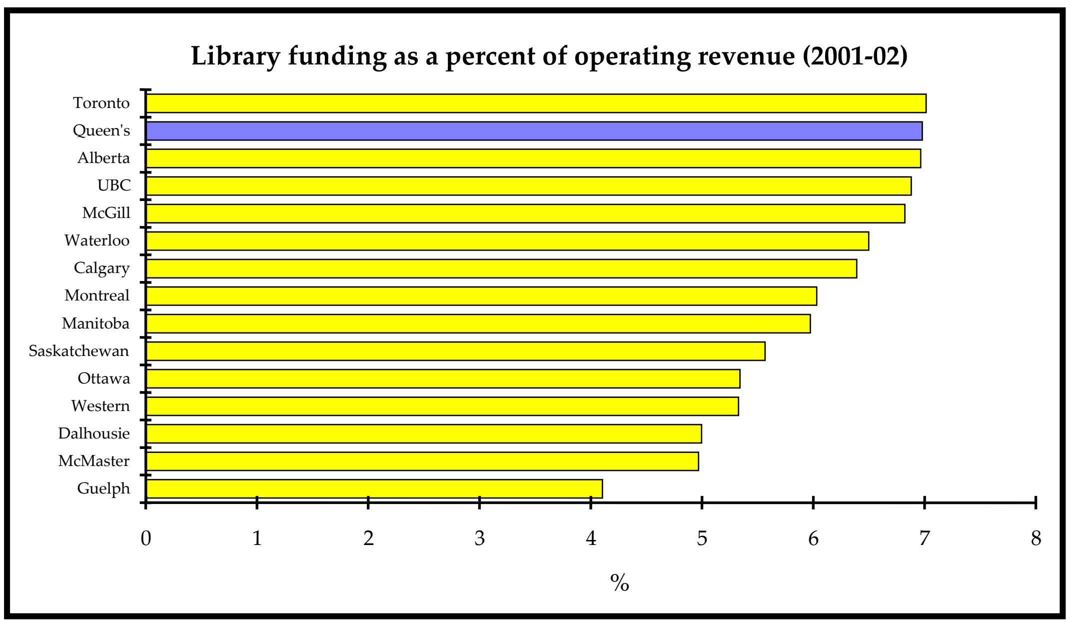
National Average Entering Grads

Queen's achieves a similar level of excellence on a national scale as shown in the graph to the left. The average entering grade of Queen's students for 2001-02 was over 87 percent.



Student Assistance

Queen's University has a longstanding history of being committed to ensuring that student assistance funds are available to entering and continuing students at Queen's. In recent years, Queen's has increased this commitment through both fundraising efforts and by contributing more from its operating budget to fund student assistance which serves to reward achievement and to help meet the financial needs of students. In response to the current fiscal and economic climate, institutions across the country have appropriately increased the percentage of operating revenues allocated to financial assistance. Queen's continues to increase its support of student assistance funding and is now a solid leader in this area among Canadian universities.

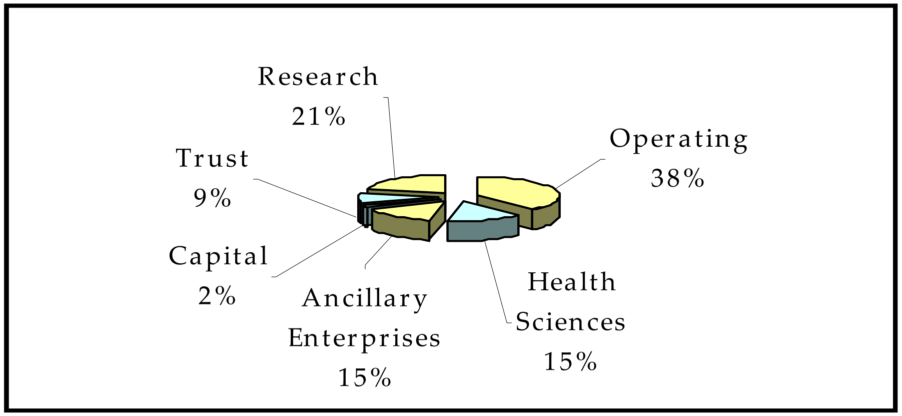


Library Funding

The quality of Queen's learning environment is influenced and shaped by many factors including an emphasis on the availability of a wide range of learning resources and diverse experiential opportunities. Queen's has a close to first place ranking in the proportion of operating revenues allocated to library funding.

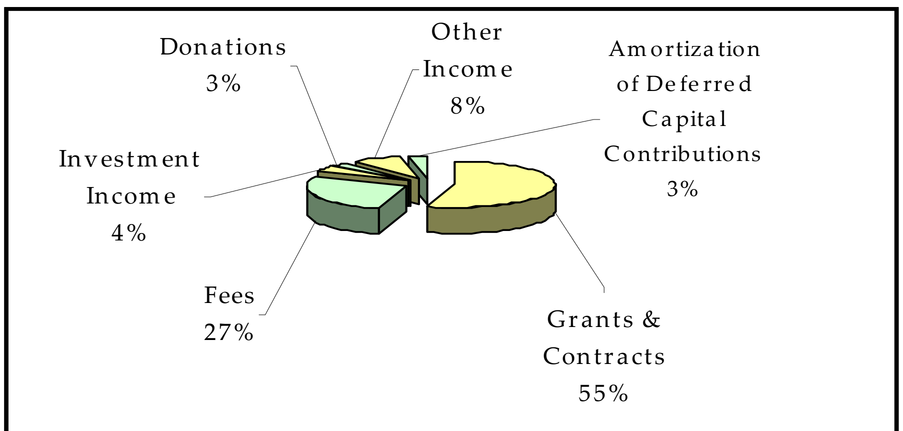
The Financial Year 2002-03 in Review (May 1, 2002 to April 30, 2003)

Total University Revenue by Fund
$561 Million (2001-02 - $526 Million)



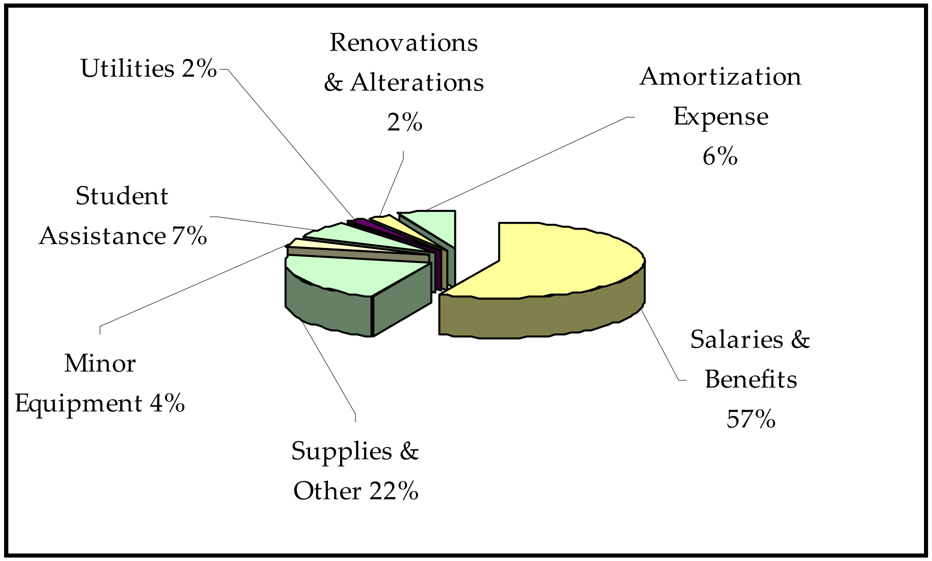
University revenue increased by $35 million (6.6%). The University's operating fund accounts for 38% of the University's total revenue. The operating fund, totaling $214.9 million, represents the University's discretionary funds and is the focus of financial planning and analysis. (For more detailed information, see Appendix 1, page 64.)

Total University Revenue by Source
$561 Million (2001-02 - $526 Million)



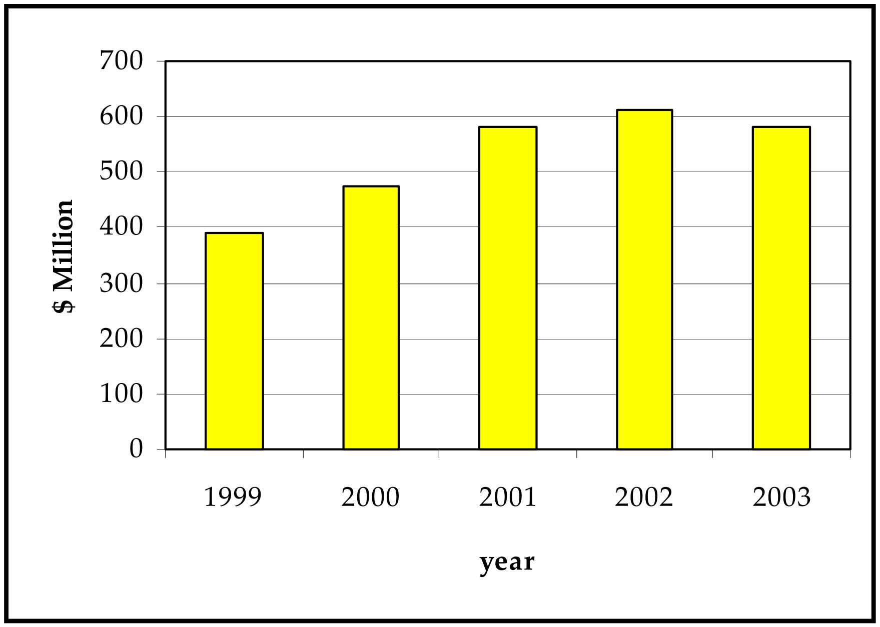
Grants and contracts represent approximately half of the University's total sources of revenue. Included are government operating fund grants totaling $131.8 million. (For more detailed information, see Appendix 1, page 64.)

Total University Expense by Type
$546 Million (2001-02 - $504 Million)



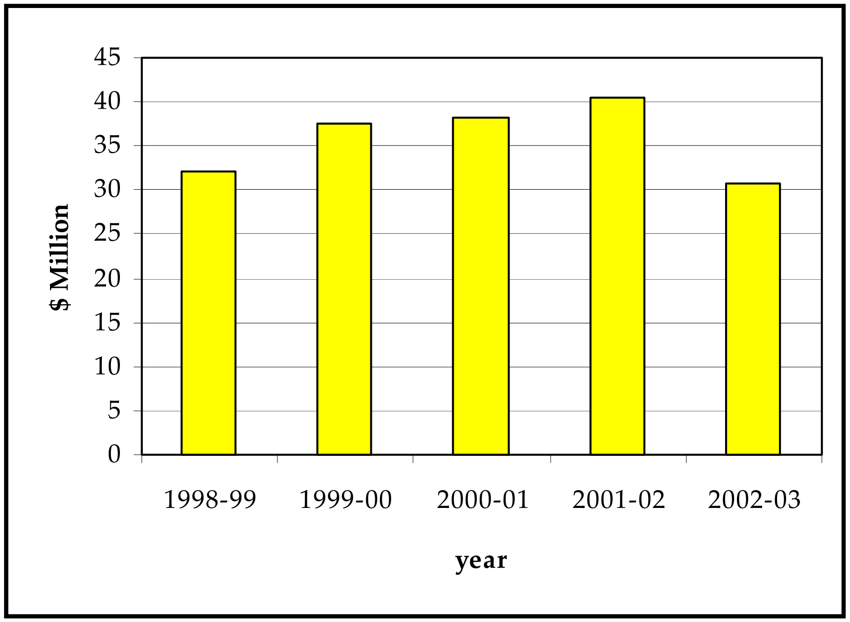
Total expenses increased $42 million (8.3%) over the previous year. Over half of the University's resources are spent on salaries, benefits, and restructuring costs which totaled $309 million during 2002-03, an increase of 8% over the previous year. (For more detailed information, see Appendix 1, page 64.)

Market Value of Investments
As at April 30, 2003
(in million of dollars – does not include pension assets)



The market value of the University's total investments declined by $28 million (4.6%) in 2002-03 after more than doubling in the prior 6 year period. The decrease in 2002-03 results from the impact of the serious downturn in capital markets on both investment returns and new donations. (For more detailed information, see Note 18 to the Consolidated Financial Statements, page 61.)

Private Giving
(in millions of dollars)

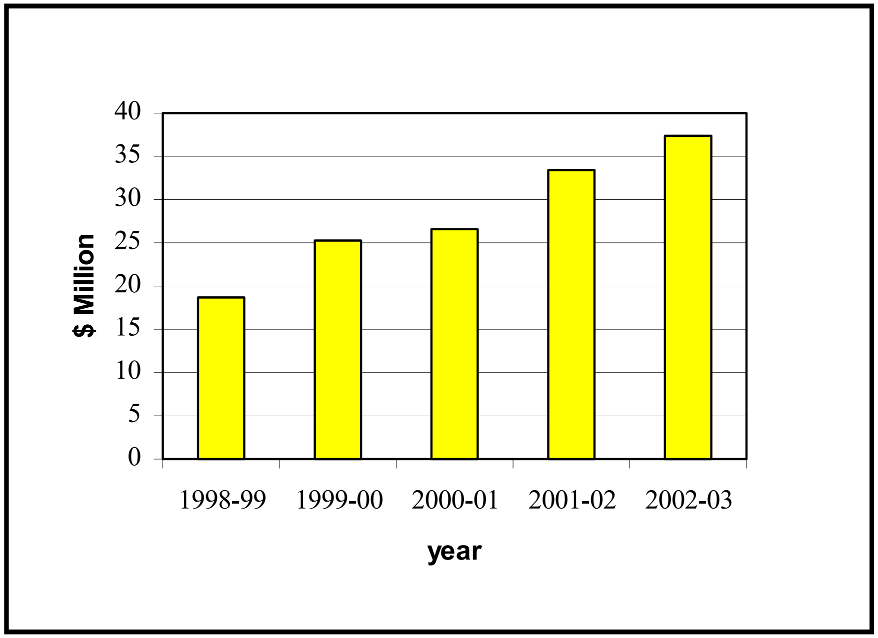


The University's most successful capital campaign, the *Campaign for Queen's* had raised $262 million by the time it wrapped up in April 2003. This result was significantly more than the $200 million target. This extraordinary support from private and corporate donors will help Queen's to meet its goals.

Since the *Campaign* began, Queen's has achieved many milestones, including the construction of the Biosciences Complex, the Agnes Etherington Art Centre expansion, Goodes Hall, Chernoff Hall, Beamish-Munro Hall (Integrated Learning Centre), the Cancer Research Institute, and a major renovation to Macdonald Hall. The eight academic chairs established through the *Campaign* will enhance teaching and research in Health Sciences, Applied Science, Art History, and Biology. In addition, the student awards endowment received $52 million in new donations, creating 500 new student awards.

Although annual donation revenue for 2002-03 was down somewhat as a result of the downturn in capital markets and the closing of the *Capital Campaign*, the receipt of prior pledge payments continued strong. The University anticipates a consistent and steady rate of giving will continue. This is demonstrated by its commitment to the Advancement function. Queen's continues its commitment to sustained, campaign-level fundraising capacity as evidenced by the Board's adoption of the Advancement Funding Model in March 2002 and additional operating resources for 2003-04.

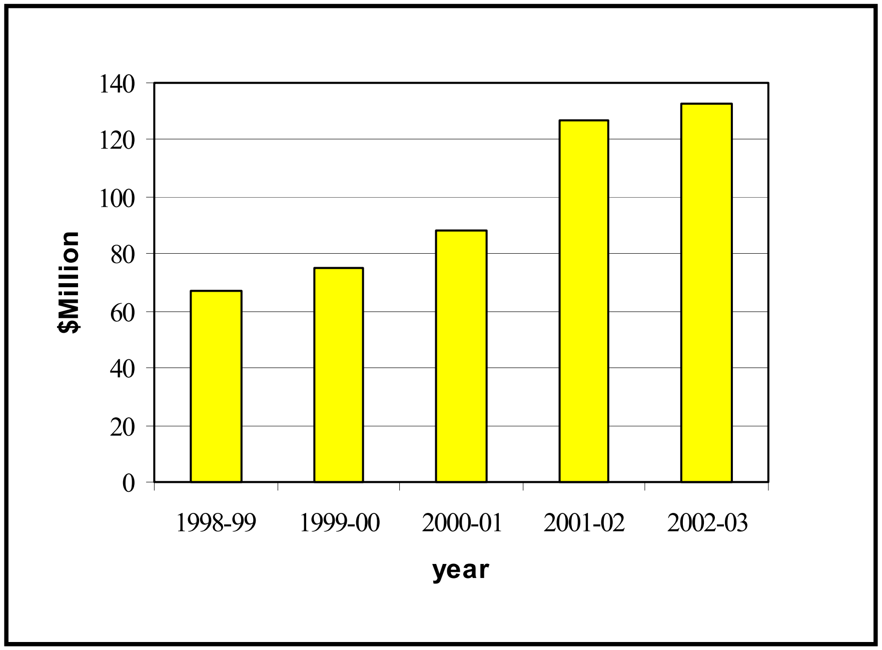
Student Assistance
(in millions of dollars)



Attracting and retaining the best students is a priority for the University. Queen's remains committed to its goal of ensuring that all qualified students, regardless of financial means, have access to a Queen's education. In recent years, the University has increased this commitment through both fundraising efforts and by contributing more operating funds to forms of student assistance which serve to reward achievement and to help meet the financial needs of students. These initiatives have resulted in student assistance doubling from $18.6 million in 1998-99 to $37.3 million in 2002-03. (For more detailed information, see the Consolidated Statement of Revenue and Expense, page 41.)

The market value of the student assistance endowment of $167.1 million represents 42.3% of the University's total endowment. This endowment has increased 20% over five years. Among all Canadian universities, Queen's directs the highest proportion of its operating budget toward student assistance.

Research Funding (before deferrals)
(in millions of dollars)



With over $133 million in sponsored research funding across all disciplines, Queen's University is one of Canada's leading research intensive universities. (For more detailed information, see Table 3, page 25.)

Queen's is home to a dynamic and thriving research environment:

- top 10 ranking among Canadian universities for federal research operating grant funding
- per capita, Queen's ranks 3rd in Canada for number of Fellows of the Royal Society of Canada
- prestigious 2002-03 NSERC awards to Queen's researchers include a 2002 NSERC Award of Excellence and a 2003 EWR Steacie Memorial Fellowship
- a leading Canadian university in the commercialization of research – almost $22 million in revenue over the past five years
- 27 Canada Research Chairs (CRC) and 15 Queen's Research Chairs recognize outstanding researchers currently on faculty
- new $16 million Cancer Research Institute, one of 16 Queen's-based research Centres, opened in April 2003

Challenges and Opportunities – Quality and Accessibility

The greatest challenge that Queen's has faced over this past year, and will continue to face as we move forward, is to ensure that the quality and breadth of our educational and scholarly accomplishments remain consistent with our Vision and Goals. To succeed, Queen's must continue its drive to become less dependent on provincial operating grants and to achieve greater independence in its funding and programs.

To this end, Queen's has been a leader in support of tuition deregulation and has used these additional revenues to enhance student assistance and improve the quality of its programs and facilities. The new resources made available through deregulation of tuition in Applied Science, Business, Medicine, and Law have allowed these Faculties to reinvest significantly in the quality of their learning environments and programs. The positive impact of these changes has been dramatic. Over the coming year, there may be changes (in Provincial and Federal governments) that may affect post-secondary education policy and direction. Queen's views the changing political landscape as an opportunity to continue to press for higher levels of funding and greater autonomy for universities. While the political environment may change, the priority considerations for Queen's will not – quality and accessibility will continue to top our agenda.

The government-imposed 2% per year limit on tuition fee increases in undergraduate programs in the Faculties of Arts and Science and Education has hampered the ability of these Faculties and the University to achieve the same level of quality improvements experienced by those programs with deregulated fees. If Queen's is to maintain international standards of excellence as an institution, it is important to have the freedom to structure all of its programs, and the fees that support them, in ways which are consistent with its Vision and Goals. In the coming year, the University will continue in its efforts to persuade the government that responsible deregulation of fees will lead to excellence without in any way compromising access and opportunity. Queen's is also committed to ensuring the accessibility of its academic programs. Over the past five years, no other expenditure item in the overall operating budget has grown more rapidly than student financial assistance. We remain committed to our goal of ensuring that all qualified students, regardless of financial means, have access to a Queen's education.

Queen's has turned the challenge of the "double cohort" enrolment wave into an opportunity for the future. While many universities in the province are experiencing significant increases in enrolment for 2003-04 and thus substantial additional stresses on the learning environment, Queen's made a considered decision to modestly increase its first-year class (approximately 6%). This decision will present an opportunity in future years to achieve targeted enrolment increases in graduate programs, allowing the University to achieve a more desirable balance between undergraduate students and graduate students.

The global downturn in capital markets has had a negative impact on Queen's investments (endowment, pension and other investment funds). This has put pressure on the endowment (from both a fundraising and spending perspective) and on the pension plan. Private giving has been instrumental to the rapid growth in student assistance that we have achieved over the past six years, and has also been instrumental to the steady growth in the Queen's endowment. Despite the weakness in the stock markets, the *Campaign for Queen's* was a remarkable success, far exceeding its initial goal. We anticipate that when the markets begin to turn around, Queen's will be exceptionally well-positioned to continue to make strong gains in private giving. The fundraising function at Queen's – its structure, management and protocols - is viewed as one of the top organizations of its kind in Canada. Poor investment returns impact the Queen's pension plan – impeding the growth of money purchase account balances, reducing post-retirement increases for retirees and potentially increasing the University's pension contributions.

Special government programs such as SuperBuild, private support and university-private sector partnerships have also made possible major improvements in the quality of many programs and facilities. New initiatives in Integrated Learning in the Faculty of Applied Science, new buildings in support of our programs in Chemistry, Business, Applied Science, Health Sciences and Law, new endowed professorships in Arts and Sciences, Applied Science, Fine Arts, and Health Sciences all have benefited from the generosity of private donors. Another source of capital funds for building projects (in particular the Chemistry building, and the new residences) was the University's first debenture issue. This $90 million debenture placement was an exceptional opportunity for the University to demonstrate its financial strength to the business community, and to ensure financial flexibility for the future. The issue was substantially over-subscribed and no Canadian university achieved a higher credit rating in Canada.

Queen's will also continue to capitalize on all of the opportunities presented to it in the research area. To continue to be ranked among Canada's leaders in research, Queen's will aggressively pursue external support for initiatives in research and graduate education from government programs such as the Canada Foundation for Innovation, the Ontario Research and Development Challenge Fund, and the Ontario Innovation Trust. Finally, Queen's is committed to maintaining its widely recognized leadership role in the commercialization of research through PARTEQ, Queen's technology transfer corporation.

Effective stewardship by the Board of Trustees, the Senate and University Council contribute to Queen's overall effectiveness. For example, the Board of Trustees is responsible for ensuring that the University's business is properly managed. This includes overseeing financial matters, property, and the appointment of Vice-Principals, certain senior staff, and in conjunction with the Senate, the appointment of the Principal. The Board of Trustees functions through a standing committee structure consisting of eight committees. The Audit Committee of the Board has worked closely with administration on key elements of both its external reporting and its internal control environment and significant benefits have been realized.

For example, with external reporting, the University strives to continually improve accountability and transparency through financial reporting. We have made significant investment of time and effort in reporting to the broader community that it serves. The quality of the reporting has been apparent to others as Queen's has been rated first in Canada in each of the past four years in the Wilfrid Laurier University Accountability Index. This study is conducted by three professors at Wilfrid Laurier University and measures the "availability, accessibility and understandability" of financial and statistical information about universities.

As well, to enhance its internal control environment, Queen's has completed the first phase of a risk assessment and management review of the University's operations. This involved identifying the risk exposures and creating a risk map for each exposure that sets out an assessment of the magnitude of impact, the likelihood of occurrence, the risk owner, and how each risk exposure is managed or mitigated.

In closing, it is worth noting that changes in the senior management team will have an impact in the coming months and will present new and exciting opportunities as the University moves forward. A new Vice-Principal (Operations and Finance) begins his term on August 1, 2003, a new Associate Vice-Principal (Faculty Relations) begins in June 2003, and the announcement of a new Principal and Vice-Chancellor is expected this fall. Change is healthy for any organization, as it is generally accompanied by re-assessment and re-evaluation of the organization's core principles, mission and strategies. Queen's looks forward to a new year with a continuing commitment to excellence, and a determination to be even more focused on quality, more visible in its excellence internationally, and more accountable in terms of its operations and its overall contribution to society. The initiatives required to make this happen are well underway.

Summary of Actual Results for 2002-03

This section of the Financial Year 2002-03 in Review provides a high level review of major developments for the seven funds of the University (Operating, Health Sciences, Ancillary Enterprises, Trust and Endowment, Capital and Research) and the debenture issue.

Operating Fund

Operating fund revenue includes government operating grants, tuition fees and unrestricted investment income, and finances the core activities of the University[2]. The University's operating fund accounts for 38% of the University's total revenue. The operating fund represents the University's discretionary funds and is the focus of financial planning and analysis. The operating fund recorded a surplus of $417 thousand (before employee future benefits expense), increasing the accumulated operating surplus (before employee future benefits expense) to $1.1 million.

Total operating revenue increased by $15.8 million. Fees exceeded budget by $0.8 million as actual full-time enrolment exceeded the University's target by 145 students. The incremental revenue from fees was set aside for student assistance and to address unfunded costs associated with rapid enrolment growth. Due to the downturn in capital markets in 2002-03, both investment income and donations were down from the prior year. Operating expenses were generally in line with the budget plan.

In 2002-03, Provincial Government operating funding increased by $2.9 million (2.4%) over 2001-02. Changes in 2002-03 government funding are summarized in Table 1 on the following page.

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[2]Ancillary enterprises, continuing education programs and executive education are expected to cover their full costs from revenues and are not financed out of the operating budget.

Table 1
Provincial Government Operating Funding Changes
($000's omitted)

Fund	Change
Base Operating Grants	$ 0
Accessibility fund	1,655
Performance based funding	(78)
Research performance fund	976
Targeted program funding	321
Total	$ 2,874

The $0 increase in base operating grants through 2002-03 means that the Provincial funding formula did not compensate for inflationary increases in normal operational costs, such as compensation, utilities and library acquisitions. All new funding has been in the form of targeted grants for increased enrolment and for achieving certain performance levels in terms of student graduation and employment rates. The University faces increases in costs of 4%-4.5% per annum due to compensation for faculty and staff (as a result of the highly competitive hiring environment) along with inflationary increases in items such as utilities and library acquisitions while Provincial Government base funding increases have been 0%. In addition, the Provincial Government has imposed a tuition fee cap of 2% on approximately 70% of tuition income from Queen's undergraduate enrolment. The effect of these government funding policies is that the University must impose internal budget reductions to fund a significant portion of the inflationary increases.

A brief description of major Provincial funding envelopes follows:

- The Accessibility Envelope funds enrolment growth in first-entry undergraduate, second-entry graduate and professional programs. Each university which met the growth criteria received a share of the $97.9 million fund for 2002-03. Accessibility funding was first announced in the May 2001 Provincial Budget ($25.8 million) with enhanced funding being announced in the June 2002 Provincial Budget.

- The Performance Fund allocations are based on achievement against three key performance indicators: degree completion rate, and employment rates six months and twenty-four months after graduation. A benchmark is established for each of the three indicators. Institutions at or above their benchmark are allocated funding in proportion to their performance against the benchmark and their size. Institutions below their benchmark do not receive funding. Queen's exceeded the established benchmark in all three categories and received $2.2 million of the $23.2 million fund.

- The Research Performance Fund is intended to help defray the costs of infrastructure supporting Ontario funded research. For 2002-03, Queen's share of the $32 million fund was $2.5 million. This amount is unusually high because of large one-time grants received from the province in 2001-02. The amount is expected to be about $1.5 million next year.

- Targeted program funding is for enrolment growth in some professional programs (Engineering, Medicine and Education). The Ministry of Training, Colleges and Universities continues to direct funds for enrolment growth in selected programs to help deal with the impending shortage of graduates in these professions. In 2002-03, the University received a total of $4.7 million - $2.6 million was targeted for enrolment growth in Applied Science (engineering), $1.0 million for Medicine and $0.8 million for Education. The Faculty of Health Sciences also received one-time infrastructure support funding of $0.3 million. The University expects to receive almost $7.0 million in targeted program funding in 2003-04.

A brief description of other funding envelopes follows:

- In March 2003, the Province announced a $200 million Quality Assurance Fund. The $75 million that will flow in 2003-04 is approximately 4% of Provincial base operating funding for universities (and may be considered to be inflation funding). While this very welcome announcement will allow Queen's to maintain quality, there is little room for quality enhancement. Queen's share of the Quality Assurance Fund for 2003-04 is estimated to be $4.5 million.

- The December 2001 Federal Budget announced one-time only funding of $200 million in support of the indirect costs of research for Canada's Universities and Hospitals. Queen's share for 2002-03 was $6.2 million. This funding represents an investment of slightly more than 20% of the Federal tri-council research grants coming to the University and was used to support the indirect costs associated with that research. The February 2003 Federal Budget announced that this would become base funding for 2003-04 onwards.

Health Sciences

The Alternative Funding Plan (AFP) is a benchmark agreement between the Ontario Ministry of Health and Long-Term Care, the University, the Clinical Teachers' Association and three teaching hospitals. The current agreement runs to December 31, 2004. The University, Clinical Teachers Association and the three teaching hospitals have created the Southeastern Ontario Academic Medical Organization (SEAMO) to govern the AFP. The Faculty of Health Sciences received $63.7 million in 2002-03 under the AFP to support their mission of clinical service, education and research. The School of Medicine at Queen's University is the first and only medical school in Canada to be funded on this basis, serving as a "model" for other universities with teaching hospitals because of its success. In addition, the Faculty of Health Sciences receives an allocation from University operations ($18.5 million in 2002-03) to fund medical students and students in the Basic Health Sciences (not funded by the AFP). For 2002-03, the income statement caption "Salaries" includes $45.9 million of clinical fee payments to physicians from the Ontario Hospital Insurance Plan (OHIP) pool; prior to the introduction of the AFP, these payments would have been made directly to the physicians as fee for service remittances from OHIP.

Ancillary Enterprises

Ancillaries are the University's business enterprises (see Appendix 2, page 65). These units provide goods and services to the University community and are expected to operate on a break-even basis after covering their full operating costs. Full costs include a payment to the University for the cost of administrative services.

Revenue from ancillary enterprises amounted to $84.5 million in 2002-03. Residences and Food Services, Apartment and Housing, Continuing Education, Parking and the Computer Store all achieved breakeven targets. The $195 thousand loss experienced by the Donald Gordon Centre (Conference) is in line with their budget and is a significant improvement over the prior year loss of $289 thousand. Queen's Centre for Enterprise Development (QCED Inc.) realized a loss of $385 thousand. The planned loss was $261 thousand.

The ISC experienced an operating loss of $1.2 million. Of this loss, $1.1 million was funded by a gift from the Bader family. During 2002-03, the Bader family provided a very generous gift which will support operations of the ISC as the University moves toward full capacity at ISC. The Bader family support began in fiscal year 2002-03 and will conclude in fiscal year 2007-08.

PARTEQ, the University's technology transfer corporation, reported an excess of revenue over expense of $755 thousand after providing for a $226 thousand royalty payment to Queen's University. Licencing revenue will decrease for 2003-04 as PARTEQ's guaranteed payments from BMS relating to Taxol end ($2 million USD per year). PARTEQ is currently projecting a small loss for 2003-04 and is expected to return to profitability in 2004-05.

Trust and Endowment

Trust revenue comes primarily from endowment income and restricted donations. Expenses include student assistance, faculty salaries (endowed chairs), equipment, and library resources.

The University's student assistance endowment with a market value of $167.1 million as at April 30, 2003, produces annual income of almost $8.5 million. The endowment for Faculties and Departments had a market value of $134.0 million producing annual income of $ 7.1 million. The market value of the University's total endowment funds are currently $395.5 million.

The endowment fund had a return of negative 11.2% during 2002-03. This yield compares very favourably with the benchmark return of negative 13.7% for the same period. While market returns have been disappointing over the last year, historical results have been excellent. Specifically, over the 10 year period ending March 31, 2003, the endowment had an annualized return of 9.9%; this return is 1.5% above the annualized benchmark return for the same period.

Capital (See Appendix 5 – Snapshots of New Capital/Major Construction)

The University was engaged in a very large volume of new construction and major renovation activity during 2002-03. In part, this activity has been driven by the Provincial Government's creation in May 1999 of the $660 million SuperBuild Fund to assist colleges and universities in providing the physical infrastructure to cope with enrolment growth in the next decade. To be eligible for SuperBuild funds, new construction had to generate capacity to respond to increased enrolment, there had to be matching funds from the private sector, and the construction had to be aligned with the institution's strategic direction. Queen's was granted its entire request and received $50.8 million.

Two of the University's four projects with significant funding from SuperBuild, Chernoff Hall (the $53 million Chemistry Complex) and Goodes Hall (the $25.5 million School of Business building at Victoria School), were opened on-time and on-budget in the fall of 2002. The remaining buildings with significant funding from SuperBuild, Beamish-Munro Hall (the $24.8 million Integrated Learning Centre for Applied Science) and Gordon Hall/Annex (a $15 million major renovation for the School of Graduate Studies and Research, the Office of the University Registrar and other student services) are also on-time and on-budget, and are scheduled to be completed in 2004. The total cost of projects which received funding from SuperBuild was $118.3 million. Of this total, $57 million was provided by SuperBuild (including investment income of $6.2 million earned on the $50.8 million grant), $51.3 million was provided by donations, pledges and Faculty commitments, and the balance of $10 million was financed with external debt.

The new $16.4 million Cancer Research Institute opened in April 2003 and the renovated Macdonald Hall (Faculty of Law, $3.8 million project) was opened in March 2003. Capital projects currently in progress include two new residences ($47.5 million total) and an expansion to the cafeteria in Leonard Hall ($9.2 million); all are scheduled to be ready for the arrival of students in September 2003.

Work on phase I ($7 million) of a new electrical substation ($10 million in total) has started and is scheduled to be completed in 2004. Capital planning has begun for a $7 million major renovation to Richardson Hall. Finally, a new Queen's Centre facility is in the early planning stages and is anticipated to be completed in phases over a number of years.

The Province has provided universities with one-time funding towards the costs for new construction and capital improvements in anticipation of the double cohort. However, the addition of new buildings on campus puts added pressure on the operating fund in terms of utilities, services and maintenance outlays.

The large volume of new construction and major renovation activity continues. The significant projects underway, or recently completed, are outlined in Table 2 as follows:

Table 2
New Capital/Major Renovation Projects
($000's omitted)

Project	Project Budget	Funding Sources	Status
Chernoff Hall (Chemistry) *new construction	$53,000	SuperBuild ($27,000), Fundraising, University sources	Opened Fall 2002
Goodes Hall (Business) * new construction	$25,500	SuperBuild ($6,000), Fundraising	Opened Fall 2002
Macdonald Hall (Law) * major renovation	$3,750	Fundraising	Opened Winter 2003
Cancer Research Institute * new construction	$16,350	Fundraising, Ontario Innovation Trust, Cancer Care Ontario	Opened Winter 2003
Two new residences * new construction	$47,500	Residence system	Scheduled completion: Fall 2003
Leonard Hall Cafeteria * major renovations	$9,200	Residence system	Scheduled completion: Fall 2003
Beamish-Munro Hall (Integrated Learning Centre) * new construction	$24,800	SuperBuild ($12,000), Fundraising	Scheduled completion: Winter 2004
Electrical Substation * new construction (phase I)	$7,000	University sources	Scheduled completion: Summer 2004
Gordon Hall/Annex (student services, graduate school) * major renovation	$15,000	SuperBuild ($11,400), University sources	Scheduled completion: Winter 2004
Richardson Hall * major renovation	$7,000	University sources	Scheduled completion: 2005
Queen's Centre * new construction and major renovations	estimate $175,000 (+/ - 15%)	Various	In early planning

Debenture

In November 2002, Queen's issued a $90 million, 30-year unsecured debenture. Queen's earned an AA+ credit rating from Standard and Poor's and an AA(High) credit rating from the Dominion Bond Rating Service. Through 2003, ten Canadian universities have issued debentures and no Canadian university achieved a higher credit rating in Canada. At the time of issue, Queen's coupon rate of 6.1% and the 60 basis point spread over Government of Canada 30-year bonds were the lowest for a Canadian university.

The proceeds of the issue were used to finance capital projects including the construction of student residences, cafeteria renovations and to repay debt on previously completed capital projects.

Research

Queen's is one of Canada's leading research intensive universities. Research funding increased to $133 million (before deferrals), representing a year-over-year increase of 5% ($6 million) and five-year increase of 99% ($66 million). Queen's researchers continued their strong track record with NSERC, SSHRC and CIHR realizing an increase of $8.3 million in tri-council funding. The $7.4 million reduction in OIT funding reflects the decrease in one-time only infrastructure grants received in fiscal year 2001-02. The increase in research expenses is consistent with the increase in research funding. However, there were significant fluctuations in specific expense categories. Equipment purchases decreased $2.3 million, and infrastructure improvements decreased $2.5 million while research compensation increased $8.7 million and operational supplies increased $2.1 million. This is consistent with the increase in operating grants over equipment grants in 2002-03.

PARTEQ Innovations, the not-for-profit technology transfer arm of Queen's University, works with Queen's researchers and the business and venture capital communities, helping to bring the benefits of scientific discovery to the public while returning proceeds to inventors and the University. In the past year more than $30 million was invested in PARTEQ spin-off companies, bringing the total invested in early- and middle-stage companies to more than $240 million. Licensing and royalty streams generated by Queen's-based research have yielded nearly $22 million over the past five years.

Research is funded by grants from, and contracts with, external funding agencies and industry (see Table 3 on the following page).

Table 3
Research Funding (before deferrals)
($000's omitted)

	2002-03	*2001-02*	*2000-01*	*1999-00*	*1998-99*
Federal					
SSHRC	$ 3,083	$ 2,310	$ 2,422	$ 2,003	$ 1,575
NSERC	21,136	16,044	18,035	16,449	16,518
CIHR	13,366	10,985	8,126	6,640	6,263
CFI	14,246	14,652	6,539	1,855	1,000
Other	9,864	8,024	7,302	8,339	7,801
Less 75% SNO	(2,752)	(2,492)	(2,385)	(2,360)	(2,646)
	58,943	49,523	40,039	32,926	30,511
Provincial					
ORDCF, OIT, PREA	15,186	22,832	9,182	4,350	362
Other Ontario Ministries	3,110	5,291	1,862	2,041	2,570
Other					
Corporate	24,295	22,674	15,548	14,201	16,739
Foundations	22,580	21,299	17,439	17,693	14,018
Other	8,941	5,532	3,901	3,799	2,765
Total	**$ 133,055**	**$ 127,151**	**$ 87,971**	**$ 75,010**	**$ 66,965**

Legend:
SSHRC - Social Sciences and Humanities Research Council of Canada
NSERC - Natural Sciences and Engineering Research Council of Canada
CIHR - Canadian Institutes of Health Research
CFI - Canada Foundation for Innovation
SNO - Sudbury Neutrino Observatory
ORDCF - Ontario Research and Development Challenge Fund
OIT - Ontario Innovation Trust
PREA - Premier's Research Excellence Awards

Factors Affecting Future Revenue and Expenses

There are numerous factors, both internal and external which impact Queen's operations. The University's future revenues and expenses continue to be most significantly affected by the following factors:

Revenues:
- Provincial and Federal Government Funding
- Enrolment
- Tuition
- Fundraising
- Investments
- Research Activity

Expenses:
- Salaries and Benefits
- Campus Infrastructure
- Utilities

Internal Control Environment

Provincial Government Funding

Provincial Government funding and tuition policies have directly influenced operating grant funding and tuition revenue (through the regulated tuition cap). Operating grants from the Province made up 50% of the University's operating revenue in 2002-03 (down from a high of 73% in 1992-93). Application rates and enrolment pressures are significantly affected by the Province's change in the secondary school curriculum that will result in the "double cohort" of Ontario high school graduates this June. As a result of government policy, tuition in deregulated programs continues to represent a significant source of operating revenue. The June 2002 Provincial government budget provided additional Undergraduate Accessibility Funding.

The current Provincial funding formula for base funding of the University's operating grant does not compensate the University for inflationary increases for unavoidable costs such as utilities, library acquisitions, and salaries and benefits; however, the March 2003 Provincial budget announcement included a new Quality Assurance Fund that will provide $200 million base funding for Ontario universities over the next three years. The Quality Assurance Fund allocation for 2003-04 represents about 4% of the current base Provincial operating grant (roughly equivalent to inflation facing Ontario's universities). This very welcome announcement demonstrates the Provincial Government's commitment to quality maintenance.

The Provincial Government also announced a second round of the Ontario Student Opportunities Trust Fund (OSOTF) funding, committing $400 million to support matching private donations for student financial assistance.

As well, the Province has been a leader in providing funding for the indirect costs of research[3], and has been very committed to providing universities with one-time funding for new construction and capital improvements in anticipation of the "double cohort". The SuperBuild I fund provided Queen's with approximately $57 million[4] in funding towards Chernoff Hall, Goodes Hall, Beamish-Munro Hall (the Integrated Learning Centre) and Gordon Hall/Annex. The Province announced a new round of SuperBuild funding for universities in fall 2002. Queen's opted not to submit a proposal for that round of SuperBuild funding, as funding was largely targeted at universities in the Greater Toronto Area, which will take a significant share of the "double cohort" enrolment increase. Queen's is satisfied with the funding received under the SuperBuild I funding envelope, and proud of our accomplishments in partnership with the Province, alumni and private industry resulting from that program. If there are other SuperBuild or similar programs for universities in the future, Queen's may qualify under those programs. To date, grants under SuperBuild programs have been tied to enrolment growth and have not funded ancillary-type buildings such as physical education and recreational facilities or student residences.

As noted, the Provincially-mandated restriction on tuition fee increases of 2% per year in regulated programs represents a significant financial constraint for the University. Deregulated Faculties have more opportunities to recruit faculty, fund enhancements to facilities, and make strategic resource allocations. The possibility of a fundamental change in tuition policy, depending on the outcome of the anticipated Provincial election in 2003, adds considerable uncertainty to the planning environment. Queen's remains committed to the principles of quality enhancement, program diversity, and student accessibility under a model where universities are given freedom to set tuition levels locally for all programs.

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[3] The indirect costs of research are those costs associated with research activity for physical facilities (e.g., heat, light, custodial services), administration (e.g., research services, financial services, human resources, security), environmental health and safety, library and computing infrastructure.

[4] This amount was matched by the University through donations and University commitments.

Federal Government Funding

Sustaining vibrant research programs has stretched the University's operating budget considerably. For every dollar of research funding the University receives, an additional $0.40 to $0.50 is needed to support the indirect costs of that research. These costs include the provision of physical space, utilities and other services related to the execution of research and the maintenance of strong graduate programs. In December 2001, the Federal Government announced one-time funding of $200 million in support of the indirect costs of research for Federally-funded research projects. The Government also indicated its commitment to work with Canada's universities to find a permanent stable source of funding for indirect costs of research. In the February 2003 Federal budget, the Government increased the fund to $225 million and made it permanent. Queen's share of the Federal indirect costs of research funding, based on our research funding from Federal tri-council research grants[5], will amount to approximately $6.2 million in base funding in 2003-04. This very welcome funding will help to cover the costs for providing the physical space, utilities and other services related to the execution of research and the maintenance of strong graduate programs, and will ensure that these expenditures, which rise with the amount of research undertaken, will have a reduced drain on the operating funding available for other initiatives within the University. The investment will ensure that Queen's can continue to generate the best possible benefits from the Federal Government's significant, and increasing, investment in research in Canada.

The newly announced base funding from the Federal Government for the indirect costs of research will represent a contribution of approximately 22% of the Federal tri-council research grants coming to Queen's in 2003-04. This is a very good first step enroute to funding costs which are between 40% and 50% of grants. The University remains committed to working closely with the Federal Government, both directly and through the Association of Universities and Colleges of Canada (AUCC), to enhance and further develop a long-term sustainable solution to the issue of indirect costs.

The February 2003 Federal Budget also announced a number of initiatives that will benefit Canadian universities that do not have an immediate direct impact on our operating budget but are worth noting.

- The Budget provided significant support for Canada's academic research infrastructure. The $500 million allocation to the Canada Foundation for Innovation will support improvements to the infrastructure of Canada's research hospitals, all of which are closely linked to university-based medical schools.

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[5] The tri-council granting agencies are the Canadian Institutes of Health Research (CIHR), the Natural Sciences and Engineering Research Council (NSERC), and the Social Sciences and Humanities Research Council (SSHRC).

- Funding for research grants from the Federal tri-councils, which had been substantially increased in previous budgets, was further increased by $125 million (an increase of approximately 10%).

- The Federal budget also included a commitment of $80 million for graduate student scholarships. This decision will help to ensure that Canada's universities make an effective contribution to the innovation agenda. The competition internationally for exceptional graduate students is intense. This new program will help to ensure that Canadian universities are successful in convincing the best of our undergraduates to pursue graduate studies in Canada and will begin to address the dramatic shortage of master's and doctoral graduates forecast for the coming decade.

Enrolment

Assimilation of demand for post-secondary education in Ontario continues to be a significant issue for Ontario universities and is accentuated by the arrival of the "double cohort" of Ontario high school graduates in September 2003. Queen's received a higher than average number of applications in 2002. The increase in students from the "double cohort" will occur primarily in 2003.

The enrolment plan approved by the Senate provided an increase in first-year undergraduate intake of 256 (approximately 6%) for 2003.

Queen's is proud of its reputation as Canada's "National University" and plans to maintain the proportion of places available for out-of-province students for 2003-04. Queen's remains committed to attracting the very best students from across Canada and around the world. As an example of the demand, in March 2003, Queen's had 39,000 applications for 3,319 places in undergraduate programs starting in September 2003. This represents an increase of 48% in applications over the previous year. The increase in applications from Ontario students is 63%.

Queen's will continue to be selective in its admission decisions. In admitting students, Queen's screens for academic performance and supplementary information. Although the nature of supplementary information varies by program, the general goal remains the same: to admit a diverse class of students who can make a real contribution to both their learning environment and Queen's community as a whole.

Queen's current enrolment plan reflects the University's desire to remain a mid-sized, residential university while accommodating a share of the "double cohort". Full-time enrolment at Queen's is projected to grow by approximately 1,400 students between 2002 and 2005 and then level out through 2010. The enrolment growth experienced over recent years has clearly stretched the academic and administrative resources of the University. Class sizes, student-to-faculty ratios and numbers of students accessing services have increased over the same period.

Tuition

In March 2003, the Board of Trustees approved tuition fees in all programs (regulated and deregulated) for 2003-04, and in some cases for 2004-05 and 2005-06. As per Provincial mandate, tuition levels in regulated programs will increase by 2%[6]; in deregulated programs tuition fee increases will range from 2% to 34%[7]. Regulated programs are all undergraduate programs in the Faculty of Arts and Science, Nursing, Rehabilitation Therapy[8], Education and the first year of the Commerce Program in the School of Business. Deregulated programs are: Applied Science, Business (excluding year one of the Commerce undergraduate program), Law, Medicine, and Graduate programs. In the 2002-03 academic year, approximately 30% of Queen's students were enrolled in deregulated programs. Tuition fees from enrolment growth continue to be an important source of new funds.

The Board of Trustees monitors all aspects of tuition fee increases closely including student concerns. In general, students in deregulated Faculties are concerned about accessibility, the level of bursary funding, and the timing of bursary decisions. Several new initiatives have been launched by Student Awards to address student concerns and the University has redesigned the general bursary program to expedite the process and initiated a major expansion of the entrance bursary program. Students in deregulated programs recognize the need for tuition fee increases to prevent erosion of the quality of their program[9].

Provincial policy requires that 30% of tuition fee rate increases will be allocated to student assistance. Queen's allocates an additional 15% of growth in fees to student assistance. Queen's remains committed to its goal of ensuring that all qualified students, regardless of financial means, have access to a Queen's education and has increased student financial assistance through both fundraising efforts and by contributing more operating funding to student assistance.

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[6] Tuition in regulated programs is set at $4,193 for 2003-04.

[7] There is no increase in tuition for programs in the School of Graduate Studies, with the exception of programs in Public Administration and Rehabilitation Therapy. Tuition in deregulated programs ranges from $6,760 to $13,500 for domestic students. See Appendix C in the "Report on Annual Budget" for the complete list of tuition fees.

[8] The undergraduate degree in Rehabilitation Therapy will be phased out as a new Master's level degree will be introduced in September 2003. The last undergraduate class will be admitted in September 2003.

[9] The Alma Mater Society (AMS) ratified "Deregulation: What's It Like? – The Report of the AMS Ad-Hoc Committee on Deregulated Societies' Issues" on April 4, 2002.

Fundraising

Table 3
Gifts Received
($000's omitted)

	2002-03	*2001-02*	*2000-01*	*1999-00*	*1998-99*
Major Gifts	$ 14,491	$ 20,912	$ 18,732	$ 21,969	$ 21,791
Annual Gifts	5,395	5,053	4,623	3,498	2,731
Planned Gifts	9,961	11,075	12,728	3,245	4,151
Gifts in Kind	959	3,389	2,093	8,731	3,426
TOTAL	$ 30,806	$ 40,429	$ 38,176	$ 37,444	$ 32,099

Advancement will continue its strategic focus of working with all areas of the University to build the external support and engagement needed to achieve targeted funding. Despite the *Campaign's* success, there are still many areas of important financial need at Queen's that are critical to the institution's Mission, Vision and Goals. Sustaining high levels of fundraising activity will help ensure that necessary financial support is available to advance Queen's reputation for excellence.

The *Campaign* has served as a strong catalyst for advancing the institution. As the University transitions from the *Campaign* to sustained "campaigning", professional fundraising and relationship building, the internal faculty-based commitment, and the strong leadership from volunteers, will be the cornerstones of fundraising. A sustained commitment to these cornerstones will be critical to the University enjoying a steadily increasing flow of private funds over the near and long-term to help meet identified needs.

Investments

The University has two long-term investment funds: the Pooled Endowment Fund (PEF) and the Pooled Investment Fund (PIF). The University's investments are overseen by the Investment Committee of the Board of Trustees. This Committee sets investment policies and monitors investment performance.

The objective of the PEF is to ensure the University's endowment grows with inflation while providing sufficient income for the purposes set out by endowment donors. The University's spending policy, established in 1997 by the Investment Committee, sets the payout rate at 5% of the three-year average of the market value of the PEF. This permits the income available for student assistance and endowed chairs to grow in a meaningful way. Because of weaker capital markets over the last few years, the University is reviewing the spending policy to decide if current payouts can be maintained.

The PIF is comprised of the investment of monies in reserve and other unspent balances. Amounts withdrawn from the PIF each year are established by the Investment Committee based on spending targets established by the University. Amounts withdrawn from the PIF are credited to the operating fund.

With an endowment of approximately $400 million, Queen's has the fifth-largest endowment of all universities in Canada. While market returns have been disappointing over the last year, long-term results have been excellent. Over the 10-year period ending March 31, 2003, the endowment had an annualized return of 9.9%; this return is 1.5% above the annualized benchmark return for the same period.

Research Activity

Sponsored research activity at Queen's has increased significantly over the past five years and is expected to continue growing. In February 2003, the Federal Government announced a 10 percent increase in the budgets of the three granting councils and announced a new $105 million graduate student scholarship program with 60 percent of the new scholarships targeted to the humanities and social sciences. In March 2003, the Provincial Government announced new funding for the establishment of a Centre of Excellence for Electricity and Alternative Energy Technology, a $20 million initiative that will cost-share five chairs in applied energy technology. Queen's is a member of the consortium that also includes McMaster University, the University of Ontario Institute of Technology, the University of Toronto, the University of Waterloo and the private sector.

The additional costs to universities that accompany this unprecedented growth in research funding were partially offset by the Federal Government's announcement of $225 million per year for the indirect costs of federally supported research. At the same time, the Federal Government is expecting university research to play a significant role in improving Canada's competitive position as an innovative country.

Salaries and Benefits

Key among the market pressures affecting future expenditures is the cost of attracting and retaining top faculty and staff. The pressure on salaries for faculty is unlikely to decrease in the foreseeable future as the employment prospects continue to be very attractive in Canada and globally.

The effects are already being felt at Queen's, especially in professional programs where entry-level salaries for selected positions have increased by as much as 50% in the past few years, and excellent candidates have several job offers. These market pressures have an impact on costs and on our ability to deliver specific programs and to sustain student-to-faculty ratios, course loads and research activity.

The collective agreement with the Queen's University Faculty Association (QUFA) is in force until April 30, 2005. The collective agreements for CUPE Locals 229[10], 254[11] and 1302[12] expire on June 30, 2003 and negotiations will commence during the summer for new collective agreements. In addition a Memorandum of Understanding on Compensation and Benefits between the Queen's University Staff Association (QUSA) and the University will be signed July 1, 2003 and will remain in effect until June 30, 2006. The University will also be negotiating a new collective agreement with the Faculty Association for Adjunct I instructors this year.

The University's costs for employment benefits continue to increase due to a number of factors including compensation increases, significant increases in premiums for insured major medical and dental benefits, a Canada Pension Plan contribution increase, and the extension of benefits to more categories of employees.

The University provides medical, dental and life insurance benefits to eligible employees. Mercer Human Resource Consulting Limited was retained by the University to provide an estimate of the University's employee future benefit liability for financial statement reporting purposes. As at April 30, 2003, the University's obligation relating to the employee future benefits plan is estimated to be $37.3 million, an increase of $4.0 million (12.1%) over 2001-02.

Campus Infrastructure

Queen's and other Canadian universities face substantial costs to modernize campus infrastructure over the next ten years. Queen's deferred maintenance backlog is currently estimated at $100 million. It is anticipated that by 2005, the University will have $6 million per year to deal with deferred maintenance derived from monies in the operating budget and the Provincial Government facilities renewal grant. At the moment, there is no expense in the financial statements related to future outlays for the maintenance of facilities. In December 2000, a multi-year funding plan was approved which provides some funds for annual upgrades, adaptation, and prevention maintenance. The current funding plan will allow the University to make significant inroads to the deferred maintenance backlog and to cover the most important priorities before they become emergencies.

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[10] The Kingston Heating and Maintenance Workers' Union.
[11] The Kingston Technicians' Union
[12] Library Technicians.

Utilities

2002-03 has been a very challenging year for bringing utilities costs in line with the budget plan. On May 1, 2002, the electricity market in Ontario was opened to competition. However, in late 2002, the Provincial Government fixed electricity prices, a move which resulted in some savings in electricity costs for the University. Oil and natural gas prices were highly volatile through the winter of 2003 in part due to the war with Iraq and other unrest in the Middle East. An unusually long cold winter in 2002-03 added to the variances from budget. The challenge associated with budgeting for these costs is not likely to lessen as Queen's will bring two new buildings on line in 2003-04: the Cancer Research Institute and Beamish-Munro Hall (Integrated Learning Centre for Applied Science).

Internal Control Environment

A quality internal control environment is an essential element in the delivery of the Vision and Mission of the University and is key in mitigating and managing financial and business risk exposures.

Queen's internal control environment includes a comprehensive approach to risk assessment and management. It includes understanding and assessing risks, establishing internal awareness, mitigating selected risk exposures and managing others through appropriate systems and self-insurance. It also includes monitoring progress against objectives. To assist with the management of these financial and business risks, Queen's benefits from:

- a comprehensive system of internal academic reviews;
- a well established internal audit function that is highly regarded internally for the quality of its recommendations on efficiency and effectiveness in spending matters;
- an active and on-going involvement of its external auditor, KPMG, who is very familiar with the institution and with financial reporting, control and risk exposure matters particularly for non-profit organizations;
- a considerable focus of both administration and the Audit Committee of the Board of Trustees on the linkages between the financial reporting for, and the business of, the enterprise;
- on-going discussion of the quality of accounting policies;
- on-going reviews of risk exposures and of processes to mitigate those risks that are considered to have a high likelihood of occurrence and/or the magnitude of impact is large; and
- an Environment Committee of the Board of Trustees that oversees the administration and handling of environmental health and safety exposures.

CONSOLIDATED FINANCIAL STATEMENTS 2002-03

Highlights of 2002-03 Operating Fund Revenue and Expenses

Year ended April 30, 2003
($000's omitted)
(unaudited)

		2002-03			2001-02
		Budget	*Actual*	*Difference*	*Actual*
REVENUE	Government grants and contracts	$ 111,401	$ 112,983	$ 1,582	$ 103,958
	Fees	92,620	93,436	816	85,466
	Investment income	1,881	1,682	(199)	2,334
	Donations	1,580	1,196	(384)	2,310
	Other	5,635	5,594	(41)	5,013
		213,117	214,891	1,774	199,081
EXPENSES	Salaries and benefits	141,859	140,199	(1,660)	134,693
	Supplies and miscellaneous	17,952	14,696	(3,256)	14,087
	Minor equipment and furnishings	5,558	5,694	136	5,583
	Student assistance	19,912	20,036	124	18,636
	Utilities	8,987	8,800	(187)	7,387
	Renovations and alterations	5,606	5,641	35	4,176
	Library acquisitions	8,770	9,250	480	8,231
	Restructuring costs	4,157	4,157	0	6,177
	Amortization of capital assets	316	316	0	291
		213,117	208,789	(4,328)	199,261
	Net change in fund balance before transfers	0	6,102	6,102	(180)
	Net transfers (to) from appropriated surplus		(5,685)	(5,685)	239
	Annual operating surplus, before employee future benefits expense		417	417	59
	Accumulated operating surplus, start of year, before employee future benefits expense		730		671
	Accumulated operating surplus, end of year, before employee future benefits expense		$ 1,147		$ 730

The format of the operating budget approved by the Board of Trustees in May 2002 has been modified in this statement to conform to the format of operating revenues and expenses in Appendix 1 of the Annual Financial Report. This format conforms to that of the Consolidated Statement of Revenue and Expense on page 41.

This highlight summary does not reflect the reporting of employee future benefits expense described in Note 17 to the Consolidated Financial Statements. The total accumulated deficit of $36,143 (2002 – $32,521) reflects the accrued liability of $37,290 (2002 – $33,251) for employee future benefits.

Page 37 discusses the various funds that are summarized in Appendix 1 on page 64.

OPERATING FUND

The University recorded a surplus of $417 thousand (before the employee future benefits expense of $4.0 million) in 2002-03 increasing the accumulated operating surplus to $1.1 million. Total operating revenue increased by $15.8 million. Fees exceeded budget by $0.8 million as actual full-time enrolment exceeded the University's target by 145 students. The incremental revenue from fees was set aside for student assistance and to address unfunded costs associated with rapid enrolment growth. Due to the downturn in capital markets in 2002-03, both investment income and unrestricted donations were down from the prior year. Operating expenses were generally in line with the budget plan.

ANCILLARY ENTERPRISES

Ancillaries are the University's business enterprises. These units provide goods and services to the University community and are expected to operate on a breakeven basis after covering their full operating costs. Revenue from ancillary enterprises amounted to $84.5 million of revenue in 2002-03. The Computer Store, Parking, Residences and Food Services, and Continuing Education all achieved breakeven targets. The ISC experienced an operating loss of $1.2 million of which $1.1 million of this loss was covered by a gift from the Bader family. The $0.2 million loss experienced by the Donald Gordon Centre (Conference) is in line with their budget. PARTEQ, the University's technology transfer corporation, reported an excess of revenue over expense of $755 thousand after providing for a $226 thousand royalty to Queen's. Queen's Centre for Enterprise Development (QCED Inc.) realized a loss of $385 thousand which exceeded the planned loss of $261 thousand.

RESEARCH

Research funding (before deferrals) increased to $133 million, representing a year-over-year increase of 5% ($6 million) and a five-year increase of 99% ($66 million). Queen's researchers continued their strong track record with NSERC, SSHRC and CIHR realizing an increase of $8.3 million in tri-council funding. The $7.4 million reduction in OIT funding reflects the decrease in one-time only infrastructure grants received in fiscal year 2002-03. The increase in research expenses is consistent with the increase in research funding.

ENDOWMENTS

The endowment fund had a return of negative 11.2% during 2002-03. This yield compares very favourably with the benchmark return of negative 13.7% for the same period. While market returns have been disappointing over the last year, historical results have been excellent. Over the 10 year period ending March 31, 2003, the endowment had an annualized return of 9.9%. This return is 1.5% above the annualized benchmark return for the same period.

CAPITAL

Chernoff Hall (the new $53 million Chemistry Complex) and Goodes Hall (the new $25.5 million School of Business building at Victoria School) were opened on-time and on-budget in the fall of 2002. The $16.4 million Cancer Research Institute opened in April 2003 and the renovated Macdonald Hall (Faculty of Law, $3.8 million project) was opened in March 2003. Capital projects currently in progress include two new residences ($47.5 million total), an expansion to the cafeteria in Leonard Hall ($9.2 million); Beamish-Munro Hall (the $24.8 million Integrated Learning Centre for Applied Science), and Gordon Hall/Annex (a $15 million major renovation for the School of Graduate Studies and Research, the Office of the University Registrar and other student services).

CONCLUSION

Queen's has a strong balance sheet despite a number of financial challenges and concerns. Overall, Queen's remains a strong and financially stable institution. This is critical to the University's ability to fulfill its mission "to be among the best of internationally known universities in Canada recognized for:

- the exceptional quality of undergraduate and graduate students and programs in the arts, sciences and professions;
- the intellectual power and value of research and scholarship by faculty members and students;
- the exemplary service of the University and that of its graduates to the community and the nation and the community of nations."

Statement of Administrative Responsibility

Year ended
April 30, 2003

The administration of the University is responsible for the preparation of the consolidated financial statements, the notes and all other financial information contained in this annual report.

The administration has prepared the consolidated financial statements in accordance with accounting principles generally accepted for Canadian universities and in accordance with guidelines developed by the Canadian Association of University Business Officers and 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, 2003 and the results of its operations for the year then ended.

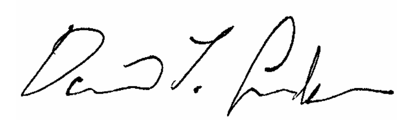
In fulfilling its responsibilities and recognizing the limits inherent in all systems, the administration has developed and maintains a system of internal control designed to provide reasonable assurance that University assets are safeguarded from loss and that the accounting records are a reliable basis 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 employee future benefit liability. 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 employee future benefit liability 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 Annual Financial Report inclusive of the Consolidated Financial Statements principally through the Audit Committee. The majority of the members of the Audit Committee are not officers or employees of the University. The Audit 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 external and internal auditors have full access to the Audit Committee with and without the presence of the administration.

The consolidated financial statements for the year ended April 30, 2003 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.

Principal and Vice-Chancellor
July 2, 2003



Vice-Principal (Operations and Finance)

Queen's University at Kingston

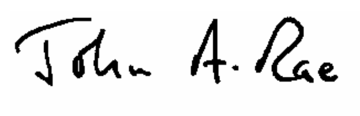
Consolidated Statement of Financial Position

Year ended April 30, 2003, with comparative figures for 2002 ($000's omitted)

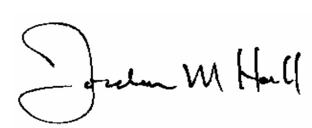
		2003	*2002*
ASSETS	Cash	$ 12,585	$ 10,977
	Accounts receivable	28,430	24,559
	Prepaid expenses	5,887	5,912
		46,902	41,448
	Investments (market value 2003 – $582,793; 2002 – $611,039)	569,004	537,798
	Deferred expenses (note 3)	9,384	5,270
	Capital assets (notes 4 and 5)	402,591	332,943
		1,027,881	917,459
LIABILITIES AND NET ASSETS	Accounts payable and accrued liabilities	57,425	50,647
	Employee future benefits liability (note 17)	37,290	33,251
	Deferred revenue (note 6)	130,202	133,394
	Deferred capital contributions (note 7)	218,366	203,345
	Long-term debt (note 8)	6,907	29,975
	Series A senior unsecured debenture (note 9)	90,000	0
		540,190	450,612
	Net Assets		
	Investment in capital assets (note 10)	98,868	91,245
	Endowments (note 11)	375,168	367,702
	Internally restricted (note 12)	89,977	76,284
	Unrestricted	(76,322)	(68,384)
		487,691	466,847
		$ 1,027,881	$ 917,459

See accompanying notes to consolidated financial statements.
Contingent liabilities (notes 14 and 20)
Commitments (note 5 and 21)

Approved by the Board of Trustees



Trustee



Trustee

Queen's University at Kingston

Consolidated Statement of Revenue and Expense

Year ended April 30, 2003, with comparative figures for 2002 ($000's omitted)

		2003	*2002*
REVENUE	Grants and contracts	$ 305,874	$ 289,877
	Fees	150,139	138,188
	Investment income	24,953	21,801
	Donations	17,165	22,074
	Ancillary sales of service and products	25,782	25,185
	Other	19,647	15,792
	Amortization of deferred capital contributions	17,176	13,007
		560,736	525,924
EXPENSE	Salaries	266,487	246,659
	Benefits	32,461	29,974
	Employee future benefits (note 17)	5,370	3,066
	Supplies	61,894	56,961
	Minor equipment and furnishings	20,774	23,077
	Externally contracted services	17,309	16,168
	Student assistance	37,289	33,369
	Travel	14,655	13,512
	Utilities	12,284	10,521
	Renovations and alterations	13,940	10,355
	Interest	3,486	2,315
	Restructuring costs	4,566	6,259
	Amortization of capital assets	34,471	30,005
	Other expenses	20,980	21,299
		545,966	503,540
	Excess of revenue over expense	$ 14,770	$ 22,384

See accompanying notes to consolidated financial statements.

Queen's University at Kingston

Consolidated Statement of Changes in Net Assets

Year ended April 30, 2003, with comparative figures for 2002 ($000's omitted)

	Investment in Capital Assets	*Endowment*	*Internally Restricted*	*Unrestricted*	*Total 2003*	*Total 2002*
Net assets, beginning of year	$ 91,245	$ 367,702	$ 76,284	$ (68,384)	$ 466,847	$ 425,022
Excess of revenue over expense (note 10)	(17,295)			32,065	14,770	22,384
Change in internally restricted net assets			13,693	(13,693)	0	0
Net change in investment in capital assets (note 10)	24,641			(24,641)	0	0
Contribution for assets not subject to amortization (note 10)	277				277	122
Investment (loss) income charged directly to endowment (note 11)		(3,166)			(3,166)	4,754
Internally endowed contributions (note 11)		1,669		(1,669)	0	0
Endowment contributions (note 11)		8,963			8,963	14,565
Net assets, end of year	$ 98,868	$ 375,168	$ 89,977	$ (76,322)	$ 487,691	$ 466,847

See accompanying notes to consolidated financial statements.

Queen's University at Kingston

Consolidated Statement of Cash Flows

Year ended April 30, 2003, with comparative figures for 2002 ($000's omitted)

	2003	2002
Operating Activities:		
Excess of revenue over expense	$ 14,770	$ 22,384
Add non-cash items:		
Amortization of capital assets	34,471	30,005
Amortization of deferred capital contributions	(17,176)	(13,007)
Decrease in deferred maintenance project expenses	1,537	1,413
Net change in non-cash working capital (note 13)	3,779	1,268
Cash provided by operating activities	37,381	42,063
Investing and Financing Activities:		
Net change in investments	(31,206)	(23,031)
Purchase of capital assets	(104,380)	(77,104)
Disposal of capital assets	261	191
Deferred debenture costs	(5,651)	0
Series A senior unsecured debenture issue (note 9)	90,000	0
Repayment of long-term debt	(23,068)	(1,661)
Contributions received for capital purposes	32,474	59,665
Endowment fund contributions and investment income reported as direct increase in net assets	5,797	19,319
Cash used in investing and financing activities	(35,773)	(22,621)
Net increase in cash	1,608	19,442
Cash (bank indebtedness), beginning of year	10,977	(8,465)
Cash, end of year	$ 12,585	$ 10,977

See accompanying notes to consolidated financial statements.

The University considers cash and cash equivalents to be highly liquid investments with original maturities of three months or less.

NOTE 1 AUTHORITY

Queen's University at Kingston operates under the authority of the Royal Charter of 1841 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.

Queen's University at Kingston controls PARTEQ Research and Development Innovations, the 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. Its principal business activities, conducted on a not-for-profit basis, include the acquisition, development and commercialization of new technologies. PARTEQ Research and Development Innovations is exempt from income tax under section 149 of the Income Tax Act.

The 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 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 Queen's University at Kingston. The Foundation is exempt from income tax under section 149 of the Income Tax Act.

NOTE 1
Continued

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 Queen's University at Kingston deemed to be of interest to the American public. 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.

Queen's Centre for Enterprise Development Inc. (QCED Inc.) 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 Queen's University and within this sector.

Sudbury Neutrino Observatory Trust was created on December 2, 1997 as a joint venture of the University and three other Canadian universities, to perform research in sub-atomic physics. The University's proportionate share (25%) of the Trust's assets, liabilities and operations have been included in these consolidated financial statements.

NOTE 2 **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES**

(a) General

These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

(b) Investments

Investments are recorded at cost less an allowance for possible losses.

($000's omitted)

NOTE 2
Continued

(c) Capital assets

Purchased capital assets are recorded at cost. Donated capital assets are recorded at fair market value at the date of contribution. Amortization is provided on a straight line basis over the estimated useful life of the asset as follows:

Asset	*Useful Life*
Buildings	40 years
Equipment and furnishings	5 years
Library acquisitions	5 years
Equipment under capital lease	Term of lease

The 2003 financial statements include 20 years of library acquisitions and related amortization.

(d) Construction in progress

Costs of construction in progress are capitalized. Amortization is not commenced until project completion.

(e) 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. The collection is subject to an organizational policy that requires proceeds from the sale of any items in the collection be used to acquire other items to be added to the collection.

Contributions of collection items are recorded as revenue and expense, at fair market value, at the date of contribution. Artwork purchases are expensed as acquired. The collection contains 13,737 objects and was insured with a market value of $31,000 at April 30, 2003. The collection is fully insured through a fine arts policy. During the year ended April 30, 2003, the University acquired 185 pieces of artwork. Of these, 173 pieces were donated with a total appraised value of $541 and 12 pieces were purchased at a cost of $140.

($000's omitted)

NOTE 2
Continued

(f) Recognition of revenue and other contributions

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 to be received can be reasonably estimated and collection is reasonably assured. Contributions externally restricted for purposes other than endowment are deferred and recognized as revenue in the year in which related expenses are recognized. Contributions of capital assets are recorded at fair market value at the date of the contribution and deferred and amortized to operations on the same basis as the related capital asset. Endowment contributions and related restricted investment income are recognized on the accrual basis as direct increases in net assets in the year 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.

(g) Employee benefit plans

The University accrues its obligations for employee benefit plans. The employee future benefits earned by employees is actuarially determined using the projected benefit method pro-rated on service and administration's best estimate of salary escalation, retirement ages of employees and escalation in covered health care expense outlays.

(h) Pledges

Pledges are recorded as revenue on a cash basis and accordingly are not set up as assets in the consolidated financial statements. The total amount of pledges outstanding is approximately $53,727 at April 30, 2003, and is expected to be received as follows:

	2003
2003-04	$ 24,921
2004-05	6,311
2005-06	6,144
Subsequent years	16,351
Outstanding pledges as at April 30, 2003	$ 53,727

($000's omitted)

NOTE 2
Continued

(i) Purchase commitments

Purchase commitments of operating funds and ancillary enterprises are provided for by transfers to internally restricted net assets.

(j) 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 are not recognized in these consolidated financial statements.

(k) Measurement 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. Actual results could differ from those estimates.

(l) 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.

NOTE 3

DEFERRED EXPENSES

Deferred expenses are major expenditures incurred in prior and current years which will be funded in future years.

	2003	*2002*
Deferred maintenance project	$ 3,733	$ 5,270
Deferred debenture costs	5,651	0
	$ 9,384	$ 5,270

The deferred maintenance project which commenced in 1991 was concluded in 1993 at a total expenditure of $18,000. This cost is amortized against operating funds through to fiscal year 2004-05. Debenture costs associated with the issue of Series A senior unsecured debentures in November 2002 at a total expenditure of $5,845 are deferred and are amortized against the capital fund through to fiscal year 2031-32.

($000's omitted)

NOTE 4 **CAPITAL ASSETS**

Capital assets consist of the following:

	Cost	*Accumulated Amortization*	*Net Book Value 2003*	*Net Book Value 2002*
Land	$ 25,049	$ 0	$ 25,049	$ 24,772
Buildings	436,792	(165,183)	271,609	191,638
Equipment and furnishings	88,293	(52,053)	36,240	31,210
Equipment under capital lease	909	(859)	50	356
Library acquisitions	108,811	(91,206)	17,605	16,158
Construction in progress	52,038	0	52,038	68,809
	$ 711,892	$ (309,301)	$ 402,591	$ 332,943

The increase in net book value of capital assets is due to the following:

	2003	*2002*
Balance, beginning of year	$ 332,943	$ 286,035
Purchase of capital assets funded by deferred capital contributions	32,171	59,543
Purchase of capital assets financed internally	17,756	9,061
Purchase of capital assets financed by Series A senior unsecured debentures (Note 9)	43,591	0
Purchase of capital assets financed by short-term liabilities	10,559	8,378
Capital assets donated to the university	303	122
Disposals of capital assets:		
Cost	(981)	(328)
Accumulated amortization	720	137
Amortization of capital assets	(34,471)	(30,005)
Balance, end of year	$ 402,591	$ 332,943

($000's omitted)

NOTE 5 **COST TO COMPLETE CONSTRUCTION IN PROGRESS**

As at April 30, 2003 the estimated cost to complete construction in progress for the extension of plant facilities is approximately $49,290 (2002 – $112,566). These costs will be financed by gifts, grants, ancillary income, and plant funds as outlined below.

Details of the costs to complete construction in progress are as follows:

	2003	*2002*
Beamish-Munro Hall (Integrated Learning Centre)	$ 18,442	$ 24,144
New Residences and Leonard Hall Cafeteria expansion	15,475	53,340
Gordon Hall/Annex	14,667	0
Chernoff Hall (Chemistry Complex)	0	9,352
Goodes Hall (School of Business at Victoria School)	0	7,847
Macdonald Hall renovation	0	3,481
Cancer Research Institute	0	14,250
Other	706	152
	$ 49,290	$ 112,566

The total costs for the above listed projects amounts to $101,199. The funding for these projects is provided by the following sources:

	2003
Ancillary Fees	$ 56,700
Donations	13,650
SuperBuild	23,400
Other Grants	1,918
University Commitment	5,531
	$ 101,199

($000's omitted)

NOTE 6 **DEFERRED REVENUE**

Deferred revenue is monies received in the current and prior years for services to be provided in a future year. Details of the year-end balance are as follows:

	2003	*2002*
Research funds	$ 61,387	$ 51,082
Trust funds	25,602	22,826
Plant funds	23,721	32,977
Student fees	8,509	7,730
Gift annuities	9,636	9,487
Federal grant for indirect costs of research	0	6,156
Other	1,347	3,136
	$ 130,202	$ 133,394

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

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

Plant funds are the unexpended portion of funds restricted for future capital projects.

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

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.

($000's omitted)

NOTE 7 **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:

	2003	*2002*
Balance, beginning of year	$ 203,345	$ 156,809
Less amortization of deferred capital contributions	(17,176)	(13,007)
Capital contributions for land credited directly to net assets	(277)	(122)
Add contributions received for capital purposes	32,474	59,665
Balance, end of year	$ 218,366	$ 203,345

($000's omitted)

NOTE 8 **LONG-TERM DEBT AND OBLIGATION UNDER CAPITAL LEASE**

As at April 30, 2003 the University has principal outstanding of $6,907 (2002 – $29,975) on long-term debt and an obligation under a capital lease. Principal and interest repayments on long-term debt are recovered annually from ancillary enterprises. Principal and interest repayments on the capital lease are recovered annually from the operating fund.

(a) Details of the long-term debt secured by specific assets are as follows:

	Maturity in Fiscal Year Ending	*Interest Rate*	*Annual Payment (Principal and Interest)*	*Principal Outstanding*
Canada Mortgage and Housing Corporation	2017	5.38%	$ 263	$ 2,493
Ontario Housing Corporation	2009	10.31%	178	1,731
Bank of Montreal	2004	7.88%	139	138
Royal Bank	2007	8.31%	219	1,790
SMS Canada	2011	0.00%	101	727
			$ 900	$ 6,879

(b) Detail of the capital lease is as follows:

	Maturity in Fiscal Year Ending	*Interest Rate*	*Annual Payment (Principal and Interest)*	*Principal Outstanding*
IBM:				
Computer Equipment	2004	8.26%	$ 28	$ 28
Total long-term debt and obligation under capital lease			$ 928	$ 6,907

(c) Long-term obligation under capital lease

The University reports certain equipment which it holds under a capital lease as capital assets, and the related obligation for future payments under the lease as long-term debt.

($000's omitted)

NOTE 8
Continued

(d) Long-term debt repayments

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

Fiscal Year	*Principal Portion*
2004	$ 467
2005	$ 318
2006	$ 335
2007	$ 354
2008	$ 372

NOTE 9

SERIES A SENIOR UNSECURED DEBENTURE

On November 19, 2002, the University issued Series A senior unsecured debenture in the aggregate principal amount of $90 million at a price of $997.95 per $1,000 principal amount for proceeds of $89.8 million. The debenture bears interest at 6.10%, which is payable semi-annually on May 19 and November 19 with the principal amount to be repaid on November 19, 2032. The proceeds of the issue are as follows:

Purpose	*Amount*
New Residences and Leonard Hall Cafeteria expansion	$ 55,700
Chernoff Hall (Chemistry Complex)	10,000
Retire existing long-term debt	20,000
Temporary financing of other capital projects	4,116
	$ 89,816

(a) Series A senior unsecured debenture repayments

The University will pay annual interest of $5,490 with the $90 million principal to be repaid on November 19, 2032.

(b) Interest rate swap

The University has entered into an interest rate swap agreement in order to manage interest rate exposure. The contract has the effect of converting the fixed rate of interest on $30 million of the debenture debt to a floating rate.

($000's omitted)

NOTE 10 **INVESTMENT IN CAPITAL ASSETS**

The investment in capital assets consists of the following:

	2003	*2002*
Capital assets	$ 402,591	$ 332,943
Less amounts financed by:		
Accounts payable	(10,559)	(8,378)
Capital lease	(28)	(344)
Long term debt and debenture	(74,770)	(29,631)
Deferred capital contribution	(218,366)	(203,345)
Balance, end of year	$ 98,868	$ 91,245

The change in investment in capital assets is calculated as follows:

	2003	*2002*
Excess of expenses over revenue:		
Amortization of deferred contributions related to capital assets	$ 17,176	$ 13,007
Amortization of capital assets	(34,471)	(30,005)
	(17,295)	(16,998)
Net change in investment in capital assets:		
Purchase of capital assets	104,380	77,104
Amounts funded by:		
Accounts payable	(10,559)	(8,378)
Long term debt and debenture	(67,891)	0
Deferred contributions	(32,474)	(59,665)
Repayment of debt:		
Accounts payable	8,378	3,403
Lease payable	316	291
Long term debt	22,752	1,370
Disposal of capital assets	(261)	(191)
	24,641	13,934
Contributions for assets not subject to amortization	277	122
Change in investment in capital assets	$ 7,623	$ (2,942)

($000's omitted)

NOTE 11 **ENDOWMENTS**

Contributions restricted for endowment consist of restricted donations received by the University and donations internally restricted by the Board of Trustees, in the exercise of 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 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 statement of revenue and expense. University policy has been established with the objective of protecting the real value of the endowments by limiting the amounts of income available for spending and requiring the re-investment of a certain amount of the earned income.

	Externally Endowed	*Internally Endowed*	*Total Endowment*
Endowments, beginning of year	$ 242,282	$ 125,420	$ 367,702
Contributions	8,963	3,313	12,276
Net investment loss	(3,166)	(1,644)	(4,810)
Endowments, end of year	$ 248,079	$ 127,089	$ 375,168

Details of year-end balances are as follows:

Book Value	*Balance Beginning of Year*	*Contributions*	*Allocation of Net Investment Loss*	*Balance End of Year*
Faculty, departmental, and other specific purpose	$ 122,333	$ 5,798	$ (820)	$ 127,311
General endowment	67,947	7	(2,950)	65,004
Student assistance	162,937	6,434	(843)	168,528
Research	14,485	37	(197)	14,325
	$ 367,702	$ 12,276	$ (4,810)	$ 375,168

($000's omitted)

NOTE 12 **INTERNALLY RESTRICTED NET ASSETS**

Details of year-end balances are as follows:

	2003	*2002*
Operating fund:		
Purchase commitments	$ 848	$ 583
Capital projects	7,131	9,015
Carryforward of unexpended budget allocations to faculties, libraries and administrative units	28,921	21,788
Major repairs and renovations	79	26
Uninsured property losses	500	250
	37,479	31,662
Ancillary enterprises:		
Major repairs and renovations	8,709	7,942
	8,709	7,942
Restricted fund:		
Unspent departmental donations and other income	25,593	22,002
Unspent research funds	18,196	14,678
	43,789	36,680
	$ 89,977	$ 76,284

Funds are internally restricted to cover the cost of purchase orders outstanding at year-end.

Capital projects represent internal funds committed to complete property under development.

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 year.

Operating funds and ancillary enterprises establish annual budget allocations to fund periodic major repairs and alterations.

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

Departments are permitted to carry forward donations and like income restricted to general departmental purposes and research.

($000's omitted)

NOTE 13 **NET CHANGE IN NON-CASH WORKING CAPITAL**

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

	2003	*2002*
Net change in non-cash working capital:		
Accounts receivable	$ (3,871)	$ (3,560)
Prepaid expenses	25	325
Accounts payable and accrued liabilities	6,778	8,424
Employee future benefits liability	4,039	1,898
Deferred revenue	(3,192)	(5,819)
	$ 3,779	$ 1,268

NOTE 14 **CANADIAN UNIVERSITY RECIPROCAL INSURANCE EXCHANGE**

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. Depending on experience, there may be a partial distribution of surplus in some years. The University's premiums reflect Queen's own loss experience. High loss ratios would increase the University's premiums but there are limits placed on such increases.

NOTE 15 **FINANCING OF MACKINTOSH-CORRY HALL**

Mackintosh-Corry Hall (total cost of $6,517) is currently being financed from University funds to the extent of approximately $3,194. To date, financial support by the Ministry of Training, Colleges and Universities has been received in the amount of $3,323. Although approval in principle was received before construction was commenced, the Ministry has stated its position that final commitment for total funding of this project has not been made, but that it may qualify for consideration if and when uncommitted funds are available.

NOTE 16 PENSION PLAN

The employees of the University are covered by a contributory pension plan, which is a money purchase plan with a defined benefit minimum. A large majority of plan members retire under the money purchase part of the plan; the defined benefit obligations are very small. The assets of the plan are held by an independent custodian and are not recorded in the accounts of the University.

The most recent valuation of the plan as at August 31, 2001, shows contributions from the University as follows: (1) Money Purchase Plan – 6.41% of pensionable payroll; (2) Minimum Guarantee – 0.74% of pensionable payroll. The University's annual contribution to the Minimum Guarantee portion of the plan is met from the plan's surplus as required under the Income Tax Act. In addition, the increase in the University's money purchase contributions resulting from a plan change effective September 1, 1997 is also being paid from surplus.

This actuarial valuation determined that the plan had no unfunded liabilities at August 31, 2001. Liabilities for the defined benefit portion of the plan are based on an interest discount assumption of 6.5% and a salary escalation of 4.5% per year.

The next valuation of the plan is expected to be as of August 31, 2003. Since investment returns were negative over the period September 1, 2001 to April 30, 2003, it is anticipated that the surplus may have been significantly reduced or eliminated. Accordingly, the portion of the University's money purchase contributions being paid from surplus will be paid from the operating fund starting September 1, 2003. Also, depending on the valuation results at August 31, 2003, the University may need to start making contributions to the minimum guarantee portion of the plan.

($000's omitted)

NOTE 17 **EMPLOYEE FUTURE BENEFITS EXPENSE**

The University provides medical, dental and life insurance benefits to eligible employees. Benefits are funded by University contributions made on a pay-as-you-go basis. An independent actuarial study of the employee future benefits has been undertaken. The most recent valuation of the employee future benefits was completed as at January 31, 2003. The next valuation of the plan is expected to be as of January 31, 2006.

At April 30, 2003, the University's accrued benefit obligation relating to the employee future benefits plan is $37,290 (2002 – $33,251). The significant actuarial assumptions adopted in estimating the University's accrued benefit obligation are as follows:

	Employee Future Benefits Plan
Interest discount assumption	6.00% to 6.75%
Salary escalation	0.00% to 4.50%
Dental benefits escalation	4.50% to 7.00%
Medical benefits escalation	4.50% to 10.00%

Included in the consolidated statement of revenue and expense is an annual expense in the amount of $5,370 (2002 – $3,066) regarding employee future benefits. During the year, the University contributed $1,331 (2002 – $1,168) to cover disbursements incurred during the year for employee future benefits.

($000's omitted)

NOTE 18 **FINANCIAL INSTRUMENTS**

(a) Fair values

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

The fair market value of other financial assets and liabilities included in the consolidated balance sheet are as follows:

	2003		*2002*	
	Carrying Value	*Fair Market Value*	*Carrying Value*	*Fair Market Value*
Investments	$ 569,004	$ 582,793	$ 537,798	$ 611,039
Long-term debt	$ 6,907	$ 7,535	$ 29,975	$ 32,380
Series A senior unsecured debenture	$ 90,000	$ 90,369	$ 0	$ 0

(b) Interest rate exposure

At April 30, 2003, the University was exposed to interest rate risk as follows:

	Interest Rate Until Fiscal Year Ending	*Principal Balance at Maturity*	*Amortization Through Fiscal Year Ending*
Royal Bank (floating rate)	2033	$ 30,000	2033
Royal Bank (fixed rate)	2007	$ 1,450	2017

NOTE 19 **MINISTRY OF TRAINING, COLLEGES AND UNIVERSITIES FUNDING**

The operations of the University are funded primarily (50%) by the Province of Ontario in accordance with budget arrangements established by the Ministry of Training, Colleges and Universities. These financial statements reflect funding arrangements approved by the Ministry with respect to the year ended April 30, 2003.

($000's omitted)

NOTE 20 LITIGATION

The nature of the University's activities are such that there may be litigation pending or in prospect at any time. With respect to claims at April 30, 2003, administration believes that the University has valid defenses and appropriate insurance coverage in place. 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. No provision has been accrued in these financial statements in respect of the above litigation.

NOTE 21 COMMITMENTS

The University has issued letters of credit of $1,695 primarily for capital construction.

NOTE 22 ONTARIO STUDENT OPPORTUNITY TRUST FUND

Externally restricted endowments include monies provided by the Government of Ontario from the Ontario Student Opportunity Trust Fund matching program to award student aid as a result of raising an equal amount of endowed donations.

The University has recorded the following amounts under the program:

	2003	*2002*
Endowment Capital:		
Opening balance	$ 71,699	$ 70,742
Expendable funds capitalized in the year	630	957
Endowment fund balance at end of year	$ 72,329	$ 71,699
Expendable Funds:		
Opening balance	$ 946	$ 1,118
Investment income	3,758	3,642
Bursaries awarded	(3,495)	(2,857)
Expendable funds capitalized in the year	(630)	(957)
Carryforward expendable funds available for awards	$ 579	$ 946
Number of bursaries awarded	1,049	916

NOTE 23 **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, joint control or control.

(a) Investment in Parking Commission

Queen's University has entered into a long-term agreement, as equal partner with Kingston General Hospital, for the operations of the Parking Commission. The University's capital investment in the partnership is $417 (2002 – $486), representing total advances less repayments thereon to date. This capital investment is repaid from the Parking Commission over a twenty-five year period ending December 31, 2007. The investment bears interest at 9.4% compounded semi-annually. This interest income of $68 (2002 – $62) is reported in the capital fund. The University's share of the Parking Commission's excess of revenue over expense is $340 (2002 – $351) reported in the operating fund. Should the agreement be terminated without the consent of the Hospital, the University shall pay to the Hospital the balance of the Hospital's capital investment.

(b) McGill-Queen's University Press

Queen's University 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 a 50% share of any deficit accumulated by McGill-Queen's University Press. The University provides an annual contribution of $183 to fund operating costs of McGill-Queen's University Press.

NOTE 24 **COMPARATIVE FIGURES**

Certain comparative figures have been restated in order to conform to the financial statement presentation adopted for the current year.

APPENDIX 1
Statement of Changes in Fund Balances for the Year Ended April 30, 2003
with comparative figures for 2002
($000's omitted)
(unaudited)

	OPERATING FUND	HEALTH SCIENCES	ANCILLARY ENTERPRISES	CAPITAL FUND	SUBTOTAL	TRUST FUND	RESEARCH FUND	ENDOWMENT FUND	INVESTMENT IN CAPITAL ASSETS	INTERNALLY RESTRICTED	TOTAL 2003	TOTAL 2002
REVENUE												
Grants and Contracts	112,983	82,342	327	(11,980)	183,672	11,051	111,151	0	0	0	305,874	289,877
Fees	93,436	629	56,074	0	150,139	0	0	0	0	0	150,139	138,188
Investment Income	1,682	10	(93)	353	1,952	22,734	1,911	(1,644)	0	0	24,953	21,801
Donations	1,196	13	4	3,281	4,494	9,599	119	2,953	0	0	17,165	22,074
Other	5,594	(43)	28,178	(158)	33,571	6,943	4,555	360	0	0	45,429	40,977
Amortization of Deferred Capital Contributions	0	0	0	17,176	17,176	0	0	0	0	0	17,176	13,007
Total Revenue	214,891	82,951	84,490	8,672	391,004	50,327	117,736	1,669	0	0	560,736	525,924
EXPENSE												
Salaries and Benefits	138,868	76,567	16,186	0	231,621	16,810	50,517	0	0	0	298,948	276,633
Employee Future Benefits, cash basis	1,331	0	0	0	1,331	0	0	0	0	0	1,331	1,168
Employee Future Benefits, accrual basis	4,039	0	0	0	4,039	0	0	0	0	0	4,039	1,898
Supplies and Miscellaneous	14,679	2,840	52,336	(2,442)	67,413	11,046	36,379	0	0	0	114,838	107,940
Minor Equipment and Furnishings	5,694	678	2,262	(15,812)	(7,178)	2,545	25,407	0	0	0	20,774	23,077
Student Assistance	20,036	31	192	0	20,259	16,352	678	0	0	0	37,289	33,369
Utilities	8,800	10	3,338	0	12,148	136	0	0	0	0	12,284	10,521
Renovations and Alterations	5,641	471	3,671	1,770	11,553	1,250	1,137	0	0	0	13,940	10,355
Library Acquisitions	9,250	5	2	(9,689)	(432)	332	100	0	0	0	0	0
Restructuring Costs	4,157	409	0	0	4,566	0	0	0	0	0	4,566	6,259
Amortization of Capital Assets	316	0	334	33,821	34,471	0	0	0	0	0	34,471	30,005
Interest	17	0	3,328	141	3,486	0	0	0	0	0	3,486	2,315
Total Expense	212,828	81,011	81,649	7,789	383,277	48,471	114,218	0	0	0	545,966	503,540
Excess of Revenue over Expense	2,063	1,940	2,841	883	7,727	1,856	3,518	1,669	0	0	14,770	22,384
Endowment Contribution	0	0	0	0	0	0	0	5,797	0	0	5,797	19,319
Allocation from Net Investment in Capital Assets	0	0	0	(7,346)	(7,346)	0	0	0	7,346	0	0	0
Contributions for Assets Not Subject to Amortization	0	0	0	0	0	0	0	0	277	0	277	122
Transfer from (to) Appropriations	(5,685)	(2,818)	(1,816)	2,000	(8,319)	(1,856)	(3,518)	0	0	13,693	0	0
Net Change in Fund Balance	(3,622)	(878)	1,025	(4,463)	(7,938)	0	0	7,466	7,623	13,693	20,844	41,825
Fund Balance, beginning of year	(32,521)	448	(13,847)	(22,464)	(68,384)	0	0	367,702	91,245	76,284	466,847	425,022
Fund Balance, end of year	**(36,143)**	**(430)**	**(12,822)**	**(26,927)**	**(76,322)**	**0**	**0**	**375,168**	**98,868**	**89,977**	**487,691**	**466,847**

APPENDIX 2
QUEEN'S UNIVERSITY ANCILLARY ENTERPRISES
Revenue and Expense for the Year Ended April 30, 2003
with comparative figures for 2002
($000's omitted)
(unaudited)

	APT & HOUSING	DONALD GORDON CENTRE	COMPUTER STORE	PARKING	RESIDENCE AND FOOD SERVICES	CONTINUING EDUCATION	ISC	PARTEQ	QCED	OTHER	TOTAL 2003	TOTAL 2002
REVENUE	4,162	3,224	4,924	1,575	31,007	28,099	5,084	5,405	948	62	84,490	79,544
EXPENSE												
Salaries and Benefits	693	0	190	308	4,570	4,949	2,794	1,107	696	879	16,186	14,883
Minor Equipment and Furnishings	53	40	0	161	960	365	279	0	0	404	2,262	2,248
Utilities	655	219	0	49	2,171	0	244	0	0	0	3,338	3,028
Principal and Interest	329	1,000	0	117	3,695	0	0	0	0	0	5,141	4,536
Taxes	582	14	0	6	32	0	0	0	0	0	634	633
External Contracts	25	1,086	0	82	11,680	64	577	0	0	0	13,514	12,727
Renovations and Alterations	106	261	0	91	2,842	21	350	0	0	0	3,671	2,465
Supplies and Miscellaneous	1,806	799	4,734	484	4,144	19,829	2,025	3,543	637	(1,098)	36,903	34,645
Total Expense	4,249	3,419	4,924	1,298	30,094	25,228	6,269	4,650	1,333	185	81,649	75,165
Excess of Revenue over Expense (Expense over Revenue)	(87)	(195)	0	277	913	2,871	(1,185)	755	(385)	(123)	2,841	4,379
Transfer (to) from Appropriations	186	0	0	(277)	(913)	(2,871)	1,936	0	0	123	(1,816)	(4,019)
Net Change	99	(195)	0	0	0	0	751	755	(385)	0	1,025	360
Surplus/(Deficit), beginning of year	1,933	(4,904)	0	699	(231)	0	(8,462)	(2,390)	(92)	(400)	(13,847)	(14,207)
Surplus/(Deficit), end of year	**2,032**	**(5,099)**	**0**	**699**	**(231)**	**0**	**(7,711)**	**(1,635)**	**(477)**	**(400)**	**(12,822)**	**(13,847)**

APPENDIX 3

Statement of Unrestricted Net Assets for the Year Ended April 30, 2003
with comparative figures for 2002
($000's omitted)
(unaudited)

	2003	2002
Operating fund:		
Accumulated surplus, before employee future benefits expense	$ 1,147	$ 730
Accrued liability for employee future benefits	(37,290)	(33,251)
	(36,143)	(32,521)
Health Sciences	(430)	448
Ancillary enterprises	(12,822)	(13,847)
Capital projects:		
Herstmonceux	(8,643)	(8,893)
Biosciences	(3,499)	(4,583)
Clergy Street properties	(1,545)	(1,651)
Goodes Hall	(3,623)	0
Macdonald Hall	(2,061)	0
Other	(7,556)	(7,337)
	(26,927)	(22,464)
Total	$ (76,322)	$ (68,384)

Unrestricted net assets represent the accumulated (deficit)/surplus of the operating fund, Faculty of Health Sciences, ancillary enterprises and capital projects which the University decided to fund through internal "borrowings". The capital projects reported as Herstmonceux ($8,643) and Biosciences ($3,499) are being recovered by a combination of annual allocations from the operating fund and the collection of outstanding pledges. The $1,545 capital project reported as "Clergy Street properties" and the $7,556 capital projects reported as "Other" are primarily Residence and Apartment and Housing projects that are being recovered annually by principal and interest repayments from ancillary enterprises. Goodes Hall is a long-term pledge which will be received in equal annual instalments through to December 2013. Macdonald Hall renovations are being recovered by annual contributions from Law School fees and will be fully repaid by April 2010.

APPENDIX 4
Explanations of Terms Used in the Financial Statements
(unaudited)

Amortization of Capital Assets: Most capital assets (except land) have limited useful lives and amortization is a means of allocating a capital asset's useful life cycle over the period the University expects to benefit from the use of the capital asset. The useful lives of capital assets adopted by the University are outlined in Note 2(c) of the financial statements.

Amortization of Deferred Capital Contributions represents the amortization of donations/grants received in current or prior years to purchase capital assets. These contributions are not considered revenue when received, but are deferred. They are recognized as revenue on the same basis that the amortization expense of the related capital assets is reported in the statement of revenue and expense.

Capital Assets consist of land, buildings, equipment, library acquisitions, construction in progress and related accumulated depreciation. Previously, capital assets consisted of the undepreciated cost of land, buildings and construction in progress.

Deferred Capital Contributions represent gifts and grants received over a number of years restricted to the purchase of capital assets. These contributions are not considered revenue when received, but are deferred. They are recognized as revenue on the same basis that the amortization expense of the related capital assets is reported in the statement of revenue and expense. Restricted contributions for the purchase of capital assets that will not be amortized (i.e. land) are shown as a direct increase in net assets (investment in capital assets).

Internally Restricted Net Assets (previously called Appropriated Surplus) are reserves for future expenditures. These net assets are substantially departmental carry forwards and funds committed to capital projects. In previous years, unspent departmental trust and research funds were reported as deferred revenue whether they were externally or internally-restricted. Under the new reporting requirements, unrestricted trust and research funds that the University allows departments to carry forward must now be reported as internally restricted net assets. (See Note 12 of the audited financial statements for the composition of internally restricted net assets.)

Investment in Capital Assets represents the net book value (cost minus accumulated depreciation) of capital assets that were internally funded, normally from operating and ancillary operations.

Restrictions: CICA 4400.02(b) states "Restrictions are stipulations imposed that specify how resources must be used. External restrictions are imposed from outside the organization, usually by the contributor of the resources. Internal restrictions are imposed in a formal manner by the organization itself, usually by resolution of the board of directors. Restrictions on contributions may only be externally imposed. Net assets or fund balances may be internally or externally restricted. Internally restricted net assets or fund balances are often referred to as reserves or appropriations."

Unrestricted Net Assets represent the accumulated deficits of the operating fund, Faculty of Health Sciences, ancillary enterprises and capital assets funded through internal "borrowings".

APPENDIX 5
Snapshots of New Capital/Major Construction

Chernoff Hall (new Chemistry Complex)

Project Cost: $53 million ($27 million provided by SuperBuild)
Features: 177 fume hoods, 250 seat theatre, underground NMR facility, teaching and research laboratories
Architect: Brisbin Brook Beynon
General Contractor: M. Sullivan & Son Limited
Status: Officially opened November 1, 2002

Goodes Hall (new School of Business at Victoria School)

Project Cost: $25.5 million ($6 million provided by SuperBuild)
Features: lecture theatres, classrooms, breakout rooms, computer labs
Architect: The Ventin Group (Toronto) Ltd.
General Contractor: Bondfield Construction Company Limited
Status: Officially opened September 12, 2002

Beamish-Munro Hall (new Integrated Learning Centre for the Faculty of Applied Science)

Project Cost: $24.8 million ($12 million provided by SuperBuild)
Architect: Bregman + Hamann Architects
General Contractor: Bondfield Construction Company Limited
Status: On-time, on-budget, started early fall 2002; completion in Winter 2004

Cancer Research Institute

Project Cost: $16.35 million
Features: Research laboratory space for National Cancer Institute of Canada Clinical Trials Group, Queen's Cancer Research Laboratories, and the Radiation Oncology Unit
Architect: AJ Diamond, Donald Schmitt and Company/Shoalts and Zaback Architects Ltd.
General Contractor: M. Sullivan & Son Limited
Status: Officially opened April 23, 2003

Macdonald Hall Renovation (Faculty of Law)

Project Cost: $3.75 million
Features: new accessible front entrance and atrium, moot court and computing facilities
Architect: Carruthers Shaw & Partners Limited
General Contractor: David J. Cupido Construction Ltd
Status: Officially opened March 12, 2003

New Residences (two facilities)

Project Cost: $47.5 million
Features: 548 beds (total), study, courtyard and lounge facilities
Architect: A.J. Diamond, Donald Schmitt and Company/Shoalts and Zaback Architects Ltd
General Contractor: AECON Ltd.
Status: On-time, on-budget for Oct 2, 2003 Official opening
Project Manager: Stantec Consulting

Leonard Hall Cafeteria

Project Cost: $9.2 million
General Contractor: R.E. Hein Construction
Status: On-budget for fall 2003 completion

Gordon Hall/Gordon Annex Renovation

Project Cost: $15 million ($11.4 million provided by SuperBuild)
Features: Academic and Administrative Space including: School of Graduate Studies and Research, consolidated Office of the University Registrar and other student services
Architect: Griffiths Rankin Cook Architects
General Contractor: Not yet awarded
Status: On-time, on-budget for winter 2004 completion

APPENDIX 6

Governance of Queen's University

Queen's was established by Royal Charter in 1841. The Royal Charter has been amended from time to time over the intervening years by the Parliament of Canada, most significantly in 1912 and most recently in 1996 when the composition of the Board of Trustees was expanded to include students, faculty, and staff. The Royal Charter provides for a governing structure consisting of the Board of Trustees and the Senate.

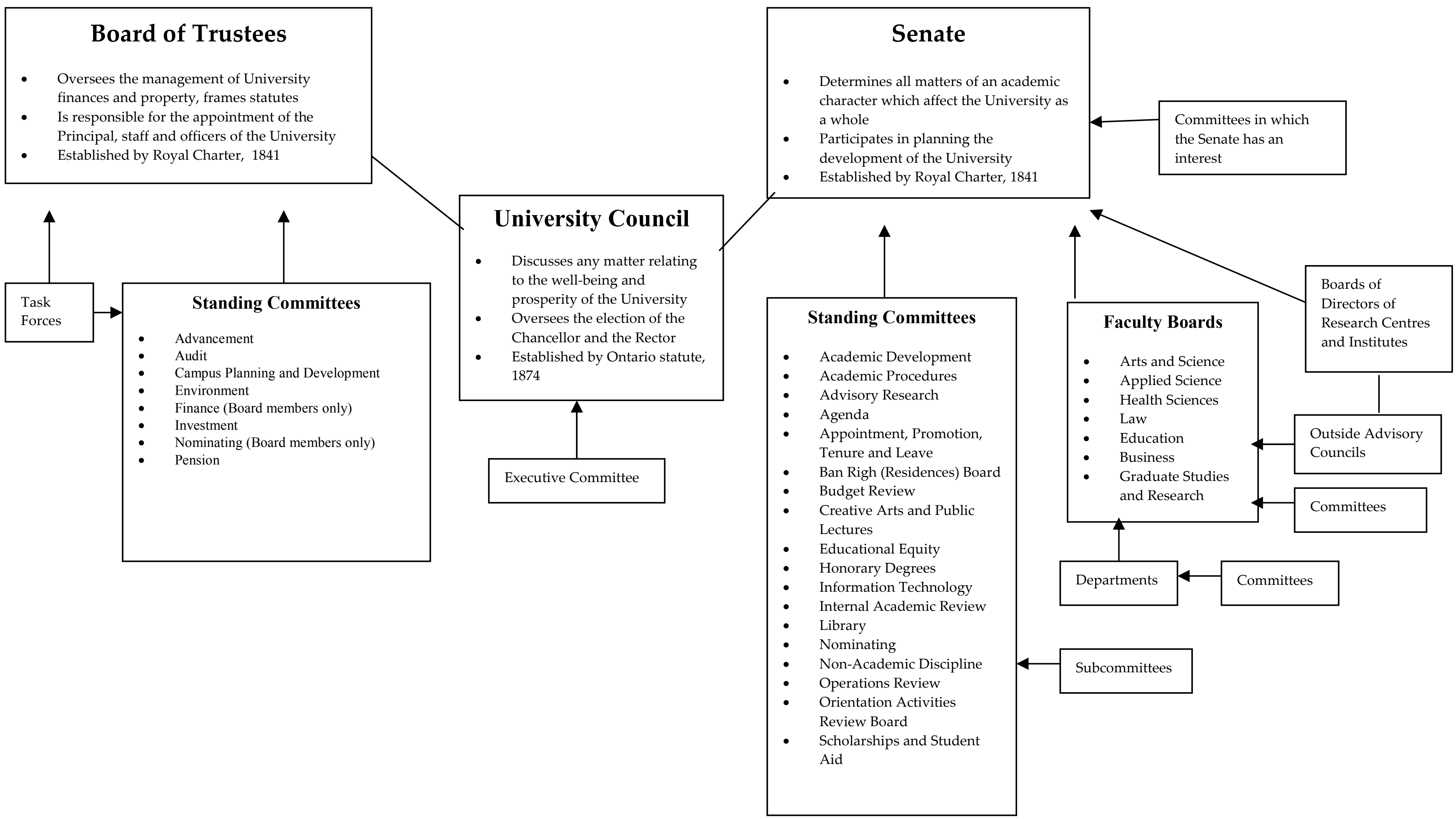
The Board of Trustees is responsible for the overall operations of the University, including overseeing financial matters, property, and the appointment of Vice-Principals, certain senior staff, and in conjunction with the Senate, the appointment of the Principal. The Board of Trustees is comprised of 44 members: three ex-officio, one appointed by the Queen's Theological College, and 40 elected. The Board of Trustees functions through a standing committee structure consisting of eight committees.

The Senate is responsible for determining all matters of academic character affecting the University as a whole, including student discipline. It shares responsibility with the Board of Trustees for appointing the Principal. The Senate is comprised of 70 members: 16 ex-officio and 54 elected. The Senate functions through a standing committee structure consisting of 18 committees.

The University Council was established by Ontario statute in 1874. Its main responsibility is to oversee the selection of the Chancellor. It generally meets once a year to discuss any matters relating to the well-being and prosperity of the University. The University Council consists of 113 ex-officio and 114 elected members.

The University Secretariat supports and assists the Board of Trustees, the Senate and the University Council to achieve their objectives.

THE GOVERNANCE OF QUEEN'S UNIVERSITY



Board of Trustees 2002-03

Ex Officio

Chancellor – Charles Baillie, BA(Hons), MBA, FICB, LLD

Principal and Vice-Chancellor - William C. Leggett, CM, BA, MSc, PhD, DSC, LLD, FRSC

Rector - Dan Sahl BA(Hons)'02 *until November 2002*;
- Ahmed Kayssi BSc(Eng), BA(Gen)'03 *from November 2002*

Elected

Mr. George R. M. Anderson	BA(Hons)
Mr. Daniel Bader	BS, Business Administration
Mr. Eric E. Baker	BSc(Eng), MS Business
Mr. Donald Bayne	BA, LLB, LLM, MBA
Ms Kim Black	BCom
Mrs. Judith Brown	BA(Hons), MA
Mr. T. Daniel Burns	BA(Hons), MSc
Ms Louise Cannon	BA, MBA
Mr. Duncan Cornell Card	BA, LLB, LLM
Mr. Jeff Chan	BA, MBA
Mr. Hugh A. Christie	BA, LLB, LLM
Ms Mary Collins	BA, LLD (Hons)
Mr. Donald M. Cooper	BCom, CFA
Mrs. Sarah Jane Dumbrille	BA
Mr. Gordon M. Hall	BSc, FSA, FCIA, MAAA
Ms Jocelyn Hart	BA, MBA
Mrs. Merle Koven	Journalism , Toronto Teachers' College
Ms Anne Leahy	BA(Hons) , MA
Hon. Judge Heino Lilles	BSc(Hons), MSc, LLB, LLM
Mr. Paul N. Lucas	BSc
Mrs. Jean MacLean	BA, BEd, MEd
Ms Kelley McKinnon	BA(Hons), LLB
Mr. Micah Melnyk	BSc(Eng)'03, BA(Economics)'04
Ms Susan Miklas	BA, LLB, LLM
Mr. Iain Munro	BA, MEd
Ms Sheila Murray	BNSc, MPA, NDC
Mr. Thomas C. O'Neill	BCom, FCA
Ms Barbara Palk	BA(Hons), CFA
Dr. Andrew Pipe	CM, BA, MD
Mr. Kent H. E. Plumley	BSc, LLB
Dr. Sarah Prichard	BA, MD, FRCP(C), CSPG
Mr. Mark Publicover	BSc, MA
Mr. John A. Rae (Chair)	BA(Hons)
Ms Sarah Rancier	BA(Hons)
Mr. Justice Gordon Sedgwick	BA, LLB
Dr. Gordon C. Shaw	BA(Hons), SM, PhD
Mr. Robert Sobey	BA(Hons), MBA
Dr. Joan Stevenson	BPHE, MSc, PhD
Mr. George William Watson	BSc(Eng), MBA, AMP
Mr. David G. Whiting	BSc, MBA
Mr. William Young	BSc(Hons), MBA

Secretary – Ms Georgina Moore

Associate Secretary – Ms Lee Tierney

The Senate of Queen's University 2002-03

Ex Officio

William C. Leggett (Principal of the University (Chair))
Jean Stairs (Principal of the Theological College)
Suzanne Fortier (Vice-Principal (Academic))
Kerry Rowe (Vice-Principal (Research))
Thomas Harris(Dean of the Faculty of Applied Science)
Robert Silverman (Dean of the Faculty of Arts and Science)
Rosa Bruno-Jofré (Dean of the Faculty of Education)
David Walker (Dean of the Faculty of Health Sciences)
Alison Harvison Young (Dean of the Faculty of Law)
Lewis Johnson (Dean of the School of Business) (Acting)
Ulrich Scheck (Dean of the School of Graduate Studies and Research)
Robert Crawford (Dean of Student Affairs)
Paul Wiens (Chief Librarian)
Richard Greenfield (President of the Faculty Association)
Mike Lindsay (President - Alma Mater Society)
Chris Peltzer (President - Society of Graduate and Professional Students)

Elected

The Faculty of Applied Science

Laeeque Daneshmend (Mining Engineering)
James Lee (Geological Sciences & Geological Engineering)
John Mould (BSc(Eng)'04)
Patrick Oosthuizen (Mechanical Engineering)
Panagiotis Katsabanis (Mining Engineering)
Chrissie Knitter (BSc(Eng) '04)
Bernard Kueper (Civil Engineering)

The Faculty of Arts and Science

Mark Jones (English)
Pat Martin (School of Computing)
Michael Nesheim (Biochemistry)
Tim Smith (History)
Julie Filion (BSc'05)
Roberta Lamb (School of Music)
Henry Laycock (Philosophy)
Gerald Morris (Biology)
Andrew Bond (BA(Hons)/BCom'03)
Samil Chagpar (BSc(Hons)'05)
Catherine Conaghan (Political Studies)
Robert Dalrymple (Geological Sciences & Geological Engineering)
Jane Knox (Psychology)
Ryan MacDermid (BA(Hons)'05)
Laura Murray (English)
Charles Pentland (Political Studies)
Gregory Thatcher (Chemistry)
Annette Burfoot Sociology (January 1, 2003 - August 31, 2004)
Douglas Mewhort Psychology (January 1, 2003 - June 30, 2003)

The Faculty of Education

Shehla Burney
Steve Elliott
John Freeman
Sachin Persaud (BA(Hons)/BEd'03)

The Faculty of Health Sciences

Susan Cole (Cancer Research Laboratories)
Jennifer Medves (Nursing)
Michael O'Connor (Emergency Medicine)
Sylvia Arruda (BSc (OT) '04)
Ann-Marie Noseworthy (BNSc'04)
Angela Good (MD'04)
Wendy Pentland(Rehabilitation Therapy)

The Senate of Queen's University 2002-03, continued

The Faculty of Law
Martha Bailey
Mark Weisberg
Sivan Tumarkin(LLB'04)

The School of Business
Elspeth Murray
Kasra Nejatian (BCom'05)
Sandy Staples
Jonathan Lee (BCom'03)
Danny Szpiro

The School of Graduate Studies and Research
Donal MacArtney(Division IV)
Claire Nguyen (MSc'04)
Krysia Spirydowicz (Division II)
Steven Blostein (Division III)
J. Barry Riddell (Division V)
Myron Szewczuk(Division I)

The Queen's Theological College
Sandra Boyko (MTS'03)
John Young

Queen's University Staff
Inara Metcalfe (Education)
Ainslie Thomson (Library)
Sandra Crocker (Research Services)

Observers
QUSA President or designate – Mary Jane Kingston
Undergraduate Student Trustee – Micah Melnyk
Rector - Dan Sahl (until November 2002)
- Ahmed Kayssi (from November 2002)

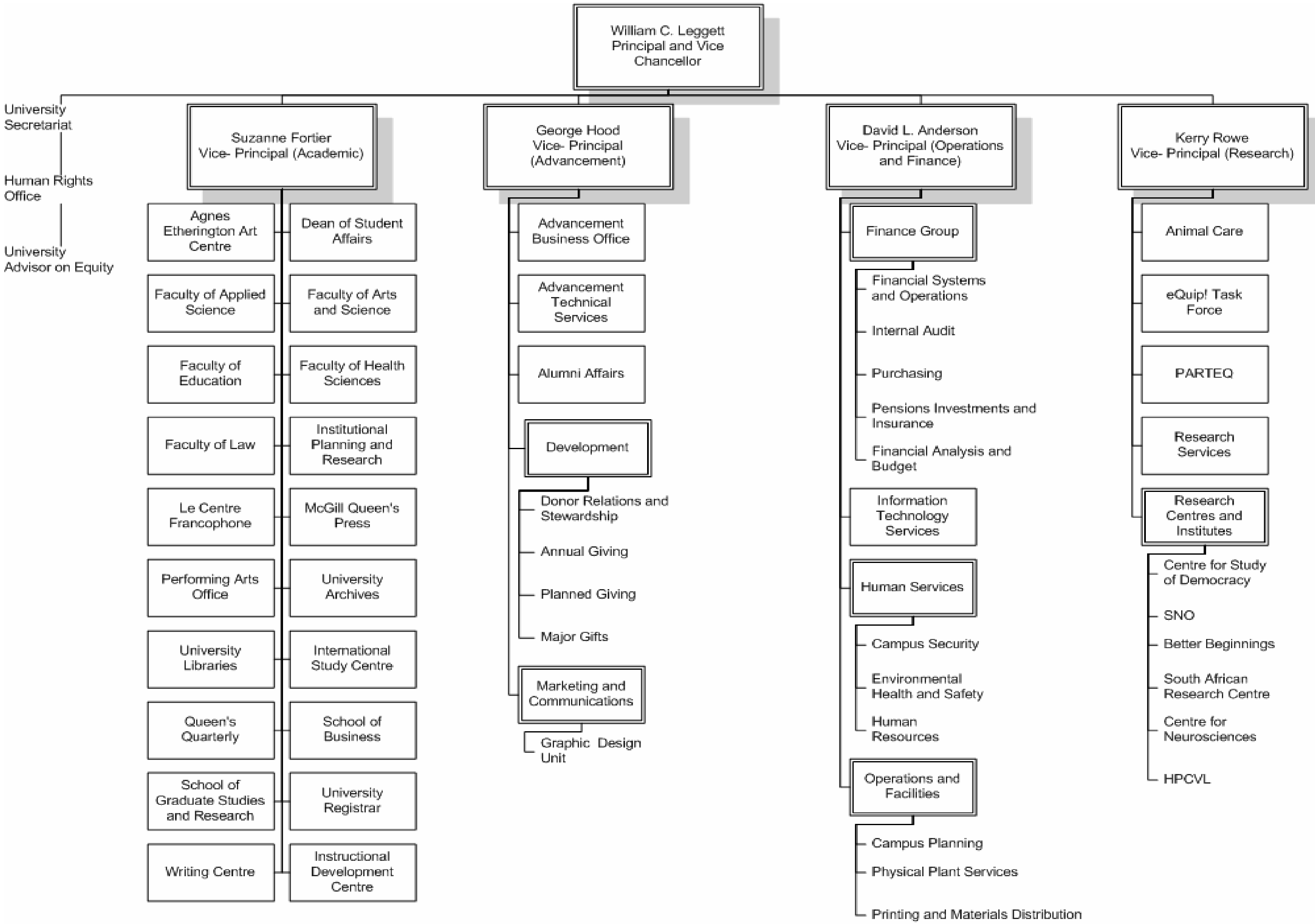
Secretary – Georgina Moore
Associate Secretary - Margaret (Peggy) Watkin

Student Government 2002-03
Rector
Dan Sahl (until November 2002)
Ahmed Kayssi (from November 2002)

Alma Mater Society (AMS) Executive
President – Mike Lindsay
Vice-President (Operations) – Lanny Cardow
Vice-President (University Affairs) – Shawna Kaufman

Society of Graduate and Professional Students (SGPS) Executive
President – Chris Peltzer
Vice-President (Graduate) – Chris Dyck
Vice-President (Professional) – John Sheard
Vice-President (External) – Kathryn Elmer
Vice-President (Operations) – Jae-Yon Jung

ORGANIZATIONAL CHART OF QUEEN'S UNIVERSITY



Senior Officers of Queen's University 2002-03

Chancellor
Dr. Charles Baillie

Principal and Vice-Chancellor
Dr. William C. Leggett

Vice-Principals
Dr. Suzanne Fortier (Academic)
Mr. George Hood (Advancement)
Dr. David L. Anderson (Operations and Finance)
Dr. Kerry Rowe (Research)

Associate Vice-Principals
Dr. John Dixon (Academic)
Mr. Ray Satterthwaite (Advancement)
Ms Sheila Devine (Faculty Relations)
Mr. Richard Weatherdon (Human Services)
Mr. Tom Morrow (Operations and Facilities)
Dr. Bruce Hutchinson (Research)

Deans
Dr. Thomas Harris (Faculty of Applied Science)
Dr. Robert Silverman (Faculty of Arts and Science)
Dr. Lewis Johnson, Acting, (School of Business)
Dr. Rosa Bruno-Jofré (Faculty of Education)
Dr. Ulrich Scheck (School of Graduate Studies and Research)
Dr. David Walker (Faculty of Health Sciences)
Ms Alison Harvison Young (Faculty of Law)
Dr. Robert Crawford (Student Affairs)

University Secretary, Secretary of the Board of Trustees and the Senate
Ms Georgina Moore

Senior Directors
Ms Janet Brooke (Agnes Etherington Art Centre)
Ms Catherine MacNeill (Alumni Affairs)
Ms Jeanne Ma (Campus Planning)
Ms Judith Brown (Development – Donor Relations and Stewardship)
Mr. Wade-Chace Hall (Development – Annual Giving)
Mr. Ed Pearce (Development – Planned Giving)
Mr. Ray Satterthwaite (Development – Faculty Development/Major Gifts)
Mr. Dan Langham (Environmental Health and Safety)
Ms Glenda Kaye (Financial Analysis and Budget)
Mr. Ken Low (Financial Systems and Operations)
Ms Irène Bujara, (Human Rights)
Mr. Tom Morrow (Information Technology Services – Acting)
Mr. Chris Conway (Institutional Research and Planning)
Dr. Susan Wilcox (Instructional Development Centre - Acting)
Ms Shirley Higginson (Internal Audit)
Dr. David Bevan (International Study Centre)
Mr. Rich Seres (Marketing and Communications)
Mr. Bill Forbes (Pensions, Investments and Insurance)
Ms Donna Lounsbury (Principal's Office)
Mr. Mike Stefano (Purchasing)
Ms Mary-Margaret Dauphinee (University Advisory on Equity)
Mr. Don Richan (University Archivist)
Mr. Paul Weins (University Librarian)
Ms Jo-Anne Brady (University Registrar)

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