

Report to the Queen's Community

In the past few years, universities have faced particularly difficult financial challenges. In Ontario, tuition fees have recently been frozen and post-secondary education operating grants have failed to keep pace with inflation. Despite this, much is expected of universities in terms of fulfilling their responsibilities for quality education, enrolment growth, access, and accountability.

In the Annual Financial Report for 2003-04, we provide a broad overview of Queen's response to these challenges and its progress toward both financial and non-financial objectives. The Report is an important element of the University's overall accountability to the wider community it serves.

We are also pleased to report strong financial performance for 2003-04, with the Operating Fund of the University recording a small surplus (before the employee future benefits expense) and the endowment showing significant growth with an annual return of 22.4%. The expansion and diversification of revenue sources will continue to be a priority as Queen's strives to create a learning environment which is one of the best in North America.

Also, the University continues to benefit from the investment in its internal control environment. This financial and operating strength has supported important academic and research achievements. Specifically, in 2003-04, Queen's faculty garnered an unprecedented number of awards for their research, including the 2003 NSERC Gerhard Herzberg Canada Gold Medal, a 2003 NSERC Award of Excellence, and two of the five National Killam Prizes for 2004. Students' contributions and accomplishments – from the Solar Car team to the Queen's Model Parliament – have been far-reaching and inspiring.

On behalf of the Board of Trustees and the Queen's community, we thank you for your continuing support. As well, we want to convey special thanks to members of the administration who have been responsible for the production of this Annual Financial Report, and to the Audit Committee of the Board that oversees and mentors this considerable effort.

Lastly, it gives us great pleasure as well to convey our warm thanks to William C. Leggett for his inspiring and committed leadership as Principal over the past ten years. As a community, we will always be most grateful for his dedication and his steadfast belief in the spirit and strength of this great University.



John Rae
Chair, Board of Trustees



Suzanne Fortier
Acting Principal

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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.

Executive Summary

2003-04 has been a year of transition, as the University community bid farewell to Principal Bill Leggett who served with distinction and dedication for a decade, and as it prepared for his succession and the welcoming of Principal-elect Karen Hitchcock, whose appointment was enthusiastically approved by the Board of Trustees in May 2004. Throughout this transition, the University has remained focused on the priorities that have governed its course over this past decade:

- an unwavering commitment to academic quality and accessibility;
- a record of strong financial management and persistent advocacy for greater autonomy in defining its future; and
- a commitment to a close-knit community of scholars (students and faculty) in which personal interaction and intellectual engagement are fully valued.

Queen's has remained steadfast in pursuit of these objectives and is proud of its accomplishments. The quality of the output of the institution is evidenced by the level of research activity on campus doubling over the past five years, and the calibre of students and faculty. Queen's students are among the very best in Canada, and the University remains committed to its goal of financial accessibility for students, including those with limited means, and provides the highest proportion of its operating budget towards student assistance of any university in Canada.

While the fiscal environment has been particularly challenging and difficult over this past year, Queen's can still point to continued reinvestment in its learning environment and its research programs. The Queen's endowment growth is exceptionally strong, with a market value increase of \$66 million in this past year alone.

This year's Annual Financial Report provides a broad overview of the University's financial performance as well as a snapshot of its performance in a number of non-financial areas. The Report includes, for example, important and timely information on the quality of Queen's students and faculty, the University's effectiveness in attracting research dollars, and its success in private giving.

In addition to the Audited Financial Statements, the Report provides a summary of financial results for 2003-04 and a detailed discussion of the factors that have affected both revenues and expenses. Related to this is a look at opportunities and challenges that will have an impact on the University, and post-secondary education more generally, in the coming months.

The year ahead will be one of challenge, opportunity and uncertainty for Ontario universities as new governments – both Provincial and Federal – begin to articulate and clarify policies and funding with respect to post-secondary education and research. Queen's is committed to strong leadership, continued advocacy, and an enduring commitment to excellence.

Queen's at a Glance 2003-04

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.

Faculties and Schools

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

Faculty and Staff

- 991 faculty (tenured and tenure-track)
- 2,248 support staff
- A leader in Canada for number of full-time professors receiving national awards

Students

- 16,522 full-time graduate and undergraduate students
- 3,512 part-time graduate and undergraduate students
- First in Canada for average entering grade for undergraduate students in nine of the past eleven years
- First in Canada with highest proportion of students who complete their undergraduate degree in two of the last three years
- A leader in Canada for Academic All Canadians (students who combine academic and athletic excellence)
- A leader in participation rate for international study opportunities, including exchanges with more than 70 institutions in 20 countries

Alumni

- 127,172 in 162 countries

World Class Facilities and Programs

- Chernoff Hall; one of the largest chemistry complexes of its kind in North America, winner of Research & Development Magazine's High Honours (in the 2003 Laboratory of the Year competition).
- Beamish-Munro Hall; state-of-the-art Integrated Learning Centre for engineering education.
- Goodes Hall; home to Queen's School of Business, one of North America's premier business schools:
 - 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 top 12 in the world for open enrolment programs by *Financial Times* (UK)
 - Executive MBA program ranked #1 in Canada by *Canadian Business Magazine*
- Leggett Hall and Watts Hall; two new student residences with private student rooms and learning commons.
- The International Study Centre (ISC) at Herstmonceux, England, featuring small interactive classes with international faculty and a comprehensive field studies program.
- The Cancer Research Institute; home to the National Cancer Institute's Clinical Trials Group.
- Agnes Etherington Art Centre; home to one of the province's largest art galleries.

Exceptional Learning Environment

- #1 university in Canada for 'Highest Quality' by *Maclean's* magazine (2003)
- Excellent Students: consistently attracts top scholars from every Canadian province and more than 110 countries worldwide.
- Award-winning faculty: ranked #1 in Canada for awards per full-time faculty
- Residential Environment: 85% of students live within a 15-minute walk to campus; 90% of first-year students live in residence
- Active Student Participation: more than 230 student clubs, organizations and societies

Leadership in Student Assistance

- Committed to assisting academically competitive students to attend and remain at Queen's regardless of their financial circumstances
- Over the seven-year period (1997-2004), Queen's has increased its student assistance endowment by 170%.
- Queen's has the largest student aid endowment on a per student basis in Canada.
- Among all Canadian universities, Queen's directs the highest proportion of its operating budget toward student scholarships and bursaries, with 80% of this funding directed to needs-based assistance.

Leadership in Research

- One of Canada's leading research-intensive universities, with over \$147 million in sponsored research funding.
- Ranked 5th among Canadian universities for research intensity (research \$/eligible faculty)
- Nationally and internationally recognized researchers:
 - 38 Canada Research Chairs and 15 Queen's Research Chairs are evidence of outstanding researchers serving as Queen's faculty.
 - 2004 Killam Prizes in Social Sciences and in Engineering, Canada's highest honours in these fields
 - 2003 NSERC Gerhard Herzberg Canada Gold Medal, Canada's top science medal
 - One of five finalists for the 2003 Social Sciences and Humanities Research Council Gold Medal – SSHRC's highest research honour
 - Prestigious NSERC awards to Queen's researchers include a 2003 Award of Excellence and a 2003 E.W.R. Steacie Memorial Fellowship
- A leader in Canada in technology transfer; since its establishment in 1987, PARTEQ has generated more than \$33 million in gross revenue. Its spin-off companies have raised more than \$360 million in capital to date to finance future growth, with \$120 million raised in 2003-04.

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

- David Chadwick Smith Chair in Economics

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

- Centre for Water and the Environment

Honorary Degree Recipients

May 2003

- Joy Kogawa, (LLD), poet, scholar and essayist
- Albert Low, (LLD), teacher and Director of the Montreal Zen Centre
- Joanne McWilliam, (DD), pioneer among women in the study of theology as an academic discipline
- Gordon Nixon, (LLD), President and Chief Executive Officer of RBC Financial Group
- David Pattenden, (LLD), Chief Executive Officer of the Ontario Medical Association
- John Ralston Saul, (LLD), Man of letters and engaged public intellectual
- Robbie Robertson, (LLD), Mohawk from the Six Nations Reserve in Ontario and one of the most influential musicians of our time
- Adel Sedra, (LLD), Dean of the Faculty of Engineering at the University of Waterloo

October 2003

- Lloyd Axworthy, (LLD), Director and CEO of the Liu Institute for Global Issues at the University of British Columbia
- Adrienne Clarkson, (LLD), Governor General of Canada
- Romualius Dallaire, (LLD), Retired Lieutenant-General of Canada
- Daniel Patrick Moynihan, (LLD posthumous), former New York Senator
- Ian Scott, (LLD), former Ontario Attorney General, a barrister, politician and legal educator.

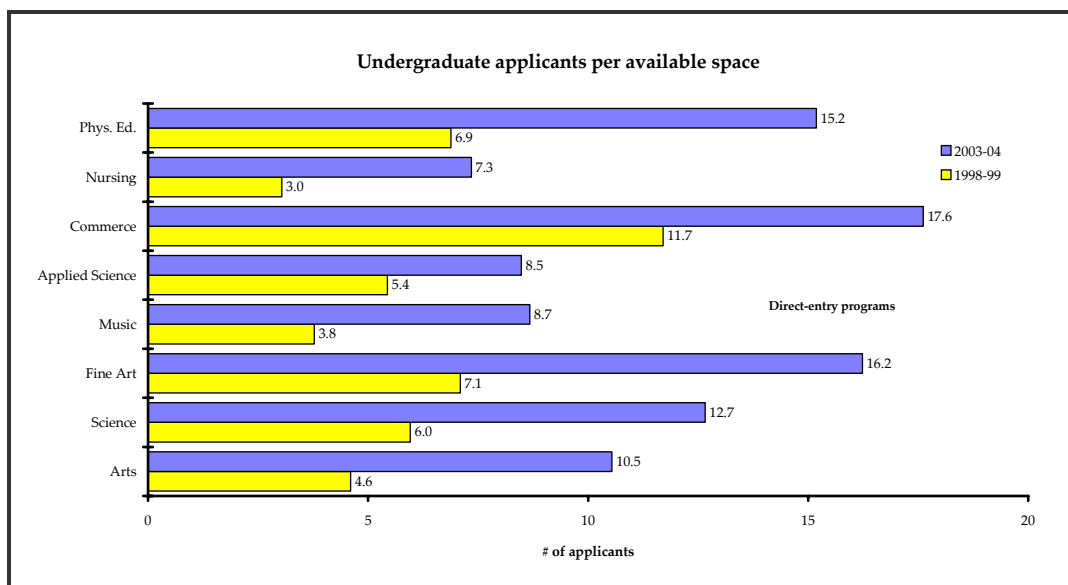
Indicators of Performance

Measuring Excellence

In the following charts, Queen's performance is quantified according to a number of indicators using both stand-alone figures and comparisons to other Canadian universities.

Queen's believes that it is important to continually review its performance relative to others and to use the results to further improve the learning environment. In reviewing these charts, the reader must be aware of significant differences between institutions:

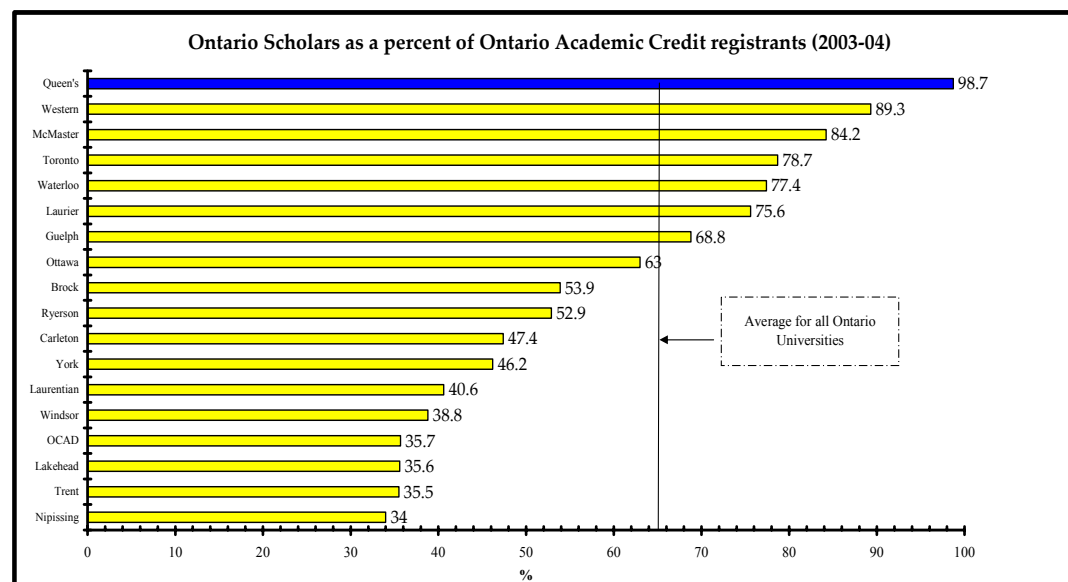
- enrolments vary widely - total full-time enrolment ranges from 14,761 at Dalhousie to 62,000 at Toronto;
- McGill, Toronto, and UBC are large urban campuses with significant part-time enrolments;
- funding levels vary from province to province; and
- certain institutions have specialties that make them unique centres (for example, Guelph – agriculture, Ottawa – bilingual higher learning) and receive additional funding as a result.



Demand for a Queen's Education

Applications to Queen's direct-entry programs are presented in the graph to the left. High admission standards are evidenced by the competitive ratio of applicants to available places over the past five years. The dramatic spike in applicants per available space statistic in 2003-04, relative to 1998-99, was due to the "double cohort" from Ontario secondary schools.

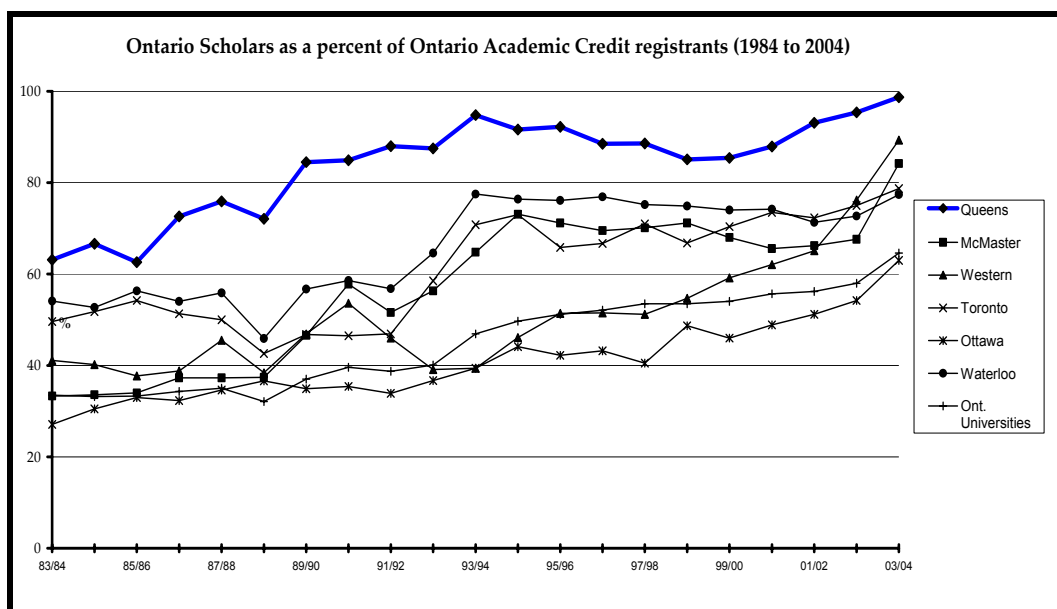
Source: Office of Institutional Research and Planning



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 continues to dominate this admission category, with over 98 percent of incoming students earning this distinction.

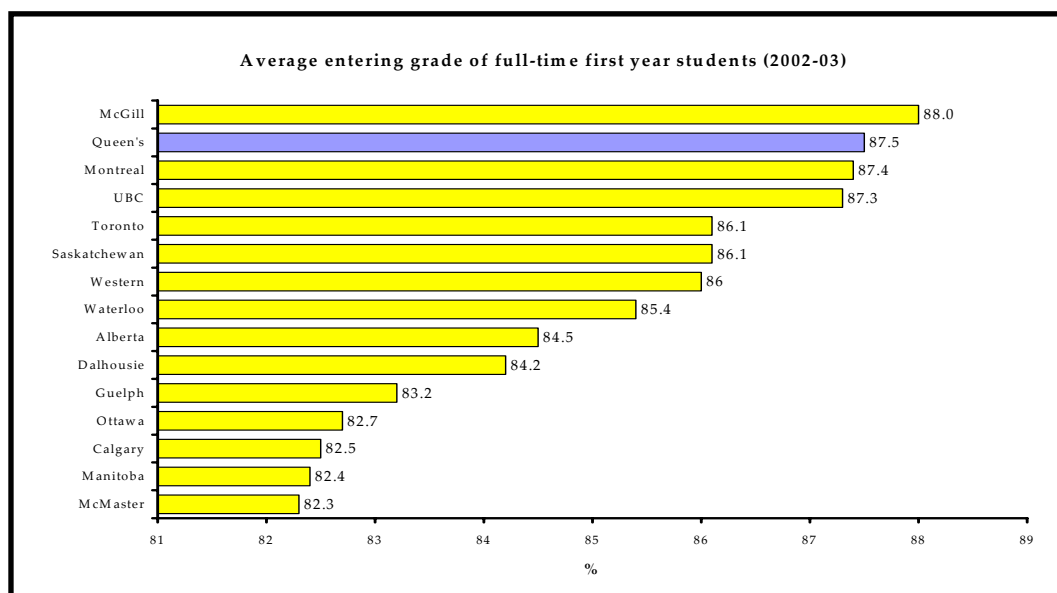
Source: Office of Institutional Research and Planning based upon statistics obtained from the Ontario Universities' Application Centre



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.

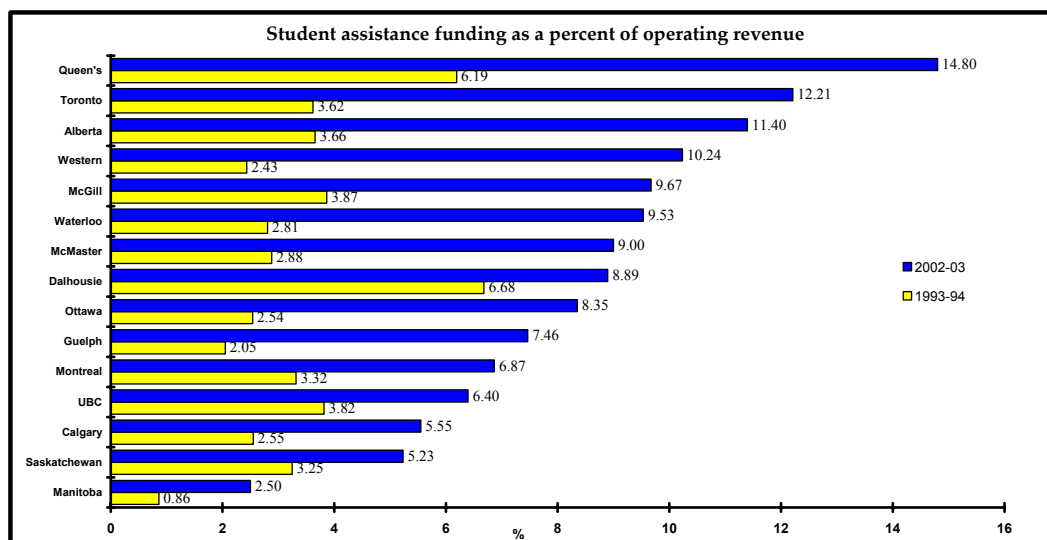
Source: Office of Institutional Research and Planning based upon statistics obtained from the Ontario Universities' Application Centre



National Average Entering Grades

On a national scale, Queen's achieves a similar level of excellence. The graph to the left illustrates the average entering grade of Queen's students (87.5%) relative to other Canadian universities.

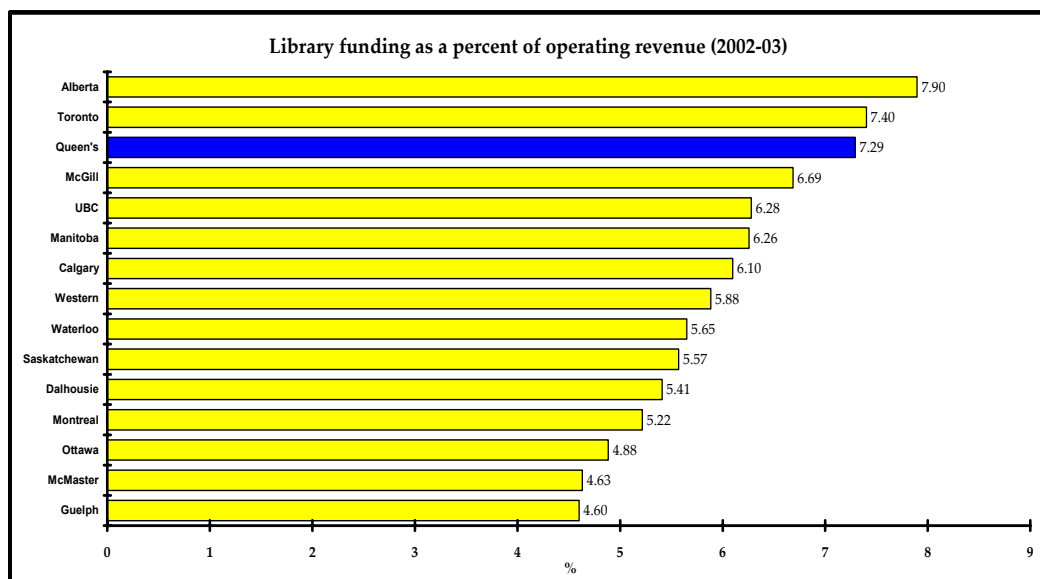
Source: 2003 Maclean's annual survey. The 2003-04 data is not available at time of publication.



Student Assistance

Queen's University has a long-standing history of leadership in student assistance. Queen's continues to increase its support of student assistance funding through both fundraising efforts and by contributing more from its operating budget.

Source: 2002-03 *Financial Information of Universities and Colleges* prepared by Statistics Canada for the Canadian Association of University Business Officers. The 2003-04 data is not available at time of publication.



Library Funding

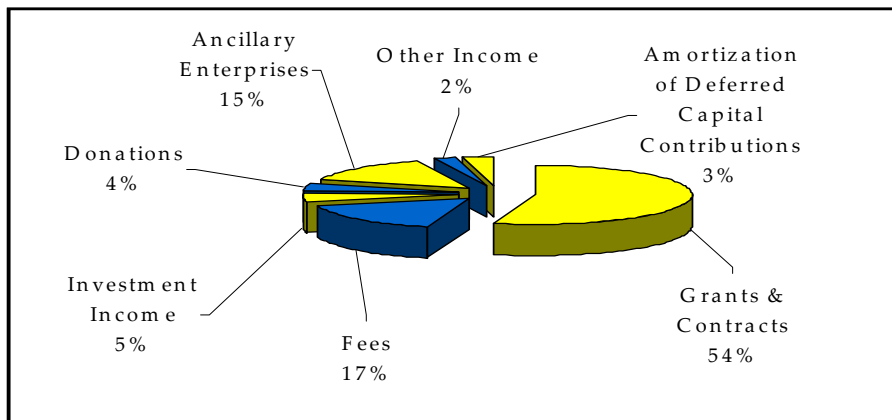
The quality of Queen's learning environment is influenced and shaped by many factors including an emphasis on the availability of a wide range of learning resources and library materials.

Source: 2002-03 *Financial Information of Universities and Colleges* prepared by Statistics Canada for the Canadian Association of University Business Officers. The 2003-04 data is not available at time of publication.

The Financial Year 2003-04 in Review (May 1, 2003 to April 30, 2004)

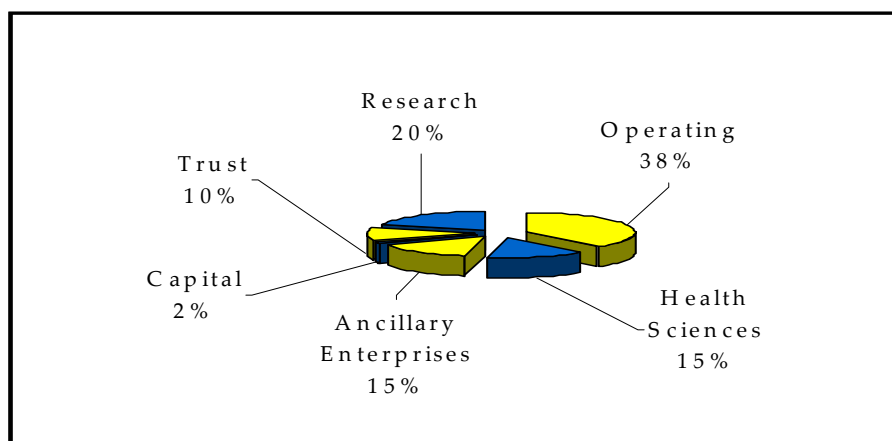
Financial Highlights

Total University Revenue by Source
\$611 Million (2002-03 - \$561 Million)



University revenue increased by \$50 million (9.0%). Grants and contracts represent over half (54%) of the University's total sources of revenue (\$611 million). Included are government grants for the Operating Fund totaling \$141.8 million. (For more detailed information, see Appendix 1, page 63.)

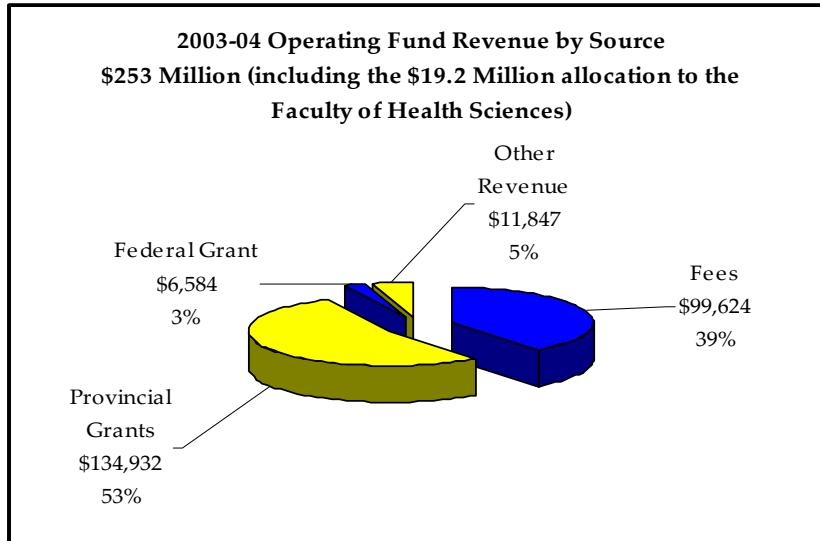
Total University Revenue by Fund
\$611 Million (2002-03 - \$561 Million)



Consolidated operations of the University include activities in the Operating Fund, Health Sciences Fund, Ancillary Enterprises, Capital Fund, Trust Fund, Research Fund and Endowment Fund.

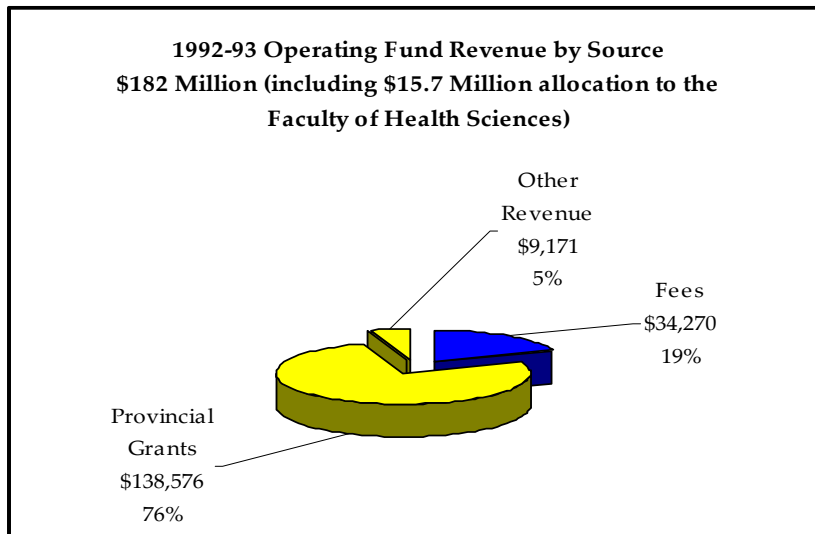
The University's Operating Fund accounts for 38% of the University's total revenue. The Operating Fund, totaling \$235 million, represents the University's discretionary funds and has been the primary focus of financial planning and analysis. (For more detailed information, see Appendix 1, page 63.)

Operating Fund Revenue by Source



The Operating Fund* finances the core academic activities of the University. Operating Fund revenue is primarily composed of Provincial Government operating grants, tuition fees and other unrestricted income.

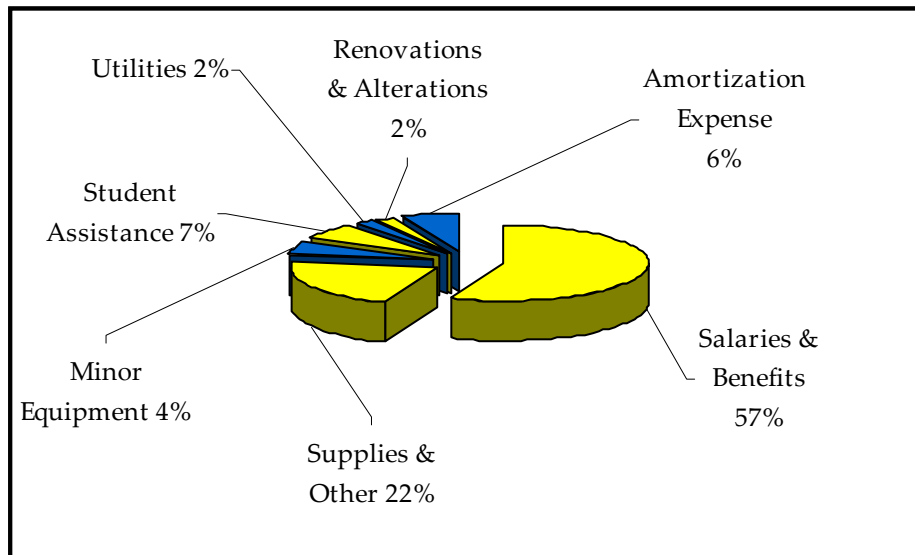
Provincial Government grant support was at its highest level in 1992-93 at 76% of operating revenue; this has declined to 53% in 2003-04. This drop in both absolute and relative dollars available to support University operations has been financed by the increasing tuition fees.



The annual Provincial grant would need to increase by \$57 million if the real funding level of 1992-93 were to be restored

* For these charts only, the Operating Fund includes the Provincial grant allocation to the Faculty of Health Sciences.

Total University Expense by Type
\$587 Million (2002-03 - \$546 Million)

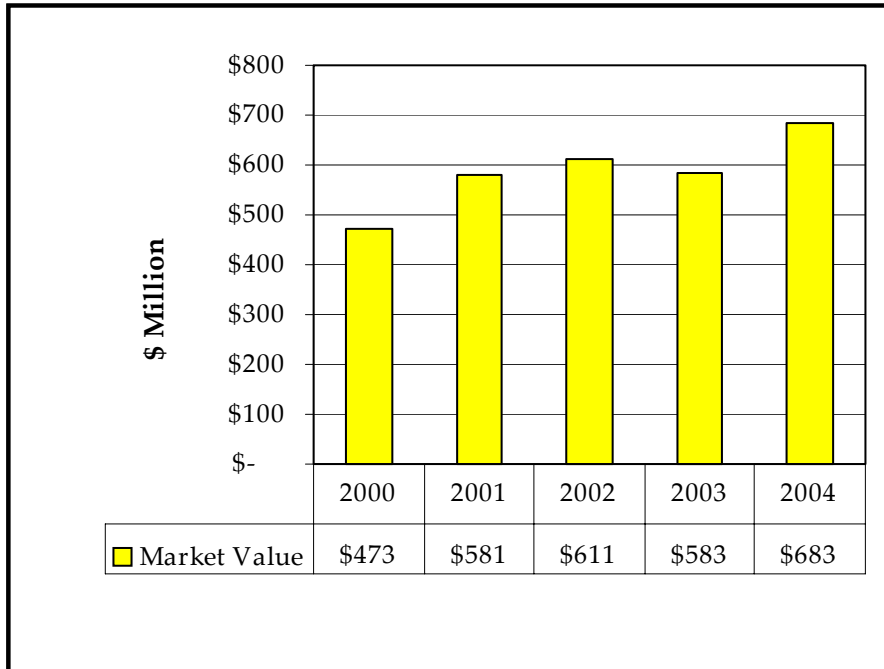


Total expenses increased \$41 million (7.5%) over the previous year. Over half of the University's resources are spent on salaries and benefits which totaled \$328 million during 2003-04, an increase of 6% over the previous year. (For more detailed information, see Appendix 1, page 63.)

Market Value of Investments

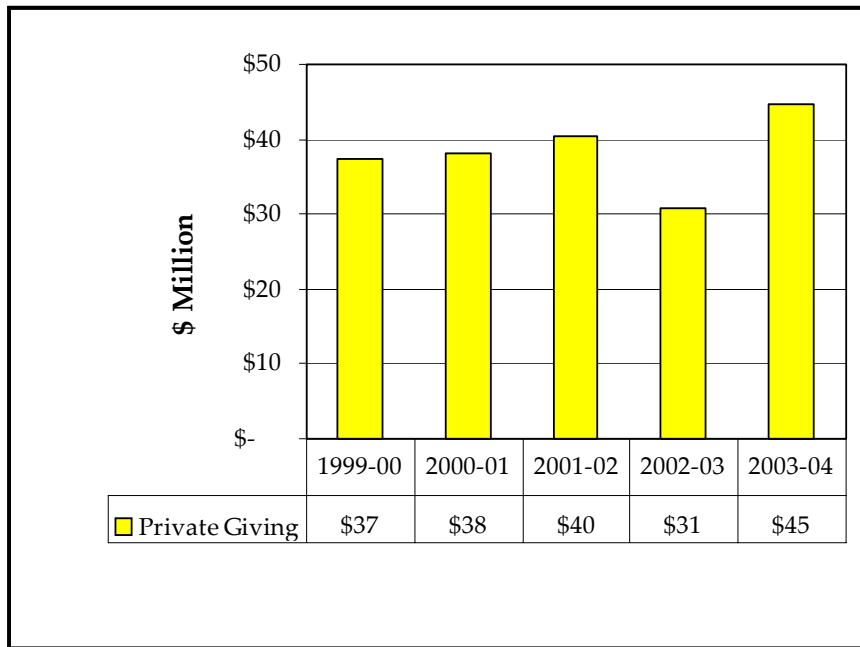
As at April 30, 2004

(in millions of dollars – does not include pension assets)



The market value of the University's total investments increased by \$100 million (17.1%) in 2003-04. The increase in 2003-04 results from a combination of significant donations and excellent investment returns. (For more information regarding book and market values, see Note 18 to the Consolidated Financial Statements, page 58.)

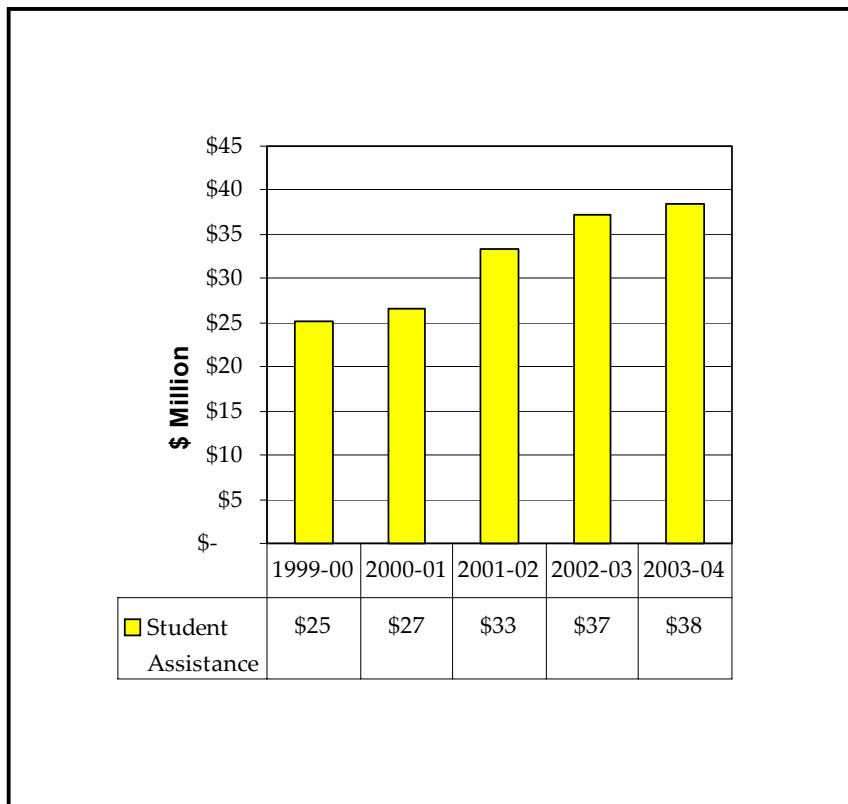
Private Giving
(in millions of dollars)



Queen's has experienced considerable fundraising success over the past five years. In 2003, the University completed its most successful fundraising campaign, raising \$262 million in support of institutional priorities, far surpassing its goal of \$200 million

Fiscal 2003-04 marked a record year for private giving at Queen's, with \$44.6 million raised in support of institutional priorities. Cash intake was relatively unchanged over last year, the final year of active campaigning as part of the *Campaign for Queen's*. In 2003-04, a significant gift of artwork was contributed with an approximate value of \$14 million.

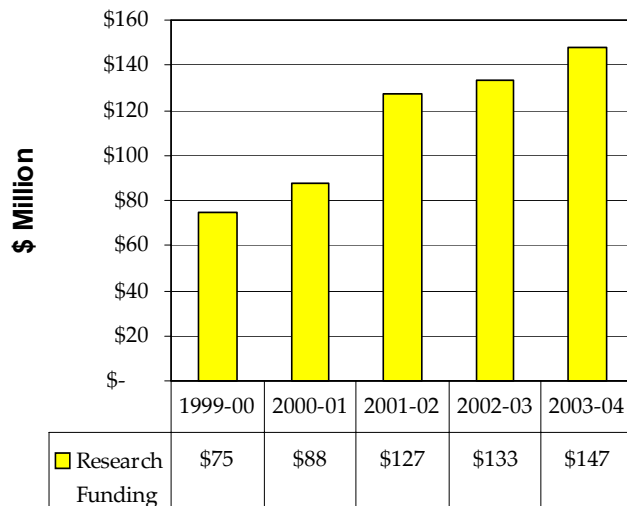
Student Assistance
(in millions of dollars)



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 additional operating funds. These initiatives have led to a 50% increase over the past four years.

The market value of the student assistance endowment of \$196.5 million represents 42.6% of the University's total endowment. This endowment has increased 44% over five years. Among all Canadian universities, Queen's directs the highest proportion of its operating budget towards student assistance.

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



With over \$147 million in sponsored research funding, 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 8 ranking among Canadian universities for federal research operating grant funding
- 3rd ranking in Canada for number of Fellows of the Royal Society of Canada
- prestigious 2003-04 awards to Queen's researchers include: NSERC Award of Excellence, NSERC Gerhard Herzberg Canada Gold Medal, 2 of 5 Killam Prizes, two Fulbright Visiting Chairs, and two new Fellows of the Royal Society of Canada
- a leader in the commercialization of research – over \$33 million in revenue to date
- 38 Canada Research Chairs (CRC) and 15 Queen's Research Chairs
- the Centre for Neuroscience Studies, and the Centre for Water and the Environment officially opened in 2004

Challenges and Opportunities

Queen's, like other Ontario universities, operates in an environment of considerable uncertainty and limited flexibility. Its greatest ongoing challenge is to continue to enhance the quality of its educational and scholarly programs despite funding constraints and, at times, restrictive fiscal policy regarding post-secondary education.

The announcement by the Provincial Government of a two-year tuition freeze has added considerable stress to the university system, and has affected plans for faculty renewal and reinvestment in the learning environment. While the Government's announcement of a one-time grant to compensate for lost tuition was welcome, the absence of a long-term funding commitment beyond 2004-05 to fill this gap represents an especially difficult challenge. Similarly, the Government has made no commitment to compensate the University for inflationary cost increases. This is essential if Queen's is to fulfill its mission.

Ontario universities view the recent establishment of the *Rae Post-Secondary Education Review* as an important opportunity to articulate the goals and aspirations of Ontario universities, and to develop a sustainable policy framework for the future. In the Queen's submission, we will elaborate on a set of principles which have been repeatedly endorsed by our community as the foundation for progressive policy in post-secondary education: quality, accessibility, diversity of opportunity, and sustainability. While the political environment continues to change, the priorities at Queen's have remained steadfast. In view of the pull back in Provincial Government support, the University will continue in its efforts to persuade the Government to adopt a policy framework that devolves greater responsibility and accountability to individual institutions.

Queen's decision to limit its undergraduate enrolment growth through the period of the "double cohort" has provided much-needed flexibility for the future. The University has benefited from a window of time in which to look more closely at its overall enrolment profile, and consider the merits of transitioning to a larger proportion of graduate students and a slightly smaller proportion of undergraduates. This enrolment rebalancing could contribute both to a higher quality and more personal experience for all students (with lower student-faculty ratios), and to a stronger and more vibrant scholarly base. Considerable analysis needs to be undertaken. This opportunity will be explored more fully in the coming months.

It has been a year of transition for the senior management team. Principal Leggett retired on June 30th, 2004, after ten years of dedicated and enthusiastic service to Queen's. Dr. Karen Hitchcock was officially welcomed as Principal and Vice-Chancellor on July 1, 2004. In addition, Mr. Andrew Simpson joined Queen's University on August 1, 2003 as the new Vice-Principal (Operations and Finance). Dr. Suzanne Fortier, Vice-Principal (Academic), will be stepping down in June 2005 and an advisory committee is being established to review the present state and future prospects of this portfolio and make recommendations on a successor.

Queen's leadership in education and research is fundamentally tied to the quality of its people. In April 2004, the Principal announced a comprehensive review of the broad array of human resource services at Queen's to ensure that the University's programs, policies and services

are current, creative and effective. The review will be completed in the fall 2004 with recommendations presented to the Principal's Steering Committee. This is an opportunity to ensure that Queen's remains effectively positioned to recruit, develop and support its employees at the highest level.

Campus renewal continues to be a high priority and a considerable challenge. While construction on campus has tapered off in the past year with the completion of more than \$194 million in new capital projects since 1999, the University still faces approximately \$145 million in accumulated deferred maintenance and must plan effectively to address its highest priority needs, including enhancing Information Technology systems and modernizing the campus infrastructure. In addition, the next significant construction project is in the early planning stages – the Queen's Centre, the new facility for the School of Physical and Health Education, improved athletic and student life facilities.

The overall financial picture of the University is sound. However, the University still faces financial challenges. The political situation – at both the Federal and Provincial levels – is uncertain as previous financial commitments in support of research, student assistance, and quality assurance are now being re-assessed by the new Federal and Provincial governments. At Queen's, the pension fund's latest actuarial valuation points to the need for further investment in the plan to cover the recently revealed unfunded liability. The University is currently exploring a number of alternatives to enhance the long-term financial health of the plan and fund. Finally, the private giving environment is becoming increasingly competitive with a rapid growth in the number of Canadian charities and major donors becoming more discerning in their giving. While 2003-04 was a record year for private giving at Queen's, success in the future will depend on a clear articulation of fundraising priorities and considerable involvement of senior academic personnel in the work of Advancement.

Summary of Actual Results for 2003-04

The audited Financial Statements report on the consolidated activities of Queen's University, the International Study Centre (ISC), PARTEQ, the US Foundation for Queen's, the Crown Foundation, Queen's Centre for Enterprise Development and Queen's proportionate share of the Sudbury Neutrino Observatory Institute. The audited Financial Statements include the results of the Operating Fund, Health Sciences Fund, Ancillary Enterprises, Capital Fund, Trust Fund, Research Fund and Endowment Fund. Total revenue and expense activities are presented on page 39 in the Consolidated Statement of Revenue and Expense. Further detail of major activity is provided in Appendix 1 on page 63.

Overall, activities of Queen's University resulted in a consolidated surplus of \$24.1 million for 2003-04. Much of this surplus is committed to funding future obligations of the University, such as pension expense, post employment benefits, early retirements, faculty bridging and research programs.

Operating Fund

The Operating Fund (\$235 million) represents 38% of the University's total resources and it finances the core academic activities of the University. Operating Fund revenue is primarily composed of provincial government operating grants, tuition fees and other unrestricted income. The Operating Fund represents the University's discretionary funds and has been the focus of ongoing financial planning and analysis. The Operating Fund recorded a surplus of \$284 thousand (before employee future benefits expense), increasing the accumulated operating surplus (before employee future benefits expense) to \$1.4 million.

The peak level of the "double cohort" of high school graduates arrived at Ontario universities in September 2003. The University met its enrolment target in most programs and, because of the flow through effect, grew by approximately 780 full-time students to a total full-time enrolment of 15,924 students at September 2003.

Total operating revenue increased by \$20.2 million. Fees exceeded budget by \$1.1 million as actual full-time enrolment exceeded the University's target by 134 students. The incremental revenue from fees was set aside for student assistance and to address costs associated with the rapid enrolment growth. Operating expenses were generally in line with the budget plan.

In 2003-04, Provincial Government operating funding was \$122.2 million (up from \$113.0 million in 2002-03, an increase of \$9.2 million or 8.14%). Changes in 2003-04 government funding are summarized in Table 1 on the following page.

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

Fund	Change
Base Operating Grant	\$ 0
Quality Assurance Fund	4,580
Accessibility Fund	4,373
Performance Fund	(104)
Research Performance Fund	(824)
Targeted Program Funding	882
Other	318
Total Increase in Provincial Funding 2003-04 over 2002-03	\$ 9,225

The current Provincial funding formula for base operating grants does not provide for inflationary increases for unavoidable increases such as utilities, library acquisitions and compensation (salary and benefits).

Despite the “freeze” on base operating grants, the March 2003 Provincial budget included a new Quality Assurance Fund that committed to provide \$200 million base funding for all Ontario universities over the next four years. Funding available for all Ontario universities in 2003-04 for the Quality Assurance program was \$75 million with Queen’s share being \$4.6 million. The Quality Assurance Fund enabled the University to maintain the current level of service in most units and even enhance some services to deal with the “double cohort”.

The increase in accessibility funding reflects the Provincial Government’s commitment to provide funding for planned enrolment growth arising from the “double cohort”. Other 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.

A brief description of major Provincial funding envelopes follows:

- The Quality Assurance Fund is provided to assist universities in making quality improvements, such as improving student-faculty ratios, and improving classrooms and teaching laboratories. This funding was very much needed by Ontario universities. Unfortunately, the new Liberal government has indicated that the Quality Assurance Fund will not be increased in future years as committed by the previous government. Queen’s share for 2003-04 was \$4.6 million.

- 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 \$158.4 million fund for 2003-04. Queen's share for 2003-04 was \$6.7 million.
- 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 \$2.1 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 2003-04, Queen's share of the \$32 million fund was \$1.7 million. The reduction from last year reflects the unusually high level of grants received in 2002-03 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, Computing, Medicine, Education and Nursing). 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 2003-04, the University received a total of \$5.8 million - \$3.0 million was targeted for enrolment growth in Applied Science and Computing Science, \$1.8 million for Medicine, \$0.8 million for Education and \$0.2 million for Nursing. The University expects to receive almost \$9.4 million in targeted program funding in 2004-05.

The February 2003 Federal Budget announced base funding of \$245 million in support of the indirect costs of research for Canada's universities and hospitals. Queen's share for 2003-04 was \$6.6 million. This funding represents an investment of slightly more than 20% of the Federal tri-council research grants¹ coming to the University and was used to support the indirect costs associated with that research.

Health Sciences

The Faculty of Health Sciences received \$67.7 million in 2003-04 under the Alternative Funding Plan (AFP) to support their mission of clinical service, education and research. The 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

¹ 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).

the AFP. The School of Medicine at Queen's University is the first medical school in Ontario 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 (\$19.2 million in 2003-04) to fund medical students and students in the Basic Health Sciences (not funded by the AFP). For 2003-04, the income statement caption "Salaries" includes \$47.6 million of clinical fee payments to physicians from the SEAMO pool; prior to the introduction of the AFP, these payments would have been made directly to the physicians as fee for service remittances from Ontario Hospital Insurance Plan (OHIP).

The Queen's School of Medicine proudly celebrates its sesquicentennial in 2004.

Ancillary Enterprises

Ancillaries are the University's business enterprises (see Appendix 2, page 64). 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 \$89.9 million in 2003-04. Apartment and Housing, the Computer Store, Parking, Residences and Food Services, and Continuing Education all achieved breakeven targets. The \$276 thousand loss experienced by the Donald Gordon Centre (Conference) exceeded the budgeted loss as a result of fewer bed nights in 2003-04. Queen's Centre for Enterprise Development (QCED Inc.) realized a loss of \$354 thousand against a planned loss of \$237 thousand due to costs of restructuring. QCED will be operating under a new business model in future years.

The ISC experienced an operating loss of \$271 thousand, which compares very favourably with the past 5 years when losses averaged \$1.0 million per year. At this time we are working ambitiously to reach capacity enrolment of 190 for 2004-05.

PARTEQ, the University's technology transfer corporation, reported an excess of expense over revenue of \$635 thousand after providing for a \$5.3 million distribution to Queen's University.

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 market value of the University's total endowment funds are currently \$461.5 million (book value \$384.3 million). The University's student assistance endowment with a market value of \$196.5 million as at April 30, 2004, produces annual income of almost \$8.9 million. The endowment for Faculties and Departments had a market value of \$159.1 million producing annual income of \$ 7.4 million.

The endowment fund had a one year return of 22.4% (year ended March 31, 2004). This return is slightly below the benchmark return of 22.6% for the same period, but still above the median (21.4%) in the universe of Canadian endowments and foundations. Historical results have been excellent. Specifically, over the 10 year period ending March 31, 2004, the endowment had an annualized return of 11.3%; this return is 2.1% above the annualized benchmark return for the same period.

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

Major construction projects completed over the past few years significantly enhanced the learning environment in most faculties, and created the capacity to assimilate the increased enrolment related to the "double cohort".

Going forward, one of the largest capital projects that Queen's has ever witnessed, the Queen's Centre project, continues to gain momentum. An international design team was appointed in 2003. They have been actively planning and engaging the campus and wider Kingston communities to arrive at a preferred concept/design for the renovation and extension of a new facility to house the School of Physical Health and Education, revitalized arena, swimming complex, fieldhouse (including indoor running track), and improved student life facilities. A recommendation for design schematics will be presented to Campus Planning and Development Committee and Board of Trustees in March 2005. If approved, the project will be staged over a ten year period. The majority of the monies to support the project will be raised as part of Queen's Advancement strategy.

Significant projects underway, or recently completed, are outlined in Table 2 on the following page.

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

Project	Project Budget	Funding Sources	Status
Leggett Hall and Watts Hall (two new residences) * new construction	\$47,500	Residence system	Opened Fall 2003
Leonard Hall Cafeteria * major renovations	\$9,200	Residence system	Opened Fall 2003
Beamish-Munro Hall (Integrated Learning Centre) * new construction	\$24,800	SuperBuild (\$12,000), Fundraising	Opened Spring 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: Summer 2005
Richardson Hall * major renovation	\$7,000	University sources	Scheduled completion: Fall 2006
Queen's Centre Project * new construction and major renovations	Currently in early planning stage	Various	Preliminary planning – 10 Year Project
Functional Imaging Facilities (Cancer Research Institute) *new construction	\$4,500	Research Funding	Preliminary Planning – expected to proceed Fall 2004
University Avenue Restoration Project *major renovation	\$3,000 plus \$1,000 endowment	Fundraising	Preliminary Planning – expected construction Spring 2005
Bracken Library (CHEER) *major renovation	\$1,500	Fundraising	Preliminary Planning – expected construction Spring 2005

Research

Measures of research excellence include awards, publications, and research funding. This has been a stellar year for research at Queen's University. Four major prizes – the Natural Sciences and Engineering Research Council of Canada's (NSERC) highest honour, the Gerhard Herzberg Gold Medal, and the NSERC Award of Excellence, as well as the Killam Prizes in Social Sciences and Engineering, the top national prizes in these fields, were all awarded to Queen's faculty members. In the 2003 *Maclean's* rankings, Queen's topped all other medical-doctoral universities in terms of national research awards per faculty. In each year since 1998, Queen's has been ranked among the top five universities in this category. Queen's researchers also maintain an active and robust research and publication program. Details of publications may be found on the Vice-Principal (Research) website.

Queen's University is one of the top five research-intensive universities in Canada with an average of \$198,000 total research dollars annually per faculty member. Last year, Queen's ranked 4th in Canada in total number of grants per full-time faculty and 3rd in Canada for total equivalent grants per full-time faculty.

Research funding increased to \$147.5 million (before deferrals), representing a year-over-year increase of 11% (\$14.4 million) and doubling over the past five years. Over the past five years, research funding as a percentage of operating revenue has increased from 39% to 63%. Queen's researchers continued their strong track record with NSERC, SSHRC and CIHR realizing an increase of \$6.0 million in tri-council funding, with more than a doubling of revenues over the past five years in both CIHR and SSHRC.

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 \$120 million was invested in PARTEQ spin-off companies, bringing the total invested in early- and middle-stage companies to more than \$360 million. Licensing and royalty streams generated by Queen's-based research have yielded nearly \$33 million since PARTEQ's establishment in 1987.

The significant increase in research funding in recent years is also due, in part, to the increase in contract research. Contracts now account for over \$31 million in research revenues. In the past five years, the number of research contracts finalized has more than tripled from 140 contracts in 1997 to 435 in 2003. Grants and contracts, negotiated through external funding agencies and industry, provide key research dollars (see Table 3 on the following page).

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

	2003-04	2002-03	2001-02	2000-01	1999-00
Federal					
SSHRC	\$4,340	\$ 3,083	\$ 2,310	\$ 2,422	\$ 2,003
NSERC	24,621	21,136	16,044	18,035	16,449
CIHR	14,656	13,366	10,985	8,126	6,640
CFI	17,768	14,246	14,652	6,539	1,855
Other	8,954	9,864	8,024	7,302	8,339
Less 75% SNO	(2,490)	(2,752)	(2,492)	(2,385)	(2,360)
	67,849	58,943	49,523	40,039	32,926
Provincial					
ORDCF, OIT, PREA	20,103	15,186	22,832	9,182	4,350
Other Ontario Ministries	2,626	3,110	5,291	1,862	2,041
Other					
Corporate	24,080	24,295	22,674	15,548	14,201
Foundations	21,254	22,580	21,299	17,439	17,693
Other	11,555	8,941	5,532	3,901	3,799
Total	\$147,467	\$ 133,055	\$ 127,151	\$ 87,971	\$ 75,010

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

Credit Rating

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 (DBRS). The proceeds of the issue were used to finance capital projects including the construction of student residences, cafeteria renovations and to consolidate debt on previously completed capital projects. During 2003-04, both credit rating agencies reconfirmed Queen's credit ratings of AA+ (Standard and Poor's) and AA high (DBRS).

Conclusion

The University finished the year on budget. This was achieved while attempting to balance the competing priorities of the University in a climate of inadequate government funding, capped tuition fees, escalating academic salaries, and rising operating costs. Regardless of these constraints, the University accomplished the following key objectives:

- attraction and retention of the best students through a generous and well administered needs-based and merit-based student assistance program;
- attraction and retention of the best faculty and staff through a stimulating learning and research environment, and a fair and comprehensive salary and benefits program;
- ongoing reinvestment in the quality of the academic environment, including additional faculty in areas of high demand, student support, and new curricula;
- provision of incentives to faculties to reinvest in quality through fee sharing and targeted grants;
- funding of the indirect costs of research;
- enhanced funding for the computing infrastructure to support students, academics (in both teaching and research) and administration; and
- new and renovated buildings and fiscally responsible set-asides for future liabilities, including deferred maintenance and employee future benefits.

While the University enjoys strong management and oversight, aspects of the economic and political situation remain uncertain. The University is working very hard to sustain and ensure it maintains the quality reputation which has accompanied its faculty, students, staff, academic curriculum, broader learning environment, and research.

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.

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
- Student-Faculty Ratio
- Fundraising
- Investments
- Research Activity

Expenses:

- Compensation
- Campus Infrastructure

Internal Control Environment

Provincial Government Funding

Provincial Government policies directly influence operating grant funding and tuition revenue. These two sources of revenue represent approximately 95% of the University's Operating Fund revenue and they are both beyond the University's control. The current Provincial funding formula has not provided for any increases to compensate for inflation for the past decade. Over that period, the bulk of the University's incremental operating funding has come from, first, freedom to set tuition fees and then, from grants tied to enrolment growth.

The May 18, 2004, Provincial Budget announced a two year freeze on tuition fees and cancelled the anticipated increase in the Quality Assurance Fund committed by the previous Government. The Government did provide for a "grant in lieu" of frozen tuition fees (1.4% of fees for regulated programs and 5.6% of fees for deregulated programs), resulting in a net cost to Queen's of approximately \$1 million in 2004-05. The failure to honour the expected increase in the Quality Assurance Fund results in a funding shortfall for Queen's of approximately \$2.5 million for 2004-05 and \$4.6 million for 2005-06.

As the bulk of the "double cohort" of Ontario high school graduates entered the university system in 2003-04, future accessibility growth funding

will diminish.

The elimination of fee flexibility combined with the lack of future funding available for growth and no funding for inflation makes it unclear where funding will come from to cover annual operating increases. Queen's remains committed to the principles of quality enhancement, program diversity, and student accessibility, but can do so only under a model where universities are given freedom to set tuition levels locally for all programs.

Former Premier Bob Rae is currently leading a comprehensive review of the design and funding of post-secondary education in Ontario. Ontario universities are confident that the review, which will focus on ensuring a high-quality, accessible and accountable education system, will point to the need for reinvestment in Ontario universities.

Federal Government Funding

Sustaining vibrant research programs stretches 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 fund the infrastructure required by that research. In the March 2004 Federal budget, the Government announced permanent base funding of \$245 million to support indirect costs of research. Queen's share of the Federal indirect costs of research funding, based on the research funding from Federal tri-council research grants, is estimated at \$6.6 million in 2004-05. 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.

Enrolment

Queen's enrolment plans continue to reflect the University's strategy to remain a mid-sized, residential university. Full-time enrolment at Queen's is projected to grow by approximately 1,400 students in total by September 2005 (from September 2002) and then level out through 2010. The University's long-term strategy is to increase the absolute number of students in graduate studies as well as the ratio of graduate to undergraduate students, reflecting the University's research-intensive character. The opportunity to fund inflationary costs through enrolment growth will steadily diminish over the next five years. Increases in the number of graduate students and related increases in research activity require significant additional funding.

Tuition

The Provincial Government has imposed a two year freeze on tuition increases for 2004-05 and 2005-06. The Government has committed a "grant in lieu" of tuition freeze at the rate of 1.4% of fees for regulated programs and 5.6% of fees for deregulated programs. Regulated programs are all

undergraduate programs in the Faculty of Arts and Science, Nursing, Rehabilitation Therapy², 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 2003-04 academic year, approximately 30% of Queen's students were enrolled in deregulated programs. Tuition fees from enrolment growth and fee increases have been a very important source of new funds in the past decade. This source of incremental revenue has now been capped by government policy.

Student-Faculty Ratio

The Ontario university system, with strong support from Queen's University, has promoted emphasis on funding "quality" initiatives. One measure of quality is the student-faculty ratio. To put this challenge into perspective, Queen's has a current student-faculty ratio of 23:1 and a goal of 15:1. Queen's would need to hire an additional 390 full-time faculty members to achieve this goal.

Fundraising

Fundraising is very important to Queen's. It provides critical supplementary funding that makes a difference, particularly in the areas of student assistance, capital improvements and specific academic priorities. The University has significantly increased its investment in fundraising operations over the past three years.

Table 4
Gifts Received
(\$000's omitted)

	<i>2003-04</i>	<i>2002-03</i>	<i>2001-02</i>	<i>2000-01</i>	<i>1999-00</i>
Major Gifts	\$ 17,050	\$ 14,491	\$ 20,912	\$ 18,732	\$ 21,969
Annual Gifts	5,940	5,395	5,053	4,623	3,498
Planned Gifts	6,766	9,961	11,075	12,728	3,245
Gifts in Kind	14,839	959	3,389	2,093	8,731
TOTAL	\$ 44,595	\$ 30,806	\$ 40,429	\$ 38,176	\$ 37,443

Since the completion of the *Campaign*, the University has made Advancement initiatives an important institutional part of academic priorities, allocating resources on a sustained basis in support of this priority. This has been undertaken in part because of Queen's desires to develop a

² The undergraduate degree in Rehabilitation Therapy will be phased out as a new professional Master's level degree will be introduced in September 2004. The last undergraduate class was admitted in September 2003.

clear strategy for dealing with the continuous decline in post-secondary education funding from the Provincial Government.

To ensure that the resources in the Office of Advancement are deployed to realize maximum benefit under this sustained model, a significant restructuring of Advancement was undertaken in 2004. This new organization is focused on the achievement of specific objectives and follows many industry best practices. Queen's remains committed to ensuring that the organization continues to operate at the leading edge of higher education advancement.

The previous Provincial Government announced a second round of the Ontario Student Opportunities Trust Fund (OSOTF II), committing \$400 million to support matching private donations for student financial assistance. In the first round of OSOTF funding, Queen's raised \$34 million. It was matched by the Provincial Government and significantly enhanced the financial assistance available to Queen's students. Queen's fundraising efforts were focused on maximizing the benefit of this initiative for Queen's students. Ontario universities were notified on July 6, 2004, that this program was suspended pending the recommendations of the Rae review. The news has been a source of considerable concern for the province's universities and they are currently lobbying the Provincial Government to re-instate the program.

Investments

The University has two long-term investment funds: the Pooled Endowment Fund (PEF) and the Pooled Investment Fund (PIF). 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 was revised last year to reflect the Investment Committee's view that future long-term returns are likely to be in the 7% - 8% range. The new methodology should permit the income available for student assistance and endowed chairs to grow in a more predictable manner.

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

With an endowment of approximately \$461.5 million, Queen's has the fifth-largest endowment of all universities in Canada.

Research Activity

Sponsored research activity at Queen's has nearly doubled in the past five years. The additional costs to universities that accompany an unprecedented growth in research funding were partially offset by the Federal Government's announcement of a \$20 million dollar increase to the \$225 million fund 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.

The Canada Foundation for Innovation (CFI) currently provides operating grants equal to 30% of the infrastructure grant. This grant will no longer be available (after 2004) which provides a serious operating challenge for the future.

On July 9, 2004, universities were advised that the \$300 million promised by the previous government to Ontario Innovation Trust (OIT) will not be forthcoming. The Ontario Innovation Trust was created to help Ontario's universities and hospitals enhance research infrastructure. Funding from OIT was used to match funding from the Canada Foundation for Innovation and other projects, providing up to 40% of the approved costs. At Queen's this announcement will have a negative impact on various programs such as the Canada Research Chairs Infrastructure Awards and the CFI New Opportunities which assist in faculty recruitment.

Compensation

With tuition fees frozen and growth grants coming to an end, compensation increases and the number of faculty and staff are the two most important elements in budget planning. The University spends approximately \$177 million (70%) of its operating resources on compensation (salary and benefits). Total salary and benefits increases, approximately 5% annually, represent an additional cash outlay of \$9 million each year for the University.

Key among the market pressures affecting the operating budget is the cost of attracting and retaining top faculty. The pressure on salaries for faculty is unlikely to decrease in the foreseeable future as the employment market for faculty continues to be competitive across Canada and globally. The effects are already being felt at Queen's, especially in professional programs where entry-level salaries have increased by as much as 50% in the past few years, and excellent candidates have many job offers. These market pressures not only have an impact on costs, student-faculty ratios, course loads and research, but also on our ability to deliver certain programs.

The contract expiry dates for agreements covering employment related matters are as follows:

Bargaining Unit/Association	Contract Effective Until
Queen's University Faculty Association (QUFA)	April 30, 2005
QUFA – Sessional Adjuncts	April 30, 2006
Queen's University Staff Association (QUSA)	June 30, 2006
CUPE Unions	June 30, 2006

Part of the University's benefit package includes continuation of health and life insurance upon retirement. As at April 30, 2004, the University's obligation relating to the employee future benefits plan is estimated to be \$40.0 million, an increase of \$2.7 million (7.4%) over 2002-03.

The active employees of the University are covered by a contributory pension plan which is a money purchase plan with a defined benefit minimum. While a large percentage of our existing pensioners retired under the money purchase part of the plan, the potential defined benefit

obligations for active plan members retiring in the future are growing as recent investment returns have not been as strong as they were in the prior decade. Pensions for retired members are enhanced on the investment returns in excess of a specific threshold. If single-digit returns become the norm in future, the defined benefit obligations will continue to grow and the number of active plan members retiring under the defined benefit provisions will increase.

Campus Infrastructure

Queen's and other Canadian universities face substantial costs to modernize campus infrastructure over the next ten years. The University's deferred maintenance backlog, currently estimated at approximately \$145 million, will escalate rapidly over the coming decade as the University will need to begin replacing systems in buildings constructed in the 1960s and 1970s. The University is on track with its plan to accumulate a deferred maintenance fund of \$6.0 million annually by 2005-06. This fund will be sufficient to cover the highest priority needs; however, it is not expected that any of this fund will be available to cover the costs of modernizing facilities. At the moment, there is no expense in the financial statements related to future outlays for the maintenance of facilities.

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 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 newly appointed Director of Risk Management and Audit Services;
- 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

2003-04

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**Highlights of 2003-04
Operating Fund
Revenue and Expenses**
Year ended
April 30, 2004
(\$000's omitted)
(unaudited)

		2003-04		2002-03
		Budget	Actual	Difference
				Actual
REVENUE	Government grants	\$ 121,147	\$ 122,167	\$ 1,020
	Fees	102,171	103,223	1,052
	Investment income	2,593	2,702	109
	Donations	1,404	1,192	(212)
	Other	5,701	5,861	160
		233,016	235,145	2,129
EXPENSES	Salaries and benefits	156,749	151,847	(4,902)
	Supplies and miscellaneous	18,728	16,532	(2,196)
	Minor equipment and furnishings	6,353	6,492	139
	Student assistance	21,905	22,152	247
	Utilities	8,408	8,222	(186)
	Renovations and alterations	6,130	5,947	(183)
	Library acquisitions	9,018	9,251	233
	Restructuring costs	4,247	1,268	(2,979)
	Amortization of capital assets	28	28	0
	Interest	1,450	1,450	0
		233,016	223,189	(9,827)
	Net change in fund balance before transfers	0	11,956	11,956
	Net transfers to appropriated surplus		(11,672)	(11,672)
	Annual operating surplus, before employee future benefits expense		284	284
	Accumulated operating surplus, start of year, before employee future benefits expense		1,147	730
	Accumulated operating surplus, end of year, before employee future benefits expense	\$	1,431	\$ 1,147

The format of the operating budget approved by the Board of Trustees in May 2003 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 39.

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 \$38,607 (2003 – \$36,143) reflects the accrued liability of \$40,038 (2003 – \$37,290) for employee future benefits.

Page 35 discusses the various funds that are summarized in Appendix 1 on page 63.

OPERATING FUND	The University recorded a surplus of \$284 thousand (before the employee future benefits expense of \$2.7 million) in 2003-04 increasing the accumulated operating surplus to \$1.4 million. Total operating revenue increased by \$20.2 million. Fees exceeded budget by \$1.1 million as actual full-time enrolment exceeded the University's target by 134 students. The incremental revenue from fees was set aside for student assistance and to address unfunded costs associated with rapid enrolment growth. Operating expenses were generally in line with the budget plan.
ANCILLARY ENTERPRISES	Revenue from ancillary enterprises amounted to \$89.9 million in 2003-04. Apartment and Housing, the Computer Store, Parking, Residences and Food Services, and Continuing Education all achieved breakeven targets. The \$276 thousand loss experienced by the Donald Gordon Centre exceeded the budgeted loss as a result of fewer bed nights in 2003-04. Queen's Centre for Enterprise Development (QCED Inc.) realized a loss of \$354 thousand against a planned loss of \$237 thousand due to costs of restructuring. QCED will be operating under a new business model in future years. The ISC experienced an operating loss of \$271 thousand, which compares favourably with the past 5 years when losses averaged \$1.0 million per year. At this time we are working ambitiously to reach capacity enrolment of 190 for 2004-05. PARTEQ, the University's technology transfer corporation, reported an excess of expense over revenue of \$635 thousand after providing for a \$5.3 million distribution to Queen's.
RESEARCH	Queen's is one of Canada's leading research intensive universities. Research funding increased to over \$147 million (before deferrals), representing a year-over-year increase of 11% (\$14 million) and doubling over the past five years. Queen's researchers continued their strong track record with NSERC, SSHRC and CIHR realizing an increase of \$6.0 million in tri-council funding.
ENDOWMENTS	The endowment fund had a one year return of 22.4% (year ended March 31, 2004). This return is slightly below the benchmark return of 22.6% for the same period, but still above the median (21.4%) in the universe of Canadian endowments and foundations. Historical results have been excellent. Specifically, over the 10 year period ending March 31, 2004, the endowment had an annualized return of 11.3%; this return is 2.1% above the annualized benchmark return for the same period.
CAPITAL	The bulk of the "double cohort" arrived in September 2003. Major construction projects completed over the past few years provided the space required to deal with the increased enrolment. The Queen's community looks forward to the Queen's Centre project, one of the largest capital projects that Queen's has ever undertaken.
CONCLUSION	Queen's has a strong balance sheet despite a number of financial challenges and concerns, including: • shifting priorities at both the Federal and Provincial levels as previous financial commitments to the university sector are re-evaluated; • the unfunded liability in the pension fund; and • the increasingly competitive environment in the private giving sector. 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, 2004

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, 2004 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, 2004 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
June 30, 2004



Vice-Principal (Operations and Finance)

Auditors' Report



KPMG LLP
Chartered Accountants
863 Princess Street Suite 400
PO Box 1600 Stn Main
Kingston ON K7L 5C8
Canada

Telephone (613) 549-1550
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To the Board of Trustees

We have audited the consolidated statement of financial position of Queen's University at Kingston as at April 30, 2004 and the consolidated statements of revenue and expense, changes in net assets and cash flows for the year then ended. These consolidated financial statements are the responsibility of the University's administration. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by administration, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the University as at April 30, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG_{LLP}

Chartered Accountants
Kingston, Canada
June 30, 2004



KPMG LLP, a Canadian limited liability partnership is the Canadian member of KPMG International, a Swiss nonoperating association.

Queen's University
at Kingston
**Consolidated
Statement of
Financial Position**
Year ended April 30, 2004,
with comparative figures
for 2003 (\$000's omitted)

		2004	2003
ASSETS	Cash	\$ 15,472	\$ 12,585
	Accounts receivable	24,346	28,430
	Prepaid expenses	5,779	5,887
		45,597	46,902
	Investments (market value 2004 – \$682,702; 2003 – \$582,793)	598,617	569,004
	Deferred expenses (note 3)	7,542	9,384
	Capital assets (notes 4 and 5)	432,692	402,591
		1,084,448	1,027,881
LIABILITIES AND NET ASSETS	Accounts payable and accrued liabilities	49,462	57,425
	Employee future benefits liability (note 17)	40,038	37,290
	Deferred revenue (note 6)	143,820	130,202
	Deferred capital contributions (note 7)	233,981	218,366
	Long-term debt (note 8)	6,440	6,907
	Series A senior unsecured debenture (note 9)	90,000	90,000
		563,741	540,190
	Net Assets		
	Investment in capital assets (note 10)	100,911	98,868
	Endowments (note 11)	384,310	375,168
	Internally restricted (note 12)	116,222	89,977
	Unrestricted	(80,736)	(76,322)
		520,707	487,691
		\$ 1,084,448	\$ 1,027,881

See accompanying notes to consolidated financial statements.

Contingent liabilities (notes 14 and 20)

Commitments (note 5 and 21)

Approved by the Board of Trustees

John A. Rae

Trustee

Jonathan M. Hall

Trustee

Queen's University
at Kingston
Consolidated
Statement of Revenue
and Expense
Year ended April 30, 2004,
with comparative figures
for 2003 (\$000's omitted)

		2004	2003
REVENUE	Grants and contracts	\$ 332,088	\$ 305,547
	Fees	103,995	94,065
	Investment income	28,280	24,877
	Donations	23,001	17,161
	Ancillary sales of service and products	89,854	84,490
	Other	13,786	17,420
	Amortization of deferred capital contributions	20,035	17,176
		611,039	560,736
EXPENSE	Salaries	286,184	266,487
	Benefits	36,470	32,461
	Employee future benefits (note 17)	4,033	5,370
	Supplies	63,704	61,894
	Minor equipment and furnishings	34,587	20,774
	Externally contracted services	18,885	17,309
	Student assistance	38,482	37,289
	Travel	14,954	14,655
	Utilities	12,037	12,284
	Renovations and alterations	11,724	13,940
	Interest	5,414	3,486
	Restructuring costs	1,499	4,566
	Amortization of capital assets	38,253	34,471
	Other expenses	20,719	20,980
		586,945	545,966
	Excess of revenue over expense	\$ 24,094	\$ 14,770

See accompanying notes to consolidated financial statements.

Queen's University
at Kingston

**Consolidated
Statement of
Changes in Net
Assets**

Year ended
April 30, 2004,
with comparative
figures for 2003
(\$000's omitted)

	<i>Investment in Capital Assets</i>	<i>Endowment</i>	<i>Internally Restricted</i>	<i>Unrestricted</i>	<i>Total 2004</i>	<i>Total 2003</i>
Net assets, beginning of year	\$ 98,868	\$ 375,168	\$ 89,977	\$ (76,322)	\$ 487,691	\$ 466,847
Excess of revenue over expense (note 10)	(18,218)			42,312	24,094	14,770
Change in internally restricted net assets			26,245	(26,245)	0	0
Net change in investment in capital assets (note 10)	19,844			(19,844)	0	0
Contribution for assets not subject to amortization (note 10)	417				417	277
Investment loss charged directly to endowment (note 11)		(2,967)			(2,967)	(3,243)
Investment income credited directly to endowment (note 11)		103			103	77
Internally endowed contributions (note 11)		637		(637)	0	0
Endowment contributions (note 11)		11,369			11,369	8,963
Net assets, end of year	\$ 100,911	\$ 384,310	\$ 116,222	\$ (80,736)	\$ 520,707	\$ 487,691

See accompanying notes to consolidated financial statements.

Queen's University
at Kingston
Consolidated
Statement of Cash Flows
Year ended April 30, 2004,
with comparative figures
for 2003 (\$000's omitted)

	2004	2003
Operating Activities:		
Excess of revenue over expense	\$ 24,094	\$ 14,770
Add non-cash items:		
Amortization of capital assets	38,253	34,471
Amortization of deferred capital contributions	(20,035)	(17,176)
Decrease in deferred maintenance project expenses	1,671	1,537
Net change in non-cash working capital (note 13)	12,595	3,779
Cash provided by operating activities	56,578	37,381
Investing and Financing Activities:		
Net change in investments	(29,613)	(31,206)
Purchase of capital assets	(68,354)	(104,380)
Disposal of capital assets	0	261
Deferred debenture costs	171	(5,651)
Series A senior unsecured debenture issue (note 9)	0	90,000
Repayment of long-term debt	(467)	(23,068)
Contributions received for capital purposes	36,067	32,474
Endowment fund contributions and investment income reported as direct increase in net assets	8,505	5,797
Cash used in investing and financing activities	(53,691)	(35,773)
Net increase in cash	2,887	1,608
Cash, beginning of year	12,585	10,977
Cash, end of year	\$ 15,472	\$ 12,585

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.

*Queen's University
at Kingston*
**Notes to Consolidated
Financial Statements**
*Year ended
April 30, 2004
(\$000's omitted)*

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, and 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.

(c) Derivative Financial Instruments

The University is party to certain derivative financial instruments, principally interest rate swap contracts and foreign exchange contracts. These instruments are not recognized in the consolidated financial statements on inception of the contract. Payments and receipts under interest rate swap contracts are recognized as adjustments to interest expense on long-term debt. Gains and losses on forward foreign exchange contracts are recognized when they mature. The carrying amounts of derivative financial instruments, which are comprised of accrued gains and losses not yet realized, are not included in the consolidated financial statements.

Queen's University
at Kingston
**Notes to Consolidated
Financial Statements**
Year ended
April 30, 2004
(\$000's omitted)

NOTE 2
Continued

(d) *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:

<i>Asset</i>	<i>Useful Life</i>
Buildings	40 years
Equipment and furnishings	5 years
Library acquisitions	5 years
Equipment under capital lease	Term of lease

The 2004 financial statements include 20 years of library acquisitions and related amortization.

(e) *Construction in progress*

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

(f) *Works of art*

Queen's University at Kingston maintains a collection of fine art that includes European art, historical and modern Canadian art, contemporary American and Canadian art, Inuit art, and African sculpture. 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 13,815 objects and was insured with a market value of \$51,000 at April 30, 2004. The collection is fully insured through a fine arts policy. During the year ended April 30, 2004, the University acquired 78 pieces of artwork. Of these, 59 pieces were donated with a total appraised value of \$14,061 and 19 pieces were purchased at a cost of \$210.

NOTE 2
Continued

(g) *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.

(h) *Employee benefit plans*

The University sponsors a pension plan for its employees and provides other employee future benefits such as medical, dental and life insurance. The annual cost and the accrued liability of pension benefits and other employee future benefits earned are determined by independent actuarial valuations using the projected benefit method pro-rated on services rendered, administration's best estimate of salary escalation, retirement ages of employees, and escalation in covered health care expense outlays.

(i) *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 \$29,336 at April 30, 2004, and is expected to be received as follows:

	2004
2004-05	\$ 7,167
2005-06	5,497
2006-07	3,324
Subsequent years	13,348
Outstanding pledges as at April 30, 2004	\$ 29,336

Queen's University
at Kingston
**Notes to Consolidated
Financial Statements**
Year ended
April 30, 2004
(\$000's omitted)

NOTE 2
Continued

(j) *Purchase commitments*

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

(k) *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.

(l) *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.

(m) *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.

	2004	2003
Deferred maintenance project	\$ 2,062	\$ 3,733
Deferred debenture costs	5,480	5,651
	\$ 7,542	\$ 9,384

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 \$5,870 are deferred and are amortized against capital funds through to fiscal year 2031-32.

**Notes to Consolidated
Financial Statements**

Year ended

April 30, 2004

(\$000's omitted)

NOTE 4

CAPITAL ASSETS

Capital assets consist of the following:

	Cost	Accumulated Amortization	Net Book Value 2004	Net Book Value 2003
Land	\$ 25,878	\$ 0	\$ 25,878	\$ 25,049
Buildings	512,512	(177,098)	335,414	271,609
Equipment and furnishings	99,884	(62,910)	36,974	36,240
Equipment under capital lease	909	(902)	7	50
Library acquisitions	115,610	(97,008)	18,602	17,605
Construction in progress	15,817	0	15,817	52,038
	\$ 770,610	\$ (337,918)	\$ 432,692	\$ 402,591

Cost and accumulated amortization as of April 30, 2003 were \$711,892 and \$309,301 respectively.

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

	2004	2003
Balance, beginning of year	\$ 402,591	\$ 332,943
Purchase of capital assets funded by deferred capital contributions	35,627	32,171
Purchase of capital assets financed internally	8,567	17,756
Purchase of capital assets financed by Series A senior unsecured debentures (Note 9)	20,126	43,591
Purchase of capital assets financed by short-term liabilities	3,594	10,559
Capital assets donated to the university	440	303
Disposals of capital assets:		
Cost	(164)	(981)
Accumulated amortization	164	720
Amortization of capital assets	(38,253)	(34,471)
Balance, end of year	\$ 432,692	\$ 402,591

NOTE 5 COST TO COMPLETE CONSTRUCTION IN PROGRESS

As at April 30, 2004 the estimated cost to complete construction in progress for the extension of plant facilities is approximately \$20,061 (2003 – \$49,290). 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:

	2004	2003
Gordon Hall/Annex	\$ 13,673	\$ 14,667
New Electric Substation	4,232	0
Rehabilitate University Avenue	494	0
Beamish-Munro Hall (Integrated Learning Centre)	0	18,442
New Residences and Leonard Hall Cafeteria expansion	0	15,475
Other	1,662	706
	<u>\$ 20,061</u>	<u>\$ 49,290</u>

The total costs for the above listed projects amounts to \$35,674. The funding for these projects is provided by the following sources:

	2004
SuperBuild	\$ 11,400
Donations	4,250
Other Grants	3,518
University Commitment	16,506
	<u>\$ 35,674</u>

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:

	2004	2003
Research funds	\$ 77,759	\$ 61,387
Trust funds	30,300	25,602
Plant funds	15,029	23,721
Student fees	9,163	8,509
Gift annuities	10,002	9,636
Other	1,567	1,347
	\$ 143,820	\$ 130,202

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.

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:

	2004	2003
Balance, beginning of year	\$ 218,366	\$ 203,345
Less amortization of deferred capital contributions	(20,035)	(17,176)
Capital contributions for land credited directly to net assets	(417)	(277)
Add contributions received for capital purposes	36,067	32,474
Balance, end of year	\$ 233,981	\$ 218,366

NOTE 8 LONG-TERM DEBT AND OBLIGATION UNDER CAPITAL LEASE

As at April 30, 2004 the University has principal outstanding of \$6,440 (2003 – \$6,907) on long-term debt. Principal and interest repayments on long-term debt are recovered annually from ancillary enterprises.

(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	\$ 2,363
Ontario Housing Corporation	2009	10.31%	178	1,731
Royal Bank	2007	8.31%	223	1,720
SMS Canada	2011	0.00%	101	626
Total long-term debt			\$ 765	\$ 6,440

Queen's University
at Kingston
**Notes to Consolidated
Financial Statements**
Year ended
April 30, 2004
(\$000's omitted)

NOTE 8
Continued

(b) Long-term debt repayments

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

<i>Fiscal Year</i>	<i>Principal Portion</i>
2005	\$ 318
2006	\$ 335
2007	\$ 354
2008	\$ 372
2009	\$ 2,120

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:

<i>Purpose</i>	<i>Amount</i>
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

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

**Notes to Consolidated
Financial Statements**

Year ended

April 30, 2004

(\$000's omitted)

NOTE 10

INVESTMENT IN CAPITAL ASSETS

The investment in capital assets consists of the following:

	2004	2003
Capital assets	\$ 432,692	\$ 402,591
Less amounts financed by:		
Accounts payable	(3,594)	(10,559)
Capital lease	0	(28)
Long term debt and debenture	(94,206)	(74,770)
Deferred capital contribution	(233,981)	(218,366)
Balance, end of year	\$ 100,911	\$ 98,868

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

	2004	2003
Excess of expenses over revenue:		
Amortization of deferred contributions related to capital assets	\$ 20,035	\$ 17,176
Amortization of capital assets	(38,253)	(34,471)
	(18,218)	(17,295)
Net change in investment in capital assets:		
Purchase of capital assets	68,354	104,380
Amounts funded by:		
Accounts payable	(3,594)	(10,559)
Long term debt and debenture	(19,875)	(67,891)
Deferred contributions	(36,067)	(32,474)
Repayment of debt:		
Accounts payable	10,559	8,378
Lease payable	28	316
Long term debt	439	22,752
Net disposal of capital assets	0	(261)
	19,844	24,641
Contributions for assets not subject to amortization	417	277
Change in investment in capital assets	\$ 2,043	\$ 7,623

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.

	<i>Externally Endowed</i>	<i>Internally Endowed</i>	<i>Total Endowment</i>
Endowments, beginning of year	\$ 248,079	\$ 127,089	\$ 375,168
Net Contributions	11,369	1,247	12,616
Recapitalized investment income	103	3,532	3,635
Net investment loss	(2,967)	(4,142)	(7,109)
Endowments, end of year	\$ 256,584	\$ 127,726	\$ 384,310

Details of year-end balances are as follows:

<i>Book Value</i>	<i>Balance Beginning of Year</i>	<i>Net Contributions</i>	<i>Recapitalized Investment Income</i>	<i>Allocation of Net Investment Loss</i>	<i>Balance End of Year</i>
Faculty, departmental, and other specific purpose	\$ 127,311	\$ 6,381	\$ 2,784	\$ (1,459)	\$ 135,017
General endowment	65,004	(589)	0	(3,686)	60,729
Student assistance	168,528	6,803	843	(1,799)	174,375
Research	14,325	21	8	(165)	14,189
	\$ 375,168	\$ 12,616	\$ 3,635	\$ (7,109)	\$ 384,310

NOTE 12 INTERNALLY RESTRICTED NET ASSETS
Details of year-end balances are as follows:

	2004	2003
Operating fund:		
Purchase commitments	\$ 1,521	\$ 848
Capital projects	9,488	7,210
Carryforward of unexpended budget allocations to faculties, libraries and administrative units	24,820	17,278
Employee future benefits and pension	2,300	900
Uninsured property losses	580	500
	38,709	26,736
Ancillary enterprises:		
Major repairs and renovations	8,958	8,709
	8,958	8,709
Restricted fund:		
Unspent departmental donations and other income	41,417	36,336
Unspent research funds	27,138	18,196
	68,555	54,532
	\$ 116,222	\$ 89,977

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.

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:

	2004	2003
Net change in non-cash working capital:		
Accounts receivable	\$ 4,084	\$ (3,871)
Prepaid expenses	108	25
Accounts payable and accrued liabilities	(7,963)	6,778
Employee future benefits liability	2,748	4,039
Deferred revenue	13,618	(3,192)
	\$ 12,595	\$ 3,779

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 active employees of the University are covered by a contributory pension plan which is a money purchase plan with a defined benefit minimum. At retirement, plan members can elect to take a pension payable from the fund that secures the benefit payments promised by the University sponsored pension plan. Following retirement, this pension payout is indexed based on excess interest over 6%, and pensions are guaranteed not to reduce.

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

The most recent valuation of the plan, as at February 29, 2004, shows contributions from the University as follows: (1) Money Purchase – 6.57% of pensionable payroll; (2) Defined Benefit (Minimum Guarantee) – 1.22% of pensionable payroll; and (3) Special Payments – 0.57% of pensionable payroll.

The actuarial valuation determined that the plan had a \$10,700 unfunded liability at February 29, 2004 to be repaid over a period not to exceed 15 years as required under the Pension Benefits Act of Ontario. Amortization of the unfunded liability requires special payments of \$1,100 per year for 15 years.

A portion of the University's money purchase contributions were previously paid from the plan surplus. Effective September 1, 2003, these contributions have been funded from the University's operating fund and are included in the 6.57% of pensionable payroll shown above.

Effective March 1, 2004, the University started making contributions to the minimum guarantee portion of the plan.

At April 30, 2004, the University has recorded \$184 as the accrued portion of the first special payment to liquidate the \$10,700 unfunded liability.

The University contributed \$11,255 to the pension plan during fiscal 2003-04 and this outlay is included in the consolidated statement of revenue and expense as an annual expense.

NOTE 16
Continued

A summary of the financial status of the plan as at February 29, 2004 is as follows:

Accrued benefit obligation	\$1,121,700
Fair value of plan assets	<u>1,111,000</u>
Plan deficit	<u>\$ 10,700</u>

The next valuation of the pension plan is anticipated to be no later than August 31, 2006.

NOTE 17 **EMPLOYEE FUTURE BENEFITS EXPENSE**

The University provides medical, dental and life insurance benefits to eligible active and retired 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, 2004, the University's accrued benefit obligation relating to the employee future benefits plan is \$40,038 (2003 – \$37,290). The significant actuarial assumptions adopted in estimating the University's accrued benefit obligation fall in a range, depending in some instances, on the attained age of the plan member, and in other instances on the anticipated date of occurrence following the valuation date, are as follows:

	<i>Employee Future Benefits Plan</i>
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 \$4,033 (2003 – \$5,370) regarding employee future benefits. The annual expense includes the current service cost of employee benefits for the year and the interest cost for the unfunded accrued benefit obligation. During 2004, the University contributed \$1,285 (2003 – \$1,331) to cover pay-as-you-go disbursements incurred during the year for these employee future benefits.

NOTE 18 FINANCIAL INSTRUMENTS

(a) Fair market 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:

	2004		2003	
	Carrying Value	Fair Market Value	Carrying Value	Fair Market Value
Investments	\$ 598,617	\$ 682,702	\$ 569,004	\$ 582,793
Long-term debt	\$ 6,440	\$ 7,060	\$ 6,907	\$ 7,535
Series A senior unsecured debenture	\$ 90,000	\$ 92,068	\$ 90,000	\$ 90,369

(b) Derivative financial instruments

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

The notional values of the derivative financial instruments do not represent values exchanged between parties and are not a measure of the University's current market-to-market exposure resulting from the use of financial instrument contracts. The amounts exchanged are based on the applicable rates applied to the notional amounts.

The University has entered into foreign currency forward contracts to minimize exchange rate fluctuations and to mitigate any uncertainty for future financial results. All outstanding contracts have a remaining term to maturity of less than one year.

Queen's University
at Kingston
**Notes to Consolidated
Financial Statements**
Year ended
April 30, 2004
(\$000's omitted)

NOTE 18
Continued

The notional and fair value amounts of the foreign currency forward contracts are as follows:

	2004		2003	
	<i>Notional Value</i>	<i>Fair Value</i>	<i>Notional Value</i>	<i>Fair Value</i>
Forward currency contracts				
- U.S. dollars	\$ 90,552	\$ (3,257)	\$ 0	\$ 0

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 Series A senior unsecured debenture debt to a floating rate.

At April 30, 2004, the University was exposed to interest rate risk as follows:

	<i>Interest Rate Until Fiscal Year Ending</i>	<i>Principal Balance at Maturity</i>	<i>Amortization Through Fiscal Year Ending</i>
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 University receives an operating grant from 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, 2004. Operating grants received from the Ministry represent approximately 53% of operating fund revenue and 22% of total revenue for the University.

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, 2004, administration believes that the University has valid defenses and that appropriate insurance coverage is in place wherever it is possible to do so. In the event any claims are successful, administration believes that such claims are not expected to have a material effect on the University's financial position. No provision has been accrued in these financial statements in respect of the above litigation.

NOTE 21 COMMITMENTS

(a) Letters of credit

The University has issued letters of credit of \$1,032 primarily for capital construction.

(b) Capital assets

The University has committed approximately \$9,000 to purchase research equipment and to complete necessary renovations for the Functional Imaging Facilities of the Centre for Neuroscience Studies.

NOTE 22 ONTARIO STUDENT OPPORTUNITY TRUST FUND (OSOTF)

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 phase 1 of the program:
(for the year ended April 30)

	2004	2003
Endowment Capital:		
Opening balance	\$ 72,329	\$ 71,699
Expendable funds capitalized in the year	0	630
Capitalized funds expended in the year	(172)	0
Endowment fund balance at end of year	\$ 72,157	\$ 72,329
Expendable Funds:		
Opening balance	\$ 579	\$ 946
Investment income	3,758	3,758
Bursaries awarded	(3,943)	(3,495)
Expendable funds capitalized in the year	0	(630)
Capitalized funds expended in the year	172	0
Carryforward expendable funds available for awards	\$ 566	\$ 579
Number of bursaries awarded	1,161	1,049

The market value of the OSOTF phase 1 endowment as at April 30, 2004 was \$81,241 (2003 - \$72,064).

Queen's University
at Kingston
**Notes to Consolidated
Financial Statements**
Year ended
April 30, 2004
(\$000's omitted)

NOTE 22
Continued

The University has recorded the following amounts under phase 2 of the program:
(for the year ended March 31)

	2004	2003
Endowment Capital:		
Donations received	\$ 1,999	\$ 0
Government matching	1,345	0
Funds advanced by University pending receipt of government matching	654	0
Endowment fund balance at end of year	\$ 3,995	\$ 0
Number of bursaries awarded	0	0

The market value of the OSOTF phase 2 endowment as at March 31, 2004 was \$4,065 (2003 - \$0).

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 \$342 (2003 - \$417), 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 \$75 (2003 - \$68) is reported in the capital fund. The University's share of the Parking Commission's excess of revenue over expense is \$287 (2003 - \$340) 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.

*Queen's University
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***Notes to Consolidated
Financial Statements***
*Year ended
April 30, 2004
(\$000's omitted)*

NOTE 23
Continued

(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 \$186 to fund operating costs of McGill-Queen's University Press. During the year, Queen's University committed to provide additional financing of \$225 to 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, 2004

with comparative figures for 2003

(\$000's omitted and unaudited)

Appendix 1 details the consolidated activities of the University by fund and supplements the information presented on page 39 of the audited financial statements.

	OPERATING FUND	HEALTH SCIENCES	ANCILLARY ENTERPRISES	CAPITAL FUND	SUBTOTAL	TRUST FUND	RESEARCH FUND	ENDOWMENT FUND	INVESTMENT IN CAPITAL ASSETS	INTERNALLY RESTRICTED	TOTAL 2004	TOTAL 2003
REVENUE												
Grants and Contracts	122,167	87,107	0	(9,588)	199,686	12,929	118,933	540	0	0	332,088	305,547
Fees	103,223	772	0	0	103,995	0	0	0	0	0	103,995	94,065
Investment Income	2,702	559	0	376	3,637	23,295	1,958	(610)	0	0	28,280	24,877
Donations	1,192	42	0	(1,165)	69	22,074	166	692	0	0	23,001	17,161
Ancillary Sales of Service and Products	0	0	89,854	0	89,854	0	0	0	0	0	89,854	84,490
Other	5,861	329	0	75	6,265	7,057	449	15	0	0	13,786	17,420
Amortization of Deferred Capital Contributions	0	0	0	20,035	20,035	0	0	0	0	0	20,035	17,176
Total Revenue	235,145	88,809	89,854	9,733	423,541	65,355	121,506	637	0	0	611,039	560,736
EXPENSE												
Salaries and Benefits	150,562	81,906	17,859	0	250,327	17,987	54,340	0	0	0	322,654	298,948
Employee Future Benefits, cash basis	1,285	0	0	0	1,285	0	0	0	0	0	1,285	1,331
Employee Future Benefits, accrual basis	2,748	0	0	0	2,748	0	0	0	0	0	2,748	4,039
Supplies and Miscellaneous	16,532	3,712	55,492	(1,819)	73,917	13,645	30,700	0	0	0	118,262	114,838
Minor Equipment and Furnishings	6,492	1,068	2,123	(14,840)	(5,157)	16,255	23,489	0	0	0	34,587	20,774
Student Assistance	22,152	4	3	0	22,159	15,570	753	0	0	0	38,482	37,289
Utilities	8,222	7	3,656	0	11,885	134	18	0	0	0	12,037	12,284
Renovations and Alterations	5,947	1,005	3,371	(2,220)	8,103	479	3,142	0	0	0	11,724	13,940
Library Acquisitions	9,251	15	3	(9,722)	(453)	343	110	0	0	0	0	0
Restructuring Costs	1,268	207	0	0	1,475	11	13	0	0	0	1,499	4,566
Amortization of Capital Assets	28	0	314	37,911	38,253	0	0	0	0	0	38,253	34,471
Interest	1,450	0	5,492	(1,528)	5,414	0	0	0	0	0	5,414	3,486
Total Expense	225,937	87,924	88,313	7,782	409,956	64,424	112,565	0	0	0	586,945	545,966
Excess of Revenue over Expense	9,208	885	1,541	1,951	13,585	931	8,941	637	0	0	24,094	14,770
Endowment Contribution	0	0	0	0	0	0	0	8,505	0	0	8,505	5,797
Allocation from Net Investment in Capital Assets	0	0	0	(1,626)	(1,626)	0	0	0	1,626	0	0	0
Contributions for Assets Not Subject to Amortization	0	0	0	0	0	0	0	0	417	0	417	277
Transfer from (to) Appropriations	(11,672)	(536)	(1,702)	(2,463)	(16,373)	(931)	(8,941)	0	0	26,245	0	0
Net Change in Fund Balance	(2,464)	349	(161)	(2,138)	(4,414)	0	0	9,142	2,043	26,245	33,016	20,844
Fund Balance, beginning of year	(36,143)	(430)	(12,822)	(26,927)	(76,322)	0	0	375,168	98,868	89,977	487,691	466,847
Fund Balance, end of year	(38,607)	(81)	(12,983)	(29,065)	(80,736)	0	0	384,310	100,911	116,222	520,707	487,691

APPENDIX 2
QUEEN'S UNIVERSITY ANCILLARY ENTERPRISES
Revenue and Expense for the Year Ended April 30, 2004
with comparative figures for 2003
(\$000's omitted and unaudited)

Appendix 2 details the activities in the column titled "Ancillary Enterprises" in Appendix 1 on page 63.

	APARTMENT AND HOUSING	DONALD GORDON CENTRE	COMPUTER STORE	PARKING	RESIDENCE AND FOOD SERVICES	CONTINUING EDUCATION	ISC	PARTEO	OCED	OTHER	TOTAL 2004	TOTAL 2003
REVENUE	4,359	3,382	3,622	1,630	35,237	28,156	6,453	6,601	340	74	89,854	84,490
EXPENSE												
Salaries and Benefits	716	0	195	328	5,391	5,677	3,232	1,018	338	964	17,859	16,186
Minor Equipment and Furnishings	42	45	0	188	770	308	386	0	0	384	2,123	2,262
Utilities	753	187	0	58	2,397	0	261	0	0	0	3,656	3,338
Principal and Interest	330	1,000	0	117	5,692	0	0	0	0	0	7,139	5,141
Taxes	508	16	0	6	36	0	0	0	0	0	566	634
External Contracts	25	1,162	0	87	13,026	61	704	0	0	0	15,065	13,514
Renovations and Alterations	115	268	0	63	2,667	1	257	0	0	0	3,371	3,671
Supplies and Miscellaneous	1,835	980	3,197	469	5,080	19,569	1,884	6,218	356	(1,054)	38,534	36,903
Total Expense	4,324	3,658	3,392	1,316	35,059	25,616	6,724	7,236	694	294	88,313	81,649
Excess of Revenue over Expense												
(Expense over Revenue)	35	(276)	230	314	178	2,540	(271)	(635)	(354)	(220)	1,541	2,841
Transfer (to) from Appropriations	22	0	(230)	(314)	(178)	(2,540)	1,318	0	0	220	(1,702)	(1,816)
Net Change	57	(276)	0	0	0	0	1,047	(635)	(354)	0	(161)	1,025
Surplus/(Deficit), beginning of year	2,032	(5,099)	0	699	(231)	0	(7,711)	(1,635)	(477)	(400)	(12,822)	(13,847)
Surplus/(Deficit), end of year	2,089	(5,375)	0	699	(231)	0	(6,664)	(2,270)	(831)	(400)	(12,983)	(12,822)

APPENDIX 3
Statement of Unrestricted Net Assets for the Year Ended April 30, 2004
with comparative figures for 2003
(\$000's omitted and unaudited)

Appendix 3 details the caption titled "Unrestricted Net Assets" presented on page 38 of the audited financial statements.

	2004	2003
Operating fund:		
Accumulated surplus, before employee future benefits expense	\$ 1,431	\$ 1,147
Accrued liability for employee future benefits	(40,038)	(37,290)
	(38,607)	(36,143)
<u>Health Sciences</u>	(81)	(430)
Ancillary enterprises	(12,983)	(12,822)
Capital projects:		
Herstmonceux	(8,393)	(8,643)
Biosciences	(2,651)	(3,499)
Clergy Street properties	(1,430)	(1,545)
Goodes Hall	(3,679)	(3,623)
Macdonald Hall	(2,561)	(2,061)
New electric substation	(4,858)	0
Other	(5,493)	(7,556)
	(29,065)	(26,927)
Total	\$ (80,736)	\$ (76,322)

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". Capital projects reported as Herstmonceux (\$8,393), Biosciences (\$2,651) and "New electric substation" (\$4,858) are being recovered by a combination of annual allocations from the operating fund and the collection of outstanding pledges. The \$1,430 capital project reported as "Clergy Street properties" and the \$5,493 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(d) 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 & Renovations



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: Opened Spring 2004



Leggett Hall & Watts Hall (New Residences)
 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: Opened Fall 2003

Leonard Hall Cafeteria Renovation
 Project Cost: \$9.2 million
 Architect: Shoalts and Zaback Architects Ltd
 General Contractor: R.E. Hein Construction
 Status: Opened Fall 2003



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: M. Sullivan & Son Limited

Status: Under construction – expected opening Summer 2005



Side yard south of Ontario Hall

University Avenue Renovation

Project Cost: \$3 million plus \$1 Million endowment

Features: rebuild University Avenue consistent with the recommendations of the 2002 Queen's University Campus Plan to restore the streetscape

Architect: du Toit Allsopp Hillier

General Contractor: Not yet awarded

Status: Phase 1 (Summer 2004) - schematic design, cost estimates and project staging strategy for the entire street and side yards. Phase 2 (Spring 2005) - preparation of tender documents for work within the construction budget, tendering and construction



Queen's Centre Project

Project Cost: Currently in Planning Stage

Features: Major renovation and expansion of JDUC, Jock Harty Arena and School of PHE facilities. To include new student life facilities,

Architect: Bregman + Hamann Architects, Sasaki Associates Inc. and Shoalts & Zaback

General Contractor: Not yet awarded

Status: Preliminary Concept Stage – expected 10 year phased project (Preferred design to be presented Winter 2004)



Richardson Hall Renovation

Project Cost: \$7-10 million

Features: Renovated facilities to address major building deficiencies including need to make building fully accessible.

Architect: Griffiths Rankin Cook Architects/Gansen Lindsay Design Consultants Inc.

General Contractor: Not yet awarded

Status: Planning/Concept stage – expected opening Fall 2006

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.

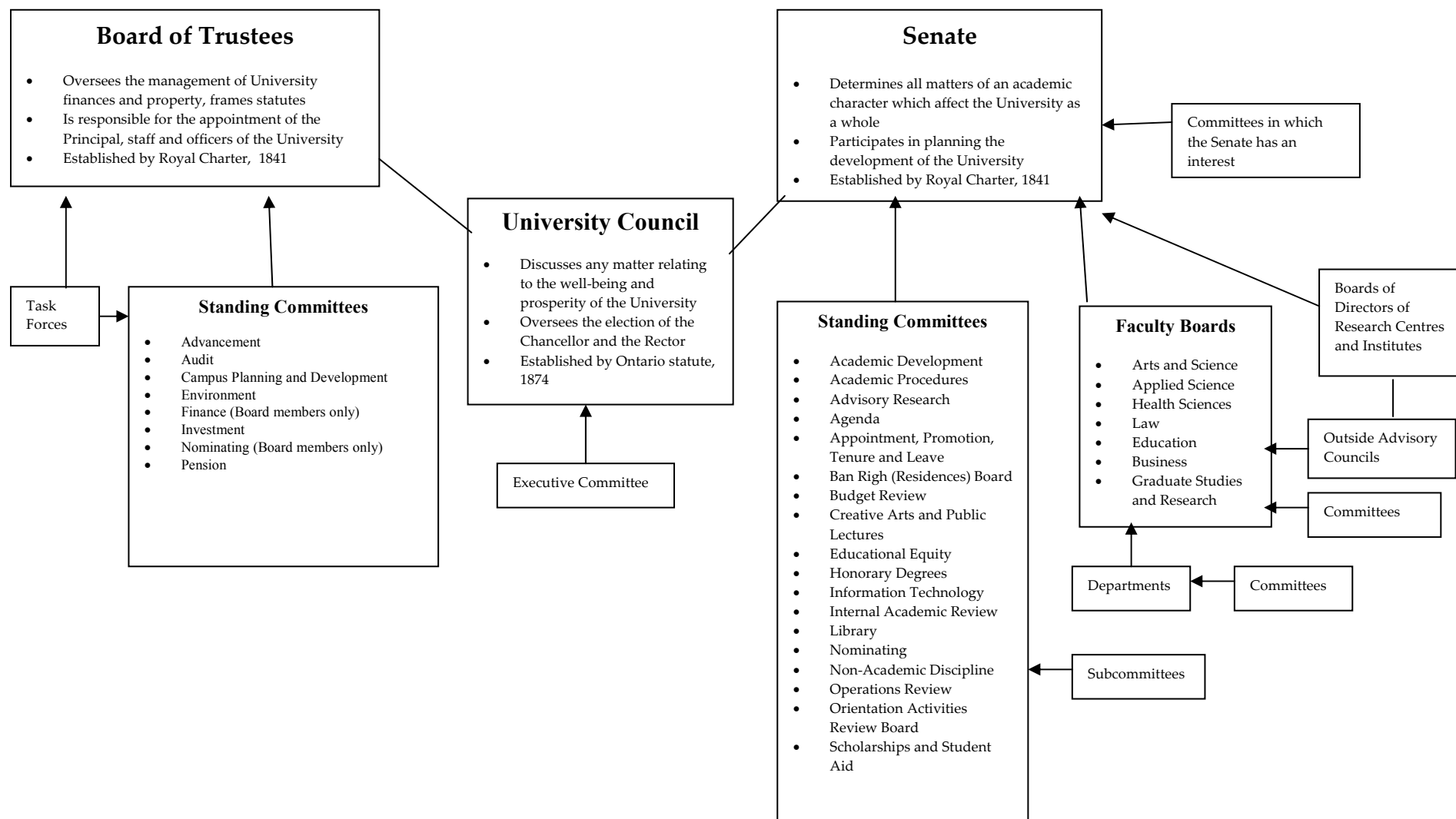
The Board of Trustees is responsible for the overall operations of the University, including overseeing financial matters, property, and the appointment of Vice-Principals, certain senior staff, and in conjunction with the Senate, the appointment of the Principal. The Board of Trustees is comprised of 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 2003-04

Ex Officio

Chancellor - Mr. A. Charles Baillie (B.A.(Hons.), M.B.A., F.I.C.B., LL.D. '00)
Principal and Vice-Chancellor - Dr. William Leggett
(CM, B.A.'62, M.Sc.'65, Ph.D.'69, DSc'92, LL.D.'94)
Rector - Mr. Ahmed Kayssi (B.A./B.Sc.Eng.'03. , M.Sc.'05)

Appointed

Rev. George Lavery (B.A. '62, M.Div '67)

Elected

Mr. George Anderson (B.A.(Hons.)'67)
Mr. Daniel Bader (B.S., Business Administration '87)
Mr. Eric Baker (B.Sc.(Eng.)'56, M.S. Business'58)
Prof. Mary Balanchuk (B.A.'49, B.Paed.'57, M.Ed.'62 (UofT))
Dr. Peter Baxter (BA '67 (Windsor), MA '72 (Simon Fraser),
PhD '80 (London))
Mr. Donald Bayne (B.A.'66, LL.B.'69, L.L.M.'74 (L.S.E.), M.B.A.'01)
Ms Kim Black (B.Com.'83)
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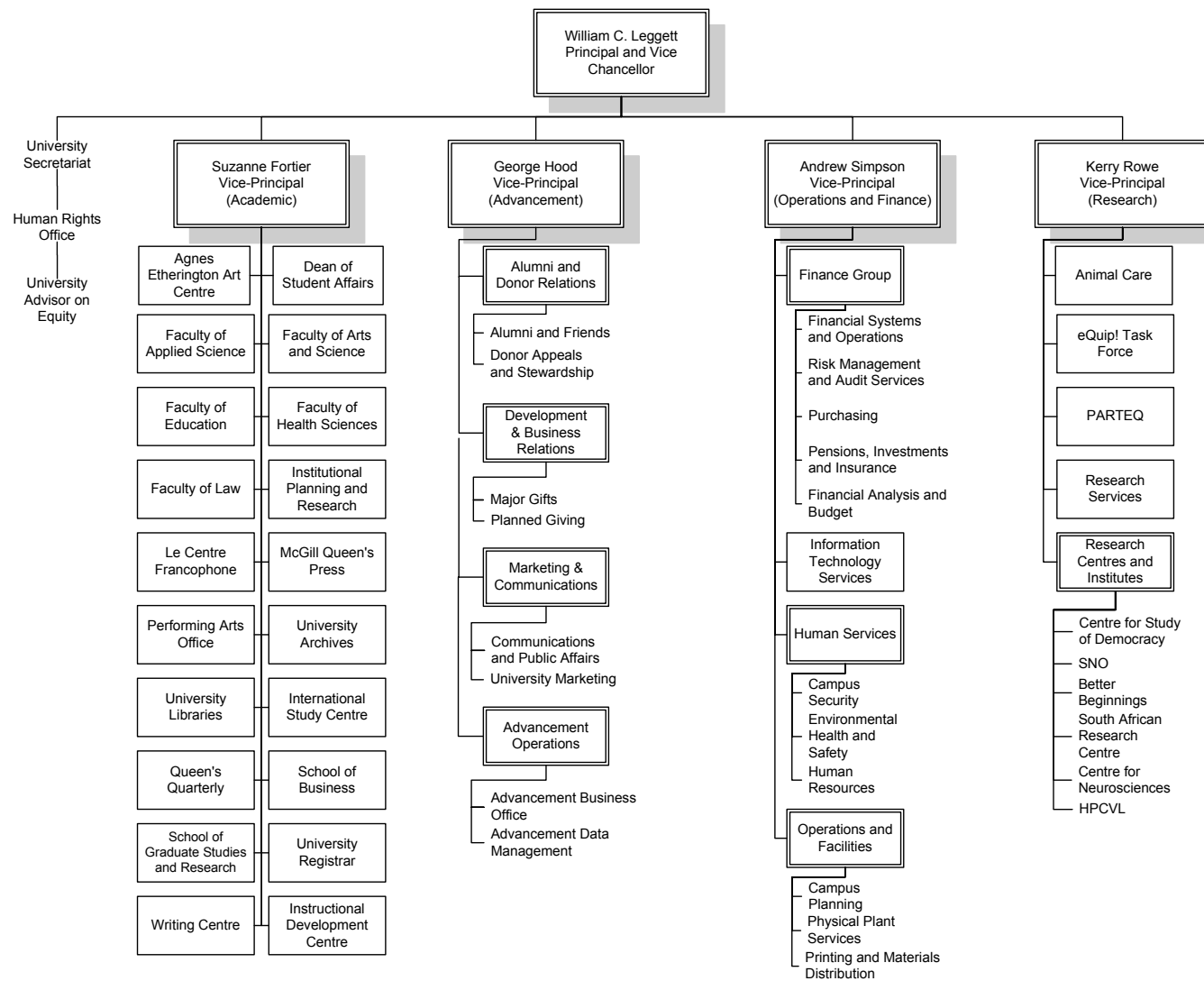
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