**RATING UPDATE**

Dominion Bond Rating Service ("DBRS") has confirmed the rating of Queen’s University ("Queen’s" or the "University") at AA (high). The trend remains Stable. Strong operating results, a recovery in endowment assets, and a small decline in the debt burden provided support for the University’s solid financial profile.

Solid growth in enrolment and government grants helped widen the University’s surplus to $24.1 million in 2003-04 from $14.8 million in the prior year. Total revenues rose by 9.0% as enrolment growth of 6.5%, or 1,113 full-time equivalents (FTEs), helped lead to an 8.1% increase in tuition revenue and boosted provincial government grants. Increased research activities and improved investment returns also supported revenue growth. Labour costs were the largest driver of the 7.5% rise in total expenditures, due to higher staffing, wage increases, and higher pension expenses. As a result of principal payments on bank loans, total debt fell by $500,000 to $96.4 million. The debt burden per FTE fell to $5,253 in 2003-04 from $5,619 in the prior year, remaining the lowest debt burden among DBRS-rated universities.

The University’s budget was balanced in 2004-05 in accordance with policy. Operating revenue is budgeted to increase by 5.4%, led by government funding for anticipated enrolment growth of 2.2% and grants to compensate for the tuition freeze announced in April 2004. The bulk of the budgeted spending pressures will come from labour costs, which are expected to rise by 5.0%. However, since the budget was developed, the Province of Ontario (the “Province”) announced it would not increase Quality Assurance Fund (QAF) grants as originally planned, leaving a $2.5 million shortfall. The University plans to make up for the shortfall through flexibility that was built into the budget, departmental carry-forwards, and stronger-than-budgeted investment income. At the time of the review, no new financing needs were expected in 2004-05, which will likely lead to another modest decline in debt due to amortization of bank debt. Modest enrolment growth and the decline in debt will further reduce the debt burden per FTE.

DBRS expects the University to maintain balanced budgets over the medium term. However, risks remain pending the recommendations of the provincial review of university funding, which are expected in early 2005. Given the current fiscal situation of the Province, additional revenue, if any, is likely to be modest. This lends uncertainty to the revenue environment while the University must continue to cope with rising spending pressures, especially for labour costs, due to rising demand for faculty. In addition, the University has sizeable deferred maintenance that will continue to be addressed going forward, similar to other older institutions. The funding of the Queen’s Centre project could also put pressure on the University’s financial profile, as it could require up to $50 million of new debt.

**RATING CONSIDERATIONS**

**Strengths:**
- Very high level of expendable resources
- Diversified and stable revenue base
- Successful fundraising operations
- Sound enrolment outlook in Ontario
- One of Canada’s flagship institutions

**Challenges:**
- No tuition fee-setting autonomy
- Mounting salary pressures
- Relatively small local catchment area
- Strong dependence on provincial funding

**FINANCIAL INFORMATION**

For the year ended April 30

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Operating surplus (deficit) ($ millions)</td>
<td>24.1</td>
<td>14.8</td>
<td>22.4</td>
<td>19.2</td>
<td>13.2</td>
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<td>Long-term debt ($ millions)</td>
<td>96.4</td>
<td>96.9</td>
<td>30.0</td>
<td>31.6</td>
<td>32.3</td>
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<tr>
<td>Interest costs/total expenditures</td>
<td>0.9%</td>
<td>0.6%</td>
<td>0.5%</td>
<td>0.5%</td>
<td>0.6%</td>
</tr>
<tr>
<td>Interest coverage ratio (times)</td>
<td>9.6</td>
<td>11.8</td>
<td>19.4</td>
<td>17.6</td>
<td>13.5</td>
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<tr>
<td>Total endowment ($ millions)*</td>
<td>461.5</td>
<td>395.5</td>
<td>429.5</td>
<td>402.3</td>
<td>344.5</td>
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<tr>
<td>Capital expenditures ($ millions)</td>
<td>68.4</td>
<td>104.4</td>
<td>71.1</td>
<td>37.9</td>
<td>32.8</td>
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<tr>
<td>Total enrolment (FTEs)**</td>
<td>18,360</td>
<td>17,247</td>
<td>16,475</td>
<td>16,194</td>
<td>15,756</td>
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<tr>
<td>Long-term debt per FTE ($)</td>
<td>5,253</td>
<td>5,619</td>
<td>1,819</td>
<td>1,954</td>
<td>2,050</td>
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<tr>
<td>Endowment per FTE ($)</td>
<td>25,134</td>
<td>22,932</td>
<td>26,070</td>
<td>24,843</td>
<td>21,865</td>
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</table>

* Market value. ** Full-time equivalent (FTE), excluding continuing education.

**THE UNIVERSITY**

Queen’s University is a mid-sized institution established in 1841 by Royal Charter of Queen Victoria. Located in Kingston, a city of about 113,000 residents at the northeastern end of Lake Ontario, the University offers a comprehensive range of undergraduate, graduate, and professional programs to a student population estimated at 18,360 FTE in 2004-05.

**Public Finance**

Dominion Bond Rating Service
highest admission standards, which leaves room to grow and fundraising activities. The University has some of the estimated $257 million in expendable resources FTE among DBRS-rated universities, Queen’s has access to that could be un-endowed to meet financial obligations. (2.7 times debt), which includes $116 million in reserves (2) A large endowment, solid fundraising activities, and sizeable funding from the Province (currently rated AA with a Negative trend by DBRS) help support budget stability. (3) Over the past few years, Queen’s has built up its fundraising capacity through an increased workforce, more sophisticated data mining techniques, and a strong alumni base. The Campaign for Queen’s, which was completed in April 2003, managed to well exceed its $200 million target. The University plans to grow annual private giving to $60 million by 2007 by focusing on its sizeable pool of untapped prospects. (4) Solid demographic growth in the 18-year-old to 24-year-old age group and rising requirements for university education in the labour market will help support moderate university enrolment growth. The Council of Ontario Universities expects enrolment in Ontario to reach 435,000 by 2010, an increase of about 11% from 2004. Although Queen’s expects enrolment to grow only modestly in the next few years and top out in 2005-06, the strong demand will bolster enrolment stability and give the University flexibility to increase enrolment if needed. (5) A well-established reputation and long history of academic excellence provides strong support for enrolment and growing demand due to rising enrolment will only exacerbate these pressures in the years ahead. (3) Queen’s is located in Kingston, a city of approximately 113,000 residents. Due to the small size of the local catchment area, the University must rely on the provincial, national, and international markets for new students, which makes recruitment more competitive. (4) As with most other Canadian universities, provincial grants make up a large portion of Queen’s total revenues (38% in 2003-04). This leaves the University exposed to changes in the Province’s financial position and education funding policies.

Strengths: (1) Supported by the largest endowment fund per FTE among DBRS-rated universities, Queen’s has access to an estimated $257 million in expendable resources (2.7 times debt), which includes $116 million in reserves and $141 million in internally-restricted endowment assets that could be un-endowed to meet financial obligations. (2) A large endowment, solid fundraising activities, and sizeable funding from the Province (currently rated AA with a Negative trend by DBRS) help support budget stability. (3) Over the past few years, Queen’s has built up its fundraising capacity through an increased workforce, more sophisticated data mining techniques, and a strong alumni base. The Campaign for Queen’s, which was completed in April 2003, managed to well exceed its $200 million target. The University plans to grow annual private giving to $60 million by 2007 by focusing on its sizeable pool of untapped prospects. (4) Solid demographic growth in the 18-year-old to 24-year-old age group and rising requirements for university education in the labour market will help support moderate university enrolment growth. The Council of Ontario Universities expects enrolment in Ontario to reach 435,000 by 2010, an increase of about 11% from 2004. Although Queen’s expects enrolment to grow only modestly in the next few years and top out in 2005-06, the strong demand will bolster enrolment stability and give the University flexibility to increase enrolment if needed. (5) A well-established reputation and long history of academic excellence provides strong support for enrolment and growing demand due to rising enrolment will only exacerbate these pressures in the years ahead. (3) Queen’s is located in Kingston, a city of approximately 113,000 residents. Due to the small size of the local catchment area, the University must rely on the provincial, national, and international markets for new students, which makes recruitment more competitive. (4) As with most other Canadian universities, provincial grants make up a large portion of Queen’s total revenues (38% in 2003-04). This leaves the University exposed to changes in the Province’s financial position and education funding policies.

Issue Details

- $90 million Senior Unsecured Debentures are maturing in 2032 (30-year bullet structure).
- Interest: 6.10% payable semi-annually on May 19 and November 19 of each year.
- Rank: Pari passu with all other senior unsecured obligations of the University.
- Redemption: Allowed at any time prior to the maturity date, at the option of the University, at the then-applicable Redemption Price together with all accrued interest. The Redemption Price is the greater of par and the Canada Yield Price (as defined in Trust Indenture).
- Defeasance: Allowed at any time in the form of cash and/or securities issued or guaranteed by the Government of Canada or by a provincial government rated at least AA at the time of defeasance. Should defeasance occur, the credit rating of the University bond would become linked to that of the substituted securities, which could modify the risk exposure of the bondholder.
- Key Covenants: Restrictions, subject to certain exceptions, on the giving of security in respect of indebtedness, the disposition of assets, and the merger or consolidation of the University.

- Trustee: BNY Trust Company of Canada.

Use of Proceeds: To finance part of the University’s $200 million medium-term capital envelope and to retire approximately $20 million in long-term bank debt.

Events of Default:

(1) Failure to make principal or redemption price payment when due if not remedied within two business days;
(2) Failure to make interest payment when due if not remedied within five business days;
(3) Breach in any other covenant contained in the Trust Indenture, where such breach remains unremedied for a period of 60 days after written notice;
(4) Payment default exceeding 30 days on, or acceleration of, indebtedness exceeding $25 million.
(5) Application for an order terminating the existence of the University; and
(6) Any event of insolvency that continues undischmissed or unstayed for 60 days, or the appointment of any receiver that continues for 90 days.

Challenges: (1) The Province froze tuition fees for two years at 2003-04 levels beginning in 2004-05. Although compensation is being provided by the Province, the new policy removed an important source of financial flexibility from universities in Ontario, especially for high-profile institutions like Queen’s. The government has indicated that the freeze is unlikely to be extended beyond two years. However the risk remains that it could be prolonged as it has been in Québec for the past decade.
(2) Queen’s must compete with other high-profile institutions in Canada and the U.S. for faculty, which leads to significant salary pressures. In some professional faculties, starting salaries have risen by as much as 50% in recent years. Accelerating retirements of faculty members and growing demand due to rising enrolment will only exacerbate these pressures in the years ahead.
(3) Queen’s is located in Kingston, a city of approximately 113,000 residents. Due to the small size of the local catchment area, the University must rely on the provincial, national, and international markets for new students, which makes recruitment more competitive.
(4) As with most other Canadian universities, provincial grants make up a large portion of Queen’s total revenues (38% in 2003-04). This leaves the University exposed to changes in the Province’s financial position and education funding policies.
2003-04 Operating Performance

- The University finished 2003-04 with a consolidated operating surplus of $24.1 million, up from $14.8 million in the prior year.
- Consolidated revenue growth was strong, at 9.0%, or $50.3 million, with strong increases across most major revenue streams, including government grants, tuition, and investment income.
- Supported by robust enrolment growth (6.5%, or 1,113 FTEs) and tuition fee increases, tuition revenue grew by a healthy 8.1%, or $9.8 million.
  - Tuition fees increased by 2% for regulated programs and 2%-34% for deregulated programs.
- While government operating grants were solid, rising by $9.2 million, or 8.2%, other grants and contracts provided an even larger boost of $17.0 million, or 8.8%.
  - Other grants and contract revenues rose as a result of increased research activities for which revenues are recognized as related expenses are incurred.
- Non-endowment investment income rose by $2.9 million, or 49.7%, as a result of stronger financial market performance. However, endowment investment income growth was modest as the University began its three-year transition to a new payout method.
- A significant gift of a painting helped support strong donation income growth of $5.8 million or 34.0%.
- Results of the University’s ancillary operations, which are operated on a cost-recovery basis, remained sound, realizing net income before transfers of $1.5 million.
- Total spending growth was solid, posting a 7.5% gain, primarily due to ongoing salary pressures and the accounting treatment of the donation of a painting.
- Salary and benefit costs rose by $22.4 million, or 7.4%, led by increased staffing, pension expenses, and contractual salary increases of about 5.0%.
  - Due to the actuarial deficit as of a February 2004 valuation, pension expenses increased to help repay the deficit as required by legislation.
- The $14 million gift-in-kind received in 2003-04 accounted for the bulk of the $15.6 million increase in expenditures for supplies and minor equipment.
  - An offsetting expense of $14 million had to be recognized, equivalent to the University receiving a cash donation, which was immediately used to purchase the painting.
- Interest expense jumped to $5.4 million, from $3.5 million, as 2003-04 was the first full year of interest payments on the debenture issued in November 2002.

Operating Outlook

The operating budget covers the academic activities of the University. It excludes ancillary operations, which are run on a cost recovery basis, as well as research, capital, and fundraising envelopes. Also excluded is the Health Sciences Fund, which relates to teaching and clinical services provided by Queen’s physicians to local hospitals and whose costs are fully covered through a separate funding agreement with the Province [the Alternative Funding Plan or (AFP)]. The Operating Budget is prepared annually, includes five-year projections, and accounts for about 40% of consolidated expenditures.

2004-05 Operating Budget:

- The University’s operating budget was balanced for 2004-05, in accordance with policy.
- Key budget assumptions:
  - Enrolment growth of 2.2% (400 FTEs).
  - Tuition fees frozen at 2003-04 levels. However, the government has provided grants to compensate for lost revenue.
  - Full funding for enrolment growth, but no base funding for inflation.
- Total revenues are budgeted to increase by 5.4% over the prior year’s budget, largely due to increased provincial government funding.
- Tuition revenue is expected to grow by $3.5 million, or 3.7%, over the prior budget, largely due to enrolment growth.
  - However, budgeted growth would be more in line with enrolment growth of 2.2% if compared to 2003-04 actual results.
- Provincial operating grants are budgeted to increase by $10.6 million.
  - Higher enrolment will boost accessibility funding by $4.6 million.
  - The grant in lieu of tuition increases will provide $2.6 million, although this is somewhat less than the University estimates it lost in incremental revenue as a result of the freeze.
- Total operating expenditures are budgeted to increase by 5.4% in 2004-05, largely due to labour cost pressures.
  - Salary and benefit costs are projected to rise by $8.8 million, or 5%, due to negotiated salary increases, higher insured benefit costs, and contributions to fund the actuarial pension shortfall.
- Utilities costs will be another key driver of higher spending, budgeted to rise by $1.4 million, or 13%, due to higher oil and gas prices, and electricity costs.

Mid-Year Update:

- The new provincial government’s decision to not increase QAF grants as planned has left a $2.5 million shortfall in the University’s budget.
  - The University expects to recoup this shortfall through: (1) budget flexibility that was incorporated as management saw risk around some revenue streams; (2) departmental carry-forwards; and (3) investment income that is approximately $1.5 million better than planned.
– Otherwise, the University is tracking budget projections.
– Enrolment growth is now expected to be about 360 FTEs, slightly less than the budgeted increase of 400.

Medium-Term Outlook:
– The University is expected to maintain a sound financial position going forward. However, there is some uncertainty as a result of the current review of provincial funding for universities and the tuition freeze.
  – The Province has stated that the tuition freeze is unlikely to be extended beyond 2005-06. However, the risk remains that the freeze could be prolonged, as it has been in Québec.
  – Although the review has raised hopes among universities that higher funding may be forthcoming, given the current fiscal situation of the Province, significant new revenues seem unlikely.
– Salary pressures will remain the key driver of spending going forward, especially as demand for faculty rises significantly due to accelerating retirements and continued enrolment growth.
– Like other older universities, Queen’s has a sizeable deferred maintenance backlog, estimated at $145 million, which will continue to put pressure on spending going forward.
– Strong student demand and Queen’s low offer rate provide the University with the flexibility to grow enrolment, if necessary.
  – The University plans to add 400 to 600 students through 2006-07. The University is limiting growth to help maintain its character.

Capital Plan:
– The bulk of Queen’s $200 million capital plan was completed on time and on budget. Major projects that have been completed include:
  – A 14,300 square metre Chemistry Complex housing research laboratories, offices, and lecture halls;
  – A 12,000 square metre School of Business;
  – A 4,500 square metre Cancer Research Institute;
  – Two student residences housing 548 beds; and
  – A 6,500 square metre Integrated Learning Centre for Applied Science was opened in spring 2004.
– The capital plan also includes $28 million for renovations and upgrades to campus infrastructure.
– $65.7 million of the capital envelope is debt-financed. The rest is covered by donations, internal funds, and $57 million in Provincial SuperBuild funding.
– The University has announced a proposal to build the Queen’s Centre, a 65,590 square metre sports and recreation complex that could cost up to $230 million over ten years. Final recommendations to the board are expected in spring 2005.
  – Although the financial details have yet to be firmed up, most of the project is expected to be funded through student fees and fundraising. However, up to $50 million of the project could be debt financed.

Debt Profile
– The University’s total debt burden declined by $500,000 to $96.4 million in 2003-04 due to principal payments on bank debt.
  – Coupled with strong enrolment growth, the decline in debt brought the burden per FTE to $5,253 from $5,619 in 2002-03, remaining by far the lowest debt burden among DBRS-rated universities.
– Interest coverage declined modestly to 9.6 times from 11.8 times, remaining at a very healthy level.
– Solid financial market returns and increased donations boosted the University’s endowment by 16.7% to $461.5 million.
  – At $25,134 million per FTE, Queen’s has the largest per student endowment among universities rated by DBRS.
  – The University entered into U.S. dollar forward contracts to hedge the currency risk of its U.S. investment portfolio.
– On a solvency basis, the pension fund had a $21.1 million surplus as of February 2004, a sharp improvement from the $3.2 million surplus estimated in August 2003.
  – However, the University has an actuarial deficit of $10.7 million, which led to increased pension contributions by the University to help fund the gap.
– The post-employment benefit plan deficiency grew to $40 million in 2003-04 from $37.3 million in the previous year. Queen’s is currently funding a reserve to help address this deficit.
– At the time of the review, no new debt requirements were planned, thus debt is expected to continue to slowly decline in 2004-05 due to continued principal payments on bank debt.
– With little upward pressure on interest charges, interest coverage should remain healthy; in excess of six times.
– The University continues to maintain its swap agreement that translates one-third of the $90 million bond issue into floating rate debt. This position is reviewed monthly.
  – The University holds short-term investments with an annual average balance of $30 million, which provides a natural hedge.
The increase in the University’s endowment fund helped boost already high expendable resources, providing significant protection to bondholders.

- As of April 30, 2004, the University had access to $257 million in expendable resources, or 2.7 times debt, consisting of $141 million in internally restricted endowment assets over which Queen’s has full discretion and $116 million in unrestricted reserves, which includes $2.3 million for debt retirement.
- The University also has a portfolio of non-core real estate worth approximately $35 million, which adds to the protection.
- The portfolio consists primarily of residential properties located around the campus.
- The University’s project with the Royal Bank of Canada guarantee certain student loans is ongoing. However, the additional liabilities are not expected to have an adverse effect on the University’s credit profile, with exposure limited at $1 million.

**UNIVERSITY FUNDING IN ONTARIO**

Canadian universities generally have access to three key sources of revenue for their core teaching and research activities: (1) government grants; (2) student fees; and (3) fundraising/endowment income.

Still the main source of revenue for universities, government funding has seen its importance reduced markedly over the past decade in Ontario, and in many other provinces, due to provincial budget cuts introduced in the mid-1990s. In compensation for the funding cuts, Ontario universities were given full fee-setting discretion over a range of unregulated programs and were allowed to raise tuitions substantially for those programs over which the Province maintained fee-setting authority. This led to an increase in universities’ reliance on tuition fees and other private funding sources, as in several other provinces. However, this trend has been put on hold with the Province’s recent decision to impose a tuition freeze for 2004-05.

**2003-04 Consolidated Revenue Sources**

(total: $611.0 million*)

- Gov’t health contract 11.1%
- Ancillary 10.1%
- Student fees 21.5%
- Other Gov’t grants** 18.7%
- Endowment & donations 6.9%
- Gov’t grants (operating) 20.0%
- Other 11.6%

* DBRS-adjusted. ** Federal and Provincial.

**Government Funding** (Provincial and Federal – 52%): Government funding includes: (1) operating grants; (2) research grants and contracts; and (3) capital grants. Operating grants are by far the most important and stable revenue source of the three. Operating grants are provided exclusively by the Province, based primarily on a formula that allocates to each student a certain number of basic income units according to the program in which the student is enrolled, providing greater weight to more costly programs. Targeted funding, which is mainly aimed at expanding enrolment in high-demand programs, and performance-based grants also account for a small, though growing, portion of provincial operating funding.

No inflation adjustment is provided in base operating funding. However, the Province continues to provide Ontario universities with full average funding for enrolment growth and has agreed to compensate universities for the costs of the two-year tuition freeze announced last April. Also important are government grants for research and capital projects. The federal government generally accounts for 65% to 75% of total public research funding, while the Province provides the bulk of capital funding.

Queen’s reliance on government funding is enhanced by the AFP, an agreement with the Province through which funding is provided for clinical, teaching, and research services provided by Queen’s physicians. Nearly $68 million was received under the AFP in 2003-04, or 11% of total revenue.

As promised in the 2004 budget, a comprehensive review of University funding has been undertaken in Ontario. Expected to be completed in early 2005, the review raises hopes of increased funding among universities, although the fiscal situation of the Province suggests that new funds, if any, will be limited.

**Student Fees** (22%): Until recently, tuition fees in Ontario for international and graduate students, as well as for professional programs such as business, law, medicine, and engineering, were set freely by the institutions, while the Province regulated fees for all other programs, limiting their increase to 2% annually. Effective for the 2004-05 school year, all domestic tuition fees are being frozen at 2003-04 levels for a period of two years. This leaves universities...
with discretion over international fees only. The Province has committed to compensate universities for the cost of the freeze, which is estimated at $48 million for the system and $2.8 million for Queen’s in 2004-05. Although the government has indicated the freeze is unlikely to be extended beyond the two-year period, the tuition fee environment remains uncertain pending the outcome of the Province’s review of university funding.

**Fundraising and Endowment Contributions (7%):**
Unrestricted donations are recognized as revenue when received. Funds received with external restrictions are reported as revenue only when they are spent on the restricted purpose. Donors or the Board of Trustees can endow donations. The endowment generates annual revenue, which is reported as investment income.

Like most other Canadian universities, Queen’s has intensified fundraising efforts in recent years. Expanded human resources and improved data mining techniques have allowed the institution to greatly increase donations in recent years. Queen’s recent campaign raised more than $260 million, well above the original target of $200 million. Endowment assets rose to $461.5 million in 2003-04 from $395.5 million in the previous year (market value). At $25,134 per FTE, Queen’s endowment assets are the largest among DBRS-rated Canadian universities.

![2004-05 Average Undergraduate Tuition Fees](image)

Source: Statistics Canada
### Queen’s University

#### Consolidated Financial Summary (DBRS-adjusted)

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<td>Total operating revenue</td>
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<td>560,736</td>
<td>525,924</td>
<td>472,945</td>
<td>435,751</td>
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<td>Total expenditures</td>
<td>586,945</td>
<td>545,966</td>
<td>503,540</td>
<td>453,791</td>
<td>422,589</td>
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<td>Operating Balance Before Transfers</td>
<td>24,094</td>
<td>14,770</td>
<td>22,384</td>
<td>19,154</td>
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<tr>
<td>Contributions from (to) endowments</td>
<td>(637)</td>
<td>(1,669)</td>
<td>(5,475)</td>
<td>(9,730)</td>
<td>(9,733)</td>
<td>(11,723)</td>
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<tr>
<td>Contributions from (to) committed funds (1)</td>
<td>(26,245)</td>
<td>(13,693)</td>
<td>(16,435)</td>
<td>(15,204)</td>
<td>(2,314)</td>
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<td>Decrease (increase) in investment in capital assets</td>
<td>(1,626)</td>
<td>(7,346)</td>
<td>3,064</td>
<td>2,227</td>
<td>(1,731)</td>
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<tr>
<td>Change in Unrestricted Net Assets</td>
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<td>(7,938)</td>
<td>3,538</td>
<td>(3,553)</td>
<td>(616)</td>
<td>(6,543)</td>
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<td>Revenue</td>
<td></td>
<td></td>
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<tr>
<td>Student fees (2)</td>
<td>131,379</td>
<td>121,535</td>
<td>112,899</td>
<td>108,718</td>
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<td>Government operating grants</td>
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<td>95,483</td>
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<td>Other grants and contracts</td>
<td>209,888</td>
<td>192,891</td>
<td>185,919</td>
<td>147,395</td>
<td>133,435</td>
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<td>Ancillary operations</td>
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<td>51,803</td>
<td>49,266</td>
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<td>Endowment investment income</td>
<td>19,436</td>
<td>19,046</td>
<td>16,461</td>
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<td>Other investment income</td>
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<td>Donations</td>
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<td>17,165</td>
<td>22,074</td>
<td>15,283</td>
<td>10,869</td>
<td>6,503</td>
</tr>
<tr>
<td>Earned capital contributions</td>
<td>20,035</td>
<td>17,176</td>
<td>13,007</td>
<td>8,236</td>
<td>15,201</td>
<td>10,845</td>
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<tr>
<td>Other revenue</td>
<td>14,558</td>
<td>17,880</td>
<td>14,463</td>
<td>11,112</td>
<td>10,940</td>
<td>10,845</td>
</tr>
<tr>
<td>Total Revenue</td>
<td>611,039</td>
<td>560,736</td>
<td>525,924</td>
<td>472,945</td>
<td>435,751</td>
<td>395,267</td>
</tr>
<tr>
<td>Expenditures</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salaries and benefits</td>
<td>326,687</td>
<td>304,318</td>
<td>279,699</td>
<td>258,991</td>
<td>243,546</td>
<td>223,276</td>
</tr>
<tr>
<td>Student aid</td>
<td>38,482</td>
<td>37,289</td>
<td>33,639</td>
<td>26,588</td>
<td>25,248</td>
<td>18,623</td>
</tr>
<tr>
<td>Supplies and minor equipment</td>
<td>98,291</td>
<td>82,668</td>
<td>80,038</td>
<td>66,763</td>
<td>58,982</td>
<td>53,281</td>
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<tr>
<td>Utilities</td>
<td>12,037</td>
<td>12,284</td>
<td>10,521</td>
<td>10,091</td>
<td>8,920</td>
<td>9,355</td>
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<tr>
<td>Interest</td>
<td>5,414</td>
<td>3,486</td>
<td>2,315</td>
<td>2,218</td>
<td>2,576</td>
<td>2,572</td>
</tr>
<tr>
<td>Amortization</td>
<td>38,253</td>
<td>34,471</td>
<td>30,005</td>
<td>26,218</td>
<td>24,885</td>
<td>21,166</td>
</tr>
<tr>
<td>Other expenses</td>
<td>67,781</td>
<td>71,450</td>
<td>67,593</td>
<td>62,922</td>
<td>58,432</td>
<td>49,017</td>
</tr>
<tr>
<td>Total Expenditures</td>
<td>586,945</td>
<td>545,966</td>
<td>503,540</td>
<td>453,791</td>
<td>422,589</td>
<td>377,290</td>
</tr>
<tr>
<td>Gross Capital Expenditures</td>
<td>68,354</td>
<td>104,380</td>
<td>77,104</td>
<td>37,896</td>
<td>32,767</td>
<td>26,139</td>
</tr>
</tbody>
</table>

#### DBRS-Adjusted Statement of Cash Flow

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</tr>
</thead>
<tbody>
<tr>
<td>Operating balance before fund contributions</td>
<td>24,094</td>
<td>14,770</td>
<td>22,384</td>
<td>19,154</td>
<td>13,162</td>
<td>17,977</td>
</tr>
<tr>
<td>Amortization</td>
<td>38,253</td>
<td>34,471</td>
<td>30,005</td>
<td>26,218</td>
<td>24,885</td>
<td>21,166</td>
</tr>
<tr>
<td>Other non-cash adjustments (1)</td>
<td>(15,616)</td>
<td>(11,600)</td>
<td>(9,696)</td>
<td>(8,446)</td>
<td>(5,878)</td>
<td>(6,452)</td>
</tr>
<tr>
<td>Cash flow from operations</td>
<td>46,731</td>
<td>37,641</td>
<td>42,693</td>
<td>36,926</td>
<td>32,169</td>
<td>32,691</td>
</tr>
<tr>
<td>Change in working capital</td>
<td>9,847</td>
<td>(260)</td>
<td>(630)</td>
<td>17,251</td>
<td>76,922</td>
<td>20,827</td>
</tr>
<tr>
<td>Operating cash flow after working capital</td>
<td>56,578</td>
<td>37,381</td>
<td>42,063</td>
<td>54,177</td>
<td>109,094</td>
<td>53,518</td>
</tr>
<tr>
<td>Free cash flow</td>
<td>24,291</td>
<td>(34,525)</td>
<td>24,624</td>
<td>37,946</td>
<td>93,739</td>
<td>34,369</td>
</tr>
</tbody>
</table>

* Defined as gross capital expenditures less contributions restricted for capital purposes.

(1) Internally restricted funds set aside for specific purposes. (2) Includes fees for continuing education.
### Queen’s University

#### Consolidated Balance Sheet ($ thousands)  

**As at April 30**

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Cash and short-term investments</td>
<td>15,472</td>
<td>12,585</td>
<td>10,977</td>
<td>-</td>
<td>11,459</td>
<td>2,613</td>
</tr>
<tr>
<td>Receivables</td>
<td>24,346</td>
<td>28,430</td>
<td>24,559</td>
<td>20,999</td>
<td>19,149</td>
<td>17,772</td>
</tr>
<tr>
<td>Deferred and prepaid expenses</td>
<td>13,321</td>
<td>15,271</td>
<td>11,182</td>
<td>12,920</td>
<td>14,616</td>
<td>15,539</td>
</tr>
<tr>
<td>Long-term investments (1)</td>
<td>598,617</td>
<td>569,004</td>
<td>537,798</td>
<td>514,767</td>
<td>428,372</td>
<td>323,536</td>
</tr>
<tr>
<td>Capital assets</td>
<td>432,692</td>
<td>402,591</td>
<td>332,943</td>
<td>286,035</td>
<td>274,909</td>
<td>267,051</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>1,084,448</td>
<td>1,027,881</td>
<td>917,459</td>
<td>834,721</td>
<td>748,505</td>
<td>626,511</td>
</tr>
</tbody>
</table>

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</tr>
</thead>
<tbody>
<tr>
<td>Payables and other current liabilities</td>
<td>193,282</td>
<td>187,627</td>
<td>184,041</td>
<td>189,901</td>
<td>164,509</td>
<td>114,347</td>
</tr>
<tr>
<td>Deferred capital contributions</td>
<td>233,981</td>
<td>218,366</td>
<td>203,345</td>
<td>156,809</td>
<td>145,120</td>
<td>135,958</td>
</tr>
<tr>
<td>Employee future benefit obligations</td>
<td>40,038</td>
<td>37,290</td>
<td>33,251</td>
<td>31,353</td>
<td>29,575</td>
<td>n/a</td>
</tr>
<tr>
<td>Long-term debt</td>
<td>96,440</td>
<td>96,907</td>
<td>29,975</td>
<td>31,636</td>
<td>32,292</td>
<td>35,797</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>563,741</td>
<td>540,190</td>
<td>450,612</td>
<td>409,699</td>
<td>371,496</td>
<td>286,102</td>
</tr>
</tbody>
</table>

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</tr>
</thead>
<tbody>
<tr>
<td>Committed funds (2)</td>
<td>116,222</td>
<td>89,977</td>
<td>76,284</td>
<td>63,349</td>
<td>48,145</td>
<td>45,831</td>
</tr>
<tr>
<td>Endowment - internally restricted (3)</td>
<td>127,726</td>
<td>127,089</td>
<td>125,420</td>
<td>119,945</td>
<td>110,215</td>
<td>100,482</td>
</tr>
<tr>
<td>Endowment - externally restricted (3)</td>
<td>256,584</td>
<td>248,079</td>
<td>242,282</td>
<td>222,963</td>
<td>194,104</td>
<td>170,680</td>
</tr>
<tr>
<td>Equity in capital assets</td>
<td>100,911</td>
<td>98,868</td>
<td>91,245</td>
<td>94,187</td>
<td>96,414</td>
<td>94,669</td>
</tr>
<tr>
<td>Unrestricted net assets</td>
<td>(80,736)</td>
<td>(76,322)</td>
<td>(68,384)</td>
<td>(75,422)</td>
<td>(71,869)</td>
<td>(71,253)</td>
</tr>
<tr>
<td><strong>Total Liability and Equity</strong></td>
<td>1,084,448</td>
<td>1,027,881</td>
<td>917,459</td>
<td>834,721</td>
<td>748,505</td>
<td>626,511</td>
</tr>
</tbody>
</table>

#### Commitments & Other Obligations ($ thousands)

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Capital commitments</td>
<td>20,061</td>
<td>49,290</td>
<td>112,566</td>
<td>60,586</td>
<td>49,981</td>
<td>3,611</td>
</tr>
<tr>
<td>Pension plan deficit (if any) (4)</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Post-employment benefit plan deficit</td>
<td>40,038</td>
<td>37,290</td>
<td>33,251</td>
<td>31,353</td>
<td>29,575</td>
<td></td>
</tr>
<tr>
<td><strong>Total Commitments &amp; Other Obligations</strong></td>
<td>20,061</td>
<td>49,290</td>
<td>112,566</td>
<td>60,586</td>
<td>49,981</td>
<td>3,611</td>
</tr>
</tbody>
</table>

(1) Book value.  (2) Funds set aside for specific purposes (e.g., departmental carry-forwards, pension cost deferral, etc.).  
(3) Externally restricted endowment assets consist of funds that are subject to restrictions imposed by the donors.  
(4) Internally restricted endowment assets are funds whose use is restricted internally by the Board of Trustees.
### DBRS-Adjusted Summary Statistics

<table>
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<tr>
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</thead>
<tbody>
<tr>
<td><strong>Total Enrolment (FTE) (1)</strong></td>
<td>18,360</td>
<td>17,247</td>
<td>16,475</td>
<td>16,194</td>
<td>15,756</td>
<td>15,237</td>
</tr>
<tr>
<td>- undergraduate</td>
<td>86%</td>
<td>86%</td>
<td>86%</td>
<td>86%</td>
<td>86%</td>
<td>86%</td>
</tr>
<tr>
<td>- graduate</td>
<td>14%</td>
<td>14%</td>
<td>14%</td>
<td>14%</td>
<td>14%</td>
<td>14%</td>
</tr>
<tr>
<td>- total annual change</td>
<td>6.5%</td>
<td>4.7%</td>
<td>1.7%</td>
<td>2.8%</td>
<td>3.4%</td>
<td>3.6%</td>
</tr>
<tr>
<td><strong>Total Employees (FTE) (2)</strong></td>
<td>3,114</td>
<td>3,116</td>
<td>3,110</td>
<td>3,003</td>
<td>2,882</td>
<td>2,711</td>
</tr>
<tr>
<td>- faculty</td>
<td>965</td>
<td>961</td>
<td>968</td>
<td>943</td>
<td>935</td>
<td>899</td>
</tr>
</tbody>
</table>

### Revenue Mix (as % of total DBRS-adjusted revenue)

<table>
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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>- government funding (federal + provincial)</td>
<td>50%</td>
<td>49%</td>
<td>49%</td>
<td>48%</td>
<td>48%</td>
<td>48%</td>
</tr>
<tr>
<td>- student fees</td>
<td>22%</td>
<td>22%</td>
<td>21%</td>
<td>23%</td>
<td>22%</td>
<td>21%</td>
</tr>
<tr>
<td>- ancillary</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>11%</td>
<td>10%</td>
</tr>
<tr>
<td>- endowment and expendable donations</td>
<td>7%</td>
<td>6%</td>
<td>7%</td>
<td>6%</td>
<td>6%</td>
<td>7%</td>
</tr>
<tr>
<td>- other</td>
<td>12%</td>
<td>13%</td>
<td>12%</td>
<td>13%</td>
<td>13%</td>
<td>13%</td>
</tr>
</tbody>
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### Debt and Liquidity Analysis

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</thead>
<tbody>
<tr>
<td><strong>Total debt ($ millions)</strong></td>
<td>96.4</td>
<td>96.9</td>
<td>30.0</td>
<td>31.6</td>
<td>32.3</td>
<td>35.8</td>
</tr>
<tr>
<td>- per FTE student ($)</td>
<td>5,253</td>
<td>5,619</td>
<td>1,819</td>
<td>1,954</td>
<td>2,050</td>
<td>2,349</td>
</tr>
<tr>
<td><strong>Debt, contingencies, &amp; commitments ($ millions) (3)</strong></td>
<td>156.5</td>
<td>183.5</td>
<td>175.8</td>
<td>123.6</td>
<td>111.8</td>
<td>39.4</td>
</tr>
<tr>
<td>- per FTE student ($)</td>
<td>8,526</td>
<td>10,639</td>
<td>10,670</td>
<td>7,631</td>
<td>7,099</td>
<td>2,586</td>
</tr>
<tr>
<td><strong>Cash and cash equivalents ($ millions)</strong></td>
<td>15.5</td>
<td>12.6</td>
<td>11.0</td>
<td>-</td>
<td>11.5</td>
<td>2.6</td>
</tr>
<tr>
<td>- as % of current liabilities</td>
<td>8%</td>
<td>7%</td>
<td>6%</td>
<td>0%</td>
<td>7%</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Interest costs as % of total expenditures</strong></td>
<td>0.9%</td>
<td>0.6%</td>
<td>0.5%</td>
<td>0.5%</td>
<td>0.6%</td>
<td>0.7%</td>
</tr>
<tr>
<td><strong>Interest coverage ratio (times)</strong></td>
<td>9.6</td>
<td>11.8</td>
<td>19.4</td>
<td>17.6</td>
<td>13.5</td>
<td>13.7</td>
</tr>
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### Endowment Funds

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<tbody>
<tr>
<td><strong>Total market value ($ millions)</strong></td>
<td>461.453</td>
<td>395.5</td>
<td>429.5</td>
<td>402.3</td>
<td>344.5</td>
<td>331.6</td>
</tr>
<tr>
<td>- per FTE student ($)</td>
<td>25,134</td>
<td>22,932</td>
<td>26,070</td>
<td>24,843</td>
<td>21,865</td>
<td>21,763</td>
</tr>
<tr>
<td><strong>Payout ratio: 70% (prior year's payout plus inflation) + 30% (4.5% of current market value)</strong></td>
<td>16.7%</td>
<td>-7.9%</td>
<td>6.8%</td>
<td>16.8%</td>
<td>3.9%</td>
<td>7.2%</td>
</tr>
</tbody>
</table>

Subject to a cap that the total payout growth rate cannot exceed two times CPI.

---

(1) Full-time equivalent, excluding continuing education.  (2) Full-time equivalent. Excludes teaching assistants and sessional lecturers.
(3) Includes accrued employee future benefits.
## General Information

### Province
- **B.C.**
- **Ontario**
- **Québec**
- **Ontario**
- **Québec**
- **Ontario**

#### -Provincial rating
- AA (low) *
- AA **
- AA **
- AA **
- AA **
- AA **
- AA **
- A *
- A *
- AA **

#### -Local population
- Vancouver: 2.2 mil.
- Guelph: 120,000
- Hamilton: 710,000
- Toronto: 5.2 mil.
- Oshawa: 330,000
- Kingston: 150,000
- Ottawa: 1.1 mil.
- Montréal: 3.6 mil.
- Waterloo: 444,094

#### Enrolment 2003-04 (FTEs)
- Vancouver: 18,467
- Guelph: 17,220
- Hamilton: 19,777
- Toronto: 55,763
- Oshawa: 40,910
- Kingston: 947
- Ottawa: 18,360
- Montréal: 31,632
- Waterloo: 23,376

#### Type of institution (2)
- Comp
- Med
- UG

### Financials - 2003-04 ($ millions)

#### Surplus (deficit)
- 24.3
- 24.1
- 45.4
- 8.7
- 9.9

#### Revenues
- 389.8
- 476.5
- 606.2
- 1,568.1
- 653.3
- 23.0
- 611.0
- 53.3
- 370.5
- 400.1

#### -year-over-year change
- 11.8%
- 35.6
- 9.0%
- 12.4
- 24.1
- 10.2%
- 12.4
- 9.9%

#### Revenue mix

- Government (prov. & fed.): 53.8%
- Student fees: 25.2%
- Endowment & donations: 2.3%
- Other: 18.7%
- Expenditures: 365.4

#### -year-over-year change
- 47.9
- 31.5%
- 19.0%
- 12.1%
- 52.9%

### Debt and Liquidity - 2003-04 ($ millions)

#### Total debt (univ. supported)
- $169
- $165
- $159
- $415
- $276
- $76
- $96
- $213
- $222
- $186

#### -per FTE ($) (Stable)
- $9,138
- $9,562
- $8,027
- $7,444
- $6,743
- $80,528
- $5,253
- $6,744
- $9,513
- $7,526

#### Interest coverage (times)
- 6.4
- 3.3
- 27.6
- 9.6
- 5.3

#### Total endowment
- 125.1
- 140.0
- 334.0
- 1,287.7
- 161.0
- 0.3
- 461.5
- 69.7
- 71.5

#### Expendable resources (3)
- 124
- 24
- 192
- 418
- 155
- 2
- 257
- 150
- 9

#### -5% of total debt
- 73%
- 15%
- 121%
- 100%
- 56%
- 3%
- 270%
- 70%
- 4%

#### Pension fund status (4)
- 15.2
- 55.0
- 75.0
- 242.0
- 9.0
- 0.0
- 21.1
- 53.0
- 6.0

#### Post-employment benefits
- (28)
- (131)
- (146)
- (212)
- (44)
- (40)
- (54)
- n/a

### Note:
- * = Positive trend; ** = Negative trend; FTE = Full-time equivalent; † = 2004-05 pro forma debt. All figures are DBRS adjusted.

(1) University of Ontario Institute of Technology. Figures for UOIT only. For credit analysis purposes, DBRS uses the combined UOIT and Durham College figures due to the guarantee provided by the College.

(2) Comp = Comprehensive (no medical programs and usually limited science and engineering programs); Med = Medical, which includes medicine and full range of science and engineering programs; UG = Undergraduate degrees only.

(3) Excludes externally restricted endowment assets as well as unspent bond proceeds, since already committed to ongoing construction projects. (4) Solvency basis.