

Single Audit Report

**QUEEN'S UNIVERSITY
AT KINGSTON**

And Independent Auditors' Report thereon

Year ended April 30, 2020

QUEEN'S UNIVERSITY AT KINGSTON

Single Audit Report

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Year ended April 30, 2020

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INDEPENDENT AUDITORS' REPORT

To the Management of Queen's University at Kingston

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Queen's University at Kingston (the "University"), which comprise the consolidated statement of financial position as at April 30, 2020, the related consolidated statements of operations, changes in net assets and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian accounting standards for not-for-profit organizations; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, except for the provisions of paragraph 3.82 of *Government Auditing Standards* which indicate the audit organization should undergo a peer review, as there is no such review process in Canada. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are



appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the University as at April 30, 2020, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Emphasis of Matter

We draw attention to Note 3(b) to the consolidated financial statements which explains that certain comparative information presented as at and for the year ended April 30, 2019 has been restated.

Note 3(b) to the consolidated financial statements explains the change in accounting policy and also explains the adjustments that were applied to restate certain comparative information.

Our opinion is not modified in respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2020 on our consideration of the University's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Professional Accountants, Licensed Public Accountants

Kingston, Canada

September 25, 2020

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at April 30, 2020
(Thousands of dollars)

| | 2020 | 2019 Restated (note 3b) |
|---|--------------|-------------------------------|
| ASSETS | | |
| Current | | |
| Cash | \$ 142,513 | \$ 161,175 |
| Accounts receivable (note 4) | 38,410 | 31,192 |
| Loans receivable (note 5) | 177 | 267 |
| Prepaid expenses | 4,926 | 4,279 |
| Investments (note 6) | 240,542 | 160,170 |
| Total current assets | 426,568 | 357,083 |
| Loans receivable (note 5) | 2,328 | 2,504 |
| Investments (note 6) | 1,666,524 | 1,521,931 |
| Capital assets (note 7) | 911,600 | 931,230 |
| Collections (note 8) | 1 | - |
| | \$ 3,007,021 | \$ 2,812,748 |
| LIABILITIES AND NET ASSETS | | |
| Current | | |
| Accounts payable and accrued liabilities (note 9) | \$ 95,252 | \$ 96,346 |
| Current portion of long-term debt (note 12) | 4,083 | 3,961 |
| Deferred revenue and contributions (note 10) | 337,214 | 277,297 |
| Total current liabilities | 436,549 | 377,604 |
| Deferred capital contributions (note 11) | 434,964 | 439,267 |
| Long-term debt (note 12) | 385,354 | 264,436 |
| Employee future benefits liability (note 13) | 132,420 | 74,818 |
| | 1,389,287 | 1,156,125 |
| Net Assets | | |
| Endowments (note 14) | 1,141,352 | 1,152,622 |
| Invested in capital assets | 209,819 | 221,515 |
| Internally restricted (note 15) | 279,551 | 293,757 |
| Unrestricted deficit | (12,988) | (11,271) |
| | 1,617,734 | 1,656,623 |
| | \$ 3,007,021 | \$ 2,812,748 |

See accompanying notes to consolidated financial statements.

Commitments and contingencies (note 20)

Approved on behalf of the Board of Trustees:



Mary Wilson Trider
Chair, Board of Trustees



David Allgood
Chair, Audit and Risk Committee

CONSOLIDATED STATEMENT OF OPERATIONS

Year ended April 30, 2020

(Thousands of dollars)

| | 2020 | 2019 Restated (note 3b) |
|--|------------------|-------------------------------|
| REVENUES | | |
| Grants and contracts | \$ 407,760 | \$ 418,728 |
| Student fees | 396,553 | 391,372 |
| Sales of service and products | 96,496 | 100,578 |
| Investment income (note 6) | 50,714 | 75,100 |
| Amortization of deferred capital contributions (note 11) | 25,471 | 24,760 |
| Other | 22,557 | 28,134 |
| Donations | 19,204 | 31,769 |
| | <u>1,018,755</u> | <u>1,070,441</u> |
| EXPENSES | | |
| Salaries and benefits | 526,355 | 493,248 |
| Supplies and services | 178,248 | 189,516 |
| Externally contracted services | 76,228 | 78,593 |
| Student assistance | 68,500 | 66,130 |
| Amortization of capital assets | 46,151 | 46,931 |
| Renovations and alterations | 37,444 | 31,426 |
| Travel and conferences | 21,100 | 21,539 |
| Utilities, taxes and insurance | 15,054 | 23,818 |
| Interest on long-term debt | 13,963 | 14,032 |
| | <u>983,043</u> | <u>965,233</u> |
| Excess of revenues over expenses | \$ 35,712 | \$ 105,208 |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Year ended April 30, 2020

(Thousands of dollars)

| | Endowments | Invested in capital assets | Internally restricted | Unrestricted | Total 2020 | Total 2019 |
|--|--------------|----------------------------------|--------------------------|--------------|--------------|--------------|
| Net assets / (deficit), beginning of year | \$ 1,152,622 | \$ 221,112 | \$ 293,306 | \$ (10,417) | \$ 1,656,623 | \$ 1,477,196 |
| Accounting policy change (note 3b) | - | 403 | 451 | (854) | - | - |
| Net assets / (deficit), beginning of year restated | 1,152,622 | 221,515 | 293,757 | (11,271) | 1,656,623 | 1,477,196 |
| (Deficiency) / excess of revenues over expenses | - | (20,680) | - | 56,392 | 35,712 | 105,208 |
| Employee future benefits remeasurements and other items (note 13) | - | - | - | (70,247) | (70,247) | 14,568 |
| Change in net assets invested in capital assets | - | 8,984 | - | (8,984) | - | - |
| Change in internally restricted net assets | - | - | (13,107) | 13,107 | - | - |
| Endowment contributions (note 14) | 25,373 | - | - | - | 25,373 | 25,533 |
| (Deficiency) / excess of investment earnings over endowment spending (note 14) | (42,926) | - | - | 8,015 | (34,911) | 29,538 |
| Departmental transfers and other contributions (note 14) | 6,283 | - | (1,099) | - | 5,184 | 4,580 |
| Net assets / (deficit), end of year | \$ 1,141,352 | \$ 209,819 | \$ 279,551 | \$ (12,988) | \$ 1,617,734 | \$ 1,656,623 |

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended April 30, 2020

(Thousands of dollars)

| | 2020 | 2019 Restated (note 3b) |
|---|------------|-------------------------------|
| OPERATING ACTIVITIES: | | |
| Excess of revenues over expenses | \$ 35,712 | \$ 105,208 |
| Non-cash items: | | |
| Amortization of deferred capital contributions | (25,471) | (24,760) |
| Amortization of capital assets | 46,151 | 46,931 |
| Employee future benefits | (12,646) | (5,234) |
| Net change in non-cash working capital (note 16) | 50,958 | 17,409 |
| Cash provided by operating activities | 94,704 | 139,554 |
| INVESTING ACTIVITIES: | | |
| Net change in loans receivable | 267 | 311 |
| Net change in investments | (224,965) | (140,317) |
| Purchases (net of disposals) of capital assets | (26,521) | (74,280) |
| Investment (loss) / gain reported as direct (decrease) / increase in net assets | (34,911) | 29,538 |
| Cash used in investing activities | (286,130) | (184,748) |
| FINANCING ACTIVITIES: | | |
| Issuance of long-term debt | 125,000 | - |
| Repayment of long-term debt | (3,961) | (3,842) |
| Contributions received for capital purposes | 21,168 | 38,131 |
| Contributions reported as direct increase in net assets | 30,557 | 30,113 |
| Cash provided by financing activities | 172,764 | 64,402 |
| Net (decrease) / increase in cash | (18,662) | 19,208 |
| Cash, beginning of year | 161,175 | 141,967 |
| Cash, end of year | \$ 142,513 | \$ 161,175 |

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2020

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

1. AUTHORITY

Queen's University at Kingston ("the University") 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 (Canada), exempt from payment of income tax.

The University controls PARTEQ Innovations, the Bader International Study Centre, the U.S. Foundation for Queen's University at Kingston, QCED Inc., Queen's University Pooled Trust Fund, and Queen's Prison Law Clinic. Accordingly, these financial statements consolidate the accounts of these organizations.

PARTEQ Innovations (PARTEQ) is incorporated by letters patent as a corporation without share capital under the Ontario Corporations Act. PARTEQ works with researchers and the business and venture capital communities to bring the benefits of scientific discovery to the public while returning proceeds to inventors and the University. PARTEQ is exempt from income tax under section 149 of the Income Tax Act (Canada).

The Bader International Study Centre was established in 1993 to enhance the University's role in international education and research through the establishment of a meeting place for students, scholars, and professionals from around the world. The Bader 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 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 for Queen's University at Kingston works to promote, encourage and foster an appreciation by the American public of the work conducted by the University. It does this by financing in whole or in part various programs, projects and facilities of the University 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 (QCED Inc.) was incorporated under the Canada Business Corporation Act on February 2, 2001 and began operations on June 1, 2001. QCED Inc. is a wholly owned subsidiary of the University. QCED Inc. was formed for the purposes of building on the knowledge base of Queen's School of Business to develop and deliver knowledge to small and medium-sized enterprises to foster success in this sector. QCED Inc. also supports academic research activities within the University and within this sector.

Queen's University Pooled Trust Fund (QUPTF) was established as a unit trust under paragraph 108(2)(a) of the Income Tax Act on December 17, 2013. QUPTF was established for the purposes of holding in trust, certain investments and other assets of the Queen's Pooled Endowment Fund and provide for certain matters relating to its undertaking and governance. The University is the sole holder of units of QUPTF.

Queen's Prison Law Clinic (QPLC) was incorporated without share capital under the laws of the Province of Ontario on November 24, 2014 through supplementary letters patent. It was originally incorporated on February 23, 2000 under the name Correctional Law Project. QPLC was established to provide equal access to quality legal services for inmates incarcerated in the federal penitentiaries in the Kingston area.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2020

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These consolidated financial statements (“the financial statements”) have been prepared in accordance with Canadian accounting standards for not-for-profit organizations. The significant accounting policies of the University are described below.

(a) Accounting estimates

The preparation of the financial statements requires administration to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses during the year. These estimates are reviewed annually and as adjustments become necessary they are recognized in the financial statements in the period in which they become known. Significant areas requiring the use of management estimates relate to the assumptions used in the valuation of financial instruments, the valuation of pension and other employee future benefits, the carrying value of capital assets, and the valuation of accounts receivable. Actual results could differ from those estimates.

(b) Financial instruments

i. Investments

Investments are recorded at fair value. The fair value of investments recorded in the financial statements is determined as follows:

- 1) Short-term notes and treasury bills maturing within one year are stated at cost, which together with accrued interest income approximates fair value given the short-term nature of these investments.
- 2) Bonds and equities are valued at year-end quoted market prices using closing prices. Where quoted prices are not available, estimated fair values are calculated using comparable securities.
- 3) Pooled fund investments are valued at the unit values supplied by the pooled fund administrator, which represent the University’s proportionate share of underlying net assets at fair values determined using quoted market prices or alternative valuation methods where quoted market prices are not available.
- 4) Limited partnership investments are valued at fair values using values supplied by the fund managers who are directly investing the funds in the underlying operating units. The fund managers use a valuation methodology that is based upon the best available information that may incorporate management assumptions and best estimates after considering a variety of internal and external factors. Limited partnership investments are only held in the Pooled Endowment Fund.

ii. Derivative and other financial instruments

Derivative financial instruments are used to manage market and currency exposure risk primarily associated with the University’s debt and investments, and are measured at fair value.

Gains and losses on forward foreign exchange contracts are recognized when they mature. The notional amounts of derivative financial instruments are not included in the financial statements.

The University follows hedge accounting for its interest rate swap which results in the interest expense related to certain long-term debt being recorded in the financial statements at the hedged rate rather than at the original contractual interest rate. At the inception of the hedging relationship, the University designates that hedge accounting will be applied. The University formally documents the hedging relationship between the hedging instruments and hedged item. At the inception of the hedge and throughout its term, the terms of the hedging item and hedged item are the same.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2020

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

Other financial instruments, including accounts receivable, accounts payable and debt are recorded at fair value upon initial recognition, which represents cost, and are subsequently recorded at cost, net of any provisions for impairment.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition. Financing costs are amortized using the amortized cost method.

(c) Capital assets and net assets invested in capital assets

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

Intangible assets are non-monetary assets without physical substance. The University's intangible assets consist of computer software. Costs that are directly associated with the acquisition or internal development of identifiable software which will, in administration's best estimate, provide a future economic benefit are recognized as intangible assets.

Capital assets and intangible assets are assessed at each statement of financial position date for full or partial impairment. Refer to Note 7 for current year assessments.

Amortization is provided on a straight line basis over the estimated useful life of the asset. When components of a capital asset have different useful lives, they are accounted for as separate items of capital assets and depreciated separately.

The estimated useful lives of assets are as follows:

| Asset | Useful Life |
|------------------------------|----------------|
| Buildings and its components | 15 to 40 years |
| Equipment and furnishings | 5 years |
| Intangible assets | 5 years |
| Library acquisitions | 5 years |
| Leasehold improvements | Term of lease |

When completed and put into use, costs of construction in process are transferred to the appropriate category and amortized in accordance with the category's useful life.

Net assets invested in capital assets represents the net amount of capital assets funded using internal resources

(d) Employee future benefit plans

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2020

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

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

(e) Revenue recognition

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

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

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

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

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.

Externally restricted investment income is recognized as revenue when the restriction is met. Unrestricted investment income is recognized as revenue during the period in which it is earned.

(f) Collections

The University 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 as well as a collection of rare and historical books.

Contributions of collection items are recorded at nominal value and are not amortized. Collection purchases are expensed as acquired.

(g) Translation of foreign currency

Transactions denominated in foreign currencies are accounted for at the exchange rate in effect at the date of the transaction. At year end, monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the rates of exchange prevailing at the statement of financial position date. The resulting gains and losses are included in other revenue.

(h) 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 is not recognized in the financial statements.

(i) 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2020

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

3. CHANGE IN ACCOUNTING POLICY

(a) Adoption of handbook sections 4433, 4434 and 4441

The University has adopted *Section 4433, Tangible capital assets held by not-for-profits organizations*, *Section 4434 Intangible assets held by not-for-profit organizations* and *Section 4441, Collections held by not-for-profit organizations*, which are effective for financial statements for fiscal years beginning on or after January 1, 2019. The amendments including the transitional provisions are as follows:

- i. Section 4433, Tangible capital assets held by not-for-profit organizations, which directs organizations to apply the accounting guidance of Section 3061, Property Plant and Equipment in Part II of the CPA Canada Handbook (the "Handbook"). In so doing, the new section requires that organizations annually assess for partial impairment of tangible capital assets, to be recorded where applicable, as a non-reversible impairment expense and, where practical, to componentize capital assets when estimates can be made of the useful lives of the separate components. This section is applied on a prospective basis with the exception of the transitional provision to recognize an adjustment to opening net assets for partial impairments of tangible assets that existed as at May 1, 2019.
- ii. Section 4434, Intangible assets held by not-for-profit organizations, which directs organizations to annually assess intangible assets, and where applicable to record an impairment expense should the net carrying value be higher than the asset's fair value or replacement cost. This section is applied on a prospective basis with the exception of the transitional provision to recognize an adjustment to opening net assets for partial impairment of intangible assets that existed as at May 1, 2019.
- iii. Section 4441, Collections held by not-for-profit organizations, which defines a collection and directs organizations to record such assets on the statement of financial position at either cost or nominal value. It is anticipated that all collections will be accounted for using the same method, with the exception of organizations that opt to account for collections at cost, whereby the cost for certain collections either held or contributed cannot be determined. Such items are to be accounted for at a nominal value. In addition, collections are written down when there is evidence that the net carrying amount exceeds fair value.

The implementation of Sections 4433 and 4434 has been applied prospectively and has no impact on the current year opening net assets. The transitional provisions of Sections 4433 and 4434 have been applied retrospectively and has no impact on the current year opening net assets. The implementation of Section 4441 has been applied retrospectively and had a nominal impact of \$1, and as such, the prior year figures have not been restated.

(b) Joint ventures

In addition to the new handbook sections mentioned above, the University has changed its accounting policy for reporting its interests in joint ventures as it relates to the Kingston Health Sciences Centre / Queen's Parking Commission from the equity method to the proportionate consolidation method. The operating activities of the Joint Venture align with the ancillary operating activities of the University and this treatment better represents the benefits and risks the University is responsible for.

This change in accounting policy has been accounted for retrospectively, and the comparative statements for the year ended April 30, 2019 have been restated. The effect of the change on the year ended April 30, 2019 is shown below. There was no impact on total opening net assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2020

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

| | Previous accounting policy | Impact of the change in accounting policy | New accounting policy |
|---|----------------------------------|--|-----------------------------|
| Statement of Financial Position: | | | |
| Assets | \$ 2,810,480 | \$ 2,268 | \$ 2,812,748 |
| Liabilities | 1,153,857 | 2,268 | 1,156,125 |
| Net Assets | \$ 1,656,623 | \$ - | \$ 1,656,623 |
| Statement of Operations: | | | |
| Total Revenues | \$ 1,069,753 | \$ 688 | \$ 1,070,441 |
| Total Expenses | 964,545 | 688 | 965,233 |
| Excess of revenues over expenses | 105,208 | - | 105,208 |
| Statement of Cash Flows: | | | |
| Operating Activities | 139,575 | (21) | 139,554 |
| Investing Activities | (184,769) | 21 | (184,748) |
| Financing Activities | 64,402 | - | 64,402 |
| Increase/Decrease | \$ 19,208 | \$ - | \$ 19,208 |

4. ACCOUNTS RECEIVABLE

Accounts receivable is comprised primarily of balances receivable for research projects and trade accounts receivable, including tuition net of an allowance for doubtful accounts of \$3,280 (2019 - \$3,410).

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

| Fiscal year | |
|-------------|-----------|
| 2021 | \$ 20,393 |
| 2022 | 12,371 |
| 2023 | 10,489 |
| 2024 | 9,021 |
| 2025 | 5,158 |
| Thereafter | 4,178 |
| | \$ 61,610 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2020

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

5. LOANS RECEIVABLE

Loans receivable is comprised of an amount receivable regarding relocation loans to employees in the amount of \$nil (2019 - \$100) and a loan to the Kingston Health Sciences Centre / Queen's Parking Commission (the "Parking Commission") in the amount of \$2,505 (2019 - \$2,671). The loan to the Parking Commission bears interest at 6 per cent per annum and matures in October 2030.

6. INVESTMENTS AND INVESTMENT INCOME

(a) Investments

Fair value details of investments are as follows:

| | 2020 | 2019 |
|------------------------|--------------|--------------|
| Current | | |
| Short-term | \$ 240,542 | \$ 160,170 |
| Non-current | | |
| Pooled Endowment Fund | 1,131,147 | 1,136,802 |
| Pooled Investment Fund | 392,865 | 261,707 |
| Other | 142,512 | 123,422 |
| | 1,666,524 | 1,521,931 |
| Total investments | \$ 1,907,066 | \$ 1,682,101 |

Derivative financial instruments, as disclosed in Note 17 are included in non-current investments.

(b) Uncalled commitments

As at April 30, 2020, a portion of the University's investment portfolio is invested in private funds managed by third-party managers ("the manager"). These private funds typically take the form of limited partnerships managed by a General Partner. The legal terms and conditions of these private investment funds, which cover various areas of private equity investments and real estate and infrastructure investments, require that investors initially make an unfunded commitment and then remit funds over time (cumulatively up to a maximum of the total committed amount) in response to a series of capital calls issued to the investors by the manager. As at April 30, 2020, the University had uncalled commitments of approximately \$79,671 (2019 - \$26,596), which will be funded using funds within the investment portfolio. The capital committed is called by the manager over a pre-defined investment period, which varies by fund.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2020

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

(c) Investment income

Investment income is comprised of the following:

| | 2020 | | 2019 | |
|--|------|---------|------|---------|
| Realized income on investments | \$ | 57,797 | \$ | 62,043 |
| Unrealized (losses) / gains on investments | | (1,837) | | 17,961 |
| | | 55,960 | | 80,004 |
| Investment management fees and transaction costs | | (5,246) | | (4,904) |
| Investment income | \$ | 50,714 | \$ | 75,100 |

7. CAPITAL ASSETS

Capital assets consist of the following:

| | 2020 | | | 2019 | | |
|------------------------------|--------------|--------------------------|----------------|--------------|--------------------------|----------------|
| | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Land | \$ 84,158 | \$ - | \$ 84,158 | \$ 84,158 | \$ - | \$ 84,158 |
| Buildings and its components | 1,273,502 | 491,229 | 782,273 | 1,256,215 | 462,058 | 794,157 |
| Leasehold improvements | 12,683 | 8,489 | 4,194 | 12,698 | 7,798 | 4,900 |
| Equipment and furnishings | 172,678 | 142,999 | 29,679 | 182,175 | 152,046 | 30,129 |
| Library acquisitions | 109,565 | 107,809 | 1,756 | 116,573 | 114,530 | 2,043 |
| Software | 31,366 | 31,366 | - | 31,366 | 31,366 | - |
| Construction in process | 9,540 | - | 9,540 | 15,843 | - | 15,843 |
| | \$ 1,693,492 | \$ 781,892 | \$ 911,600 | \$ 1,699,028 | \$ 767,798 | \$ 931,230 |

Capital assets have been reviewed for full or partial impairment and management has determined there are none. The University's intangible assets have been fully amortized, and as such, an impairment assessment was not required.

8. COLLECTIONS

The University's purchased artwork and rare and historical books as part of its collections are expensed and included in supplies and services in the statement of operations. The total amount expended on artwork for the year was \$nil (2019 - \$nil) and the total amount expended on rare and historical books for the year was \$nil (2019 - \$429). The artwork and book collections are insured through a fine arts policy for a total value of \$242,009 (2019 - \$233,954).

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities is comprised primarily of trade accounts payable, government remittances, payroll related accruals and the present value of future annuity payments. The University's government remittances payable at the end of the year were current and amounted to \$14,289 (2019 - \$10,970).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2020

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

10. DEFERRED REVENUE AND CONTRIBUTIONS

| | 2020 | 2019 |
|----------------|-------------------|-------------------|
| Research funds | \$ 198,157 | \$ 163,521 |
| Trust funds | 78,990 | 64,815 |
| Student fees | 34,000 | 32,049 |
| Capital funds | 5,984 | 6,052 |
| Other | 18,173 | 8,385 |
| Gift annuities | 1,910 | 2,475 |
| | <u>\$ 337,214</u> | <u>\$ 277,297</u> |

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

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

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

Capital funds are the unexpended portion of funds restricted for future capital expenditures.

Other deferred revenue primarily represents deferred government funding that relates to the next fiscal year.

Under the now suspended gift annuity program, a donor was able to 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 current residual value of the donor's gift, net of the present value of future annuity payments.

11. 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 consolidated statement of operations. The changes in the deferred capital contributions balance are as follows:

| | 2020 | 2019 |
|--|-------------------|-------------------|
| Balance, beginning of year | \$ 439,267 | \$ 425,896 |
| Amortization of deferred capital contributions | (25,471) | (24,760) |
| Contributions received for capital purposes | 21,168 | 38,131 |
| | <u>\$ 434,964</u> | <u>\$ 439,267</u> |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2020

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

12. LONG-TERM DEBT

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

| | | | 2020 | 2019 |
|--|--------------------------------------|---------------|--------------------------|--------------------------|
| | Maturity in Fiscal Year Ending | Interest Rate | Principal Outstanding | Principal Outstanding |
| Amortizing unsecured bank loan maturing November 1, 2030 | 2031 | Variable | \$ 52,727 | \$ 56,852 |
| Series A senior unsecured bullet debenture maturing on November 19, 2032 | 2033 | 6.10% | 90,000 | 90,000 |
| Senior unsecured bullet debenture maturing April 1, 2040 | 2040 | 5.09% | 75,000 | 75,000 |
| Senior unsecured bullet debenture maturing June 1, 2040 | 2041 | 5.10% | 50,000 | 50,000 |
| Series B senior unsecured bullet debenture maturing April 27, 2060 | 2060 | 2.89% | 125,000 | - |
| | | | 392,727 | 271,852 |
| Unamortized transaction costs/bond discount | | | (3,290) | (3,455) |
| | | | 389,437 | 268,397 |
| Less current portion | | | (4,083) | (3,961) |
| | | | \$ 385,354 | \$ 264,436 |

The University has established sinking funds to provide funds to repay the Series A senior unsecured debenture maturing on November 19, 2032, the Senior unsecured debentures maturing in April and June 2040 and the Series B senior unsecured debenture maturing on April 27, 2060. At April 30, 2020 the value of the sinking funds is \$122,668 (2019 - \$102,951).

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

(b) **Long-term debt repayments**

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

| Fiscal year | |
|-------------|------------|
| 2021 | \$ 4,083 |
| 2022 | 4,209 |
| 2023 | 4,338 |
| 2024 | 4,471 |
| 2025 | 4,608 |
| Thereafter | 367,728 |
| | \$ 389,437 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2020

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

13. EMPLOYEE FUTURE BENEFITS LIABILITY

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

At retirement, pension 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 6.0 per cent, and pensions are guaranteed not to reduce.

The assets of the pension 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.

Salaries and benefits expense for the year includes pension benefit expenses of \$30,009 (2019 - \$29,272) and non-pension retirement and post-employment benefit expenses of \$9,514 (2019 – \$9,746).

The University measures its accrued benefit obligations and fair value of pension plan assets at April 30 each year.

The discount rate used in the actuarial measurement of the employee future benefit plans obligation was 5.6 per cent (2019 – 5.6 per cent).

The discount rate used in the actuarial measurement of the benefit plans expense was 5.6 per cent (2019 – 5.6 per cent).

Information about the University's benefit plans at April 30 is as follows:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2020

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

| | 2020 | | | 2019 | | |
|--|----------------------|---------------------|---------------------|----------------------|---------------------|--------------------|
| | Pension benefit plan | Other benefit plans | Total | Pension benefit plan | Other benefit plans | Total |
| Accrued benefit liability | | | | | | |
| Accrued benefit obligation | \$ (2,138,510) | \$ (101,961) | \$ (2,240,471) | \$ (2,141,428) | \$ (95,768) | \$ (2,237,196) |
| Fair value of plan assets | 2,108,051 | - | 2,108,051 | 2,162,378 | - | 2,162,378 |
| Accrued benefit asset / (liability) | \$ (30,459) | \$ (101,961) | \$ (132,420) | \$ 20,950 | \$ (95,768) | \$ (74,818) |
| Benefit plan expense | | | | | | |
| Current service cost | \$ 31,182 | \$ 4,151 | \$ 35,333 | \$ 29,758 | \$ 3,961 | \$ 33,719 |
| Finance (income) / costs | (1,173) | 5,363 | 4,190 | (486) | 5,785 | 5,299 |
| Net benefit cost | \$ 30,009 | \$ 9,514 | \$ 39,523 | \$ 29,272 | \$ 9,746 | \$ 39,018 |
| Remeasurements and other items | | | | | | |
| Difference between actual and expected return | \$ 66,775 | \$ - | \$ 66,775 | \$ (2,899) | \$ - | \$ (2,899) |
| Actuarial (gain) / loss on accrued benefit obligation | 3,770 | (298) | 3,472 | 2,232 | (13,901) | (11,669) |
| Net remeasurements and other items (gains) / losses | \$ 70,545 | \$ (298) | \$ 70,247 | \$ (667) | \$ (13,901) | \$ (14,568) |

Details of annual contributions and benefits paid are as follows:

| | 2020 | | 2019 | |
|------------------------|----------------------|---------------------|----------------------|---------------------|
| | Pension benefit plan | Other benefit plans | Pension benefit plan | Other benefit plans |
| Employer contributions | 49,145 | 3,023 | 40,886 | 3,366 |
| Employee contributions | 29,240 | - | 28,867 | - |
| Benefits paid | 118,304 | 3,023 | 111,203 | 3,366 |

The most recent actuarial valuation of the pension plan was performed as of August 31, 2017, and the results have been extrapolated to April 30, 2020. The date of the next required valuation is August 31, 2020.

The most recent actuarial valuation of non-pension retirement benefits was performed as of December 31, 2018 and results have been extrapolated to April 30, 2020. The date of the next required valuation is December 31, 2021.

The most recent actuarial valuation of post-employment benefits was performed as of April 30, 2020.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2020

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

14. ENDOWMENTS

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

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

For endowments without sufficient accumulated investment income, temporary encroachment on capital is permitted. The encroached amounts will be recovered from future investment returns.

Details of changes in year-end balances are as follows:

| | 2020 | | | 2019 | | |
|--|------------|------------|--------------|------------|------------|--------------|
| | External | Internal | Total | External | Internal | Total |
| Investment income on endowments | \$ 984 | \$ 641 | \$ 1,625 | \$ 63,196 | \$ 15,259 | \$ 78,455 |
| Less: available for spending | (35,895) | (8,656) | (44,551) | (33,658) | (8,494) | (42,152) |
| (Deficiency) / Excess of investment earnings over endowment spending | (34,911) | (8,015) | (42,926) | 29,538 | 6,765 | 36,303 |
| Endowment contributions | 25,373 | - | 25,373 | 25,533 | - | 25,533 |
| Departmental transfers and other contributions | 5,484 | 799 | 6,283 | 4,674 | 626 | 5,300 |
| Net increase in net assets | (4,054) | (7,216) | (11,270) | 59,745 | 7,391 | 67,136 |
| Net assets, beginning of year | 924,183 | 228,439 | 1,152,622 | 864,438 | 221,048 | 1,085,486 |
| Net assets, end of year | \$ 920,129 | \$ 221,223 | \$ 1,141,352 | \$ 924,183 | \$ 228,439 | \$ 1,152,622 |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2020

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

15. INTERNALLY RESTRICTED NET ASSETS

Details of year-end balances are as follows:

| | 2020 | 2019 |
|---|------------|------------|
| Operating contingencies | \$ 173,228 | \$ 185,224 |
| Unspent research funds | 59,729 | 49,792 |
| Internally financed capital projects | (100,909) | (115,449) |
| Sinking funds | 122,668 | 102,951 |
| Capital reserves | 109,497 | 104,826 |
| Employee future benefits | | |
| Pension and other benefit plans deficit | (132,420) | (74,818) |
| Pension reserve | 47,758 | 41,231 |
| | \$ 279,551 | \$ 293,757 |

In order to encourage judicious expenditure of funds, the University's policy permits operating and ancillary units to carry forward unexpended budget allocations, unrestricted donations and investment income to the succeeding years as operating contingencies. These funds are held to protect against possible adverse operating circumstances such as changes to student enrolment, investment return fluctuations and salary cost escalations.

Unspent research funds are primarily overheads or internally funded research grants, which are reserved to support future research activities and commitments.

Internally financed capital projects are temporarily financed with internal funds until other committed sources are received, which include any combination of donations, grants or budget allocations.

Sinking funds have been established to fund the principal repayments of the bullet debentures held by the University, as disclosed in Note 12.

Capital reserves represent amounts set aside for deferred maintenance, capital projects planned or in progress, and other future commitments.

Employee future benefit balances represent the deficit associated with the pension and other benefit plans, offset by associated internally restricted reserve balances set aside to fund future pension related commitments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2020

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

16. NET CHANGE IN NON-CASH WORKING CAPITAL

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

| | 2020 | 2019 |
|--|------------|-----------|
| Net change in non-cash working capital: | | |
| Accounts receivable | \$ (7,218) | \$ 5,923 |
| Prepaid expenses | (647) | (693) |
| Accounts payable and accrued liabilities | (1,094) | (21,403) |
| Deferred revenue and contributions | 59,917 | 33,582 |
| | \$ 50,958 | \$ 17,409 |

17. FINANCIAL INSTRUMENTS

(a) Fair value

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

The fair value of investments are disclosed in Note 6.

Derivative financial instruments

The notional and fair values of the foreign currency contracts are as follows:

| | 2020 | | 2019 | |
|-----------|----------------|------------|----------------|------------|
| | Notional value | Fair value | Notional value | Fair value |
| US Dollar | \$ 259,626 | \$ 3,013 | \$ 176,218 | \$ (1,596) |
| Other | 85,439 | (4,463) | 76,918 | (396) |
| | \$ 345,065 | \$ (1,450) | \$ 253,136 | \$ (1,992) |

Fair value is determined based on quoted market prices. The calculation of fair value is based upon market conditions at a specific point in time and may not be reflective of future fair values. The fair value of the foreign currency contracts is reported as \$(1,450) (2019 - \$(1,992)) in investments (Note 6). The change in the fair value of the foreign currency contracts is accounted for consistent with investment returns in the consolidated statements of operations and statement of changes in net assets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2020

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

(b) Financial risk

The primary risk exposures for financial instruments are foreign currency, interest rate, market and credit risks. The University's Statement of Investment Policies and Procedures (SIP&P) governs the 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.

Foreign currency risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate due to changes in foreign exchange rates. The University has entered into forward foreign exchange contracts to minimize exchange rate fluctuations and to mitigate any uncertainty for future financial results.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The University is subject to interest rate risk with respect to its floating rate debt. The University mitigates this risk by entering into interest rate swap agreements for its floating rate debt that fixes the interest rate over the term of the debt.

Market risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. Management mitigates this risk through diversification of its investment portfolio as stipulated in the University's SIP&P.

Credit risk is the risk of financial loss to the University if a counterparty to a financial instrument fails to meet its contractual obligation. The University is exposed to credit risk with respect to its accounts receivable and investments. The University assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts (Note 4). The University's investments must adhere to minimum quality standard ratings as stipulated in the SIP&P.

Liquidity risk is the risk that the University will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The University manages its liquidity risk by monitoring its operations. The University prepares budgets and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

There have been no significant changes to the risk exposures during the year.

18. ONTARIO STUDENT OPPORTUNITY TRUST FUND AND ONTARIO TRUST FOR STUDENT SUPPORT

Under terms of agreement with the Ministry of Colleges and Universities, note disclosure or separate audited year-end reports are required.

Externally restricted endowments, as described in Note 14, include monies provided by the Government of Ontario from the Ontario Student Opportunity Trust Fund (OSOTF) and Ontario Trust for Student Support (OTSS) matching programs to award student aid as a result of raising an equal amount of endowed donations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2020

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

The University has recorded the following amounts under phase 1 of the program:

| | 2020 | 2019 |
|--|------------------|------------------|
| Endowment Funds: | | |
| Opening balance | \$ 68,531 | \$ 68,744 |
| Transfer to expendable funds | (5) | (213) |
| Endowment capital | \$ 68,526 | \$ 68,531 |
| Expendable Funds: | | |
| Opening balance | \$ 428 | \$ 428 |
| Investment income | 4,411 | 4,093 |
| Bursaries awarded | (4,416) | (4,306) |
| Transfer from endowment funds | 5 | 213 |
| Expendable funds available for awards | \$ 428 | \$ 428 |
| Number of bursaries awarded | 1,421 | 1,504 |

The market value of the OSOTF phase 1 endowment fund at April 30, 2020 is \$111,340 (2019 - \$115,044).

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

| (for the year ended March 31) | OSOTF II | OTSS | 2020 Total | 2019 Total |
|--|------------------|------------------|------------------|------------------|
| Endowment Funds: | | | | |
| Opening balance | \$ 12,384 | \$ 34,254 | \$ 46,638 | \$ 45,491 |
| Donations received | - | 822 | 822 | 909 |
| Transfer from expendable funds | 51 | 199 | 250 | 237 |
| Endowment capital | \$ 12,435 | \$ 35,275 | \$ 47,710 | \$ 46,637 |
| Expendable Funds: | | | | |
| Opening balance | \$ 51 | \$ 107 | \$ 158 | \$ 350 |
| Internal Transfers to expendable funds | - | - | - | 20 |
| Investment income | 691 | 1,495 | 2,186 | 2,609 |
| Bursaries awarded | (592) | (1,317) | (1,909) | (1,964) |
| Transfer to endowment funds | (51) | (199) | (250) | (237) |
| Expendable funds available for awards | \$ 99 | \$ 86 | \$ 185 | \$ 778 |
| Number of bursaries awarded | 191 | 511 | 702 | 745 |

The market value of the OSOTF phase 2 endowment fund at March 31, 2020 was \$58,609 (2019 - \$62,452).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2020

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

19. RELATED ENTITIES

This section addresses disclosure requirements regarding the University's relationships with related entities. The relationships include economic interest, significant influence, or joint control.

(a) Investment in Parking Commission

The University entered into a joint venture with Kingston Health Sciences Centre (KHSC) for the construction and operation of an underground parking garage managed and governed by a joint Parking Commission established by the parties and including an equal number of commission members appointed by both parties. The University's proportionate share of the joint venture is 50 per cent and KHSC's proportionate share is 50 per cent. In fiscal 2011 the Parking Commission embarked on a significant restoration project with the University's share of these capital expenditures being \$3,750 (2019 - \$3,750). The University's share of the capital expenditures will be repaid by the Parking Commission over a 20 year period ending in fiscal 2031. The University's proportionate share of the Parking Commission's assets, liabilities and operations have been included in the financial statements. The University's proportionate share of the excess of revenues over expenses for the current fiscal year is \$730 (2019 - \$635).

(b) Investment in Cogeneration Facility

The University entered into a joint venture with KHSC for the construction and operation of a cogeneration facility governed by a management board consisting of representatives of the University and KHSC. The purpose of the facility is to produce electricity and steam. The University's proportionate share of the joint venture is 60 per cent and KHSC's proportionate share is 40 per cent. The University's capital investment in the joint venture is repaid from the operating fund over a twenty-five year period ending April 30, 2031. The University's proportionate share of the cogeneration facility's assets, liabilities and operations have been included in the financial statements. The University's proportionate share of the deficiency of revenues over expenses for the current fiscal year is \$1,207 (2019 - \$1,695).

(c) McGill-Queen's University Press

The University has significant influence in McGill-Queen's University Press (the "Press"). The 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 / entitled to, a 50 per cent share of any deficit / surplus accumulated by the Press. The University's proportionate share of the Press' assets, liabilities and operations have not been included in the financial statements. The University's proportionate share of the accumulated (deficit) / surplus at April 30, 2019 was \$(105) (2018 - \$249).

| | 2019 | 2018 |
|--------------------------------------|----------|----------|
| Total assets | \$ 2,148 | \$ 2,777 |
| Total liabilities | 2,358 | 2,279 |
| Total fund balances | \$ (210) | \$ 498 |
| Revenues | \$ 4,041 | \$ 4,684 |
| Expenses | 4,749 | 4,804 |
| Deficiency of revenues over expenses | \$ (708) | \$ (120) |

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2020

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

(d) SNOLAB Institute at Queen's University

The SNOLAB Institute at Queen's University (SNOLAB) was created to perform research in particle astrophysics and succeeds the Sudbury Neutrino Observatory Institute which was decommissioned in 2007. This is a joint venture of the University and four other Canadian universities. The University's proportionate share (20 per cent) of the joint venture's assets, liabilities and operations have been included in the financial statements (see also Note 20(c)).

(e) Tri-universities Meson Facility

The University is a member, with thirteen other universities, of a joint venture called the Tri-universities Meson Facility (TRIUMF), Canada's national laboratory for particle and nuclear physics located on the University of British Columbia (UBC) campus. TRIUMF is an unincorporated registered charity and each university has an undivided 1 / 14 interest in its assets, liabilities and obligations. The land and buildings it occupies are owned by UBC. The facilities and its operations are funded by federal government grants and the University has made no direct financial contribution to date. TRIUMF's net assets are not contemplated to be and are not readily realizable by the University. The University's interest in the assets, liabilities and results of operations are not included in the financial statements (see also Note 20(d)).

The following financial information at March 31, 2020 for TRIUMF was prepared in accordance with Canadian public sector accounting standards (PSAS), including accounting standards that apply to government not-for-profit organizations, except that all property, plant and equipment purchased or constructed for use at TRIUMF and related decommissioning costs (if any) are expensed in the period in which the costs are incurred.

| | 2020 | 2019 |
|---|-----------|-----------|
| Total assets | \$ 54,749 | \$ 54,766 |
| Total liabilities | 9,496 | 9,283 |
| Total fund balances | \$ 45,253 | \$ 45,483 |
| Revenues | \$ 85,605 | \$ 87,264 |
| Expenses | 85,834 | 82,832 |
| (Deficiency) / excess of revenues over expenses | \$ (229) | \$ 4,432 |

20. COMMITMENTS AND CONTINGENCIES

(a) 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, 2020, 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. Accordingly, no provision has been made in the financial statements

(b) Insurance

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. As of December 31,

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2020

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

2019, the date of the latest financial statements available, CURIE had a surplus of \$90,185 (2018 - \$79,338).

Additional insurance for automobiles, artwork, miscellaneous property, and major construction projects is purchased through commercial insurers to provide coverage for losses not insured by CURIE.

(c) SNOLAB - Asset retirement obligation

As stipulated within the Constitution for SNOLAB, this joint-venture research project's assets and liabilities are to be divided among the member institutions. The agreements also indicate decommissioning costs for the former Sudbury Neutrino Observatory as well as SNOLAB facility expansions are the responsibility of member institutions based on their proportionate share.

There are no immediate plans for decommissioning of the facilities or a reasonable estimate of when such decommissioning may occur. Currently, new experiments are being developed using the facility and decommissioning is not expected to occur sooner than fiscal 2021. No accrual has been made in the financial statements.

(d) TRIUMF - Asset retirement obligation

The joint venture partners of the TRIUMF joint venture and the Canadian Nuclear Safety Commission (CNSC) approved a decommissioning plan which requires all partners to be severally responsible for their share of the decommissioning costs, as well as provide financial covenants to the CNSC for the amount of these costs. While there are no current intentions of decommissioning the facilities, TRIUMF has complied with federal legislation by putting in place a decommissioning plan, including a funding plan. This decommissioning plan does not require any payments from the joint venture partners. All decommissioning costs are expensed in the period in which the costs are incurred.

(e) Capital commitments

As of April 30, 2020 the estimated cost to complete construction in process for the extension of facilities is approximately \$2,602 (2019 - \$4,856). These costs will be financed by a combination of gifts, grants, and allocations from operations.

The University leases premises and equipment. The remaining aggregate minimum rental payments under operating leases are as follows:

| Fiscal year | | |
|------------------|----|--------|
| 2021 | \$ | 3,386 |
| 2022 | | 2,843 |
| 2023 | | 2,415 |
| 2024 | | 2,393 |
| 2025 | | 1,613 |
| Total thereafter | | 3,443 |
| | \$ | 16,093 |

(f) Other

In addition to the capital commitments disclosed in Note 20(e), the University has issued letters of credit of \$2,780 primarily for capital construction.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended April 30, 2020

(Amounts in the notes to the consolidated financial statements are in thousands of dollars unless otherwise noted)

21. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current year's presentation.

22. COVID-19

In March 2020, the World Health Organization declared the spread of coronavirus (COVID-19) to constitute a global pandemic. This has resulted in governments worldwide enacting emergency measures to combat the spread of the virus including travel restrictions in and out of and within Canada, barring gathering of people and requirements to stay at home. These restrictions impacted the operations of the University and resulted in the closure of physical premises of all post-secondary institutions. The impact of COVID-19 also adversely impacted global commercial activity and contributed to the significant volatility in certain equity and debt markets. This led to significant volatility and declines in the global public equity markets and it is uncertain how long this volatility will continue.

The extent of such adverse effects on the University's business and financial and operational performance is uncertain and difficult to assess. The financial impacts will depend on future developments, including the duration, spread and severity of the outbreak, physical distancing requirements, the duration and geographic scope of related travel advisories and restrictions, and the extent of disruptions to businesses globally and its related impact on the economy.

As at April 30, 2020, the University did not have significant adjustments to reflect the possible future impact of COVID-19. Investments are recorded at fair value which included the impact on financial markets as at year end and extra emphasis was put on the collectability of receivables and other estimates within the financial statements as at April 30, 2020. The situation is dynamic and the ultimate duration and magnitude of the impact on the economy and the financial effect of the pandemic on the University is not known at this time. These impacts could include the use of accumulated net assets to sustain operations. Management has assessed the going concern assumptions and believes there are no issues given the University has a strong working capital base and access to enough liquid resources to see through operations in the coming year. Given the outcome and timeframe to a recovery from the current pandemic is highly unpredictable, it is not practicable to estimate and disclose its financial effect on future operations at this time.

QUEEN'S UNIVERSITY AT KINGSTON

Single Audit Report Schedule of Expenditures of Federal Awards (Expressed in U.S. dollars)

Year ended April 30, 2020

| Queen's University | | | | | | | | | |
|---|---------------|--------|-------------------------------|--------------------|-------------------|--|----------------|---------------------------------|--------------------------|
| Schedule of Expenditures of U.S. Federal Awards | | | | | | | | | |
| Year ended April 30, 2020 | | | | | | | | | |
| SEFA # | Q's Proj | CFDA | Federal Agency | Type of award | Federal program # | Pass-through entity | Award End Date | Passed Through to Subrecipients | Amount Expended (\$U.S.) |
| Research and development cluster: | | | | | | | | | |
| US Department of the Navy | | | | | | | | | |
| 1 | 354024 | 12.300 | Office of Naval Research | Pass-Through Award | N00014-16-1-2732 | Syracuse University | 2020-03-31 | - | 71,268.00 |
| 2 | 354039 | 12.300 | Office of Naval Research | Direct | N62909-17-1-2169 | N/A | 2020-09-28 | - | 31,569.68 |
| | | | | | | | | - | 102,837.68 |
| Total US Department of the Navy | | | | | | | | | |
| National Science Foundation | | | | | | | | | |
| 3 | 354032 | 47.050 | National Science Foundation | Pass-Through Award | 1623895 | Rutgers, The State University of NJ | 2020-08-31 | - | 4,598.52 |
| | | | | | | | | - | 4,598.52 |
| Total National Science Foundation | | | | | | | | | |
| United States Department of Health and Human Services | | | | | | | | | |
| 4 | 354041 | 93.242 | National Institutes of Health | Pass-Through Award | R01MH112904 | The State University of New York | 2022-04-30 | - | 281,978.39 |
| 5 | 361047 | 93.242 | National Institutes of Health | Pass-Through Award | R01MH112748 | The Brigham and Women's Hospital Inc. | 2020-10-31 | - | 6,738.30 |
| 6 | 354029 | 93.286 | National Institutes of Health | Pass-Through Award | R01EB021396 | Kitware Inc. | 2020-07-31 | - | 67,227.27 |
| 7 | 354055 | 93.394 | National Institutes of Health | Pass-Through Award | R01CA233888 | Sloan Kettering Institute for Cancer Research | 2024-02-29 | - | 78,246.64 |
| 8 | 354016/354046 | 93.395 | National Institutes of Health | Direct | U10CA180863 | N/A | 2025-02-28 | - | 2,545,115.06 |
| 9 | 354038 | 93.395 | National Institutes of Health | Pass-Through Award | unknown | ECOG-ACRIN Cancer Research Group | unknown | - | 1,770.68 |
| 10 | 354040 | 93.837 | National Institutes of Health | Pass-Through Award | U01HL130163 | St. Michael's Hospital | 2021-01-31 | - | 1,245.84 |
| 11 | 354058 | 93.837 | National Institutes of Health | Pass-Through Award | P01HL144457 | Versiti Wisconsin Inc. | 2021-02-28 | - | 226,074.46 |
| 12 | 354034 | 93.838 | National Institutes of Health | Pass-Through Award | R01HL132887 | University of Vermont and State Agricultural College | 2020-03-31 | - | 191,058.51 |
| 13 | 354042 | 93.838 | National Institutes of Health | Pass-Through Award | U54HL142012 | The Children's Hospital of Philadelphia | 2020-04-30 | - | 69,367.06 |
| 14 | 354044 | 93.838 | National Institutes of Health | Pass-Through Award | U54HL142012 | The Children's Hospital of Philadelphia | 2023-04-30 | - | 124,265.48 |
| 15 | 354048 | 93.838 | National Institutes of Health | Pass-Through Award | R01HL143452 | University of Vermont and State Agricultural College | 2023-06-30 | - | 32,965.26 |
| 16 | 354018 | 93.847 | National Institutes of Health | Direct | U01DK103271 | N/A | 2020-06-30 | - | 98,656.20 |
| 17 | 354021 | 93.855 | National Institutes of Health | Direct | R33AI121575 | N/A | 2020-11-30 | - | 113,460.24 |
| 18 | 354053 | 93.865 | National Institutes of Health | Direct | R03HD099617 | N/A | 2021-08-31 | - | 17,446.96 |
| 19 | 354060 | 93.865 | National Institutes of Health | Pass-Through Award | 5R01HD094395-02 | The University of Texas Southwestern Medical Center | 2023-05-31 | - | 24,511.69 |
| 20 | 354061 | 93.865 | National Institutes of Health | Pass-Through Award | 1R01HD100179-01 | The Regents of the University of California, San Diego | 2024-05-31 | - | 191,390.18 |
| 21 | 354035 | 93.866 | National Institutes of Health | Pass-Through Award | R01AG058171 | Wayne State University | 2020-05-31 | - | 60,566.84 |
| | | | | | | | | - | 4,132,085.06 |
| Total United States Department of Health and Human Services | | | | | | | | | |
| Total Expenditures Research and Development Cluster | | | | | | | | - | 4,239,521.26 |
| Grand Total | | | | | | | | - | 4,239,521.26 |

See accompanying notes to the Schedule of Expenditures of Federal Awards.

QUEEN'S UNIVERSITY AT KINGSTON

Single Audit Report

Notes to the Schedule of Expenditures of Federal Awards

Year ended April 30, 2020

1. Basis of presentation:

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes all federal grants to Queen's University at Kingston (the "University"), except those administered by the Department of Education, which have been examined separately in accordance with the *Foreign School Audit Guide*, issued by the U.S. Department of Education, Office of Inspector General, that had activity during the fiscal year ended April 30, 2020.

The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200 (2 CFR 200), *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the University, it is not intended to and does not present the consolidated statement of financial position, consolidated statements of operations, changes in net assets, or cash flows of the University.

2. Summary of significant accounting policies:

The expenditures reported on the Schedule are reported on using the cash basis of accounting. Such expenditures are recognized following the cost principals contained in the Uniform Guidance, wherein certain types of expenses are not allowable or are limited to reimbursement.

The University has elected to not use the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

The University receives funds in U.S. dollars based on grant agreements, but those funds are expended in Canadian dollars. The expenses reported on the accompanying schedule of expenditures of federal awards have been converted from Canadian dollars to U.S. dollars using the average exchange rate for the year.

3. Federal direct and pass-through programs:

Federal direct programs are presented by federal agency. Federal pass-through programs are presented by the federal agency from which the funds were originally granted.

4. Catalog of Federal Domestic Assistance:

Catalog of Federal Domestic Assistance (CFDA) numbers are presented for those programs for which such numbers are available.



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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Consolidated Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Management of Queen's University at Kingston

We have audited, in accordance with International Standards on Auditing and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, except for the provisions of paragraph 3.82 of *Government Auditing Standards* which indicates the audit organization should undergo a peer review, as there is no such review process in Canada, the consolidated financial statements of Queen's University at Kingston (the "University"), which comprise the consolidated statement of financial position as at April 30, 2020, the consolidated statements of operations, changes in net assets and cash flows for the year then ended April 30, 2020, and the related notes to the consolidated financial statements and have issued a report thereon dated September 25, 2020

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's consolidated financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal



control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items (Findings 2020-001, 2020-002, and 2020-003) that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of consolidated financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

The University's Response to Findings

The University's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The University's response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of The University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering The University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Professional Accountants, Licensed Public Accountants

Kingston, Canada

September 25, 2020



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Independent Auditors' Report on Compliance for the Research and Development Cluster; Report on Internal Control over Compliance; and Report on Schedule of Expenditures of Federal Award Required by Uniform Guidance

To the Management of Queen's University at Kingston

Report on Compliance for the Research and Development Cluster

We have audited Queen's University at Kingston's ("The University") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on its programs in the Research and Development cluster for the year ended April 30, 2020.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, contracts, and the terms and conditions of its federal awards applicable to the Research and Development cluster.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the University's programs in the Research and Development cluster based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), except for the provisions of paragraph 3.82 of *Government Auditing Standards* which indicate that audit organizations should undergo a peer review, as there is no such peer review process in Canada. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on the programs in the Research and Development cluster occurred. An audit includes examining, on a test basis, evidence about the University's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for programs in the Research and Development cluster. However, our audit does not provide a legal determination of the University's compliance.



Opinion on the Research and Development Cluster

In our opinion, the University complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its programs in the Research and Development cluster for the year ended April 30, 2020.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items (Findings 2020-001, 2020-002 and 2020-003). Our opinion on programs in the Research and Development cluster is not modified with respect to these matters.

The University's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The University is also responsible for preparing a corrective action plan to address each audit finding included in our auditors' report. The University's response and corrective action plan were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response or the corrective action plan.

Report on Internal Control over Compliance

Management of the University is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the University's internal control over compliance with the types of requirements that could have a direct and material effect on its programs in the Research and Development Cluster to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, non-compliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material non-compliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all



deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, we did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs that we consider to be significant deficiencies (Findings 2020-001, 2020-002 and 2020-003).

The University's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The University's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the consolidated financial statements of Queen's University at Kingston as of and for the year ended April 30, 2020, and have issued our report thereon dated September 25, 2020, which contained an unmodified opinion on those consolidated financial statements. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with the financial reporting framework of the consolidated financial statements. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material aspects, in relation to the consolidated financial statements as a whole.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and extends to the right, ending under the 'P'.

Chartered Professional Accountants, Licensed Public Accountants
Kingston, Canada
November 27, 2020

QUEEN'S UNIVERSITY AT KINGSTON

Single Audit Report
Schedule of Findings and Questioned Costs

Year ended April 30, 2020

(1) Summary of Auditor's Results

Federal Awards

- (a) Internal control deficiencies over major program disclosed by the audit:
- Material Weakness: **No**
 - Significant deficiencies: **Yes**
- (b) Type of auditors' report issued on compliance for major programs: **Unmodified**
- (c) Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a): **Yes**
- (d) Major programs:
- | <u>CFDA number</u> | <u>Name of federal program or cluster</u> |
|--------------------|---|
| Various | Research and Development Cluster |
- (e) Dollar threshold used to distinguish between type A and type B programs: **\$750,000**
- (f) Auditee qualified as low risk auditee: **Yes**

(2) Findings Relating to the Consolidated Financial Statements Reported in Accordance with Government Auditing Standards

None

(3) Findings and Questioned Costs Relating to Federal Awards

Finding 2020-001: The University did not obtain suspension and debarment certifications from contracted parties, nor did it perform its own checks through the System for Award Management ("SAM") for the entire duration of the fiscal year ended April 30, 2020.

Federal Agency: All (see Schedule of Expenditures of Federal Awards)

Program Name: Research and Development Cluster

CFDA#: All (see Schedule of Expenditures of Federal Awards)

Program Expenditures: All (see Schedule of Expenditures of Federal Awards)

Federal Award Number: All (see Schedule of Expenditures of Federal Awards)

Federal Award Year: May 1, 2019 to April 30, 2020

Questioned Costs: No known questioned costs. As a result of procedures performed, we did not identify any instances where the University entered into transactions with suspended or debarred parties.

QUEEN'S UNIVERSITY AT KINGSTON

Single Audit Report
Schedule of Findings and Questioned Costs

Year ended April 30, 2020

(3) Findings and Questioned Costs Relating to Federal Awards (continued)

Finding 2020-001: (continued)

Condition Found: The University did not have processes and controls in place to ensure that verification checks, as required by federal regulations, are performed to ensure that contracted parties are not suspended or debarred for the entire duration of the fiscal year ended April 30, 2020.

Criteria: According to 2 CFR 180.300, non-Federal entities are subject to the non-procurement debarment and suspension regulations that restrict awards, sub-awards and contracts with certain parties that are debarred, suspended or otherwise excluded from or ineligible for participation in Federal assistance programs or activities. These requirements stipulate that when the non-Federal entity enters into a covered transaction with another person, it must verify that the person with whom they intend to do business with is not excluded or disqualified. This can be done by:

- (a) Checking the EPLS; or
- (b) Collecting a certification from that person; or
- (c) Adding a clause or condition to the covered transaction with that person.

Cause: The University was not aware of this requirement until partway through their fiscal year when this was initially identified as a finding in the prior year Single Audit. Once identified as a finding, the University modified its internal controls to include a process for obtaining certification that contracted parties are not debarred, suspended or otherwise excluded from or ineligible for participation in Federal assistance programs or activities. Given the timing of the finding being raised, and subsequent action undertaken by the University, resulted in the finding still occurring for a portion of the fiscal year and being reported on in the fiscal year ended April 30, 2020.

Possible Asserted Effects: Failure to perform adequate verification procedures could result in the awarding of Federal funds to contracted parties that are suspended or debarred from participation in Federal assistance programs or activities.

Repeat Finding: Finding was reported in the prior year's audit and remains applicable for the current year audit. Given the timing of the finding being raised, and action undertaken by the University, resulted in the finding still occurring for a portion of the fiscal year and being reported on in the fiscal year ended April 30, 2020.

Statistical Sampling: The sample was not intended to be, and was not, a statistically valid sample.

Recommendation: We recommended that management establish procedures to ensure that parties contracting with the University are not suspended or debarred or otherwise excluded from participation in Federal assistance programs. We also recommended that the University work with its Research Finance team to ensure that the Excluded Parties List System is checked. We observed that the University actioned on these recommendations in the fiscal year ended April 30, 2020.

QUEEN'S UNIVERSITY AT KINGSTON

Single Audit Report
Schedule of Findings and Questioned Costs

Year ended April 30, 2020

(3) Findings and Questioned Costs Relating to Federal Awards (continued)

View of Responsible Official: Within the fiscal year ended April 30, 2020, the University ensured that the contracting parties are not suspended or debarred or otherwise excluded from participation in Federal assistance programs by checking the System for Award Management (EPLS) prior to contracting for goods or services. Once identified as a finding in the prior year Single Audit, the University modified its internal controls accordingly.

Finding 2020-002: The University did not actively monitor its Subrecipient's financial performance for the entire duration of the fiscal year ended April 30, 2020. As there were no Subrecipient payments to test in fiscal year April 30, 2020, this item has remained a finding for the current year.

Federal Agency: National Institutes of Health

Program Name: Research and Development Cluster

CFDA#: 93.855

Program Expenditures: \$251,818 in fiscal year April 30, 2019

Federal Award Number: R33A1121575

Federal Award Year: May 1, 2018 to April 30, 2019

Questioned Costs: No known questioned costs.

Condition Found: As a pass-through entity for sub-awards to the University of Guelph, the University has not actively monitored this Subrecipient's financial performance through the receipt of financial reports, as outlined by the sub-award agreement in place for the entire duration of the fiscal year ended April 30, 2020.

Criteria: According to 2 CFR 200.331, the University must monitor the University of Guelph's financial performance. This is done to ensure that the time elapsing between the initial transfer of funds and the subsequent disbursement of these funds by the Subrecipient (on allowable program costs) is minimized. It also ensures that the sub-award is used for authorized purposes, in compliance with Federal statutes, regulations, and terms and conditions of the sub-award.

Cause: The University was not aware of this requirement until partway through their fiscal year when this was initially identified as a finding in the prior year Single Audit. Once identified as a finding, the University modified its internal controls to include a process requiring the Research Finance staff to actively engage with Subrecipients to ensure timely receipt of financial reports in accordance with the sub-award agreement. Given the timing of the finding being raised, and subsequent action undertaken by the University, resulted in the finding still occurring for a portion of the fiscal year and being reported on in the fiscal year ended April 30, 2020.

Possible Asserted Effects: Failure to monitor the financial performance and activities of Subrecipients could lead to untimely reporting and unauthorized use of Federal funds.

QUEEN'S UNIVERSITY AT KINGSTON

Single Audit Report
Schedule of Findings and Questioned Costs

Year ended April 30, 2020

(3) Findings and Questioned Costs Relating to Federal Awards (continued)

Repeat Finding: Finding was reported in the prior year's audit and remains applicable for the current year audit. Given the timing of the finding being raised, and action undertaken by the University, resulted in the finding still occurring for a portion of the fiscal year and being reported on in the fiscal year ended April 30, 2020. Further, we note there were no Subrecipient payments in the current year.

Statistical Sampling: The sample was not intended to be, and was not, a statistically valid sample.

Recommendation: We recommended that management implement a process by which Research Finance staff are prompted to follow-up on financial reports from Subrecipients in accordance with the terms and conditions of sub-award agreements. We observed that the University actioned on these recommendations in the fiscal year ended April 30, 2020.

View of Responsible Official: Within the fiscal year ended April 30, 2020, the University implemented a process to ensure that financial spending reports are obtained from Subrecipients on a timely basis, as per the requirements outlined in the sub-award agreements. Once identified as a finding in the prior year Single Audit, the University modified its internal controls accordingly.

Finding 2020-003: In addition to the finding on monitoring of its Subrecipient's financial performance in fiscal year April 30, 2019, the University had another finding on the other requirements for pass-through entities as dictated by Uniform Guidance. As there were no Subrecipient payments to test in fiscal year April 30, 2020, this item has remained a finding for the current year.

Federal Agency: National Institutes of Health

Program Name: Research and Development Cluster

CFDA#: 93.847 93.855

Program Expenditures: \$98,656 and \$113,460 in fiscal year April 30, 2019

Federal Award Number: U01DK103271 R33AI121575

Federal Award Year: May 1, 2018 to April 30, 2019

Questioned Costs: No known questioned costs.

Condition Found: The University advanced funds to the University of Guelph and Drexel University during the April 30, 2019 fiscal year in accordance with sub-award agreement established with the two universities. As a pass-through entity, Uniform Guidance sets out required procedures that the University failed to perform for this Federal award year.

Criteria: According to 2 CFR 200.331, the University, as a pass-through entity, must:

- (a) Ensure that every sub-award is clearly identified to the Subrecipient as a sub-award and includes the required information at the time of the sub-award and if any of these data elements change, include the changes in subsequent sub-award modification. When some of this information is not available, the pass-through entity must provide the best information available to describe the Federal award and sub-award;

QUEEN'S UNIVERSITY AT KINGSTON

Single Audit Report
Schedule of Findings and Questioned Costs

Year ended April 30, 2020

(3) Findings and Questioned Costs Relating to Federal Awards (continued)

Finding 2020-003 (continued):

Criteria (continued)

- (b) Evaluate each Subrecipient's risk of non-compliance with Federal statutes, regulations, and the terms and conditions of the sub-award for purposes of determining the appropriate Subrecipient monitoring;
- (c) Consider imposing specific sub-award conditions upon a Subrecipient if appropriate;
- (d) Monitor the activities of the Subrecipient as necessary to ensure that the sub-award is used for authorized purposes, in compliance with Federal statutes, regulations, and the terms and conditions of the sub-award; and that sub-award performance goals are achieved (as noted in Finding #2020-002);
- (e) Depending upon the pass-through entity's assessment of risk posed by the Subrecipient, specific tools such as training, on-site reviews, etc. may be useful for the pass-through entity to ensure proper accountability and compliance with program requirements and achievement of performance goals;
- (f) Verify that every Subrecipient is audited as required by Subpart F - Audit Requirements of this part when it is expected that the Subrecipient's Federal awards expended during the respective fiscal year equaled or exceeded \$750,000;
- (g) Consider whether the results of the Subrecipient's audits, on-site reviews, or other monitoring indicate conditions that necessitate adjustments to the pass-through entity's own records; and
- (h) Consider taking enforcement action against non-compliant Subrecipients as described in 2 CFR 200.338, Remedies for non-compliance of this part and in program regulations.

Although the University followed section a) as indicated above through the issuance of standard sub-award agreements, it failed to perform any of the other procedures related to Subrecipient monitoring.

Cause: The University was not aware of this requirement until partway through their fiscal year when this was initially identified as a finding in the prior year Single Audit. Once identified as a finding, the University modified its internal controls and processes to include Subrecipient monitoring procedures such as performing risk assessments, reviewing Subrecipient's single audit findings, or issuing management decisions. Given the timing of the finding being raised, and subsequent action undertaken by the University, resulted in the finding still being relevant and reported on in the fiscal year ended April 30, 2020

QUEEN'S UNIVERSITY AT KINGSTON

Single Audit Report
Schedule of Findings and Questioned Costs

Year ended April 30, 2020

(3) Findings and Questioned Costs Relating to Federal Awards (continued)

As a result of the procedures performed, it was determined that the University of Guelph is not required by Subpart F to be audited. Therefore, although the University was not aware of these mandatory procedures, points e) through h) are not applicable for CFDA# 93.855.

Possible Asserted Effects: Failure to perform the above procedures could result in the disbursement of Federal funds to high risk Subrecipients, as well as awarding pass-through funds to Subrecipients who have unsuitable conditions to carry out the requirements of a sub-award agreement, or have significant unresolved findings from previous audits.

Repeat Finding: Finding was reported in the prior year's audit and remains applicable for the current year audit. Given the timing of the finding being raised, and action undertaken by the University, resulted in the finding still occurring for the duration of the fiscal year and being reported on in the fiscal year ended April 30, 2020. Further, we note there were no Subrecipient payments in the current year.

Statistical Sampling: The sample was not intended to be, and was not, a statistically valid sample.

Recommendation: We recommended that management implements a formal risk assessment process for each of the Subrecipients with whom the University enters into sub-award agreements. We also recommended that the University develops internal controls and processes to ensure that Subrecipient audits (where required) are reviewed, and instances of non-compliance are followed-up on in a timely manner. We observed that the University actioned on these recommendations subsequent to the fiscal year ended April 30, 2020.

View of Responsible Official: Subsequent to the April 30, 2020 year-end, the University developed a risk assessment questionnaire to be sent to all Subrecipients, a process to follow-up on completed questionnaires, and a risk assessment methodology to follow when questionnaires are submitted. The University will follow up with Subrecipients on instances of non-compliance in order to determine what actions (if any) in respect of the sub-award agreement need to be taken.