Single Audit Report

QUEEN'S UNIVERSITY AT KINGSTON

And Independent Auditors' Report thereon

Year ended April 30, 2019

QUEEN'S UNIVERSITY AT KINGSTON

Single Audit Report

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Year ended April 30, 2019

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INDEPENDENT AUDITORS' REPORT

To the Management of Queen's University at Kingston and U.S. Federal Awarding Agencies

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, 2019, the consolidated statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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, and for such internal control as management determines is necessary to enable the preparation 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 University'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 University'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, 2019, 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.

Other Matters

In accordance with *Government Auditing Standards*, we have also issued our report dated September 27, 2019 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Kingston, Canada

September 27, 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at April 30, 2019
(Thousands of dollars)

	2019	2018
ASSETS		
Current		
Cash	$ 161,175	$ 141,967
Accounts receivable (note 3)	31,192	37,115
Loans receivable (note 4)	267	275
Prepaid expenses	4,279	3,586
Investments (note 5)	160,170	113,575
Total current assets	357,083	296,518
Loans receivable (note 4)	2,504	2,807
Investments (note 5)	1,522,785	1,429,033
Capital assets (note 6)	928,108	900,669
	$ 2,810,480	$ 2,629,027
LIABILITIES AND NET ASSETS		
Current		
Accounts payable and accrued liabilities (note 7)	$ 94,086	$ 115,368
Current portion of long-term debt (note 10)	3,961	3,842
Deferred revenue and contributions (note 8)	277,289	243,708
Total current liabilities	375,336	362,918
Deferred capital contributions (note 9)	439,267	425,896
Long-term debt (note 10)	264,436	268,397
Employee future benefits liability (note 11)	74,818	94,620
	1,153,857	1,151,831
Net Assets		
Endowments (note 12)	1,152,622	1,085,486
Invested in capital assets	221,112	203,046
Internally restricted (note 13)	293,306	198,198
Unrestricted deficit	(10,417)	(9,534)
	1,656,623	1,477,196
	$ 2,810,480	$ 2,629,027

See accompanying notes to consolidated financial statements.

Commitments and contingencies (note 18)

Approved on behalf of the Board of Trustees:

Donald M. Raymond
Chair, Board of Trustees

Mary Wilson Trider
Chair, Audit and Risk Committee

CONSOLIDATED STATEMENT OF OPERATIONS

Year ended April 30, 2019
(Thousands of dollars)

	2019	2018
REVENUES		
Grants and contracts	$ 418,728	$ 385,347
Student fees	391,372	354,021
Sales of service and products	99,903	95,614
Investment income (note 5)	75,087	47,087
Donations	31,769	15,260
Other	28,134	26,485
Amortization of deferred capital contributions (note 9)	24,760	23,902
	1,069,753	947,716
EXPENSES		
Salaries and benefits	493,164	464,591
Supplies and services	189,478	150,629
Externally contracted services	78,562	63,730
Student assistance	66,130	63,957
Amortization of capital assets	46,832	44,547
Renovations and alterations	31,205	28,081
Utilities, taxes and insurance	23,769	23,375
Travel and conferences	21,539	19,897
Interest on long-term debt	13,866	13,995
	964,545	872,802
Excess of revenues over expenses	$ 105,208	$ 74,914

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Year ended April 30, 2019
(Thousands of dollars)

	Endowments	Invested in capital assets	Internally Restricted	Unrestricted	**Total 2019**	**Total 2018**
Net assets / (deficit), beginning of year	$ 1,085,486	$ 203,046	$ 198,198	$ (9,534)	$ 1,477,196	$ 1,440,378
(Deficiency) / excess of revenues over expenses	-	(22,072)	-	127,280	105,208	74,914
Employee future benefits remeasurements and other items (note 11)	-	-	-	14,568	14,568	(73,626)
Change in net assets invested in capital assets	-	40,138	-	(40,138)	-	-
Change in internally restricted net assets	-	-	95,828	(95,828)	-	-
Endowment contributions (note 12)	25,533	-	-	-	25,533	22,168
Excess / (deficiency) of investment earnings over endowment spending (note 12)	36,303	-	-	(6,765)	29,538	8,483
Departmental transfers and other contributions (note 12)	5,300	-	(720)	-	4,580	4,879
Net assets / (deficit), end of year	$ 1,152,622	$ 221,112	$ 293,306	$ (10,417)	$ 1,656,623	$ 1,477,196

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended April 30, 2019
(Thousands of dollars)

		2019		2018
OPERATING ACTIVITIES:				
Excess of revenues over expenses	$	105,208	$	74,914
Non-cash items:				
Amortization of deferred capital contributions		(24,760)		(23,902)
Amortization of capital assets		46,832		44,547
Employee future benefits		(5,234)		(14,596)
Net change in non-cash working capital (note 14)		17,529		(3,228)
Cash provided by operating activities		139,575		77,735
INVESTING ACTIVITIES:				
Net change in loans receivable		311		359
Net change in investments		(140,347)		(80,807)
Purchases (net of disposals) of capital assets		(74,271)		(101,270)
Investment gain reported as direct increase in net assets		29,538		8,483
Cash used in investing activities		(184,769)		(173,235)
FINANCING ACTIVITIES:				
Repayment of long-term debt		(3,842)		(3,727)
Contributions received for capital purposes		38,131		64,893
Contributions reported as direct increase in net assets		30,113		27,047
Cash provided by financing activities		64,402		88,213
Net increase / (decrease) in cash		19,208		(7,287)
Cash, beginning of year		141,967		149,254
Cash, end of year	$	161,175	$	141,967

See accompanying notes to consolidated financial statements.

1. AUTHORITY

Queen's University at Kingston ("the University") operates under the authority of the Royal Charter of 184l 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, the not-for-profit technology transfer office of the University, 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.

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.

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.

Other financial instruments, including accounts receivable, accounts payable and debt are recorded at fair value upon initial recognition, which represents costs, 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.

Amortization is provided on a straight line basis over the estimated useful life of the asset as follows:

Asset	Useful Life
Buildings	40 years
Cogeneration facility	20 years
Equipment and furnishings	5 years
Intangible assets	5 years
Library acquisitions	5 years
Leasehold improvements	Term of lease

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

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

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 as donation revenue and expense at fair market value at the date of contribution. Collection purchases are expensed as acquired. The art and book collections are fully insured through a fine arts policy. At April 30, 2019, the art collection had a market value of $232,863 (2018 - $208,527) and the book collection had a market value of $1,091 (2018 - $699) .

(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.

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

3. 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 $3,410 (2018 - $3,347).

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

Fiscal year		
2020	$	24,735
2021		13,836
2022		10,651
2023		9,314
2024		7,867
Thereafter		9,260
	$	75,663

4. LOANS RECEIVABLE

Loans receivable is comprised of an amount receivable regarding relocation loans to employees in the amount of $100 (2018 - $200), microcomputer loans to employees in the amount of $nil (2018 - $54) and a loan to the Kingston Health Sciences Centre / Queen's Parking Commission (the "Parking Commission") in the amount of $2,671 (2018 - $2,828). The loan to the Kingston Health Sciences Centre / Queen's Parking commission the Parking Commission bears interest at 6 per cent per annum and matures in October 2030. The other loans have varying maturity dates and do not bear interest.

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

5. INVESTMENTS AND INVESTMENT INCOME

(a) Investments

Fair value details of investments are as follows:

		2019		2018
Current				
Short-term	$	160,170	$	113,575
Non-current				
Pooled Endowment Fund		1,136,802		1,075,064
Pooled Investment Fund		261,707		245,726
Other		124,276		108,243
		1,522,785		1,429,033
Total investments	$	1,682,955	$	1,542,608

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

(b) Uncalled commitments

As at April 30, 2019, 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, 2019, the University had uncalled commitments of approximately $26,596 (2018 - $35,156), 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.

(c) Investment income

Investment income is comprised of the following:

		2019		2018
Realized income on investments	$	62,030	$	70,139
Unrealized gains / (losses) on investments		17,961		(17,678)
		79,991		52,461
Investment management fees and transaction costs		(4,904)		(5,374)
Investment income	$	75,087	$	47,087

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

6. CAPITAL ASSETS

Capital assets consist of the following:

	2019			2018		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	$ 84,158	$ -	$ 84,158	$ 86,462	$ -	$ 86,462
Buildings	1,236,823	451,953	784,870	1,100,122	423,962	676,160
Leasehold improvements	12,698	7,798	4,900	12,587	7,104	5,483
Equipment and furnishings	181,964	151,841	30,123	200,514	170,899	29,615
Cogeneration facility	15,494	9,323	6,171	15,494	8,549	6,945
Library acquisitions	116,573	114,530	2,043	123,050	120,498	2,552
Software	31,366	31,366	-	31,366	31,343	23
Construction in process	15,843	-	15,843	93,429	-	93,429
	$ 1,694,919	$ 766,811	$ 928,108	$ 1,663,024	$ 762,355	$ 900,669

7. 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 $10,970 (2018 - $12,741).

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

8. DEFERRED REVENUE AND CONTRIBUTIONS

		2019		2018
Research funds	$	163,521	$	129,208
Trust funds		64,815		62,772
Student fees		32,049		28,225
Capital funds		6,052		11,310
Other		8,377		9,024
Gift annuities		2,475		3,169
	$	277,289	$	243,708

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.

9. 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:

		2019		2018
Balance, beginning of year	$	425,896	$	384,905
Amortization of deferred capital contributions		(24,760)		(23,902)
Contributions received for capital purposes		38,131		64,893
	$	439,267	$	425,896

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

10. LONG-TERM DEBT

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

	Maturity in Fiscal Year Ending	Interest Rate	2019 Principal Outstanding	2018 Principal Outstanding
Amortizing unsecured bank loan maturing November 1, 2030	2031	variable	$ 56,852	$ 60,849
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
			271,852	275,849
Unamortized transaction costs/bond discount			(3,455)	(3,610)
			268,397	272,239
Less current portion			(3,961)	(3,842)
			$ 264,436	$ 268,397

The University has established sinking funds to provide funds to repay both the Series A senior unsecured debenture maturing on November 19, 2032 and the Senior unsecured debentures maturing in April and June 2040. At April 30, 2019 the value of the sinking funds is $102,951 (2018 - $89,333).

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	
2020	$ 3,961
2021	4,083
2022	4,209
2023	4,338
2024	4,471
Thereafter	247,335
	$ 268,397

11. 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 $29,272 (2018 - $24,524) and non-pension retirement and post-employment benefit expenses of $9,746 (2018 – $9,189).

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 (2018 – 5.6 per cent).

The discount rate used in the actuarial measurement of the benefit plans expense was 5.6 per cent (2018 – 5.8 per cent).

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

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

	2019			2018		
	Pension benefit plan	Other benefit plans	Total	Pension benefit plan	Other benefit plans	Total
Accrued benefit liability						
Accrued benefit obligation	$ (2,141,428)	$ (95,768)	$ (2,237,196)	$ (2,071,930)	$ (103,289)	$ (2,175,219)
Fair value of plan assets	2,162,378	-	2,162,378	2,080,599	-	2,080,599
Accrued benefit asset / (liability)	$ 20,950	$ (95,768)	$ (74,818)	$ 8,669	$ (103,289)	$ (94,620)
Benefit plan expense						
Current service cost	$ 29,758	$ 3,961	$ 33,719	$ 27,722	$ 3,926	$ 31,648
Finance (income) / costs	(486)	5,785	5,299	(3,198)	5,263	2,065
Net benefit cost	$ 29,272	$ 9,746	$ 39,018	$ 24,524	$ 9,189	$ 33,713
Remeasurements and other items						
Difference between actual and expected return	$ (2,899)	$ -	$ (2,899)	$ 11,455	$ -	$ 11,455
Actuarial (gain) / loss on accrued benefit obligation	2,232	(13,901)	(11,669)	55,777	6,394	62,171
Net remeasurements and other items (gains) / losses	$ (667)	$ (13,901)	$ (14,568)	$ 67,232	$ 6,394	$ 73,626

Details of annual contributions and benefits paid are as follows:

	2019		2018	
	Pension benefit plan	Other benefit plans	Pension benefit plan	Other benefit plans
Employer contributions	40,886	3,366	45,288	3,021
Employee contributions	28,867	-	27,013	-
Benefits paid	111,203	3,366	105,486	3,021

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, 2019. 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, 2019. 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, 2019.

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.

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

12. 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:

	2019			2018		
	External	Internal	Total	External	Internal	Total
Investment income on endowments	$ 63,196	$ 15,259	$ 78,455	$ 39,593	$ 10,269	$ 49,862
Less: available for spending	(33,658)	(8,494)	(42,152)	(31,110)	(7,958)	(39,068)
Excess of investment earnings over endowment spending	29,538	6,765	36,303	8,483	2,311	10,794
Endowment contributions	25,533	-	25,533	22,168	-	22,168
Departmental transfers and other contributions	4,674	626	5,300	5,569	424	5,993
Net increase in net assets	59,745	7,391	67,136	36,220	2,735	38,955
Net assets, beginning of year	864,438	221,048	1,085,486	828,218	218,313	1,046,531
Net assets, end of year	$ 924,183	$ 228,439	$ 1,152,622	$ 864,438	$ 221,048	$ 1,085,486

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

13. INTERNALLY RESTRICTED NET ASSETS

Details of year-end balances are as follows:

	2019	2018
Operating contingencies	$ 184,773	$ 181,915
Unspent research funds	49,792	42,186
Internally financed capital projects	(115,449)	(111,472)
Sinking funds	102,951	89,333
Capital reserves	104,826	65,250
Employee future benefits		
Pension and other benefit plans deficit	(74,818)	(94,620)
Pension reserve	41,231	25,606
	$ 293,306	$ 198,198

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 10.

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.

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

14. NET CHANGE IN NON-CASH WORKING CAPITAL

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

		2019		2018
Net change in non-cash working capital:				
Accounts receivable	$	5,923	$	(7,963)
Prepaid expenses		(693)		1,582
Accounts payable and accrued liabilities		(21,282)		15,984
Deferred revenue and contributions		33,581		(12,831)
	$	17,529	$	(3,228)

15. 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 is disclosed in Note 5.

Derivative financial instruments

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

		2019				2018		
		Notional value		Fair value		Notional value		Fair value
US Dollar	$	176,218	$	(1,596)	$	176,395	$	21
Other		76,918		(396)		86,796		844
	$	253,136	$	(1,992)	$	263,191	$	865

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 $(1,992) (2018 - $865) in investments (Note 5). 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.

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

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 has entered into forward foreign exchange contracts to minimize exchange rate fluctuations and to mitigate any uncertainty for future financial results.

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

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

Externally restricted endowments, as described in Note 12, 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.

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

	2019	2018
Endowment Funds:		
Opening balance	$ 68,744	$ 68,973
Transfer to expendable funds	(213)	(229)
Endowment capital	$ 68,531	$ 68,744
Expendable Funds:		
Opening balance	$ 428	$ 428
Investment income	4,093	3,862
Bursaries awarded	(4,306)	(4,091)
Transfer from endowment funds	213	229
Expendable funds available for awards	$ 428	$ 428
Number of bursaries awarded	1,504	1,358

The market value of the OSOTF phase 1 endowment fund at April 30, 2019 is $115,044 (2018 - $112,098).

(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 2 of the program:

(for the year ended March 31)	OSOTF II	OTSS	2019 Total	2018 Total
Endowment Funds:				
Opening balance	$ 12,357	$ 33,134	$ 45,491	$ 44,542
Donations received	-	909	909	729
Transfer from expendable funds	27	210	237	220
Endowment capital	$ 12,384	$ 34,253	$ 46,637	$ 45,491
Expendable Funds:				
Opening balance	$ 109	$ 241	$ 350	$ 435
Internal Transfers to expendable funds	-	20	20	-
Investment income	623	1,986	2,609	1,857
Bursaries awarded	(601)	(1,363)	(1,964)	(1,722)
Transfer to endowment funds	(27)	(210)	(237)	(220)
Expendable funds available for awards	$ 104	$ 674	$ 778	$ 350
Number of bursaries awarded	206	539	745	673

The market value of the OSOTF phase 2 endowment fund at March 31, 2019 was $62,452 (2018 - $60,163).

17. 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. In fiscal 2011 the Parking Commission embarked on a significant restoration project. The project has been completed, with the University's share of these capital expenditures being $3,750 (2018 - $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 share of the Parking Commission's excess of revenues over expenses of $635 (2018 - $587) is reported in the consolidated statement of operations. The investment in the Parking Commission is accounted for using the equity method.

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

(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 $1,695 (2018 - $1,156).

(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 surplus at April 30, 2018 was $249 (2017 - $309).

	2018	2017
Total assets	$ 2,777	$ 3,297
Total liabilities	2,279	2,679
Total fund balances	$ 498	$ 618
Revenues	$ 4,684	$ 4,613
Expenses	4,804	4,411
(Deficiency) / excess of revenues over expenses	$ (120)	$ 202

(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 18(c)).

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

(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 18(d)).

The following financial information at March 31, 2019 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.

	2019	2018
Total assets	$ 54,766	$ 50,147
Total liabilities	9,283	9,095
Total fund balances	$ 45,483	$ 41,052
Revenues	$ 87,264	$ 95,214
Expenses	82,832	81,630
Excess of revenues over expenses	$ 4,432	$ 13,584

18. 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, 2019, 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, 2018, the date of the latest financial statements available, CURIE had a surplus of $79,338 (2017 - $81,232).

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.

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

(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 2020. 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, 2019 the estimated cost to complete construction in process for the extension of facilities is approximately $4,856 (2018 - $33,085). 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		
2020	$	3,834
2021		2,829
2022		2,230
2023		1,742
2024		1,600
Total thereafter		4,994
	$	17,229

(f) Other

In addition to the capital commitments disclosed in Note 18(e), the University has issued letters of credit of $2,620 primarily for capital construction.

19. COMPARATIVE FIGURES

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

QUEEN’S UNIVERSITY AT KINGSTON

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

Year ended April 30, 2019

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						
12.300	Office of Naval Research	Pass-Through Award	N00014-16-1-2732	Syracuse University	2019-12-31	$ -	$ 134,779
12.300	Office of Naval Research	Direct	N62909-17-1-2169		2019-09-28	-	20,881
	Total US Department of the Navy					-	155,660
	National Endownment for the Umanities						
45.160	National Endownment for the Umanities	Direct	FEL-262181-19		2019-06-30	-	30,633
	Total National Endownment for the Umanities					-	30,633
	National Science Foundation						
47.050	National Science Foundation	Pass-Through Award	1623895	Rutgers, The State University of NJ	2019-08-31	-	15,987
	Total National Science Foundation					-	15,987
	United States Department of Health and Human Services						
93.242	National Institutes of Health	Pass-Through Award	R01MH112904	The State University od New York	2022-04-30	-	83,093
93.286	National Institutes of Health	Pass-Through Award	R01EB021396	Kitware Inc.	2020-07-31	-	70,623
93.394	National Institutes of Health	Direct	R01CA165958		2018-05-31	-	136,274
93.395	National Institutes of Health	Direct	U10CA180863		2025-02-28	-	2,716,353
93.395	National Institutes of Health	Pass-Through Award	UG1CA189823	Dana-Farber Cancer Institute Inc.	2019-07-31	-	7,538
93.837	National Institutes of Health	Pass-Through Award	U01HL130163	St. Michael's Hospital	2021-01-31	-	1,017
93.838	National Institutes of Health	Pass-Through Award	R01HL132887	University of Vermont and State Agricultural College	2020-03-31	-	225,167
93.838	National Institutes of Health	Pass-Through Award	U54HL142012	The Children's Hospital of Philadelphia	2019-04-30	-	30,972
93.838	National Institutes of Health	Pass-Through Award	U54HL142012	The Children's Hospital of Philadelphia	2019-04-30	-	181,126
93.847	National Institutes of Health	Direct	U01DK103271		2020-06-30	238,509	17,250
93.855	National Institutes of Health	Direct	R33AI121575		2019-11-30	115,315	136,503
93.866	National Institutes of Health	Pass-Through Award	R01AG058171	Wayne State University	2019-05-31	-	43,005
93.867	National Institutes of Health	Pass-Through Award	4R01EY021137	The Children's Hospital of Philadelphia	2018-08-31	-	2,394
93.867	National Institutes of Health	Pass-Through Award	U10EY011751	Jaeb Center for Health Research Foundation Inc.	2018-12-31	-	3,358
	Total United States Department of Health and Human Services					353,824	3,654,674
	Total Expenditures Research and Development Cluster					$ 353,824	3,856,954
							$ 4,210,778

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

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, 2019.

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 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 and U.S. Federal Awarding Agencies

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, 2019, the consolidated statements of operations, changes in net assets and cash flows for the year then ended April 30, 2019, and the related notes to the consolidated financial statements, comprising a summary of significant accounting policies and other explanatory information, and have issued a report thereon dated September 27, 2019.

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 2019-001, 2019-002, 2019-003, 2019-004) 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Kingston, Canada

September 27, 2019

KPMG

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Independent Auditors' Report on Compliance with Requirements that could have a Direct and Material Effect on the Federal Program; Report on Internal Control over Compliance in Accordance with Program Specific Opinion; and Report on Schedule of Expenditures of Federal Award Required by Uniform Guidance

To the Management of Queen's University at Kingston and U.S. Federal Awarding Agencies

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, 2019.

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, 2019.

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 2019-001, 2019-002, 2019-003, and 2019-004. 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's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 2019-001, 2019-002, 2019-003, 2019-004).

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, 2019, and have issued our report thereon dated September 27, 2019, 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.

KPMG LLP

Chartered Professional Accountants, Licensed Public Accountants

Kingston, Canada

September 27, 2019

(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:

CFDA number	Name of federal program or cluster
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: **No**

(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 2019-001: The University does not obtain suspension and debarment certifications from contracted parties, nor does it perform its own checks through the System for Award Management ("SAM").

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, 2018 to April 30, 2019

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

Finding 2019-001 (continued):

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.

Condition Found: The University does 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.

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 and therefore did not modify 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.

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: This is the first Single Audit Report issued for Queen’s University at Kingston.

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

Recommendation: We recommend 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 recommend that the University work with its Research Finance team to ensure that the Excluded Parties List System is checked.

View of Responsible Official: For all purchases made under U.S. Federal Awards, The University will ensure 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.

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

Finding 2019-002: The University's micro-purchase threshold, as indicated in its Procurement Policy, exceeds the amount dictated by Uniform Guidance.

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, 2018 to April 30, 2019

Questioned Costs: No known questioned costs.

Condition Found: The University does not have a policy in place to ensure that an adequate number of competitive quotations are obtained for purchases exceeding the micro-purchase threshold as dictated by Uniform Guidance.

Criteria: The micro-purchase threshold is used in simplified acquisition procedures to expedite the completion of the non-Federal entity's small purchase transactions to minimize the associated administrative burden and cost. This threshold is set by the Federal Acquisition Regulation at 48 CFR Subpart 2.1 and is $3,000.

Cause: The University was not aware of this requirement, and did not specifically tailor its Procurement Policy to account for this micro-purchase threshold. The University's Policy allows for purchases up to $9,999 to be made through its catalogue supplier or through the use of Procurement Cards, without soliciting competitive quotations.

Possible Asserted Effects: Failure to follow the methods of procurement as prescribed by the standard could lead to procurement transactions being conducted in a manner that does not provide full and open competition, which ensures objective contractor performance and eliminates unfair competitive advantage.

Repeat Finding: This is the first Single Audit Report issued for Queen's University at Kingston.

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

Recommendation: We recommend that management revise its Procurement Policy to include a subsection that stipulates a micro-purchase threshold for purchases being made with U.S. Federal funds. This will allow for procedures within the Research department to be revised and align with regulatory standards, without having a substantial impact on the University's procurement processes as a whole.

View of Responsible Official: The University will revise its Procurement Procedures to require at least two competitive quotations for purchases made with U.S. Federal funds that are $3,000 or greater.

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

Finding 2019-003: The University does not actively monitor its Subrecipient's financial performance.

Federal Agency:	National Institutes of Health
Program Name:	Research and Development Cluster
CFDA#:	93.855
Program Expenditures:	$251,818
Federal Award Number:	R33AI121575
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.

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 formal requirement and therefore did not modify 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.

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

Repeat Finding: This is the first Single Audit Report issued for Queen's University at Kingston.

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

Recommendation: We recommend that management implements 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.

View of Responsible Official: The University will implement 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.

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

Finding 2019-004: In addition to failing to monitor one of its Subrecipient's financial performance, the University did not follow the other requirements for pass-through entities as dictated by Uniform Guidance.

Federal Agency:	National Institutes of Health
Program Name:	Research and Development Cluster
CFDA#:	93.847 93.855
Program Expenditures:	$255,759 $251,818
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 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;

(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 #2019-003**);

(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;

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

Finding 2019-004 (continued):

(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 formal requirement and therefore did not modify 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.

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: This is the first Single Audit Report issued for Queen's University at Kingston.

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

Recommendation: We recommend that management implements a formal risk assessment process for each of the Subrecipients with whom the University enters into sub-award agreements. We also recommend 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.

View of Responsible Official: The University will develop 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.