



Financial Statements

National Research Council Canada

March 31, 2011

National Research Council Canada

Statement of Management Responsibility Including Internal Control Over Financial Reporting

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2011, and all information contained in these statements rests with the management of the National Research Council Canada (NRC). These financial statements have been prepared by management in accordance with Treasury Board accounting policies, which are based on Canadian generally accepted accounting principles for the public sector.

Management is responsible for the integrity and objectivity of the information in these financial statements. Some of the information in the financial statements is based on management's best estimates and judgement, and gives due consideration to materiality. To fulfill its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of NRC's financial transactions. Financial information submitted in the preparation of the Public Accounts of Canada, and included in *NRC's Departmental Performance Report*, is consistent with these financial statements.

Management is also responsible for maintaining an effective system of internal control over financial reporting designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly authorized and recorded in accordance with the *Financial Administration Act* and other applicable legislation, regulations, authorities and policies.

Management seeks to ensure the objectivity and integrity of data in its financial statements through careful selection, training, and development of qualified staff; through organizational arrangements that provide appropriate divisions of responsibility; through communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout NRC; and through conducting an annual assessment of the effectiveness of the system of internal control over financial reporting.

An assessment for the year ended March 31, 2011 was completed in accordance with the *Treasury Board Policy on Internal Control* and the results and action plans are summarized in annex.

The system of internal control over financial reporting is designed to mitigate risks to a reasonable level based on an on-going process to identify key risks, to assess the effectiveness of associated key controls, and to make any necessary adjustments.

The effectiveness and adequacy of NRC's system of internal control is reviewed by the work of internal audit staff, who conduct periodic audits of different areas of NRC's operations, and by the NRC Departmental Audit Committee, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting, and which recommends the financial statements to the President.

The Office of the Auditor General, the independent auditor for the Government of Canada, has expressed an opinion on the fair presentation of the financial statements of NRC which does not include an audit opinion on the annual assessment of the effectiveness of NRC's internal controls over financial reporting.

John R. McDougall, P.Eng.
President

Michel Piché, M.P.A., CMA, CIA
Vice-President, Corporate Management
and Chief Financial Officer

Ottawa, Canada
February 22, 2012

National Research Council Canada
Statement of Financial Position
as at March 31

<i>(in thousands of dollars)</i>	2011	2010
ASSETS		
Financial Assets		
Due from the Consolidated Revenue Fund	197,300	197,426
Accounts receivable and advances (Note 4)	25,806	18,892
Inventory for resale	2,192	3,001
Equity investments (Note 5)	472	252
Endowment fund investments (Note 6)	<u>4,631</u>	<u>4,515</u>
	<u>230,401</u>	<u>224,086</u>
Non-Financial Assets		
Prepaid expenses	11,498	10,344
Inventory for consumption	4,757	3,409
Tangible capital assets (Note 7)	<u>573,723</u>	<u>579,084</u>
	589,978	592,837
TOTAL ASSETS	<u>820,379</u>	<u>816,923</u>
LIABILITIES AND EQUITY OF CANADA		
Liabilities		
Accounts payable and accrued liabilities (Note 8)	139,331	144,332
Vacation pay and compensatory leave	38,531	43,032
Deferred revenue (Note 9)	63,731	79,507
Lease obligation for tangible capital assets (Note 10)	213	277
Employee future benefits (Note 11)	<u>71,099</u>	<u>69,004</u>
	312,905	336,152
Equity of Canada	507,474	480,771
TOTAL LIABILITIES AND EQUITY OF CANADA	<u>820,379</u>	<u>816,923</u>
Contingent liabilities (Note 12)		
Contractual obligations (Note 13)		
Net debt indicator (Note 14)		

The accompanying notes form an integral part of these financial statements.

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 President

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 Vice-President, Corporate Management
 and Chief Financial Officer

Ottawa, Canada
 February 22, 2012

National Research Council Canada
Statement of Operations
for the year ended March 31

<i>(in thousands of dollars)</i>	2011	2010
Expenses		
Manufacturing Technologies	177,531	183,576
Information and Communication Technologies (ICT) and Emerging Technologies	92,599	90,882
Industrial Research Assistance	288,983	290,101
Health and Life Sciences Technologies	141,336	139,536
Energy and Environmental Technologies	53,631	55,997
National Science and Technology Infrastructure	103,509	109,215
Scientific, Technical and Medical Information	27,013	37,982
Internal Services	<u>116,029</u>	<u>114,150</u>
Total Expenses	<u>1,000,631</u>	<u>1,021,439</u>
Revenues		
Manufacturing Technologies	76,014	65,204
Information and Communication Technologies (ICT) and Emerging Technologies	20,425	11,519
Industrial Research Assistance	1,206	18,584
Health and Life Sciences Technologies	32,381	25,152
Energy and Environmental Technologies	17,721	14,524
National Science and Technology Infrastructure	10,413	7,866
Scientific, Technical and Medical Information	3,959	5,286
Internal Services	<u>7,666</u>	<u>10,347</u>
Total Revenues	<u>169,785</u>	<u>158,482</u>
Net Cost from Continuing Operations	830,846	862,957
Net Cost from Discontinued Operations (Note 19)	<u>723</u>	<u>68</u>
Net Cost of Operations	<u>831,569</u>	<u>863,025</u>

Segmented Information (Note 16)

The accompanying notes form an integral part of these financial statements.

**National Research Council Canada
Statement of Equity of Canada
for the year ended March 31**

<i>(in thousands of dollars)</i>	2011	2010
Equity of Canada, beginning of year	480,771	491,370
Net cost of operations	(831,569)	(863,025)
Net cash provided by Government	825,029	809,673
Change in due from the Consolidated Revenue Fund	(126)	8,130
Services provided without charge by other government departments and agencies (Note 15)	<u>33,369</u>	<u>34,623</u>
Equity of Canada, end of year	<u><u>507,474</u></u>	<u><u>480,771</u></u>

The accompanying notes form an integral part of these financial statements.

National Research Council Canada
Statement of Cash Flow
for the year ended March 31

<i>(in thousands of dollars)</i>	2011	2010
Operating Activities		
Net cost of operations	831,569	863,025
Non-cash items		
Amortization of tangible capital assets	(67,203)	(67,879)
Gain on sale of equity investments	133	2,969
Net loss on disposal of tangible capital assets	(1,247)	(2,221)
Services provided without charge by other government departments and agencies(Note 15)	(33,369)	(34,623)
Other	1,190	143
Variations in Statement of Financial Position		
Increase (decrease) in accounts receivable and advances	6,914	(7,779)
(Decrease) increase in inventory for resale	(809)	820
Increase in equity investment	220	-
Increase in endowment fund investments	116	96
Increase (decrease) in prepaid expenses	1,154	(1,756)
Increase in inventory for consumption	1,348	554
Decrease (increase) in liabilities	23,247	(6,209)
Cash used in operating activities (including discontinued operations)	<u>763,263</u>	<u>747,140</u>
Capital Investing Activities		
Acquisitions of tangible capital assets	62,283	66,867
Acquisitions not affecting cash and transfers to inventory for resale	-	(676)
Proceeds from disposal of tangible capital assets	(384)	(282)
Cash used in capital investing activities	<u>61,899</u>	<u>65,909</u>
Investing Activities		
Proceeds from sale of equity investments	(133)	(3,376)
Cash provided in investing activities	<u>(133)</u>	<u>(3,376)</u>
Net cash provided by Government of Canada	<u>825,029</u>	<u>809,673</u>

The accompanying notes form an integral part of these financial statements.

National Research Council Canada

Notes to Financial Statements

Year ended March 31, 2011

1. Authority and Objectives

The National Research Council Canada (NRC) exists under the *National Research Council Act* and is a departmental corporation named in Schedule II of the *Financial Administration Act*. The mission of NRC is to work with clients and partners to provide strategic research, scientific and technical services to develop and deploy solutions to meet Canada's current and future industrial and societal needs.

In delivering its mandate, NRC reports under the following program activities:

- **Manufacturing Technologies:** Multidisciplinary research and development in consultation with industry, universities, government departments and other key innovation players to improve the global competitiveness of Canadian industry by transforming knowledge and innovation into real economic value and by transferring technologies into industrial solutions for the marketplace.
- **Information and Communication Technologies (ICT) and Emerging Technologies:** Mobilizes, collaborates and partners with key university, government and private sector players and forms major research collaborations to develop integrated research solutions in the areas of information and communications technologies and emerging technologies.
- **Industrial Research Assistance:** Provides a range of technical and business-oriented advisory services, as well as financial support for small and medium-sized Canadian businesses engaged in research and development of technological innovations to augment their capacity and capability to innovate, commercialize and generate significant economic activity for Canadian Industry.
- **Health and Life Science Technologies:** Mobilizes and partners with key university, government and private sector players and forms major research collaborations to develop integrated research solutions for complex health and related life science issues.
- **Energy and Environmental Technologies:** In partnership with other government departments, universities and industry, brings together the knowledge and expertise needed to make an impact on areas of critical importance to Canada in environmental and sustainable energy.
- **National Science and Technology Infrastructure:** Manages national science and engineering facilities and infrastructure critical to research, development and innovation by Canadian scientific and technological communities.
- **Scientific, Technical and Medical Information:** Operates and maintains the national science library, specifically holding the national collection of Scientific, Technical and Medical information, to facilitate knowledge discovery, cross discipline research, innovation and commercialization.
- **Internal Services:** Groups of activities and resources administered to support the needs of programs and other corporate obligations of the organization. Includes only those activities and resources that apply across the organization and not to those provided specifically to a program.

2. Summary of Significant Accounting Policies

These financial statements have been prepared in accordance with Treasury Board accounting policies stated below, which are based on Canadian generally accepted accounting principles for the public sector. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian generally accepted accounting principles, except as disclosed in Note 14 - Net Debt Indicator.

Significant accounting policies are as follows:

a) Parliamentary authorities

NRC is financed mainly by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to NRC do not parallel financial reporting according to generally accepted accounting principles since authorities are primarily based on cash flow requirements. Consequently, items recognized in the Statement of Operations and the Statement of Financial Position are not necessarily the same as those provided through authorities from Parliament. Note 3 provides a reconciliation between the bases of reporting.

b) Net Cash Provided by Government

NRC operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by NRC is deposited to the CRF and all cash disbursements made by NRC are paid from the CRF. The net cash provided by Government is the difference between all cash receipts and all cash disbursements including transactions between departments (including agencies) of the Government.

c) Amounts due from/to the CRF

Amounts due from/to the CRF are the result of timing differences at year-end between the time when a transaction affects authorities and when it is processed through the CRF. Amounts due from the CRF represent the net amount of cash that NRC is entitled to draw from the CRF without further authorities to discharge its liabilities.

d) Revenues

- Receipts are deposited to the Consolidated Revenue Fund. Under the NRC Act, money received by NRC through the conduct of its operations is spendable in the current or in subsequent years.
- Revenues are recognized in the year in which the underlying transaction or event occurred that gave rise to revenue.
- Funds received for which NRC has an obligation to other parties for the provision of goods, services or the use of assets in the future are recorded as deferred revenue.
- Contributions of leased tangible capital assets are deferred and amortized as Lease inducement revenue on the same basis as the related depreciable tangible capital assets.

e) Expenses

- Expenses are recorded on an accrual basis.
- Grants are recognized in the year in which the conditions for payment are met. In the case of grants which do not form part of an existing program, the expense is recognized when the Government announces a decision to make a non-recurring transfer, provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the financial statements.
- Contributions are recognized in the year in which the recipient has met the eligibility criteria or fulfilled the terms of a contractual transfer agreement, provided that the transfer is authorized and a reasonable estimate can be made.
- Vacation pay and compensatory leave are accrued as the benefits are earned by employees under their respective terms of employment.
- Services provided without charge by other government departments and agencies for accommodation, employer contributions to the health and dental insurance plans, audit of NRC's financial statements, legal services and workers' compensation are recorded as operating expenses at their estimated cost and credited directly to equity.

f) Employee future benefits

i) Pension Benefits

Eligible employees participate in the Public Service Pension Plan, a multiemployer plan administered by the Government of Canada. NRC's contributions to the Plan are charged to expenses in the year incurred and represent NRC's total obligation to the Plan. Current legislation does not require NRC to make contributions for any actuarial deficiencies of the Plan.

ii) Severance Benefits

Employees are entitled to severance benefits under labour contracts or conditions of employment. These benefits are accrued as employees render the services necessary to earn them. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

g) Accounts receivable

Accounts receivable are stated at the lower of cost and net recoverable value; a valuation allowance is recorded for receivables where recovery is considered uncertain.

h) Conditionally repayable contributions

Conditionally repayable contributions are contributions that, all or part of which become repayable, if conditions specified in the contribution agreement come into effect. Accordingly, they are not recorded on the Statement of Financial Position until the conditions specified in the agreement come into effect, at which time they are recorded as a receivable and a reduction in transfer payment expenses. An estimated allowance for uncollectibility is recorded where appropriate.

i) Contingent liabilities

Contingent liabilities are potential liabilities, which may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

j) Environmental liabilities

Environmental liabilities reflect the estimated costs related to the management and remediation of environmentally contaminated sites. Based on management's best estimates, a liability is accrued and an expense recorded when the contamination occurs or when NRC becomes aware of the contamination and is obligated, or is likely to be obligated to incur such costs. If the likelihood of NRC's obligation to incur these costs is not determinable, or if an amount cannot be reasonably estimated, the costs are disclosed as contingent liabilities in the notes to the financial statements.

k) Inventories

Inventory for resale and for consumption is recorded at the lower of cost (using the average cost method) or net realizable value. The cost is charged to operations in the year in which the items are sold or used.

l) Equity investments

Equity investments include shares in public and privately-held companies. Equity investments are typically obtained as a result of debt settlement negotiations or as a result of non-monetary transactions (where financial assistance at better-than-market conditions was provided to firms through access to intellectual property, equipment and incubation space in laboratories). If the estimates of the non-monetary transactions cannot be determined, the equity investments are initially recorded at a nominal value. Otherwise they are initially recorded at fair value based on market prices. If the fair value of equity investments becomes lower than the book value and this decline in value is considered to be other than temporary, the equity investments are written down to fair value.

m) Endowment fund investments

Endowments consist of donations subject to externally imposed restrictions stipulating that the resources be maintained permanently. Income from the investment of endowments may only be used for the purposes established by the donors.

Endowments are recognized as an asset when the amount to be received can be reasonably estimated and ultimate collection is reasonably assured.

Funds received for endowments are invested in bonds and are carried at amortized cost. The premium or discount determined at the time of acquisition is amortized until the security's maturity. Fair value of bonds is based on market prices.

n) Foreign currency transactions

Transactions involving foreign currencies are translated into Canadian dollar equivalents using rates of exchange in effect at the time of those transactions. Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars using the rate of exchange in effect at year end. Gains and losses resulting from foreign currency transactions are included in the applicable line on the Statement of Operations according to the activities to which they relate. Net gains and losses relating to the sale of goods or services denominated in a foreign currency are included in revenues. Net gains and losses relating to the purchase of goods or services denominated in a foreign currency are included in expenses. Contractual obligations may contain foreign currencies that are translated into Canadian dollar equivalents using the rate of exchange in effect at March 31, 2011.

o) Tangible capital assets

Acquired tangible capital assets and leasehold improvements having an initial cost of \$5,000 or more are recorded at their acquisition cost. Contributed tangible capital assets are recorded at market value at the date of contribution. NRC does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value. Assets acquired under tangible capital leases are initially recorded at the lower of the present value of the minimum lease payments at the inception of the lease or fair value. Tangible capital assets held for sale are recorded at the lower of their carrying value or fair value less cost to sell and no amortization is recorded.

Amortization of tangible capital assets is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Asset Class	Amortization Period
Land	Not applicable
Buildings and facilities	25 years
Works and infrastructure	25 - 40 years
Machinery, equipment and furniture	10 years
Informatics equipment	5 years
Informatics software	5 years
Vehicles	7 years
Aircraft	15 - 30 years
Leasehold improvements	Lesser of the remaining term of the lease or useful life of the improvement
Leased tangible capital assets	In accordance with asset class

Assets under construction are recorded in the applicable capital asset class in the year that they become available for use and are not amortized until they become available for use.

Where NRC enters into land leases at a nominal value, the transaction is considered as a non-monetary transaction and is recorded at fair value. Fair value of the transaction is based on market prices. If the estimates of the non-monetary transactions cannot be determined, the amount of the transaction is recorded at a nominal value.

p) Measurement uncertainty

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are percentage of completion on revenue from the provision of services, contingent liabilities, contaminated site liabilities, the liability for employee severance benefits, the allowance for doubtful accounts, the fair value of non-monetary transactions related to leased tangible capital assets and the useful life of tangible capital assets. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

q) Asset retirement obligations

Liabilities are recognized for statutory, contractual or legal obligations, when incurred, associated with the retirement of tangible capital assets when those obligations result from the acquisition, construction, development or normal operation of the assets. The obligations are measured initially at fair value, determined using present value methodology, and the resulting costs capitalized into the carrying amount of the related asset. In subsequent periods, the liability is adjusted for the accretion of discount and any changes in the amount or timing of the underlying future cash flows. The capitalized asset retirement cost is depreciated on the same basis as the related asset and the discount accretion is included in determining the results of operations.

3. Parliamentary Authorities

NRC receives most of its funding through annual Parliamentary authorities. Items recognized in the Statement of Operations and the Statement of Financial Position in one year may be funded through Parliamentary authorities in prior, current or future years. Accordingly, NRC has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

a) Reconciliation of net cost of operations to current year authorities used

<i>(in thousands of dollars)</i>	2011	2010
Net Cost of Operations	<u>831,569</u>	<u>863,025</u>
Adjustments for items affecting net cost of operations but not affecting authorities (including discontinued operations):		
Revenues	176,959	169,627
Amortization of tangible capital assets	(67,203)	(67,879)
Financial arrangements with other government departments and agencies	(57,978)	(70,266)
Services provided without charge by other government departments and agencies (Note 15)	(33,369)	(34,623)
Specified purpose accounts expenses	(20,856)	(16,491)
Decrease in salary accrual	4,532	8,978
Decrease in vacation pay and compensatory leave	4,501	5,904
Refunds of previous year's expenditures	3,180	1,362
(Increase) decrease in employee future benefits	(2,095)	6,071
Cost of goods sold	(1,732)	(696)
Loss on disposal of tangible capital assets	(1,247)	(2,221)
Other	1,064	596
(Increase) decrease in accrued liability	(431)	309
Decrease in inventory	(430)	(9)
Decrease in litigation claim expense accrual	375	675
Decrease (increase) in contaminated sites liabilities	203	(30)
Bad debt expense	(136)	(689)
Total items affecting net cost of operations but not affecting authorities (including discontinued operations)	<u>5,337</u>	<u>618</u>
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisitions of tangible capital assets and additions to assets under construction	60,801	65,565
Inventory purchases	2,777	1,204
Contaminated sites remediation reducing the liability	1,597	2,299
Increase (decrease) in prepaid expenses	1,154	(1,756)
Decrease in lease obligations for tangible capital assets	63	59
	<u>66,392</u>	<u>67,371</u>
Current year authorities used	<u>903,298</u>	<u>931,014</u>

b) Reconciliation of Parliamentary authorities provided and used

<i>(in thousands of dollars)</i>	2011	2010
Parliamentary appropriations provided:		
Vote 60 – Operating expenditures	427,947	438,567
Vote 65 – Capital expenditures	53,192	52,597
Vote 70 – Grants and contributions	294,888	274,579
Statutory amounts:		
Revenues pursuant to paragraph 5(1)(e) of the <i>National Research Council Act</i>	123,255	155,956
Contributions to employee benefit plans	63,681	67,902
Proceeds from the disposal of surplus Crown assets	594	441
Collection agency fees	25	27
Less:		
Revenues available for use in future years	(48,316)	(46,009)
Lapsed authorities:		
Frozen allotments - Operating	(4,327)	(8,075)
Frozen allotments - Capital	(3,198)	(1,388)
Frozen allotments - Grants and Contributions	(410)	-
Unexpended authorities - Grants and Contributions	(3,581)	(3,543)
Unexpended authorities - Capital	(328)	-
Unexpended authorities - Operating	(124)	(40)
Current year authorities used	903,298	931,014

4. Accounts Receivable and Advances

The following table presents details of NRC's accounts receivable and advances balances:

<i>(in thousands of dollars)</i>	2011	2010
Receivables from external parties	19,177	15,443
Receivables from other government departments and agencies	5,143	2,309
Employee advances	36	40
	<u>24,356</u>	<u>17,792</u>
Less: allowance for doubtful accounts on receivables from external parties	<u>(682)</u>	<u>(856)</u>
	<u>23,674</u>	<u>16,936</u>
Repayable contributions	7,820	10,586
Less: allowance for uncollectibility	<u>(5,688)</u>	<u>(8,630)</u>
Net repayable contributions	2,132	1,956
Total	25,806	18,892

5. Equity Investments

Equity investments include shares in three publicly held companies (three in 2010) and two privately held companies (thirteen in 2010). These shares were obtained through debt settlement or non-monetary transactions. NRC will consider timely opportunities for divestiture of equity investments by taking into account the interests, market liquidity and expected future growth of the applicable company.

During the year, NRC sold shares for \$132,679 (\$3,376,391 in 2010) realizing a gain of \$132,678 (\$2,968,969 in 2010). NRC also received shares in a public company in exchange for debt settlement of \$219,889 (nil in 2010). No companies in which NRC holds equity investments were declared bankrupt or inactive during the year (nine in 2010).

As at March 31, 2011, the book value of the equity investments was \$471,953 (\$252,076 in 2010). The market value of NRC's equity investments in publicly held companies was \$281,123 (\$171,967 in 2010). The market value of the privately held companies is not determinable.

6. Endowment Fund Investments

This account was established pursuant to paragraph 5(1)(f) of the *National Research Council Act* to record the residue of the estate of the late H.L. Holmes. Up to two thirds of the endowment fund's yearly net income is used to finance the H.L. Holmes award on an annual basis. The award provides the opportunity to post-doctoral students to study at world famous graduate schools or research institutes under outstanding researchers.

<i>(in thousands of dollars)</i>	2011	2010
Restricted cash and investments, beginning of year	4,515	4,419
Net income from endowment	213	213
Awards granted	(97)	(117)
Restricted cash and investments, end of year	4,631	4,515

The portfolio had an average effective return of 4.70% (5.07% in 2010) and an average term to maturity of 5.18 years as at March 31, 2011 (5.52 years as at March 31, 2010). The fair value of the endowment investments as at March 31, 2011 was \$4,775,354 (\$4,653,482 in 2010).

7. Tangible Capital Assets

(in thousands of dollars)

Tangible capital asset class	Cost				Accumulated Amortization				Net Book Value	
	Opening balance	Acquisitions	Transfers, disposals and write-offs	Closing balance	Opening balance	Amortization	Transfers, disposals and write-offs	Closing balance	2011 Net book value	2010 Net book value
Land	9,879	-	-	9,879	-	-	-	-	9,879	9,879
Buildings and facilities	655,870	18,711	9,795	684,376	(386,849)	(21,509)	23	(408,335)	276,041	269,021
Works and infrastructure	21,682	110	-	21,792	(14,457)	(654)	-	(15,111)	6,681	7,225
Machinery, equipment and furniture	513,002	14,776	(3,850)	523,928	(335,674)	(34,620)	14,705	(355,589)	168,339	177,328
Informatics equipment	63,628	3,467	(6,015)	61,080	(51,810)	(4,354)	6,786	(49,378)	11,702	11,818
Informatics software	21,767	971	(4,033)	18,705	(13,298)	(2,659)	4,000	(11,957)	6,748	8,469
Vehicles	3,170	49	(184)	3,035	(2,407)	(151)	177	(2,381)	654	763
Aircraft	11,294	66	-	11,360	(9,866)	(118)	-	(9,984)	1,376	1,428
Leasehold improvements	12,808	49	-	12,857	(3,206)	(567)	-	(3,773)	9,084	9,602
Assets under construction	32,961	24,084	(22,181)	34,864	-	-	-	-	34,864	32,961
Leased tangible capital assets	63,700	-	336	64,036	(13,110)	(2,571)	-	(15,681)	48,355	50,590
Total	1,409,761	62,283	(26,132)	1,445,912	(830,677)	(67,203)	25,691	(872,189)	573,723	579,084

When assets under construction are put into use during the fiscal year, they are transferred out of Assets under construction and into the capital asset class to which they relate, from which point on they are amortized as applicable.

Amortization expense for the year ended March 31, 2011 is \$67,202,810 (\$67,879,472 in 2010).

At March 31, 2011, NRC held eight land lease agreements (eight in 2010) for a nominal annual cost of one dollar with universities. In these instances, NRC owns the building on the leased land. The fair value of the land leases for these non-monetary transactions could not be determined at the inception of the lease therefore they are recorded at a nominal value.

On March 21, 1996, NRC entered into a non-monetary transaction consisting of a lease agreement with the University of Western Ontario for the relocation of the Integrated Manufacturing Technologies Institute (IMTI), whereby leased property was provided to NRC for twenty-five years at a nominal cost of one dollar. Since the inception of the lease agreement, IMTI was restructured under NRC's Industrial Materials Institute (IMI) and NRC's Institute for Research in Construction. NRC has no obligations to the University of Western Ontario other than the relocation of the institute. The property was recorded as a leased tangible capital asset at its fair value of \$10,000,000. The annual amortization of \$400,000 for the leased tangible capital asset is exactly offset by the amortization of the deferred contribution related to the leased property.

On May 23, 2006, NRC took possession of a new facility and entered into a non-monetary transaction with the University of Alberta. NRC entered into a lease agreement with the University for the housing of NRC's National Institute for Nanotechnology (NINT), whereby leased property is provided to NRC at a nominal cost of one dollar per year. The lease provides a one year term with options to renew on ten sequential occasions, each of the first nine renewals to be for a period of five years and the tenth renewal for a period of four years. The building was recorded as a leased tangible capital asset at its fair value of \$44,400,000. The annual amortization of \$1,776,000 for the leased tangible capital asset is exactly offset by the amortization of the deferred contribution related to the leased building.

On September 1, 2006, NRC took possession of a new facility and entered into a non-monetary transaction with the University of Prince Edward Island. NRC entered into a lease agreement with the University for the housing of NRC's Institute for Nutrisciences and Health (INH), whereby leased property was provided to NRC at a nominal cost of one dollar per year. The lease provides a nineteen month term with renewal options for seven additional periods of five years, and one additional period of three years and five months (to August 31, 2046). The building was recorded as a leased tangible capital asset at its fair value of \$9,300,000. The annual amortization of \$372,000 for the leased tangible capital asset is exactly offset by the amortization of the deferred contribution related to the leased building.

8. Accounts Payable and Accrued Liabilities

The following table presents details of the NRC's accounts payable and accrued liabilities:

<i>(in thousands of dollars)</i>	2011	2010
Suppliers and contributions payable	108,612	104,421
Payable to other government departments and agencies	21,271	25,641
Accrued wages and employee benefits	8,248	11,495
Contractor holdbacks	1,036	814
Contaminated site liabilities	80	1,880
Sales tax payable	84	81
Total	139,331	144,332

9. Deferred Revenue

Deferred revenue represents amounts received from external parties for which NRC has a future obligation for the provision of goods, services or the use of assets. Revenue is recognized in the period that goods are delivered or services are provided. A summary of the transactions related to this account are as follows:

<i>(in thousands of dollars)</i>	2011	2010
Deferred revenue – contributions related to leased tangible capital assets		
Balance, beginning of year	50,590	53,138
Contributions recognized as revenue	<u>(2,548)</u>	<u>(2,548)</u>
Balance, end of year	<u>48,042</u>	<u>50,590</u>
Deferred revenue - specified purpose accounts		
Balance, beginning of year	20,618	17,060
Funds received	21,713	22,271
Revenue recognized	<u>(32,569)</u>	<u>(18,713)</u>
Balance, end of year	<u>9,762</u>	<u>20,618</u>
Deferred revenue - other		
Balance, beginning of year	8,299	6,972
Funds received	4,838	8,868
Revenue recognized	<u>(7,210)</u>	<u>(7,541)</u>
Balance, end of year	<u>5,927</u>	<u>8,299</u>
Total	63,731	79,507

10. Lease obligation for tangible capital assets

NRC has entered into an agreement to lease mechanical test equipment under capital lease with a cost of \$336,000 and accumulated amortization of \$22,400 as at March 31, 2011 (\$336,000 and \$0 in 2010). The obligations related to the upcoming years include the following:

<i>(in thousands of dollars)</i>	2011	2010
2011	-	80
2012	80	80
2013	80	80
2014	80	80
Total future minimum lease payments	240	320
Less: imputed interest (6.11%)	(27)	(43)
Balance of obligations under leased tangible capital assets	213	277

11. Employee Future Benefits

Employees of NRC are entitled to specific benefits on or after termination or retirement, as provided for under various collective agreements or conditions of employment.

a) Pension benefits

Eligible NRC employees participate in the Public Service Pension Plan, which is sponsored and administered by the Government. Pension benefits accrue up to a maximum of 35 years at a rate of two percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Quebec Pension Plans benefits and they are indexed to inflation.

Both the employees and NRC contribute to the cost of the Plan. The expense amounts to \$44,702,888 as at March 31, 2011 (\$49,024,953 in 2010), which represents approximately 1.9 times (1.9 times in 2010) the contributions by employees.

NRC's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government of Canada, as the Plan's sponsor.

b) Severance benefits

NRC provides severance benefits to its employees based on eligibility, years of service and final salary. These severance benefits are not pre-funded. Benefits will be paid from future authorities. Information about the severance benefits, measured as at March 31, is as follows:

<i>(in thousands of dollars)</i>	2011	2010
Accrued benefit obligation, beginning of year	69,004	75,075
Increase (decrease) of the accrued expense for the year	9,845	(965)
Benefits paid during the year	(7,750)	(5,106)
Accrued benefit obligation, end of year	71,099	69,004

12. Contingent Liabilities

Contingent liabilities arise in the normal course of operations and their ultimate disposition is unknown. They are grouped into these three categories as follows:

a) Contaminated sites

During 2010-11, NRC completed extensive remediation work at specific contaminated sites. Liabilities are accrued to record the estimated costs related to the management and remediation of contaminated sites where NRC is obligated or likely to be obligated to incur such costs. For 2011, NRC has identified four sites (two sites in 2010) where such action is possible and for which a liability of \$79,829 (\$1,880,195 in 2010) has been recorded in accrued liabilities. The estimate has been prepared using current market rates and is based on the results of initial testing performed by NRC at suspect sites. NRC has identified one additional site with contaminants exceeding an environmental standard and for which NRC may be responsible to incur remediation costs. This site is still under investigation and NRC is presently unable to determine the amount of the remediation liability, if any. NRC's ongoing efforts to assess contaminated sites may result in additional environmental liabilities related to newly identified sites, or changes in the assessments or intended use of existing sites. These liabilities will be accrued by NRC in the year in which they become likely and are reasonably estimable.

b) Claims and litigation

Claims have been made against NRC in the normal course of operations. Legal proceedings for six claims were pending at March 31, 2011 (eleven in 2010). NRC has no claim that will likely result in a liability (one in 2010) for which no accrued liability (\$375,000 in 2010) has been recorded based on NRC's legal assessment of potential liability. NRC has one claim where the outcome is undeterminable (two in 2010). Some of these potential liabilities may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded in the financial statements.

c) Asset Retirement Obligations

As at March 31, 2011 NRC has recognized an asset retirement obligation of \$253,000 (\$221,000 in 2010) in the financial statements as a result of its legal obligation to retire storage tank systems for petroleum products and allied petroleum products. The undiscounted amount of expected future cash flows required to settle the asset retirement obligation is estimated at \$452,000 (\$463,000 in 2010). The liability for the expected future cash flows, as reflected in the financial statements, has been discounted at a weighted average of 3.77% (4.74% in 2010) based on the Government of Canada benchmark bonds. This obligation will be settled over the useful lives of the operating assets. The following table summarizes the changes in the asset retirement obligations:

<i>(in thousands of dollars)</i>	2011	2010
Asset retirement obligations, beginning of year	221	216
Accretion of asset retirement obligations	32	5
Asset retirement obligations, end of year	253	221

Other asset retirement obligations, such as the costs associated with the removal and disposal of asbestos and other designated substances located in NRC buildings have not been recognized in the financial statements due to the fact that they are subject to several uncertainties. NRC generally incurs the cost of removing and disposing regulated substances during major building renovations; consequently the timing and scope of these renovations cannot be reasonably estimated at this time and therefore fair values cannot be reasonably determined. Changes in these assumptions and uncertainties could materially affect NRC's assets and liabilities as well as the resulting amortization and accretion expenses related to the asset retirement obligation.

13. Contractual Obligations

The nature of NRC's activities can result in some large multi-year contracts and obligations whereby NRC will be obligated to make future payments in order to carry out its transfer payment programs or when the services/goods are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

<i>(in thousands of dollars)</i>	2012	2013	2014	2015	2016 and thereafter	Total
Transfer payments	104,845	55,140	49,561	49,941	1,572	261,059
Operating contracts	18,789	3,291	1,551	307	-	23,938
Total	123,634	58,431	51,112	50,248	1,572	284,997

14. Net Debt Indicator

The presentation of the net debt indicator and a statement of change in net debt is required under Canadian generally accepted accounting principles.

Net debt is the difference between a government's liabilities and its financial assets and is meant to provide a measure of the future revenues required to pay for past transactions and events. A statement of change in net debt would show changes during the period in components such as tangible capital assets, prepaid expenses and inventories. NRC is financed by the Government of Canada through appropriations and spendable revenues and operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by NRC is deposited to the CRF and all cash disbursements made by NRC are paid by the CRF. With the exception of endowment fund investments and receivables from other Federal Government departments, NRC's Financial Assets as well as future appropriations and spendable revenues generated by NRC's operations can be used to discharge existing liabilities.

<i>(in thousands of dollars)</i>	2011	2010
Liabilities		
Accounts payable and accrued liabilities	139,331	144,332
Vacation pay and compensatory leave	38,531	43,032
Deferred revenue	63,731	79,507
Lease obligation for tangible capital assets	213	277
Employee future benefits	71,099	69,004
	<u>312,905</u>	<u>336,152</u>
Financial Assets		
Due from the Consolidated Revenue Fund	197,300	197,426
Accounts receivable and advances	25,806	18,892
Inventory for resale	2,192	3,001
Equity investments	472	252
Endowment fund investments	4,631	4,515
	<u>230,401</u>	<u>224,086</u>
Net Debt Indicator	<u>82,504</u>	<u>112,066</u>

15. Related Party Transactions

NRC is related as a result of common ownership to all Government departments, agencies, and Crown corporations. NRC enters into transactions with these entities in the normal course of business and on normal trade terms.

a) Common services provided without charge by other government departments and agencies

During the year, NRC received services without charge from other government departments and agencies. These services have been recognized in NRC's Statement of Operations as follows:

<i>(in thousands of dollars)</i>	2011	2010
Employer's contributions to the health and dental insurance plans provided by Treasury Board	31,830	33,022
Audit of NRC's financial statements provided by the Office of the Auditor General of Canada	614	501
Legal services provided by Justice Canada	486	454
Workers' compensation benefits provided by Human Resources and Skills Development Canada	287	302
Payroll services provided by Public Works and Government Services Canada (Note 18)	-	192
Accommodation provided by Public Works and Government Services Canada	152	152
Total	33,369	34,623

The Government has centralized some of its administrative activities for efficiency, cost-effectiveness purposes and economic delivery of programs to the public. As a result, the Government uses central agencies and common service organizations so that one department performs services for all other departments and agencies without charge. The costs of these services, such as the payroll and cheque issuance services provided by Public Works and Government Services Canada, beginning in 2011 are not included in the Statement of Operations (amount not determinable in 2011, \$192,000 in 2010).

b) Other transactions with related parties

<i>(in thousands of dollars)</i>	2011	2010
Receivable from other government departments and agencies	5,143	2,309
Payable to other government departments and agencies	21,271	25,641
Expenses - Other government departments and agencies	80,156	87,691
Revenues - Other government departments and agencies	57	69

16. Segmented Information

Presentation by segment is based on NRC's program activity architecture (PAA). NRC allocates transactions over the PAA in accordance with stewardship principles, based on the Institutes, Branch or Program (IBP) that is responsible for managing the resource.

The presentation by segment is based on the same accounting policies as described in the Summary of significant accounting policies in note 2. The following table presents the expenses incurred and revenues generated for the main program activities, by major object of expenses and by major type of revenues. The segment results for the period are as follows:

<i>(in thousands of dollars)</i>	Manufacturing Technologies	ICT and Emerging Technologies	Industrial Research Assistance	Health and Life Sciences Technologies	Energy and Environmental Technologies	National Science and Technology Infrastructure	Scientific, Technical and Medical Information	Internal Services	2011 Total	2010 Total
Expenses										
Salaries and employee benefits	112,620	52,561	49,305	92,862	34,922	33,451	13,204	68,003	456,928	460,831
Grants and contributions	-	-	230,758	-	-	55,752	1,656	431	288,597	281,230
Utilities, materials and supplies	20,918	12,449	1,549	17,774	4,656	2,289	9,166	11,331	80,132	83,632
Amortization	21,096	13,128	137	16,019	7,393	4,435	1,119	3,763	67,090	67,340
Professional and special services	9,629	8,424	1,532	6,057	3,622	3,415	1,076	10,952	44,707	52,348
Transportation and communication	4,976	2,324	3,199	2,612	1,335	1,923	372	2,752	19,493	23,873
Repairs and maintenance	4,859	1,782	207	3,279	1,264	717	295	4,924	17,327	18,483
Payments in lieu of taxes	1,188	554	-	427	77	-	-	11,753	13,999	14,475
Rentals	1,031	661	1,923	197	83	426	51	221	4,593	4,803
Awards	207	528	5	1,732	78	38	3	82	2,673	3,104
Information	412	94	69	84	46	55	44	1,416	2,220	2,453
Cost of goods sold	462	-	-	171	-	1,014	-	55	1,702	608
Net loss (gain) on disposal of capital assets	106	52	21	108	155	(6)	27	175	638	2,221
Bad debts	-	-	278	-	-	-	-	136	414	6,032
Other	27	42	-	14	-	-	-	35	118	6
Total expenses	177,531	92,599	288,983	141,336	53,631	103,509	27,013	116,029	1,000,631	1,021,439
Revenues										
Sales of goods and services										
Services of non-regulatory nature and other fees and charges	27,497	4,109	-	7,475	4,200	7,038	455	3,494	54,268	48,250
Rights and privileges	800	1,809	-	6,389	474	177	-	-	9,649	8,922
Sales of goods and information products	3,476	-	-	622	-	528	-	4	4,630	3,507
Lease and use of property	558	982	-	2,375	262	7	-	445	4,629	4,449
	32,331	6,900	-	16,861	4,936	7,750	455	3,943	73,176	65,128
Financial arrangements with other government departments and agencies	32,224	4,059	1,206	3,735	10,118	1,434	3,480	522	56,778	68,666
Revenues from joint project and cost sharing	11,459	5,405	-	11,785	2,667	1,229	24	-	32,569	18,714
Other	-	4,061	-	-	-	-	-	520	4,581	457
Lease inducement revenue	-	-	-	-	-	-	-	2,548	2,548	2,548
Gain on sale of equity investment	-	-	-	-	-	-	-	133	133	2,969
Total revenues	76,014	20,425	1,206	32,381	17,721	10,413	3,959	7,666	169,785	158,482
Net cost from continuing operations	101,517	72,174	287,777	108,955	35,910	93,096	23,054	108,363	830,846	862,957

17. Financial Instruments

NRC's financial instruments consist of accounts receivable and advances, investments and accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that NRC is not exposed to significant interest, currency or credit risk arising from these financial instruments. Unless otherwise disclosed in these financial statements, management estimates that the carrying values of the financial instruments approximate their fair value due to their impending maturity.

18. Change in accounting policy

During the year, NRC adopted a change in accounting policy in order to comply with the revised Treasury Board Accounting Standard (1.2) on preparation of departmental financial statements. This new standard requires that Payroll Services provided without charge by Public Works and Government Services Canada not be recorded as operating expenses. This change is being applied prospectively beginning in fiscal year 2011.

19. Discontinued Operations

On January 1, 2010, approval was made to privatize the Research Press program at NRC's Canada Institute for Scientific and Technical Information (NRC-CISTI) into a newly formed non-profit organization operated by previous employees of NRC-CISTI, effective September 1, 2010. The consideration for the privatization was \$1. As part of the privatization, NRC agreed to make cash contributions of up to \$2 million in support of the creation of the non-profit organization for expenses incurred up to September 1, 2010. For the fiscal year ended March 31, 2011, total contributions were \$1,609,935. This amount is included in Grants and Contribution in continued operations.

As part of the privatization on September 1, 2010, \$1,093,759 of inventory was disposed of as there was no further use. The following assets were transferred at their net book value:

Assets	Net book value
Inventory	457,497
Informatics software	606,852
Informatics equipment	2,460

In addition, a non-competitive contract was initiated between NRC and the non-profit entity in the amount of \$4 million which is included in revenue below, for the 7 month period September 1, 2010 to March 31, 2011. This was a non-cash transaction and reflects a decrease in the deferred revenue already received in relation to the fiscal year ended March 31, 2011.

The transfer and disposal of capital assets and the revenue received as part of the non-competitive contract are included in the segmented information summarized below.

The following segmented information has been removed from the Statement of Operations and Note 16-Segmented Information as part of the discontinued operations. The net amount is disclosed on the Statement of Operations as the Net Cost from Discontinued Operations:

	2011	2010
Expenses	7,897,000	11,213,000
Revenues	7,174,000	11,145,000
Net	723,000	68,000

In addition to the above information, NRC has entered into a non-competitive lease agreement with the non-profit organization for use of NRC premises of up to 1,810 square meters of space for five years at no charge for the first two years. The third year of the lease agreement is below fair market value with the fourth and fifth years expected to be at fair market value. NRC has also leased the name "NRC – Research Press" to the non-profit organization.

20. Comparative Information

Comparative figures have been reclassified to conform to the current year's presentation.