



Consolidated Financial Statements

National Research Council Canada

March 31, 2012

National Research Council Canada

Statement of Management Responsibility Including Internal Control Over Financial Reporting

Responsibility for the integrity and objectivity of the accompanying consolidated financial statements for the year ended March 31, 2012, and all information contained in these statements rests with the management of the National Research Council Canada (NRC). These consolidated financial statements have been prepared by management using the Government's accounting policies, which are based on Canadian public sector accounting standards.

Management is responsible for the integrity and objectivity of the information in these consolidated financial statements. Some of the information in the consolidated financial statements is based on management's best estimates and judgment, and gives due consideration to materiality. To fulfil 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 consolidated financial statements.

Management is also responsible for maintaining an effective system of internal control over financial reporting (ICFR) 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 consolidated 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 ICFR.

The system of ICFR is designed to mitigate risks to a reasonable level based on an ongoing process to identify key risks, to assess the effectiveness of associated key controls, and to make any necessary adjustments.

A risk based assessment of the system of ICFR for the year ended March 31, 2012 was completed in accordance with the Treasury Board *Policy on Internal Control* and the results and action plans are summarized in the annex.

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 consolidated 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 consolidated 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
August 2, 2012

National Research Council Canada
Consolidated Statement of Financial Position
As at March 31

<i>(in thousands of dollars)</i>	2012	2011 Restated (Note 4)
Liabilities		
Accounts payable and accrued liabilities (Note 5)	104,920	139,443
Vacation pay and compensatory leave	35,112	38,695
Deferred revenue (Note 6)	60,701	63,824
Lease obligation for tangible capital assets (Note 7)	146	213
Employee future benefits (Note 8)	<u>68,332</u>	<u>71,099</u>
Total gross liabilities	269,211	313,274
Liabilities held on behalf of Government		
Accounts payable and accrued liabilities (Note 5)	<u>(2,115)</u>	<u>(2,132)</u>
Total liabilities held on behalf of Government	(2,115)	(2,132)
Total net liabilities	267,096	311,142
Financial Assets		
Due from the Consolidated Revenue Fund	183,826	197,300
Accounts receivable and advances (Note 9)	28,873	25,865
Inventory for resale	3,261	2,192
Cash and investments (Note 10)	<u>2,784</u>	<u>2,478</u>
Total gross financial assets	218,744	227,835
Financial assets held on behalf of Government		
Accounts receivable and advances (Note 9)	<u>(2,418)</u>	<u>(2,325)</u>
Total financial assets held on behalf of Government	(2,418)	(2,325)
Total net financial assets	216,326	225,510
Departmental net debt	50,770	85,632
Non-Financial Assets		
Prepaid expenses	11,670	11,498
Endowment fund investment (Note 11)	4,724	4,631
Inventory for consumption	4,103	4,757
Tangible capital assets (Note 12)	<u>555,478</u>	<u>579,509</u>
Total non-financial assets	575,975	600,395
Departmental net financial position	<u>525,205</u>	<u>514,763</u>
Contractual obligations (Note 13)		
Contingent liabilities (Note 14)		

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

John R. McDougall, P.Eng.
 President

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

Ottawa, Canada
 August 2, 2012

National Research Council Canada
Consolidated Statement of Operations and Departmental Net Financial Position
For the Year Ended March 31

<i>(in thousands of dollars)</i>	<u>2012</u> Planned Results	<u>2012</u>	<u>2011</u> Restated (Note 4)
Expenses			
Manufacturing Technologies	180,898	174,360	177,531
Information and Communication Technologies (ICT) and Emerging Technologies	89,438	89,147	92,599
Industrial Research Assistance	146,977	150,455	288,983
Health and Life Sciences Technologies	135,216	135,752	141,336
Energy and Environmental Technologies	55,505	51,034	53,631
National Science and Technology Infrastructure	106,163	104,457	104,093
Scientific, Technical and Medical Information	31,463	24,972	27,013
Internal Services	114,310	118,558	116,029
Expenses incurred on behalf of Government	-	(1,092)	(1,159)
Total Expenses	859,970	847,643	1,000,056
Revenues			
Sales of goods and services			
Services of non-regulatory nature and other fees and charges	59,450	59,885	54,268
Rights and privileges	9,600	8,561	9,649
Sales of goods and information products	5,600	5,171	4,630
Lease and use of property	4,250	4,987	4,629
Financial arrangements with other government departments and agencies	53,000	63,795	56,778
Revenues from joint project and cost sharing	25,102	24,244	32,569
Other	450	3,177	4,305
Lease inducement revenue	2,548	2,548	2,548
Gain on sale of equity investment	-	-	133
Revenues earned on behalf of Government	-	(1,455)	(1,404)
Total Revenues	160,000	170,913	168,105
Net cost from continuing operations	699,970	676,730	831,951
Discontinued operations (Note 19)			
Expenses	-	-	7,897
Revenue	-	-	7,174
Net cost of discontinued operations	-	-	723
Net cost of operations before government funding and transfers	699,970	676,730	832,674

National Research Council Canada
Consolidated Statement of Operations and Departmental Net Financial Position (continued)
For the Year Ended March 31

<i>(in thousands of dollars)</i>	<u>2012</u>	<u>2012</u>	<u>2011</u>
	Planned Results		Restated (Note 4)
Net cost of operations before government funding and transfers	699,970	676,730	832,674
Government funding and transfers			
Net cash provided by Government	(638,437)	(657,872)	(825,080)
Change in due from the Consolidated Revenue Fund	-	13,474	126
Services provided without charge by other government departments and agencies (Note 15)	(32,060)	(40,710)	(33,369)
Transfer to other government department (Note 16)	-	(2,064)	-
Net cost of operations after government funding and transfers	29,473	(10,442)	(25,649)
Departmental net financial position - Beginning of year	514,763	514,763	489,114
Departmental net financial position - End of year	<u>485,290</u>	<u>525,205</u>	<u>514,763</u>

Segmented Information (Note 17)

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

National Research Council Canada
Consolidated Statement of Change in Departmental Net Debt
For the Year Ended March 31

<i>(in thousands of dollars)</i>	<u>2012</u> Planned Results	<u>2012</u>	<u>2011</u> Restated (Note 4)
Net cost of operations after government funding and transfers	29,473	(10,442)	(25,649)
Change due to tangible capital assets			
Acquisition of tangible capital assets	41,192	45,089	62,350
Amortization of tangible capital assets	(69,815)	(66,012)	(67,960)
Proceeds from disposal of tangible capital assets	-	(695)	(384)
Net loss on disposal capital assets including adjustments	(850)	(1,435)	(1,247)
Transfer to other government department (Note 16)	-	(1,518)	-
Other	-	540	926
Total change due to tangible capital assets	(29,473)	(24,031)	(6,315)
Change due to inventories for consumption	-	(654)	1,348
Change due to endowment fund investments	-	93	116
Change due to prepaid expenses	-	172	1,154
Net decrease in departmental net debt	-	(34,862)	(29,346)
Departmental net debt - Beginning of year	85,632	85,632	114,978
Departmental net debt - End of year	85,632	50,770	85,632

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

National Research Council Canada
Consolidated Statement of Cash Flow
For the Year Ended March 31

<i>(in thousands of dollars)</i>	2012	2011 Restated (Note 4)
Operating Activities		
Net cost of operations before government funding and transfers	676,730	832,674
Non-cash items		
Amortization of tangible capital assets	(66,012)	(67,960)
Transfer to other government department (Note 16)	(3,582)	-
Gain on sale of equity investments	-	133
Net loss on disposal of tangible capital assets	(1,435)	(1,247)
Services provided without charge by other government departments and agencies (Note 15)	(40,710)	(33,369)
Other	540	925
Variations in Statement of Financial Position		
Increase in accounts receivable and advances	2,915	4,407
Increase (decrease) in inventory for resale	1,069	(809)
Increase in cash and investments	306	493
Increase in prepaid expenses	172	1,154
Increase in endowment fund investments	93	116
(Decrease) increase in inventory for consumption	(654)	1,348
Decrease in accounts payable and accrued liabilities	34,506	7,172
Decrease in vacation pay and compensatory leave	3,583	4,499
Decrease in deferred revenue	3,123	15,742
Decrease in lease obligation for tangible capital assets	67	64
Decrease (increase) in employee future benefits	2,767	(2,095)
Cash used in operating activities (including transferred operations and discontinued operations)	613,478	763,247
Capital Investing Activities		
Acquisitions of tangible capital assets	45,089	62,350
Proceeds from disposal of tangible capital assets	(695)	(384)
Cash used in capital investing activities	44,394	61,966
Investing Activities		
Proceeds from sale of equity investments	-	(133)
Cash provided in investing activities	-	(133)
Net cash provided by Government of Canada	657,872	825,080

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

National Research Council Canada
Notes to Consolidated Financial Statements
For the Year Ended March 31, 2012

1. Authority and Objectives

The National Research Council Canada (NRC) exists under the *National Research Council Act (NRC 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, commercialise 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 commercialisation.
- **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 those provided specifically to a program.

2. Summary of Significant Accounting Policies

These consolidated financial statements have been prepared using the Government's accounting policies stated below, which are based on Canadian public sector accounting standards. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian public sector accounting standards.

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 Consolidated Statement of Operations and Departmental Net Financial Position and in the Consolidated 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. The planned results amounts in the Consolidated Statement of Operations and Departmental Net Financial Position are the amounts reported in the future-oriented financial statements included in the *2011-12 Report on Plans and Priorities*.

b) Consolidation

These consolidated financial statements include both NRC and its portion of the accounts of the Canada-France-Hawaii Telescope Corporation (CFHT). CFHT meets the definition of a government partnership under Canadian public sector accounting standards, which requires that its results be proportionally consolidated within those of NRC. All inter-organizational balances and transactions are eliminated as part of the consolidation process. CHFT has audited financial statements as at December 31, 2011 which have been proportionally consolidated with NRC's March 31 financial statements.

c) 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.

d) Amounts due from or to the CRF

Amounts due from or to the CRF are the result of timing differences at year-end between 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.

e) Revenues

Revenues are recognized in the year in which the underlying transaction or event occurred that gave rise to revenue as follows:

- Services of non-regulatory nature and other fees and charges, Revenues from joint project and cost sharing: revenues are recognized as services are provided, using the percentage-of-completion method.
- Rights and privileges: revenues are recognized over the licence period.
- Sales of goods and information products: revenue is recognized when goods or information products are delivered to the client.
- Lease and use of property: revenue is recognized in the period in which the lease or use of property relates to.
- Financial arrangements with other government departments and agencies: revenue is recognized in the period in which the goods are delivered or services provided.
- 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.

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.

Receipts are deposited to the CRF. Under the *NRC Act*, money received by NRC through the conduct of its operations is spendable in the current or in subsequent years.

Revenues that are non-spendable are not available to discharge NRC's liabilities. While the President is expected to maintain accounting control, he has no authority regarding the disposition of non-spendable revenues. As a result, non-spendable revenues are considered to be earned on behalf of the Government of Canada and are therefore presented in reduction of the entity's gross revenues.

f) Expenses

- Expenses are recorded on the 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 consolidated 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 consolidated financial statements, legal services, workers' compensation and the services related to the email, data centre and network services and the email, data centre and network support unit are recorded as operating expenses at their estimated cost.

g) Employee future benefits

i) Pension Benefits

Eligible employees participate in the Public Service Pension Plan, a multiemployer pension 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. 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.

ii) Severance Benefits

Employees entitled to severance benefits under labour contracts or conditions of employment earn these benefits as services necessary to earn them are rendered. 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.

h) 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.

i) Conditionally repayable contributions

Conditionally repayable contributions are contributions that become repayable in part or in whole if conditions specified in the contribution agreement come into effect. Accordingly, they are not recorded on the Consolidated 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.

j) 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 consolidated financial statements.

k) 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 consolidated financial statements.

l) Inventories

Inventory consists of parts, materials and supplies held for future program delivery as well as inventory for resale. 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.

m) 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.

n) 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.

o) 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 Consolidated Statement of Operations and Departmental Net Financial Position 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, 2012.

p) Tangible capital assets

All 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.

The tangible capital assets from the CFHT Corporation are stated at cost. Betterments are charged to tangible capital assets while maintenance and repairs that do not increase the service potential of the asset are charged to expense. Amortization is calculated on the straight-line method over the estimated useful lives of the assets ranging from 4 to 50 years.

q) Measurement uncertainty

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the consolidated 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 consolidated financial statements in the year they become known.

r) 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 Consolidated Statement of Operations and the Departmental Net Financial Position and the Consolidated 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>	2012	2011
		Restated (Note 4)
Net Cost of Operations before government funding and transfers	<u>676,730</u>	<u>832,674</u>
Adjustments for items affecting net cost of operations but not affecting authorities (including transferred operations and discontinued operations):		
Revenues	170,913	175,279
Amortization of tangible capital assets	(66,012)	(67,960)
Financial arrangements with other government departments and agencies	(62,595)	(56,883)
Services provided without charge by other government departments and agencies (Note 15)	(40,710)	(33,369)
Specified purpose accounts expenses	(22,533)	(20,856)
(Increase) decrease in salary accrual	(9,179)	4,532
Refund of previous year's expenditures	3,680	3,180
Decrease in vacation pay and compensatory leave	2,811	4,501
Cost of goods sold	(2,495)	(1,732)
Loss on disposal of tangible capital assets	(1,435)	(1,247)
Decrease (increase) in employee future benefits	1,339	(2,095)
(Increase) decrease in contaminated sites liability	(600)	203
Other	430	1,236
Decrease (increase) in accrued liability not charged to authorities	415	(431)
Increase (decrease) in inventory	32	(430)
Bad debt expense	2	(72)
Decrease in litigation claim expense accrual	-	375
Total items affecting net cost of operations but not affecting authorities (including transferred operations and discontinued operations)	<u>(25,937)</u>	<u>4,231</u>
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisitions of tangible capital assets and additions to assets under construction	44,550	60,801
Inventory purchases	2,878	2,777
Increase in prepaid expenses	172	1,154
Decrease in lease obligations for tangible capital assets	67	64
Contaminated sites remediation reducing the liability	43	1,597
Total items not affecting net cost of operations but affecting authorities	<u>47,710</u>	<u>66,393</u>
Current year authorities used	<u>698,503</u>	<u>903,298</u>

b) Authorities provided and used

<i>(in thousands of dollars)</i>	2012	2011
Authorities provided:		
Vote 60 – Operating expenditures	405,687	427,947
Vote 65 – Capital expenditures	42,265	53,192
Vote 70 – Grants and contributions	165,275	294,888
Statutory amounts:		
Revenues pursuant to paragraph 5(1)(e) of the <i>National Research Council Act</i>	146,959	123,255
Contributions to employee benefit plans	59,766	63,681
Proceeds from the disposal of surplus Crown assets	964	594
Collection agency fees	18	25
Loss on foreign exchange	3	-
Less:		
Revenues available for use in future years	(96,728)	(48,316)
Lapsed authorities:		
Frozen allotments - Capital	(6,942)	(3,198)
Frozen allotments - Operating	(1,489)	(4,327)
Frozen allotments - Grants and Contributions	-	(410)
Unexpended authorities - Grants and Contributions	(17,275)	(3,581)
Unexpended authorities - Capital	-	(328)
Unexpended authorities - Operating	-	(124)
Current year authorities used	698,503	903,298

4. Accounting Changes

a) Change in accounting policy

During 2011-2012, amendments were made to *Treasury Board Accounting Standard 1.2 - Departmental and Agency Financial Statements* to improve financial reporting by government departments and agencies. The amendments are effective for financial reporting of fiscal years ending March 31, 2012, and later. The significant changes to NRC's consolidated financial statements are described below. These changes have been applied retroactively, and comparative information for 2010-11 has been restated.

Net debt (calculated as liabilities less financial assets) is now presented in the Consolidated Statement of Financial Position. Accompanying this change, NRC now presents a Consolidated Statement of Change in Net Debt and no longer presents a Statement of Equity.

Revenue and related accounts receivable are now presented net of non-respendable amounts in the Consolidated Statement of Operations and Departmental Net Financial Position and Consolidated Statement of Financial Position. The effect of this change was to increase the net cost of operations after government funding and transfers by \$1,455,000 for 2012 (\$1,404,000 for 2011) and decrease total financial assets by \$2,418,000 for 2012 (\$2,325,000 for 2011).

Government funding and transfers, as well as the credit related to services provided without charge by other government departments, are now recognized in the Consolidated Statement of Operations and Departmental Net Financial Position below "Net cost of operations before government funding and transfers". In previous years, NRC recognized these transactions directly in the Statement of Equity of Canada. The effect of this change was to decrease the net cost of operations after government funding and transfers by \$687,172,000 for 2012 (\$858,324,000 for 2011).

b) Correction of an error relating to prior year financial statements

In 2011-2012, NRC determined that its relationship with the Canada-France-Hawaii Telescope Corporation (CFHT) constituted a government partnership for accounting purposes which should be proportionately consolidated in NRC's financial statements. The effect of this change was to increase the net cost of operations after government funding and transfers by \$113,000 (\$860,000 for 2011), increase the gross liabilities by \$321,000 (\$369,000 in 2011), increase the gross financial assets by \$2,614,000 (\$2,065,000 in 2011) and increase the non-financial assets by \$5,303,000 (\$5,786,000 in 2011). In addition, this correction decreased the departmental net debt by \$2,293,000 (\$1,696,000 in 2011).

The effects of both accounting changes on comparative figures are illustrated in the table below.

<i>(in thousands of dollars)</i>	2011			2011
	As previously stated	Effect of change TBAS (a)	Effect of change CFHT (b)	Restated
Consolidated Statement of Financial Position				
Total gross liabilities	312,905	-	369	313,274
Liabilities held on behalf of Government	-	(2,132)	-	(2,132)
Total gross financial assets	225,770	-	2,065	227,835
Assets held on behalf of Government	-	(2,325)	-	(2,325)
Total non-financial assets	594,609	-	5,786	600,395
Departmental Financial position	507,474	(193)	7,482	514,763
Consolidated Statement of Operations and Departmental Net Financial Position				
Revenues	176,959	(1,404)	(276)	175,279
Expenses	1,008,528	(1,159)	584	1,007,953
Government funding and transfers				
Net cash provided by Government	-	825,081	-	825,081
Change in due from Consolidated Revenue Fund	-	(126)	-	(126)
Services provided without charge by other government departments	-	33,369	-	33,369

5. 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>	2012	2011
		Restated (Note 4)
Suppliers and contributions payable	74,275	108,612
Payable to other government departments and agencies (Note 15)	12,436	21,271
Accrued wages and employee benefits	16,588	8,248
Contractor holdbacks	749	1,036
Contaminated site liabilities	637	80
Sales tax payable	119	84
CFHT - Accounts payable	116	112
Gross accounts payable and accrued liabilities	104,920	139,443
Accounts payable and accrued liabilities held on behalf of government (Note 15)	(2,115)	(2,132)
Total net accounts payable and accrued liabilities	102,805	137,311

In *Canada's Economic Action Plan 2012*, the Government announced savings measures to be implemented by departments over the next three fiscal years starting in 2012-2013. Other savings measures have also been implemented by NRC. As a result, NRC has recorded at March 31, 2012 an obligation for termination benefits for an amount of \$5,239,000 as part of accrued wages and employee benefits to reflect the estimated workforce adjustment costs.

6. Deferred Revenue

Deferred revenue represents the balances at year-end of unearned revenues stemming from amounts received from external parties that are restricted in order to fund the expenditures related to specific research projects and stemming from amounts received for fees prior to services being performed. Revenue is recognized in the period in which these expenditures are incurred or in which the service is performed. Details of the transactions related to this account are as follows:

<i>(in thousands of dollars)</i>	2012	2011 Restated (Note 4)
Deferred revenue – contributions related to leased tangible capital assets		
Opening balance	48,042	50,590
Contributions recognized as revenue	<u>(2,548)</u>	<u>(2,548)</u>
Closing balance	45,494	48,042
Deferred revenue - goods and services and joint projects		
Opening balance	15,689	28,917
Funds received	31,095	26,551
Revenue recognized	<u>(31,633)</u>	<u>(39,779)</u>
Closing balance	15,151	15,689
CFHT - Deferred revenue	56	93
Total deferred revenue	60,701	63,824

7. 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 \$56,000 as at March 31, 2012 (\$336,000 and \$22,400 respectively as at March 31, 2011). The obligations related to the upcoming years include the following:

<i>(in thousands of dollars)</i>	2012	2011
2012		80
2013	80	80
2014	<u>80</u>	<u>80</u>
Total future minimum lease payments	160	240
Less: imputed interest (6.11%)	<u>(14)</u>	<u>(27)</u>
Balance of obligations under leased tangible capital assets	146	213

8. 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 2% 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 \$42,958,202 as at March 31, 2012 (\$44,702,888 in 2011), which represents approximately 1.8 times (1.9 times in 2011) 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 salary at termination of employment. These severance benefits are not pre-funded. Benefits will be paid from future authorities.

As part of changes to conditions of employment for executives and certain non-represented employees, the accumulation of severance benefits under the employee severance pay program ceased for these employees commencing in 2012. Employees subject to these changes have been given the option to be immediately paid the full or partial value of benefits earned to date or collect the full or remaining value of benefits on termination from the public service. These changes have been reflected in the calculation of the outstanding severance benefit obligation.

Information about the severance benefits, measured as at March 31, is as follows:

<i>(in thousands of dollars)</i>	2012	2011
Accrued benefit obligation, beginning of year	71,099	69,004
Transferred to other government department, effective November 15, 2011 (Note 16)	(1,428)	-
Subtotal	69,671	69,004
Expense for the year	7,660	9,845
Benefits paid during the year	(8,999)	(7,750)
Accrued benefit obligation, end of year	68,332	71,099

9. Accounts Receivable and Advances

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

<i>(in thousands of dollars)</i>	2012	2011
		Restated (Note 4)
Receivables from external parties	21,877	19,177
Receivables from other government departments and agencies (Note 15)	5,172	5,143
CHFT - Accounts receivable	174	59
Employee advances	32	36
	<u>27,255</u>	<u>24,415</u>
Less: allowance for doubtful accounts on receivables from external parties	<u>(497)</u>	<u>(682)</u>
	26,758	23,733
Repayable contributions	6,902	7,820
Less: allowance for uncollectibility	<u>(4,787)</u>	<u>(5,688)</u>
Net repayable contributions	2,115	2,132
Gross accounts receivable	<u>28,873</u>	<u>25,865</u>
Accounts receivable held on behalf of Government	(2,418)	(2,325)
Net accounts receivable	<u>26,455</u>	<u>23,540</u>

10. Cash and Investments

<i>(in thousands of dollars)</i>	2012	2011
		Restated (Note 4)
Cash and investments held by CFHT	2,440	2,006
Equity Investments	344	472
Cash and Investments	<u>2,784</u>	<u>2,478</u>

Equity investments include shares in three public companies (three in 2011) and one privately held company (two in 2011). 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 \$355 (\$132,679 in 2011) realizing a gain of \$354 (\$132,678 in 2011). In addition, NRC recorded an impairment reducing the value of its shares in two publically held companies by an amount of \$127,688.

As at March 31, 2012, the book value of the equity investments was \$344,263 (\$471,953 in 2011). The market value of NRC's equity investments in public companies was \$169,685 (\$281,123 in 2011). The market value of the privately held companies is not determinable.

11. 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>	2012	2011
Restricted cash and investments, beginning of year	4,631	4,515
Net income from endowment	208	213
Awards granted	(115)	(97)
Restricted cash and investments, end of year	4,724	4,631

The portfolio for Endowment Fund Investments had an average effective return of 4.41% (4.70% in 2011) and an average term to maturity of 4.48 years as at March 31, 2012 (5.18 years as at March 31, 2011). The fair value of the endowment investments as at March 31, 2012 was \$5,036,346 (\$4,775,354 in 2011).

12. Tangible Capital Assets

(in thousands of dollars)

Tangible capital asset class	Cost					Accumulated Amortization					Net Book Value	
	Opening balance	Acquisitions	Adjustments (1)	Disposals and write-offs	Closing balance	Opening balance	Amortization	Adjustments (1)	Disposals and write-offs	Closing balance	2012	2011 Restated (Note 4)
Land	9,879	-	-	-	9,879	-	-	-	-	-	9,879	9,879
Buildings and facilities	684,376	10,667	9,885	-	704,928	(408,335)	(20,154)	-	-	(428,489)	276,439	276,041
Works and infrastructure	21,792	1,231	1,903	-	24,926	(15,111)	(724)	-	-	(15,835)	9,091	6,681
Machinery, equipment and furniture	523,928	12,700	11,590	(22,447)	525,771	(355,589)	(34,508)	(52)	21,159	(368,990)	156,781	168,339
Informatics equipment	61,080	1,890	(1,962)	(9,529)	51,479	(49,378)	(4,343)	2,951	9,470	(41,300)	10,179	11,702
Informatics software	18,705	619	227	(1,153)	18,398	(11,957)	(2,236)	27	1,068	(13,098)	5,300	6,748
Vehicles	3,035	319	-	(303)	3,051	(2,381)	(156)	-	290	(2,247)	804	654
Aircraft	11,360	113	550	(20)	12,003	(9,984)	(70)	(453)	20	(10,487)	1,516	1,376
Leasehold improvements	12,857	1,240	3,319	-	17,416	(3,773)	(564)	-	-	(4,337)	13,079	9,084
Assets under construction	34,864	16,280	(29,640)	(170)	21,334	-	-	-	-	-	21,334	34,864
Leased tangible capital assets	64,036	-	-	-	64,036	(15,681)	(2,582)	-	-	(18,263)	45,773	48,355
CFHT - Tangible capital assets	21,157	30	-	(149)	21,038	(15,209)	(675)	-	149	(15,735)	5,303	5,786
Total	1,467,069	45,089	(4,128)	(33,771)	1,474,259	(887,398)	(66,012)	2,473	32,156	(918,781)	555,478	579,509

(1) Adjustments include assets under construction of \$29,640,000 that were transferred to the other categories upon completion of the assets.

Effective November 15, 2011, NRC transferred informatics equipment and informatics software with a net book value of \$201,210 to Shared Services Canada. In addition, NRC transferred informatics equipment, informatic software and other asset under construction with an acquisition value of \$1,317,518 after November 15, 2011. This transfer is included in the adjustment columns (refer to Note 16 for further detail on the transfer).

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, 2012 is \$66,012,243 (\$67,959,810 in 2011).

At March 31, 2012, NRC held nine land lease agreements (eight in 2011) for a nominal annual cost 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 (IRC). 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.

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. All transfer payments and significant operating contractual obligations (greater than \$50,000) that can be reasonably estimated are summarized as follows:

<i>(in thousands of dollars)</i>	2013	2014	2015	2016	2017 and thereafter	Total
Transfer payments	97,356	54,765	51,597	3,880	-	207,598
Operating contracts	18,055	1,599	228	-	-	19,882
Total	115,411	56,364	51,825	3,880	-	227,480

Transfer payments contractual obligations to CFHT as shown in Note 15c have been excluded from the future contractual obligation.

14. Contingent Liabilities

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

a) 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 2012, NRC has identified four sites (four sites in 2011) where such action is possible and for which a liability of \$636,995 (\$79,829 in 2011) 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. One of the sites, for which a \$600,000 liability is presently recorded, will be managed according to a remediation and risk management plan which includes potential additional remediation liability. Risk assessment work will take place in 2013 as part of this remediation plan which will provide the necessary information for NRC to update the liability estimate. 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 three claims were pending at March 31, 2012 (six in 2011). NRC has one claim that will likely result in a liability where the amount is undeterminable (nil in 2011), two claims that will unlikely result in a liability (five in 2011) and no claim where the outcome is undeterminable (one in 2011). Therefore, no liability has been recorded based on NRC's legal assessment of potential liability. 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 consolidated financial statements.

c) Asset Retirement Obligations

As at March 31, 2012 NRC has recognized an asset retirement obligation of \$265,000 (\$253,000 in 2011) in the consolidated 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 \$443,000 (\$452,000 in 2011). The liability for the expected future cash flows, as reflected in the consolidated financial statements, has been discounted at a weighted average of 3.81% (3.77% in 2011) 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>	2012	2011
Asset retirement obligations, beginning of year	253	221
Accretion of asset retirement obligations	12	32
Asset retirement obligations, end of year	265	253

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 consolidated 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.

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. During the year, NRC received common services which were obtained without charge from other government departments as disclosed below.

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 Consolidated Statement of Operations and Departmental Net Financial Position as follows:

<i>(in thousands of dollars)</i>	2012	2011
Employer's contributions to the health and dental insurance plans provided by Treasury Board	30,267	31,830
Email, data centre and network services and the email, data centre and network support unit provided by Shared Services Canada	8,667	-
Audit of NRC's consolidated financial statements provided by the Office of the Auditor General of Canada	850	614
Legal services provided by Justice Canada	483	486
Workers' compensation benefits provided by Human Resources and Skills Development Canada	273	287
Accommodation provided by Public Works and Government Services Canada	170	152
Total	40,710	33,369

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 are not included in NRC's Consolidated Statement of Operations and Departmental Net Financial Position.

The activities related to the email, data centre and network services unit and the email, data centre and network support unit were transferred to Shared Services Canada on November 15, 2011. The services provided after the transfer date are recognized without charge.

b) Other transactions with related parties

<i>(in thousands of dollars)</i>	2012	2011
Accounts receivable from other government departments and agencies	5,172	5,143
Accounts payable to other government departments and agencies	10,321	19,139
Expenses - Other government departments and agencies	75,995	80,156
Revenues - Other government departments and agencies	64,537	57,886

Expenses and revenues disclosed in (b) exclude common services provided without charge, which are already disclosed in (a).

NRC has a related party relationship with the following non-federal government entity:

c) Canada-France-Hawaii Telescope Corporation

NRC was a founding member of the Canada-France-Hawaii Telescope Corporation (CFHT), a tax-exempt, not-for-profit organization established under Hawaii State law to design, construct, and operate a large optical telescope near the summit of Mauna Kea, Hawaii, USA, along with laboratories, equipment, and associated installations. The Corporation was established in 1974 by a Tripartite Agreement among the NRC, the Centre National de la Recherche Scientifique of France, and the University of Hawaii. NRC makes annual contributions to fund its 42.5% share of the cost of operations of the telescope and receives no direct benefit in return. However, as a result of NRC's contributions, Canada receives access to telescope observation hours for Canadian astronomers. As a founding member, NRC can appoint four of the ten members of the board of directors. CFHT is considered a government partnership for accounting purposes and its results are proportionally consolidated in these statements. In 2011-12, NRC contributed \$3.5 million to CFHT (\$3.7 million in 2010-11). These contributions are eliminated upon consolidation. CFHT's condensed financial information for the period ending December 31 is as follows:

<i>(in thousands of dollars)</i>	December 31, 2011	December 31, 2010
Total assets	19,047	18,862
Total liabilities	1,566	885
Total unrestricted net assets	17,481	17,977
Total revenues	8,576	8,560
Total expenses	9,619	9,719
Net operating results	(1,042)	(1,159)

NRC's future contractual obligations to CFHT are not included in the Transfer payment contractual obligations (Note 13) and are as follows:

<i>(in thousands of dollars)</i>	2013	2014	2015	2016	2017 and thereafter	Total
CFHT	3,098	3,118	3,196	3,276	2,503	15,191

16. Transfers to other government department

Effective November 15, 2011, NRC transferred responsibility for the email, data centre and network services unit and the email, data centre and network services support unit in accordance with Order-in-Council SI/2011-95 - *Order Transferring to Shared Services Canada the Control and Supervision of Certain Portions of the Federal Public Administration in each Department and Portion of the Federal Public Administration known as the Email, Data Centre and Network Services Unit and the Email, Data Centre and Network Services Support Unit*, including the stewardship responsibility for the assets and liabilities related to the program. Accordingly, NRC transferred the following assets and liabilities to Shared Services Canada on November 15, 2011 (in thousands of dollars):

Assets:

Tangible capital assets (net book value) (Note 12)	<u>201</u>
Total assets transferred	201

Liabilities:

Vacation pay and compensatory leave	757
Employee future benefits (Note 8)	<u>1,428</u>
Total liabilities transferred	2,185

Transfer to Shared Services Canada as at November 15, 2011 **(1,984)**

During the transition period, from November 16, 2011 to March 31, 2012, NRC continued to administer the transferred activities on behalf of Shared Services Canada. The administered activities incurred on behalf of SSC are as follows (in thousands of dollars):

Tangible capital assets transfers	1,317
Accounts payables and accrued liabilities	(1,397)
Transfer to Shared Services Canada as at November 15, 2011	<u>(1,984)</u>

Adjustment to the departmental net financial position **(2,064)**

17. 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	2012 Total	2011 Total Restated (Note 4)
Expenses										
Salaries and employee benefits	111,088	51,847	50,822	89,945	33,558	35,398	12,382	70,451	455,491	459,163
Grants and contributions	-	-	91,170	-	-	51,876	-	561	143,607	285,300
Utilities, materials and supplies	22,509	10,533	1,325	15,370	4,962	3,702	10,512	9,168	78,081	81,066
Amortization	19,568	12,828	170	16,283	7,415	5,048	738	3,963	66,013	67,847
Professional and special services	8,170	8,110	1,907	5,666	2,552	2,825	993	11,457	41,680	44,291
Transportation and communication	4,494	2,224	3,032	2,328	1,067	2,245	264	2,974	18,628	19,493
Repairs and maintenance	4,632	1,673	282	3,646	1,065	771	171	5,186	17,426	17,457
Payments in lieu of taxes	1,213	456	-	428	77	-	-	12,888	15,062	13,999
Rentals	1,072	518	1,908	202	54	472	68	280	4,574	4,593
Cost of goods sold	382	-	-	251	-	1,688	-	174	2,495	1,702
Awards	339	585	1	1,352	79	6	(189)	122	2,295	2,673
Information	245	98	127	78	31	50	30	1,317	1,976	2,220
Net loss on disposal of capital assets	632	274	9	178	174	146	3	19	1,435	638
Other	16	1	(201)	25	-	230	-	84	155	359
Bad debts	-	-	(97)	-	-	-	-	(86)	(183)	414
Expenses incurred on behalf of Government	-	-	(1,200)	-	-	-	-	108	(1,092)	(1,159)
Total expenses	174,360	89,147	149,255	135,752	51,034	104,457	24,972	118,666	847,643	1,000,056
Revenues										
Sales of goods and services										
Services of non-regulatory nature and other fees and charges	31,101	3,077	-	6,763	7,708	7,193	118	3,925	59,885	54,268
Rights and privileges	1,183	1,667	-	4,901	500	310	-	-	8,561	9,649
Sales of goods and information products	3,794	-	-	869	-	502	-	6	5,171	4,630
Lease and use of property	608	983	-	2,614	260	3	-	519	4,987	4,629
	36,686	5,727	-	15,147	8,468	8,008	118	4,450	78,604	73,176
Financial arrangements with other government departments and agencies	35,365	5,059	1,731	3,446	11,948	1,316	4,403	527	63,795	56,778
Revenues from joint project and cost sharing	9,110	4,591	-	7,537	1,389	1,599	-	18	24,244	32,569
Other	36	2,059	207	(244)	3	582	86	448	3,177	4,305
Lease inducement revenue	-	-	-	-	-	-	-	2,548	2,548	2,548
Gain on sale of equity investment	-	-	-	-	-	-	-	-	-	133
Revenues earned on behalf of Government	-	-	(1,200)	-	-	-	-	(255)	(1,455)	(1,404)
Total revenues	81,197	17,436	738	25,886	21,808	11,505	4,607	7,736	170,913	168,105
Net cost from continuing operations	93,163	71,711	148,517	109,866	29,226	92,952	20,365	110,930	676,730	831,951

18. 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 consolidated financial statements, management estimates that the carrying values of the financial instruments approximate their fair value due to their impending maturity.

19. Discontinued Operations

On September 1, 2010, the Research Press program at NRC's Canada Institute for Scientific and Technical Information (NRC-CISTI) was privatized, and a newly formed non-profit organization, the Canadian Scientific Publishing, operated by previous employees of NRC-CISTI, was created. 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 Consolidate Statement of Operations and Departmental Net Financial Position and Note 17-Segmented Information as part of the discontinued operations. The net amount is disclosed on the Consolidated Statement of Operations and Departmental Net Financial Position as the Net Cost from Discontinued Operations:

	2012	2011
Expenses	-	7,897,000
Revenues	-	7,174,000
Net	-	723,000

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 (\$349,000) with the fourth and fifth years expected to be at fair market value (\$417,950 and \$486,900 respectively). 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.