



Consolidated Financial Statements

National Research Council Canada

March 31, 2015

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, 2015, and all information contained in these consolidated 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, 2015 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.

PricewaterhouseCoopers LLP has expressed an opinion on the fair presentation of the consolidated financial statements of NRC for the year ended March 31, 2015 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., CPA, CMA, CIA
Vice-President, Corporate Management
and Chief Financial Officer

Ottawa, Canada
June 25, 2015



June 25, 2015

Independent Auditor's Report

To the National Research Council Canada and the Minister of Industry

We have audited the accompanying consolidated financial statements of National Research Council Canada, which comprise the consolidated statement of financial position as at March 31, 2015 and the consolidated statements of operations and departmental net financial position, change in departmental net financial assets and cash flows for the year then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of National Research Council Canada as at March 31, 2015 and the results of its operations, changes in its net financial assets and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

PricewaterhouseCoopers LLP

Chartered Professional Accountants, Licensed Public Accountants

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

<i>(in thousands of dollars)</i>	<u>2015</u>	<u>2014</u>
Financial Assets		
Due from Consolidated Revenue Fund	315,929	271,642
Accounts receivable (Note 4)	36,754	30,195
Inventory for resale	3,877	2,932
Cash and investments (Note 5)	<u>3,099</u>	<u>2,436</u>
Total gross financial assets	359,659	307,205
Financial assets held on behalf of Government		
Accounts receivable (Note 4)	<u>(68)</u>	<u>(108)</u>
Total financial assets held on behalf of Government	(68)	(108)
Total net financial assets	359,591	307,097
Liabilities		
Accounts payable and accrued liabilities (Note 6)	178,698	141,150
Vacation pay and compensatory leave	28,883	28,978
Lease inducements	37,850	40,398
Deferred revenue (Note 7)	9,136	9,880
Employee future benefits (Note 8)	<u>36,446</u>	<u>52,163</u>
Total liabilities	291,013	272,569
Departmental net financial assets	68,578	34,528
Non-Financial Assets		
Prepaid expenses	9,631	11,170
Endowment fund investments (Note 9)	5,006	4,880
Inventory for consumption	4,014	4,005
Tangible capital assets (Note 10)	<u>512,941</u>	<u>519,896</u>
Total non-financial assets	531,592	539,951
Departmental net financial position	<u>600,170</u>	<u>574,479</u>
Contractual obligations (Note 11)		
Environmental liabilities (Note 12)		
Contingent liabilities (Note 13)		

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



John R. McDougall, P.Eng.
 President



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

Ottawa, Canada
 June 25, 2015

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>2015</u> Planned Results	<u>2015</u>	<u>2014</u>
Expenses			
Technology Development and Advancement	367,582	336,160	322,944
Industrial Research Assistance Program	263,030	269,267	281,744
Science Infrastructure and Measurement	105,715	106,267	101,316
Internal Services	<u>262,056</u>	<u>254,174</u>	<u>227,513</u>
Total expenses	998,383	965,868	933,517
Revenues			
Research services	69,874	46,205	50,097
Technical services	102,203	75,029	77,892
Intellectual property, royalties and fees	10,476	7,498	9,357
Sales of goods and information products	5,440	4,168	5,878
Rentals	6,541	5,604	5,751
Grants and contributions	2,766	2,414	2,940
Lease inducement revenue	2,548	2,548	2,548
Other	360	3,332	2,003
Revenues earned on behalf of Government	<u>(150)</u>	<u>(75)</u>	<u>(117)</u>
Total revenues	200,058	146,723	156,349
Net cost of operations before government funding and transfers	798,325	819,145	777,168
Government funding and transfers			
Net cash provided by Government	747,214	762,586	774,580
Change in due from Consolidated Revenue Fund	-	44,287	(19,078)
Services provided without charge by other government departments and agencies (Note 14)	46,205	49,578	44,998
Transfer of transition payments for implementing salary payments in arrears (Note 15)	-	(11,708)	-
Transfers from/to other government departments (Note 16)	<u>-</u>	<u>93</u>	<u>(180)</u>
Net revenue (cost) of operations after government funding and transfers	(4,906)	25,691	23,152
Departmental net financial position – Beginning of year	574,479	574,479	551,327
Departmental net financial position – End of year	<u>569,573</u>	<u>600,170</u>	<u>574,479</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 Financial Assets
For the Year Ended March 31

<i>(in thousands of dollars)</i>	<u>2015</u> Planned Results	<u>2015</u>	<u>2014</u>
Net revenue (cost) of operations after government funding and transfers	(4,906)	25,691	23,152
Change due to tangible capital assets			
Acquisition of tangible capital assets	(56,242)	(49,977)	(58,737)
Amortization of tangible capital assets	66,500	56,786	58,493
Proceeds from disposal of tangible capital assets	-	309	1,665
Net loss on disposal capital assets including adjustments	-	643	2,380
Transfers from/to other government departments (Note 16)	-	(93)	168
Other adjustments	-	(713)	(461)
Total change due to tangible capital assets	10,258	6,955	3,508
Change due to inventory for consumption	-	(9)	370
Change due to endowment fund investments	(100)	(126)	(68)
Change due to prepaid expenses	-	1,539	1,713
Net change in departmental net financial assets	5,252	34,050	28,675
Departmental net financial assets – Beginning of year	34,528	34,528	5,853
Departmental net financial assets – End of year	39,780	68,578	34,528

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

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

<i>(in thousands of dollars)</i>	2015	2014
Operating Activities		
Net cost of operations before government funding and transfers	819,145	777,168
Non-cash items:		
Amortization of tangible capital assets	(56,786)	(58,493)
Transfers from/to other government departments	-	12
Net loss on disposal of tangible capital assets	(643)	(2,380)
Services provided without charge by other government departments and agencies (Note 14)	(49,578)	(44,998)
Transition payments for implementing salary payments in arrears (Note 15)	11,708	-
Impairment in value of equity investments	-	(26)
Other adjustments to tangible capital assets	713	461
Variations in Consolidated Statement of Financial Position:		
Increase (decrease) in accounts receivable	6,599	(478)
Increase in inventory for resale	945	89
Decrease in prepaid expenses	(1,539)	(1,713)
Increase (decrease) in inventory for consumption	9	(370)
(Increase) decrease in accounts payable and accrued liabilities	(37,548)	26,410
Decrease in vacation pay and compensatory leave	95	2,721
Decrease in lease inducements	2,548	2,548
Decrease in deferred revenue	744	1,618
Decrease in employee future benefits	15,717	15,078
Cash used in operating activities	712,129	717,647
Capital Investing Activities		
Acquisitions of tangible capital assets	49,977	58,737
Proceeds from disposal of tangible capital assets	(309)	(1,665)
Cash used in capital investing activities	49,668	57,072
Investing Activities		
Income from endowment fund investments	204	144
Awards granted from endowment fund	(78)	(76)
(Decrease) increase in CFHT cash and investments	663	(282)
Cash used in investing activities	789	(214)
Financing Activity		
Lease payments for tangible capital assets	-	75
Cash used in financing activity	-	75
Net cash provided by Government of Canada	762,586	774,580

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, 2015

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:

- **Technology Development and Advancement:** Develops and advances technologies to enhance the prosperity of Canadian industries in support of federal priorities and to bring new and innovative products and processes to the marketplace.
- **Industrial Research Assistance Program (IRAP):** 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.
- **Science Infrastructure and Measurement:** Manages national science and infrastructure critical to research, development and innovation by Canadian scientific and technological communities and helps clients make the most of this infrastructure by facilitating access to a wide range of Canadian and international user communities and by participating in networks.
- **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 "Expenses" and "Revenues" sections of the Consolidated Statement of Operations and Departmental Net Financial Position are the amounts reported in the Consolidated Future-oriented Statement of Operations included in the *2014-15 Report on Plans and Priorities*. The planned results amounts in the "Government funding and transfers" section of the Consolidated Statement of Operations and Departmental Net Financial Position and the Consolidated Statement of Change in Departmental Net Financial Assets were prepared for internal management purposes and have not been previously published.

b) Consolidation

These consolidated financial statements include both NRC and its portion of the accounts of the Canada-France-Hawaii Telescope Corporation (CFHT or "the Corporation"). The NRC relationship with 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. CFHT has audited financial statements as at December 31, 2014 which has been proportionally consolidated with NRC's March 31, 2015 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:

- Research and technical services: Revenues are recognized as services are provided based on percentage-of-completion.
- Intellectual property, royalties and fees: 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.
- Rentals: Revenue is recognized in the period to which the lease or use of property relates.
- Grants and contributions: Revenue is recognized when the transfer payment is authorized and any eligibility criteria are met, except to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability.

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 of NRC 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 as a reduction of the NRC's gross revenues.

f) Expenses

- Expenses are recorded on the accrual basis.
- 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.
- 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.
- 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, 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 as well as the acquisition and provision of hardware and software for end user devices 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 ("the 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) Lease inducements

Lease inducements represent incentives received by NRC to enter into lease agreements for property at a nominal cost of one dollar. Lease inducements are deferred and amortized on the same basis as the related tangible capital assets.

i) 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.

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 consist of estimated costs related to the remediation of contaminated sites as well as estimated costs related to obligations associated with the retirement of tangible capital assets and other environmental liabilities.

i) Contaminated sites

A liability for remediation of contaminated sites is recognized when all of the following criteria are satisfied:

- an environmental standard exists;
- contamination exceeds the environmental standard;
- NRC is directly responsible or accepts responsibility;
- it is expected that future economic benefits will be given up; and
- a reasonable estimate of the amount can be made.

The liability reflects NRC's best estimate of the amount required to remediate the sites to the current minimum standard for its use prior to contamination. When the cash flows required to settle or otherwise extinguish a liability are expected to occur over extended future periods, a present value technique is used. The discount rate applied is taken from the Government's Consolidated Revenue Fund monthly lending rates for periods of one year and over. The discount rates used are based on the term rate associated with the estimated number of years to complete remediation.

ii) Asset retirement obligations

A liability for an asset retirement obligation is recognized when all of the following criteria are satisfied:

- there is an agreement, contract, legislation, or a constructive or equitable obligation that obligates NRC to incur retirement costs in relation to a tangible capital asset;
- the past event or transaction giving rise to the retirement liability has occurred;
- it is expected that future economic benefits will be given up; and
- a reasonable estimate of the amount can be made.

These costs are normally capitalized and amortized over the asset's estimated useful life based on NRC's best estimates of the cost to retire the tangible capital asset. The liability reflects the present value of estimated cash flows required to retire the assets where amounts can be reasonably estimated and is expected to be settled as the related sites, facilities or assets are removed from service.

l) Inventories

Inventory consists of parts, materials and supplies held for future program delivery as well as inventory for resale. Inventory for resale is recorded at the lower of cost, using the average cost method, or net realizable value. Inventory for consumption is recorded at cost using the average cost method.

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 by NRC. Income from the endowment fund investments may only be used for the purposes established by the donors.

Funds received for endowments are invested in bonds and other low risk instruments and are carried at amortized cost. Discounts and premiums arising on the purchase of these investments are amortized over the term of the investments.

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, and CFHT assets and liabilities, 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, 2015. CFHT revenues and expenses are translated into Canadian dollar equivalents using the average rate during the fiscal year.

p) Tangible capital assets

All tangible capital assets and leasehold improvements having an initial cost of \$10,000 or more are recorded at their acquisition cost. Contributed tangible capital assets are recorded at fair 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 once the tangible capital asset is deemed held for sale.

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 the 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. If the fair value cannot be reasonably determined, the amount of the transaction is recorded at a nominal value.

The tangible capital assets consolidated from CFHT are stated at cost. Amortization is calculated on the straight-line method over the estimated useful lives of the tangible capital 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 consolidated 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, remediation liabilities, asset retirement obligations, 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.

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>	2015	2014
Net cost of operations before government funding and transfers	<u>819,145</u>	<u>777,168</u>
Adjustments for items affecting net cost of operations but not affecting authorities:		
Revenues	146,723	156,349
Amortization of tangible capital assets	(56,786)	(58,493)
Services provided without charge by other government departments and agencies (Note 14)	(49,578)	(44,998)
Decrease (increase) in salary accrual	16,823	(8,073)
Decrease in employee future benefits	15,717	15,078
Refund of previous years' expenditures	2,980	2,562
Other	1,256	(503)
Bad debt expense	(701)	(680)
Cost of goods sold	(659)	(2,038)
Loss on disposal of tangible capital assets	(643)	(2,380)
Increase (decrease) in inventory	537	(616)
Decrease in vacation pay and compensatory leave	95	2,721
Increase in accrued liabilities not charged to authorities	(18)	(89)
Increase in remediation liabilities	(2)	(29)
Total items affecting net cost of operations but not affecting authorities	<u>75,744</u>	<u>58,811</u>
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisitions of tangible capital assets and additions to assets under construction	49,573	57,799
Transition payments for implementing salary payment in arrears	11,708	-
Decrease in prepaid expenses	(1,539)	(1,713)
Inventory purchases	1,074	2,224
Decrease in lease obligations for tangible capital assets	-	75
Remediation of sites reducing the liability	-	54
Total items not affecting net cost of operations but affecting authorities	<u>60,816</u>	<u>58,439</u>
Current year authorities used	<u>955,705</u>	<u>894,418</u>

b) Authorities provided and used

<i>(in thousands of dollars)</i>	2015	2014
Authorities provided:		
Vote 1 – Operating expenditures	465,324	398,783
Vote 5 – Capital expenditures	32,148	32,829
Vote 10 – Grants and contributions	283,058	293,916
Statutory amounts:		
Revenues pursuant to paragraph 5(1)(e) of the <i>National Research Council Act</i>	292,852	291,590
Contributions to employee benefit plans	58,450	53,843
Proceeds from the disposal of surplus Crown assets	367	308
Collection agency fees	8	1
Loss on foreign exchange	-	-
Less:		
Revenues available for use in future years	(147,535)	(156,710)
Lapsed authorities:		
Frozen allotments – Operating	(10,965)	(9,319)
Frozen allotments – Grants and contributions	-	(6,873)
Frozen allotments – Capital	-	-
Unexpended authorities – Grants and contributions	(14,844)	(3,007)
Unexpended authorities – Operating	(2,625)	(422)
Unexpended authorities – Capital	(533)	(521)
Current year authorities used	955,705	894,418

4. Accounts Receivable

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

<i>(in thousands of dollars)</i>	2015	2014
Receivables from external parties	32,947	27,749
Receivables from other government departments and agencies (Note 14)	4,350	3,103
CFHT – Accounts receivable	<u>27</u>	<u>117</u>
	37,324	30,969
Less: Allowance for doubtful accounts on receivables from external parties	<u>(570)</u>	<u>(774)</u>
Gross accounts receivable	36,754	30,195
Accounts receivable held on behalf of Government	(68)	(108)
Net accounts receivable	36,686	30,087

5. Cash and Investments

<i>(in thousands of dollars)</i>	2015	2014
Cash and investments held by CFHT	3,099	2,436
Equity investments	-	-
Cash and investments	3,099	2,436

Equity investments include shares in two public companies (two in 2014) and one privately held company (one in 2014). 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.

As at March 31, 2015, the book value of the equity investments was \$3 (\$3 in 2014). The fair value of NRC's equity investments in public companies was \$202 (\$568 in 2014). The fair value of the privately held companies is not determinable.

6. Accounts Payable and Accrued Liabilities

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

<i>(in thousands of dollars)</i>	2015	2014
Accounts payable – External parties	125,534	95,348
Accounts payable – Other government departments and agencies (Note 14)	25,428	14,611
Accrued wages and employee benefits	26,385	29,532
Contractor holdbacks	607	790
Remediation liabilities	170	168
Sales tax payable	293	380
CFHT – Accounts payable	281	321
Total accounts payable and accrued liabilities	178,698	141,150

In *Canada's Economic Action Plan 2012*, the Government of Canada 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, 2015 an obligation for termination benefits for an amount of \$784,000 (\$1,840,000 in 2014) as part of accrued wages and employee benefits to reflect the estimated workforce adjustment costs.

7. 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>	2015	2014
Opening balance	9,613	11,407
Funds received	30,813	26,438
Revenue recognized	<u>(31,354)</u>	<u>(28,232)</u>
Closing balance	9,072	9,613
CFHT – Deferred revenue	64	267
Total deferred revenue	9,136	9,880

8. Employee Future Benefits

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/Québec Pension Plans benefits and they are indexed to inflation.

Both the employees and NRC contribute to the cost of the Plan. Due to the amendment of the *Public Service Superannuation Act* following the implementation of provisions related to *Canada's Economic Action Plan 2012*, employee contributors have been divided into two groups - Group 1 relates to existing Plan members as of December 31, 2012 and Group 2 relates to members joining the Plan as of January 1, 2013. Each group has a distinct contribution rate.

The 2015 expense amounts to \$39,956,465 (\$37,856,722 in 2014). For Group 1 members, the expense represents approximately 1.41 times (1.6 times in 2014) the employee contribution and, for Group 2 members, approximately 1.39 times (1.5 times in 2014) the employee contributions.

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 represented and 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.

<i>(in thousands of dollars)</i>	2015	2014
Accrued benefit obligation, beginning of year	52,163	67,241
Expense for the year	12,891	2,906
Benefits paid during the year	(28,608)	(17,984)
Accrued benefit obligation, end of year	36,446	52,163

9. Endowment Fund Investments

This account was established pursuant to paragraph 5(1)(f) of the NRC Act to record the residue of the estate of the late H.L. Holmes. Up to two thirds of the endowment fund's annual 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>	2015	2014
Endowment fund investments, beginning of year	4,880	4,812
Net income from endowment	204	144
Awards granted	(78)	(76)
Endowment fund investments, end of year	5,006	4,880

The portfolio for endowment fund investments had an average effective return of 3.65% (3.63% in 2014) and an average term to maturity of 3.05 years as at March 31, 2015 (3.67 years as at March 31, 2014). The fair value of the endowment investments as at March 31, 2015 was \$5,315,877 (\$5,143,557 in 2014).

10. Tangible Capital Assets

(in thousands of dollars)	Cost					Accumulated Amortization					Net Book Value	
	Opening balance	Acquisitions	Adjustments (1)	Disposals and write-offs	Closing balance	Opening balance	Amortization	Adjustments	Disposals and write-offs	Closing balance	2015	2014
Land	9,812	-	-	-	9,812	-	-	-	-	-	9,812	9,812
Buildings and facilities	730,572	6,464	13,922	-	750,958	(472,367)	(21,438)	-	-	(493,805)	257,153	258,205
Works and infrastructure	29,209	734	(74)	-	29,869	(18,241)	(1,280)	-	-	(19,521)	10,348	10,968
Machinery, equipment and furniture	496,604	13,349	9,812	(12,965)	506,800	(367,877)	(26,697)	(2,190)	12,222	(384,542)	122,258	128,727
Informatics equipment	36,762	284	418	(1,095)	36,369	(33,294)	(1,688)	(5)	1,095	(33,892)	2,477	3,468
Informatics software	18,909	251	75	(949)	18,286	(14,503)	(1,609)	-	941	(15,171)	3,115	4,406
Vehicles	3,128	57	-	(246)	2,939	(2,180)	(231)	-	219	(2,192)	747	948
Aircraft	12,317	928	4,132	(22)	17,355	(10,426)	(67)	(10)	22	(10,481)	6,874	1,891
Leasehold improvements	17,352	-	-	-	17,352	(5,781)	(746)	-	-	(6,527)	10,825	11,571
Assets under construction	43,832	27,522	(25,987)	(174)	45,193	-	-	-	-	-	45,193	43,832
Leased tangible capital assets	63,700	-	-	-	63,700	(23,302)	(2,548)	-	-	(25,850)	37,850	40,398
CFHT – Tangible capital assets	22,490	388	713	-	23,591	(16,820)	(482)	-	-	(17,302)	6,289	5,670
Total	1,484,687	49,977	3,011	(15,451)	1,522,224	(964,791)	(56,786)	(2,205)	14,499	(1,009,283)	512,941	519,896

(1) Adjustments include assets under construction of \$25,987,000 that were transferred to the other categories upon completion of the assets.

During the year, NRC received machinery, equipment and furniture with a cost of \$2,297,439 and accumulated amortization of \$2,204,511 (net book value of \$92,928) from various government departments.

Amortization expense for the year ended March 31, 2015 is \$56,785,746 (\$58,492,826 in 2014).

At March 31, 2015, NRC held nine land lease agreements (nine in 2014) 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, whereby leased property was provided to NRC for 25 years at a nominal cost of one dollar. 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 at a nominal cost of one dollar per year. The lease provides a one year term with options to renew on 10 sequential occasions, each of the first nine renewals to be for a period of five years and the 10th 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 at a nominal cost of one dollar per year. The lease provides a 19 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.

11. 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. Transfer payments and significant operating contractual obligations that can be reasonably estimated are summarized as follows:

<i>(in thousands of dollars)</i>	2016	2017	2018	2019	2020 and thereafter	Total
Transfer payments	138,453	26,794	21,447	24,512	37,305	248,511
Operating contracts	37,744	4,872	4,079	413	198	47,306
Total	176,197	31,666	25,526	24,925	37,503	295,817

Transfer payments contractual obligations to CFHT as shown in Note 14c) have been excluded from the contractual obligations.

On April 29, 2015, NRC became a member of TMT International Observatory LLC (TIO). TIO is incorporated under the State of Delaware Limited Liability Company Act to carry out the construction, operations and decommissioning phases of the Thirty Meter Telescope (TMT Project) located in Mauna Kea, Hawaii. TIO is operated exclusively to further the charitable, educational and/or scientific purposes. The purpose of the TMT Project is to provide for the observation and collection of images and information from deep space to advance human knowledge of astronomy and the origin of the universe.

The TMT Project is a collaboration between NRC, the California Institute of Technology, the University of California, Japan, China, India and Yale University to build the world's largest and most advanced optical/infrared telescope. The NRC's relationship with TIO meets the definition of a government partnership under Canadian public sector accounting standards. NRC's member participation percentage in TIO is approximately 15% which is based on Canada's financial contribution to the TMT Project. NRC did not have any transactions with TIO in 2015.

NRC will provide in-kind cash contributions for the TMT Project. NRC's in-kind contributions are estimated at \$170,572,575 for the enclosure and the adaptive optics of the telescope which are scheduled to be completed by 2024. NRC will also contribute cash contributions to TIO for the TMT Project in the amount of \$8,750,000 annually for a period of five years starting in 2019. These contributions in cash are included in the schedule above as transfer payment contractual obligations.

12. Environmental liabilities

a) Remediation of contaminated sites

The Government has developed a "Federal Approach to Contaminated Sites", which incorporates a risk-based approach to the management of contaminated sites. Under this approach, the Government has inventoried the contaminated sites on federal lands that have been identified, allowing them to be classified, managed and recorded in a consistent manner. The systematic approach aides in the identification of the high risk sites in order to allocate limited resources to those sites which pose the highest risk to the environment and human health.

NRC has identified eighteen sites (nineteen sites in 2014) where contamination may exist and assessment, remediation and monitoring may be required. Of these sites, NRC has identified three sites (three sites in 2014) where action is possible and for which a net liability of \$170,421 (\$168,400 in 2014) has been recorded. NRC also identified one site in 2015 where remediation will be needed but the liability cannot be reasonably estimated as no remedial options have been identified. The liability represents management's best estimate of the amount required to complete the remediation of the sites to the current minimum standard for its use to contamination, based on information available at the financial statement date.

The nature and source of the liability is "Office/Commercial/Industrial Operations": contamination associated with the operations and maintenance where activities such as fuel storage/handling, waste sites and use of metal based paint resulted in former or accidental contamination, e.g. metals, petroleum hydrocarbons, polyaromatic hydrocarbons, BTEX, etc. Sites often have multiple sources of contamination. There are no expected recoveries in 2015 and the estimated total undiscounted expenditures equal the estimated liability in 2015.

Of the remaining fourteen sites, none had an estimated liability, primarily due to the fact that the sites are not yet fully assessed and contamination had not yet been determined or they have not developed a detailed remediation plan. As the sites are assessed, if contamination is found, and it exceeds the environmental standard, a liability will be recognized as soon as a reasonable estimate can be made.

Of the fourteen sites that do not have liabilities, five are considered a medium to low priority based on the low level of risk to human health or the environment. Assessment and remediation will be done on these sites as resources become available. Seven sites are not considered a priority for action because information indicates there is likely no significant environmental impact or human health threats and there is likely no need for action unless new information becomes available indicating greater concerns, in which case, the site will be re-examined. Two sites currently have insufficient information in order to classify. Additional information is required to classify the site but is not available at this time. As additional information becomes available the sites will be re-examined.

b) Asset retirement obligation

NRC has recognized an asset retirement obligation of \$300,000 (\$280,000 in 2014) 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 \$419,000 (\$426,000 in 2014). The liability for the expected future cash flows, as reflected in the consolidated financial statements, has been discounted at a weighted average of 2.64% (3.27% in 2014) 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 future asset retirement obligation:

<i>(in thousands of dollars)</i>	2015	2014
Asset retirement obligation, beginning of year	280	273
Obligations incurred	3	-
Accretion of future asset retirement obligation	17	7
Asset retirement obligation, end of year	300	280

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.

13. Contingent Liabilities

Claims have been made against NRC in the normal course of operations. Legal proceedings for five claims were pending at March 31, 2015 (two in 2014). NRC has four claims that it believes the outcome is unlikely (one in 2014), one claim that it believes will likely result in a liability where the amount is undeterminable; and no claim that it believes will likely result in a liability where the amount is determinable (one in 2014).

14. 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>	2015	2014
Employer's contributions to the health and dental insurance plans provided by Treasury Board	31,230	27,754
Email, data centre and network services and the email, data centre and network support unit as well as the acquisition and provision of hardware and software for end user devices provided by Shared Services Canada	17,698	16,447
Legal services provided by Justice Canada	248	376
Workers' compensation benefits provided by Employment and Social Development Canada	226	246
Accommodation provided by Public Works and Government Services Canada	176	175
Total	49,578	44,998

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 (SSC) on November 15, 2011. Additionally, the activities related to the acquisition and provision of hardware and software for end user devices were transferred to SSC on April 3, 2013. The services provided after these transfer dates are recognized without charge.

b) Other transactions with related parties

<i>(in thousands of dollars)</i>	2015	2014
Accounts receivable from other government departments and agencies	4,350	3,103
Accounts payable to other government departments and agencies	25,428	14,611
Expenses – Other government departments and agencies	91,818	70,651
Revenues – Other government departments and agencies	43,218	55,886

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

c) Canada-France-Hawaii Telescope Corporation

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

NRC was a founding member of the Canada-France-Hawaii Telescope Corporation, 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 10 members of the board of directors. The NRC relationship with CFHT is considered a government partnership for accounting purposes and CFHT results are proportionally consolidated in these statements. In 2015, NRC contributed \$3.4 million to CFHT (\$3.3 million in 2014). These contributions are eliminated upon consolidation. CFHT's condensed financial information for the period ended December 31 is as follows:

<i>(in thousands of dollars)</i>	December 31, 2014	December 31, 2013
Total assets	20,817	18,384
Total liabilities	1,579	2,094
Total unrestricted net assets	19,238	16,290
Total revenues	10,302	8,951
Total expenses	9,590	9,204
Net operating results	712	(253)

NRC's future contractual obligations to CFHT are not included in the transfer payment contractual obligations (Note 11) and are as follows:

<i>(in thousands of dollars)</i>	2016	2017	2018	2019	2020 and thereafter	Total
CFHT	4,100	4,207	4,314	4,412	4,479	21,512

15. Transfer of the transition payments for implementing salary payments in arrears

The Government of Canada implemented salary payments in arrears in 2015. As a result, a one-time payment was issued to employees and will be recovered from them in the future. The transition to salary payments in arrears forms part of the transformation initiative that replaces the pay system and also streamlines and modernizes the pay processes. This change to the pay system had no impact on the expenses of NRC. However, it did result in the use of additional spending authorities by NRC. Prior to year end, the transition payments for implementing salary payments in arrears were transferred to a central account administered by Public Works and Government Services Canada, who is responsible for the administration of the Government pay system.

16. Transfers from/to other government departments

Transfers of tangible capital assets between government departments and NRC have occurred in 2014 and 2015.

Furthermore, on April 3, 2013, NRC transferred the responsibility related to the acquisition and provision of hardware and software, including security software, for end user devices to SSC in accordance with Order in Council PR/2013 0368. NRC also transferred informatics software having a net book value of \$21,119 on this date. During the transition period, from April 4, 2013 to March 31, 2014, NRC continued to administer the transferred activities on behalf of Shared Services Canada. Consequently, NRC transferred prepaid expenses of \$418,336 and accounts payable and accrued liabilities of \$406,400 on March 31, 2014.

The transactions can be summarized as follows:

<i>(in thousands of dollars)</i>	2015	2014
Transfer of tangible capital assets to SSC – April 3, 2013	-	(21)
Transfer of prepaid expenses to SSC – March 31, 2014	-	(418)
Transfer of payables at year-end to SSC – March 31, 2014	-	406
Net tangible capital asset transfers	93	(147)
Total	93	(180)

17. Segmented Information

Presentation by segment is based on NRC's program alignment architecture (PAA). NRC allocates transactions over the PAA in accordance with stewardship principles, based on the Portfolios, Branch or IRAP 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>	Technology Development and Advancement	Industrial Research Assistance Program	Science Infrastructure and Measurement	Internal Services	2015 Total	2014 Total
Transfer payments						
Grants and contributions	-	208,471	54,401	884	263,756	278,396
Total transfer payments	-	208,471	54,401	884	263,756	278,396
Operating expenses						
Salaries and employee benefits	237,504	51,870	36,702	105,926	432,002	404,789
Utilities, material and supplies	30,982	686	2,958	44,758	79,384	72,759
Professional services	23,507	4,127	4,796	39,061	71,491	56,133
Amortization of tangible capital assets	27,154	35	3,653	25,944	56,786	58,493
Repair and maintenance	7,383	15	495	11,119	19,012	17,450
Payment in lieu of taxes	-	-	-	14,673	14,673	15,559
Transportation and communication	7,383	2,301	2,343	2,453	14,480	13,251
Rentals	539	1,677	40	6,068	8,324	7,262
Information	585	52	36	1,100	1,773	1,390
Awards	98	9	-	1,613	1,720	2,426
Bad debts	-	-	-	701	701	680
Costs of goods sold	129	-	515	15	659	2,038
Loss (gain) on disposal of tangible capital assets	731	-	-	(88)	643	2,380
Other	165	24	328	(53)	464	408
Loss on sale of equity investment	-	-	-	-	-	103
Total operating expenses	336,160	60,796	51,866	253,290	702,112	655,121
Total expenses	336,160	269,267	106,267	254,174	965,868	933,517
Revenues						
Research services	42,584	-	3,621	-	46,205	50,097
Technical services	60,788	860	3,531	9,850	75,029	77,892
Intellectual property, royalties and fees	490	-	-	7,008	7,498	9,357
Sales of goods and information products	2,386	-	1,750	32	4,168	5,878
Rentals	58	-	-	5,546	5,604	5,751
Grants and contributions	357	-	-	2,057	2,414	2,940
Lease inducement revenue	-	-	-	2,548	2,548	2,548
Other	337	-	1,937	1,058	3,332	2,003
Revenues earned on behalf of Government	-	-	-	(75)	(75)	(117)
Total revenues	107,000	860	10,839	28,024	146,723	156,349
Net cost of operations before government funding and transfers	229,160	268,407	95,428	226,150	819,145	777,168

18. Financial Instruments

NRC's financial instruments consist of due from CRF, accounts receivable, 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. Comparative Information

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

**Annex to the Statement of Management
Responsibility including Internal Control over
Financial Reporting (Unaudited)**

For the year ended March 31, 2015

1. Introduction

This document provides summary information on the measures taken by NRC to maintain an effective system of internal control over financial reporting, including information on internal control management, assessment results and related action plans.

Detailed information on NRC's authority, mandate and program activities can be found in the 2014-15 Departmental Performance Report and the 2015-16 Report on Plans and Priorities.

2. Departmental system of internal control over financial reporting

2.1 Internal control management

NRC has a well-established governance and accountability structure to support departmental assessment efforts and oversight of its system of internal control. A departmental internal control management framework, approved by the Deputy Head, is in place which includes:

- Organizational accountability structures as they relate to internal control management to support sound financial management, including roles and responsibilities of senior managers in their areas of responsibility for control management;
- Values and ethics;
- Ongoing communication and training on statutory requirements, and policies and procedures for sound financial management and control; and
- At least semi-annual monitoring of and regular updates on internal control management, as well as the provision of related assessment results and action plans to the Deputy Head and departmental senior management and, as applicable, the Departmental Audit Committee.

The Departmental Audit Committee provides advice to the Deputy Head on the adequacy and functioning of NRC's risk management, control and governance frameworks and processes.

2.2 Service arrangements relevant to financial statements

NRC relies on other organizations for the processing of certain transactions that are recorded in its financial statements as follows:

Common arrangements

- Public Works and Government Services Canada centrally administers the payments of salaries and the procurement of goods and services in accordance with NRC's Delegation of Authority, and provides some accommodation on behalf of NRC;
- The Treasury Board of Canada Secretariat provides NRC with information used to calculate various accruals and allowances, such as the accrued severance liability;
- The Department of Justice Canada provides legal services to NRC; and

- Shared Services Canada provides information technology (IT) infrastructure services to NRC in the areas of data centre and network services. The scope and responsibilities are addressed in the interdepartmental arrangement between Shared Services Canada and NRC.

3. Departmental assessment results during fiscal year 2014-15

The key findings and significant adjustments required from the current year's assessment activities are summarized below.

3.1 New or significantly amended key controls

In July 2014, NRC was subject to a cyber-intrusion on its IT infrastructure. As a result, the financial system and network access was completely shut down for a short period of time, and limited access was restored for the remainder of 2014-15. Business processes were disrupted and most required changes to ensure business continuity. As such, all significant business processes had significantly amended key controls. Design effectiveness testing was conducted on the key controls of the interim processes.

3.2 Ongoing monitoring program

Due to the cyber-intrusion, NRC reviewed design effectiveness of all its most significant business processes while continuing its rotational ongoing monitoring plan. As part of its rotational ongoing monitoring (OGM) plan, NRC completed its reassessment of financial controls within procurement to payment, transfer payments, capital assets and revenues/receivables business processes, as well as entity level controls and information technology general controls (ITGC).

For the most part, the key controls tested performed as intended, with remediation required as follows:

- *Procurement to payment:* Consistent with last year's assessment, inconsistencies remain regarding the application of expenditure initiation and section 34 for expenses with payments made to other government departments through interdepartmental settlements. An action plan to address these inconsistencies was developed and communicated (in progress);
- *Transfer payments:* Assessment of contribution files demonstrated compliance with most of the existing policies and business processes. However, the application of established Section 34 and Section 33 account verification procedures was not applied consistently including a lack of sufficient documentation per established NRC practices. Deficiencies were communicated to management and to the responsible parties. Necessary remediation measures have been or are currently being implemented by NRC (in progress);
- *Capital assets:* Consistent with last year's assessment, improvement opportunities with regard to some key financial controls at the lower level business processes for capital assets remain. Implementation of the management action plan has begun with delays encountered due to the cyber-intrusion. Lower level custodianship accountabilities are ongoing as they require clarification (in progress);

- *Payroll*: Implementation of remediation actions to address gaps between the NRC and the government of Canada’s payroll administration framework (deferred to future years due to low risk level);
- *Master data*: Operational processes to maintain master vendor and customer records were strengthened. A periodical review plan is currently in development (in progress);
- *Delegation of Authority Application (DAA)*: Phase II, which is currently in its launch phase, results in the application being fully embedded in SAP. Phase III, which is currently under development, will introduce the new functionality of electronic authorizations, which will eliminate any improper segregation of duties at the transaction level, if conflictual roles are assigned. A temporary monitoring plan of conflicting roles has been created (in progress); and
- *Revenue*: In 2012-13 the revenue control framework was streamlined, strengthened and standardized including the implementation of a continuous review of revenue files. Due to the significance of the business process changes introduced, the continuous review disclosed that some elements were not fully entrenched in operations. Further delays in implementation were encountered this year due to the cyber-intrusion. In order to ensure that operational effectiveness was fully assessed, alternate testing was conducted to ensure that revenues were appropriately recorded (in progress).

4. Departmental action plan

4.1 Progress during fiscal year 2014-15

NRC continued to conduct its ongoing monitoring according to the previous fiscal year’s rotation plan as shown in the following table.

Previous year’s rotational ongoing monitoring plan for current year	Status
Entity level controls, information technology general controls	Completed as planned and no remedial actions required.
Procurement to payment, transfer payments, capital assets	Completed as planned with some remedial actions complete and some underway.
Revenues, receivables and receipts	Completed design effectiveness reassessment with some operating effectiveness testing delayed or alternatively tested due to delays in fully operationalizing the management action plan.

In 2014-15, due to the operating environment challenges, NRC conducted additional work to the progress made in ongoing monitoring due to interim changes in procurement to

payment, transfer payments, inventory, payroll and revenue by assessing key controls embedded in interim processes put in place.

4.2 Action plan for the next fiscal year and subsequent years

NRC’s rotational ongoing monitoring plan over the next three years, based on an annual validation of the high risk processes and controls and related adjustments to the ongoing monitoring plan as required, is shown in the following table.

Key control areas	Fiscal year 2015-16	Fiscal year 2016-17	Fiscal year 2017-18
ELCs	√	√	√
ITGCs under departmental management	√	√	√
Procurement to payment	√	√	√
Transfer Payments	√	√	√
Capital assets	√	√	√
Inventory	√		
Payroll administration	√	√	
Revenues, receivables and receipts	√	√	√
Master data – customers / vendors	√		

In addition to the ongoing monitoring rotational plan, NRC also plans to review remediation actions completed in 2015-16 in all areas in which issues were noted in section 3. NRC also plans to continue remediation of adjustments identified during its assessments. When new business processes are introduced, or significant internal control process changes occur, NRC will proactively identify, document and test key controls based on associated risks. The results will be incorporated into the assessment plan and the ongoing monitoring program.