



Consolidated Financial Statements

National Research Council Canada

March 31, 2014

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, 2014, 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, 2014 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, 2014 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 26, 2014



June 26, 2014

Independent Auditor's Report

To the National Research Council Canada and the Ministry 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, 2014 and the consolidated statements of operations and departmental net financial position, change in departmental net (financial assets) debt and cash flow 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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"PwC" refers to PricewaterhouseCoopers LLP, an Ontario limited liability partnership.



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, 2014 and the results of its operations, changes in its net (financial assets) debt 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>2014</u>	<u>2013</u> Restated (Note 4)
Liabilities		
Accounts payable and accrued liabilities (Note 5)	141,150	167,560
Vacation pay and compensatory leave	28,978	31,699
Lease inducements	40,398	42,946
Deferred revenue (Note 6)	9,880	11,498
Lease obligation for tangible capital assets	-	75
Employee future benefits (Note 7)	<u>52,163</u>	<u>67,241</u>
Total liabilities	272,569	321,019
Financial Assets		
Due from the Consolidated Revenue Fund	271,642	290,720
Accounts receivable (Note 8)	30,195	30,641
Inventory for resale	2,932	2,843
Cash and investments (Note 9)	<u>2,436</u>	<u>2,744</u>
Total gross financial assets	307,205	326,948
Financial assets held on behalf of Government		
Accounts receivable (Note 8)	<u>(108)</u>	<u>(76)</u>
Total financial assets held on behalf of Government	(108)	(76)
Total net financial assets	307,097	326,872
Departmental net (financial assets) debt	(34,528)	(5,853)
Non-Financial Assets		
Prepaid expenses	11,170	12,883
Endowment fund investments (Note 10)	4,880	4,812
Inventory for consumption	4,005	4,375
Tangible capital assets (Note 11)	<u>519,896</u>	<u>523,404</u>
Total non-financial assets	539,951	545,474
Departmental net financial position	<u>574,479</u>	<u>551,327</u>
Contractual obligations (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 26, 2014

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>	2014 Planned Results	2014	2013 Restated (Note 4)
Expenses			
Manufacturing Technologies	149,269	128,962	135,514
Information and Communication Technologies (ICT) and Emerging Technologies	69,974	65,660	65,710
Industrial Research Assistance	275,399	281,744	248,285
Health and Life Sciences Technologies	98,904	91,253	87,423
Energy and Environmental Technologies	41,360	38,099	40,941
National Science and Technology Infrastructure	104,305	100,286	101,760
Scientific, Technical and Medical Information	22,158	23,467	21,106
Internal Services	216,915	204,046	212,384
Total expenses	978,284	933,517	913,123
Revenues			
Research services	76,554	50,097	50,441
Technical services	80,895	77,892	79,530
Intellectual property, royalties and fees	11,704	9,357	8,455
Sales of goods and information products	9,150	5,878	4,422
Rentals	5,990	5,751	6,215
Grants and contributions	2,359	2,940	2,884
Lease inducement revenue	2,548	2,548	2,548
Other	505	2,003	649
Revenues earned on behalf of Government	(295)	(117)	128
Total revenues	189,410	156,349	155,272
Net cost of operations before government funding and transfers	788,874	777,168	757,851
Government funding and transfers			
Net cash provided by Government	708,983	774,580	647,434
Change in due from the Consolidated Revenue Fund	4,713	(19,078)	106,894
Services provided without charge by other government departments and agencies (Note 14)	53,349	44,998	46,498
Transfers from/to other government departments (Note 15)	-	(180)	(528)
Net cost of operations after government funding and transfers	21,829	(23,152)	(42,447)
Departmental net financial position – Beginning of year	525,831	551,327	508,880
Departmental net financial position – End of year	504,002	574,479	551,327

Segmented information (Note 16)

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) Debt
For the Year Ended March 31

<i>(in thousands of dollars)</i>	<u>2014</u> Planned Results	<u>2014</u>	<u>2013</u> Restated (Note 4)
Net cost of operations after government funding and transfers	21,829	(23,152)	(42,447)
Change due to tangible capital assets			
Acquisition of tangible capital assets	30,778	58,737	45,135
Amortization of tangible capital assets	(62,375)	(58,493)	(61,058)
Proceeds from disposal of tangible capital assets	-	(1,665)	(173)
Net loss on disposal capital assets including adjustments	(1,638)	(2,380)	(126)
Transfers from/to other government departments (Note 15)	-	(168)	525
Other adjustments	-	461	(52)
Total change due to tangible capital assets	(33,235)	(3,508)	(15,749)
Change due to inventory for consumption	-	(370)	272
Change due to endowment fund investments	110	68	88
Change due to prepaid expenses	-	(1,713)	1,213
Net change in departmental net (financial assets) debt	(11,296)	(28,675)	(56,623)
Departmental net (financial assets) debt – Beginning of year	28,445	(5,853)	50,770
Departmental net (financial assets) debt – End of year	17,149	(34,528)	(5,853)

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>	2014	2013 Restated (Note 4)
Operating Activities		
Net cost of operations before government funding and transfers	777,168	757,851
Non-cash items:		
Amortization of tangible capital assets	(58,493)	(61,058)
Transfers from/to other government departments	12	1,053
Net loss on disposal of tangible capital assets	(2,380)	(126)
Services provided without charge by other government departments and agencies (Note 14)	(44,998)	(46,498)
Impairment in value of equity investments	(26)	(129)
Other adjustments to tangible capital assets	461	(52)
Variations in Consolidated Statement of Financial Position:		
(Decrease) increase in accounts receivable	(478)	4,110
Increase (decrease) in inventory for resale	89	(418)
(Decrease) increase in prepaid expenses	(1,713)	1,213
(Decrease) increase in inventory for consumption	(370)	272
Decrease (increase) in accounts payable and accrued liabilities	26,410	(64,755)
Decrease in vacation pay and compensatory leave	2,721	3,413
Decrease in lease inducements	2,548	2,548
Decrease in deferred revenue	1,618	3,709
Decrease in employee future benefits	15,078	1,091
Cash used in operating activities	717,647	602,224
Capital Investing Activities		
Acquisitions of tangible capital assets	58,737	45,135
Proceeds from disposal of tangible capital assets	(1,665)	(173)
Cash used in capital investing activities	57,072	44,962
Investing Activities		
Income from endowment fund investments	144	196
Awards granted from endowment fund	(76)	(108)
(Decrease) increase in CFHT cash and investments	(282)	89
Cash used in investing activities	(214)	177
Financing Activity		
Lease payments for tangible capital assets	75	71
Cash used in financing activity	75	71
Net cash provided by Government of Canada	774,580	647,434

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, 2014

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 communication technologies and emerging technologies.
- **Industrial Research Assistance (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, 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 commercialization.
- **Internal Services:** Groups of activities and resources administered to support the needs of programs and other corporate obligations of the organization. Includes only those activities and resources that apply across the organization and not 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 consolidated future-oriented financial statements included in the *2013-14 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 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, 2013 which have been proportionally consolidated with NRC's March 31, 2014 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 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 environmentally contaminated sites as well as estimated costs related to obligations associated with future asset restoration.

i) Remediation liabilities are recorded as accrued liabilities to recognize the estimated costs related to the management and remediation of contaminated sites where NRC is obligated, or likely obligated to remediate sites. If the responsibility to remediate is undeterminable, the amount is disclosed as a contingent liability. If the responsibility to remediate is undeterminable and a reasonable estimate cannot be made, the nature, source and extent of contamination is disclosed as a contingent liability.

ii) Future asset restoration obligations are recorded as accrued liabilities to recognize the estimated costs related to the restoration of tangible capital assets. These costs are usually capitalized and amortized over the asset's estimated useful life based on an obligation imposed by legislation, regulation or contractual agreement where NRC is obligated, or likely to be obligated, to restore the tangible capital asset. If the obligation to restore the tangible capital asset is undeterminable, the amount is disclosed as a contingent liability. If the obligation to restore the tangible capital asset is undeterminable and an estimate cannot be made, the nature and source of the potential obligation is disclosed as a contingent liability. 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 amortized on the same basis as the related asset and the discount accretion is included in determining the results of operations.

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, 2014. 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 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, future 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>	2014	2013
		Restated (Note 4)
Net cost of operations before government funding and transfers	<u>777,168</u>	<u>757,851</u>
Adjustments for items affecting net cost of operations but not affecting authorities:		
Revenues	156,349	155,272
Amortization of tangible capital assets	(58,493)	(61,058)
Services provided without charge by other government departments and agencies (Note 14)	(44,998)	(46,498)
Decrease in employee future benefits	15,078	1,091
Increase in salary accrual	(8,073)	(4,871)
Decrease in vacation pay and compensatory leave	2,721	3,413
Refund of previous years' expenditures	2,562	4,909
Loss on disposal of tangible capital assets	(2,380)	(126)
Cost of goods sold	(2,038)	(654)
Bad debt expense	(680)	(14)
Decrease in inventory	(616)	(173)
Other	(503)	(692)
(Increase) decrease in accrued liabilities not charged to authorities	(89)	175
(Increase) decrease in remediation liabilities	(29)	298
Financial arrangements with other government departments and agencies	<u>-</u>	<u>(51,148)</u>
Total items affecting net cost of operations but not affecting authorities	58,811	(76)
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisitions of tangible capital assets and additions to assets under construction	57,799	44,943
Inventory purchases	2,224	660
(Decrease) increase in prepaid expenses	(1,713)	1,213
Decrease in lease obligations for tangible capital assets	75	71
Remediation of sites reducing the liability	<u>54</u>	<u>142</u>
Total items not affecting net cost of operations but affecting authorities	58,439	47,029
Current year authorities used	<u>894,418</u>	<u>804,804</u>

b) Authorities provided and used

<i>(in thousands of dollars)</i>	2014	2013
Authorities provided:		
Vote 60 – Operating expenditures	398,783	411,933
Vote 65 – Capital expenditures	32,829	42,309
Vote 70 – Grants and contributions	293,916	260,466
Statutory amounts:		
Revenues pursuant to paragraph 5(1)(e) of the <i>National Research Council Act</i>	291,590	188,038
Contributions to employee benefit plans	53,843	56,812
Proceeds from the disposal of surplus Crown assets	308	534
Collection agency fees	1	5
Loss on foreign exchange	-	-
Less:		
Revenues available for use in future years	(156,710)	(142,539)
Lapsed authorities:		
Frozen allotments – Operating	(9,319)	(5,091)
Frozen allotments – Grants and contributions	(6,873)	-
Frozen allotments – Capital	-	(76)
Unexpended authorities – Grants and contributions	(3,007)	(7,226)
Unexpended authorities – Capital	(521)	-
Unexpended authorities – Operating	(422)	(361)
Current year authorities used	894,418	804,804

4. Accounting Changes

During 2013-2014, NRC increased the capitalization threshold of tangible capital assets from \$5,000 to \$10,000. The capitalization threshold of tangible capital assets was modified to reflect the threshold as prescribed by *Treasury Board Accounting Standard 3.1 – Capital Assets*. The significant change to NRC's consolidated financial statements are described below. These changes have been applied retroactively, and comparative information for 2013 has been restated.

Tangible capital assets having an original acquisition value of less than \$10,000 have been written off and the balance of the tangible capital assets was reduced by \$11,304,000 (\$14,423,000 for 2013).

As a result of the accounting change, the amortization expense was reduced by \$3,251,000 (\$3,579,000 for 2013) and the operating expenses were increased by \$132,315 (\$1,677,000 for 2013) for purchases of tangible capital assets having an acquisition cost of less than \$10,000.

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

<i>(in thousands of dollars)</i>	2013		2013
	As previously stated	Effect of change	Restated
Consolidated Statement of Financial Position			
Tangible capital assets	537,827	(14,423)	523,404
Total non-financial assets	559,897	(14,423)	545,474
Departmental net financial position	565,750	(14,423)	551,327
Consolidated Statement of Operations and Departmental Net Financial Position			
Total expenses	915,025	(1,902)	913,123
Departmental net financial position – Beginning of year	525,205	(16,325)	508,880
Departmental net financial position – End of year	565,750	(14,423)	551,327

5. Accounts Payable and Accrued Liabilities

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

<i>(in thousands of dollars)</i>	2014	2013
Accounts payable – External parties	95,348	127,569
Accounts payable – Other government departments and agencies (Note 14)	14,611	16,844
Accrued wages and employee benefits	29,532	21,459
Contractor holdbacks	790	1,055
Remediation liabilities	168	197
Sales tax payable	380	364
CFHT – Accounts payable	321	72
Total accounts payable and accrued liabilities	141,150	167,560

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, 2014 an obligation for termination benefits for an amount of \$1,840,000 (\$1,578,000 in 2013) 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>	2014	2013
Opening balance	11,407	15,151
Funds received	26,438	31,213
Revenue recognized	<u>(28,232)</u>	<u>(34,957)</u>
Closing balance	9,613	11,407
CFHT – Deferred revenue	267	91
Total deferred revenue	9,880	11,498

7. 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 2014 expense amounts to \$37,856,722 (\$40,563,757 in 2013). For Group 1 members, the expense represents approximately 1.6 times (1.7 times in 2013) the employee contribution and, for Group 2 members, approximately 1.5 times (1.6 times in 2013) 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>	2014	2013
Accrued benefit obligation, beginning of year	67,241	68,332
Expense for the year	2,906	7,138
Benefits paid during the year	(17,984)	(8,229)
Accrued benefit obligation, end of year	52,163	67,241

8. Accounts Receivable

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

<i>(in thousands of dollars)</i>	2014	2013
Receivables from external parties	27,749	26,377
Receivables from other government departments and agencies (Note 14)	3,103	4,516
CFHT – Accounts receivable	<u>117</u>	<u>75</u>
	30,969	30,968
Less: Allowance for doubtful accounts on receivables from external parties	<u>(774)</u>	<u>(327)</u>
Gross accounts receivable	30,195	30,641
Accounts receivable held on behalf of Government	(108)	(76)
Net accounts receivable	30,087	30,565

9. Cash and Investments

<i>(in thousands of dollars)</i>	2014	2013
Cash and investments held by CFHT	2,436	2,529
Equity investments	-	215
Cash and investments	2,436	2,744

Equity investments include shares in two public companies (three in 2013) and one privately held company (one in 2013). 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.

NRC recorded an impairment reducing the value of its shares in one publicly held company by an amount of \$25,868 (\$129,346 in 2013).

As at March 31, 2014, the book value of the equity investments was \$3 (\$214,917 in 2013). The fair value of NRC's equity investments in public companies was \$568 (\$107,685 in 2013). The fair value of the privately held companies is not determinable.

10. 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>	2014	2013
Endowment fund investments, beginning of year	4,812	4,724
Net income from endowment	144	196
Awards granted	(76)	(108)
Endowment fund investments, end of year	4,880	4,812

The portfolio for endowment fund investments had an average effective return of 3.63% (3.99% in 2013) and an average term to maturity of 3.67 years as at March 31, 2014 (3.92 years as at March 31, 2013). The fair value of the endowment investments as at March 31, 2014 was \$5,143,557 (\$5,141,690 in 2013).

11. 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	2014	2013 Restated (Note 4)
Land	9,879	-	-	(67)	9,812	-	-	-	-	-	9,812	9,879
Buildings and facilities	714,567	9,727	6,278	-	730,572	(450,485)	(21,882)	-	-	(472,367)	258,205	264,082
Works and infrastructure	26,444	1,556	1,208	1	29,209	(16,734)	(1,507)	-	-	(18,241)	10,968	9,710
Machinery, equipment and furniture	496,684	19,420	5,950	(25,450)	496,604	(362,522)	(26,679)	(427)	21,751	(367,877)	128,727	134,162
Informatics equipment	41,547	32	(2,675)	(2,142)	36,762	(35,804)	(2,261)	2,605	2,166	(33,294)	3,468	5,743
Informatics software	17,644	568	1,351	(654)	18,909	(13,633)	(1,927)	427	630	(14,503)	4,406	4,011
Vehicles	3,112	262	12	(258)	3,128	(2,201)	(223)	(12)	256	(2,180)	948	911
Aircraft	11,986	354	17	(40)	12,317	(10,425)	(41)	-	40	(10,426)	1,891	1,561
Leasehold improvements	17,352	-	-	-	17,352	(5,009)	(772)	-	-	(5,781)	11,571	12,343
Assets under construction	33,011	25,871	(14,793)	(257)	43,832	-	-	-	-	-	43,832	33,011
Leased tangible capital assets	64,036	-	(336)	-	63,700	(20,844)	(2,581)	123	-	(23,302)	40,398	43,192
CFHT – Tangible capital assets	21,061	947	545	(63)	22,490	(16,262)	(620)	-	62	(16,820)	5,670	4,799
Total	1,457,323	58,737	(2,443)	(28,930)	1,484,687	(933,919)	(58,493)	2,716	24,905	(964,791)	519,896	523,404

(1) Adjustments include assets under construction of \$14,793,000 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 \$100,607 and accumulated amortization of \$100,605 (net book value of \$2) from various government departments. NRC also transferred machinery, equipment and furniture, informatics hardware and informatics software with a cost of \$3,014,505 and accumulated amortization of \$2,846,359 (net book value of \$168,146) to a government department.

Amortization expense for the year ended March 31, 2014 is \$58,492,826 (\$61,058,390 in 2013).

At March 31, 2014, NRC held nine land lease agreements (nine in 2013) 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.

12. 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>	2015	2016	2017	2018	2019 and thereafter	Total
Transfer payments	132,136	11,086	572	87	-	143,881
Operating contracts	36,742	5,256	2,781	2,425	-	47,204
Total	168,878	16,342	3,353	2,512	-	191,085

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

13. Contingent Liabilities

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

a) Environmental liabilities

i) Remediation liabilities

NRC has identified three sites (four sites in 2013) where NRC is obligated, or likely to be obligated, to remediate for which a liability of \$168,400 (\$197,000 in 2013) has been recorded in accounts payable and accrued liabilities. The estimate has been prepared using current market rates and is based on the results of initial testing performed by NRC at suspect sites. NRC also identified one site (nil in 2013) where remediation will be needed but the liability cannot be reasonably estimated as no remedial options have been identified. 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.

ii) Future asset retirement obligation

NRC has recognized a future asset retirement obligation of \$280,000 (\$273,000 in 2013) 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 \$426,000 (\$435,000 in 2013). The liability for the expected future cash flows, as reflected in the consolidated financial statements, has been discounted at a weighted average of 3.27% (3.38% in 2013) 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>	2014	2013
Future asset retirement obligation, beginning of year	273	265
Accretion of future asset retirement obligation	7	8
Future asset retirement obligation, end of year	280	273

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 future asset retirement obligation.

b) Claims and litigation

Claims have been made against NRC in the normal course of operations. Legal proceedings for two claims were pending at March 31, 2014 (three in 2013). NRC has one claim that it believes will likely result in a liability where the amount is determinable (one in 2013); no claim that it believes will likely result in a liability where the amount is undeterminable (nil in 2013); and one claim that it believes will unlikely result in a liability (two in 2013). NRC has recorded an allowance for claims and litigations where it is likely that there will be a future payment and a reasonable estimate of the loss can be made.

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>	2014	2013
Employer's contributions to the health and dental insurance plans provided by Treasury Board	27,754	29,317
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	16,447	16,146
Legal services provided by Justice Canada	376	600
Workers' compensation benefits provided by Employment and Social Development Canada	246	259
Accommodation provided by Public Works and Government Services Canada	175	176
Total	44,998	46,498

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>	2014	2013
Accounts receivable from other government departments and agencies	3,103	4,516
Accounts payable to other government departments and agencies	14,611	16,844
Expenses – Other government departments and agencies	70,651	67,352
Revenues – Other government departments and agencies	55,886	54,297

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 2014, NRC contributed \$3.3 million to CFHT (\$3.1 million in 2013). 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, 2013	December 31, 2012
Total assets	18,384	17,980
Total liabilities	<u>2,094</u>	<u>1,598</u>
Total unrestricted net assets	<u>16,290</u>	<u>16,382</u>
Total revenues	8,951	8,569
Total expenses	<u>9,204</u>	<u>9,495</u>
Net operating results	<u>(253)</u>	<u>(926)</u>

NRC's future contractual obligations to CFHT are not included in the transfer payment contractual obligations (Note 12) and are as follows:

<i>(in thousands of dollars)</i>	2015	2016	2017	2018	2019 and thereafter	Total
CFHT	3,632	3,728	3,821	3,917	4,015	19,113

15. Transfers from/to other government departments

Effective 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 SSC. Consequently, NRC transferred prepaid expenses of \$418,336 and accounts payable and accrued liabilities of \$406,400 on March 31, 2014.

In addition, NRC received machinery, equipment and furniture from various government departments. NRC also transferred machinery, equipment and furniture, computer hardware and computer software to a government department. The transactions can be summarized as follows:

<i>(in thousands of dollars)</i>	2014	2013
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	147	(525)
Payments of accounts payable on behalf of SSC	-	1,053
Total	180	528

16. 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>	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	2014 Total	2013 Total Restated (Note 4)
Transfer payments										
Grants and contributions	-	-	224,722	-	-	53,165	-	509	278,396	247,662
Total transfer payments	-	-	224,722	-	-	53,165	-	509	278,396	247,662
Operating expenses										
Salaries and employee benefits	94,257	39,492	47,735	64,743	29,029	32,200	11,573	85,760	404,789	428,547
Utilities, material and supplies	10,541	7,906	632	9,279	1,923	4,321	10,386	30,696	75,684	73,431
Amortization of tangible capital assets	9,963	6,365	34	7,089	3,978	3,520	354	27,190	58,493	61,058
Professional services	7,143	6,719	4,495	3,359	1,720	3,995	998	24,779	53,208	51,048
Repair and maintenance	2,334	2,581	46	1,937	321	300	33	9,898	17,450	12,298
Payment in lieu of taxes	-	-	-	-	-	-	-	15,559	15,559	14,485
Transportation and communication	3,351	960	2,418	1,506	941	2,129	83	1,863	13,251	12,910
Rentals	531	(86)	1,551	79	32	74	-	5,081	7,262	7,088
Awards	3	1	1	-	59	-	3	2,359	2,426	1,618
Loss (gain) on disposal of tangible capital assets	288	302	-	3,192	57	10	15	(1,484)	2,380	126
Costs of goods sold	329	1,346	-	-	-	338	-	25	2,038	654
Information	297	63	115	87	42	34	22	730	1,390	1,756
Bad debts	-	-	-	-	-	-	-	680	680	14
Other	(75)	11	(5)	(18)	(3)	200	-	298	408	428
Loss on sale of equity investment	-	-	-	-	-	-	-	103	103	-
Total operating expenses	128,962	65,660	57,022	91,253	38,099	47,121	23,467	203,537	655,121	665,461
Total expenses	128,962	65,660	281,744	91,253	38,099	100,286	23,467	204,046	933,517	913,123
Revenues										
Research services	20,077	6,584	-	16,312	5,163	1,961	-	-	50,097	50,441
Technical services	46,872	6,076	723	2,337	10,974	4,005	4,713	2,192	77,892	79,530
Intellectual property, royalties and fees	976	-	-	29	-	-	-	8,352	9,357	8,455
Sales of goods and information products	3,042	1,391	-	26	4	1,396	-	19	5,878	4,422
Rentals	36	-	-	9	-	-	-	5,706	5,751	6,215
Grants and contributions	-	150	-	485	-	-	-	2,305	2,940	2,884
Lease inducement revenue	-	-	-	-	-	-	-	2,548	2,548	2,548
Other	-	49	-	3	2	1,243	-	706	2,003	649
Revenues earned on behalf of Government	-	-	-	-	-	-	-	(117)	(117)	128
Total revenues	71,003	14,250	723	19,201	16,143	8,605	4,713	21,711	156,349	155,272
Net cost of operations before government funding and transfers	57,959	51,410	281,021	72,052	21,956	91,681	18,754	182,335	777,168	757,851

17. Financial Instruments

NRC's financial instruments consist of 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.

18. 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, 2014

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 2013-14 Departmental Performance Report and the 2014-15 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 2013-2014

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

NRC's adoption of an industry-focused program-based approach, effective April 1, 2012, has represented a major shift for the organization. This shift brought, amongst other things, significant changes to the revenue business processes. NRC is continuing its implementation of some revenue processes and has begun the process of assessing design effectiveness in 2013-2014 for some revenue business processes.

During 2013-2014, NRC increased the capitalization threshold of tangible capital assets from \$5,000 to \$10,000. The capitalization threshold of tangible capital assets was modified to reflect the threshold as prescribed by Treasury Board Accounting Standard 3.1 – Capital Assets.

NRC's Industrial Research Assistance Program (IRAP) launched additional features to the existing contribution management system, including the ability for recipients to submit electronic claims. In support of this initiative, NRC implemented additional financial controls and standardized further procedures in the management of contribution agreements.

3.2 Ongoing monitoring program

As part of its rotational ongoing monitoring (OGM) plan, NRC completed its assessment of financial controls relating within procurement to payment, transfer payments, capital assets, payroll administration, revenues/receivables and master data management business processes.

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

- *Procurement to payment:* Inconsistencies were found 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 implemented (completed);
- *Transfer payments:* Clear improvements were found with the application of Section 34 account verification as applied procedures were found to be compliant on most files reviewed. It is clear that the implementation of an updated contribution management system, further formalized and standardized operational procedures related to account verification (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 the centralization of some roles and responsibilities for oversight. 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);

Segregation of duties issues were addressed and corrected (completed);

- *Inventory*: Implemented remediation actions to address issues identified in the processing of internal consumption inventories relating to segregation of duties, expenditure initiation and approval of adjustments/write-offs (completed);
- *Master data*: Further strengthened and standardized of the processes and procedures to maintain master vendor and customer records(in progress);
- *Delegation of Authority Application (DAA)*: In 2012-13, the new DAA eliminated most of the unidentified conflicting roles in the financial system. Phase two, which is currently under development, will provide electronic authorization capabilities and will eliminate all unidentified conflicting roles (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. 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 2013-2014

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
Payroll administration	Completed as planned and no remedial actions required.
Procurement to payment, transfer payments, capital assets	Completed as planned and remedial actions communicated to process owners with some remedial actions complete and some underway.
Revenues, receivables and receipts, master data	Completed design effectiveness assessment and re-assessment with some operating effectiveness testing delayed or alternatively tested due to delays in fully

Previous year's rotational ongoing monitoring plan for current year	Status
management	operationalizing the management action plan.

In 2013-2014, NRC did not conduct any additional work to the progress made in ongoing monitoring:

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 2014-15	Fiscal year 2015-16	Fiscal year 2016-17
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 2014-2015 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.