

**NATURAL SCIENCES AND ENGINEERING RESEARCH COUNCIL**

**FINANCIAL STATEMENTS**

For the year ended March 31, 2018



KPMG LLP  
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## **INDEPENDENT AUDITORS' REPORT**

To the Natural Sciences and Engineering Research Council and the Minister of Science and Minister of Sport

We have audited the accompanying financial statements of the Natural Sciences and Engineering Research Council, which comprise the statement of financial position as at March 31, 2018, the statements of operations and departmental net financial position, changes in departmental net debt, and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian Public Sector Accounting Standards; this includes determining that the basis of accounting is an acceptable basis for the preparation of these financial statements in the circumstances, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.



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

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Natural Sciences and Engineering Research Council as at March 31, 2018, its net cost of operations, changes in departmental net debt, and its cash flows and for the year then ended in accordance with Canadian Public Sector Accounting Standards.

*Other Matter:*

The financial statements of the Natural Sciences and Engineering Research Council as at and for the year ended March 31, 2017 were audited by another auditor who expressed an unmodified opinion on those statements on August 3, 2017.

*KPMG LLP*

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Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Canada

August 1, 2018

## **Statement of Management Responsibility Including Internal Control Over Financial Reporting**

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2018, and all information contained in these statements rests with the management of the Natural Sciences and Engineering Research Council (NSERC). These 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 financial statements. Some of the information in the financial statements is based on management's best estimates and judgment, and gives due consideration to materiality. To fulfill its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of NSERC's financial transactions. Financial information submitted in the preparation of the Public Accounts of Canada, and included in NSERC's *Departmental Results Reports*, is consistent with these 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 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 NSERC and through conducting an annual risk-based 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 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, 2018 was completed in accordance with the Treasury Board *Policy on Financial Management* and the results and action plans are summarized in the annex.

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

KPMG LLP, NSERC's independent auditors, have expressed an opinion on the fair presentation of the financial statements of NSERC that does not include an audit opinion on the annual assessment of the effectiveness of NSERC's internal controls over financial reporting.

Original signed by

B. Mario Pinto, Ph.D., FCIC, FRSC  
President

Ottawa, Canada

August 1, 2018

Original signed by

Patricia Sauvé-McCuan  
Chief Financial Officer

# NATURAL SCIENCES AND ENGINEERING RESEARCH COUNCIL

## Statement of Financial Position

As at March 31

(in thousands of dollars)

	<u>2018</u>	<u>2017</u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities [Note 4]	37,248	5,385
Vacation pay and compensatory leave	2,279	2,079
Deferred revenue [Note 5]	2	25
Employee future benefits [Note 6b]	757	767
<b>Total net liabilities</b>	<b><u>40,286</u></b>	<b><u>8,256</u></b>
<b>Financial assets</b>		
Due from the Consolidated Revenue Fund	35,750	3,958
Accounts receivable and advance [Note 7]	1,827	1,960
<b>Total net financial assets</b>	<b><u>37,577</u></b>	<b><u>5,918</u></b>
<b>Departmental net debt</b>	<b><u>2,709</u></b>	<b><u>2,338</u></b>
<b>Non-financial assets</b>		
Prepaid expenses	292	393
Tangible capital assets [Note 8]	3,533	4,825
<b>Total non-financial assets</b>	<b><u>3,825</u></b>	<b><u>5,218</u></b>
<b>Departmental net financial position</b>	<b><u><u>1,116</u></u></b>	<b><u><u>2,880</u></u></b>

Contractual obligations and commitments [Note 9]

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

Original signed by

B. Mario Pinto, B.Sc., Ph.D., FRSC  
President

Ottawa, Canada

August 1, 2018

Original signed by

Patricia Sauvé-McCuan  
Chief Financial Officer

**NATURAL SCIENCES AND ENGINEERING RESEARCH COUNCIL**  
**Statement of Operations and Department Net Financial Position**  
**For the year ended March 31**  
(in thousands of dollars)

	<u>2018</u>	<u>2018</u>	<u>2017</u>
	Planned Results		
<b>Expenses</b>			
Discovery	523,888	546,558	503,359
Innovation	380,412	378,484	392,195
People	287,946	271,446	274,050
Internal Services	26,111	27,930	26,396
<b>Total Expenses</b>	<b>1,218,357</b>	<b>1,224,418</b>	<b>1,196,000</b>
<b>Revenues</b>			
Miscellaneous revenues	579	425	172
<b>Total Revenues</b>	<b>579</b>	<b>425</b>	<b>172</b>
<b>Net cost of operations before government funding and transfers</b>	<b>1,217,778</b>	<b>1,223,993</b>	<b>1,195,828</b>
<b>Government funding and transfers</b>			
Net cash provided by Government of Canada		1,182,445	1,185,745
Change in Due from the Consolidated Revenue Fund		31,792	1,297
Services provided without charge by other government departments [Note 10a]		7,992	7,452
<b>Total Government funding and transfers</b>		<b>1,222,229</b>	<b>1,194,494</b>
<b>Net cost of operations after government funding and transfers</b>		(1,764)	(1,334)
<b>Departmental net financial position - Beginning of year</b>		2,880	4,214
<b>Departmental net financial position - End of year</b>		<b>1,116</b>	<b>2,880</b>

Segmented information [Note 11]

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

**NATURAL SCIENCES AND ENGINEERING RESEARCH COUNCIL**  
**Statement of Change in Departmental Net Debt**  
**For the year ended March 31**  
(in thousands of dollars)

	<u>2018</u>	<u>2017</u>
<b>Net cost of operations after government funding and transfers</b>	1,764	1,334
<b>Change due to tangible capital assets</b>		
Acquisition of tangible capital assets [Note 8]	377	103
Amortization of tangible capital assets [Note 8]	(1,665)	(1,789)
Net loss on disposal of tangible capital assets	<u>(4)</u>	<u>(77)</u>
<b>Total change due to tangible capital assets</b>	<b>(1,292)</b>	<b>(1,763)</b>
<b>Change due to prepaid expenses</b>	(101)	257
<b>Net increase (decrease) in departmental net debt</b>	<u>371</u>	<u>(172)</u>
<b>Departmental net debt - Beginning of year</b>	<b>2,338</b>	<b>2,510</b>
<b>Departmental net debt - End of year</b>	<u><b>2,709</b></u>	<u><b>2,338</b></u>

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

**NATURAL SCIENCES AND ENGINEERING RESEARCH COUNCIL**

**Statement of Cash Flows**

**For the year ended March 31**

(in thousands of dollars)

	<u>2018</u>	<u>2017</u>
<b>Operating activities</b>		
Net cost of operations before government funding and transfers	1,223,993	1,195,828
Non-cash items:		
Amortization of tangible capital assets [Note 8]	(1,665)	(1,789)
Services provided without charge by other government departments [Note 10a]	(7,992)	(7,452)
Loss on disposal of tangible capital assets	(4)	(77)
Variations in Statement of Financial Position:		
Increase in accounts payable and accrued liabilities [Note 4]	(31,863)	(506)
Decrease (increase) in deferred revenue [Note 5]	23	(25)
Decrease in employee future benefits [Note 6b]	10	93
(Increase) decrease in vacation pay and compensatory leave	(200)	59
Decrease in accounts receivable and advances [Note 7]	(133)	(746)
(Decrease) increase in prepaid expenses	(101)	257
<b>Cash used in operating activities</b>	<b>1,182,068</b>	<b>1,185,642</b>
<b>Capital investing activities</b>		
Acquisition of tangible capital assets [Note 8]	377	103
<b>Cash used in capital investing activities</b>	<b>377</b>	<b>103</b>
<b>Financing activities</b>	-	-
<b>Net cash provided by Government of Canada</b>	<b><u>1,182,445</u></b>	<b><u>1,185,745</u></b>

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

**Natural Sciences and Engineering Research Council**  
**Notes to the Financial Statements**  
**For the Year Ended March 31**

**1. Authority and Objectives**

The Natural Sciences and Engineering Research Council (NSERC) was established in 1978 by the *Natural Sciences and Engineering Research Council Act*, and is a departmental corporation named in Schedule II to the *Financial Administration Act*. NSERC's purpose is to help make Canada a country of discoverers and innovators for the benefit of all Canadians, by supporting students, postdoctoral fellows, university professors and university-industry research partnerships. NSERC's grants, scholarships and operating expenditures are funded by budgetary lapsing authorities. Employee benefits are funded by statutory authorities. NSERC delivers its objectives under four programs:

a) Discovery

This program supports the creation of new knowledge and maintenance of a high quality Canadian-based research capacity in natural sciences and engineering through grants to researchers. The advancement of knowledge generated by these grants is necessary to fuel a strong research and innovation system in Canada that is globally competitive. Academic researchers receive funding to support the timely acceleration of research programs, the purchase or development of research equipment, or the facilitation of effective access to major and unique research resources.

b) Innovation

This program fosters partnerships in natural sciences and engineering that facilitates the transfer of knowledge and skills to the user sector through awards that support research projects and network activities intended for socioeconomic impact. The partnerships encouraged and enabled by these awards also increase the commercialization of Canada's research through new products, services and processes for the benefit of all Canadians.

c) People

This program supports the attraction, retention and development of highly qualified people in natural sciences and engineering in Canada through Chairs programs, fellowships, scholarships and stipends. These activities are essential to building the human capital required to enable a strong, globally competitive research and innovation system in Canada. Researchers, students and young people benefit from the grant funding which supports postsecondary university research and outreach activities at universities, museums, science centres, and community-based organizations.

d) Internal Services

NSERC and Social Sciences and Humanities Research Council (SSHRC) share internal services for general administration, human resources, finance, awards administration, information management and technology, program evaluation and audit services. This common administrative services model has proven highly efficient for the two federal granting agencies. In addition, NSERC has its own corporate services to address the agency's distinct needs in terms of governance, policy, planning, statistics, performance measurement, communications and international relations. Internal Services provide support to the organization as a whole in the form of operations and maintenance funds. They are necessary to support the delivery of

**Natural Sciences and Engineering Research Council**  
**Notes to the Financial Statements**  
**For the Year Ended March 31**

programs and other corporate obligations and include activities that apply across the organization, rather than those that support a specific program.

**2. Summary of significant accounting policies**

These 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

NSERC is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to the agency do not parallel financial reporting according to generally accepted accounting principles since authorities are primarily based on cash flow requirements. Consequently, items recognized in the Statement of Operations and Net Financial Position and in the Statement of Financial Position are not necessarily the same as those provided through authorities from Parliament. Note 3 provides a reconciliation between the bases of reporting. The planned results amounts in the "Expenses" and "Revenues" sections of the Statement of Operations and Departmental net Financial Position are the amounts reported in the Future-oriented Statement of Operations included in the *2017-18 Departmental Plan*. Planned results are not presented in the "Government funding and transfers" section of the Statement of Operations and Departmental net Financial Position and in the Statement of Change in Departmental net Debt because these amounts were not included in NSERC's *2017-18 Departmental Plan*.

b) Net cash provided by Government of Canada

NSERC operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by NSERC is deposited to the CRF, and all cash disbursements made by NSERC 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 other government departments of the Government.

c) Amounts due from the CRF

Amounts due from 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. Due from the CRF represent the net amount of cash that NSERC is entitled to draw from the CRF without further authorities, to discharge its liabilities.

d) Revenues

Miscellaneous revenues are accounted for in the period in which the underlying transaction or event that gave rise to the revenue takes place.

**Natural Sciences and Engineering Research Council**  
**Notes to the Financial Statements**  
**For the Year Ended March 31**

Funds received from external parties for specified purposes are recorded upon receipt as deferred revenue. Revenues are then recognized in the period in which the related expenses are incurred.

Included in miscellaneous revenue are revenues that are spendable and non-spendable. Non-spendable revenue are not available to discharge NSERC's liabilities. While the President is expected to maintain accounting control, they have 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 agency's gross revenues.

e) Expenses

Expenses are recorded on an accrual basis.

Grants and scholarships (transfer payments) are recorded as expenses when authorization for the payment exists and the recipient has met the eligibility criteria or the entitlements established for the transfer payment program.

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 for accommodation, and employer contributions to the health and dental insurance plans are recorded as operating expenses at their estimated cost. These amounts are also presented as government funding.

f) 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. NSERC's contributions to the Plan are charged to expenses in the year incurred and represent NSERC's total obligation to the Plan. NSERC'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, the Plan's sponsor.

(ii) Severance benefits: The accumulation of severance benefits for voluntary departures ceased for applicable employee groups. The remaining obligation for employees who did not withdraw benefits is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government as a whole.

g) Accounts receivable and advances

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

**Natural Sciences and Engineering Research Council**  
**Notes to the Financial Statements**  
**For the Year Ended March 31**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. NSERC is not exposed to significant credit risk. Accounts receivable and advances are due on demand. The majority of accounts receivable and advances are due from other government departments and agencies where there is minimal potential risk of loss. The maximum exposure NSERC has to credit risk is equal to the carrying value of its accounts receivable and advances.

h) Contingent liabilities

Contingent liabilities are potential liabilities that 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 if an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

i) Accounting changes

In April 2017, the Treasury Board Secretariat renewed its financial management policy suite to reduce the administrative burden generated by existing policies. As a result of this initiative, six new directives were put in place to replace existing policy instruments. The new Directive on Accounting Standards, effective April 1st, 2017, replaces Treasury Board Accounting standard 1.2: Departmental and Agency Financial statements (April 1, 2012). As such, NSERC's financial statements for fiscal year 2017-18 and onwards will be presented as per the new policy suite, including the Directive on Accounting Standards. NSERC does not anticipate significant changes to the presentation of the financial statements.

On April 1, 2017, NSERC adopted Canadian public sector accounting standards PS 2200 Related party disclosures, PS 3420 Inter-entity transactions, PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual rights. The adoption of these standards did not result in an accounting policy change for the entity, and did not result in any adjustments to the financial statements as at April 1, 2017.

j) Measurement uncertainty

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements and accompanying notes at March 31. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. The most significant items where estimates are used are the liability for employee future benefits and the useful life and valuation of tangible capital assets. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, are recorded in the financial statements in the year in which they become known.

k) Related party transactions

Related party transactions, other than inter-entity transactions, are recorded at the exchange amount.

**Natural Sciences and Engineering Research Council**  
**Notes to the Financial Statements**  
**For the Year Ended March 31**

Inter-entity transactions are transactions between commonly controlled entities. Inter-entity transactions, other than restructuring transactions, are recorded on a gross basis and are measured at the carrying amount, except for the following:

- i) Services provided on a recovery basis are recognized as revenues and expenses on a gross basis and measured at the exchange amount.
- ii) Certain services received on a without charge basis are recorded for departmental financial statement purposes at the carrying amount. Other related party transactions, other than inter-entity transactions, are recorded at the exchange amount.

**3. Parliamentary Authorities**

NSERC receives its funding through annual parliamentary authorities. Items recognized in the Statement of Financial Position and in the Statement of Operations and Departmental net Financial Position in one year may be funded through parliamentary authorities in prior, current or future years. Accordingly, NSERC 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:

**Natural Sciences and Engineering Research Council**  
**Notes to the Financial Statements**  
**For the Year Ended March 31**

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

	<u>2018</u>	<u>2017</u>
	(in thousands of dollars)	
Net cost of operations before government funding and transfers	<u>1,223,993</u>	<u>1,195,828</u>
Adjustments for items affecting net cost of operations but not affecting authorities:		
Miscellaneous revenues	425	172
Amortization of tangible capital assets	(1,665)	(1,789)
Services provided without charge by other government departments [Note 10a)]	(7,992)	(7,452)
Loss on disposal of tangible capital assets	(4)	(77)
Increase (Decrease) in vacation pay and compensatory leave	(200)	59
Decrease in employee future benefits	10	93
Refunds of prior years' expenditures	4,310	4,027
Other adjustments	<u>(2)</u>	<u>-</u>
Total items affecting net cost of operations but not affecting authorities	(5,118)	(4,967)
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisitions of tangible capital assets [Note 7]	377	103
Increase (decrease) in Salary Overpayment	(9)	40
Decrease in prepaid expenses	<u>(101)</u>	<u>257</u>
Total items not affecting net cost of operations but affecting authorities	267	400
<b>Current year authorities used</b>	<u><u>1,219,142</u></u>	<u><u>1,191,261</u></u>

**Natural Sciences and Engineering Research Council**  
**Notes to the Financial Statements**  
**For the Year Ended March 31**

**b) Authorities provided and used**

	<u>2018</u>	<u>2017</u>
	(in thousands of dollars)	
<b>Authorities provided:</b>		
Vote 5 - Grants	1,167,082	1,142,127
Vote 1 – Operating expenditures	50,498	47,698
Statutory contributions to employee benefit plans	5,440	5,072
Spending of revenues pursuant to subsection 4 (2) of the Natural Sciences and Engineering Research Council Act	424	172
<b>Less:</b>		
Authorities available for future years	(821)	(2,527)
Lapsed : Grants	(1,489)	(60)
Lapsed : Operating	(1,992)	(1,221)
<b>Current year authorities used</b>	<u><b>1,219,142</b></u>	<u><b>1,191,261</b></u>

**4. Accounts payable and accrued liabilities**

Accounts payable and accrued liabilities are measured at cost. The following table presents details of NSERC's accounts payable and accrued liabilities:

	<u>2018</u>	<u>2017</u>
	(in thousands of dollars)	
Accounts payable - Other government departments and agencies	1,134	685
Accounts payable - External parties	<u>32,707</u>	<u>1,816</u>
Total accounts payable	33,841	2,501
Accrued liabilities	3,407	2,884
<b>Total accounts payable and accrued liabilities</b>	<u><b>37,248</b></u>	<u><b>5,385</b></u>

**Natural Sciences and Engineering Research Council  
Notes to the Financial Statements  
For the Year Ended March 31**

**5. Deferred revenue**

Deferred revenue represents the balance 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 events 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:

	<u>2018</u>	<u>2017</u>
	(in thousands of dollars)	
<b>Opening balance</b>	25	-
Amounts received	2	25
Revenue recognized	(25)	-
<b>Net closing balance</b>	<u>2</u>	<u>25</u>

**6. Employee future benefits**

**a) Pension benefits**

NSERC's employees participate in the Plan, which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of 2 percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plan benefits and they are indexed to inflation.

Both the employees and NSERC contribute to the cost of the Plan. Due to the amendment of the *Public Service Superannuation Act* following the implementation of provisions related to 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 2017-2018 expense amounts to \$3,704,740 (\$3,533,498 in 2016-2017).

NSERC's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the Consolidated Financial Statements of the Government of Canada, the Plan's sponsor.

**b) Severance benefits**

Severance benefits provided to the employees of NSERC were previously based on an employee's eligibility, years of service and salary at termination of employment. However, since 2011, the accumulation of severance benefits for voluntary departures progressively ceased for substantially all employees. Employees subject to these changes were given the option to be paid the full or partial value of benefits earned to date or collect the full or remaining value of benefits upon departure from the public service. By March 31, 2018, all settlements for

**Natural Sciences and Engineering Research Council**  
**Notes to the Financial Statements**  
**For the Year Ended March 31**

immediate cash out were completed. Severance benefits are unfunded and, consequently, the outstanding obligation will be paid from future authorities.

The changes in the obligations during the year were as follows:

	<u>2018</u>	<u>2017</u>
	(in thousands of dollars)	
<b>Accrued benefit obligation - Beginning of year</b>	767	860
Expense for the year	87	32
Benefits paid during the year	<u>(97)</u>	<u>(125)</u>
<b>Accrued benefit obligation - End of year</b>	<u><u>757</u></u>	<u><u>767</u></u>

**7. Accounts receivable and advances**

The following table presents details of NSERC's balance of accounts receivable and advances:

	<u>2018</u>	<u>2017</u>
	(in thousands of dollars)	
Receivables - Other government departments and agencies	1,489	1,369
Receivables - External parties	308	551
Receivables - Employees	<u>30</u>	<u>40</u>
<b>Net accounts receivable</b>	<u><u>1,827</u></u>	<u><u>1,960</u></u>

NSERC has no allowance for doubtful accounts on receivables from external parties.

**Natural Sciences and Engineering Research Council**  
**Notes to the Financial Statements**  
**For the Year Ended March 31**

**8. Tangible capital assets**

All tangible capital assets and leasehold improvements having an individual initial cost of \$5,000 or more are recorded at their acquisition cost. NSERC does not capitalize intangibles.

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

Asset class	Amortization period
Informatics equipment	3 years
Software (purchased and in-house developed)	5 years
Other equipment	5 years
Furniture	7 years
Leasehold improvements	Lesser of the remaining term of lease or useful life of the improvement

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.

Capital asset class	Cost				Accumulated amortization				Net book value	
	Opening balance	Acquisitions	Disposals and Write-Offs	Closing balance	Opening balance	Amortization	Disposals and Write-Offs	Closing balance	2018	2017
<b>(in thousands of dollars)</b>										
Informatics	5,945	238		6,183	5,825	70		5,895	288	120
Software	13,709	112		13,821	9,228	1,486		10,714	3,107	4,481
Other equipment	549	27		576	388	76		464	112	161
Furniture	4,105		5	4,100	4,077	24	1	4,100	0	28
Leasehold improvements	3,809			3,809	3,774	9		3,783	26	35
<b>Total</b>	<b>28,117</b>	<b>377</b>	<b>5</b>	<b>28,489</b>	<b>23,292</b>	<b>1,665</b>	<b>1</b>	<b>24,956</b>	<b>3,533</b>	<b>4,825</b>

**Natural Sciences and Engineering Research Council**  
**Notes to the Financial Statements**  
**For the Year Ended March 31**

**9. Contractual obligations and commitments**

Payments of grants and scholarships extending into future years are subject to the provision of funds by Parliament.

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

	2019	2020	2021	2022	2023 and subsequent	Total
	(in thousands of dollars)					
Grants & Scholarships	1,090,532	793,769	585,033	405,672	296,057	3,171,063
Operating	3,163	319	170	135		3,787
<b>Total</b>	<b>1,093,695</b>	<b>794,088</b>	<b>585,203</b>	<b>405,807</b>	<b>296,057</b>	<b>3,174,850</b>

**10. Related party transactions**

NSERC is related as a result of common ownership to all government departments, agencies and Crown corporations. Related parties also include individuals who are members of key management personnel or close family members of those individuals, and entities controlled by, or under shared control of, a member of key management personnel or a close family member of that individual.

NSERC enters into transactions with these entities in the normal course of business and on normal trade terms. During the year, NSERC received common services that were obtained without charge by other government departments as disclosed below.

**a) Common services provided without charge by other government departments**

During the year, NSERC received services without charge from certain common service organizations related to accommodations, and the employer's contribution to the health and dental insurance plans. These services provided without charge have been recorded in NSERC's Statement of Operations and Departmental Net Financial Position as follows:

	<u>2018</u>	<u>2017</u>
	(in thousands of dollars)	
Accommodations	4,472	4,384
Employer's contribution to the health and dental insurance plans	3,520	3,068
<b>Total</b>	<b><u>7,992</u></b>	<b><u>7,452</u></b>

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

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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 Services and Procurement Canada are not included in NSERC's Statement of Operations and Departmental Net Financial Position.

**b) Administration of programs on behalf of other government departments**

NSERC administers funds received from other government departments and agencies to issue grants, scholarships and related payments on their behalf. During the year, NSERC administered \$8,768,666 (\$12,141,172 in 2016-2017) in funds for grants and scholarships. These expenses are reflected in the financial statements of the departments or agencies that provided the funds and are not recorded in these financial statements.

NSERC also recovers administrative fees in some circumstances where a significant administrative burden is incurred by NSERC for the administration of certain funds on behalf of other government departments and agencies. These amounted to \$201,372 during the year (\$298,118 in 2016-2017) and were netted against NSERC's operating expenses.

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**11. Segmented Information**

Presentation by segment is based on NSERC's program alignment architecture. 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 for the main programs, by major object of expenses and by major type of revenue. The segment results for the period are as follows:

(in thousands of dollars)

	<b>Discovery</b>	<b>Innovation</b>	<b>People</b>	<b>Internal Services</b>	<b>2018 Total</b>	<b>2017 Total</b>
<b>Transfer payments</b>						
Grants & scholarships	536,117	359,348	265,985	-	1,161,450	1,138,119
<b>Operating expenses</b>						
Salaries and employee benefits	9,169	17,564	4,706	15,984	47,423	41,301
Accommodation and rentals	22	51	9	5,610	5,692	5,423
Professional and special services	573	329	186	2,472	3,560	4,192
Transportation and communications	616	1,070	423	647	2,756	2,860
Amortization of tangible capital assets	-	-	-	1,665	1,665	1,789
Information	31	95	125	1,013	1,264	1,510
Utilities, materials and supplies	24	22	10	388	444	557
Repair and maintenance	5	4	2	105	116	215
Other	1	1	0	46	48	34
<b>Total operating expenses</b>	<b>10,441</b>	<b>19,136</b>	<b>5,461</b>	<b>27,930</b>	<b>62,968</b>	<b>57,881</b>
<b>Total expenses</b>	<b>546,558</b>	<b>378,484</b>	<b>271,446</b>	<b>27,930</b>	<b>1,224,418</b>	<b>1,196,000</b>
<b>Revenues</b>						
Miscellaneous revenues	-	-	217	208	425	172
<b>Total revenues</b>	<b>-</b>	<b>-</b>	<b>217</b>	<b>208</b>	<b>425</b>	<b>172</b>
<b>Net cost of operations before government funding and transfers</b>	<b>546,558</b>	<b>378,484</b>	<b>271,229</b>	<b>27,722</b>	<b>1,223,993</b>	<b>1,195,828</b>