

NATURAL SCIENCES AND ENGINEERING RESEARCH COUNCIL

**FUTURE-ORIENTED
FINANCIAL STATEMENTS**

For the year ending March 31, 2013

Statement of Management Responsibility

Management is responsible for these future-oriented financial statements, including responsibility for the appropriateness of the assumptions on which these statements are prepared. These statements are based on the best information available and assumptions adopted as at January 31, 2012, and reflect the plans described in the Report on Plans and Priorities.

Approved by:

Dr. Suzanne Fortier
President

Jaime Pitfield
Vice-President, Common Administrative Services
Chief Financial Officer

Ottawa, Canada

Date: _____

NATURAL SCIENCES AND ENGINEERING RESEARCH COUNCIL

Future-Oriented Statement of Financial Position

As at March 31
(in thousands of dollars)

	Estimated Results 2012	Planned Results 2013
ASSETS		
Financial assets		
Due from the Consolidated Revenue Fund	3,396	3,396
Accounts receivable [Note 6]	2,082	2,082
Advances	44	44
Total financial assets	<u>5,522</u>	<u>5,522</u>
Non-financial assets		
Prepaid expenses	188	188
Tangible capital assets [Note 7]	2,785	3,347
Total non-financial assets	<u>2,973</u>	<u>3,535</u>
	<u>8,495</u>	<u>9,057</u>
 LIABILITIES AND EQUITY OF CANADA		
Liabilities		
Accounts payable and accrued liabilities [Note 8]	4,554	4,554
Vacation pay and compensatory leave	2,137	2,068
Employee future benefits [Note 9]	6,402	1,625
	<u>13,093</u>	<u>8,247</u>
Equity of Canada	<u>(4,598)</u>	<u>810</u>
	<u>8,495</u>	<u>9,057</u>

Information for the year ended March 31, 2012 includes actual amounts from April 1, 2011 to January 31, 2012.

Contingent liabilities [Note 10]
Contractual obligations [Note 11]

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

Dr. Suzanne Fortier
President

Ottawa, Canada

Jaime Pitfield
Vice-President, Common Administrative Services
Chief Financial Officer

Date: _____

NATURAL SCIENCES AND ENGINEERING RESEARCH COUNCIL

Future-Oriented Statement of Operations For the year ending March 31 (in thousands of dollars)

	Estimated Results 2012	Planned Results 2013
	<u>2012</u>	<u>2013</u>
Expenses		
Fund Basic Research	363,782	366,986
Fund University-Industry-Government Partnerships	179,633	172,105
Attract and Retain Faculty	152,664	153,103
Support Students and Fellows	150,055	142,030
Fund Research in Strategic Areas	116,550	106,741
Support Commercialization	58,832	43,047
Support for Research Equipment and Major Resources	38,049	37,138
Internal Services	31,685	29,725
Promote Science and Engineering	5,554	5,831
Total Expenses	<u>1,096,804</u>	<u>1,056,706</u>
Net cost of operations	<u>1,096,804</u>	<u>1,056,706</u>

Information for the year ended March 31, 2012 includes actual amounts from April 1, 2011 to January 31, 2012.

Segmented information [Note 13]

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

NATURAL SCIENCES AND ENGINEERING RESEARCH COUNCIL

Future-Oriented Statement of Equity of Canada
For the year ending March 31
(in thousands of dollars)

	Estimated Results 2012	Planned Results 2013
	<u>2012</u>	<u>2013</u>
Equity of Canada, beginning of year	(4,155)	(4,598)
Net cost of operations	(1,096,804)	(1,056,706)
Net cash provided by Government of Canada	1,089,847	1,055,314
Change in due from the Consolidated Revenue Fund	(235)	-
Services provided without charge from other government departments [Note 12a)]	6,749	6,800
Equity of Canada, end of year	<u><u>(4,598)</u></u>	<u><u>810</u></u>

Information for the year ended March 31, 2012 includes actual amounts from April 1, 2011 to January 31, 2012.

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

NATURAL SCIENCES AND ENGINEERING RESEARCH COUNCIL

Future-Oriented Statement of Cash Flow For the year ending March 31 (in thousands of dollars)

	Estimated Results 2012	Planned Results 2013
	<u>2012</u>	<u>2013</u>
Operating Activities		
Net cost of operations	1,096,804	1,056,706
Non-cash items:		
Amortization of tangible capital assets [Note 7]	(1,532)	(961)
Services provided without charge by other government departments [Note 12a)]	(6,749)	(6,800)
Variations in Future-Oriented Statement of Financial Position:		
Increase in accounts receivable	46	-
Decrease in advances	(10)	-
Decrease in prepaid expenses	(68)	-
Decrease in accounts payable and accrued liabilities	408	-
Decrease (increase) in vacation pay and compensatory leave	(358)	69
Decrease in employee future benefits	136	4,777
Cash used in operating activities	<u>1,088,677</u>	<u>1,053,791</u>
Capital investing activities		
Acquisitions of tangible capital assets	<u>1,170</u>	<u>1,523</u>
Cash used in capital investing activities	1,170	1,523
Financing activities	-	-
Net cash provided by Government of Canada	<u><u>1,089,847</u></u>	<u><u>1,055,314</u></u>

Information for the year ended March 31, 2012 includes actual amounts from April 1, 2011 to January 31, 2012.

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

NATURAL SCIENCES AND ENGINEERING RESEARCH COUNCIL

Notes to the Future-Oriented Financial Statements

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 delivers its objective under nine program activities which are described in the Report on Plans and Priorities.

NSERC's grants, scholarships and operating expenditures are funded by budgetary lapsing authorities. Employee benefits are funded by statutory authorities.

2. Methodology and Significant Assumptions

The future-oriented financial statements have been prepared on the basis of the government priorities and the plans of NSERC as described in the Report on Plans and Priorities.

The main assumptions are as follows:

- a) NSERC's activities will remain substantially the same as for the previous year.
- b) Expenses, including the determination of amounts internal and external to the government, are based on historical experience. The general historical pattern is expected to continue.
- c) Allowances for uncollectibility are based on historical experience. The general historical pattern is expected to continue.
- d) Estimated year end information for 2011-12 is used as the opening position for the 2012-13 planned results.

These assumptions are adopted as at January 31, 2012.

3. Variations and Changes to the Forecast Financial Information

While every attempt has been made to forecast final results for the remainder of 2011-12 and for 2012-13, actual results achieved for both years are likely to vary from the forecast information presented, and this variation could be material.

In preparing these future-oriented financial statements, NSERC has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Factors that could lead to material differences between the future-oriented financial statements and the historical financial statements include:

- a) The timing and amounts of acquisitions of tangible capital assets may affect gains/losses and amortization expense.
- b) Implementation of new terms and conditions of employment.
- c) Further changes to the operating budget through additional new initiatives or technical adjustments later in the year.
- d) The implementation of the deficit reduction action plan.

Once the Report on Plans and Priorities is presented, NSERC will not be updating the forecasts for any changes to authorities or forecast financial information made in ensuing supplementary estimates. Variances will be explained in the Departmental Performance Report.

4. Summary of significant accounting policies

The future-oriented financial statements have been prepared in accordance with the Treasury Board accounting policies in effect for the 2011-12 fiscal year as of January 31, 2012. These accounting policies, stated below, are based on Canadian generally accepted accounting principles for the public sector. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian generally accepted accounting principles.

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 NSERC 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 Future-Oriented Statement of Operations and the Future-Oriented Statement of Financial Position are not necessarily the same as those provided through authorities from Parliament. Note 5 provides a reconciliation between the bases of reporting.
- b) **Net cash provided by Government** — 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 departments of the Government.
- c) **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. Amounts due from the CRF represent the net amount of cash that NSERC is entitled to draw from the CRF without further parliamentary expenditure authorities to discharge its liabilities.

d) Expenses are recorded on an accrual basis:

Grants and scholarships are recognized in the year in which the entitlement of the recipient has been established, when the recipient has met the eligibility criteria, the commitment has been approved and the payment is due before the end of the fiscal year.

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, audit services and the employer's contribution to the health and dental insurance plans are recorded as operating expenses at their estimated cost.

e) Employee future benefits

- i. Pension benefits: Eligible employees of NSERC participate in the Public Service Pension 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. Current legislation does not require NSERC to make contributions for any actuarial deficiencies of the Plan.
- ii. Severance benefits: Employees are entitled to severance benefits under labour contracts or conditions of employment. These benefits are accrued as employees render the services necessary to earn them. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the Government of Canada as a whole. As part of the terms and conditions negotiations with certain employee groups and changes to conditions of employment, the accumulation of severance benefits under the employee severance pay program ceased for these employees commencing in 2012. Employees subject to these changes will be 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.

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

g) 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 future-oriented financial statements.

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

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

Asset class	Amortization period
Informatics equipment, including standard software issued on desktop computers	3 years
Purchased network software and in-house developed software	5 years
Other equipment	5 years
Furniture	7 years
Leasehold improvements	Lesser of their useful life or the term of the lease

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.

5. Parliamentary Authorities

NSERC receives its funding through expenditure authorities provided by Parliament. Items recognized in the Future-Oriented Statements of Operations and 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:

a) Authorities requested

	Estimated Results 2012	Planned Results 2013
	(in thousands of dollars)	
Authorities requested		
Vote 80 – Grants	1,037,114	1,001,394
Vote 75 – Operating expenditures	46,855	48,561
Statutory amounts	5,434	5,359
Forecast authorities available	<u>1,089,403</u>	<u>1,055,314</u>

Authorities presented reflect current forecasts of statutory items, approved initiatives included and expected to be included in Estimates documents and, when reasonable estimates can be made, estimates of amounts to be allocated from Treasury Board central votes.

b) Reconciliation of net cost of operations to requested authorities:

	Estimated Results 2012	Planned Results 2013
	(in thousands of dollars)	
Net cost of operations	1,096,804	1,056,706
Adjustments for items affecting net cost of operations but not affecting authorities:		
Decrease (increase) in vacation pay and compensatory leave	(358)	69
Amortization of tangible capital assets	(1,532)	(961)
Services provided without charge by other government departments	(6,749)	(6,800)
Decrease in employee future benefits	136	4,777
Adjustment for items not affecting net cost of operations but affecting authorities:		
Acquisitions of tangible capital assets	1,170	1,523
Decrease in prepaid expenses	(68)	-
Forecast authorities available	<u>1,089,403</u>	<u>1,055,314</u>

6. Accounts receivable

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

	Estimated Results 2012	Planned Results 2013
	(in thousands of dollars)	
Receivables from other government departments and agencies	1,120	1,120
Receivables from external parties	962	962
	<u>2,082</u>	<u>2,082</u>

7. Tangible Capital Assets

<i>(In thousands of dollars)</i>	Cost				Accumulated Amortization				Net Book Value	
	Opening balance	Acquisitions	Disposals and write-offs	Closing balance	Opening balance	Amortization	Disposals and write-offs	Closing balance	2012	2013
Informatics	5,702	457		6,159	4,920	375		5,295	782	864
Software	6,967	1,066		8,033	5,951	289		6,240	1,016	1,793
Other Equipment	229			229	214	5		219	15	10
Furniture	4,122			4,122	3,182	260		3,442	940	680
Leasehold improvements	3,713			3,713	3,681	32		3,713	32	-
Total	20,733	1,523	-	22,256	17,948	961	-	18,909	2,785	3,347

8. Accounts payable and accrued liabilities

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

	Estimated Results 2012	Planned Results 2013
	(in thousands of dollars)	
Accounts payable to other government departments and agencies	2,498	2,498
Accounts payable to external parties	2,056	2,056
	<u>4,554</u>	<u>4,554</u>

9. Employee future benefits

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

a) Pension benefits

NSERC's employees participate in the Public Service Pension Plan, which is sponsored and administered by the Government. 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 are indexed to inflation.

Both the employees and NSERC contribute to the cost of the Plan. The forecast expenses are \$3,846,111 in 2011-12 and \$3,853,236 in 2012-13, representing approximately 1.6 times the contributions of employees.

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 of Canada, as the Plan's sponsor.

b) Severance benefits

NSERC provides severance benefits to its employees based on eligibility, years of service and final salary. These severance benefits are not pre-funded. Benefits will be paid from future authorities. Information about severance benefits, estimated as at the date of this statement of operations, is as follows:

	Estimated Results 2012	Planned Results 2013
	(in thousands of dollars)	
Accrued benefit obligation, beginning of year	6,538	6,402
Expense for the year	899	396
Expected benefits paid during the year	(1,035)	(5,174)
Accrued benefit obligation, end of year	<u>6,402</u>	<u>1,625</u>

10. Contingent liability

NSERC was served with a statement of claim along with two of its employees, for a potential total of \$33.5 million, by a researcher whose grants had been terminated following university investigations. Given the early stage of the proceedings, the claim has not yet been assessed. No liability has been recognized in these financial statements in relation to this contingency.

11. Contractual Obligations

Payments of grants and scholarships extending in future years are subject to the provision of funds by Parliament. The commitments for future years' awards are payable as follows:

	(in thousands of dollars)
2012-2013	857,604
2013-2014	626,769
2014-2015	427,320
2015-2016	243,209
2016-2017 and subsequent years	150,554
Total	<u>2,305,456</u>

In addition, the nature of NSERC's operating activities can result in some large multiyear contracts and obligations whereby NSERC will be obligated to make future payments when the services/goods are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

(in thousands of dollars)

2012-2013	182
2013-2014	131
2014-2015	53
2015-2016	29
2016-2017 and subsequent years	21
Total	<u>416</u>

12. Related party transactions

NSERC is related as a result of common ownership to all Government of Canada departments, agencies and Crown Corporations. 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 which were obtained without charge from other Government departments as disclosed below.

a) Common services provided without charge by other government departments

During the year, NSERC is forecasted to receive without charge from certain common service organizations, related to accommodation, audit services and the employer's contribution to the health and dental insurance plans. These services provided without charge have been recorded in NSERC's Future-Oriented Statement of Operations as follows:

	Estimated Results 2012	Planned Results 2013
	(in thousands of dollars)	
Accommodation	3,966	4,122
Employer's contribution to the health and dental insurance plans	2,692	2,587
Audit Services	91	91
Total	<u>6,749</u>	<u>6,800</u>

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 NSERC's Future-Oriented Statement of Operations.

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. NSERC plans to incur expenses of \$13,498,019 in 2012-13 (\$13,498,019 in 2011-12) in funds for grants and scholarships. Forecast and incurred expenses are not reflected in NSERC's future-oriented financial statements but rather are recorded in the financial statements of the departments or agencies that provided the funds.

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 federal government departments and agencies. NSERC estimates to recover \$576,018 in 2012-13 (\$576,018 in 2011-12). These estimated amounts were netted against NSERC's operating expenses.

13. Segmented information

Presentation by segment is based on NSERC's program activity architecture. The presentation by segment is based on the same accounting policies as described in the Summary of significant accounting policies in Note 4. The following table presents the forecasted expenses incurred for the main program activities, by major object of expenses. The segment results for the period are as follows:

	2013									
2012	Fund Basic Research	Fund University-Industry-Government Partnerships	Attract and Retain Faculty	Support Students and Fellows	Fund Research in Strategic Areas	Support Commercialization	Support for Research Equipment and Major Resources	Promote Science and Engineering	Internal Services	TOTAL
Transfer payments										
Grants & Scholarships	361,129	162,837	151,991	138,901	104,260	40,430	36,085	5,761	-	1,001,394
Total transfer payments										
Operating Expenses										
Salaries and employee benefits	5,183	7,219	1,017	2,848	2,276	2,245	932	64	17,474	39,258
Professional and special services	364	1,108	51	152	111	201	65	3	3,917	5,972
Accommodation and rentals	20	60	3	8	6	11	4	-	4,331	4,443
Transportation and communications	191	582	27	80	58	106	34	2	2,010	3,090
Amortization of tangible capital assets	-	-	-	-	-	-	-	-	961	961
Repair and maintenance	56	170	8	23	17	31	10	1	586	902
Utilities, materials and supplies	22	66	3	9	7	12	4	-	227	350
Information	21	63	3	9	6	11	4	-	219	336
Total operating expenses	5,857	9,268	1,112	3,129	2,481	2,617	1,053	70	29,725	55,312
Total Expenses	1,096,904	172,105	153,103	142,030	106,741	43,047	37,138	5,831	29,725	1,056,706