

**NATURAL SCIENCES AND ENGINEERING RESEARCH COUNCIL**

**FINANCIAL STATEMENTS**

For the year ended March 31, 2010



## AUDITOR'S REPORT

To the Natural Sciences and Engineering Research Council  
and the Minister of Industry

I have audited the statement of financial position of the Natural Sciences and Engineering Research Council as at 31 March 2010 and the statements of operations, equity of Canada and cash flow for the year then ended. These financial statements are the responsibility of the Council's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Council as at 31 March 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Clyde M. MacLellan, CA  
Assistant Auditor General  
for the Auditor General of Canada

Ottawa, Canada  
21 June 2010

## Statement of Management Responsibility

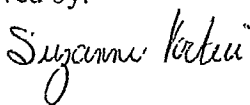
Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2010 and all information contained in these statements rests with the management of the Natural Sciences and Engineering Research Council (NSERC). These financial statements have been prepared by management in accordance with Treasury Board accounting policies and year-end instructions issued by the Office of the Comptroller General of Canada, which are consistent with Canadian generally accepted accounting principles for the public sector.

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 fulfil its accounting and reporting responsibilities, management maintains a set of accounts which provides a centralized record of NSERC's financial transactions. Financial information submitted to the *Public Accounts of Canada* and included in NSERC's *Departmental Performance Report* is consistent with these financial statements.

Management maintains a system of financial management and internal control designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are in accordance with the *Financial Administration Act*, are executed in accordance with prescribed regulations, within Parliamentary authorities, and are properly recorded to maintain accountability of Government funds. Management also seeks to ensure the objectivity and integrity of data in its financial statements by the careful selection, training and development of qualified staff, by organizational arrangements that provide appropriate divisions of responsibility, and by communication programs aimed at ensuring that regulations, policies, standards and managerial authorities are understood throughout NSERC.

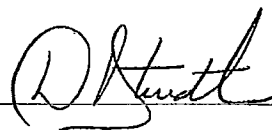
NSERC's financial statements have been audited by the Auditor General of Canada, the independent auditor for the Government of Canada.

Approved by:



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Dr. Suzanne Fortier  
President



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Dominique Osterrath, CA  
Acting Vice-President, Common Administrative Services  
Chief Financial Officer

Ottawa, Canada

June 21, 2010

**NATURAL SCIENCES AND ENGINEERING RESEARCH COUNCIL**

**Statement of Operations  
For the year ended March 31  
(in thousands of dollars)**

	<u>2010</u>	<u>2009</u>
<b>Expenses [Note 4]</b>		
Fund Basic Research	363,939	363,118
Support Students and Fellows	159,642	150,632
Attract and Retain Faculty	154,715	150,717
Fund University-Industry-Government Partnerships	120,331	110,159
Fund Research in Strategic Areas	104,153	104,786
Support for Research Equipment and Major Resources	74,412	74,274
Support Commercialization	41,613	41,658
Internal Services	34,533	36,251
Promote Science and Engineering	6,587	4,521
<b>Total Expenses</b>	<u>1,059,925</u>	<u>1,036,116</u>
 <b>Revenues</b>		
Support Students and Fellows	<u>3</u>	<u>3</u>
<b>Total Revenues</b>	<u>3</u>	<u>3</u>
 <b>Net cost of operations</b>	 <u><u>1,059,922</u></u>	 <u><u>1,036,113</u></u>

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

**NATURAL SCIENCES AND ENGINEERING RESEARCH COUNCIL**

**Statement of Financial Position**

**As at March 31**

(in thousands of dollars)

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
<b>Financial assets</b>		
Due from the Consolidated Revenue Fund	2,700	3,857
Accounts receivable [Note 5]	1,205	1,888
Advances	341	347
<b>Total financial assets</b>	<u>4,246</u>	<u>6,092</u>
<b>Non-financial assets</b>		
Prepaid expenses	142	167
Tangible capital assets [Note 6]	3,884	5,619
<b>Total non-financial assets</b>	<u>4,026</u>	<u>5,786</u>
<b>Total</b>	<u><u>8,272</u></u>	<u><u>11,878</u></u>
<b>Liabilities</b>		
Accounts payable and accrued liabilities [Note 7]	3,520	5,180
Vacation pay and compensatory leave	1,651	1,614
Employee severance benefits [Note 8 b)]	6,630	5,416
	<u>11,801</u>	<u>12,210</u>
<b>Equity of Canada</b>	<u>(3,529)</u>	<u>(332)</u>
<b>Total</b>	<u><u>8,272</u></u>	<u><u>11,878</u></u>
Contractual obligations [Note 9]		
Subsequent event [Note 11]		

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

**NATURAL SCIENCES AND ENGINEERING RESEARCH COUNCIL**

**Statement of Equity of Canada  
For the year ended March 31  
(in thousands of dollars)**

	<u>2010</u>	<u>2009</u>
<b>Equity of Canada, beginning of year</b>	(332)	598
Net cost of operations	(1,059,922)	(1,036,113)
Net cash provided by Government of Canada [Note 3 c)]	1,051,454	1,028,501
Change in due from the Consolidated Revenue Fund	(1,157)	794
Services provided without charge from other government departments [Note 10 a)]	6,428	5,888
<b>Equity of Canada, end of year</b>	<u><u>(3,529)</u></u>	<u><u>(332)</u></u>

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

**NATURAL SCIENCES AND ENGINEERING RESEARCH COUNCIL**

**Statement of Cash Flow  
For the year ended March 31  
(in thousands of dollars)**

	2010	2009
<b>Operating activities</b>		
Net cost of operations	1,059,922	1,036,113
Non-cash items included in net cost of operations:		
Amortization of tangible capital assets [Note 6]	(2,244)	(2,432)
Services provided without charge from other government departments [Note 10 a]	(6,428)	(5,888)
Loss on disposals of tangible capital assets	(6)	(2)
Variations in Statement of Financial Position		
Decrease in accounts receivable	(683)	(738)
Decrease in advances	(6)	(12)
Decrease in prepaid expenses	(25)	(54)
Decrease (increase) in accounts payable and accrued liabilities	1,660	(124)
Increase in vacation pay and compensatory leave	(37)	(108)
Increase in employee severance benefits	(1,214)	(681)
<b>Cash used by operating activities</b>	<b>1,050,939</b>	<b>1,026,074</b>
<b>Capital investment activities</b>		
Acquisitions of tangible capital assets	515	2,427
<b>Cash used by capital investment activities</b>	<b>515</b>	<b>2,427</b>
<b>Financing activities</b>	-	-
<b>Net cash provided by Government of Canada</b>	<b>1,051,454</b>	<b>1,028,501</b>

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

# NATURAL SCIENCES AND ENGINEERING RESEARCH COUNCIL

## Notes to the 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 objective 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 through nine program activities:

- a) Fund Basic Research  
Invest in discovery through grants focusing on basic research activities.
- b) Support Students and Fellows  
Support training of highly qualified personnel through scholarship and fellowship programs.
- c) Attract and Retain Faculty  
Aim to attract and retain faculty
- d) Fund University-Industry-Government Partnerships  
Foster collaborations between university researchers and other sectors, including government and industry, in order to develop new knowledge and expertise, and to transfer this knowledge and expertise to Canadian-based organizations.
- e) Fund Research in Strategic Areas  
Fund project research of national importance and in emerging areas that are of potential significance to Canada.
- f) Support for Research Equipment and Major Resources  
Help to support the establishment, maintenance and operation of the research equipment, major research resources and research capacity necessary to carry out high quality research in the natural sciences and engineering.
- g) Support Commercialization  
Support innovation and promote the transfer of knowledge and technology to Canadian companies.
- h) Internal Services  
Internal services are groups of related activities and resources that are administered to support the needs of programs and other corporate obligations. These groups are: management and oversight services; communications services; legal services; human resources management services; financial management services; information management services; information technology services; real property services; materiel services; acquisition services, and travel and other administrative services. Internal



services include only those activities and resources that apply across an organization and not to those provided specifically to a program.

- i) Promote Science and Engineering  
Encourage popular interest in science, math and engineering and aim to develop science, math and engineering abilities in Canadian youth.

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

## **2. Summary of significant accounting policies**

The financial statements have been prepared in accordance with Treasury Board accounting policies and year-end instructions issued by the Office of the Comptroller General of Canada, which are consistent with Canadian generally accepted accounting principles for the public sector. The most significant accounting policies are as follows:

- a) Parliamentary appropriations  
The Government of Canada finances NSERC through parliamentary appropriations. Appropriations provided to NSERC do not parallel financial reporting according to generally accepted accounting principles since they are based in large part on cash flow requirements. Consequently, items recognized in the Statement of Operations and the Statement of Financial Position are not necessarily the same as those provided through appropriations from Parliament. Note 3 provides a high-level reconciliation between the bases of reporting.
- b) Net cash provided by Government of Canada  
NSERC operates within the Consolidated Revenue Fund (CRF). The CRF 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 of Canada is the difference between all cash receipts and all cash disbursements, including transactions with departments of the federal government.
- c) Due from the Consolidated Revenue Fund  
Due from the Consolidated Revenue Fund represents the amount of cash that NSERC is entitled to draw from the CRF, without further appropriations, in order to discharge its liabilities.
- d) Revenues  
Revenues consist of interest on overdue accounts receivable and are accounted for as earned.
- e) Expenses  
Expenses are recorded on the 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 expensed as the benefits accrue to employees under their respective terms of employment.
- Services provided without charge by other government departments and agencies are recorded as operating expenses at their estimated cost.

f) Employee future benefits

- Pension benefits: Eligible employees participate in the Public Service Pension Plan, a multiemployer plan administered by the Government of Canada. 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.
- 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 as a whole.

g) Accounts receivable

Accounts receivable are stated at amounts expected to be ultimately realized. A provision is made for receivables from external parties where the recovery is considered uncertain.

h) Tangible capital assets

All tangible capital assets and leasehold improvements with an acquisition cost of \$2,500 or more are capitalized at cost as well as the standard furniture, equipment and desktop personal computer assigned to each employee due to the material number of such items. NSERC does not capitalize intangibles. Tangible capital assets are amortized over their estimated useful life on a straight-line basis 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

i) Measurement uncertainty

The preparation of financial statements in accordance with Treasury Board accounting policies and year-end instructions issued by the Office of the Comptroller General of Canada, which are consistent with Canadian generally accepted accounting principles for the public sector, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses reported in the financial statements. At the time of preparation of these statements, management believes the

estimates and assumptions to be reasonable. The allowance for employee severance benefits and the estimated useful lives of capital assets are the most significant items where estimates are used. Actual results could significantly differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

### 3. Parliamentary appropriations

The operations of NSERC are funded through annual parliamentary appropriations. Items recognized in the Statement of Operations and the Statement of Financial Position in one year may be funded through parliamentary appropriations 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) Reconciliation of net cost of operations to current year appropriations used

	2010	2009
	(in thousands of dollars)	
Net cost of operations	1,059,922	1 036 113
Adjustments for items affecting net cost of operations but not affecting appropriations:		
Add (less):		
Interest on overdue accounts receivable	3	3
Refunds of previous years' expenses	795	471
Amortization of tangible capital assets	(2,244)	(2,432)
Vacation pay and compensatory leave	(37)	(108)
Services provided without charge by other government departments	(6,428)	(5,888)
Employee severance benefits	(1,214)	(681)
Other adjustments	(41)	(41)
Adjustments for items not affecting net cost of operations but affecting appropriations:		
Add (less):		
Acquisitions of tangible capital assets	515	2,427
Prepaid expenses	(25)	(54)
Current year appropriations used	<u>1,051,246</u>	<u>1,029,810</u>

b) Appropriations provided and used

	<u>2010</u>	<u>2009</u>
	(in thousands of dollars)	
Grants and scholarships		
Vote 70	1,004,421	981,871
Less: Lapse	(247)	(21)
Grants and scholarships expenditures	<u>1,004,174</u>	<u>981,850</u>
Operating expenditures		
Vote 65	45,826	45,634
Less: Operating lapse	(3,190)	(1,933)
: Frozen allotment	(527)	-
Operating expenditures	<u>42,109</u>	<u>43,701</u>
Statutory contributions to employee benefit plans	4,963	4,259
Current year appropriations used	<u><u>1,051,246</u></u>	<u><u>1,029,810</u></u>

c) Reconciliation of net cash provided by Government of Canada to current year appropriations used

	<u>2010</u>	<u>2009</u>
	(in thousands of dollars)	
Net cash provided by Government of Canada	1,051,454	1,028,501
Refund of previous years' expenses	795	471
Variation in accounts receivable	683	738
Variation in advances	6	12
Variation in accounts payable and accrued liabilities	(1,660)	124
Other adjustments	(32)	(36)
Current year appropriations used	<u><u>1,051,246</u></u>	<u><u>1,029,810</u></u>

#### 4. Expenses

The following table presents details of expenses by category:

	<u>2010</u>	<u>2009</u>
	(in thousands of dollars)	
Grants and Scholarships		
Fund Basic Research	357,976	357,749
Support Students and Fellows	156,810	148,435
Attract and Retain Faculty	153,473	149,720
Fund University-Industry-Government Partnerships	113,750	104,801
Fund Research in Strategic Areas	101,704	102,781
Support for Research Equipment and Major Resources	73,340	73,309
Support Commercialization	39,996	40,202
Promote Science and Engineering	6,515	4,467
	<u>1,003,564</u>	<u>981,464</u>
Operations		
Salaries and employee benefits	37,665	33,258
Professional and special services	6,002	7,169
Transportation and communications	4,631	5,199
Accommodations and rentals	4,426	4,313
Amortization of tangible capital assets	2,244	2,432
Information	576	915
Utilities, materials and supplies	433	795
Repair and maintenance	378	569
Loss on disposals of tangible capital assets	6	2
	<u>56,361</u>	<u>54,652</u>
Total Expenses	<u>1,059,925</u>	<u>1,036,116</u>

## 5. Accounts receivable

	2010	2009
	(in thousands of dollars)	
Other federal government departments and agencies	818	1,314
External parties	407	586
Less: Allowance for doubtful accounts on external receivables	(20)	(12)
Total	<u>1,205</u>	<u>1,888</u>

## 6. Tangible capital assets

(in thousands of dollars)

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	2010	2009
Informatics	4,719	283	223	4,779	3,773	553	220	4,106	673	946
Software	5,901	130		6,031	4,939	512		5,451	580	962
Other equipment	247	4	11	240	240	3	11	232	8	7
Furniture	4,047	51	214	3,884	2,470	383	211	2,642	1,242	1,577
Leasehold improvements	3,603	47		3,650	1,476	793		2,269	1,381	2,127
Total	18,517	515	448	18,584	12,898	2,244	442	14,700	3,884	5,619

Amortization expense for the year ended March 31, 2010 is \$2,244 (\$2,432 in 2009).

## 7. Accounts payable and accrued liabilities

	2010	2009
	(in thousands of dollars)	
External parties	2,232	4,096
Other federal government departments and agencies	1,288	1,084
Total	<u>3,520</u>	<u>5,180</u>

## 8. Employee benefits

NSERC's employees 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 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 Plans benefits and they are indexed to inflation.

Both the employees and NSERC contribute to the cost of the Plan. The 2009-10 expense amounts to \$3,583,159 (\$3,074,736 in 2008-09), which represents approximately 1.9 times the contributions by 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 appropriations. Information about the severance benefits, measured as at March 31, is as follows:

	2010	2009
	(in thousands of dollars)	
Accrued benefit obligation, beginning of year	5,416	4,735
Expense for the year	1,577	803
Benefits paid during the year	(363)	(122)
Accrued benefit obligation, end of year	<u>6,630</u>	<u>5,416</u>

**9. Contractual obligations**

Payments of grants and scholarships extending in future years are subject to the provision of funds by Parliament. As of March 31, 2010, the commitments for future years' awards are payable as follows:

	(in thousands of dollars)
2010-2011	879,205
2011-2012	641,064
2012-2013	410,804
2013-2014	250,109
2014-2015 and subsequent years	165,471
Total	<u>2,346,653</u>

In addition, the nature of NSERC's operating activities can result in some large multi-year contracts and obligations whereby NSERC will be committed to make future payments when

the services or goods are rendered. Significant contractual obligations that can be reasonably estimated are summarized as follows:

	(in thousands of dollars)
2010-2011	271
2011-2012	164
2012-2013	76
2013-2014	3
2014-2015 and subsequent years	-
Total	<u>514</u>

#### 10. 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 services that were obtained without charge from other Government of Canada departments as presented in part a) below:

##### a) Services provided without charge

	2010	2009
	(in thousands of dollars)	
Accommodations provided by Public Works and Government Services Canada	3,844	3,828
Contributions covering the employer's share of employees' medical and dental insurance premiums provided by Treasury Board Secretariat	2,490	1,978
Other services provided without charge	94	82
Total services provided without charge	<u>6,428</u>	<u>5,888</u>

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

NSERC administers funds received from other federal government departments and agencies to issue grants, scholarships and related payments on their behalf. During the year, NSERC administered \$13,031,225 (\$14,061,150 in 2009) in funds for grants and scholarships. These expenses are not reflected in NSERC's Statement of Operations 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. These amounted to \$ 614,002 during the year (\$579,127 in 2009) and were netted against NSERC's operating expenses.



**11. Subsequent Event**

In June 2010, NSERC was served with a statement of claim for \$16 million, and two of its employees were also served with a claim for \$16 million, for a potential total of \$32 million, by a researcher whose grants had been terminated following university investigations. Given the very 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.

**12. Comparative information**

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