

NATURAL SCIENCES AND ENGINEERING RESEARCH COUNCIL

FINANCIAL STATEMENTS

For the year ended March 31, 2009



Auditor General of Canada
Vérificatrice générale du Canada

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 March 31, 2009 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 March 31, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Nancy Y. Cheng, FCA
Assistant Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 29, 2009

STATEMENT OF MANAGEMENT RESPONSIBILITY

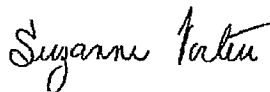
Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2009 and all information contained in these statements rests with the management of the Natural Sciences and Engineering Research Council. These financial statements have been prepared by management in accordance with Treasury Board accounting policies which are consistent with Canadian generally accepted accounting principles for the public sector, and year-end instructions issued by the Office of the Comptroller General.

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

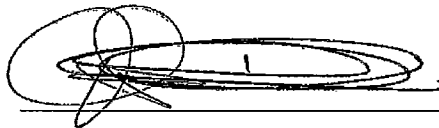
Management maintains a system of financial management and internal control designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are in accordance with the *Financial Administration Act*, are executed in accordance with prescribed 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 the Council.

The financial statements of the Council have been audited by the Auditor General of Canada, the independent auditor for the Government of Canada.

Approved by:



Dr. Suzanne Fortier
President



Michel Cavallin
Vice-President, Common Administrative Services
Chief Financial Officer

Ottawa, Canada

24/06/09

2009

NATURAL SCIENCES AND ENGINEERING RESEARCH COUNCIL
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED MARCH 31
(thousands of dollars)

	2009	2008
EXPENSES (Note 4)		
Fund Basic Research	378,230	375,147
Fund University-Industry-Government Partnerships	169,876	182,576
Attract and Retain Faculty	153,171	148,359
Support Students and Fellows	152,433	138,715
Fund Research in Strategic Areas	84,864	75,822
Support for Research Equipment and major resources	76,990	81,632
Support Commercialization	15,820	10,801
Promote Science and Engineering	4,732	4,383
Total Expenses	1,036,116	1,017,435
 REVENUES		
Fund Basic Research	3	4
Total Revenues	3	4
 Net cost of operations	1,036,113	1,017,431

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
(thousands of dollars)

	2009	2008
ASSETS		
Financial assets		
Due from the Consolidated Revenue Fund	3,857	3,063
Accounts receivable (Note 5)	1,888	2,626
Advances	347	359
Total Financial Assets	6,092	6,048
Non-financial assets		
Prepaid expenses	167	221
Tangible capital assets (Note 6)	5,619	5,626
Total Non-Financial Assets	5,786	5,847
TOTAL	11,878	11,895
LIABILITIES		
Accounts payable and accrued liabilities (Note 7)	5,180	5,056
Vacation pay and compensatory leave	1,614	1,506
Employee severance benefits (Note 8 b))	5,416	4,735
Total Liabilities	12,210	11,297
EQUITY OF CANADA	(332)	598
TOTAL	11,878	11,895

Contractual obligations (note 9)

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
(thousands of dollars)

	2009	2008
EQUITY OF CANADA		
Equity of Canada, beginning of year	598	1,764
Net cost of operations	(1,036,113)	(1,017,431)
Net cash provided by Government (Note 3 c))	1,028,501	1,010,826
Change in due from the Consolidated Revenue Fund	794	(127)
Services provided without charge from other government departments (Note 10 a))	5,888	5,566
	(332)	598
Equity of Canada, end of year		

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
(thousands of dollars)

	<u>2009</u>	<u>2008</u>
OPERATING ACTIVITIES		
Net cost of operations	1,036,113	1,017,431
Non-cash items included in net cost of operations:		
Amortization of tangible capital assets (Note 6)	(2,432)	(1,933)
Services provided without charge from other government departments (Note 10 a))	(5,888)	(5,566)
Loss on disposals of tangible capital assets	(2)	(3)
Variations in Statement of Financial Position		
Decrease in accounts receivable	(738)	(432)
(Decrease) increase in advances	(12)	22
Decrease in prepaid expenses	(54)	(29)
(Increase) decrease in accounts payable and accrued liabilities	(124)	172
Increase in vacation pay and compensatory leave	(108)	(50)
Increase in employee severance benefits	(681)	(239)
Cash used by operating activities	<u>1,026,074</u>	<u>1,009,373</u>
CAPITAL INVESTMENT ACTIVITIES		
Acquisitions of tangible capital assets	2,427	1,453
Cash used by capital investment activities	<u>2,427</u>	<u>1,453</u>
FINANCING ACTIVITIES		
Net cash provided by Government	<u>1,028,501</u>	<u>1,010,826</u>

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 objective

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*. Its 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. The Council delivers its objective under eight 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) *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.
- d) *Attract and Retain Faculty*: Aim to attract and retain faculty.
- 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) *Promote Science and Engineering*: Encourage popular interest in science, math and engineering and aim to develop science, math and engineering abilities in Canadian youth.

The Council'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 including year-end instructions issued by the Office of the Comptroller General 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 the Council through Parliamentary appropriations. Appropriations provided to the Council 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

The Council operates within the Consolidated Revenue Fund (CRF). The CRF is administered by the Receiver General for Canada. All cash received by the Council is deposited to the CRF and all cash disbursements made by the Council are paid from the CRF. The net cash provided by Government 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 the Council 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 multi employer plan administered by the Government of Canada. The Council's contributions to the Plan are charged to expenses in the year incurred and represent the total Council obligation to the Plan. Current legislation does not require the Council 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. 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 which are consistent with Canadian generally accepted accounting principles for the public sector, and year end instructions issued by the Office of the Comptroller General, 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 differ significantly 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 the Council 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, the Council 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

	<u>2009</u>	<u>2008</u>
	(thousands of dollars)	
Net cost of operations	1,036,113	1,017,431
Adjustments for items affecting net cost of operations but not affecting appropriations:		
Add (less):		
Interest on overdue accounts receivable	3	4
Refunds of previous years' expenses	471	1035
Amortization of tangible capital assets	(2,432)	(1,933)
Vacation pay and compensatory leave	(108)	(50)
Services provided without charge by other government departments	(5,888)	(5,566)
Employee severance benefits	(681)	(239)
Other adjustments	(41)	352

Adjustments for items not affecting net cost of operations but affecting appropriations:

Add (less):

Acquisitions of tangible capital assets	2,427	1,453
Prepaid expenses	(54)	(29)

CURRENT YEAR APPROPRIATIONS USED

1,029,810	1,012,458
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(b) Appropriations provided and used

2009	2008
(thousands of dollars)	

GRANTS AND SCHOLARSHIPS

Vote 75	981,871	969,768
Less: Lapse	(21)	(190)
Grants and scholarships expenditures	<u>981,850</u>	<u>969,578</u>

OPERATING EXPENDITURES

Vote 70	45,634	41,799
Less: Operating Lapse	(1,933)	(2,787)
Operating expenditures	<u>43,701</u>	<u>39,012</u>
Statutory contributions to employee benefit plans	4,259	3,868

CURRENT YEAR APPROPRIATIONS USED

1,029,810	1,012,458
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(c) Reconciliation of net cash provided by Government to current year appropriations used

2009	2008
(thousands of dollars)	

NET CASH PROVIDED BY GOVERNMENT

	1,028,501	1,010,826
Refund of previous years' expenses	471	1,035
Variation in accounts receivable	738	432
Variation in advances	12	(22)
Variation in accounts payable and accrued liabilities	124	(172)
Other adjustments	(36)	359

CURRENT YEAR APPROPRIATIONS USED

1,029,810	1,012,458
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4. Expenses

The following table presents details of expenses by category:

	<u>2009</u>	<u>2008</u>
	(thousands of dollars)	
Grants and scholarships		
Fund Basic Research	357,749	357,124
Fund University-Industry-Government Partnerships	158,758	172,271
Attract and Retain Faculty	149,720	145,353
Support Students and Fellows	144,175	131,410
Fund Research in Strategic Areas	79,742	71,360
Support for Research Equipment and Major Resources	73,309	78,140
Support Commercialization	13,544	9,272
Promote Science and Engineering	4,467	4,150
	<u>981,464</u>	<u>969,080</u>
Operations		
Salaries and employee benefits	33,258	29,345
Professional and special services	7,169	6,427
Transportation and communications	5,199	4,443
Accommodations and rentals	4,313	4,113
Amortization of tangible capital assets	2,432	1,933
Information	915	1,191
Utilities, materials and supplies	795	533
Repair and maintenance	569	367
Loss on disposals of tangible capital assets	2	3
	<u>54,652</u>	<u>48,355</u>
Total Expenses	<u><u>1,036,116</u></u>	<u><u>1,017,435</u></u>

5. Accounts receivable

	<u>2009</u>	<u>2008</u>
	(thousands of dollars)	
Other federal government departments and agencies	1,314	1,974
External parties	586	688
Less: Allowance for doubtful accounts	(12)	(36)
Total	<u>1,888</u>	<u>2,626</u>

6. Tangible capital assets

(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	2009	2008
Informatics	4,298	651	230	4,719	3,340	661	228	3,773	946	958
Software	5,760	141		5,901	4,125	814		4,939	962	1,635
Other equipment	243	4		247	237	3		240	7	6
Furniture	3,779	313	45	4,047	2,124	391	45	2,470	1,577	1,655
Leasehold improvements	2,285	1,318		3,603	913	563		1,476	2,127	1,372
Total	16,365	2,427	275	18,517	10,739	2,432	273	12,898	5,619	5,626

Amortization expense for the year ended March 31, 2009 is \$2,432 (\$1,933 in 2008).

7. Accounts payable and accrued liabilities

	<u>2009</u>	<u>2008</u>
	(thousands of dollars)	
External parties	4,096	4,150
Other federal government departments and agencies	1,084	906
Total	<u>5,180</u>	<u>5,056</u>

8. Employee benefits

Employees of the Council 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

The Council'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 the Council contribute to the cost of the Plan. The 2008-09 expense amounts to \$3,074,736 (\$2,820,004 in 2007-08), which represents approximately (2.0) times the contributions by employees.

The Council'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

The Council 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:

	<u>2009</u>	<u>2008</u>
	(thousands of dollars)	
Accrued benefit obligation, beginning of year	4,735	4,496
Expense for the year	803	389
Benefits paid during the year	(122)	(150)
Accrued benefit obligation, end of year	<u>5,416</u>	<u>4,735</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, 2009, the commitments for future years' awards are payable as follows:

	(thousands of dollars)
2009-2010	837,134
2010-2011	605,215
2011-2012	380,291
2012-2013	226,109
2013-2014 and subsequent years	149,125
Total	<u>2,197,874</u>

In addition, the nature of the Council's operating activities can result in some large multi-year contracts and obligations whereby the Council will be committed to make future payments when the services or goods are rendered. Significant contractual obligations that can reasonably be estimated are summarized as follows:

	(thousands of dollars)
2009-2010	275
2010-2011	186
2011-2012	119
2012-2013	32
2013-2014 and subsequent years	-
Total	<u>612</u>

10. Related party transactions

The Council is related as a result of common ownership to all Government of Canada departments, agencies and Crown Corporations. The Council enters into transactions with these entities in the normal course of business and on normal trade terms.

During the year, the Council received services which were obtained without charge from other government departments as presented in (a):

(a) Services provided without charge

	<u>2009</u>	<u>2008</u>
	(thousands of dollars)	
Accommodations provided by Public Works and Government Services Canada	3,828	3,760
Contributions covering the employer's share of employees medical and Dental insurance premiums provided by Treasury Board Secretariat	1,978	1,739
Other services received without charge	82	67
Total services received without charge	<u>5,888</u>	<u>5,566</u>

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

The Council administers funds received from other federal government departments and agencies to issue grants, scholarships and related payments on their behalf. During the year, the Council administered \$14,061,150 (\$18,581,430 in 2008) in funds for grants and scholarships. These expenses are not reflected in the Council's Statement of Operations but rather are recorded in the financial statements of the departments or agencies that provided the funds.

The Council also recovers administrative fees in some circumstances where a significant administrative burden is incurred by the Council for the administration of certain funds on behalf of other federal government departments and agencies. These amounted to \$579,127 during the year (\$601,717 in 2008) and were netted against the Council's operating expenses.

11. Comparative information

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