

NATURAL SCIENCES AND ENGINEERING RESEARCH COUNCIL

**FUTURE-ORIENTED
FINANCIAL STATEMENTS**

For the year ending March 31, 2014

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 November 30, 2012, and reflect the plans described in the Report on Plans and Priorities.

James S. Edwards
Vice-President of NSERC and Chair of Council

Jaime W. Pitfield
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 2013	Planned Results 2014
Liabilities		
Accounts payable and accrued liabilities [Note 6]	3,981	3,981
Vacation pay and compensatory leave	2,123	2,089
Employee future benefits [Note 7]	1,800	1,850
Total net liabilities	<u>7,904</u>	<u>7,920</u>
Financial assets		
Due from the Consolidated Revenue Fund	2,943	2,943
Accounts receivable [Note 8]	1,257	1,257
Advances	17	17
Total net financial assets	<u>4,217</u>	<u>4,217</u>
Net debt	<u>3,687</u>	<u>3,703</u>
Non-financial assets		
Prepaid expenses	213	213
Tangible capital assets [Note 9]	2,985	3,198
Total non-financial assets	<u>3,198</u>	<u>3,411</u>
Net financial position	<u>(489)</u>	<u>(292)</u>

Information for the year ended March 31, 2013 includes actual amounts from April 1, 2012 to November 30, 2012.

Contingent liabilities [Note 10]

Contractual obligations [Note 11]

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

James S. Edwards
Vice-President of NSERC and Chair of Council

Jaime W. Pitfield
Chief Financial Officer

Ottawa, Canada

Date: _____

NATURAL SCIENCES AND ENGINEERING RESEARCH COUNCIL

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

	Estimated Results 2013	Planned Results 2014
	<u>2013</u>	<u>2014</u>
Expenses		
Discovery	409,193	393,180
Innovation	350,354	358,456
People	293,114	276,404
Internal Services	29,685	29,429
Total Expenses	<u>1,082,346</u>	<u>1,057,469</u>
Net cost of operations before government funding and transfers	<u>1,082,346</u>	<u>1,057,469</u>
Government funding and transfers		
Net cash provided by Government	1,079,845	1,050,991
Change in due from the Consolidated Revenue Fund	446	0
Common services provided without charge by other government	6,690	6,675
Net cost of operations after government funding and transfers	<u>(4,635)</u>	<u>(197)</u>
Net financial position - Beginning of year	(5,124)	(489)
Net financial position - End of year	<u>(489)</u>	<u>(292)</u>

Information for the year ended March 31, 2013 includes actual amounts from April 1, 2012 to November 30, 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 Change in Net Debt
For the year ending March 31
(in thousands of dollars)

	Estimated Results 2013	Planned Results 2014
	<u>2013</u>	<u>2014</u>
Net cost of operations after government funding and transfers	(4,635)	(197)
Change due to tangible capital assets		
Acquisition of tangible capital assets	1,458	1,405
Amortization of tangible capital assets	(918)	(1,192)
Total change due to tangible capital assets	<u>540</u>	<u>213</u>
Change due to prepaid expenses	(28)	0
Net increase in net debt	<u>(4,123)</u>	<u>16</u>
Net debt - Beginning of year	7,810	3,687
Net debt - End of year	<u><u>3,687</u></u>	<u><u>3,703</u></u>

Information for the year ended March 31, 2013 includes actual amounts from April 1, 2012 to November 30, 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 Flows

For the year ending March 31

(in thousands of dollars)

	Estimated Results 2013	Planned Results 2014
Operating activities		
Net cost of operations before government funding and transfers	1,082,346	1,057,469
Non-cash items:		
Amortization of tangible capital assets [Note 9]	(918)	(1,192)
Common services provided without charge by other government departments [Note 12]	(6,690)	(6,675)
Variations in Statement of Financial Position:		
Increase (decrease) in accounts receivable	(525)	0
Increase (decrease) in advances	0	0
Increase (decrease) in prepaid expenses	(28)	0
Decrease (increase) in accounts payable and accrued liabilities	(521)	0
Decrease (increase) in vacation pay and compensatory leave	136	34
Decrease (increase) in employee future benefits	4,587	(50)
Cash used in operating activities	1,078,387	1,049,586
Capital investing activities		
Acquisitions of tangible capital assets	1,458	1,405
Cash used in capital investing activities	1,458	1,405
Financing Activities	0	0
Net cash provided by Government of Canada	1,079,845	1,050,991

Information for the year ended March 31, 2013 includes actual amounts from April 1, 2012 to November 30, 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 four 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 information in the estimated results for fiscal year 2012-13 is based on actual results as at November 30, 2012 and forecasts for the remainder of the fiscal year. Estimated year end information for 2012-13 is used as the opening position for the 2013-14 planned results, and forecasts have been made for the planned results for the 2013-14 fiscal year.

The main assumptions underlying the forecasts 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.

These assumptions are adopted as at November 30, 2012.

3. Variations and Changes to the Forecast Financial Information

While every attempt has been made to forecast final results for the remainder of 2012-13 and for 2013-14, 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 and disposals 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.

Once the Report on Plans and Priorities is presented, NSERC will not be updating the forecasts for any changes to appropriations 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 using the government's accounting policies in effect for the 2012-13 fiscal year as of November 30, 2012. These accounting policies, stated below, 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 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 Net Financial Position 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 Consolidated Revenue Fund**

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

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 the 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 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. 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: Employees entitled to severance benefits under labour contracts or conditions of employment earn these benefits as services necessary to earn them are rendered. The obligation relating to the benefits earned by employees is calculated using information derived from the results of the actuarially determined liability for employee severance benefits for the government as a whole.

f) Accounts receivables

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

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 annual parliamentary authorities. Items recognized in the Future-Oriented Statements of Operations and Net Financial Position 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) Reconciliation of net cost of operations to requested authorities

	Estimated Results 2013	Planned Results 2014
	(thousands of dollars)	
Net cost of operations before government funding and transfers	1,082,346	1,057,469
Adjustments for items affecting net cost of operations but not affecting authorities:		
Amortization of tangible capital assets	(918)	(1,192)
Services provided without charge by other government departments	(6,690)	(6,675)
Decrease (increase) in vacation pay and compensatory leave	136	34
Decrease (increase) in employee future benefits	4,587	(50)
Total items affecting net cost of operations but not affecting authorities	1,079,461	1,049,586
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisitions of tangible capital assets	1,458	1,405
Increase (decrease) in prepaid expenses	(28)	0
Total items not affecting net cost of operations but affecting authorities	1,430	1,405
Forecast authorities available	<u>1,080,891</u>	<u>1,050,991</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) Authorities requested

	Estimated Results 2013	Planned Results 2014
	(thousands of dollars)	
Authorities requested:		
Vote 80 - Grants	1,024,465	1,002,569
Vote 75 – Operating expenditures	51,088	43,302
Statutory amounts	5,338	5,120
Forecast authorities available	<u>1,080,891</u>	<u>1,050,991</u>

6. Accounts payable and accrued liabilities

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

	Estimated Results 2013	Planned Results 2014
	(thousands of dollars)	
Accounts payable - Other government departments and agencies	1,245	1,245
Accounts payable - External parties	1,906	1,906
Total accounts payable	<u>3,151</u>	<u>3,151</u>
Accrued liabilities	830	830
Total accounts payable and accrued liabilities	<u>3,981</u>	<u>3,981</u>

7. Employee future benefits

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 two 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 \$3,832,385 in 2012-13 and \$3,681,703 in 2013-14, 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, as the Plan's sponsor.

b) Severance benefits

NSERC provides severance benefits to its employees based on eligibility, years of service and salary at termination of employment. These severance benefits are not pre-funded. Benefits will be paid from future authorities.

As part of 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 have been given the option to be immediately paid the full or partial value of benefits earned to date or collect the full or remaining value of benefits on termination from the public service. These changes have been reflected in the calculation of the outstanding severance benefit obligation. Information about severance benefits, estimated as at the date of this statement of operations and net financial position, is as follows:

	Estimated Results 2013	Planned Results 2014
	(thousands of dollars)	
Accrued benefit obligation - Beginning of year	6,387	1,800
Expense for the year	(387)	650
Benefits paid during the year	(4,200)	(600)
Accrued benefit obligation - End of year	<u>1,800</u>	<u>1,850</u>

8. Accounts receivable

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

	Estimated Results 2013	Planned Results 2014
	(thousands of dollars)	
Receivables - Other government departments and agencies	991	991
Receivables - External parties	266	266
Total accounts receivable	<u>1,257</u>	<u>1,257</u>

9. Tangible Capital Assets

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	2013	2014
Informatics	5,815	95		5,910	5,429	405		5,834	386	76
Software	6,471	285		6,756	6,087	461		6,548	384	208
Other equipment	242	25		267	221	10		231	21	36
Furniture	4,118			4,118	3,661	300		3,961	457	157
Leasehold improvements	3,736			3,736	3,720	16		3,736	16	0
Assets under construction	1,721	1,000		2,721				0	1,721	2,721
Total	22,103	1,405	0	23,508	19,118	1,192	0	20,310	2,985	3,198

10. Contingent liability

NSERC, along with two of its employees, was served with a statement of claim for breach of contract and defamation, for a potential total of \$33.5 million by a researcher whose grants had been terminated following university findings of misconduct and findings by NSERC that the researcher had violated its policies. Given the relatively early stage of the proceedings, the likelihood of an adverse outcome cannot be assessed at present. 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:

	(thousands of dollars)
2013-14	701,975
2014-15	506,655
2015-16	288,239
2016-17	155,020
2017-18 and subsequent years	51,789
Total	<u><u>1,703,678</u></u>

In addition, the nature of NSERC's operating activities can result in some large multiyear 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:

	(thousands of dollars)
2013-14	140
2014-15	66
2015-16	33
2016-17	25
2017-18 and subsequent years	0
Total	<u><u>264</u></u>

12. Related party transactions

NSERC is related as a result of common ownership to all government 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 that 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 services without charge from certain common service organizations, related to accommodations, 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 and Net Financial Position as follows:

	Estimated Results 2013	Planned Results 2014
	(thousands of dollars)	
Accommodations	4,023	4,084
Employer's contribution to the health and dental insurance plans	2,577	2,501
Audit Services	90	90
Total	<u><u>6,690</u></u>	<u><u>6,675</u></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 and 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. NSERC plans to incur expenses of \$13,498,019 in 2013-14 (\$13,498,019 in 2012-13) 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 2013-14 (\$576,018 in 2012-13). 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	2014				
	TOTAL	Discovery	Innovation	People	Internal Services	TOTAL
(in thousands of dollars)						
Transfer payments						
Grants & Scholarships	1,024,465	387,402	342,488	272,679	0	1,002,569
Total transfer payments						
Operating Expenses						
Salaries and employee benefits	38,483	4,865	12,281	3,448	17,705	38,299
Professional and special services	7,755	487	1,964	148	3,478	6,076
Accommodation and rentals	4,555	34	137	10	4,321	4,502
Transportation and communications	4,495	286	1,156	87	1,993	3,522
Amortization	918	0	0	0	1,192	1,192
Repair and maintenance	902	58	233	17	402	710
Information	419	26	107	8	184	325
Utilities, materials and supplies	354	22	90	7	155	274
Total operating expenses	57,881	5,778	15,968	3,725	29,429	54,900
Total Expenses	1,082,346	393,180	358,456	276,404	29,429	1,057,469

14. Comparative information

Comparative figures have been reclassified to conform to the current year's presentation. In 2013-14, NSERC will adopt a new Program Activity Architecture. The information presented in these future-oriented financial statements is based on this new architecture.