

**NATURAL SCIENCES AND ENGINEERING RESEARCH COUNCIL**

**FINANCIAL STATEMENTS**

For the year ended March 31, 2016

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

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2016, and all information contained in these statements rests with the management of the Natural Sciences and Engineering Research Council (NSERC). These financial statements have been prepared by management using the Government's accounting policies, which are based on Canadian public sector accounting standards.

Management is responsible for the integrity and objectivity of the information in these financial statements. Some of the information in the financial statements is based on management's best estimates and judgment, and gives due consideration to materiality. To fulfill its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of NSERC's financial transactions. Financial information submitted in the preparation of the Public Accounts of Canada, and included in NSERC's *Departmental Performance Report*, is consistent with these financial statements.

Management is also responsible for maintaining an effective system of internal control over financial reporting (ICFR) designed to provide reasonable assurance that financial information is reliable, that assets are safeguarded and that transactions are properly authorized and recorded in accordance with the *Financial Administration Act* and other applicable legislation, regulations, authorities and policies.

Management seeks to ensure the objectivity and integrity of data in its financial statements through careful selection, training and development of qualified staff; through organizational arrangements that provide appropriate divisions of responsibility; through communication programs aimed at ensuring that regulations, policies, standards, and managerial authorities are understood throughout NSERC and through conducting an annual risk-based assessment of the effectiveness of the system of ICFR.

The system of ICFR is designed to mitigate risks to a reasonable level based on an ongoing process to identify key risks, to assess effectiveness of associated key controls, and to make any necessary adjustments.

A risk-based assessment of the system of ICFR for the year ended March 31, 2016 was completed in accordance with the Treasury Board *Policy on Internal Control* and the results and action plans are summarized in the annex.

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

Original signed by

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

Patricia Sauvé-McCuan  
Chief Financial Officer

Ottawa, Canada

June 15, 2016

## Independent Auditor's Report

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

We have audited the accompanying financial statements of the Natural Sciences and Engineering Research Council (the "Council"), which comprise the statement of financial position as at March 31, 2016, and the statement of operations and net financial position, the statement of change in net debt and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Council as at March 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

*Deloitte LLP*

Chartered Professional Accountants  
Licensed Public Accountants

June 15, 2016

**NATURAL SCIENCES AND ENGINEERING RESEARCH COUNCIL**

**Statement of Financial Position**

**As at March 31**

(thousands of dollars)

	2016	2015
<b>Liabilities</b>		
Accounts payable and accrued liabilities [Note 4]	4,879	5,415
Vacation pay and compensatory leave	2,138	2,121
Employee future benefits [Note 5b]	860	1,133
<b>Total net liabilities</b>	<b>7,877</b>	<b>8,669</b>
<b>Financial assets</b>		
Due from the Consolidated Revenue Fund	2,661	4,011
Accounts receivable [Note 6]	1,406	1,880
Advances	1,300	53
<b>Total net financial assets</b>	<b>5,367</b>	<b>5,944</b>
<b>Net debt</b>	<b>2,510</b>	<b>2,725</b>
<b>Non-financial assets</b>		
Prepaid expenses	136	342
Tangible capital assets [Note 7]	6,588	7,850
<b>Total non-financial assets</b>	<b>6,724</b>	<b>8,192</b>
<b>Net financial position</b>	<b>4,214</b>	<b>5,467</b>

Contingent liabilities [Note 8]

Contractual obligations and commitments [Note 9]

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

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

Patricia Sauvé-McCuan  
Chief Financial Officer

Ottawa, Canada

June 15, 2016

**NATURAL SCIENCES AND ENGINEERING RESEARCH COUNCIL**

**Statement of Operations and Net Financial Position**  
**For the year ended March 31**  
(thousands of dollars)

	<u>2016</u> Planned Results	<u>2016</u>	<u>2015</u>
<b>Expenses</b>			
Discovery	434,026	454,074	417,595
Innovation	374,666	368,713	370,998
People	284,890	272,904	271,670
Internal Services	24,147	24,519	26,055
<b>Total Expenses</b>	<u>1,117,729</u>	<u>1,120,210</u>	<u>1,086,318</u>
<b>Revenues</b>			
Miscellaneous revenues	-	86	51
Revenues earned on behalf of Government	-	(1)	(1)
<b>Total Revenues</b>	<u>-</u>	<u>85</u>	<u>50</u>
<b>Net cost of operations before government funding and transfers</b>	<u>1,117,729</u>	<u>1,120,125</u>	<u>1,086,268</u>
<b>Government funding and transfers</b>			
Net cash provided by Government of Canada		1,113,298	1,081,343
Change in Due from the Consolidated Revenue Fund		(1,350)	1,409
Common services provided without charge by other government departments [Note 10a)]		6,944	6,779
Transfer of the transition payments for implementing salary payments in arrears [Note 11]		(20)	(1,208)
<b>Total Government funding and transfers</b>		<u>1,118,872</u>	<u>1,088,323</u>
<b>Net surplus (cost) of operations after government funding and transfers</b>		(1,253)	2,055
<b>Net financial position - Beginning of year</b>		5,467	3,412
<b>Net financial position - End of year</b>		<u>4,214</u>	<u>5,467</u>

Segmented information [Note 12]

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

**NATURAL SCIENCES AND ENGINEERING RESEARCH COUNCIL**

**Statement of Change in Net Debt  
For the year ended March 31  
(thousands of dollars)**

	2016	2015
<b>Net cost (surplus) of operations after government funding and transfers</b>	1,253	(2,055)
<b>Change due to tangible capital assets</b>		
Acquisition of tangible capital assets [Note 7]	588	2,258
Amortization of tangible capital assets [Note 7]	(1,851)	(536)
Proceeds from disposal of tangible capital assets	1	-
<b>Total change due to tangible capital assets</b>	(1,262)	1,722
<b>Change due to prepaid expenses</b>	(206)	25
<b>Net decrease in net debt</b>	(215)	(308)
<b>Net debt - Beginning of year</b>	2,725	3,033
<b>Net debt - End of year</b>	2,510	2,725

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



**NATURAL SCIENCES AND ENGINEERING RESEARCH COUNCIL**

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

	2016	2015
<b>Operating activities</b>		
Net cost of operations before government funding and transfers	1,120,125	1,086,268
Non-cash items:		
Amortization of tangible capital assets [Note 7]	(1,851)	(536)
Common services provided without charge by other government departments [Note 10a]	(6,944)	(6,779)
Transfer of the transition payments for implementing salary payments in arrears [Note 11]	20	1,208
Variations in Statement of Financial Position:		
Increase (decrease) in accounts payable and accrued liabilities [Note 4]	536	(1,903)
Decrease in vacation pay and compensatory leave	(17)	(19)
Increase in employee future benefits [Note 5]	273	235
Increase (decrease) in accounts receivable [Note 6]	(474)	550
Increase in advances	1,247	36
Increase (decrease) in prepaid expenses	(206)	25
<b>Cash used in operating activities</b>	1,112,709	1,079,085
<b>Capital investing activities</b>		
Acquisition of tangible capital assets [Note 7]	588	2,258
Proceeds from disposal of tangible capital asset [Note 7]	1	
<b>Cash used in capital investing activities</b>	589	2,258
<b>Financing activities</b>	-	-
<b>Net cash provided by Government of Canada</b>	1,113,298	1,081,343

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

# NATURAL SCIENCES AND ENGINEERING RESEARCH COUNCIL

## NOTES TO THE FINANCIAL STATEMENTS

### For the Year Ended March 31

#### 1. Authority and Objectives

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

##### a) Discovery

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

##### b) Innovation

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

##### c) People

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

##### d) Internal Services

NSERC and Social Sciences and Humanities Research Council (SSHRC) share internal services for general administration, human resources, finance, awards administration, information management and technology, program evaluation and audit services. This common

administrative services model has proven highly efficient for the two federal granting agencies. In addition, NSERC has its own corporate services to address the agency's distinct needs in terms of governance, policy, planning, statistics, performance measurement, communications and international relations. Internal Services provide support to the organization as a whole in the form of operations and maintenance funds. They are necessary to support the delivery of programs and other corporate obligations and include activities that apply across the organization, rather than those that support a specific program.

## 2. Summary of Significant Accounting Policies

These financial statements have been prepared using the Government's accounting policies stated below, which are based on Canadian public sector accounting standards.

Significant accounting policies are as follows:

a) Parliamentary authorities

NSERC is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to the agency do not parallel financial reporting according to generally accepted accounting principles since authorities are primarily based on cash flow requirements. Consequently, items recognized in the Statement of Operations and Net Financial Position and in the Statement of Financial Position are not necessarily the same as those provided through authorities from Parliament. Note 3 provides a reconciliation between the bases of reporting. The planned results amounts in the "Expenses" and "Revenues" sections of the Statement of Operations and Net Financial Position are the amounts reported in the Future-oriented Statement of Operations included in the *2015-16 Report on Plans and Priorities*. Planned results are not presented in the "Government funding and transfers" section of the Statement of Operations and Net Financial Position and in the Statement of Change in Net Debt because these amounts were not included in NSERC's *2015-16 Report on Plans and Priorities*.

Liquidity risk is the risk that the NSERC will encounter difficulty in meeting its obligations associated with financial liabilities. NSERC's objective for managing liquidity risk is to manage operations and cash expenditures within the appropriation authorized by Parliament or allotment limits approved by the Treasury Board.

Each year, NSERC presents information on planned expenditures to Parliament through the tabling of Estimates publications. These estimates result in the introduction of supply bills (which, once passed into legislation, become appropriation acts) in accordance with the reporting cycle for government expenditures. NSERC exercises expenditure initiation processes such that unencumbered balances of budget allotments and appropriations are monitored and reported on a regular basis to help ensure sufficient authority remains for the entire period and appropriations are not exceeded.

Consistent with Section 32 of the *Financial Administration Act*, NSERC's policy to manage liquidity risk is that no contract or other arrangement providing for a payment shall be entered

into with respect to any program for which there is an appropriation by Parliament or an item included in estimates presented before the House of Commons to which the payment will be charged unless there is a sufficient unencumbered balance available out of the appropriation or an item to discharge any debt that, under the contract or other arrangement, will be incurred during the fiscal year in which the contract or other arrangement is entered into.

NSERC's risk exposure and its objectives, policies and processes to manage and measure this risk did not change significantly from the prior year.

b) Net cash provided by Government of Canada

NSERC operates within the Consolidated Revenue Fund (CRF), which is administered by the Receiver General for Canada. All cash received by NSERC is deposited to the CRF, and all cash disbursements made by NSERC are paid from the CRF. The net cash provided by Government is the difference between all cash receipts and all cash disbursements, including transactions between other government departments.

c) 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. Due from the CRF represent the net amount of cash that NSERC is entitled to draw from the CRF without further authorities, to discharge its liabilities. This amount is not considered to be a financial instrument.

d) Revenues

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

Included in miscellaneous revenue are revenues that are spendable and non-spendable. Non-spendable revenue are not available to discharge NSERC's liabilities. While the Deputy Heads are expected to maintain accounting control, they have no authority regarding the disposition of non-spendable revenues. As a result, non-spendable revenues are considered to be earned on behalf of the government and are therefore presented as a reduction of the agency's gross revenues.

e) Expenses

Expenses are recorded on an accrual basis.

Grants and scholarships are recognized in the year in which the entitlement of the recipient has been established, when the recipient has met the eligibility criteria, and the commitment has been approved.

Vacation pay and compensatory leave are accrued as the benefits are earned by employees under their respective terms of employment.

Services provided without charge by other government departments for accommodation, and employer contributions to the health and dental insurance plans are recorded as operating expenses at their estimated cost. These amounts are also presented as government funding.

f) Employee future benefits

(i) Pension benefits: Eligible employees participate in the Public Service Pension Plan (the Plan), a multiemployer pension plan administered by the Government. NSERC's contributions to the Plan are charged to expenses in the year incurred and represent NSERC's total obligation to the Plan. NSERC's responsibility with regard to the Plan is limited to its contributions. Actuarial surpluses or deficiencies are recognized in the financial statements of the Government, the Plan's sponsor.

(ii) Severance benefits: 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.

g) Accounts receivable

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.

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

h) Contingent liabilities

Contingent liabilities are potential liabilities that may become actual liabilities when one or more future events occur or fail to occur. To the extent that the future event is likely to occur or fail to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded. If the likelihood is not determinable or an amount cannot be reasonably estimated, the contingency is disclosed in the notes to the financial statements.

i) Tangible capital assets

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

Tangible capital assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An impairment loss is recognized when their carrying value exceeds the total undiscounted cash flows expected for their use and eventual disposition. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its fair value.

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

Assets under construction are recorded in the applicable capital asset class in the year that they become available for use and are not amortized until they become available for use.

j) Related party transactions

Costs of services provided without charge from common service organizations are recorded in the Statement of Operations and Net Financial Position as both government funding and program expenses.

k) Future accounting changes

In March 2015, the Public Sector Accounting Board issued PS 2200- Related party disclosures and PS 3420 – Inter-entity related party transactions. These accounting standards are effective for fiscal years starting on or after April 1, 2017. These standards define how parties are related and identify required disclosures, and also establish criteria on how to account and report transactions between public sector entities. The implementation of these standards is not expected to have a significant impact on the financial statements.

l) Measurement uncertainty

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

### 3. Parliamentary Authorities

NSERC receives its funding through annual parliamentary authorities. Items recognized in the Statement of Financial Position and in the Statement of Operations and Net Financial Position one year may be funded through parliamentary authorities in prior, current or future years. Accordingly, NSERC has a different net cost 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 authorities used**

	<u>2016</u>	<u>2015</u>
	(thousands of dollars)	
Net cost of operations before government funding and transfers	1,120,125	1,086,268
Adjustments for items affecting net cost of operations but not affecting authorities:		
Amortization of tangible capital assets [Note 7]	(1,851)	(536)
Common services provided without charge by other government departments [Note 10a]	(6,944)	(6,779)
Decrease (increase) in vacation pay and compensatory leave	(17)	(19)
Decrease in employee future benefits	273	235
Refunds of prior years' expenditures	<u>3,567</u>	<u>2,786</u>
Total items affecting net cost of operations but not affecting authorities	1,115,153	1,081,955
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisitions of tangible capital assets [Note 7]	588	2,258
Proceeds from disposal of tangible capital asset [Note 7]	1	-
Increase (decrease) in prepaid expenses	(206)	25
Transfer of the transition payments for implementing salary payments in arrears [Note 11]	<u>20</u>	<u>1,208</u>
Total items not affecting net cost of operations but affecting authorities	403	3,491
<b>Current year authorities used</b>	<u>1,115,556</u>	<u>1,085,446</u>

**b) Authorities provided and used**

	<u>2016</u>	<u>2015</u>
	(thousands of dollars)	
Authorities provided:		
Vote 5 - Grants	1,069,269	1,038,500
Less: Lapse	(1,135)	(351)
Frozen allotment	<u>(89)</u>	<u>0</u>
Grants expenditures	1,068,045	1,038,149
Vote 1 – Operating expenditures	45,727	45,768
Less: Operating lapse	(1,235)	(3,087)
Frozen allotment	<u>(2,094)</u>	<u>(361)</u>
Operating expenditures	42,398	42,320
Statutory contributions to employee benefit plans	5,113	4,977
<b>Current year authorities used</b>	<u>1,115,556</u>	<u>1,085,446</u>

#### 4. Accounts payable and accrued liabilities

Accounts payable and accrued liabilities are measured at cost, the majority of which are due within six months of year-end.

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

	2016	2015
	(thousands of dollars)	
Accounts payable - Other government departments and agencies	508	501
Accounts payable - External parties	1,913	2,721
Total accounts payable	2,421	3,222
Accrued liabilities	2,458	2,193
<b>Total accounts payable and accrued liabilities</b>	<b>4,879</b>	<b>5,415</b>

#### 5. Employee future benefits

##### a) Pension benefits

NSERC's employees participate in the 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 per cent 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 are indexed to inflation.

Both the employees and NSERC contribute to the cost of the Plan. Due to the amendment of the *Public Service Superannuation Act* following the implementation of provisions related to Canada's Economic Action Plan 2012 (EAP2012), employee contributors have been divided into two groups – Group 1 relates to existing plan members as of December 31, 2012 and Group 2 relates to members joining the Plan as of January 1, 2013. Each group has a distinct contribution rate.

The 2015-2016 expense amounts to \$3,524,902 (\$3,402,408 in 2014-2015). 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.

##### 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 changes in terms and conditions of employment with certain employee groups, and changes to conditions of employment for executives and certain non-represented employees, 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 the severance benefits, measured as at March 31, is as follows:

	<u>2016</u>	<u>2015</u>
	(thousands of dollars)	
<b>Accrued benefit obligation - Beginning of year</b>	1,133	1,368
Gain for the year	(20)	(34)
Benefits paid during the year	<u>(253)</u>	<u>(201)</u>
<b>Accrued benefit obligation - End of year</b>	<u>860</u>	<u>1,133</u>

## 6. Accounts receivable

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

	<u>2016</u>	<u>2015</u>
	(thousands of dollars)	
Receivables - Other Government Departments and agencies	904	1,352
Receivables - External parties	<u>528</u>	<u>554</u>
Subtotal	1,432	1,906
Allowance for doubtful accounts on receivables from external parties	(26)	(26)
<b>Accounts receivable</b>	<u>1,406</u>	<u>1,880</u>

**7. Tangible capital assets**  
(thousands of dollars)

2015-2016

Capital asset class	Cost			Accumulated amortization			Net book value		
	Opening balance	Acquisitions	Work in Progress Transfers	Closing balance	Opening balance	Amortization	Closing balance	2016	2015
Informatics	5,883	10		5,893	5,476	209	5,685	208	407
Software	6,428	572	6,831	13,831	6,290	1,487	7,777	6,054	138
Other equipment	549			549	287	47	334	215	261
Furniture	4,100	6		4,106	3,938	92	4,030	76	163
Leasehold improvements	3,801			3,801	3,750	16	3,766	35	50
Assets under construction	6,831		(6,831)	-	-	-	-	0	6,831
<b>Total</b>	<b>27,592</b>	<b>588</b>	<b>-</b>	<b>28,180</b>	<b>19,741</b>	<b>1,851</b>	<b>21,592</b>	<b>6,588</b>	<b>7,850</b>

## 8. Contingent liabilities

NSERC, along with two of its employees, were served with a statement of claim for breach of contract and defamation, for a potential total claim 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. NSERC was also served with a related claim by a past NSERC Council member, who is named in the first statement of claim, for indemnification of any damages and related costs which may be awarded in relation to the first claim.

The current estimate of potential financial liability in relation to the contractual portion of the claim is \$200,000. The current estimate of potential financial liability in relation to the defamation portion of the claim is \$50,000. The probability of having an adverse outcome is unlikely and therefore these amounts are not recorded in the financial statements.

## 9. Contractual obligations and commitments

Payments of grants and scholarships extending into future years are subject to the provision of funds by Parliament. As of March 31, 2016, the commitments for future years' awards are payable as follows:

	(thousands of dollars)
2016-17	924,905
2017-18	658,992
2018-19	415,211
2019-20	248,576
2020-21 and subsequent years	132,846
<b>Total</b>	<u>2,380,530</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. Material contractual obligations that can be reasonably estimated are summarized as follows:

	(thousands of dollars)
2016-17	95
2017-18	9
<b>Total</b>	<u>104</u>

## 10. 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 by other government departments as disclosed below.

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

During the year, NSERC received services without charge from certain common service organizations related to accommodations, and the employer's contribution to the health and dental insurance plans. These services provided without charge have been recorded in NSERC's Statement of Operations and Net Financial Position and have been estimated for fiscal year 2015-2016 as being consistent with the previous year, as follows:

	<u>2016</u>	<u>2015</u>
	(thousands of dollars)	
Accommodations	4,126	4,126
Employer's contribution to the health and dental insurance plans	<u>2,818</u>	<u>2,653</u>
<b>Total</b>	<u>6,944</u>	<u>6,779</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 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. During the year, NSERC administered \$19,798,715 (\$20,230,077 in 2014-2015) in funds for grants and scholarships. These expenses are reflected in the financial statements of the departments or agencies that provided the funds and are not recorded in these financial statements.

NSERC also recovers administrative fees in some circumstances where a significant administrative burden is incurred by NSERC for the administration of certain funds on behalf of other government departments and agencies. These amounted to \$428,567 during the year (\$717,797 in 2014-2015) and were netted against NSERC's operating expenses.

## **11. Transfer of the transition payments for implementing salary payments in arrears**

The Government of Canada implemented salary payments in arrears in 2014-15. As a result, a one-time payment was issued to employees and will be recovered from them in the future. The transition to salary payments in arrears forms part of the transformation initiative that replaces the pay system and also streamlines and modernizes the pay processes. This change to the pay system had no impact on the expenses of the Department. However, it did result in the use of additional spending authorities by the Department. Prior to year end, the transition payments for implementing salary payments in arrears were transferred to a central account administered by Public Works and Government Services Canada, who is responsible for the administration of the Government pay system.

## 12. Segmented Information

Presentation by segment is based on NSERC's program alignment architecture. The presentation by segment is based on the same accounting policies as described in the summary of significant accounting policies in Note 2. The following table presents the expenses incurred for the main programs, by major object of expenses. The segment results for the period are as follows:

(thousands of dollars)

	<b>Discovery</b>	<b>Innovation</b>	<b>People</b>	<b>Internal Services</b>	<b>2016 Total</b>	<b>2015 Total</b>
<b>Transfer payments</b>						
Grants & scholarships	444,815	351,369	268,498	-	1,064,683	1,035,746
<b>Operating expenses</b>						
Salaries and employee benefits	7,749	15,442	3,862	13,025	40,078	36,773
Accommodation and rentals	34	59	11	5,304	5,408	4,881
Professional and special services	697	354	120	2,200	3,371	4,370
Transportation and communications	680	1,310	356	689	3,035	3,050
Amortization of tangible capital assets	-	-	-	1,851	1,851	536
Information	29	148	50	687	914	716
Utilities, materials and supplies	68	29	6	642	745	145
Repair and maintenance	2	2	1	121	126	101
<b>Total operating expenses</b>	<b>9,259</b>	<b>17,344</b>	<b>4,406</b>	<b>24,519</b>	<b>55,528</b>	<b>50,572</b>
<b>Total expenses</b>	<b>454,074</b>	<b>368,713</b>	<b>272,904</b>	<b>24,519</b>	<b>1,120,210</b>	<b>1,086,318</b>
<b>Revenues</b>						
Miscellaneous revenues	-	-	-	86	86	51
Revenues earned on behalf of Government	-	-	-	(1)	(1)	(1)
<b>Total revenues</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>85</b>	<b>85</b>	<b>50</b>
<b>Net cost of operations before government funding and transfers</b>	<b>454,074</b>	<b>368,713</b>	<b>272,904</b>	<b>24,434</b>	<b>1,120,125</b>	<b>1,086,268</b>