

**NRC CNRC**

*From **Discovery**  
to **Innovation...***

Science  
— at work for —  
Canada

National Research Council Canada

# **Annual Report**

## **2008-2009**

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National Research  
Council Canada

Conseil national  
de recherches Canada

Canada

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# **FINANCIAL STATEMENT DISCUSSION AND ANALYSIS**

## Introduction

The following Financial Statement Discussion and Analysis (FSD&A) should be read in conjunction with the audited financial statements and accompanying notes for the National Research Council of Canada (NRC) for the fiscal year ended March 31, 2009.

The responsibility for the preparation of the FSD&A rests with the management of NRC. It has been prepared in accordance with the Public Sector Statement of Recommended Practice SORP-1.

The purpose of the FSD&A is to highlight information and provide explanations which enhance the users' understanding of NRC's financial position and results of operations, while demonstrating NRC's accountability for its resources. Additional information on NRC's performance is available in the NRC Departmental Performance Report (DPR) for 2008-09.

The FSD&A consists of two distinct segments: Highlights; and Discussion and Analysis. Please note that all financial information presented herein is denominated in Canadian dollars, unless otherwise indicated.

### Special note regarding forward-looking statements

The words "estimate", "will", "intend", "should", "anticipate", and similar expressions are intended to identify forward-looking statements. These statements reflect assumptions and expectations of NRC, based on its experience and perceptions of trends and current conditions. Although NRC believes the expectations reflected in such forward-looking statements are reasonable, they may prove to be inaccurate, and consequently NRC's actual results could differ materially from expectations set out in this FSD&A. In particular, the risk factors described in the "Risks and Uncertainties" section of this report could cause actual results or events to differ materially from those contemplated in forward-looking statements.

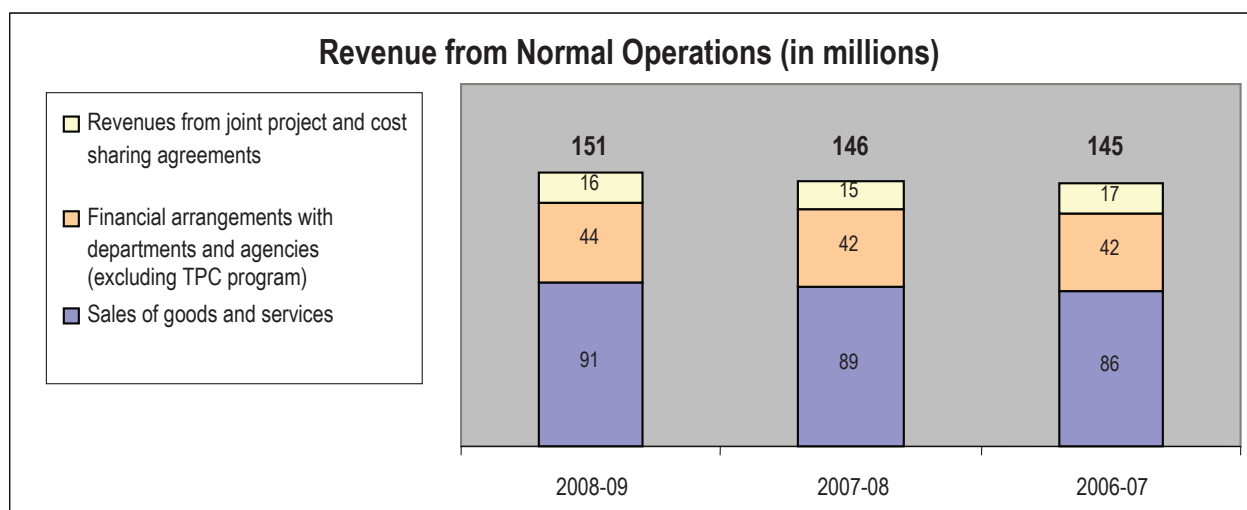
# 2008 -2009 Highlights

## Financial Highlights

### Statement of Operations

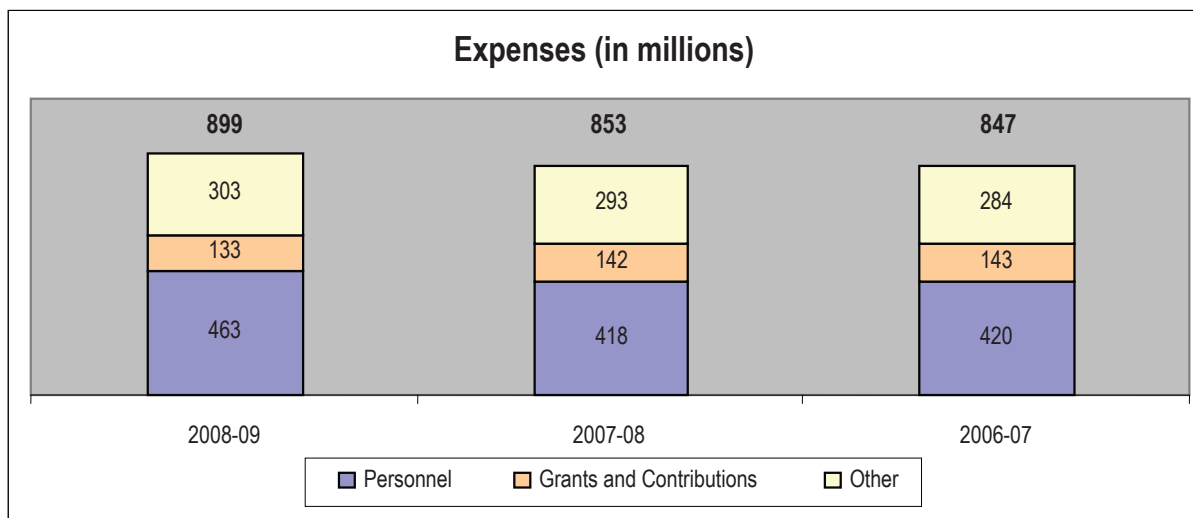
**Revenue:** Revenue is important to NRC, not only as a means of financing its operating and capital expenditures, but also because it provides an indication of the value that NRC provides to its clients and collaborators. NRC earned total revenues of \$156 million in 2008-09, up slightly from \$155 million earned in 2007-08 and down from \$170 million earned in 2006-07. This decrease in revenue since 2006-07 results from a decrease in financial arrangements with other government departments due to the termination of the Technology Partnership Canada (TPC) program in 2006-07, which was administered by NRC on behalf of Industry Canada.

NRC revenues generated from core services have increased steadily since 2006-07, as demonstrated by the diagram below. In 2008-09 revenue from normal operations accounted for \$151 million of the \$156 million earned, representing an overall increase of 4.1% since 2006-07.



Further details on revenues are explained in the Financial Analysis section.

**Expenses:** NRC incurred total expenses of \$899 million in 2008-09, up from \$853 million in 2007-08 and \$847 million in 2006-07. Over the past three fiscal years, NRC's total expenses have not significantly increased when considering the impact of one-time adjustments within personnel and environmental expenses, having risen 6% since 2006-07. Furthermore, NRC's major expense components - personnel and grants and contributions, have remained relatively stable. These two categories of expenses are most important to NRC, from both a research program and cost perspective, representing 66% of total expenses.



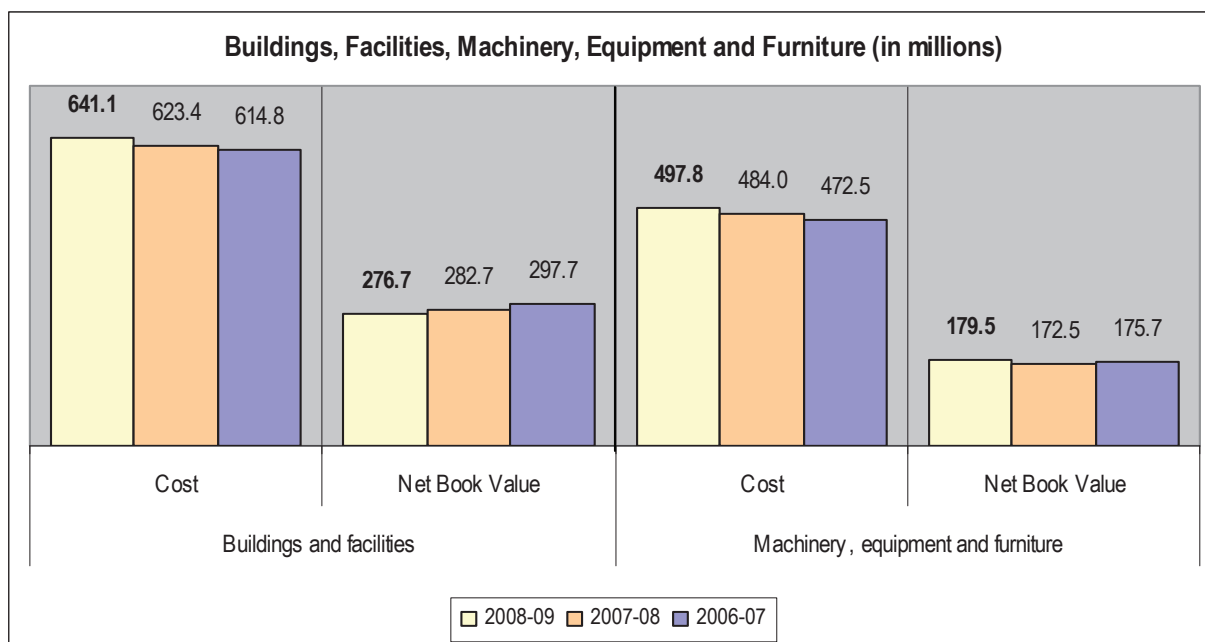
- Personnel:** NRC's total expenses, as detailed in the Notes to the Financial Statements, are made up of 51% in salaries and employee future benefits, which represent NRC's most significant cost driver. Salaries and employee future benefits increased to \$463 million in 2008-09, up from \$418 million in 2007-08, and \$420 million in 2006-07. The increase in 2008-09 mainly results from one-time retroactive pay charges and adjustments to employee benefits due to negotiations of ten (10) collective agreements at year end, two (2) collective agreements signed during the year, increases to the government-wide rate used to estimate future employee benefits, and normal wage increases.
- Grants and Contributions:** NRC made total net grants and contributions of \$133 million in 2008-09, as compared to \$142 million in 2007-08 and \$143 million in 2006-07. This decrease is not related to continuing transfer payment programs, but rather from the recovery phase of the TPC program and one-time contributions to the TRIUMF laboratory in 2007-08 to address facility conformity costs. When excluding this one-time adjustment and the effect of the TPC program on net expenses, NRC grants and contributions would have totalled \$141 million in 2008-09, up slightly from \$140 million in 2007-08 and \$134 million in 2006-07.

Further details on expense variations are explained in the Financial Analysis section.

## Statement of Financial Position

**Assets:** NRC's total assets signify its ability to provide future services for Canadians. NRC's total assets as at March 31, 2009 totalled \$821 million, down from \$851 million and \$859 million as at March 31, 2008 and 2007, respectively. NRC's largest single component is its capital assets, which represents 71% (\$583 million) of the total and accounts for the majority of the decline in NRC's total assets over the past years.

- Capital Assets:** NRC's infrastructure is an important element for the successful delivery of its mandate; as such re-investments in capital assets are crucial. In 2008-09, NRC acquired and/or constructed \$62.6 million in capital assets, up from \$60.9 million in 2007-08 and \$62.1 million in 2006-07 (excluding contributed capital leases). The total amount of annual amortization, transfers, disposals, and write-offs were greater than capital asset acquisitions, consequently producing a decline in the total net book value of capital assets over the past three years. NRC's largest components of capital investments, details provided in the diagram below, are research buildings and facilities as well as machinery, equipment and furniture. Combined, they account for over 83% of the cost (78% of the net book value) of capital investments.



**Net debt:** The government's net debt position is often called its "future income requirements" because this indicator provides a measure of the future income required to pay for past transactions and events. NRC's net debt (*financial assets less liabilities*) as at March 31, 2009 reached \$107 million, up from \$71 million as at March 31, 2008 and \$72 million as at March 31, 2007. The majority of this increase will be funded by parliamentary appropriations to be provided to NRC in 2009-10.

**Equity of Canada:** NRC's equity of Canada as at March 31, 2009 was \$491 million, down from \$541 million as at March 31, 2008 and \$544 million as at March 31, 2007, which illustrates NRC's net resources (financial and non-financial) that will be used to provide invaluable future services for Canadians. NRC's equity of Canada is comprised of its Non-Financial Assets (\$598 million) less its Net Debt (\$107 million). NRC's largest component of Non-Financial Assets is its capital assets (\$583 million).

## Non-Financial Highlights

**NRC Strategy 2006-2011:** In 2008-09, NRC continued implementation of its organizational strategy, *Science at Work for Canada*. The NRC strategy is intended to help advance priorities identified in the national science and technology (S&T) strategy, which was released by the federal government in 2007. Successful implementation of the NRC strategy is expected to yield the following benefits for Canadians:

- a greater flow of technologies into high-impact and emerging sectors of the economy, which is expected to help improve the global competitiveness of Canadian industry;
- NRC making significant contributions to national priorities in health and wellness, sustainable energy and the environment – areas critical to Canada's future; and
- NRC providing national access to integrated R&D and innovation support for industry, in an effort to help strengthen the Canadian innovation system.

Integration of NRC activities internally and collaboration with third-parties are integral to the successful implementation of the NRC strategy. Some noteworthy achievements in the organization's strategy implementation efforts in 2008-09 follow:

**Integrated Programs Focused on Areas Critical to Canada:** In 2008-09, NRC established and began implementation of integrated R&D and industry support programs in the following sectors, which are key to

the Canadian economy: aerospace, automotive, construction, information & communication technologies (ICT), and manufacturing & materials. The underlying aim of NRC program efforts in these key sectors is to help ensure the long-term growth and global competitiveness of Canadian industry. NRC is bringing together scientific and engineering capabilities from across the organization and is working in collaboration with third-parties to address critical needs identified by industry. The NRC role in these sectors includes working with industry to conduct and support R&D, translating research into tangible solutions that can be commercialized by industry, and helping to link small- and medium-sized enterprises (SMEs) in Canada with other national and international sector participants. This latter role of linking SMEs is particularly important as the supply chains of key economic sectors become increasingly integrated globally, while the translation of research into commercial applications has been identified by the government as an important priority for the nation.

### Key Industry Sectors

A brief summary of select NRC initiatives in key sector areas follows:

#### **1. Aerospace**

Identified challenges of Canadian firms include growing global competition and increasing demand for environmentally friendly aerospace technologies and manufacturing processes. To help address these, NRC undertook the following activities in 2008-09:

- collaborating with Canadian aerospace SMEs to improve their product and process development capabilities, thereby improving their global competitiveness;
- building competencies in environmentally sustainable technologies with the aim of developing and transferring green technology solutions to the aerospace industry.

#### **2. Automotive**

A priority of the federal government has been to ensure Canada's automotive sector is positioned for sustainable, long-term success. The development of greener technologies, materials, and processes is seen as being critical to the future of the automotive sector. In support of this priority, NRC identified in 2008-09 opportunities to conduct and support R&D that is expected to yield lighter-weight vehicles (e.g., through the use of light metals, polymer composites, and biomaterials), improve manufacturing processes, and lead to alternative propulsion vehicles (e.g., through fuel cell technologies, biofuels, and electric vehicles). The establishment of a new NRC Centre for Automotive Materials and Manufacturing in London, Ontario is integral to NRC's efforts these areas.

#### **3. Construction**

The Construction sector is a significant source of economic activity and employment, but it also has a significant environmental impact, consuming energy and natural resources, while generating significant quantities of solid waste. The sector is also facing growing productivity challenges in the face of global competition and greater public demand for healthier indoor environments. In 2008-09, NRC began establishing several initiatives to help the sector address these issues, including:

- facilitating the introduction of fuel cells and hydrogen devices into alternative energy systems for buildings, to help reduce environmental impacts;
- sensor arrays linked to decision management tools for indoor health-monitoring in commercial spaces, to meet public demand for healthier building environments; and
- prefabrication, modularization and preassembly, which holds the promise of improved productivity and efficiency.



#### 4. Information & Communication Technologies (ICT)

ICT is a pervasive enabler for many other sectors and has been identified as an important area of focus in the federal S&T strategy. In 2008-09, NRC began implementation of its ICT sector strategy, which involves working collaboratively with industry to create the convergent platform technologies that will ensure global competitiveness for the future. These platform technologies include electronics and photonic materials, devices and systems; communication; knowledge from data; and information/society interface.

#### 5. Manufacturing & Materials

Manufacturing is Canada's largest economic sector and employs more than 2 million people. In Canada, the sector is facing productivity challenges, rising costs (e.g., due to rising energy costs), growing global competition, changing regulatory requirements, and significant demand for greener products. In 2008-09, NRC began putting in place technology platforms designed to help industry cope with these challenges. These platforms include advanced materials, focusing on lighter-weight and more environmentally friendly materials; innovative processes intended to lower fabrication and assembly costs; and decision-aid systems to help meet regulatory and safety needs.

##### Addressing National Priorities

Also in 2008-09, NRC worked in concert with other government departments to establish national programs that will help Canada deliver on its priorities in the areas of sustainable energy and the environment. The National Bioproducts Program, which is co-led by Agriculture and Agri-Food Canada, Natural Resources Canada and NRC, involves a series of multi-disciplinary and multi-party projects. Project areas within the National Bioproducts Program include chemical & ethanol production from forestry/agricultural biomass; environmentally friendly materials intended for use by industry; energy and chemical production from biomass and municipal waste; and biofuels from marine algae.

NRC has also engaged with Natural Resources Canada and the Natural Sciences and Engineering Research Council of Canada to establish a Hydrogen and Fuel Cell National Program in 2008-09. Under this program, two industry-driven and multi-party projects have been established that are expected to have applications in a three to five year timeframe in support of Canadian priorities in sustainable energy and the environment.

*Integrated Business & Client Services:* In 2008-09, NRC undertook important steps to foster improved practices and processes for client relationship management. These included putting in place key client account managers in select areas and initiating the development of training programs to improve staff skills in client and business-related interactions.

*Integrated Communications:* NRC's revamped Web site was initiated internally in 2008-09. This site is expected to help NRC communicate more effectively its major programs and offerings for Canada and Canadian industry. Full public launch of the Web site is expected to take place in 2009-10.

**Governance:** NRC has continued to implement a number of initiatives to improve its corporate governance in keeping with the broad government goal of improved management in the public sector and the NRC strategy.

In 2008-09, NRC Council approved the establishment of the Finance Committee. The Finance Committee joins the Executive Committee of Council and the Human Resources Committee, as the third standing committee under the direction of the NRC Council. The Finance Committee will assume the responsibility for the results of the current year budget reviews including initial budget allocation; the financial situation arising from NRC's multi-year plans; the NRC long-term capital plan; and other matters that may have a significant impact on NRC's financial sustainability.

Early in 2009, upon the joint recommendation from the President of NRC and the Comptroller General of Canada, the Treasury Board Secretariat appointed three external members to NRC's Audit Committee in

accordance with the Treasury Board *Policy on Internal Audit*. The NRC Audit Committee provides the President with independent, objective advice, guidance and assurance on the adequacy of NRC's risk management, control and accountability processes by providing active oversight on core areas of departmental control and accountability. Previously the Audit, Evaluation and Risk Management Committee, which was a sub-committee of Council, provided this oversight function.

Furthermore, the NRC organizational structure was revised in 2008-09 as a means to support the NRC strategy and provide more effective leadership, decision making and accountability. This new organizational structure required the reallocation of various corporate branches to select portfolios in relation to their area of functionality, consequently allowing each portfolio to more efficiently and effectively govern.

NRC has continued to implement an organizational-wide business planning process that serves as a crucial mechanism for making financial and non-financial resource allocation decisions. Three levels of planning are carried out across the organization on an annual basis:

**Level 1 – NRC Business Plan:** The NRC Business Plan outlines the key priorities of NRC Senior Executive for the organization as a whole.

**Level 2 – NRC Program Plans:** In response to the Level 1 NRC Business Plan, NRC Program Plans are developed to detail the organization's specific objectives in its chosen focus areas.

**Level 3 – Institute/Branch/Program (I/B/P) Business Plans:** The Directors General of NRC's R&D institutes, its Technology & Industry Support programs (NRC-IRAP, NRC-CISTI) and its corporate branches, which are collectively referred to as I/B/Ps, develop business plans to identify how they intend to deliver on the objectives of Level 2 NRC Program Plans and contribute to the priorities of NRC as a whole (Level 1 plan). The information contained in all three levels of plans help NRC with its efforts in financial planning and budgeting, long-term capital planning (including real property), human resource planning, and information technology planning.

**Financial Statement Audit of NRC:** In 2008-09, NRC's financial statements were prepared in accordance with Treasury Board accounting policies and year-end instructions issued by the Office of the Comptroller General, which are consistent with Canadian generally accepted accounting principles (GAAP) for the public sector. The financial statements were audited by the Office of the Auditor General. The audit provides added assurance with regards to the accuracy and completeness of NRC's financial information, therefore providing NRC's Council and senior management team with reliable information, from which strategic decisions can be taken.

**Audit of NRC-IRAP contribution recipients:** In 2008-09, the audits completed on a sample of transfer payment recipients provided by NRC-IRAP demonstrated exceptional compliance with the programs terms and conditions. In 2008-09, 95% of the contribution agreements audited received an unqualified or "clean" audit opinion. Current year audit results demonstrate continuing improvement in transfer payment management and build upon significant improvements already achieved in 2007-08, which achieved an unqualified opinion rate of 87%.

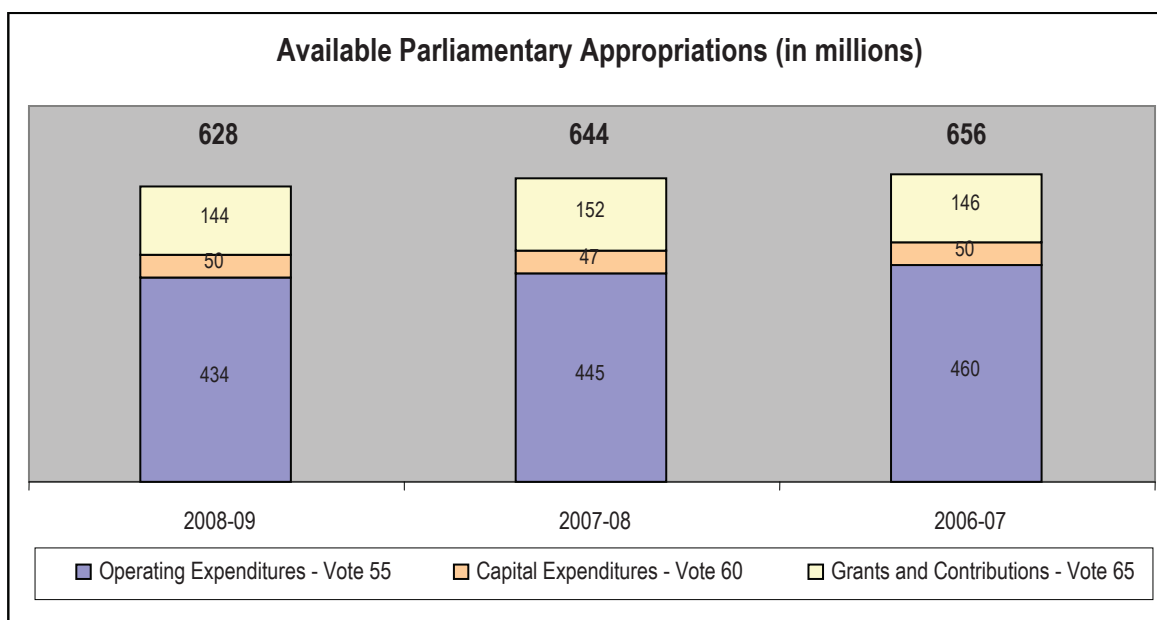
## Discussion and Analysis

### Risks & Uncertainties

As a federal government departmental corporation, NRC funds the majority of its salary, operating and capital expenditures from parliamentary appropriations. The non-salary portion of this funding is fixed, with no indexing for price increases. As a result, the actual funding for NRC, in terms of buying power, has been declining over the past decade.

NRC owns and manages 185 specialized buildings that comprise approximately 560,140 square meters of space. It also has an equipment and informatics base of \$597 million in cost, with \$204 million in net book value (\$585 million in cost, with \$197 million in net book value in 2007-08). NRC's capacity to fund the upgrade or replacement of these assets from its appropriations is limited, and as a result will need to secure sources of funding external to NRC for this purpose.

In addition, since 2004, the federal government has announced a series of budget reductions across federal departments as part of its realignment strategy and initiative to increase its efficiency. The diagram below demonstrates the decline in NRC's available parliamentary appropriations, representing an overall reduction greater than 4% across the preceding three fiscal years. The implications of budget reductions have proven to be challenging. On a short-term basis, NRC adapted to these changes by reducing investments in certain programs. Nevertheless, in order to help NRC position itself to meet these challenges, modifications to the governance structure and planning process have since been implemented, as described in the Non-Financial Highlights section.



However, the 2009 federal budget stimulus package contained positive measures for NRC, providing \$245 million in additional transfer payment funding and \$19 million in capital funding for repairs and maintenance to NRC laboratories over 2009-10 and 2010-11.

Details of other factors influencing NRC's budget pressures are provided below.

**Sunsetting Funding:** In order to ensure value for money, a Government of Canada practice is to provide funding for new initiatives on a sunseting basis. This means that rather than providing a permanent increase in the NRC allotment, the government allocates funding for a limited period of time, with the option for renewal. Renewal is conditional on performance, linkages to priorities and availability of funding.

Although funding is not necessarily provided on an ongoing basis, new government-approved initiatives, such as the establishment of technology cluster sites in communities across Canada, often entail an ongoing commitment from NRC in terms of the construction and maintenance of new specialized facilities and the hiring of staff. There is also an expectation by the communities that support these new initiatives, and in some cases invest in them, that they will exist beyond the particular funding window. These challenges add complexity to the organization's planning, budgeting and operations.

Currently, NRC has several initiatives and projects funded on a sunseting basis. Examples include the following:

- Technology Cluster Initiatives funding: Since its inception in 2000-01, NRC has received approval to spend a total of \$554.2 million in technology cluster initiatives funding. As at March 31, 2009 NRC has spent \$485.7 million (or 88% of approved funding). The funding for all of NRC's technology cluster initiatives terminates in fiscal year 2009-10, at which point NRC must request additional support from the federal government. NRC's technology cluster initiatives play a key role in activities that support the integration of players in Canada's innovation system. They nurture the growth of local scientific and innovative capability that drives dynamic and competitive industries; and also help to address challenges inherent in the current Canadian industrial structure (predominance of SMEs).
- Astronomy funding: The funding allocated to Phase I of Canada's Long-Range Plan for Astronomy and Astrophysics (LRP) ended on March 31, 2008. Since that time, NRC has provided financing from internal sources by temporarily reallocating funds from other research programs to alleviate some of the immediate funding pressures in astronomy. It is anticipated that the future investment implications for Canada's participation in the astronomy LRP Thirty Meter Telescope (TMT) and other projects of the LRP are \$200 million for the period of 2009-10 to 2013-14 and \$190 million for the period of 2014-15 to 2018-19. Canada is currently a world leader in astronomy and astrophysics. The field is a Canadian S&T success story in terms of both scientific and economic returns for dollars invested. While Canada's researchers seek to understand the structure and origins of the universe, NRC has worked to ensure that Canadian industry also benefits. Widespread applications of astronomy-developed technology, such as optical sensors, positioning systems and data management software pervade sectors from security and health care to cameras and computing.
- TRIUMF: The contribution agreement with TRIUMF, Canada's National Laboratory for Particle and Nuclear Physics, ends in 2009-10. Since the inception of NRC's involvement in 1976, NRC has provided over \$900 million in funding to TRIUMF, with \$44 million remaining in 2009-10. NRC is currently preparing a Memorandum to Cabinet in order to renew the terms and conditions of the federal government's contributions to TRIUMF.
- Genomics R&D Initiatives funding: In 2008-09, NRC received approval to renew the Genomics R&D Initiatives (GRDI), which included NRC as well as 5 other federal government departments. Total funding approved, across all government departments, amounts to \$19.9 million per fiscal year, until 2010-11. NRC's portion of the \$59.7 million (\$19.9 million per year) is \$18 million (\$6 million per year). GRDI is a federal program that coordinates genomics R&D in 6 federal departments and agencies to support their mandates, public policy objectives and key national interest in human health, agriculture and food safety, environment and natural resources management.

**Strategic Review:** The Government of Canada strategic review process involves a systematic review of all direct program spending and operating costs in a number of departments and agencies, including NRC, to ensure costs are incurred to achieve core government priorities. As a result of the strategic review, NRC has more closely aligned its programs with the objects of the Government's science and technology strategy as well as national priorities. In the course of this review process, NRC has considered alternative service delivery models to better position its role in supporting innovation in Canada and to adapt to the rapidly evolving science and technology environment.

Consequently, as part of the implementation of NRC's strategic review, NRC's Canada Institute for Scientific and Technical Information (NRC-CISTI) is exploring opportunities from transformation that focuses on alternative service delivery models. The transformation plan is in development for completion and implementation by 2010-11. The plan will build upon NRC-CISTI's performance strengths and strategies to improve efficiencies and continue to provide relevant and effective services to its clients.

**Foreign Currency:** NRC purchases over \$55 million per year in goods and services in currencies other than the Canadian dollar, which exposes NRC to fluctuations in foreign exchange. The majority of foreign purchases (90% on average over the last six years and 93% over the last two years) are transacted in US

dollars. Due to the strengthening of the US dollar, NRC's purchasing power has declined by approximately \$4.3 million US when compared to 2007-08 levels.

The 2008-09 loss in purchasing power was largely negated by the increase in Canadian dollars received from foreign sales. The increase in US sales in 2008-09, provided NRC with a natural hedge of approximately 88%, consequently reducing the impact caused by the rise in value of the US dollar.

**Dependence on Revenue:** The nature of NRC's activities permits NRC to generate revenues in order to reinvest in its operations. NRC's dependence on external sources of funding has been growing since the early 1990s. The portion of NRC's operating and capital expenditures funded from external sources of income was roughly 11% in 1991-92. In 2008-09, this percentage had climbed to over 22%, consistent with the average over the past three fiscal years.

In particular, NRC maintains technology centres that rely on external sources of revenue to fund the majority of their operations, namely NRC's Centre for Surface Transportation (NRC-CSTT) and NRC's Canadian Hydraulics Centre (NRC-CHC). In addition, NRC's two largest institutes – NRC's Institute for Aerospace Research (NRC-IAR) and NRC-CISTI – rely on external sources of revenue to fund over 52% (45% in 2007-08) and 33% (35% in 2007-08) of their operations, respectively. Significant downturns in the industries or federal departments that these groups support will greatly impact NRC's ability to continue operations at current levels.

Finally, it is important to note that NRC must strike a fine balance between providing contract research services that generate needed revenue and performing the government-funded research that keeps NRC at the leading-edge of science, technology and innovation. Too much emphasis on revenue generating contract research could compromise NRC's advanced knowledge and technology base, which in the long-term will reduce NRC's ability to serve industry and respond to the needs of the nation in critical fields such as energy, the environment, health and wellness, and other priority areas outlined in the NRC strategy. Furthermore, too much focus on research may compromise NRC's ability to reinvest in itself.

## Financial Analysis

The following is an analysis that explains the meaning of certain financial statement items, significant variances, and financial trends.

### Assets

**Due from Consolidated Revenue Fund (CRF):** This line item represents the amount of cash that NRC is entitled to draw from the federal government treasury. This includes cash to discharge its liabilities for which NRC has already received an appropriation, as well as revenue received but not spent. NRC's due from CRF is \$189.3 million as at March 31, 2009, down from \$204.8 million as at March 31, 2008. The \$15.5 million decrease results from a \$19.3 million decrease in accounts payable, funded by 2008-09 appropriations, offset by \$3.5 million increase in revenue available for use in subsequent years.

### Accounts Receivable:

#### *NRC-IRAP TPC Repayable Contributions*

The NRC-IRAP Technology Partnerships Canada (TPC) program has been administered by NRC on behalf of Industry Canada since 1998. This program provides conditionally repayable contributions to small and medium-sized enterprises (SMEs) to support the pre-commercialization phase of their technology development. This conditional repayment program in most cases requires quarterly repayments of the contribution based on a percentage of the recipient's gross revenue. This program terminated on March 31, 2006, however has continued to fund existing agreements during its wind-down phase.



The NRC-IRAP TPC program supports small start-up firms, whose future success is often entirely dependent on one technology. Failure to bring the technology to market, at times, can result in the firm ceasing operations. Even with the very high-risk nature of this program, NRC has received repayments amounting to approximately 29% of contributions disbursed as at March 31, 2009 (25% as at March 31, 2008). With 239 (280 as at March 31, 2008) projects still being administered, this percentage is expected to increase over the next decade.

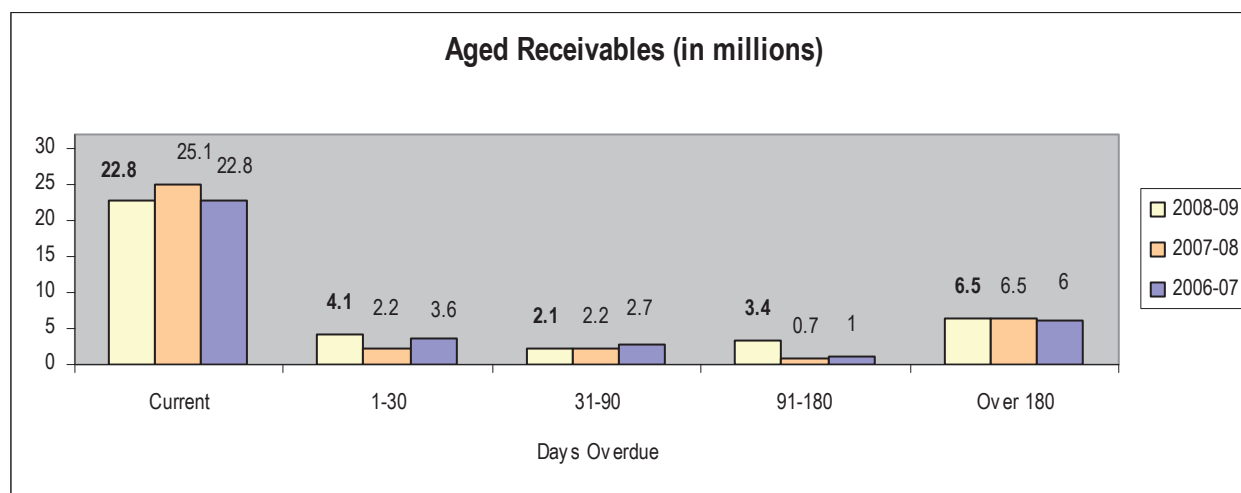
The NRC-IRAP TPC accounts receivable as at March 31, 2009 was \$13.4 million (\$9.9 million - 2008) with a corresponding allowance for doubtful accounts of \$11.6 million (\$8.3 million - 2008), highlighting the high-risk nature of the program.

#### *Receivables from external parties*

NRC had accounts receivable with external clients worth \$21.7 million as at March 31, 2009 (\$20.9 million - 2008) with a corresponding allowance for doubtful accounts equal to \$804 thousand (\$1.1 million - 2008). Write-offs in 2008-09 were \$755 thousand (\$938 thousand in 2007-08), which is low given the total value of NRC's revenues.

#### *Aged Accounts Receivable*

In 2008-09, 74% (80% in 2007-08 and 2006-07) of accounts receivable are aged 90 days or below. NRC has successfully focused on collecting its outstanding receivables over the past years, with NRC-IRAP TPC accounting for the large majority of receivables over 90 days. The aging of all accounts receivable, gross of allowances, as at March 31 is as follows:



**Equity Investments:** As part of its mandate to promote industrial innovation in Canada, NRC provides financial assistance to firms through access to equipment, intellectual property and incubation space in its laboratories and Industrial Partnership Facilities. Since these companies are often in their infancy and cannot afford to pay the full cost of the assistance received, NRC, on occasion, takes an equity position in the company in return for the assistance provided. This helps the firms survive the critical technology development stage. It is not management's intention to hold equity investments over the long-term. NRC will consider timely opportunities for divestiture of equity investments by taking into account the interests, market liquidity and expected future growth of the company.

The full value recorded on the statement of financial position reflects NRC's investment in publicly traded companies as its shares in privately held corporations are deemed to have no market value. Details of NRC's investment in public companies are as follows:

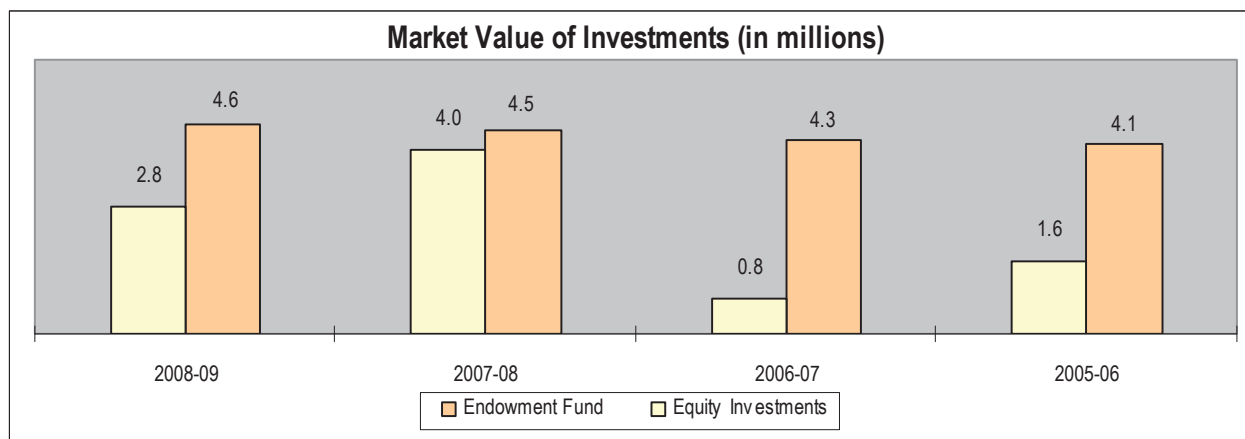
Company Name	Number of Shares (in 000's)	Amount Recorded in Financial Statements (in 000's)	Market Value as at March 31, 2009 (in 000's)
PharmaGap Inc.	1,305	393	209
Chemaphor Inc.	1,260	252	189
Luxell Technologies Inc.	241	14	2
Pure Energy Visions Corp.	210	- <sup>(1)</sup>	21
Omnitech Consultant Group Inc.	866	- <sup>(1)</sup>	-
Imris Inc.	796	- <sup>(1)</sup>	2,387
Sabretooth Energy Inc.	4	- <sup>(1)</sup>	1
<b>Total</b>	<b>4,682</b>	<b>\$ 659</b>	<b>\$ 2,809</b>

(1) – recorded at nominal value (one dollar)

NRC's equity investments, presented on the Statement of Financial Position at \$659 thousand, reached a fair market value of \$2.8 million as at March 31, 2009, which represents a decrease of \$1.2 million from the previous fiscal year. The decrease can be attributed to IMRIS Inc., which had a decrease in stock value by \$1.1 million since March 31, 2008.

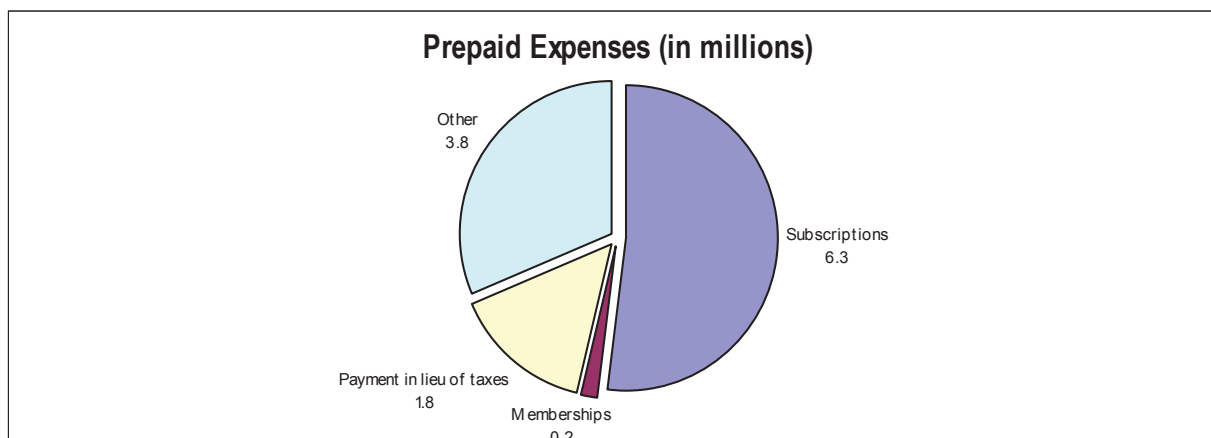
**Endowment Fund Investments:** The Holmes Endowment Fund is an investment bequeathed to NRC in July 1994. Up to two-thirds of the endowment fund's yearly net income is used to finance the H.L. Holmes award on an annual basis. The award covers a one- or two-year period and provides the opportunity to Canadian post-doctoral students to study at world famous graduate schools or research institutes under outstanding researchers. In 2008-09, NRC granted \$99 thousand to the recipient of the 2007 NRC H.L. Holmes Award. The recipient is using the total award of \$198 thousand to fund two years of collaborative research at the Harvard Medical School, ending in July 2009.

The endowment fund reached a fair market value of \$4.6 million as at March 31, 2009 (\$4.5 million as at March 31, 2008). The investments within the portfolio had an average effective return of 4.5%. The endowment fund is presented at an amortized cost of \$4.4 million (\$4.3 million as at March 31, 2008) on the Statement of Financial Position and not at fair value.



**Prepaid Expenses:** NRC's prepaid expenses as at March 31, 2009 are \$12.1 million (\$13.6 million as at March 31, 2008). The decrease of \$1.5 million is attributable to a significant reduction in scientific journal subscriptions, which reduced its prepaid expenses from \$8.4 million to \$ 6.3 million. Subscriptions form the

primary component of NRC's prepaid expenses. NRC's Canada Institute for Scientific and Technical Information (NRC-CISTI), Canada's science library, subscribes to many of the world's major scientific and technical journals and databases.



**Capital Assets:** NRC's capital asset net book value has decreased from \$596 million in 2007-08 to \$583 million in 2008-09. This \$13 million dollar decrease occurred given that NRC's amortization for the year of \$69.4 million, in addition to \$5.7 million in capital asset net book value that was transferred, disposed or written-off, exceeded acquisitions of \$62.6 million. The most significant component of capital assets transferred, disposed or written-off occurred with NRC's re-evaluation of a contributed capital lease. Consequently, \$4.1 million of the \$5.7 million has had no impact on NRC's Statement of Operations due to a corresponding \$4.1 million reduction in deferred revenue for contributions related to leased capital assets.

#### *Acquisitions*

NRC spent \$62.6 million on capital expenditures during 2008-09, a slight increase from the \$60.9 million spent in 2007-08. Of the \$62.6 million in capital asset additions, \$30 million or 48% relate to purchases of machinery and equipment. The remaining balance is primarily made up of assets under construction (\$17.9 million or 29%) as well as investments in NRC buildings and facilities (\$7.9 million or 13%).

The following represents significant capital assets expenditures in 2008-09:

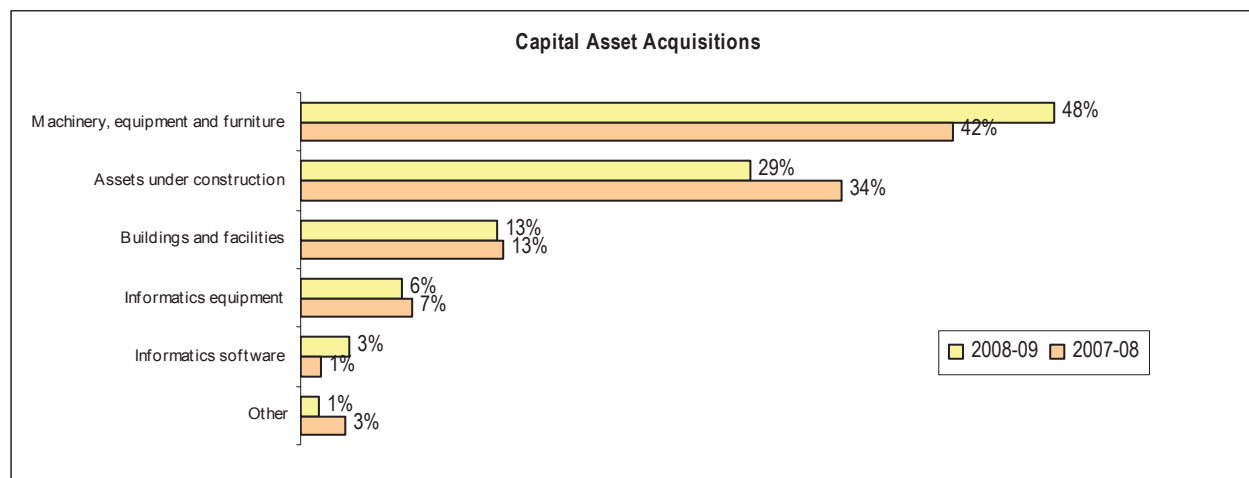
- The completion of the energy retrofit project for NRC's Institute for Chemical Process and Environmental Technology (NRC-ICPET). NRC spent \$4 million on this project over 2007-08 and 2008-09, of which \$1.4 was expended in 2008-09. The energy retrofit project will improve the operating efficiency and effectiveness of the building, therefore transferring the current investment into future cost savings for NRC.
- NRC-ICPET initiated a project to construct a \$3.4 million dollar High Resolution Transmission Electron Microscope. To date, NRC-ICPET has spent \$2 million for the acquisition and construction of the microscope which, once complete, will be unique worldwide, therefore continuing NRC's ability to provide leading edge research, technology and innovation.
- NRC's Institute for Research Construction (NRC-IRC) finalized the construction of a new facility in 2008-09 used primarily to support activities within the Indoor Air Research and Development Initiative, which is part of the Clean Air Agenda. Costs incurred up to March 31, 2009 for the construction of this facility amounts to over \$1.9 million, of which \$861 thousand was spent in 2008-09.
- NRC's oldest property located on Sussex Drive in Ottawa, Ontario continued to receive multiple renovation projects in 2008-09. In total, \$1.3 million in funding was applied to restore the property in 2008-09. Of this amount, \$798 thousand was used to fund a renovation to laboratory space used by NRC's Steacie Institute for Molecular Sciences (NRC-SIMS) in order to provide seismic stability and appropriate atmospheric temperature, humidity and pressure required for the \$1.4 million dollar laser



system acquired in 2008-09. The Coherent Legend-Cryo laser system represents the backbone of a new capability at NRC for studying ultra-fast electronic processes in molecules.

- NRC's Institute for Microstructural Sciences (NRC-IMS) spent \$1.8 million to construct an instrument used to audit, commission and support automated projection lithography, which is the core to fabricating semiconductor wafers for photonic applications.
- NRC's Institute for Marine Biosciences (NRC-IMB) acquired a High-Field High-Resolution Magnetic Resonance Spectrometer at a cost of \$1.4 million. The spectrometer will be utilized for a multitude of projects and research sectors, such as Marine Biosciences in addition to Health and Wellness.

The following diagram depicts NRC's distribution of capital asset acquisitions over the preceding two fiscal years.



## Liabilities

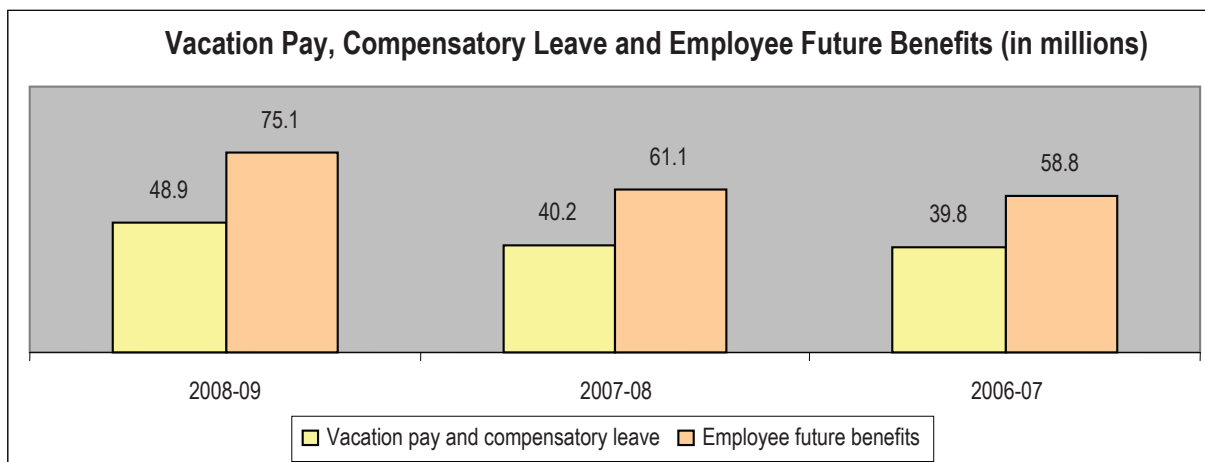
**Accounts Payable and Accrued Liabilities:** NRC's accounts payable and accrued liabilities as at March 31, 2009 are \$124.6 million (\$127.8 million as at March 31, 2008). The decrease of \$3.2 million is mainly due to a significant decrease of \$18.6 million dollars in payables to suppliers and contribution recipients, a \$940 thousand dollar decrease in contractor holdbacks, offset by a \$17.1 million dollar increase in accrued salaries and wages.

The \$18.6 million dollar decrease in payables to suppliers and contribution recipients is primarily due to a considerable decrease in outstanding transfer payments administered by NRC-IRAP, which funds approximately \$87 million per year in transfer payments to outside organisations. The decrease of \$940 thousand dollars in contractor holdbacks is due to a reduction in the amount of large construction projects in progress.

NRC's accrued salary, which represents salary earned by personnel as at March 31, 2009 for which they have not received payment, increased by \$17.1 million in comparison with the previous year. A retroactive salary adjustment of \$13.7 million was recorded subsequent to the negotiations of the following collective agreements: Research Officers and Research Council Officers (RO/RCO), Librarian (LS), Translator (TR), Information Services (IS), Technical Category (TO), Operational Category (OP, Purchasing and Supply (PG), Administrative Support Group (AD), Administrative Services (AS), and Computer Systems Administration (CS). The remaining difference is explained by the number of earned pay days within the normal pay period at March 31, 2009 and by an allowance recorded for termination benefits following the strategic review exercise.

**Vacation Pay and Compensatory Leave:** Vacation pay and compensatory leave have steadily increased over the past years due to the natural rise in employment wages. The increase from \$40.2 million as at

March 31, 2008 to \$48.9 million as at March 31, 2009 also results from vacation allowance adjustments following collective agreement negotiations during the fiscal year.



**Employee Future Benefits:** Employee future benefits have also steadily increased over the years, however have increased sharply by \$14 million in 2008-09 over 2007-08. The allowance for employee future benefits is established at year end from the total annual salary cost of NRC's indeterminate employees. Consequently, the steady increase results from the natural rise in employment wages applicable to NRC's continuing workforce. In addition, an increase in the allowance rate used to estimate employee future benefits across all government departments and agencies increased by 3.7% in 2008-09, therefore accounting for \$9.6 million of the increase over 2007-08.

#### **Deferred Revenue:**

##### *Contributions Related to Leased Capital Assets*

Deferred revenue is recognized for contributions related to leased capital assets. When new capital leases are recognized, NRC will establish a non-financial capital asset as well as corresponding deferred revenue equal to the value of the capital lease. Over time and as the asset is used, NRC recognizes equal amounts of amortization and revenue (lease inducement revenue). As a result, no impact occurs on NRC's net cost of operations or its Equity of Canada.

The contributions related to leased capital assets is associated with leases of facilities for \$1 per year with the University of Alberta to accommodate NRC's National Institute for Nanotechnology (NRC-NINT), the University of Prince Edward Island to accommodate NRC-IMB, and the University of Western Ontario to accommodate NRC's Industrial Materials Institute (NRC-IMI) and NRC-IRC. As at March 31, 2009 this balance was \$53.1 million (\$59.8 million as at March 31, 2008). The balance decreased by \$6.7 million in the current year, as a result of a \$4.1 million dollar write-down on the valuation of the related contributed capital, and \$2.6 million dollars in revenue which was recognized in accordance with the useful life of the related asset.

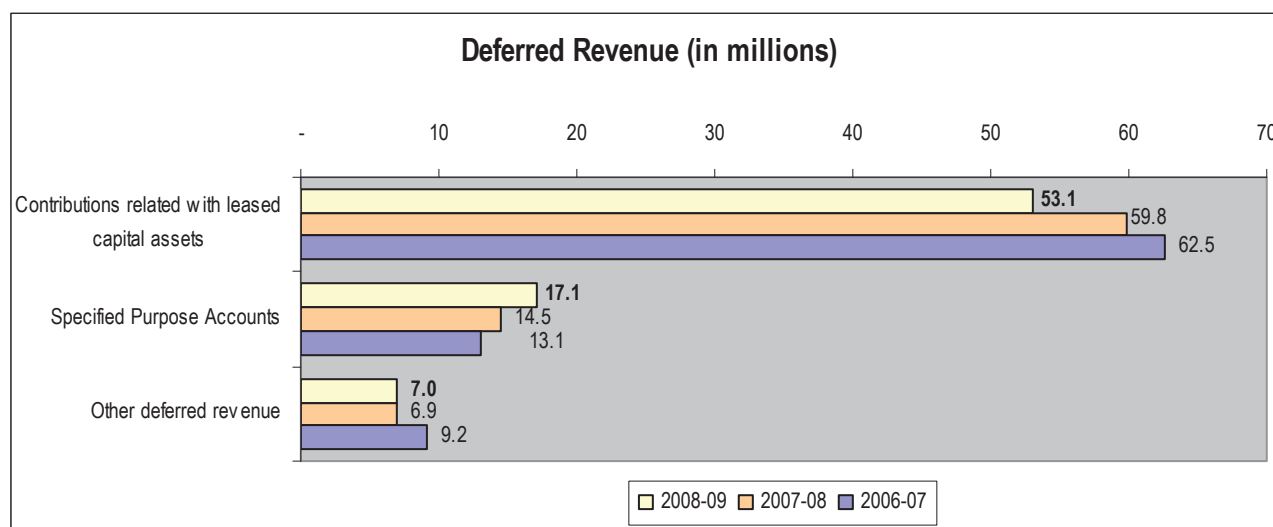
##### *Specified Purpose Accounts*

NRC undertakes collaborative work with clients for the mutual benefit of both parties. Funding provided by the collaborator is placed in a Specified Purpose Account (SPA) and used over the duration of the project. Amounts remaining in the SPA at year-end are recorded as deferred revenue as it is expected that it will be used in the coming years on the project. At the end of 2008-09, this amount totalled \$17.1 million (\$14.5 million as at March 31, 2008), representing an increase of 18% over the previous year. The principal cause of this increase is due to a sizeable research collaboration, in the amount of \$1.6 million received in 2008-09 by NRC-NINT.

### Other

Other deferred revenue consists primarily of research press deferred revenue, as well as conference and seminar registration deferred revenue. NRC had other deferred revenues of \$7 million as at March 31, 2009 (\$6.9 million as at March 31, 2008).

- **Research Press:** NRC-CISTI publishes research journals that are available for purchase on a subscription basis. When NRC receives payment for the subscription, it records the amount as deferred revenue and then recognizes the revenue each month as the journal is issued.
- **Conference and Seminar Registration:** NRC conducts many conferences and seminars which often require registration many months in advance of the conference date. Receipts from registration are recorded as deferred and recognized when the conference takes place.

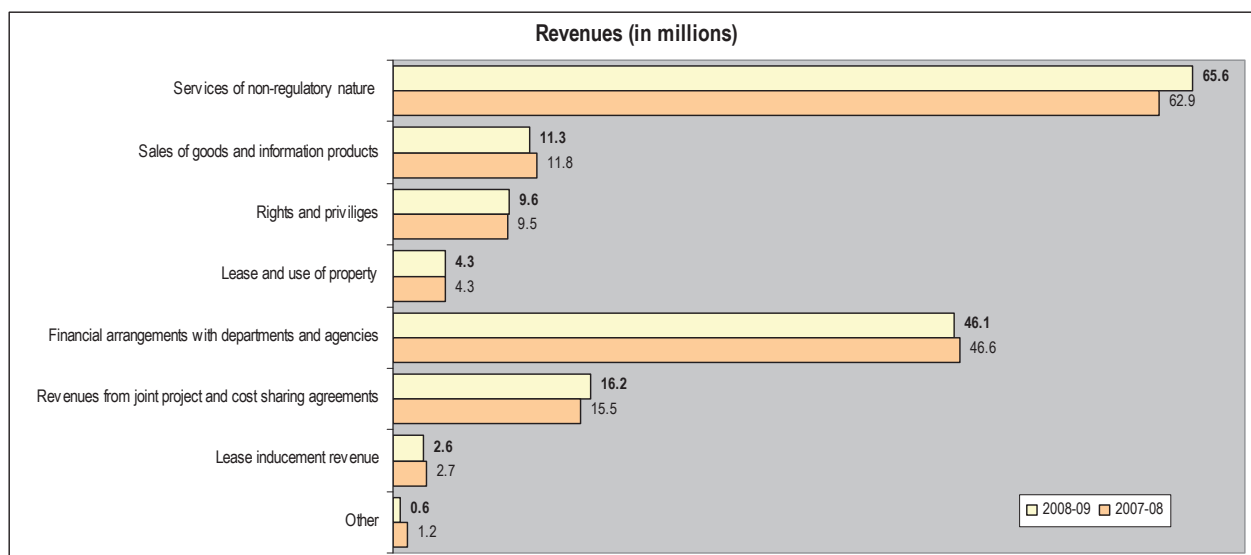


**Environmental liability:** NRC's environmental liability has increased from \$100 thousand to \$4.2 million in 2008-09. In 2008-09, NRC recognized an estimated contingent liability of \$4.1 million for decontamination and restoration costs of an NRC research site.

Furthermore, in 2008-09 NRC completed a historical review for all research sites occupied by NRC in order to determine the risk of contamination. This preliminary planning phase is critical to ensure that NRC directs further attention and resources on research sites which demonstrate the largest potential for contamination.

### Revenues

NRC's revenues were \$156 million in 2008-09, compared to \$155 million in 2007-08. Recent trends in revenue components are shown in the following graph. Despite the fact that NRC's total revenue remained consistent in 2008-09 when compared to the previous year, NRC's revenue from normal operations in fact increased by \$5 million as discussed in the "Highlights" section.



**Services of a Non-Regulatory Nature:** In 2008-09, 42% or \$65.6 million (40% or \$62.9 million in 2007-08) of NRC revenues were generated from services of a non-regulatory nature, which primarily consists of research services provided directly to industry and academic clients. The increase of \$2.7 million is largely attributable to NRC-IAR which received an increase in demand for research services within the fields of simulator model development and flight data, and NRC's Administrative Services and Property Management Branch (NRC-ASPM) which generated additional revenues as a result of its role in the management and production of large multinational scientific conferences held in 2008-09.

**Sales of Goods and Information Products:** As part of its goal to disseminate scientific and technical information of importance to industry, NRC has publications and certified reference materials that it sells to clients. Total sales of goods and information products totalled \$11.3 million in 2008-09, as compared to \$11.8 million in 2007-08. The largest component of revenue derived from sales of goods and information products was due to research press journals sold through Canada's scientific library. Research press income earned in 2008-09 was \$4.7 million, compared to \$6.5 million in 2007-08. This \$1.8 million dollar decrease was offset by an increase of \$1.3 million in sales of other goods and information products, such as National Construction Codes distributed by NRC-IRC, which had an increase over \$550 thousand in 2008-09 due to its implementation of new innovative Construction Code products.

**Rights and Privileges:** Royalty revenue is earned from companies that license the rights to use NRC technology. Royalties are typically based on a percentage of the licensee's sales. In 2008-09, NRC generated \$9.6 million in royalties, up slightly from \$9.5 million in 2007-08 and up significantly from \$6.7 million in 2006-07. The stabilization of royalty revenues in 2008-09 and 2007-08 is primarily associated with NRC's Institute for Biological Sciences (NRC-IBS) which has earned yearly revenues of over \$5 million in the past two fiscal years, from which its largest royalties are earned through its licence for the Meningitis C vaccine.

**Lease and Use of Property:** Facilitating access to NRC researchers and facilities is an important part of technology transfer at NRC. To this end, NRC provides laboratory space to companies on a commercial basis, often as part of a collaboration or technology transfer agreement. Revenue from lease and use of property amounted to \$4.3 million in 2008-09, as well as 2007-08. This consistency demonstrates NRC's ability to continuously attract external stakeholders for access to NRC facilities, laboratories and research equipment.

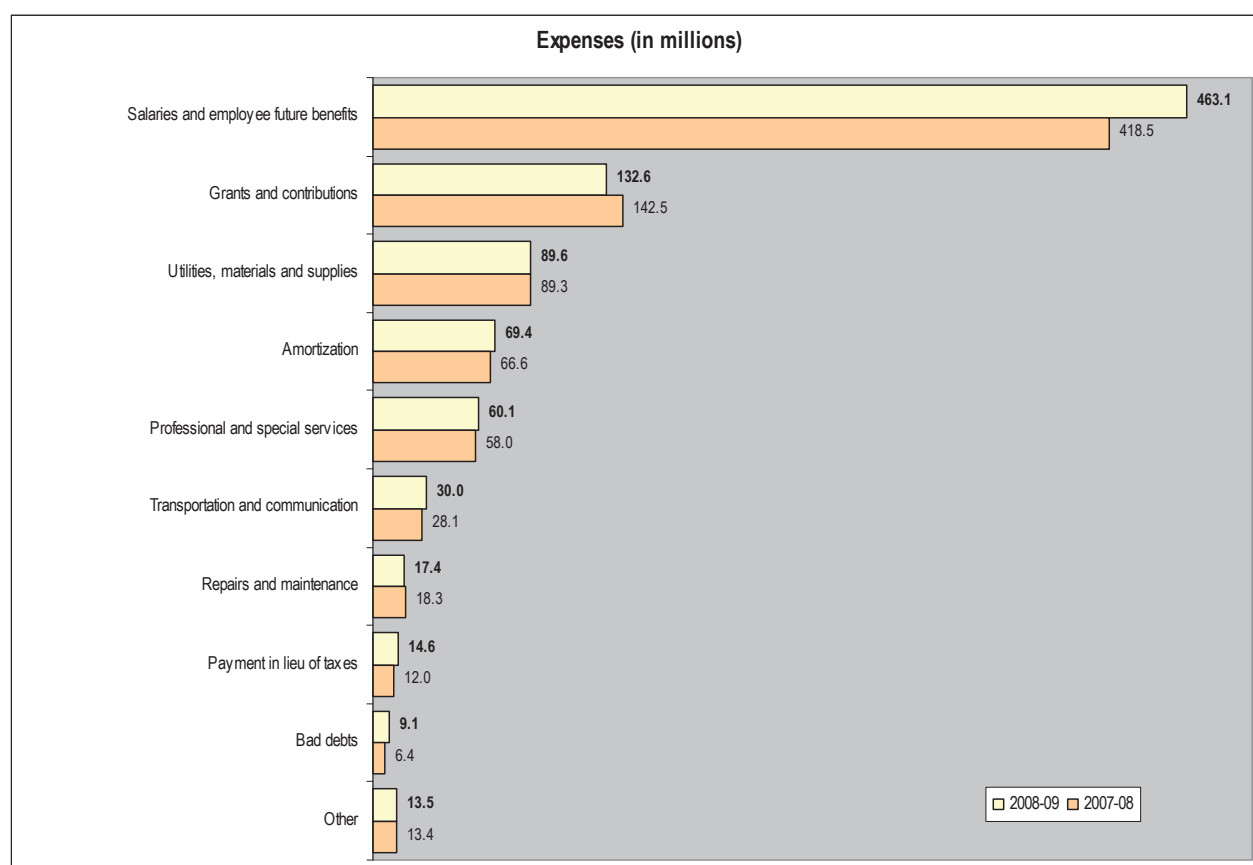
**Financial Arrangements with Other Departments and Agencies:** NRC undertakes research on behalf of other federal government departments. The incremental costs associated with this work are reimbursed to NRC. In 2008-09, the amount of work undertaken for other government departments was significant,

totalling \$46.1 million (\$46.6 million in 2007-08). Excluding the effect of the NRC-IRAP TPC program with Industry Canada, which declined by \$2.5 million, financial arrangements with other departments and agencies would have actually increased by \$2 million in 2008-09.

**Revenues from Joint Project and Cost Sharing Agreements:** NRC also receives income through collaborative research projects that involve cost sharing arrangements for work that is likely to lead to new expertise or technology. In 2008-09, collaborative funding across all sectors at NRC earned a total of \$16.2 million (\$15.5 million in 2007-08). Revenue from joint research projects are not recognized until expenses are incurred or until the project is complete. As such, revenue can fluctuate slightly depending on the number of on-going projects at year end.

## Expenses

As noted in the Highlights section, NRC's expenses increased from \$853 million in 2007-08 to \$899 million in 2008-09, made up of 51% (49% in 2007-08) in salaries and employee benefits.



**Salaries and Employee Future Benefits:** Salaries and employee future benefits have increased by \$44.6 million in 2008-09, from \$418.5 million in 2007-08 to \$463.1 million in 2008-09. A main cause of this increase is the negotiation of ten (10) collective agreements at year end, and two (2) during the fiscal year, which resulted in significant one time adjustments. NRC has recognized over \$19 million dollars of one-time expenses in 2008-09 to recognize retroactive pay increments earned and adjustments to employment benefits. In addition, the increase in the allowance for employee future benefits was responsible for \$14 million dollars. The remaining balance is represented by general pay increments received by employees in the year and the implementation of the Research Associate (RA) program in 2007-08. The RA program which incurred \$10.4 million in 2008-09, compared to \$7 million in 2007-08 replaced the previous Postdoctoral Fellowship program.

**Grants and Contributions:** Grants and contributions decreased by \$9.9 million in 2008-09, from \$142.5 million in 2007-08 to \$132.6 million in 2008-09. As mentioned in the "Highlights" section, this decrease is not attributable to continuing transfer payment programs, however mainly results from the NRC-IRAP TPC program and one-time contributions to the TRIUMF laboratory in 2007-08. Net contributions from NRC-IRAP of \$77.3 million (\$80.6 million in 2007-08) and contributions to the TRIUMF laboratory for particle and nuclear physics of \$43.5 million (\$51.5 million in 2007-08) comprise 91% (93% in 2007-08) of the contributions made by NRC in the current fiscal year. In addition, contributions made through NRC Herzberg Institute of Astronomy (NRC-HIA) to support international telescopes of \$10.5 million (\$9.2 million in 2007-08) make up the majority of the remaining balance.

**Professional and Special Services:** Professional and special services increased by \$2.1 million in 2008-09, from \$58 million in 2007-08 to \$60.1 million in 2008-09. This 3.6% increase results from multiple small increments over various types of professional and special services received. Significant transactions occurring in 2008-09 within professional and special services include the recognition of an environmental liability in the amount of \$4.1 million, and a \$4.6 million decrease due to the termination of the NRC Postdoctoral Fellowship (PDF) program in 2007-08. The PDF program has been replaced with the aforementioned RA program, which is classified under salary and employee benefit cost.

**Transportation and Communication:** Transportation and communication expenses increased by \$1.9 million in 2008-09, from \$28.1 million in 2007-08 to \$30 million in 2008-09. This 6.8% increase is attributable to a rise in travel costs and increased travel needs.

**Bad Debts:** NRC's bad debt expense increased from \$6.4 million in 2007-08 to \$9.1 million in 2008-09. The increase of \$2.7 million is related to write-offs recorded in the year for bad debts within the NRC-IRAP TPC program.



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## Financial Statements

### **National Research Council of Canada**

March 31, 2009





Auditor General of Canada  
Vérificatrice générale du Canada

## AUDITOR'S REPORT

To the National Research Council of Canada  
and the Minister of Industry

I have audited the statement of financial position of the National Research Council of Canada (the 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.

Further, in my opinion, the transactions of the Council that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with the *Financial Administration Act* and regulations, the *National Research Council Act* and regulations and the by-laws of the Council.

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

Ottawa, Canada  
June 12, 2009



## National Research Council of Canada

### Statement of Management Responsibility

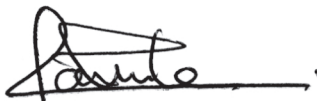
Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2009 and all information contained in these statements rests with the National Research Council of Canada's (NRC) management. These financial statements have been prepared by management in accordance with Treasury Board accounting policies and year-end instructions issued by the Office of the Comptroller General 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 fulfill its accounting and reporting responsibilities, management maintains a set of accounts that provides a centralized record of NRC's financial transactions. Financial information submitted to the *Public Accounts of Canada* and included in NRC's *Departmental Performance Report* and *Annual Report* is consistent with these financial statements.

Management maintains a system of financial management and internal controls 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 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 NRC.

Established in January 2009, the role of the Audit Committee, which replaces the previous Audit, Evaluation and Risk Management Committee, is to provide independent, objective, guidance and assurance on the adequacy of NRC's risk management, control and accountability process. In accordance with the Treasury Board Directive on Departmental Audit Committees, the Audit Committee has reviewed the financial statements with management and external auditors and discussed any significant issues and findings from the audit prior to recommending acceptance of the financial statements to the President and NRC's Council. The committee exercises active oversight of core areas of departmental control and accountability.

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



Pierre Coulombe, Ph.D., P.Eng.  
President

Ottawa, Canada  
June 12, 2009



Daniel Gosselin, FCA  
Vice-President Corporate Management and  
Chief Financial Officer

**National Research Council of Canada  
Statement of Financial Position  
as at March 31**

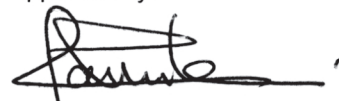
*(in thousands of dollars)*

	<b>2009</b>	<b>2008</b>
<b>ASSETS</b>		
<b>Financial Assets</b>		
Due from the Consolidated Revenue Fund	189,296	204,764
Accounts receivable and advances (Note 4)	26,671	27,364
Inventory for resale	2,181	2,328
Equity investments (Note 5)	659	645
Endowment fund investments (Note 6)	4,419	4,310
	<u>223,226</u>	<u>239,411</u>
<b>Non-Financial Assets</b>		
Prepaid expenses	12,100	13,634
Inventory for consumption	2,855	2,445
Capital assets (Note 7)	583,132	595,722
	<u>598,087</u>	<u>611,801</u>
<b>TOTAL ASSETS</b>	<u><b>821,313</b></u>	<u><b>851,212</b></u>
<b>LIABILITIES AND EQUITY OF CANADA</b>		
<b>Liabilities</b>		
Accounts payable and accrued liabilities (Note 8)	124,612	127,777
Vacation pay and compensatory leave	48,936	40,150
Deferred revenue (Note 9)	77,170	81,246
Employee future benefits (Note 10)	75,075	61,124
Environmental liabilities (Note 11)	4,150	100
	<u>329,943</u>	<u>310,397</u>
<b>Equity of Canada</b>	491,370	540,815
<b>TOTAL LIABILITIES AND EQUITY OF CANADA</b>	<u><b>821,313</b></u>	<u><b>851,212</b></u>

Contingent liabilities (Note 11) and contractual obligations (Note 12)

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

Approved by:



Pierre Coulombe, Ph.D., P.Eng.  
President



Daniel Gosselin, FCA  
Vice-President Corporate Management and  
Chief Financial Officer

**National Research Council of Canada  
Statement of Operations  
for the year ended March 31**

<i>(in thousands of dollars)</i>	<b>2009</b>	<b>2008</b>
<b>Expenses (Note 13)</b>		
Research and development	663,332	621,672
Technology and Industry support	<u>236,098</u>	<u>231,316</u>
	<u>899,430</u>	<u>852,988</u>
<b>Revenues (Note 14)</b>		
Research and development	132,488	124,857
Technology and Industry support	<u>23,758</u>	<u>29,673</u>
	<u>156,246</u>	<u>154,530</u>
<b>Net Cost of Operations</b>	<b><u>743,184</u></b>	<b><u>698,458</u></b>

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

**National Research Council of Canada  
Statement of Equity of Canada  
for the year ended March 31**

<i>(in thousands of dollars)</i>	<b>2009</b>	<b>2008</b>
<b>Equity of Canada, beginning of year</b>	540,815	544,220
Net cost of operations	(743,184)	(698,458)
Net cash provided by Government (Note 3)	678,916	673,127
Change in due from the Consolidated Revenue Fund	(15,468)	(3,207)
Services received without charge (Note 15)	<u>30,291</u>	<u>25,133</u>
<b>Equity of Canada, end of year</b>	<u><u>491,370</u></u>	<u><u>540,815</u></u>

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

**National Research Council of Canada**  
**Statement of Cash Flow**  
**for the year ended March 31**

<i>(in thousands of dollars)</i>	<b>2009</b>	<b>2008</b>
<b>Operating Activities</b>		
Net cost of operations	743,184	698,458
Non-cash items		
Amortization of capital assets	(69,434)	(66,555)
Write-down of contributed lease	(4,136)	-
Net loss on disposal of capital assets	(1,057)	(597)
Services received without charge (Note 15)	(30,291)	(25,133)
Other	730	1,166
Variations in Statement of Financial Position		
Increase (decrease) in accounts receivable and advances	(693)	484
Decrease in inventory for resale	(147)	(545)
Increase in equity investment	14	-
Increase in endowment fund investments	109	118
Increase (decrease) in prepaid expenses	(1,534)	884
Increase in inventory for consumption	410	334
Decrease (increase) in liabilities	(19,546)	4,169
Cash used by operating activities	<u>617,609</u>	<u>612,783</u>
<b>Capital Investment Activities</b>		
Acquisitions of capital assets	62,567	60,939
Proceeds from disposal of capital assets	(1,260)	(594)
Cash used by capital investment activities	<u>61,307</u>	<u>60,345</u>
<b>Investing Activities</b>		
Proceeds from sale of equity investments	-	(1)
Cash provided by investing activities	<u>-</u>	<u>(1)</u>
<b>Financing Activities</b>		
Net cash provided by Government of Canada (Note 3)	<u>(678,916)</u>	<u>(673,127)</u>

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

**National Research Council of Canada****Notes to Financial Statements**

Year ended March 31, 2009

**1. Authority and Objectives**

The National Research Council of Canada (NRC) exists under the *National Research Council Act* and is a departmental corporation named in Schedule II of the *Financial Administration Act*. The objectives of NRC are to create, acquire and promote the application of scientific and engineering knowledge to meet Canadian needs for economic, regional and social development and to promote and provide for the use of scientific and technical information by the people and the Government of Canada.

In delivering its mandate, NRC reports under the following program activities:

- research and development; and
- technology and industry support.

These program activities also include NRC's priorities of enhancing development of sustainable technology clusters for wealth creation and social capital as well as program management for a sustainable organization.

**2. Summary of Significant Accounting Policies**

These financial statements have been prepared in accordance with Treasury Board accounting policies and 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 significant accounting policies are:

**a) Parliamentary appropriations**

NRC is financed mainly by the Government of Canada through Parliamentary appropriations. Appropriations provided to NRC do not parallel financial reporting according to Canadian generally accepted accounting principles since appropriations are primarily based 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**

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

**c) Due from the Consolidated Revenue Fund**

Due from the Consolidated Revenue Fund represents the amount of cash that NRC is entitled to draw from the Consolidated Revenue Fund without further appropriations.

#### d) Revenues / Deferred revenue

- Revenue is recognized in the year in which the underlying transaction or event occurred that gave rise to revenue.
- Revenue from license fees, joint research projects and other sources is deposited to the Consolidated Revenue Fund and is available for use by NRC.
- License fees received for future year license periods are recorded as deferred revenue and amortized over the license period.
- Funds received from third parties for specified purposes are recorded upon receipt as deferred revenue and recognized as revenue in the year in which the related expenses are incurred.
- Contributions of leased capital assets are deferred and amortized to operations on the same basis as the related depreciable capital assets.

#### e) Expenses

- Grants are recognized in the year in which the conditions for payment are met. In the case of grants which do not form part of an existing program, the expense is recognized when the Government announces a decision to make a non-recurring transfer, provided the enabling legislation or authorization for payment receives parliamentary approval prior to the completion of the financial statements.
- Contributions are recognized in the year in which the recipient has met the eligibility criteria or fulfilled the terms of a contractual transfer agreement.
- Vacation pay and compensatory leave are expensed as the benefits accrue to employees under their respective terms of employment.
- Services received without charge from other government departments and agencies are recorded as operating expenses at their estimated cost and credited directly to equity.

#### f) Employee future benefits

##### i) Pension Benefits

Eligible employees participate in the Public Service Pension Plan, a multiemployer plan administered by the Government of Canada. NRC's contributions to the Plan are charged to expense in the year incurred and represent NRC's total obligation to the Plan. Current legislation does not require NRC to make contributions for any actuarial deficiencies of the Plan.

##### ii) Severance Benefits

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

#### g) Accounts receivable

Accounts receivable are stated at amounts expected to be ultimately realized; a provision is made for receivables where recovery is considered uncertain.

#### h) Conditionally repayable contributions

Conditionally repayable contributions are contributions that, all or part of which become repayable, if conditions specified in the contribution agreement come into effect. Accordingly, they are not recorded on the Statement of Financial Position until the conditions specified in the agreement are satisfied at which time they are then recorded as a receivable and a reduction in transfer payment expenses. An estimated allowance for uncollectibility is recorded where appropriate.

i) 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 financial statements.

j) Environmental liabilities

Environmental liabilities reflect the estimated costs related to the management and remediation of environmentally contaminated sites. Based on management's best estimates, a liability is accrued and an expense recorded when the contamination occurs or when NRC becomes aware of the contamination and is obligated, or is likely to be obligated to incur such costs. If the likelihood of NRC's obligation to incur these costs is either not determinable or unlikely, or if an amount cannot be reasonably estimated, the costs are disclosed as contingent liabilities in the notes to the financial statements.

k) Inventory

Inventory for resale and for consumption is recorded at the lower of cost (using the average cost method) or net realizable value. The cost is charged to operations in the year in which the items are sold or used.

l) Equity investments

Equity investments include shares in publicly and privately held companies. Equity investments are typically obtained as a result of debt settlement negotiations or as a result of non-monetary transactions (where financial assistance at better-than-market conditions was provided to firms through access to intellectual property, equipment and incubation space in laboratories). If the estimates of the non-monetary transactions cannot be determined, the equity investments are initially recorded at a nominal value. Otherwise they are initially recorded at fair value based on market prices. If the fair value of equity investments becomes lower than the book value and this decline in value is considered to be other than temporary, the equity investments are written down to fair value.

m) Endowment fund investments

Endowments consist of restricted donations subject to externally imposed restrictions stipulating that the resources be maintained permanently. Income from the investment of endowments may only be used for the purposes established by the donors.

Endowments are recognized as an asset when the amount to be received can be reasonably estimated and ultimate collection is reasonably assured.

Funds received for endowments are invested in bonds and are carried at amortized cost. The premium or discount determined at the time of acquisition is amortized until the security's maturity. Fair value of bonds is based on market prices.

n) Foreign currency transactions

Transactions involving foreign currencies are translated into Canadian dollar equivalents using rates of exchange in effect at the time of those transactions. Monetary assets and liabilities denominated in foreign currencies are translated using rates at year end. Gains and losses resulting from foreign currency translation are reported on the Statement of Operations according to the activities to which they relate. Net gains and losses relating to the sale of goods or services in foreign currency are included in revenues. Net gains and losses relating to the purchase of goods or services in foreign currency are included in expenses.



## o) Capital assets and amortization

Capital assets and leasehold improvements having an initial cost of \$5,000 or more are recorded at their acquisition cost. Contributed capital assets are recorded at market value at the date of contribution. NRC does not capitalize intangibles, works of art and historical treasures that have cultural, aesthetic or historical value. Assets acquired under capital leases are initially recorded at the present value of the minimum lease payments at the inception of the lease. Capital assets held for sale are recorded at the lower of their carrying value or fair value less cost to sell and no amortization is recorded. Amortization of capital assets is calculated on a straight-line basis over the estimated useful life of the asset as follows:

<b>Asset Class</b>	<b>Amortization Period</b>
Land	Not applicable
Buildings and facilities	25 years
Works and infrastructure	25 years
Machinery, equipment and furniture	10 years
Informatics equipment	5 years
Informatics software	5 years
Vehicles	5 years
Aircraft	10 years
Leasehold improvements	Lesser of the remaining term of the lease or useful life of the improvement
Assets under construction	Once in service, in accordance with asset class
Leased capital assets	In accordance with asset class

Where NRC enters into land leases at a nominal value, the transaction is considered as a non-monetary transaction and is recorded at fair value. Fair value of the transaction is based on market prices. If the estimates of the non-monetary transactions cannot be determined, the amount of the transaction is recorded at a nominal value.

## p) Measurement uncertainty

The preparation of these financial statements in accordance with Treasury Board accounting policies and year-end instructions issued by the Office of the Comptroller General, 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 most significant items where estimates are used are contingent liabilities, environmental liabilities, the liability for employee severance benefits, the allowance for doubtful accounts, the fair value of non-monetary transactions related to leased capital assets and the useful life of capital assets. 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.

## q) Asset retirement obligations

Liabilities are recognized for statutory, contractual or legal obligations, when incurred, associated with the retirement of tangible capital assets when those obligations result from the acquisition, construction, development or normal operation of the assets. The obligations are measured initially at fair value, determined using present value methodology, and the resulting costs capitalized into the carrying amount of the related asset. In subsequent periods, the liability is adjusted for the accretion of discount and any changes in the amount or timing of the underlying future cash flows. The capitalized asset retirement cost is depreciated on the same basis as the related asset and the discount accretion is included in determining the results of operations.

### 3. Parliamentary Appropriations

NRC receives most of its funding 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, NRC 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

<i>(in thousands of dollars)</i>	<b>2009</b>	<b>2008</b>
<b>Net Cost of Operations</b>	<b>743,184</b>	<b>698,458</b>
Adjustments for items affecting net cost of operations but not affecting appropriations:		
Revenues	156,246	154,530
Amortization of capital assets	(69,434)	(66,555)
Financial arrangements with other Federal Government departments and agencies	(46,115)	(46,617)
Services received without charge (Note 15)	(30,291)	(25,133)
Decrease (increase) in salary accrual	(14,795)	5,527
Increase in employee future benefits	(13,951)	(2,336)
Specified purpose accounts expenses	(13,591)	(14,009)
Increase in vacation pay and compensatory leave	(8,786)	(359)
Decrease (increase) in environmental liabilities	(4,050)	200
Refunds of previous year's expenditures	1,804	3,488
Loss on disposal of capital assets	(1,057)	(597)
Increase in accrued liability	(641)	-
Cost of goods sold	(559)	(650)
Other	(493)	1,078
Bad debt recovery (expense)	(412)	95
Increase (decrease) in inventory	83	(551)
Decrease (increase) in litigation claim expense accrual	(39)	261
Decrease in payment-in-lieu of taxes accrual	-	2,623
Total items affecting net cost of operations but not affecting appropriations	<b>(46,081)</b>	<b>10,995</b>
Adjustments for items not affecting net cost of operations but affecting appropriations:		
Acquisitions of capital assets and additions to assets under construction	61,622	59,824
Increase (decrease) in prepaid expenses	(1,534)	884
Inventory purchases	739	990
Total items not affecting net cost of operations but affecting appropriations	<b>60,827</b>	<b>61,698</b>
<b>Current year appropriations used</b>	<b>757,930</b>	<b>771,151</b>

## b) Reconciliation of Parliamentary appropriations provided to current year appropriations used

<i>(in thousands of dollars)</i>	<b>2009</b>	<b>2008</b>
Parliamentary appropriations provided:		
Vote 55 – Operating expenditures	433,813	445,422
Vote 60 – Capital expenditures	49,839	47,185
Vote 65 – Grants and contributions	143,957	152,124
Statutory amounts:		
Revenues pursuant to paragraph 5(1)(e) of the <i>National Research Council Act</i>	156,648	162,748
Contributions to employee benefit plans	56,460	57,684
Proceeds from the disposal of surplus Crown assets	290	656
Losses on foreign exchange	271	-
Collection agency fees	34	48
Less:		
Revenues available for use in subsequent years	(69,587)	(66,118)
Lapsed appropriations	(13,795)	(28,598)
<b>Current year appropriations used</b>	<b>757,930</b>	<b>771,151</b>

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

<i>(in thousands of dollars)</i>	<b>2009</b>	<b>2008</b>
Net cash provided by government	678,916	673,127
Adjustments for items not affecting appropriations:		
Revenues	156,246	154,530
Expenditures	(101,015)	(50,074)
Write-down of contributed lease	4,136	-
Decrease (increase) in accounts receivable and advances	693	(484)
Increase in equity investment	(14)	-
Increase in endowment fund investments	(109)	(118)
Decrease in inventory	476	1,201
Increase in capital assets	(945)	(1,115)
Increase (decrease) in liabilities	19,546	(5,916)
Total items not affecting appropriations	79,014	98,024
<b>Current year appropriations used</b>	<b>757,930</b>	<b>771,151</b>

**4. Accounts Receivable and Advances**

<i>(in thousands of dollars)</i>	<b>2009</b>	<b>2008</b>
Accounts receivable from external parties	21,738	20,869
Accounts receivable from other Federal Government departments and agencies	3,817	5,898
Employee advances	48	51
	25,603	26,818
Less: allowance for doubtful accounts on external accounts receivable	(804)	(1,147)
	24,799	25,671
Repayable contributions	13,434	9,944
Less: allowance for uncollectibility	(11,562)	(8,251)
Net repayable contributions	1,872	1,693
<b>Total</b>	<b>26,671</b>	<b>27,364</b>

## 5. Equity Investments

Equity investments include shares in publicly and privately held companies. It is not management's intention to hold equity investments over the long-term. NRC will consider timely opportunities for divestiture of equity investments by taking into account the interests, market liquidity and expected future growth of the company. Of all portfolio investments where NRC holds an equity position, seven were for debt settlements for a total value of \$698,654 (six valued at \$684,168 in 2008) and eighteen were obtained by non-monetary transactions (eighteen in 2008), of which nine (nine in 2008) are inactive or have filed for bankruptcy. Estimates of the non-monetary transactions cannot be determined, as the value of the financial assistance is highly speculative.

The fair value of the equity investments as at March 31, 2009 was \$2,809,446 (\$4,014,877 in 2008).

## 6. Endowment Fund Investments

This account was established pursuant to paragraph 5(1)(f) of the *National Research Council Act* to record the residue of the estate of the late H.L. Holmes. Up to two thirds of the endowment fund's yearly net income is used to finance the H.L. Holmes award on an annual basis. The award provides the opportunity to post-doctoral students to study at world famous graduate schools or research institutes under outstanding researchers.

<i>(in thousands of dollars)</i>	2009	2008
Restricted cash and investments, beginning of year	4,310	4,192
Net income from endowment	208	209
Awards granted	(99)	(91)
Restricted cash and investments, end of year	4,419	4,310

The portfolio had an average effective return of 4.47% (4.71% in 2008) and an average term to maturity of 5.42 years as at March 31, 2009 (5.24 years as at March 31, 2008). The fair value of the endowment investments as at March 31, 2009 was \$4,629,416 (\$4,460,397 in 2008).

## 7. Capital Assets

*(in thousands of dollars)*

Capital asset class	Cost				Accumulated amortization				2009 Net book value	2008 Net book value
	Opening balance	Acquisitions	Transfers, disposals and write-offs	Closing balance	Opening balance	Amortization	Transfers, disposals and write-offs	Closing balance		
Land	10,972	-	(1,093)	9,879	-	-	-	-	9,879	10,972
Buildings and facilities	623,399	7,867	9,835	641,101	(340,684)	(23,715)	-	(364,399)	276,702	282,715
Works and infrastructure	20,270	223	60	20,553	(12,879)	(846)	-	(13,725)	6,828	7,391
Machinery, equipment and furniture	484,016	30,035	(16,298)	497,753	(311,560)	(32,275)	25,613	(318,222)	179,531	172,456
Informatics equipment	68,839	4,056	(9,993)	62,902	(55,008)	(5,155)	10,159	(50,004)	12,898	13,831
Informatics software	18,103	1,931	2,012	22,046	(10,195)	(3,787)	479	(13,503)	8,543	7,908
Vehicles	3,005	305	(189)	3,121	(2,128)	(299)	175	(2,252)	869	877
Aircraft	11,246	26	-	11,272	(9,311)	(277)	-	(9,588)	1,684	1,935
Leasehold improvements	12,213	195	-	12,408	(2,139)	(532)	-	(2,671)	9,737	10,074
Assets under construction	27,741	17,929	(22,347)	23,323	-	-	-	-	23,323	27,741
Leased capital assets	68,100	-	(4,400)	63,700	(8,278)	(2,548)	264	(10,562)	53,138	59,822
<b>Total</b>	<b>1,347,904</b>	<b>62,567</b>	<b>(42,413)</b>	<b>1,368,058</b>	<b>(752,182)</b>	<b>(69,434)</b>	<b>36,690</b>	<b>(784,926)</b>	<b>583,132</b>	<b>595,722</b>

Amortization expense for the year ended March 31, 2009 is \$69,434,215 (\$66,554,738 in 2008).

At March 31, 2009, NRC held eight land lease agreements (eight in 2008) for a nominal annual cost of one dollar with universities. In these instances, NRC owns the building on the leased land. The fair value of the land for these non-monetary transactions cannot be determined.

On March 21, 1996, NRC entered into a non-monetary transaction consisting of a lease agreement with the University of Western Ontario for the relocation of the Integrated Manufacturing Technologies Institute (IMTI), whereby leased property was provided to NRC for twenty-five years at a nominal cost of one dollar. Since the inception of the lease agreement, IMTI was restructured under NRC's Industrial Materials Institute (IMI) and NRC's Institute for Research in Construction. NRC has no obligations to the University of Western Ontario other than the relocation of the institute. The property was recorded as a leased capital asset at its fair value of \$10,000,000. The annual amortization of \$400,000 for the capital asset is exactly offset by the amortization of the deferred contribution related to the leased property.

On May 23, 2006, NRC took possession of a new facility and entered into a non-monetary transaction with the University of Alberta. NRC entered into a lease agreement with the University for the housing of NRC's National Institute for Nanotechnology (NINT), whereby leased property is provided to NRC at a nominal cost of one dollar per year. The lease provides a one year term with options to renew on ten sequential occasions, each of the first nine renewals to be for a period of five years and the tenth renewal for a period of four years. The building was recorded as a leased capital asset at its fair value of \$44,400,000. The annual amortization of \$1,776,000 for the capital asset is exactly offset by the amortization of the deferred contribution related to the leased building.

On September 1, 2006, NRC took possession of a new facility and entered into a non-monetary transaction with the University of Prince Edward Island. NRC entered into a lease agreement with the University for the housing of NRC's Institute for Nutrisciences and Health (INH), whereby leased property was provided to NRC at a nominal cost of one dollar per year. The lease provides a nineteen month term with renewal options for seven additional periods of five years, and one additional period of three years and five months (to August 31, 2046). The building was recorded as a leased capital asset at \$13,700,000 and subsequently adjusted to \$9,300,000 in 2008-09 to reflect NRC's share of the facility. The annual amortization of \$372,000 for the capital asset is exactly offset by the amortization of the deferred contribution related to the leased building.

## 8. Accounts Payable and Accrued Liabilities

<i>(in thousands of dollars)</i>	<b>2009</b>	<b>2008</b>
Suppliers	80,907	99,504
Payable to other Federal Government departments and agencies	14,194	14,935
Accrued salaries, wages and employee benefits	28,546	11,423
Contractor holdbacks	909	1,849
Sales tax payable	56	66
<b>Total</b>	<b>124,612</b>	<b>127,777</b>

**9. Deferred Revenue**

<i>(in thousands of dollars)</i>	<b>2009</b>	<b>2008</b>
<b>Deferred revenue – contributions related to leased capital assets</b>		
Balance, beginning of year	59,822	62,546
Write-down of contributed capital lease	(4,136)	-
Contributions recognized as revenue	(2,548)	(2,724)
Balance, end of year	<u>53,138</u>	<u>59,822</u>
<b>Deferred revenue - specified purpose accounts</b>		
Balance, beginning of year	14,504	13,093
Funds received	18,779	16,877
Revenue recognized	(16,223)	(15,466)
Balance, end of year	<u>17,060</u>	<u>14,504</u>
<b>Deferred revenue - other</b>		
Balance, beginning of year	6,920	9,195
Funds received	6,541	6,724
Revenue recognized	(6,489)	(8,999)
Balance, end of year	<u>6,972</u>	<u>6,920</u>
<b>Total</b>	<b>77,170</b>	<b>81,246</b>

**10. Employee Future Benefits**

Employees of NRC 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**

NRC and all eligible 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 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/Quebec Pension Plans benefits and they are indexed to inflation.

The expense amounts to \$40,763,601 (\$42,051,439 in 2008) which represents approximately 2.0 times (2.2 times in 2008) the contributions by employees. Both the employees and NRC contribute to the cost of the Plan. As at March 31, 2009, the contributions are as follows:

<i>(in thousands of dollars)</i>	<b>2009</b>	<b>2008</b>
NRC's contributions	40,764	42,051
Employees' contributions	20,356	19,250

NRC'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) Employee severance benefits**

NRC 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:

<i>(in thousands of dollars)</i>	<b>2009</b>	<b>2008</b>
Accrued benefit obligation, beginning of year	61,124	58,788
Expense for the year	17,759	7,603
Benefits paid during the year	(3,808)	(5,267)
Accrued benefit obligation, end of year	<u>75,075</u>	<u>61,124</u>



## 11. Contingent Liabilities

### a) Environmental liabilities

Liabilities are accrued to record the estimated costs related to the management and remediation of contaminated sites where NRC is obligated or likely to be obligated to incur such costs. NRC has identified two sites (one site in 2008) where such action is possible and for which a liability of \$4,150,000 (\$100,000 in 2008) has been recorded. NRC's ongoing efforts to assess contaminated sites may result in additional environmental liabilities related to newly identified sites, or changes in the assessments or intended use of existing sites. These liabilities will be accrued by NRC in the year in which they become known.

### b) Claims and litigation

Claims have been made against NRC in the normal course of operations. Some of these potential liabilities 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 fails to occur, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded in NRC's financial statements.

As at March 31, 2009, NRC had thirteen claims (thirteen in 2008) outstanding of which two (two in 2008) related to pending charges that will likely result in a liability and one where the outcome is undeterminable (two in 2008). The two claims that will likely result in a liability can be reasonably estimated (two in 2008). A total accrued liability of \$1,327,754 (\$1,289,136 in 2008) was recorded based on NRC's legal assessment of potential liability.

### c) Asset Retirement Obligations

As at March 31, 2009 NRC has recognized an asset retirement obligation of \$216,000 in the financial statements as a result of its legal obligation to retire storage tank systems for petroleum products and allied petroleum products. The undiscounted amount of expected future cash flows required to settle the asset retirement obligation is estimated at \$472,000. The liability for the expected future cash flows, as reflected in the financial statements, has been discounted at a weighted average of 4.74% based on the Government of Canada benchmark bonds. This obligation will be settled over the useful lives of the operating assets. The following table summarizes the changes in the asset retirement obligations:

<i>(in thousands of dollars)</i>	<b>2009</b>	<b>2008</b>
Asset retirement obligations, beginning of year	-	-
Obligations incurred	216	-
Asset retirement obligations, end of year	216	-

Other asset retirement obligations, such as the costs associated with the removal and disposal of asbestos and other designated substances located in NRC buildings have not been recognized in the financial statements due to the fact that they are subject to several uncertainties. NRC generally incurs the cost of removing and disposing regulated substances during major building renovations; consequently the timing and scope of these renovations cannot be reasonably estimated at this time and therefore fair values cannot be reasonably determined. Changes in these assumptions and uncertainties could materially affect NRC's assets and liabilities as well as the resulting amortization and accretion expenses related to the asset retirement obligation.

## 12. Contractual Obligations

The nature of NRC's activities can result in some large multi-year contracts and obligations whereby NRC will be obligated to make future payments when the services/goods are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

<i>(in thousands of dollars)</i>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014 and thereafter</b>	<b>Total</b>
Transfer payments	118,434	15,346	11,873	8,004	3,000	156,657
Operating contracts	25,971	13,798	1,546	1,205	622	43,142
Total	144,405	29,144	13,419	9,209	3,622	199,799

**13. Expenses**

The following table presents the detail of expenses by category:

<i>(in thousands of dollars)</i>	<b>2009</b>	<b>2008</b>
Salaries and employee future benefits	463,104	418,453
Grants and contributions	132,592	142,497
Utilities, materials and supplies	89,555	89,331
Amortization	69,434	66,555
Professional and special services	60,085	58,018
Transportation and communication	30,040	28,061
Repairs and maintenance	17,431	18,293
Payments in lieu of taxes	14,628	11,977
Bad debts	9,061	6,390
Rentals	5,071	4,214
Information	4,425	4,741
Awards	2,343	3,153
Net loss on disposal of capital assets	1,057	597
Cost of goods sold	559	650
Other	45	58
<b>Total</b>	<b>899,430</b>	<b>852,988</b>

**14. Revenues**

The following table presents details of revenues by category:

<i>(in thousands of dollars)</i>	<b>2009</b>	<b>2008</b>
Sales of goods and services		
Services of non-regulatory nature and other fees and charges	65,636	62,900
Sales of goods and information products	11,281	11,814
Rights and privileges	9,591	9,471
Lease and use of property	4,261	4,303
	<u>90,769</u>	<u>88,488</u>
Financial arrangements with other Federal Government departments and agencies	46,115	46,620
Revenues from joint project and cost sharing agreements	16,223	15,466
Lease inducement revenue	2,548	2,724
Other	540	611
Donations and bequest	51	621
<b>Total</b>	<b>156,246</b>	<b>154,530</b>



### 15. Related Party Transactions

NRC is related as a result of common ownership to all Government of Canada departments, agencies, and Crown corporations. NRC enters into transactions with these entities in the normal course of business and on normal trade terms. Refer to Note 4 and Note 8 for accounts receivable and payable to other Federal Government departments and agencies. Also, during the year, NRC received services, which were obtained without charge from other Federal Government departments and agencies. These services without charge have been recognized in NRC's Statement of Operations as follows:

<i>(in thousands of dollars)</i>	<b>2009</b>	<b>2008</b>
Employer's contributions to the health and dental insurance plans provided by Treasury Board	28,675	23,706
Audit services provided by the Office of the Auditor General of Canada	513	441
Legal services provided by Justice Canada	431	360
Workers' compensation benefits provided by Human Resources and Social Development Canada	325	310
Payroll services provided by Public Works and Government Services Canada	196	167
Accommodation provided by Public Works and Government Services Canada	151	149
<b>Total</b>	<b>30,291</b>	<b>25,133</b>

The total of legal services provided by Justice Canada amounts to \$1,207,456 (\$1,154,030 in 2008). Of this amount, \$430,820 (\$360,143 in 2008) was provided without charge. The total of accommodation provided by Public Works and Government Services Canada amounts to \$322,015 (\$321,080 in 2008). Of this amount, \$151,111 (\$149,298 in 2008) was provided without charge. The total of Workers' compensation benefits provided by Human Resources and Social Development Canada amounts to \$840,094 (\$834,813 in 2008). Of this amount, \$325,330 (\$309,838 in 2008) was provided without charge.

On June 26, 2008, NRC transferred ownership of a parcel of land, which had a net book value of \$1,093,012, for \$8,000,000 to the Department of National Defence. The difference between the consideration received and the net book value resulted in an increase of NRC's parliamentary allotments, a portion of which is expected to be received over the next two fiscal years.

### 16. Financial Instruments

NRC's financial instruments consist of accounts receivable and advances, investments, accounts payable and accrued liabilities, and deferred revenue. Unless otherwise noted, it is management's opinion that NRC is not exposed to significant interest, currency or credit risk arising from these financial instruments. Unless otherwise disclosed in these financial statements, management estimates that the carrying values of the financial instruments approximate their fair value due to their impending maturity.

### 17. Comparative Information

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