



INDEPENDENT AUDITOR'S REPORT

To the Chair of the National Energy Board

Report on the Financial Statements

I have audited the accompanying financial statements of the National Energy Board, which comprise the statement of financial position as at 31 March 2018, and the statement of operations and net financial position, statement of change in net debt and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the National Energy Board as at 31 March 2018, and the results of its operations, changes in its net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Emphasis of Matter

I draw attention to Note 12 to the financial statements which describes the intended dissolution of the National Energy Board. My opinion is not qualified in respect of this matter.

Report on Other Legal and Regulatory Requirements

In my opinion, the transactions of the National Energy Board that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Section 24.1(1) of the *National Energy Board Act* and the National Energy Board Cost Recovery Regulations.

Original signed by

David Irving, CPA, CA
Principal
for the Auditor General of Canada

20 August 2018
Edmonton, Canada



National Energy
Board

Office national
de l'énergie

Statement of Management Responsibility Including Internal Control over Financial Reporting

Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2018 and all information contained in these statements rests with the management of the National Energy Board (NEB). Management is responsible for the preparation of the accompanying financial statements using the Government's accounting policies, which are based on Canadian Public Sector Accounting Standards.

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

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

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

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

The NEB will be subject to periodic Core Control Audits performed by the Office of the Comptroller General and will use the results of such audits to adhere to the Treasury Board *Policy on Internal Control*.

In the interim, the NEB has undertaken a risk-based assessment of the system of ICFR for the year ended March 31, 2018, in accordance with the Treasury Board *Policy on Internal Control*, and the results and action plan is summarized in the annex.

The Auditor General of Canada, the independent auditor for the Government of Canada, has expressed an opinion on the fair presentation of the financial statements of the NEB which does not include an audit opinion on the annual assessment of the effectiveness of the department's internal controls over financial reporting.

Original signed by

Original signed by

C. Peter Watson, P.Eng.
Chair and CEO

Mark Power, CPA, CGA, CIA, MBA
Chief Financial Officer

Calgary, Canada
20 August 2018

NATIONAL ENERGY BOARD

Statement of Financial Position

As at March 31

(in thousands of dollars)

	2018	2017 Restated (Note 3)
Liabilities		
Accounts payable and accrued liabilities (Note 5)	24,532	24,443
Due to the Consolidated Revenue Fund (Note 7)	393	630
Vacation pay and compensatory leave	4,031	3,541
Employee benefits (Note 6)	5,731	5,645
Total liabilities	34,687	34,259
Financial assets		
Due from the Consolidated Revenue Fund	24,532	22,027
Accounts receivable and advances (Note 7)	30,764	31,189
Total financial assets	55,296	53,216
Financial assets held on behalf of Government	(30,371)	(30,559)
Total net financial assets	24,925	22,657
Net debt	9,762	11,602
Non-financial assets		
Prepaid expenses	690	1,107
Tangible capital assets (Note 8)	20,043	21,687
Total non-financial assets	20,733	22,794
Net financial position	10,971	11,192

Contractual obligations and contingent liabilities (Note 9)

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

Original signed by

Original signed by

C. Peter Watson, P.Eng.
Chair and CEO
Calgary, Canada
20 August 2018

Mark Power, CPA, CGA, CIA, MBA
Chief Financial Officer

NATIONAL ENERGY BOARD

**Statement of Operations and Net Financial Position
For the Year Ended March 31**

(in thousands of dollars)

	2018 Planned Results (Note 2a)	2018	2017 Restated (Note 3)
Expenses			
Energy Adjudication	34,982	28,832	27,467
Safety and Environment Oversight	26,825	27,573	25,817
Energy Information	6,115	12,108	7,761
Engagement	4,412	5,762	2,452
Internal Services	23,995	32,847	34,598
Total expenses	96,329	107,122	98,095
Revenues			
Regulatory revenue	87,635	103,262	90,274
Miscellaneous revenue	120	38	5
Revenues earned on behalf of Government	(87,755)	(103,300)	(90,279)
Total revenues	-	-	-
Net cost of operations before government funding and transfers	96,329	107,122	98,095
Government funding and transfers			
Net cash provided by Government	79,786	90,599	75,101
Change in due from the Consolidated Revenue Fund	2,186	2,742	8,608
Services provided without charge from other government departments (Note 10)	12,408	13,560	13,383
Transfer of the transition payments for implementing salary payment arrears	(8)	0	(4)
Net cost of operations after government funding and transfers	1,957	221	1,007
Net financial position - Beginning of year	15,403	11,192	12,199
Net financial position – End of year	13,446	10,971	11,192

Segmented information (Note 11)

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

NATIONAL ENERGY BOARD

Statement of Change in Net Debt
For the Year Ended March 31
(in thousands of dollars)

	2018 Planned Results (Note 2a)	2018	2017 Restated (Note 3)
Net cost of operations after government funding and transfers	1,957	221	1,007
Change due to tangible capital assets (Note 8)			
Acquisition of tangible capital assets	2,230	2,887	3,584
Amortization of tangible capital assets	(4,081)	(4,531)	(3,814)
Total change due to tangible capital assets	(1,851)	(1,644)	(230)
Change in prepaid expenses	70	(417)	151
Net increase (decrease) in net debt	176	(1,840)	928
Net debt - Beginning of year	5,354	11,602	10,674
Net debt - End of year	5,530	9,762	11,602

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

NATIONAL ENERGY BOARD

Statement of Cash Flows
For the Year Ended March 31
(in thousands of dollars)

	2018	2017 Restated (Note 3)
Operating activities		
Net cost of operations before government funding and transfers	107,122	98,095
Items not affecting cash:		
Amortization of tangible capital assets (Note 8)	(4,531)	(3,814)
Services provided without charge by other government departments (Note 10)	(13,560)	(13,383)
Transition payments for implementing salary payments in arrears	-	4
 Variations in Statement of Financial Position:		
Change in accounts receivables and advances	(237)	430
Change in prepaid expenses	(417)	151
Change in accounts payables and accrued liabilities	(472)	(10,178)
Change in vacation pay and compensatory leave	(490)	78
Change in employee benefits	(86)	27
Cash used in operating activities	87,329	71,410
 Capital investing activities		
Acquisitions of tangible capital assets	3,270	3,691
Cash used in investing activities	3,270	3,691
 Net cash provided by Government of Canada	90,599	75,101

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

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2018**

1. Authority and objectives

The National Energy Board (NEB or the Board) is an independent federal quasi-judicial regulatory tribunal established in 1959 to promote safety and security, environmental protection and economic efficiency in the Canadian public interest within the mandate set by Parliament for the regulation of pipelines, energy development and trade. The Board is accountable to Parliament through the Minister of Natural Resources. The NEB was established under the *National Energy Board Act* (NEB Act) and is designated as a department and named under Schedule I.1 of the *Financial Administration Act*.

For 2017-18 the NEB was an early adopter of the Departmental Results Framework under the Treasury Board Secretariat *Directive on Results*. Additional information about the concordance between Strategic Outcomes, Program Alignment Architecture and Departmental Results Framework, Core Responsibilities can be found in the Departmental Plan. The Board's responsibilities can be framed into the following core responsibilities:

I. Energy Adjudication

Making decisions or recommendations to the Governor in Council on applications, which include environmental assessments, using processes that are fair, transparent, timely and accessible. These applications pertain to pipelines and related facilities, international power lines, tolls and tariffs, energy exports and imports, and oil and gas exploration and drilling in certain northern and offshore areas of Canada.

II. Safety and Environment Oversight

Setting and enforcing regulatory expectations for National Energy Board-regulated companies over the full lifecycle — construction, operation and abandonment — of energy-related activities. These activities pertain to pipelines and related facilities, international power lines, tolls and tariffs, energy exports and imports, and oil and gas exploration and drilling in certain northern and offshore areas of Canada.

III. Energy Information

Collecting, monitoring, analyzing and publishing information on energy markets and supply, sources of energy, and the safety and security of pipelines and international power lines.

IV. Engagement

Engaging with stakeholders and Indigenous Peoples on topics within the National Energy Board's mandate and role, beyond engagement on specific projects.

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2018**

1. Authority and objectives - continued

IV. Engagement – continued

As part of its Core Responsibilities, the NEB plans to engage actively and effectively with Canadians and Indigenous Peoples throughout the lifecycle of energy infrastructure projects. A stakeholder engagement program and an Indigenous engagement program are being developed for this purpose. As a result of the activities undertaken through these programs, the NEB and its stakeholders will be better informed about issues relevant to the NEB and its mandate.

Specifically, Canadians and Indigenous Peoples will:

- Have a better understanding of the NEB’s mandate, roles, processes, programs as a full life cycle regulator;
- Be aware of NEB actions taken to ensure and improve public safety and environmental protection with respect to regulated infrastructure; and
- Participate in NEB processes and programs that provide them with the opportunity to share their perspectives and provide feedback regarding the NEB and NEB-regulated activities.

IV. Internal Services

Internal Services are those groups of related activities and resources that the federal government considers to be services in support of programs and/or required to meet corporate obligations of an organization. Internal Services refers to the activities and resources of the ten distinct service categories that support program delivery in the organization, regardless of the Internal Services delivery model in a department. The ten service categories are: Management and Oversight Services; Communications Services; Legal Services; Human Resources Management Services; Financial Management Services; Information Management Services; Information Technology Services; Real Property Services; Material Services; and Acquisition Services.

The NEB regulates pipelines, power lines, energy development and energy trade contributes to the safety of Canadians, the protection of the environment and efficient energy infrastructure and markets, while respecting the rights and interests of those affected by NEB decisions and recommendations. It is guided by the principles of natural justice and procedural fairness.

The Board is a court of record and has certain powers of a superior court with respect to the attendance, swearing and examination of witnesses; the production and inspection of documents; the enforcement of its orders; the entry on and inspection of property; and other matters necessary or proper for the due exercise of its jurisdiction. Aside from rare exceptions, the Board’s regulatory decisions and the accompanying Reasons for Decision are issued as public documents.

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2018**

1. Authority and objectives - continued

The financial statements of the National Energy Board have been prepared as at March 31 which corresponds with the Board's year-end. In accordance with Section 24.1 of the NEB Act, the Board may, for the purposes of recovering all or a portion of such costs as the Board determines to be attributable to its responsibilities under this or any other Act of Parliament, make regulations to impose fees, levies or charges. The NEB Cost Recovery Regulations provide for the calculation and allocation of recoverable costs. Cost recovery calculations performed on a calendar year basis are included in a Schedule to these financial statements. The NEB is funded through parliamentary appropriations. The Government of Canada recovers approximately 95 percent of the appropriation from the regulated industry. The revenues are deposited directly into the Consolidated Revenue Fund. This process is regulated by the National Energy Board Cost Recovery Regulations.

2. Summary of significant accounting policies

These financial statements have been prepared using the Government's accounting policies stated below, which are based on Canadian public sector accounting standards. The presentation and results using the stated accounting policies do not result in any significant differences from Canadian public sector accounting standards.

Significant accounting policies are as follows:

a) Parliamentary authorities

The NEB is financed by the Government of Canada through Parliamentary authorities. Financial reporting of authorities provided to the NEB do not parallel financial reporting according to generally accepted accounting principles since authorities are primarily based on cash flow requirements. Consequently, items recognized in the Statement of Operations and Net Financial Position and the Statement of Financial Position are not necessarily the same as those provided through authorities from Parliament. Note 4 provides a high-level reconciliation between the bases of reporting. The planned results amounts in the "Expenses" and "Revenues" section of the Statement of Operations and Net Financial Position are the amounts reported in the 2017-2018 *Departmental Plan*. The planned results amounts in the "Government funding and transfers" section of the Statement of Operations and Net Financial Position and in the Statement of Change in Net Debt were prepared for internal management purposes and have not been previously published.

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

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2018**

2. Summary of significant accounting policies - continued

a) Parliamentary authorities - continued

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

Consistent with Section 32 of the *Financial Administration Act*, the Board's policy to manage liquidity risk is that no contract or other arrangement providing for a payment shall be entered into with respect to any program for which there is an appropriation by Parliament or an item included in estimates then before the House of Commons to which the payment will be charged unless there is a sufficient unencumbered balance available out of the appropriation or item to discharge any debt that, under the contract or other arrangement, will be incurred during the fiscal year in which the contract or other arrangement is entered into.

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

b) Net cash provided by Government

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

c) Amounts due to or from the Consolidated Revenue Fund

Amounts due to or from the CRF are the result of timing differences at year-end between when a transaction affects authorities and when it is processed through the CRF. Amounts due from the CRF represent the net amount of cash that the NEB is entitled to draw from the CRF without further authorities to discharge its liabilities. This amount is not considered to be a financial instrument.

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2018**

2. Summary of significant accounting policies – continued

d) Revenues

- The NEB has the authority to charge those companies that it regulates, in accordance with sub-section 24.1 of the *National Energy Board Act*, the costs attributable to the NEB's operations in carrying out its responsibilities. Under the National Energy Board Cost Recovery Regulations (Regulations) approved by Treasury Board, effective January 1, 1991, the NEB recovers, from the companies that it regulates, the cost of its operations. Revenues from regulatory levies are recognized in the accounts when they are invoiced and, in accordance with the Regulations, are based on the estimated cost of operations for the calendar year, with a billing adjustment to actual costs once the costs are known. Actual costs are defined as the sum of one-quarter of year 1 audited fiscal costs (January to March) and three-quarters of year 2 audited fiscal costs (April to December). The recoverable costs for a given calendar year are allocated to the oil, gas and electricity commodities proportionately on the basis of the actual time spent by Board members and employees during the preceding fiscal year (April 1 to March 31).
- Other revenues are accounted for in the period in which the underlying transaction or event occurred that gave rise to the revenues.
- Revenues that are non-respendable are not available to discharge the NEB's liabilities. While the Chair is expected to maintain accounting control, he or she has no authority regarding the disposition of non-respendable revenues. As a result, non-respendable revenues are considered to be earned on behalf of the Government of Canada and are therefore presented in reduction of the NEB's gross revenues.

e) Expenses

Expenses are recorded on the accrual basis.

- Vacation pay and compensatory leave are expensed as the benefits accrue to employees under their respective terms of employment. The liability for vacation pay and compensatory leave is calculated at the salary levels in effect at the end of the year for all unused vacation pay and compensatory leave benefits accruing to employees.
- Services provided without charge by other government departments for accommodation, the employer's contribution to the health and dental insurance plans, legal and audit services and payroll and banking services from Public Services and Procurement Canada are recorded as operating expenses at their carrying value of the providing entity. These services received without charge are recoverable costs under the Cost Recovery Regulations.
- Expenditures of the Board that are excluded from Cost Recovery Regulations are those expenditures related to the regulation of, exploration for, and the development of oil and gas on frontier lands and offshore areas and are disclosed in Schedule A.
- Transfer payments are recorded as expenses when authorization for the payment exists and the recipient has met the eligibility criteria or the entitlements established for the transfer payment program.

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2018**

2. Summary of significant accounting policies - continued

f) Liabilities

Liabilities are financial obligations of the NEB to outside organizations and individuals as a result of events and transactions that occurred on or before year end. They are the result of contracts, agreements and legislation in force at year end that require the NEB to repay borrowings or to pay for goods and services acquired or provided prior to year-end. Liabilities include Accounts payable and accrued liabilities (Note 5), Vacation pay and compensatory leave and Employee benefits (Note 6).

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

g) Employee benefits

- i. Pension benefits: Eligible employees participate in the Public Service Pension Plan (Plan), a multiemployer pension plan administered by the Government of Canada. The NEB contributions to the Plan are charged to expenses in the year incurred and represent the total Board obligation to the Plan. The NEB'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.
- ii. Health and dental benefits: The Government of Canada sponsors employee benefit plans (health and dental) in which the NEB participates. Employees are entitled to health and dental benefits, as provided for under labour contracts and conditions of employment. The NEB's contributions to the plans, which are provided without charge by the Treasury Board Secretariat, are recorded at carrying value of the providing entity. They represent the NEB's total obligation to the plans. Current legislation does not require the NEB to make contributions for any future unfunded liabilities of the plans.
- iii. Severance benefits: The accumulation of severance benefits for employees ceased in the 2012–13 fiscal year. The accrued benefit obligation is determined using employees' salaries at year-end and the number of weeks earned but unpaid for employees who have elected to defer the receipt of their full or partial severance benefits payment.
- iv. Sick leave benefits: Employees are eligible to accumulate sick leave benefits until the end of employment, according to their labour contracts and conditions of employment. Sick leave benefits are earned based on employee services rendered and are paid upon an illness or injury related absence. These are accumulating non-vesting benefits that can be carried forward to future years, but are not eligible for payment on retirement or termination, nor can these be used for any other purpose. A liability is recorded for unused sick leave credits expected to be used in future years in excess of future allotments, based on an actuarial valuation using an accrued benefit method.

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2018**

2. Summary of significant accounting policies - continued

h) Accounts receivable and advances

Accounts receivable and advances are stated at the lower of cost and net recoverable value. A valuation allowance is recorded for receivables where recovery is considered uncertain. In addition, a distinction is made between financial assets that are available to discharge the NEB's liabilities versus the ones that are not. Accounts receivable that pertain to non-respendable revenues earned on behalf of Government are considered to be held on behalf of the Government of Canada and are therefore presented in the Statement of Financial Position as a reduction of the entity's gross financial assets.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The NEB provides services to other government departments and agencies and to external parties in the normal course of business. Accounts receivable are due on demand. The NEB is not exposed to significant credit risk and has incurred very minimal credit losses in the past. The maximum exposure the NEB has to credit risk equal to the carrying value of its accounts receivables.

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. If the likelihood is unlikely, the contingency is not disclosed in the notes to the financial statements.

j) Tangible capital assets

All tangible capital assets and leasehold improvements having an initial cost of \$10,000 or more per unit, per bundle or purchased in bulk, are recorded at their acquisition cost. Tangible capital assets under development are recorded as assets under development and amortized when they become available for use. Amortization of tangible capital assets is calculated on a straight-line basis over the estimated useful life of the asset as follows:

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2018**

2. Summary of significant accounting policies - continued

j) Tangible capital assets - continued

Asset class	Amortization period
Informatics hardware:	
PCs and accessories	3 years
Computer servers & accessories	5 years
Informatics software	
Commercial software	2 years
In-house developed software	5 years
Machinery and equipment	5 years
Furniture	10 years
Vehicles	5 years
Leasehold improvements	Lesser of the remaining term of the lease or useful life of the improvement

k) Measurement uncertainty

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses in the financial statements. At the time of preparation of these statements, management believes the estimates and assumptions to be reasonable. 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.

The most significant items where estimates are used are recoverable operating costs, contingent liabilities, useful life of tangible capital assets, allowance for doubtful accounts and sick leave benefit obligations. The liability for sick leave benefits is actuarially determined and actual experiences could differ from the assumptions used in the calculations. The significant actuarial assumptions used in measuring the benefit obligation are disclosed in note 6d.

l) Related party transactions

Related parties include key management personnel having authority and responsibility for planning, directing and controlling the activities of the NEB as well as their close family members. Related party transactions, other than inter-entity transactions, are recorded at the exchange amount. Inter-entity transactions are transactions between commonly controlled entities. Inter-entity transactions, other than restructuring transactions, are recorded on a gross basis and are measured at the carrying amount, except for the following:

- i. Services provided on a recovery basis are recognized as revenues and expenses on a gross basis and measured at the exchange amount.
- ii. Certain services received on a without charge basis are recorded for Board financial statement purposes at the carrying amount.

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2018**

2. Summary of significant accounting policies - continued

m) Changes to accounting standards

The NEB adopted the following handbook sections which became effective for entities with year-ends starting on or after April 1, 2017, inter-entity transactions (PS 3420), related party disclosures (PS 2200), Assets (PS 3210); Contingent assets (PS 3320); and Contractual rights (PS 3380). The adoption of these standards did not have a significant impact on these financial statements of the Board.

PSAB issued new standards on Restructuring Transactions (PS 3430), effective April 1, 2018. The NEB expects to apply PS 3430 upon planned dissolution and transfer of operations, assets and liabilities to the Canadian Energy Regulator.

Asset retirement Obligations (PS 3280) is effective April 1, 2021, and the NEB does not expect this standard to have a significant impact on its financial statements.

3. Restatement

The NEB has reviewed its approach for the evaluation, accounting and reporting of employee sick leave benefits. In fiscal year 2017-18, the NEB used an actuarial valuation to measure the obligation and the benefits expenses for the accumulating non-vesting employee sick leave benefits based on the expected future use of the benefits.

In the past, the NEB recognized benefit expenses equal to its payments and no liability for employee sick leave benefits was recorded in the financial statements. With the actuarial analysis performed this year using historical data concerning the NEB's sick leave use, the NEB's net debt and liabilities of fiscal year 2016 -17 have been increased by \$3,555,700.

In addition, in prior years the NEB incorrectly increased net cash provided by the Government of Canada in relation to future salary increases expected as a result of the collective agreement negotiations. The amount should instead have been recognized as an Accounts payable and accrued liabilities, resulting in an increase in net debt and decrease in net financial position of \$2,416,000.

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2018**

3. Restatement – continued

The following table presents the impact of these restatements on the 2016-17 financial statements. The cumulative impact of these restatements on fiscal years prior to 2016-17 has been reflected in the opening balance of the NEB's net financial position.

	2017 as previously stated	Adjustment – retro pay	Adjustment – sick leave	2017 Restated
	(in thousands of dollars)			
Statement of Financial Position:				
Accounts payable and accrued liabilities	22,027	2,416		24,443
Employee benefits	2,089		3,556	5,645
Total liabilities	28,287	2,416	3,556	34,259
Net debt	5,630	2,416	3,556	11,602
Net financial position	17,164	(2,416)	(3,556)	11,192
Statement of Operations and Net Financial Position:				
Total expenses	97,987		108	98,095
Net cost of operations before government funding and transfers	97,987		108	98,095
Net cash provided by government	76,134	(1,033)		75,101
Net cost (net revenue) of operations after government funding and transfers	(134)	1,033	108	1,007
Net financial position – Beginning of year	17,030	(1,383)	(3,448)	12,199
Net financial position – End of year	17,164	(2,416)	(3,556)	11,192
Statement of Change in Net Debt:				
Net cost (net revenue) of operations after government funding and transfers	(134)	1,033	108	1,007
Net increase (decrease) in net debt	(213)	1,033	108	928
Net debt - Beginning of year	5,843	1,383	3,448	10,674
Net debt - End of year	5,630	2,416	3,556	11,602

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2018**

	2017 as previously stated	Adjustment – retro pay	Adjustment – sick leave	2017 Restated
	(in thousands of dollars)			
Statement of Cash Flows:				
Net cost of operations before government funding and transfers	97,987		108	98,095
Change in employee benefits	135		(108)	27
Change in accounts payable and accrued liabilities	(9,145)	(1,033)		(10,178)
Cash used in operating activities	72,443	(1,033)		71,410
Net cash provided by Government of Canada	76,134	(1,033)		75,101

4. Parliamentary authorities

The NEB receives most of its funding through annual parliamentary authorities. The majority of these expenditures are subsequently recovered from the companies regulated by the NEB and the funds are deposited in the Consolidated Revenue Fund of the Government of Canada. Items recognized in the Statement of Operations and Net Financial Position and the Statement of Financial Position in one year may be funded through Parliamentary authorities in prior, current or future years. Accordingly, the NEB 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 authorities provided and used

	2018	2017
	(in thousands of dollars)	
Authorities provided:		
Vote 1 – Program expenditures	90,230	84,550
Spending of proceeds from disposal of surplus assets	11	
Statutory amounts – contributions to employee benefit plans	8,330	8,607
<i>Less:</i>		
Appropriations lapsed	(5,169)	(8,687)
Current year authorities used	93,402	84,470

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2018**

4. Parliamentary authorities - continued

(b) Reconciliation of net cost of operations to current year authorities used:

	2018	2017 Restated (Note 3)
	(in thousands of dollars)	
Net cost of operations before government funding and transfers	107,122	98,095
Expenses not requiring use of current year appropriations:		
Services provided without charge by other government departments (Note 10)	(13,560)	(13,383)
Amortization of tangible capital assets (Note 8)	(4,531)	(3,814)
Refund of prior years' expenditures	60	761
Other – accrual for collective agreement	-	(1,033)
	(18,031)	(17,469)
Changes to assets affecting appropriations:		
Acquisitions of tangible capital assets (Note 8)	2,887	3,584
Transition payments for implementing salary payments in arrears	-	4
Reversal of prior year accruals for collective agreement	2,416	
Change in prepaid expenses	(417)	151
	4,886	3,739
Changes in future funding requirements:		
Change in vacation pay and compensatory leave	(489)	78
Change in employee benefits (Notes 3 and 6)	(86)	27
	(575)	105
Current year authorities used	93,402	84,470

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2018**

5. Accounts payable and accrued liabilities

	2018	2017 Restated (Note 3)
	(in thousands of dollars)	
Accounts payable to other government departments and agencies	1,156	247
Accounts payable and accrued liabilities to external parties	23,376	15,887
Billing adjustment – prior year (Schedule A)	-	8,309
Total accounts payable and accrued liabilities	24,532	24,443

6. Employee benefits

a) Pension benefits:

All eligible NEB employees contribute to the public service pension plan (the “Plan”), which is sponsored and administered by the Government of Canada. Pension benefits accrue up to a maximum period of 35 years at a rate of two percent per year of pensionable service, times the average of the best five consecutive years of earnings. The benefits are integrated with Canada/Québec Pension Plan benefits and they are indexed to inflation.

Both the employees and the NEB contribute to the cost of the Plan. Due to the amendment of the *Public Service Superannuation Act* following the implementation of provisions related to Economic Action Plan 2012, employee contributors have been divided into two groups. Group 1 relates to existing plan members as of December 31, 2012 and Group 2 relates to members joining the Plan as of January 1, 2013.

Each group has a distinct contribution rate. For Group 1 members, the expense represents approximately 1.01 times (1.12 times in 2016-2017) the employee contributions and, for Group 2 members, approximately 1.00 times (1.08 times in 2016-2017) the employee contributions. The 2017-2018 expense amounts to \$5,809,364 (\$5,996,615 in 2016-2017).

The NEB’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) Health and dental benefits:

The NEB contributes for all eligible employees to the Public Service Health Care Plan and Public Service Dental Care Plan which are sponsored by the Government of Canada. The NEB’s responsibility with regard to these plans is limited to its’ contributions (Note 10a).

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2018**

6. Employee benefits - continued

c) Severance benefits:

The NEB provides severance benefits to its employees based on eligibility, years of service and salary at termination of employment. However, since 2012-13 the accumulation of severance benefits for voluntary departures progressively ceased for substantially all employees. These severance benefits are not pre-funded and benefits will be paid from future parliamentary authorities.

Information about severance benefits is presented in the following table as at 31 March:

	2018	2017
	(in thousands of dollars)	
Severance obligation, beginning of year	2,089	2,224
Expense for the year	342	42
Benefits paid during the year	(389)	(177)
Severance obligation, end of year	2,042	2,089

d) Sick leave benefits:

Employees are credited, based on service, a maximum of 15 days annually for use as paid absences due to illness or injury. The sick leave benefit obligation is unfunded and will be paid from future parliamentary authorities.

Annually, the NEB obtains an actuarial valuation of the accrued employee sick leave benefit obligation for accounting purposes. The most recent actuarial valuation was completed as of March 31, 2018. Actuarial assumptions are used to determine the sick leave accrued benefit obligation.

The assumptions are reviewed at 31 March of each year and are management's best estimate based on an analysis of the historical data up to the reporting date. The key assumptions used are: a discount rate of 2.09 percent (2.40 percent in 2016-17), which is based on an average yield of government borrowings over the expected average remaining service life of employees of 13.31 years (13.19 years in 2016-17); and a long term general rate of salary increase of 2.6 percent (2.6 percent in 2016-17).

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2018**

6. Employee benefits - continued

d) Sick leave benefits - continued:

Information about sick leave benefits is presented in the following table as at 31 March:

	2018	2017 Restated (Note 3)
	(in thousands of dollars)	
Sick leave benefit, beginning of year	3,556	3,448
Service cost	607	575
Interest cost	86	80
Benefit payments	(577)	(532)
Actuarial (gains) losses	17	(15)
Sick leave benefit, end of year	3,689	3,556

The table below summarizes the employee benefits liability:

	2018	2017 Restated (Note 3)
	(in thousands of dollars)	
Severance benefits	2,042	2,089
Sick leave benefits	3,689	3,556
Employee benefits	5,731	5,645

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2018**

7. Accounts receivable and advances

The following table presents details of the NEB's accounts receivable and advances balances:

	2018	2017
	(in thousands of dollars)	
Receivables – External parties		
Outstanding provisional billings for current year	19,328	22,614
Billing adjustments: (Schedule A)		
Current year	11,190	-
Prior years	-	8,062
Prior year's outstanding balance	28	28
Receivables – Other government departments and agencies	245	482
Employee advances	143	143
	<u>30,934</u>	<u>31,329</u>
Allowance for doubtful accounts	(170)	(140)
Accounts receivable and Advances	30,764	31,189
Financial assets held on behalf of Government	(30,371)	(30,559)
Due to Consolidated Revenue Fund	393	630

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2018**

8. Tangible capital assets
(in thousands of dollars)

Capital asset class	Cost				Closing balance
	Opening balance	Acquisitions	Adjustments (1)	Disposals & write-offs	
Informatics hardware	3,959	935	876		5,770
Informatics software	9,708	823	1,027		11,558
Machinery and equipment	3,061	15			3,076
Furniture	3,183				3,183
Vehicles	62			(38)	24
Leasehold improvements	15,797				15,797
Assets under development	1,871	1,114	(1,903)		1,082
Total	37,641	2,887	-	(38)	40,490

(1) Adjustments include assets under development of \$1,902,784 (\$855,645 in 2016-2017) that were transferred to the other categories upon completion of the assets.

Capital asset class	Accumulated amortization				Net book value	
	Opening balance	Amortization	Disposals, write-offs & adjustments	Closing balance	2018	2017
Informatics hardware	2,521	858		3,379	2,391	1,438
Informatics software	7,314	1,217		8,531	3,027	2,394
Machinery and equipment	1,285	470		1,755	1,321	1,776
Furniture	887	314		1,201	1,982	2,296
Vehicles	39	4	(38)	5	19	23
Leasehold improvements	3,908	1,668		5,576	10,221	11,889
Assets under development	-				1,082	1,871
Total	15,954	4,531	(38)	20,447	20,043	21,687

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2018**

9. Contractual obligations and contingent liabilities

a) Contractual obligations

The nature of the NEB's activities can result in some large multi-year contracts and obligations whereby the NEB 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:

(in thousands of dollars)	2019	2020	2021	2022 and thereafter	Total
Operational contracts	2,193	1,041	149	-	3,383

b) Claims and litigation

The NEB is a defendant in certain cases of pending and threatened litigation which arose in the normal course of business. The outcome of all litigation has been identified as undeterminable or unlikely to be lost. At year-end the NEB estimated the total claimed amount for which the outcome is not determinable to be approximately \$50,000. As at March 31, no provision for such claims has been made in these financial statements as it is not determinable that any future event will confirm that a liability has been incurred.

10. Related Party Transactions

The NEB is related as a result of common ownership to all government departments, agencies, and Crown Corporations. Related parties also include individuals who are members of key management personnel or close family members of those individuals, and entities controlled by, or under shared control of, a member of key management personnel or a close family member of that individual. The NEB enters into transactions with these entities in the normal course of business and on normal trade terms. During the year, the NEB received services which were obtained without charge from other government departments as discussed below.

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

During the year the NEB received services without charge from certain common service organizations, related to accommodation, legal services and the employer's contribution to the health and dental insurance plans. These services provided without charge have been recognized in the NEB's Statement of Operations and Net Financial Position as follows:

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2018**

10. Related Party Transactions - continued

a) Common services provided without charge by other government departments - continued

	2018	2017
	<u>(in thousands of dollars)</u>	
Accommodation	7,801	7,759
Employer's contribution to the health and dental insurance plans	5,269	5,125
Audit services from the Office of the Auditor General	214	215
Payroll and banking services from Public Services and Procurement Canada	55	55
Other professional and Special services	221	191
Legal Services	-	38
Total	13,560	13,383

The Government has centralized some of its administrative activities for efficiency, cost-effectiveness purposes and economic delivery of programs to the public. As a result, the Government uses central agencies and common service organizations so that one department performs services for all other departments and agencies without charge.

Based on an agreement between the NEB and Public Services and Procurement Canada (PSPC), PSPC incurred fit up costs for new office space related to the NEB office move which took place in 2014-15 which were recognized as leasehold improvements and are being amortized over the remaining term of the lease.

b) Other transactions with related parties:

	2018	2017
	<u>(in thousands of dollars)</u>	
Expenses – other government departments and agencies	10,035	10,049
Accounts payable (Note 5)	1,156	247
Accounts receivable (Note 7)	245	482

Expenses disclosed above exclude common services provided without charge, which are already disclosed in a. Expenses are mainly comprised of payments to Treasury Board for employee benefits, including superannuation.

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2018**

11. Segmented information

Presentation by segment is based on the NEB's Departmental Results Framework. The presentation by segment is based on the same accounting policies as described in the Summary of significant accounting policies in note 2. The following table presents the expenses incurred and revenues generated for the main programs, by major object of expense and by major type of revenues. Revenues are allocated to each main program based on their share of total annual expenditures. The segment results for the period are as follows:

	2018					2017 Restated (Note 3)	
	(thousands of dollars)						
	Energy Adjudication	Safety and Environment Oversight	Energy Information	Engagement	Internal Services	Total	Total
Transfer Payments	2,454	-	-	-	-	2,454	701
Operating Expenses							
Salaries and employee benefits	20,287	20,645	7,966	4,095	21,218	74,211	69,293
Accommodation	2,371	2,201	858	418	3,770	9,618	9,230
Professional and special services	1,392	2,359	2,475	725	4,817	11,768	10,287
Travel	739	988	113	237	613	2,690	2,636
Amortization (Note 8)	1,269	1,269	498	227	1,268	4,531	3,814
Communication	292	11	2	19	875	1,199	1,056
Utilities, materials and supplies	25	98	192	40	247	602	1,088
Other	3	2	4	1	39	49	(10)
Total expenses	28,832	27,573	12,108	5,762	32,847	107,122	98,095
Revenues							
Regulatory revenue	27,793	26,580	11,672	5,554	31,663	103,262	90,274
Miscellaneous revenue	11	10	3	2	12	38	5
Revenue earned on behalf of Government	(27,804)	(26,590)	(11,675)	(5,556)	(31,675)	(103,300)	(90,279)
Total revenues	-	-	-	-	-	-	-
Net Cost of Operations before government funding and transfers	28,832	27,573	12,108	5,762	32,847	107,122	98,095

**National Energy Board
Notes to the Financial Statements
For the Year Ended March 31, 2018**

12. Subsequent Event

As part of the NEB modernization review, on 20 June 2018, Bill C-69, An Act to enact the *Impact Assessment Act* and the *Canadian Energy Regulator Act*, to amend the *Navigation Protection Act* and to make consequential amendments to other Acts, passed third reading in the House of Commons, and the Bill is now with the Senate for its consideration. The Senate has adjourned for summer break and is scheduled to resume in September 2018.

The Bill proposes repealing the *National Energy Board Act*, resulting in the NEB's dissolution and enacting the *Canadian Energy Regulator Act*. All assets, liabilities and unexpended appropriations of the NEB will be transferred to the Canadian Energy Regulator on the date the *Canadian Energy Regulator Act* comes into force.

The going concern basis of accounting has been deemed appropriate for the preparation of the current financial statements as, under the proposed legislation, the NEB's assets and liabilities will be transferred to a related party and will continue to be utilized or settled in the normal course of operations. Other proposed changes in the Bill include, among other things, establishing a Board of Directors in a governance capacity, and focusing Commissioners' role on adjudicative matters.

13. Comparative Figures

As described in Note 1, the NEB adopted the Departmental Results Framework in 2017-18 which resulted in a change in expense classification in the Statement of Operations and Net Financial Position. Previous category Energy Regulation has been reallocated between Energy Adjudication, Safety and Environment Oversight, and Engagement. As a result, prior year figures have been reclassified accordingly.

National Energy Board
Schedule A
Allocation of Recoverable Operating Costs
For the Year Ended March 31, 2018

In accordance with the Cost Recovery Regulations recoverable operating costs are based on the expenditures for the calendar year. A calendar year is the period from January 1 to December 31. The operating costs for Calendar 2017 are from Schedule A of the fiscal year 2017-2018 financial statements. The current year recoverable expenses are calculated using one quarter of recoverable expenses from the prior fiscal year and three quarters of recoverable expenses from the current fiscal year. The methodology used by management to determine actual costs is reviewed on a periodic basis and adjusted for significant events.

	2017 <i>(calendar 2017)</i>	2016 <i>(calendar 2016)</i>
	(in thousands of dollars)	
January to March expenses - 1/4 from previous fiscal year	24,497	24,656
April to December expenses – 3/4 from current fiscal year	80,341	73,521
Total calculated expenses for cost recovery purposes	104,838	98,177
Less: non-recoverable costs related to the regulation of Frontier Lands and review of Arctic safety and offshore drilling	(2,831)	(5,019)
Recoverable operating costs	102,007	93,158

The allocation of recoverable operating costs to the commodities is based on actual time spent by Board members, officers and employees during the 2015/16 fiscal year (2014/15 for 2016):

	2017 <i>(calendar 2017)</i>		2016 <i>(calendar 2016)</i>	
	(in thousands of dollars)			
Gas	45.9%	46,811	47.8%	44,490
Oil	49.2%	50,176	49.5%	46,106
Electricity	4.9%	4,997	2.7%	2,540
	100%	101,984	100%	93,136
Commodity pipelines		23		22
Recoverable operating costs		102,007		93,158

National Energy Board
Schedule A
Allocation of Recoverable Operating Costs
For the Year Ended March 31, 2018

Billing Adjustment

	2017 <i>(calendar 2017)</i>	2016 <i>(calendar 2016)</i>	2015 <i>(calendar 2015)</i>
	(in thousands of dollars)		
Recoverable operating costs	102,007	93,158	87,305
Deduct: provisional billing	(90,817)	(101,467)	(79,243)
Billing adjustment	11,190	(8,309)	8,062

The billing adjustment represents the difference between the provisional billing and the actual recoverable operating costs. In accordance with Section 19 of the Regulations, the billing adjustment of \$11,190,391 for the current year and (\$8,308,557) for the prior year will be applied to the provisional billings of 2019 and 2018 respectively. The billing adjustments for 2017 and 2016 are included in accounts receivable and accounts payable respectively.

Annex to the Statement of Management Responsibility Including Internal Control over Financial Reporting of National Energy Board for Fiscal Year 2017-2018 (unaudited)

1. Introduction

In support of an effective system of internal control, the National Energy Board (NEB) annually assesses the performance of its financial controls to ensure that:

- Financial arrangements or contracts are entered into only when sufficient funding is available;
- Payments for goods and services are made only when the goods or services are received or the conditions of contracts or other arrangements have been satisfied; and
- Payments have been properly authorized.

The NEB will leverage the results of the periodic core control audits performed by the Office of the Comptroller General. Below is a summary of the results of the assessment conducted during fiscal year 2017-18

2. Assessment results during fiscal year 2017-18

For the most part, controls related to payment for goods and services and payment authority were functioning well and form an adequate basis for the department's system of internal control.

3. Assessment plan

The NEB will continue to monitor the performance of its system of internal control, with a focus on the core controls related to financial transactions.