



Consolidated Future-Oriented Statement of Operations

National Research Council Canada

For the Year Ending March 31, 2019

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For the Year Ending March 31

(in thousands of dollars)	Forecast Results 2017-18	Planned Results 2018-19
Expenses		
Science and Innovation	834,647	820,179
Internal Services	<u>202,717</u>	<u>166,691</u>
Total Expenses	1,037,364	986,870
Revenues		
Research services	63,736	56,952
Technical services	112,391	100,427
Intellectual property, royalties and fees	9,489	8,479
Sales of goods and information products	6,779	6,779
Rentals	7,143	7,143
Grants and contributions	19,907	19,907
Lease inducement revenue	2,548	2,548
Revenues earned on behalf of Government	<u>(135)</u>	<u>(135)</u>
Total Revenues	221,858	202,100
Net cost of operations before government funding and transfers	<u>815,506</u>	<u>784,770</u>

The accompanying notes form an integral part of the consolidated future-oriented statement of operations.

National Research Council Canada

Notes to the Consolidated Future-Oriented Statement of Operations

For the Year Ending March 31, 2019

1. Methodology and Significant Assumptions

The Consolidated Future-Oriented Statement of Operations has been prepared on the basis of government priorities and the plans of the NRC as described in the Departmental Plan.

The main assumptions underlying the forecasts are as follows:

- (a) Expenses and revenues, including the determination of amounts internal and external to the government, are based on a combination of information obtained through an organization-wide business planning process, monthly financial forecasts, and historical information. The forecast results presented for 2017-18 are based on the October 31, 2017 financial update used by NRC for internal forecasting purposes, and the planned results presented for 2018-19 are based on the Annual Reference Level Update (ARLU).
- (b) Starting April 1, 2018, NRC presents financial information on plans and expected performance by Core Responsibility rather than by Program. Expenses related to National Science Library, Research Information Technology Platforms and Special Purpose Real Property and Business Management Support are included in the Science and Innovation Core Responsibility instead of Internal Services.

Internal Services refers to the activities and resources of the 10 distinct service categories that support Program delivery at the NRC, regardless of the Internal Services delivery model. The 10 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; Materiel Services; and Acquisition Services.

- (c) No significant change in foreign exchange rates is expected.

These assumptions are made as at January 11, 2018.

2. Variations and Changes to the Forecast Financial Information

Although every attempt has been made to forecast final results for the remainder of 2017-18 and for 2018-19, actual results achieved for both years are likely to vary from the forecast information presented, and this variation could be material.

In preparing this Consolidated Future-Oriented Statement of Operations, NRC has made estimates and assumptions concerning the future. These estimates and assumptions may differ from the subsequent actual results. Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Factors that could lead to material differences between the consolidated future-oriented statement of operations and the historical consolidated statement of operations include:

- (a) This statement is based on approvals received as at January 10, 2018. Subsequent increases or decreases to these approvals would have an impact on spending.
- (b) Revenues generated for 2018-19 are based on targets set by NRC management. Economic conditions may affect both the amount of revenue earned and the collectability of accounts receivables. Variations to revenue earned would have an impact on spending.
- (c) Further changes to the operating budget through additional new initiatives, technical adjustments or reductions to program funding.
- (d) The timing and amounts of acquisitions and disposals of tangible capital assets may affect gains/losses and amortization expense.
- (e) Expenses for 2017-18 and 2018-19 include anticipated payments on expired collective agreements.
- (f) During the Construction phase of the Thirty Meter Telescope, NRC records the contribution as capital assets under construction and therefore the contribution is excluded from expenses.

Once the Departmental Plan is tabled in Parliament, NRC will not be updating its forecasts for changes in financial resources made in ensuing supplementary estimates. Variances will be explained in the Departmental Results Report.

3. Summary of Significant Accounting Policies

This Consolidated Future-Oriented Statement of Operations has been prepared using the Government of Canada's accounting policies in effect for fiscal year 2017-18 and is 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) Consolidation

This Consolidated Future-Oriented Statement of Operations includes both NRC and its portion of the accounts of the Canada-France-Hawaii Telescope Corporation (CFHT) and TMT International Observatory LLC (TIO). The NRC relationship with CFHT and TIO meets the definition of a government partnership under Canadian public sector accounting standards, which requires that its results be proportionally consolidated within those of NRC. All inter-organizational balances and transactions are eliminated as part of the consolidation process. CHFT and TIO statements as at December 31, 2016 have been proportionally consolidated with NRC's March 31 future-oriented statement of operations.

b) Expenses

- NRC's expenses are recorded on an accrual basis.
- Expenses for NRC's operations are recorded when goods are received or services are rendered.
- Vacation pay and compensatory leave are accrued as the benefits are earned by employees under their respective terms of employment.
- Services provided without charge by other government departments and agencies for accommodation, employer contributions to the health and dental insurance plans, legal services, workers' compensation and the services related to the email, data center and network services and the email, data center and network support unit as well as the acquisition and provision of hardware and software for end user devices are recorded as operating expenses at their estimated cost.
- Contributions are recognized in the year in which the recipient has met the eligibility criteria or fulfilled the terms of a contractual transfer agreement, provided that the transfer is authorized and a reasonable estimate can be made.
- 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 consolidated statement of operations.
- Expenses also include provisions to reflect changes in the value of assets, including provisions for bad debt on accounts receivable, provision for valuation on loans, investments and advances and inventory obsolescence or liabilities, including contingent liabilities and environmental liabilities, to the extent the future event is likely to occur and a reasonable estimate can be made.
- Expenses also include amortization of tangible capital assets, which are capitalized at their acquisition cost. Amortization of tangible capital assets is done on a straight-line basis over the estimated useful life of the asset.

c) Revenues

Revenues are recognized in the year in which the underlying transaction or event occurred that gave rise to revenue as follows:

- Research and technical services: Revenues are recognized as services are provided based on percentage-of-completion.
- Intellectual property, royalties and fees: Revenues are recognized over the license period.
- Sales of goods and information products: Revenue is recognized when goods or information products are delivered to the client.
- Rentals: Revenue is recognized in the period to which the lease or use of property relates.
- Grants and contributions: Revenue is recognized when the transfer payment is authorized and eligibility criteria are met, except to the extent that transfer stipulations give rise to an obligation that meets the definition of a liability.

Funds received for which NRC has an obligation to other parties for the provision of goods, services or the use of assets in the future are recorded as deferred revenue.

Receipts are deposited to the Consolidated Revenue Fund (CRF). Under the NRC Act, money received by NRC through the conduct of its operations is spendable in the current or in subsequent years.

Revenues that are non-spendable are not available to discharge NRC's liabilities. Although the President is expected to maintain accounting control, he has no authority regarding the disposition of non-spendable revenues. As a result, non-spendable revenues are considered to be earned on behalf of the Government of Canada and are therefore presented in reduction of the NRC's gross revenues.

4. Parliamentary Authorities

NRC is financed by the Government of Canada through parliamentary authorities. Financial reporting of authorities provided to NRC differs from financial reporting according to generally accepted accounting principles since authorities are based mainly on cash flow requirements. Items recognized in the Consolidated Future-Oriented Statement of Operations in one year may be funded through parliamentary authorities in prior, current, or future years. Accordingly, NRC has different net cost of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables:

a) Reconciliation of net cost of operations to requested authorities

(in thousands of dollars)	Forecast Results 2017-18	Planned Results 2018-19
Net cost of operations before government funding and transfers	<u>815,506</u>	<u>784,770</u>
Adjustments for items affecting net cost of operations but not affecting authorities:		
Revenues	221,858	202,100
Amortization of tangible capital assets	(50,000)	(46,000)
Services provided without charge by other government departments and agencies	(53,945)	(55,296)
Cost of goods sold	(851)	(868)
Bad debt expenses	(1,275)	(600)
Portion of accounts of CFHT and TIO	(7,187)	(7,187)
Other	<u>(393)</u>	<u>(100)</u>
Total items affecting net cost of operations but not affecting authorities	108,207	92,049
Adjustment for item not affecting net cost of operations but affecting authorities:		
Acquisitions of tangible capital assets and additions to assets under construction	156,370	189,878
Requested authorities	<u>1,080,083</u>	<u>1,066,697</u>

b) Authorities requested

(in thousands of dollars)	Forecast Results 2017-18	Planned Results 2018-19
Authorities requested:		
Vote 1 – Operating expenditures	412,300	348,100
Vote 5 – Capital expenditures	107,200	64,000
Vote 10 – Grants and contributions	363,400	395,800
Statutory amounts:		
Revenues pursuant to paragraph 5(1)(e) of the National Research Council Act	334,683	284,600
Contributions to employee benefit plans	58,100	58,297
Less:		
Revenues available for use in future years	(102,600)	(83,000)
Lapsed authorities:		
Frozen allotments – Operating	(100)	(100)
Frozen allotments – Capital	(16,800)	(1,000)
Frozen allotments – Grants and contributions	(76,100)	
Requested authorities	1,080,083	1,066,697