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Consolidated Future-Oriented Statement of Operations

National Research Council Canada

For the Year Ending March 31, 2015

National Research Council Canada
Consolidated Future-Oriented Statement of Operations
For the Year Ending March 31

<i>(in thousands of dollars)</i>	Estimated Results 2014	Planned Results 2015
Expenses		
Technology Development and Advancement	363,602	367,582
Industrial Research Assistance	295,461	263,030
Science infrastructure and Measurement	105,469	105,715
Internal Services	<u>249,887</u>	<u>262,056</u>
Total Expenses	<u>1,014,419</u>	<u>998,383</u>
Revenues		
Research services	57,094	69,874
Technical services	83,511	102,203
Intellectual property, royalties and fees	8,560	10,476
Sales of goods and information products	4,445	5,440
Rentals	5,345	6,541
Grants and contributions	2,260	2,766
Lease inducement revenue	2,548	2,548
Gain on disposal of tangible capital assets	1,463	-
Other	360	360
Revenues earned on behalf of Government	<u>(150)</u>	<u>(150)</u>
Total Revenues	<u>165,436</u>	<u>200,058</u>
Net cost of operations	<u>848,983</u>	<u>798,325</u>

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

National Research Council Canada

Notes to Consolidated Future-Oriented Statement of Operations

For the Year Ending March 31, 2015

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 Report on Plans and Priorities.

The main assumptions 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, quarterly financial forecasts, and historical information. The estimated results presented for 2013-14 are based on the September 30, 2013 financial update used by NRC for internal forecasting purposes, and the forecast presented for 2014-15 is based on the Annual Reference Level Update (ARLU).
- (b) Program alignment architecture (PAA) distribution in 2014-15 will be proportionally consistent with 2013-14.
- (c) No significant change in foreign exchange rates is expected.

These assumptions are adopted as at February 5, 2014.

2. Variations and Changes to the Forecast Financial Information

While every attempt has been made to accurately forecast final results for the remainder of 2013-14 and for 2014-15, 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 future-oriented statement of operations and the historical consolidated statement of operations include:

- (a) These statements are based on approvals received as at February 5, 2014. Subsequent increases or decreases to these approved amounts would have an impact on spending.
- (b) Revenues generated for 2014-15 are based on targets set by NRC management, and represent a significant increase from 2013-14. 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.

Once the Report on Plans and Priorities is presented, NRC will not be updating the forecasts for any changes in financial resources made in ensuing supplementary estimates. Variances will be explained in the Departmental Performance Report.

3. Summary of Significant Accounting Policies

This consolidated future-oriented statement of operations has 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) Consolidation

This consolidated future-oriented statement of operations include both NRC and its portion of the accounts of the Canada-France-Hawaii Telescope Corporation (CFHT). The NRC relationship with CFHT 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 forecasts statements as at December 31, 2013 and 2014 have been proportionally consolidated with NRC's March 31 future-oriented statement of operations.

b) 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 licence 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 in which the lease or use of property relates to.
- Grants and contributions: revenue is recognized when the transfer payment is authorized and any 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. While 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.

c) Expenses

- Expenses are recorded on an accrual basis.
- 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.
- 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 centre and network services and the email, data centre and network support unit are recorded as operating expenses at their estimated cost.
- 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.

4. Parliamentary Authorities

NRC is financed by the Government of Canada through parliamentary authorities. Financial reporting of authorities provided to NRC do not parallel financial reporting according to generally accepted accounting principles since authorities are primarily based on cash flow requirements. Items recognized in the 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

<i>(in thousands of dollars)</i>	Estimated 2014	Planned 2015
Net Cost of Operations	<u>848,983</u>	<u>798,325</u>
Adjustments for items affecting net cost of operations but not affecting authorities:		
Revenues	165,436	200,058
Amortization of tangible capital assets	(66,500)	(66,500)
Services provided without charge by other government departments and agencies	(47,264)	(46,205)
Financial arrangements with other government departments and agencies	(39,078)	-
Increase in salary accrual	(7,752)	(1,149)
Decrease in employee future benefits	4,055	2,581
Decrease in vacation pay and compensatory leave	3,500	3,500
Cost of goods sold	(780)	(955)
Other	<u>(100)</u>	<u>(100)</u>
Total items affecting net cost of operations but not affecting authorities	11,517	91,230
Adjustments for items not affecting net cost of operations but affecting authorities:		
Acquisitions of tangible capital assets and additions to assets under construction	62,260	56,242
Inventory purchases	<u>1,100</u>	<u>1,100</u>
Total items not affecting net cost of operations but affecting authorities	63,360	57,342
Requested authorities	<u>923,860</u>	<u>946,897</u>

b) Authorities requested

<i>(in thousands of dollars)</i>	Estimated 2014	Planned 2015
Authorities requested:		
Vote 60 – Operating expenditures	395,091	385,799
Vote 65 – Capital expenditures	31,299	30,742
Vote 70 – Grants and contributions	292,478	259,891
Statutory amounts:		
Revenues pursuant to paragraph 5(1)(e) of the <i>National Research Council Act</i>	264,676	311,017
Contributions to employee benefit plans	59,768	57,665
Less:		
Revenues available for use in future years	(113,717)	(92,482)
Lapsed authorities:		
Frozen allotments - Operating	(5,735)	(5,735)
Requested authorities	923,860	946,897