



NATIONAL RESEARCH COUNCIL CANADA

ARCHIVED - Financial Statements 2006-2007

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National Research
Council Canada

Conseil national
de recherches Canada

Canada



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, 2007 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, 2007 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.

John Wiersema, FCA
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
June 15, 2007

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, 2007 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 the NRC's financial transactions. Financial information submitted to the *Public Accounts of Canada* and included in the NRC's *Performance 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 the NRC.

The role of the Audit, Evaluation, and Risk Management Committee of the NRC, that was established in June 2005, is to ensure that the proper review procedures are in place, to obtain the results of the audits and evaluations, especially in sensitive areas and in areas of concern and to be informed of the corrective actions taken or planned to be taken by management.

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



Dr. Pierre Coulombe
President



Daniel Gosselin, FCA
Chief Financial Officer

Ottawa, Canada
June 15, 2007

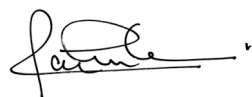
**National Research Council of Canada
Statement of Financial Position
as at March 31**

<i>(in thousands of dollars)</i>	2007	2006
ASSETS		
Financial Assets		
Due from the Consolidated Revenue Fund	207,971	177,097
Accounts receivable and advances (Note 4)	26,880	21,089
Inventory for resale	2,873	3,589
Capital assets held for sale (Note 7)	-	7,630
Equity investments (Note 5)	646	1,055
Endowment fund investments (Note 6)	4,192	4,077
	<u>242,562</u>	<u>214,537</u>
Non-Financial Assets		
Prepaid expenses	12,750	5,470
Inventory for consumption	2,111	2,216
Capital assets (Note 7)	601,363	543,824
	<u>616,224</u>	<u>551,510</u>
TOTAL ASSETS	<u>858,786</u>	<u>766,047</u>
LIABILITIES AND EQUITY OF CANADA		
Liabilities		
Accounts payable and accrued liabilities (Note 8)	130,853	123,471
Vacation pay and compensatory leave	39,791	36,986
Deferred revenue (Note 9)	84,834	42,794
Employee future benefits (Note 10)	58,788	55,269
Environmental liabilities (Note 11)	300	300
	<u>314,566</u>	<u>258,820</u>
Equity of Canada	544,220	507,227
TOTAL LIABILITIES AND EQUITY OF CANADA	<u>858,786</u>	<u>766,047</u>

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

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

Approved by:



Dr. Pierre Coulombe
President



Daniel Gosselin, FCA
Chief Financial Officer

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

<i>(in thousands of dollars)</i>	2007	2006
Expenses (Note 13)		
Research and development	600,627	566,534
Technology and Industry support	246,028	266,296
	<u>846,655</u>	<u>832,830</u>
Revenues (Note 14)		
Research and development	109,621	96,363
Technology and Industry support	60,536	63,503
	<u>170,157</u>	<u>159,866</u>
Net Cost of Operations	<u>676,498</u>	<u>672,964</u>

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>	2007	2006
Equity of Canada, beginning of year	507,227	519,055
Net cost of operations	(676,498)	(672,964)
Net cash provided by Government (Note 3)	655,005	624,083
Change in due from the Consolidated Revenue Fund	30,874	11,113
Services received without charge (Note 15)	27,612	25,940
Equity of Canada, end of year	<u>544,220</u>	<u>507,227</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>	2007	2006
Operating Activities		
Net cost of operations	676,498	672,964
Non-cash items		
Amortization of capital assets	(64,210)	(57,916)
Gain on sale of equity investments	223	1,935
Net gain (loss) on disposal of capital assets	6,823	(490)
Services received without charge (Note 15)	(27,612)	(25,940)
Other	2,451	-
Variations in Statement of Financial Position		
Increase (decrease) in accounts receivable and advances	5,791	(4,860)
(Decrease) increase in inventory for resale	(716)	255
Increase in endowment fund investments	115	152
Increase in prepaid expenses	7,280	1,081
Decrease in inventory for consumption	(105)	(202)
Increase in liabilities	(55,746)	(34,864)
Cash used by operating activities	<u>550,792</u>	<u>552,115</u>
Capital Investment Activities		
Acquisitions of capital assets	120,172	74,334
Proceeds from disposal of capital assets	(15,327)	(683)
Cash used by capital investment activities	<u>104,845</u>	<u>73,651</u>
Investing Activities		
Proceeds from sale of equity investments	(632)	(1,683)
Cash used by investing activities	<u>(632)</u>	<u>(1,683)</u>
Financing Activities		
Net cash provided by Government of Canada (Note 3)	<u>(655,005)</u>	<u>(624,083)</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, 2007

1. Authority and Objectives

The National Research Council of Canada (the 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 the 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, the NRC reports under the following program activities:

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

These program activities also include the 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

The NRC is financed mainly by the Government of Canada through Parliamentary appropriations. Appropriations provided to the 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

The NRC operates within the Consolidated Revenue Fund, which is administered by the Receiver General for Canada. All cash received by the NRC is deposited to the Consolidated Revenue Fund and all cash disbursements made by the 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 between 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 the 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 the 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 entitlement of recipients has been established, while contributions are recognized in the year the conditions for payment are met.
- 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.

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. The NRC's contributions to the Plan are charged to expense in the year incurred and represent the NRC's total obligation to the Plan. Current legislation does not require the 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 the NRC becomes aware of the contamination and is obligated, or is likely to be obligated to incur such costs. If the likelihood of the 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) and are recorded at fair value. Fair value of equity investments is 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. If the estimates of the non-monetary transactions cannot be determined, the equity investments are recorded at a nominal 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. Income from endowments is recorded as deferred revenue and recognized as revenue in the year in which the related expenses are incurred.

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. The 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 payment 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:

Asset Class	Amortization Period
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 the 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.

3. Parliamentary Appropriations

The 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, the 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>	2007	2006
Net Cost of Operations	676,498	672,964
Adjustments for items affecting net cost of operations but not affecting appropriations:		
Add (Less):		
Revenues	170,157	159,866
Amortization of capital assets	(64,210)	(57,916)
Financial arrangements with other Federal Government departments and agencies	(56,974)	(58,842)
Services received without charge	(27,612)	(25,940)
Specified purpose accounts disbursements	(17,182)	(20,994)
Increase in salary accruals	(5,527)	-
Employee future benefits	(3,519)	(5,698)
Refunds of previous year's expenditures	3,056	719
Vacation pay and compensatory leave	(2,805)	(3,434)
Increase in litigation claim expense accrual	(1,012)	(538)
Bad debts (expense) recovery	(784)	745
Expenses related to Justice Canada	(541)	(486)
Decrease (increase) in payment-in-lieu of taxes accrual	371	(670)
Loss on disposal of capital assets	-	(490)
Other	3,637	109
Total items affecting net cost of operations but not affecting appropriations	(2,945)	(13,569)
Adjustments for items not affecting net cost of operations but affecting appropriations:		
Add (Less):		
Acquisitions of capital assets and additions to assets under construction	62,072	74,334
Increase in prepaid expenses	7,280	1,081
(Decrease) increase in inventory	(821)	53
Total items not affecting net cost of operations but affecting appropriations	68,531	75,468
Current year appropriations used	742,084	734,863

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

<i>(in thousands of dollars)</i>	2007	2006
Parliamentary appropriations provided:		
Vote 55 – Operating expenditures	460,203	356,428
Vote 55 – Governor General's special warrants	-	37,877
Vote 60 – Capital expenditures	49,943	53,919
Vote 60 – Governor General's special warrants	-	13,548
Vote 65 – Grants and contributions	145,858	113,760
Vote 65 – Governor General's special warrants	-	27,070
Statutory amounts:		
Revenues pursuant to paragraph 5(1)(e) of the <i>National Research Council Act</i>	133,706	125,839
Contributions to employee benefit plans	54,647	56,606
Proceeds from the disposal of surplus Crown assets	335	683
Collection agency fees	51	66
Less:		
Revenues available for use in subsequent years	(78,168)	(40,628)
Lapsed appropriations	(24,491)	(10,305)
Current year appropriations used	742,084	734,863

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

<i>(in thousands of dollars)</i>	2007	2006
Net cash provided by government	655,005	624,083
Revenues	170,157	159,866
Receipts and expenditures not affecting appropriations	(132,918)	(88,658)
(Increase) decrease in accounts receivable and advances	(5,791)	4,860
Increase in endowment fund investments	(115)	(152)
Increase in liabilities	55,746	34,864
Current year appropriations used	742,084	734,863

4. Accounts Receivable and Advances

<i>(in thousands of dollars)</i>	2007	2006
Accounts receivable from external parties	19,612	18,642
Accounts receivable from other Federal Government departments and agencies	5,846	3,536
Employee advances	48	54
	25,506	22,232
Less: allowance for doubtful accounts on external accounts receivable	(2,180)	(1,969)
	23,326	20,263
Repayable contributions	10,659	7,553
Less: allowance for uncollectibility	(7,105)	(6,727)
Net repayable contributions	3,554	826
Total	26,880	21,089

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. The 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 as well as NRC's desire to receive a fair return on the investment on behalf of Canadians. Of all portfolio investments where the NRC holds an equity position, six were for debt settlements for a total value of \$644,839 (three valued at \$537,135 in 2006) and twenty were obtained by non-monetary transactions (twenty-two in 2006), of which eight (eleven in 2006) 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, 2007 was \$757,292 (\$1,567,687 in 2006).

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>	2007	2006
Restricted cash and investments, beginning of year	4,077	3,925
Net income from endowment	210	232
Awards granted	(95)	(80)
Restricted cash and investments, end of year	4,192	4,077

The portfolio had an average effective return of 5.02% (5.53% in 2006) and an average term to maturity of 5.07 years as at March 31, 2007 (5.21 years as at March 31, 2006). The fair value of the endowment investments as at March 31, 2007 was \$4,261,721 (\$4,135,889 in 2006).

7. Capital Assets

(in thousands of dollars)

Capital asset class	Cost				Accumulated amortization				2007 Net book value	2006 Net book value
	Opening balance	Acquisitions	Transfers, disposals and write-offs	Closing balance	Opening balance	Amortization	Disposals and write-offs	Closing balance		
Land	10,912	-	60	10,972	-	-	-	-	10,972	10,912
Buildings and facilities	579,299	-	35,487	614,786	(293,775)	(23,330)	(13)	(317,118)	297,668	285,524
Works and infrastructure	20,197	-	(12)	20,185	(11,429)	(724)	-	(12,153)	8,032	8,768
Machinery, equipment and furniture	440,175	33,277	(905)	472,547	(270,724)	(28,595)	2,460	(296,859)	175,688	169,451
Informatics equipment	67,647	4,965	(3,847)	68,765	(53,514)	(5,094)	4,090	(54,518)	14,247	14,133
Informatics software	12,239	1,168	3,915	17,322	(3,424)	(3,457)	1	(6,880)	10,442	8,815
Vehicles	2,711	256	(181)	2,786	(1,998)	(239)	170	(2,067)	719	713
Aircraft	10,643	120	-	10,763	(9,020)	(54)	-	(9,074)	1,689	1,623
Leasehold improvements	3,907	-	6,567	10,474	(3,649)	(563)	2,536	(1,676)	8,798	258
Assets under construction	37,027	22,286	(48,751)	10,562	-	-	-	-	10,562	37,027
Leased capital assets	10,000	58,100	-	68,100	(3,400)	(2,154)	-	(5,554)	62,546	6,600
Total	1,194,757	120,172	(7,667)	1,307,262	(650,933)	(64,210)	9,244	(705,899)	601,363	543,824

Amortization expense for the year ended March 31, 2007 is \$64,209,615 (\$57,915,678 in 2006).

At March 31, 2007, the NRC held eight land lease agreements (eight in 2006) for a nominal annual cost of one dollar with universities. In these instances, the 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, the NRC entered into a non-monetary transaction. The NRC entered into 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 the NRC for twenty-five years at a nominal cost of one dollar. The 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, the NRC took possession of a new facility and entered into a non-monetary transaction with the University of Alberta. The NRC is in the process of re-negotiating terms for a new lease with the University for the housing of the NRC's National Institute for Nanotechnology (NINT), whereby leased property is provided to the NRC at a nominal cost of one dollar per year. The proposed 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, the NRC took possession of a new facility and entered into a non-monetary transaction with the University of Prince Edward Island. The NRC entered into a lease agreement with the University for the housing of the NRC's Institute for Nutrisciences and Health (INH), whereby leased property was provided to the 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 its fair value of \$13,700,000. The annual amortization of \$548,000 for the capital asset is exactly offset by the amortization of the deferred contribution related to the leased building.

On December 12, 2002, the NRC reached an agreement with the University of British Columbia to relinquish an existing land lease and the building thereon for \$15,000,000. The disposal occurred in 2007 and these proceeds were recognized in 2007.

The following table shows the carrying value of the capital assets held for sale:

<i>(in thousands of dollars)</i>	Cost	Accumulated Amortization	2007 Net book value	2006 Net book value
Capital assets held for sale	-	-	-	7,630

8. Accounts Payable and Accrued Liabilities

<i>(in thousands of dollars)</i>	2007	2006
Suppliers	102,188	98,175
Payable to other Federal Government departments and agencies	14,017	15,339
Accrued salaries, wages and employee benefits	13,773	7,965
Contractor holdbacks	745	865
Sales tax payable	130	1,127
Total	130,853	123,471

9. Deferred Revenue

<i>(in thousands of dollars)</i>	2007	2006
Deferred revenue - specified purpose accounts		
Balance, beginning of year	12,596	11,054
Funds received	17,679	22,536
Revenue recognized	(17,182)	(20,994)
Balance, end of year	13,093	12,596
Deferred revenue - other		
Balance, beginning of year	23,598	12,783
Funds received	9,129	18,614
Revenue recognized	(23,532)	(7,799)
Balance, end of year	9,195	23,598
Deferred revenue – contributions related to leased capital assets		
Balance, beginning of year	6,600	7,000
Contributions received	58,100	-
Contributions recognized as revenue	(2,154)	(400)
Balance, end of year	62,546	6,600
Total	84,834	42,794

10. Employee Future Benefits

Employees of the 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

The 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 \$40,275,048 (\$41,888,165 in 2006) which represents approximately 2.3 times (2.6 times in 2006) the contributions by employees. Both the employees and the NRC contribute to the cost of the Plan. As at March 31, 2007, the contributions are as follows:

<i>(in thousands of dollars)</i>	2007	2006
NRC's contributions	40,275	41,888
Employees' contributions	17,825	15,818

The 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

The 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>	2007	2006
Accrued benefit obligation, beginning of year	55,269	49,571
Expense for the year	7,180	8,707
Benefits paid during the year	(3,661)	(3,009)
Accrued benefit obligation, end of year	58,788	55,269

11. Contingent Liabilities

a) Environmental liabilities

Liabilities are accrued to record the estimated costs related to the management and remediation of contaminated sites where the NRC is obligated or likely to be obligated to incur such costs. The NRC has identified one site (one site in 2006) where such action is possible and for which a liability of \$300,000 (\$300,000 in 2006) has been recorded. The 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 the NRC in the year in which they become known.

b) Claims and litigation

Claims have been made against the 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, and a reasonable estimate of the loss can be made, an estimated liability is accrued and an expense recorded in the NRC's financial statements.

As at March 31, 2007, the NRC had thirteen claims (seventeen in 2006) outstanding of which three (five in 2006) related to pending charges that will likely result in a liability and two where the outcome is undeterminable (none in 2006). All three claims that will likely result in a liability can be reasonably estimated (four in 2006) and none (one in 2006) cannot be reasonably estimated. A total accrued liability of \$1,550,000 (\$537,600 in 2006) was recorded based on the NRC's legal assessment of potential liability.

12. Contractual Obligations

The nature of the NRC's activities can result in some large multi-year contracts and obligations whereby the 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>	2008	2009	2010	2011	2012 and thereafter	Total
Transfer payments	92,907	60,540	54,900	10,530	17,295	236,172
Operating contracts	31,542	12,157	8,433	763	-	52,895
Total	124,449	72,697	63,333	11,293	17,295	289,067

13. Expenses

<i>(in thousands of dollars)</i>	2007	2006
Salaries and employee future benefits	419,566	395,985
Grants and contributions	142,963	129,902
Utilities, materials and supplies	81,026	87,777
Amortization	64,210	57,916
Professional and special services	60,111	64,044
Transportation and communication	27,127	26,667
Repairs and maintenance	18,180	17,616
Payments in lieu of taxes	13,649	15,373
Information	5,377	4,492
Rentals	5,244	5,460
Bad debts	3,658	23,879
Awards	1,707	2,261
Cost of goods sold	745	807
Net loss on disposal of capital assets	-	490
Other	3,092	161
Total	846,655	832,830

14. Revenues

<i>(in thousands of dollars)</i>	2007	2006
Sales of goods and services		
Services of non-regulatory nature and other fees and charges	64,995	56,097
Sales of goods and information products	11,349	11,981
Rights and privileges	6,663	5,834
Lease and use of property	3,221	3,060
	<u>86,228</u>	<u>76,972</u>
Financial arrangements with other Federal Government departments and agencies	56,974	58,842
Revenues from joint project and cost sharing agreements	17,182	20,994
Net gain on disposal of capital assets	6,823	-
Gain on sale of equity investment	223	1,935
Other	2,727	1,123
Total	170,157	159,866

15. Related Party Transactions

The NRC is related as a result of common ownership to all Government of Canada departments, agencies, and Crown corporations. The 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 receivable and payable to other Federal Government departments and agencies. Also, during the year, the NRC received services, which were obtained without charge from other Federal Government departments and agencies. These services without charge have been recognized in the NRC's Statement of Operations as follows:

<i>(in thousands of dollars)</i>	2007	2006
Employer's contributions to the health and dental insurance plans provided by Treasury Board	25,786	24,478
Legal services provided by Justice Canada	635	376
Audit services provided by the Office of the Auditor General of Canada	500	427
Workers' compensation benefits provided by Human Resources and Social Development Canada	360	336
Payroll services provided by Public Works and Government Services Canada	174	163
Accommodation provided by Public Works and Government Services Canada	157	160
Total	27,612	25,940

The total of legal services provided by Justice Canada amount to \$1,176,429 (\$862,638 in 2006). Of this amount, \$635,462 (\$376,326 in 2006) was provided without charge.

16. Financial Instruments

The 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 the 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. Subsequent Event

In May 2007, the NRC and the Research Council Employee's Association (RCEA) reached a collective agreement with the following three groups: Administrative Support (AD), Administrative Services (AS) and Computer Systems Administration (CS) for the period of May 1, 2005 to April 30, 2008 for the AD and AS groups and for the period of December 22, 2005 to December 21, 2007 for the CS group. All retroactive salaries and benefits payable in accordance with these agreements, which will be funded by the Treasury Board Secretariat, will be paid in 2008. A liability and an expense for retroactive salaries and benefits payable as at March 31, 2007 were recorded in 2007 for \$4 million.

18. Comparative Information

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