



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, 2006 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, 2006 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.

Sheila Fraser

Sheila Fraser, FCA
Auditor General of Canada

Ottawa, Canada
June 28, 2006

National Research Council of Canada

Statement of Management Responsibility

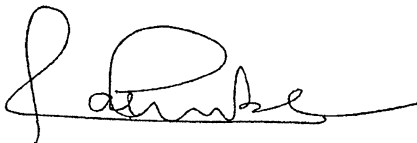
Responsibility for the integrity and objectivity of the accompanying financial statements for the year ended March 31, 2006 and all information contained in these statements rests with the Council's management. These financial statements have been prepared by management in accordance with Treasury Board 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 Council's financial transactions. Financial information submitted to the *Public Accounts of Canada* and included in the Council'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 Council.

The role of the Audit, Evaluation, and Risk Management Committee of the National Research Council of Canada, 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 Council 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 28, 2006

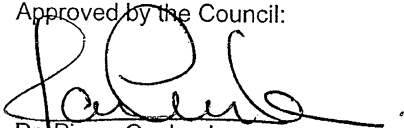
**National Research Council of Canada
Statement of Financial Position
as at March 31**

<i>(in thousands of dollars)</i>	2006	2005
ASSETS		
Financial Assets		
Due from the Consolidated Revenue Fund	177,097	165,984
Accounts receivable and advances (Note 5)	21,089	25,949
Inventory for resale	3,589	3,334
Capital assets held for sale (Note 8)	7,630	7,630
Equity investments (Note 6)	1,055	803
Endowment fund investments (Note 7)	4,077	3,925
	<u>214,537</u>	<u>207,625</u>
Non-Financial Assets		
Prepaid expenses	5,470	4,389
Inventory for consumption	2,216	2,418
Capital assets (Note 8)	543,824	528,579
	<u>551,510</u>	<u>535,386</u>
TOTAL ASSETS	<u>766,047</u>	<u>743,011</u>
LIABILITIES AND EQUITY OF CANADA		
Liabilities		
Accounts payable and accrued liabilities (Note 9)	123,471	109,696
Vacation pay and compensatory leave	36,986	33,552
Deferred revenue (Note 10)	42,794	30,837
Employee future benefits (Note 11)	55,269	49,571
Environmental liabilities (Note 12)	300	300
	<u>258,820</u>	<u>223,956</u>
Equity of Canada	507,227	519,055
TOTAL LIABILITIES AND EQUITY OF CANADA	<u>766,047</u>	<u>743,011</u>

Contingent liabilities (Note 12) and contractual obligations (Note 13)

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

Approved by the Council:


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>	<u>2006</u> <u>(Note 3)</u>
Expenses (Note 14)	
Research and development	566,534
Technology and Industry support	<u>266,296</u>
	<u>832,830</u>
Revenues (Note 15)	
Research and development	96,363
Technology and Industry support	<u>63,503</u>
	<u>159,866</u>
Net Cost of Operations	<u><u>672,964</u></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**

(in thousands of dollars)

	<u>2006</u> <u>(Note 3)</u>
Equity of Canada, beginning of year	519,055
Net cost of operations	(672,964)
Net cash provided by Government (Note 4)	624,083
Change in due from the Consolidated Revenue Fund	11,113
Services received without charge (Note 16)	<u>25,940</u>
Equity of Canada, end of year	<u><u>507,227</u></u>

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

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

<i>(in thousands of dollars)</i>	<u>2006</u> <u>(Note 3)</u>
Operating Activities	
Net cost of operations	672,964
Non-cash items	
Amortization of capital assets	(57,916)
Gain on sale of equity investments	1,935
Loss on disposal of capital assets	(490)
Services received without charge (Note 16)	(25,940)
Variations in Statement of Financial Position	
Decrease in accounts receivable and advances	(4,860)
Increase in inventory for resale	255
Increase in endowment fund investments	152
Increase in prepaid expenses	1,081
Decrease in inventory for consumption	(202)
Increase in liabilities	(34,864)
Cash used by operating activities	<u>552,115</u>
Investment Activities	
Acquisitions of capital assets	74,334
Proceeds from sale of equity investments	(1,683)
Proceeds from disposal of capital assets	(683)
Cash used by investment activities	<u>71,968</u>
Financing Activities	
Net cash provided by Government of Canada (Note 4)	<u>(624,083)</u>

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

National Research Council of Canada

Notes to the Financial Statements

Year ended March 31, 2006

1. Authority and Objectives

The National Research Council of Canada (the Council) exists under the *National Research Council Act* (NRC Act) and is a departmental corporation named in Schedule II of the *Financial Administration Act*. The objectives of the Council 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 Council reports under the following program activities:

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

These program activities also include the Council'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 Council is financed mainly by the Government of Canada through Parliamentary appropriations. Appropriations provided to the Council 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 4 provides a high-level reconciliation between the bases of reporting.

b) Net Cash Provided by Government

The Council operates within the Consolidated Revenue Fund, which is administered by the Receiver General for Canada. All cash received by the Council is deposited to the Consolidated Revenue Fund and all cash disbursements made by the Council 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 of the federal government.

c) Due from the Consolidated Revenue Fund

Due from the Consolidated Revenue Fund represents the amount of cash that the Council 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 the 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 Council.
- 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 Council's contributions to the Plan are charged to expense in the year incurred and represent the Council's total obligation to the Plan. Current legislation does not require the Council 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 Council becomes aware of the contamination and is obligated, or is likely to be obligated to incur such costs. If the likelihood of the Council'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 cost 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 a foreign currency are translated into Canadian dollars using the rate of exchange in effect on March 31. Gains and losses resulting from foreign currency transactions are included in other revenues in note 15.

o) Capital Assets

All 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 Council 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 Council 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, liability for employee severance benefits, provision for bad debts, 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. Comparative Figures

This is the first year that a set of financial statements including Statement of Financial Position, Statement of Operations, Statement of Equity of Canada, and Statement of Cash Flow has been prepared in accordance with Canadian generally accepted accounting principles. It is neither practical nor cost effective for the Council to show certain comparative amounts because some required information is not readily available and some previous year's amounts would not be substantiated with any degree of precision.

4. Parliamentary Appropriations

The Council 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 Council 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>	2006
Net Cost of Operations	672,964
Adjustments for items affecting net cost of operations but not affecting appropriations:	
Add (Less):	
Revenue	159,866
Financial arrangements	(58,842)
Amortization of capital assets	(57,916)
Services received without charge	(25,940)
Specified purpose accounts disbursements	(20,994)
Employee future benefits	(5,698)
Vacation pay and compensatory leave	(3,434)
Increase in payment-in-lieu of taxes accrual	(670)
Increase in litigation claim expense accrual	(538)
Loss on disposal of capital assets	(490)
Expenses related to Justice Canada	(486)
Recovery of bad debts	745
Refunds of previous year's expenditures	719
Other	109
Total items affecting net cost operations but not affecting appropriations	<u>(13,569)</u>
Adjustments for items not affecting cost of operations but affecting appropriations:	
Add (Less):	
Acquisitions of capital assets and additions to assets under construction	74,334
Increase in prepaid expense	1,081
Increase in inventory	<u>53</u>
Total items not affecting cost of operations but affecting appropriations	<u>75,468</u>
Current year appropriations used	734,863

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

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

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

<i>(in thousands of dollars)</i>	2006
Net cash provided by government	624,083
Revenue	159,866
Receipts and expenditures not affecting appropriations	(88,658)
Change in due from the Consolidated Revenue Fund	
Decrease in accounts receivable and advances	4,860
Increase in endowment fund investments	(152)
Increase in liabilities	34,864
Current year appropriations used	734,863

5. Accounts Receivable and Advances

<i>(in thousands of dollars)</i>	2006	2005
Accounts receivable from external parties	18,642	22,105
Accounts receivable from other Federal Government departments and agencies	3,536	5,690
Employee advances	54	65
	<u>22,232</u>	<u>27,860</u>
Less: allowance for doubtful accounts on external accounts receivable	(1,969)	(2,429)
	<u>20,263</u>	<u>25,431</u>
Repayable contributions	7,553	1,314
Less: allowance for uncollectibility	(6,727)	(796)
Net repayable contributions	826	518
Total	<u>21,089</u>	<u>25,949</u>

6. Equity Investments

Equity investments include shares in publicly and privately held companies. Of all portfolio investments where the Council holds an equity position, three were for debt settlements for a total value of \$537,135 (three valued at \$537,135 in 2005) and twenty-two were obtained by non-monetary transactions (twenty-one in 2005), of which eleven 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, 2006 was \$1,567,687 (2005, \$971,996).

7. 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>	2006
Restricted cash and investments, beginning of year	3,925
Net income from endowment	232
Awards granted	(80)
Restricted cash and investments, end of year	<u>4,077</u>

The portfolio had an average effective return of 5.53% (5.07% in 2005) and an average term to maturity of 5.21 years as at March 31, 2006 (4.78 years as at March 31, 2005). The fair value of the endowment investments as at March 31, 2006 was \$4,135,889 (2005, \$4,038,972).

8. Capital Assets

Capital asset class	Cost				Accumulated amortization				2006 Net book value	2005 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	-	-	10,912	-	-	-	-	10,912	10,912
Buildings and facilities	544,111	359	34,829	579,299	(272,317)	(21,458)	-	(293,775)	285,524	271,794
Works and infrastructure	19,454	13	730	20,197	(10,734)	(695)	-	(11,429)	8,768	8,720
Machinery, equipment and furniture	416,458	31,623	(7,906)	440,175	(250,615)	(26,896)	6,787	(270,724)	169,451	165,843
Informatics equipment	72,836	4,302	(9,491)	67,647	(57,751)	(5,188)	9,425	(53,514)	14,133	15,085
Informatics software	6,529	1,474	4,236	12,239	(1,603)	(1,822)	1	(3,424)	8,815	4,926
Vehicles	2,554	350	(193)	2,711	(1,930)	(239)	171	(1,998)	713	624
Aircraft	10,348	295	-	10,643	(8,833)	(187)	-	(9,020)	1,623	1,515
Leasehold improvements	3,907	-	-	3,907	(2,618)	(1,031)	-	(3,649)	258	1,289
Assets under construction	40,871	35,918	(39,762)	37,027	-	-	-	-	37,027	40,871
Leased capital assets	10,000	-	-	10,000	(3,000)	(400)	-	(3,400)	6,600	7,000
Total	1,137,980	74,334	(17,557)	1,194,757	(609,401)	(57,916)	16,384	(650,933)	543,824	528,579

Amortization expense for the year ended March 31, 2006 is \$57,915,678.

During the normal course of operations, the Council entered into eight land lease agreements (eight in 2005) for a nominal annual cost of one dollar with universities. In these instances, the Council owns the building on the leased land. The fair value of these non-monetary transactions cannot be determined.

On March 21, 1996, the Council entered into a non-monetary transaction. The Council 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 Council for twenty-five years at a nominal cost of one dollar. The Council has no obligations to the University of Western Ontario other than the relocation of the institute. The building was recorded as a leased capital asset at its fair value of \$10,000,000. The annual amortization of the capital asset of \$400,000 is exactly offset by the amortization of the deferred contribution related to the leased building.

On March 28, 2002, the Council entered into a non-monetary transaction with the University of Alberta. The Council entered into a lease agreement with the university for the housing of the Council's newly created National Institute for Nanotechnology (NINT), whereby leased property was provided to the Council at a nominal cost of one dollar for a period ending no later than July 25, 2007. The transaction was recorded as an operating lease where a revenue and an expense were recorded for \$342,000.

On December 12, 2002, the Council reached an agreement with the University of British Columbia to relinquish an existing land lease and the building thereon for \$15,000,000. These proceeds are recorded and presented as deferred revenue (\$4,900,000 in 2005) until the disposal occurs 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	2006 Net book value	2005 Net book value
Capital assets held for sale	10,674	(3,044)	7,630	7,630

9. Accounts Payable and Accrued Liabilities

<i>(in thousands of dollars)</i>	2006	2005
Suppliers	98,175	88,023
Payable to other Federal Government departments and agencies	15,339	13,139
Accrued salaries, wages and employee benefits	7,965	6,464
Sales tax payable	1,127	1,007
Contractor holdbacks	865	1,063
Total	123,471	109,696

10. Deferred Revenue

<i>(in thousands of dollars)</i>	2006
Deferred revenue - specified purpose accounts	
Balance, beginning of year	11,054
Funds received	22,536
Revenue recognized	(20,994)
Balance, end of year	<u>12,596</u>
Deferred revenue - other	
Balance, beginning of year	12,783
Funds received	18,614
Revenue recognized	(7,799)
Balance, end of year	<u>23,598</u>
Deferred revenue – contributions related to leased capital assets	
Balance, beginning of year	7,000
Contributions received	-
Contributions recognized as revenue	(400)
Balance, end of year	<u>6,600</u>
Total	<u>42,794</u>

11. Employee Future Benefits

Employees of the Council 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 Council 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 \$41,888,165 which represents approximately 2.6 times the contributions by employees. Both the employees and the Council contribute to the cost of the Plan. As at March 31, 2006, the contributions are as follows:

<i>(in thousands of dollars)</i>	2006
Council's contributions	41,888
Employees' contributions	15,818

The Council'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 Council 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>	2006
Accrued benefit obligation, beginning of year	49,571
Expense for the year	8,707
Benefits paid during the year	(3,009)
Accrued benefit obligation, end of year	55,269

12. Contingent Liabilities

a) Environmental liabilities

Liabilities are accrued to record the estimated costs related to the management and remediation of contaminated sites where the Council is obligated or likely to be obligated to incur such costs. The Council has identified one site (one site in 2005) where such action is possible and for which a liability of \$300,000 (\$300,000 in 2005) has been recorded. The Council'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 Council in the year in which they become known.

b) Claims and litigation

Claims have been made against the Council 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 on the Council's financial statements.

As at March 31, 2006, the Council had seventeen claims (eleven in 2005) outstanding of which five (none in 2005) related to pending charges that will likely result as a liability. Four of the claims can be reasonably estimated and one is currently undeterminable. A total accrued liability of \$537,600 (nil in 2005) was recorded based on the Council's legal assessment of potential liability.

With respect to the claim for which the estimate of loss is undeterminable, the Research Council Employees Association (RCEA) filed a pay equity complaint, in 1999-2000, against the Council alleging

that discrimination based on sex had occurred between 1985 and 2000. The RCEA requested that the Council retroactively increase the wage rates of employees to remedy the discrimination. In the opinion of management, the outcome of the complaint will result in a loss for the Council. The potential financial impact of this case could be significant however the amount of the liability cannot be reasonably estimated. Therefore, no liability has been recognized in the financial statements. This liability will be accrued by the Council in the year in which the amount of the loss can be reasonably estimated.

13. Contractual Obligations

The nature of the Council's activities can result in some large multi-year contracts and obligations whereby the Council 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>	2007	2008	2009	2010	2011 and thereafter	Total
Transfer payments	104,520	64,932	55,898	55,000	24,000	304,350
Operating contracts	7,391	1,977	885	235	73	10,561
Total	111,911	66,909	56,783	55,235	24,073	314,911

14. Expenses

<i>(in thousands of dollars)</i>	2006
Salaries and employee future benefits	395,985
Grants and contributions	129,902
Utilities, materials and supplies	87,746
Professional services	64,044
Amortization	57,916
Transportation and communication	26,667
Bad debts	23,879
Repairs and maintenance	17,616
Payments in lieu of taxes	15,373
Rentals	5,460
Information	4,492
Awards	2,261
Cost of goods sold	838
Loss on disposal of capital assets	490
Other	161
Total	832,830

15. Revenues

<i>(in thousands of dollars)</i>	2006
Sales of goods and services	
Rights and privileges	5,834
Lease and use of property	3,060
Services of non-regulatory nature and other fees and charges	56,097
Sales of goods and information products	11,981
	<u>76,972</u>
Financial arrangements	58,842
Revenues from joint project and cost sharing agreements	20,994
Gain on sale of equity investment	1,935
Other	1,123
Total	<u>159,866</u>

16. Related Party Transactions

The Council is related as a result of common ownership to all Government of Canada departments, agencies, and Crown corporations. The Council enters into transactions with these entities in the normal course of business and on normal trade terms. Refer to Note 5 and Note 9 for receivable and payable to other Government departments and agencies. Also, during the year, the Council received services, which were obtained without charge from other Government departments. These services without charge have been recognized in the Council's Statement of Operations as follows:

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

The total of legal services provided by Justice Canada amount to \$862,638. From this amount, \$376,326 was provided without charge.

17. Financial Instruments

The Council'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 Council 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.