

**RESEARCH & DEVELOPMENT CORPORATION
OF NEWFOUNDLAND AND LABRADOR**

FINANCIAL STATEMENTS

May 30, 2018

Management Certification

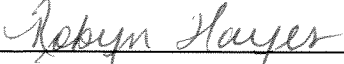
The accompanying financial statements of the Research & Development Corporation of Newfoundland and Labrador have been prepared by the Corporation's management in accordance with Canadian Public Sector Accounting Standards.

Management is responsible for the integrity and objectivity of the information contained in these financial statements, including the note disclosures. Some of the information in the financial statements is based on management's best estimate and judgment, and gives due consideration to materiality.

Management has developed and maintains a financial and management control system and practices designed to provide reasonable assurance that transactions are properly authorized, assets are safeguarded and liabilities are recognized.

Management is also responsible for ensuring that transactions comply with relevant policies and authorities and are properly recorded to produce timely and reliable financial information to maintain accountability of Research & Development Corporation of Newfoundland and Labrador funds.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control and meets periodically with management to review and discuss the financial information. The Auditor General of Newfoundland and Labrador conducts an independent audit of the annual financial statements of the Research & Development Corporation of Newfoundland and Labrador in accordance with Canadian auditing standards in order to express an opinion thereon. The Auditor General has full and free access to the financial management of the Research & Development Corporation of Newfoundland and Labrador and meets when required.



Robyn Hayes, CPA, CMA
Departmental Controller
Department of Municipal Affairs and
Environment

St. John's, Newfoundland and Labrador



**AUDITOR
GENERAL**
of Newfoundland and Labrador

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Innovation and Business Investment Corporation
St. John's, Newfoundland and Labrador

Opinion

I have audited the financial statements of the Research & Development Corporation of Newfoundland and Labrador (the Corporation), which comprise the statement of financial position as at May 30, 2018, and the statement of operations, statement of change in net financial assets and statement of cash flows for the period then ended, and notes to the financial statements, including a summary of significant accounting policies.

In my opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as at May 30, 2018, and the results of its operations and its cash flows for the period then ended in accordance with Canadian public sector accounting standards.

Basis for Opinion

I conducted my audit in accordance with Canadian generally accepted auditing standards. My responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of my report. I am independent of the Corporation in accordance with the ethical requirements that are relevant to my audit of the financial statements in Canada, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report, but does not include the financial statements and my auditor's report thereon. The annual report is expected to be made available to me after the date of this auditor's report.

My opinion on the financial statements does not cover the other information and I will not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit, or otherwise appears to be materially misstated. When I read the annual report, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance.

Independent Auditor's Report (cont.)

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Corporation or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Corporation's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, I exercise professional judgment and maintain professional skepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

Independent Auditor's Report (cont.)

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Corporation's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. I draw attention to Note 14 of the financial statements which outlines the restructuring of the Corporation's operations.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.



JULIA MULLALEY, CPA, CA
Auditor General

June 25, 2019
St. John's, Newfoundland and Labrador

RESEARCH & DEVELOPMENT CORPORATION OF NEWFOUNDLAND AND LABRADOR

STATEMENT OF FINANCIAL POSITION


As at

	May 30, 2018 \$ (Note 13)	March 31, 2018 \$ (Note 13)
FINANCIAL ASSETS		
Cash and cash equivalents	38,556,910	36,236,833
Receivables	77,829	30,307
	<u>38,634,739</u>	<u>36,267,140</u>
LIABILITIES		
Accounts payable and accrued liabilities (Note 6)	2,882,770	2,483,662
Net Financial Assets	<u>35,751,969</u>	<u>33,783,478</u>
NON-FINANCIAL ASSETS		
Prepaid expenses	6,775	8,282
Accumulated surplus	<u>35,758,744</u>	<u>33,791,760</u>

Contractual obligations (Note 7)

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

Signed on behalf of the Board:


Director


Director

RESEARCH & DEVELOPMENT CORPORATION OF NEWFOUNDLAND AND LABRADOR

STATEMENT OF OPERATIONS

For the period ended

	May 30, 2018 \$	May 30, 2018 \$	March 31, 2018 \$
	Budget	Actual	Actual
	(Note 12)	(Note 13)	(Note 13)
REVENUE			
Government grants	2,291,700	3,500,000	17,397,500
Investment income	70,700	109,411	431,973
Other income	0	630	27,541
	<u>2,362,400</u>	<u>3,610,041</u>	<u>17,857,014</u>
EXPENSES (Note 8)			
Program expenses – Academic	1,125,000	927,358	5,966,869
Program expenses – Business	1,166,700	707,424	8,636,063
R&D Solutions	1,500	1,507	432,436
Operating expenses	5,300	6,768	2,375,409
	<u>2,298,500</u>	<u>1,643,057</u>	<u>17,410,777</u>
Surplus	63,900	1,966,984	446,237
Accumulated surplus, beginning of year	<u>33,791,760</u>	<u>33,791,760</u>	<u>33,345,523</u>
Accumulated surplus, end of year	<u>33,855,660</u>	<u>35,758,744</u>	<u>33,791,760</u>

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

RESEARCH & DEVELOPMENT CORPORATION OF NEWFOUNDLAND AND LABRADOR

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

For the period ended

	May 30, 2018 \$	May 30, 2018 \$	March 31, 2018 \$
	Budget	Actual	Actual
	(Note 12)	(Note 13)	(Note 13)
Surplus	63,900	1,966,984	446,237
Acquisition of tangible capital assets	-	-	(2,956)
Amortization of tangible capital assets	-	-	93,693
Net book value of tangible capital asset disposals	-	-	569,589
	-	-	660,326
Acquisition of prepaid expenses	-	(6,775)	(8,282)
Use of prepaid expenses	-	8,282	42,902
	-	1,507	34,620
Increase in net financial assets	63,900	1,968,491	1,141,183
Net financial assets, beginning of year	33,783,478	33,783,478	32,642,295
Net financial assets, end of year	33,847,378	35,751,969	33,783,478

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

RESEARCH & DEVELOPMENT CORPORATION OF NEWFOUNDLAND AND LABRADOR

STATEMENT OF CASH FLOWS

For the period ended

	May 30, 2018 \$	March 31, 2018 \$
	(Note 13)	(Note 13)
OPERATING TRANSACTIONS		
Surplus	1,966,984	446,237
Non-cash items		
Loss on disposal of tangible capital assets	-	569,589
Amortization of tangible capital assets	-	93,693
Increase in receivables	(47,522)	(9,965)
Decrease in prepaid expenses	1,507	34,620
Increase in accounts payable and accrued liabilities	399,108	743,544
Decrease in deferred revenue	-	(22,404)
Cash provided by operating transactions	2,320,077	1,855,314
CAPITAL TRANSACTIONS		
Acquisition of tangible capital assets	-	(2,956)
Cash applied to capital transactions	-	(2,956)
Net increase in cash and cash equivalents	2,320,077	1,852,358
Cash and cash equivalents, beginning of year	36,236,833	34,384,475
Cash and cash equivalents, end of year	38,556,910	36,236,833

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

RESEARCH & DEVELOPMENT CORPORATION OF NEWFOUNDLAND AND LABRADOR

NOTES TO FINANCIAL STATEMENTS

May 30, 2018

1. Nature of operations

The Research & Development Corporation of Newfoundland and Labrador (the Corporation) is incorporated under the authority of the *Research and Development Council Act* and is funded by the Province of Newfoundland and Labrador (the Province). The *Research and Development Council Act* came into effect December 18, 2009. The objective of the Corporation is to strengthen the focus, quantity, quality, and relevance of research and development (R&D) undertaken within the Province and elsewhere for the long-term economic benefit of the Province.

The affairs of the Corporation are managed by a Board of Directors (the Board) appointed by the Lieutenant-Governor in Council. The Corporation is a Crown entity of the Province and as such is not subject to Provincial or Federal income taxes.

In July 2017, the management of the Corporation was transferred to the Department of Tourism, Culture, Industry and Innovation.

2. Summary of significant accounting policies

These financial statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards (CPSA Standards) which require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. By their nature these estimates are subject to measurement uncertainty. The most significant item for which estimates are used is the useful life of tangible capital assets. In addition, the Corporation does not prepare a statement of re-measurement gains and losses as the Corporation does not enter into relevant transactions or circumstances that are being addressed by the statement.

Basis of presentation

These financial statements include the accounts relating to the operations carried on under the name of the Corporation, and have been prepared by the Corporation's management in accordance with CPSA Standards.

Cash and cash equivalents

Cash and cash equivalents consists of cash in bank.

Revenue recognition

The Corporation recognizes the receipt of government transfers as revenue in the period the transfer is authorized and all eligibility criteria have been met, except when and to the extent that the transfer gives rise to an obligation that meets the definition of a liability for the Corporation. Government transfers consist of funding from the Province of Newfoundland and Labrador. Investment income is recognized as earned. Revenue generated from the R&D Solutions line of business is included in other income and is recognized in the period it is earned.

RESEARCH & DEVELOPMENT CORPORATION OF NEWFOUNDLAND AND LABRADOR

NOTES TO FINANCIAL STATEMENTS

May 30, 2018

2. Summary of significant accounting policies (cont.)

Expenses

The Corporation recognizes expenses on an accrual basis. The cost of all goods consumed and services received during the period is expensed. Program grants are accounted for as government transfers and are recorded as expenses when they are authorized, when eligibility criteria have been met by the recipient, and when a reasonable estimate of the amount can be made.

3. Change in accounting policy

On April 1, 2018, the Corporation adopted *PS 3430 Restructuring Transactions*. This is a new standard on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities. In accordance with this standard, the Corporation has disclosed restructuring transactions in Note 14.

4. Risk management

The Corporation's management recognizes the importance of managing significant risks and this includes policies, procedures and oversight designed to reduce the risks identified to an appropriate threshold. The Board is provided with timely and relevant reports on the management of significant risks. The risks that the Corporation is exposed to through its financial instruments are credit risk, liquidity risk and market risk. There was no significant change to the Corporation's exposure to these risks or its processes for managing these risks from the prior year.

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Corporation's main credit risk relates to cash and cash equivalents and receivables. The Corporation's maximum exposure to credit risk is the carrying amount of these financial instruments. The Corporation is not exposed to significant credit risk with its cash and cash equivalents because these financial instruments are held with a Chartered Bank. The Corporation is not exposed to significant credit risk with its receivables, as these amounts are due primarily from a Chartered Bank or the Government of Canada. Accordingly, there is no allowance for doubtful accounts as all amounts are considered collectible.

RESEARCH & DEVELOPMENT CORPORATION OF NEWFOUNDLAND AND LABRADOR

NOTES TO FINANCIAL STATEMENTS

May 30, 2018

4. Risk management (cont.)

Liquidity risk

Liquidity risk is the risk that the Corporation will be unable to meet its contractual obligations and financial liabilities as they come due. The Corporation's exposure to liquidity risk relates mainly to its accounts payable and accrued liabilities and its contractual obligations as disclosed in Note 7. The Corporation manages liquidity risk by monitoring its cash flows and ensuring that it has sufficient resources available to meet its obligations and liabilities. The Corporation also has access to a credit facility as outlined in Note 11.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency (foreign exchange) risk, interest rate risk and other price risk. The Corporation is not exposed to significant foreign exchange, interest rate or other price risk.

5. Financial instruments

The Corporation's financial instruments recognized on the statement of financial position consist of cash and cash equivalents, receivables, and accounts payable and accrued liabilities. The Corporation generally recognizes a financial instrument when it enters into a contract which creates a financial asset or financial liability. Financial assets and financial liabilities are initially measured at cost, which is the fair value at the time of acquisition. The Corporation subsequently measures all of its financial assets and financial liabilities at cost.

The carrying value of cash and cash equivalents, receivables, and accounts payable and accrued liabilities approximate fair value due to their nature and the short-term maturity associated with these instruments.

Interest attributable to financial instruments is reported on the statement of operations.

6. Accounts payable and accrued liabilities

	May 30, 2018 \$	March 31, 2018 \$
Province of Newfoundland and Labrador	1,500,000	1,500,000
Programs grants payable	1,249,105	817,809
Trade accounts payable & accruals	133,665	165,853
	2,882,770	2,483,662

RESEARCH & DEVELOPMENT CORPORATION OF NEWFOUNDLAND AND LABRADOR

NOTES TO FINANCIAL STATEMENTS

May 30, 2018

7. Contractual obligations

The Corporation has outstanding contractual obligations under its various programs in respect of approved but not yet disbursed funds in the amount of \$22,468,546. Approximate payment of these obligations in future years is as follows:

	Programs
	\$
2019	14,207,996
2020	5,338,046
2021	1,757,129
2022	633,058
2023	532,317
	22,468,546

8. Expenses

The statement of operations presents the expenses of the Corporation by function. The following table presents them by nature:

	May 30 2018 \$	May 30 2018 \$	March 31, 2018 \$
	Budget	Actual	Actual
	(Note 12)	(Note 13)	(Note 13)
Program grants	2,291,700	1,634,782	13,914,311
Salaries and benefits	-	-	2,236,238
Purchased services	6,800	8,275	434,262
Professional services	-	-	162,684
Amortization of tangible capital assets	-	-	93,693
Loss on disposal of tangible capital assets	-	-	569,589
Total expenses	2,298,500	1,643,057	17,410,777

RESEARCH & DEVELOPMENT CORPORATION OF NEWFOUNDLAND AND LABRADOR

NOTES TO FINANCIAL STATEMENTS

May 30, 2018

9. Related party transactions

These financial statements include transactions with related parties. The Corporation is related, as a result of common ownership, to all Crown corporations and agencies of the Province.

During the period, the Corporation had the following related party transactions:

- Program grants expense to related parties of \$481,552 (year ended March 31, 2018 - \$5,460,313).
- Purchased supplies and services from related parties for \$0 (year ended March 31, 2018 - \$345,916).

The Corporation is administered by the Department of Tourism, Culture, Industry and Innovation. Administration expenses are paid directly by the Province. These costs are considered to be unallocated costs and are not recognized in these financial statements.

10. Contingent liability

A former employee of the Corporation has taken legal action. The amount of this potential claim is unknown. No provision has been made for this claim, as the likelihood of loss against the Corporation is not determinable at this time.

11. Credit facilities

Subject to the prior approval of the Lieutenant-Governor in Council and the Board, the Corporation may borrow money for purposes related to the attainment of its objectives as set out in the *Research and Development Council Act*. At May 30, 2018, the Corporation had available a revolving credit facility of up to \$1,000,000 bearing interest at prime. A letter of credit of up to \$50,000 bearing interest at 1% has been inactive since March 31, 2018.

12. Budgeted figures

Budgeted figures have been provided for comparison purposes and have been derived from the original estimates provided by Management.

RESEARCH & DEVELOPMENT CORPORATION OF NEWFOUNDLAND AND LABRADOR

NOTES TO FINANCIAL STATEMENTS

May 30, 2018

13. Fiscal period

The current period figures are for the period April 1, 2018 to May 30, 2018. The comparative figures are for the year ended March 31, 2018.

14. Restructuring transactions

On May 31, 2018, the Province of Newfoundland and Labrador (the Province) repealed the *Research and Development Council Act* and enacted legislation to establish the Innovation and Business Investment Corporation (IBIC) as a successor to the Corporation. The assets totaling \$38.6 million, accounts payable and accrued liabilities \$2.9 million, contractual obligations totaling \$22.5 million and contingent liability as per Note 10 of the Corporation will transfer to IBIC. IBIC will be responsible for making strategic funding investments in innovation and business growth in the Province to advance economic development in accordance with the priorities of Government.

15. Comparative figures

Certain comparative figures have been restated to conform to the current period's presentation.