

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

FINANCIAL STATEMENTS

MARCH 31, 2016

Management Certification

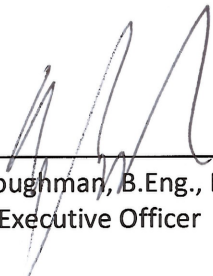
The accompanying financial statements of the Research & Development Corporation of Newfoundland and Labrador have been prepared by the Corporation's management in accordance with Canadian Public Sector Accounting Standards.

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 meet when required.



Mark Ploughman, B.Eng., MBA
A/Chief Executive Officer



Levi May, CPA, CA
Chief Financial Officer

St. John's, Newfoundland and Labrador
June 15, 2016



**AUDITOR
GENERAL
of Newfoundland and Labrador**

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Research & Development Corporation
of Newfoundland and Labrador
St. John's, Newfoundland and Labrador

Report on the Financial Statements

I have audited the accompanying financial statements of the Research & Development Corporation of Newfoundland and Labrador which comprise the statement of financial position as at March 31, 2016, the statements of operations, change in net financial assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

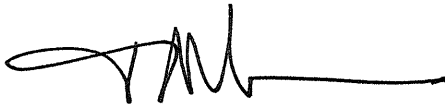
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Independent Auditor's Report (cont.)

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Research & Development Corporation of Newfoundland and Labrador as at March 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

A handwritten signature in black ink, appearing to read 'T. Paddon', with a long horizontal line extending to the right.

TERRY PADDON, CPA, CA
Auditor General

St. John's, Newfoundland and Labrador
June 15, 2016

RESEARCH & DEVELOPMENT CORPORATION OF NEWFOUNDLAND AND LABRADOR

STATEMENT OF FINANCIAL POSITION

As at

	March 31, 2016 \$	March 31, 2015 \$
FINANCIAL ASSETS		
Cash and cash equivalents	37,044,498	36,561,579
Receivables	31,122	53,788
	<u>37,075,620</u>	<u>36,615,367</u>
LIABILITIES		
Accounts payable and accrued liabilities (Note 5)	2,933,646	2,317,603
Deferred revenue	6,495	-
	<u>2,940,141</u>	<u>2,317,603</u>
Net Financial Assets	<u>34,135,479</u>	<u>34,297,764</u>
NON-FINANCIAL ASSETS		
Tangible capital assets, net (Note 6)	831,123	1,065,627
Prepaid expenses	27,831	56,156
	<u>858,954</u>	<u>1,121,783</u>
Accumulated surplus	<u>34,994,433</u>	<u>35,419,547</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 year ended

	March 31, 2016 \$	March 31, 2016 \$	March 31, 2015 \$
	Budget	Actual	Actual
	(Note 12)		
REVENUE			
Government grants	22,026,000	21,906,797	22,031,916
Investment income	622,304	476,717	623,690
Other income	-	4,378	-
	22,648,304	22,387,892	22,655,606
EXPENSES (Note 8)			
Program expenses – Academic	11,518,524	8,618,951	11,499,964
Program expenses – Business	6,242,373	10,396,064	5,696,300
R&D Solutions	1,232,232	623,405	533,239
Operating expenses	3,935,301	3,174,586	3,285,059
	22,928,430	22,813,006	21,014,562
(Deficit) Surplus	(280,126)	(425,114)	1,641,044
Accumulated surplus, beginning of year	35,419,547	35,419,547	33,778,503
Accumulated surplus, end of year	35,139,421	34,994,433	35,419,547

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 year ended

	March 31, 2016 \$	March 31, 2016 \$	March 31, 2015 \$
	Budget	Actual	Actual
	(Note 12)		
(Deficit) Surplus	(280,126)	(425,114)	1,641,044
Acquisition of tangible capital assets	(2,912,700)	(40,549)	(257,700)
Amortization of tangible capital assets	360,276	275,053	305,709
	(2,552,424)	234,504	48,009
Acquisition of prepaid expenses	-	(55,754)	(103,753)
Use of prepaid expenses	-	84,079	98,160
	-	28,325	(5,593)
(Decrease) Increase in net financial assets	(2,832,550)	(162,285)	1,683,460
Net financial assets, beginning of year	34,297,764	34,297,764	32,614,304
Net financial assets, end of year	31,465,214	34,135,479	34,297,764

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

	March 31, 2016	March 31, 2015
	\$	\$
OPERATING TRANSACTIONS		
(Deficit) Surplus	(425,114)	1,641,044
Non-cash item		
Amortization of tangible capital assets	275,053	305,709
Decrease in receivables	22,666	232,423
Decrease (increase) in prepaid expenses	28,325	(5,593)
Increase in accounts payable and accrued liabilities	616,043	622,824
Increase in deferred revenue	6,495	-
Cash provided by operating transactions	523,468	2,796,407
CAPITAL TRANSACTIONS		
Acquisition of tangible capital assets (Note 6)	(40,549)	(257,700)
Cash applied to capital transactions	(40,549)	(257,700)
INVESTING TRANSACTIONS		
Disposal of portfolio investment	-	26,000,000
Cash provided by investing transactions	-	26,000,000
Net increase in cash and cash equivalents	482,919	28,538,707
Cash and cash equivalents, beginning of period	36,561,579	8,022,872
Cash and cash equivalents, end of period	37,044,498	36,561,579

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

RESEARCH & DEVELOPMENT CORPORATION OF NEWFOUNDLAND AND LABRADOR

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

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* (the Act) and is funded by the Province of Newfoundland and Labrador (the Province). The 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.

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. The effect on the financial statements of a change in this estimate in future periods could be material and would be accounted for in the period the change occurs.

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.

Portfolio investments

Portfolio investments include highly liquid term deposits and guaranteed investment certificates that have maturities between three and twelve months at acquisition.

RESEARCH & DEVELOPMENT CORPORATION OF NEWFOUNDLAND AND LABRADOR

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

2. Summary of significant accounting policies (cont.)

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. Investment income is recognized as earned. Revenue generated from the R&D Solutions line of business is recognized in the period it is earned.

Deferred revenue represents revenue invoiced but not earned.

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.

Tangible capital assets

Tangible capital assets are recorded at cost and amortized on a straight-line basis over their estimated useful lives using the following terms:

	Term
Furniture and equipment	5 years
Computer hardware and software	2 years
Network infrastructure	4 years
Enterprise resource package software	3 years
Leasehold improvements	Lease term
Atmospheric corrosion test site	5 years

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Corporation's ability to provide services or when the value of future economic benefits associated with the tangible capital assets is less than their net book value. The net write downs are accounted for as expenses in the statement of operations.

Pension costs

Employees of the Corporation are covered by the Public Service Pension Plan (the Plan) administered by the Public Service Pension Plan Corporation, the Government Money Purchase Plan administered by the Province or a self-directed RRSP. Contributions to each plan are required from the employees and are matched by the Corporation. The contributions for pensions are recognized during the period in which the services are rendered and represent the Corporation's total pension benefit obligation. The Plan

RESEARCH & DEVELOPMENT CORPORATION OF NEWFOUNDLAND AND LABRADOR

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

2. Summary of significant accounting policies (cont.)

provides defined pension benefits to employees based on their length of service and rates of pay. The maximum contribution rate for eligible employees is 11.85% (2015 – 11.85%). The Corporation is not required to make contributions in respect of any actuarial deficiencies of the Plan. Total pension expense for the Corporation for the period ended March 31, 2016 was \$283,695 (year ended March 31, 2015 - \$218,452).

3. 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.

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.

RESEARCH & DEVELOPMENT CORPORATION OF NEWFOUNDLAND AND LABRADOR

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

4. 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.

5. Accounts payable and accrued liabilities

	March 31, 2016 \$	March 31, 2015 \$
Programs grants payable	2,289,601	1,740,038
Trade accounts payable & accruals	83,387	116,603
Payroll related accruals	560,658	460,962
	<u>2,933,646</u>	<u>2,317,603</u>

RESEARCH & DEVELOPMENT CORPORATION OF NEWFOUNDLAND AND LABRADOR

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

6. Tangible capital assets

	Leasehold Improve- ments \$	Furniture & Equipment \$	Computer Hardware & Software \$	Network Infrastructure \$	Enterprise Resource Package Software \$	Atmospheric Corrosion Test Site \$	Total \$
COST							
Balance, March 31, 2015	835,413	537,344	356,190	47,077	259,085	263,910	2,299,019
Additions	-	5,920	17,537	-	-	17,092	40,549
Balance March 31, 2016	835,413	543,264	373,727	47,077	259,085	281,002	2,339,568
ACCUMULATED AMORTIZATION							
Balance, March 31, 2015	229,738	381,408	289,693	47,077	259,085	26,391	1,233,392
Amortization expense	83,542	70,411	66,609	-	-	54,491	275,053
Balance, March 31, 2016	313,280	451,819	356,302	47,077	259,085	80,882	1,508,445
Net book value, March 31, 2016	522,133	91,445	17,425	-	-	200,120	831,123
Net book value, March 31, 2015	605,675	155,936	66,497	-	-	237,519	1,065,627

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 \$39,134,509. The Corporation has also entered into a lease agreement for the rental of office space and various operating contracts totaling \$2,915,987. Approximate payment of these obligations in future years is as follows:

	Programs \$	Operating \$
2017	25,569,824	590,832
2018	8,432,515	443,300
2019	2,308,464	443,145
2020	1,618,300	442,680
2021	895,299	442,680
Thereafter	310,107	553,350
	39,134,509	2,915,987

RESEARCH & DEVELOPMENT CORPORATION OF NEWFOUNDLAND AND LABRADOR

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

8. Expenses

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

	March 31, 2016 \$	March 31, 2016 \$	March 31, 2015 \$
	Budget	Actual	Actual
	(Note 12)		
Program grants	15,165,000	17,282,900	15,557,187
Salaries and benefits	4,888,149	3,784,542	3,437,117
Purchased services	1,480,385	1,000,784	1,045,486
Professional services	1,034,620	469,727	669,063
Amortization of tangible capital assets	360,276	275,053	305,709
Total expenses	22,928,430	22,813,006	21,014,562

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 \$10,091,097 (year ended March 31, 2015 - \$10,843,637).
- Purchased supplies and services from related parties for \$509,413 (year ended March 31, 2015 - \$622,237).

10. Economic dependence

As a result of the Corporation's reliance on funding from the Province, the Corporation's ability to continue viable operations is dependent upon the decisions of the Province.

RESEARCH & DEVELOPMENT CORPORATION OF NEWFOUNDLAND AND LABRADOR

NOTES TO FINANCIAL STATEMENTS

March 31, 2016

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 *Act*. At March 31, 2016, 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%, and VISA business card(s) with an aggregate limit of \$50,000. At March 31, 2016 the credit facility, letter of credit, and the VISA business card(s) are inactive.

12. Budgeted figures

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