

rpc

SCIENCE & ENGINEERING



ANNUAL REPORT 2013 | 2014

STRATEGIC PLAN 2010-2015

RPC's Vision Statement

RPC will excel in technological innovation, enabling our partners in business and industry to create wealth and high quality employment opportunities.

RPC's Mission Statement

Our mission is to assist small and medium size enterprises (SMEs) in New Brunswick to develop and apply innovative technology, and to provide specialized laboratory-based technical services to clients in New Brunswick and the global marketplace.

Strategic Corporate Objectives

Strategic corporate objectives have been derived from the mission statement to reflect stakeholder input and the needs of the organization. The objectives are targets intended to challenge the organization and provide a basis for planning. The strategic plan has been endorsed by RPC's board of directors and defines the direction for the organization.

The strategic plan includes a description of the process, summary of inputs and results, objectives, rationale, measures, and preliminary actions. The objectives have been developed to be specific, measurable, actionable, realistic and timely (SMART).

WINDS OF CHANGE?

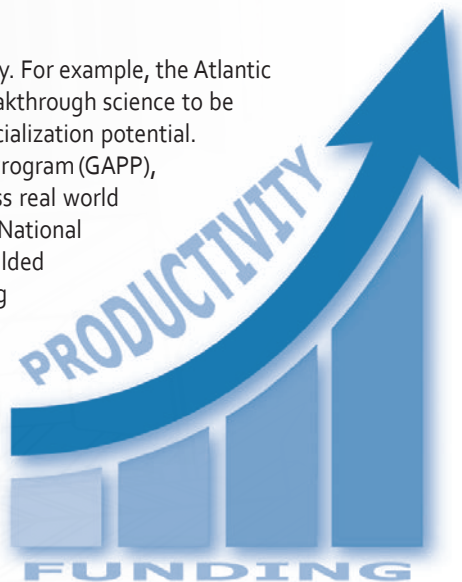
Advocating Market-Led Research

RPC has been an advocate for market or business-led research and development since its inception in 1962. However, Canada's innovation strategy has mostly focused on funding and support for discovery, or curiosity-driven research. It now appears there is some effort to progress to a more balanced approach, a strategy RPC welcomes.

Both federal and provincial innovation agencies have either modified existing programs or introduced new programs that support business expenditure on research and development (BERD). An excellent New Brunswick example is the Innovation Voucher Fund, announced by the New Brunswick Innovation Foundation. The voucher program provides funds for NB business to engage service providers, like RPC, to conduct research services. A second example is Economic Development's Industry Innovation Challenge. The innovation challenge provides matching funds for multi-year business led innovation programs. These are welcomed improvements.

Federally, existing programs have been amended to be far more business friendly. For example, the Atlantic Canada Opportunities Agency's Atlantic Innovation Fund no longer requires breakthrough science to be part of a funding application and is encouraging proposals with strong commercialization potential. Similarly, Genome Canada has introduced the Genomic Applications Partnership Program (GAPP), which funds downstream research and development (R&D) projects that address real world challenges and opportunities as identified by industry. A third example is the National Research Council's Industrial Research Assistance Program (IRAP). IRAP is heralded throughout Canada and internationally as the best business research-funding program, however the program has been chronically underfunded. The budget has been increased and a new program introduced, the Business Innovation Access Program (BIAP). BIAP funds downstream research needs such as product testing and optimization.

The above examples are indications that policy makers are beginning to recognize the need for incentives for BERD. RPC applauds these initiatives and looks forward to further program improvements and additions.



STRATEGIC CORPORATE OBJECTIVES

1 Grow our revenue, invest in our business

The RPC business model for recovering overheads and reinvesting consists of two components: 1) a modest provincial grant; and, 2) margin from technical services. Growth of our business requires growth in both of these components.

Specific measures of success have been identified, including a 4% annual sales revenue growth target (\$11 million by 2015), introduction of new service offerings at the rate of at least one per year, and maintenance of our 95% customer satisfaction as determined through our survey process.

2 Balance our innovation activities

RPC services can be categorized as: 1) technical services (analyses, tests, and investigations); and, 2) applied research.

Technical services have predictable costs and minimal financial risk and, if effectively managed, can generate positive margins. While New Brunswick industry depends on RPC delivering these services locally, they also benefit from RPC's applied research capabilities. This initiative aims to place more focus on the applied research aspects of our organization.

Applied research is a key component of our mandate and consistent with the scope of other provincial research organizations. In fact, with the tremendous resources focused on basic research, RPC has an important role in balancing innovation strategy by delivering applied research services for industry. However, increasing applied research introduces more risk and more cost to the organization. Balancing our innovation activities will involve hiring new employees with new capabilities and is likely to have a moderating affect on our net income.

Measures of success include the introduction of at least two new or substantially advanced technology offerings associated specifically with new capabilities through recruitment and equipment purchases, and growing our applied research and consulting services by 15% from the 2009/2010 billing levels.

3 Grow our human capital

RPC's success requires continued investment in our human capital. Demographic trends are sure to increase the significance of human capital. RPC will experience a number of retirements in the coming five-year period and will need successors. Additionally, the strategic objective to balance our innovation activities will require new hires.

Our plan calls for growth in human capital. Measures of success include: 1) increasing the percentage of Masters and PhD level employees from 15% of our workforce to 20% by 2015; 2) adding five strategic hires that expand our capabilities over the next five years; and, 3) reducing our exposure to specific risks identified in our Succession Plan.

4 Revitalize our relationship with our owner

There are opportunities for improving the relationship with our owner as ongoing issues with duplication and reduction of our annual grant indicate there is a lack of awareness regarding RPC's role as New Brunswick's provincial research organization. As globalization and productivity challenges place renewed significance on applied research and technology, RPC's role is critically important.

Measures of success include: 1) restoration of the annual provincial grant; 2) recognition of RPC's leading role in provincial innovation and applied research policy; 3) 50% increase in sales to the provincial government; and, 4) increased activity and communications with government.

5 Expand RPC awareness and understanding

RPC enjoys an excellent relationship with established customers and attracts new customers annually. However, to maximize our value and avoid initiatives that duplicate established RPC capabilities, we need to create widespread awareness and understanding of the organization. This initiative is to improve the awareness and understanding of RPC's role as the provincial research organization.

Measures of success include: 1) meet the sales revenue increases identified in strategic objective #1; 2) retention of top 10 customers; 3) zero examples of government duplication through new lab construction; and, 4) recognition of our 50th anniversary (in 2012).

FROM THE CHAIRMAN AND EXECUTIVE DIRECTOR

The past year presented multiple challenges for RPC, most notably the difficult economic climate, and the additional efforts associated with the retirement of senior employees.

The New Brunswick economy struggled during 2013-2014, and this directly impacted RPC. During the year, sales revenue declined by approximately \$673,000, a significant decline of nearly 7%. The mining sector continued to slump, a global-wide situation that has continued for the past 2 years. Other sectors were active but generally down across the board. A stagnate economy and the lack of any major project work, such as the potash mine expansion, resulted in limited growth opportunities.

Despite the slow economic conditions, RPC generated a modest positive net income (see *Consolidated Statement of Operations*, p 14), sustaining a remarkable period of success as evidenced by 11 successive years with positive net income. This achievement underscores the effective business operations and processes, loyal client base, and exceptional workforce that RPC has developed. The result is truly extraordinary when considering the on-going reduction of the annual operating grant that was first implemented in 2008-2009. RPC is proud of our exceptional performance, but conscious that the operating grant allowed for longer-term investments in facilities, equipment and talent. These investments are required for RPC's future success and will be addressed in the upcoming strategic plan.

A second significant challenge resulted from the retirement of 4 senior employees. These were:

Stephen Fox, Chief Operating Officer, 28 years of service
Thelma Green, Manager, Air Quality, 35 years of service
Sue Harris, ERP/LIMS Manager, 32 years of service
Linda Horsman, Executive Assistant, 27 years of service

Undoubtedly, the loss of 122 combined years of experience has an impact on the organization. However, RPC's succession planning was effective and helped to minimize the impact. We are grateful for the contributions these employees made to RPC, and the knowledge they shared.

RPC provided services to 980 clients during 2013-2014, many who are loyal, repeat customers that have done business with RPC for decades. RPC's quality assurance surveys reflect an impressive 100% of clients indicating they would do business again with RPC.

Margins fell short of our target (see *Annual Plan Goals, Produce a Positive Net Income, Meet Our Targets*, p 6). RPC continued to grow its capabilities adding new service lines (see *Here We Grow Again: Medical Marijuana Testing Among RPC's Newest Service Offerings*, below) and improving our analytical service offerings (see *2013-2014 Merit Award*, p 8). These examples illustrate RPC's strong connections to industry that allow us to anticipate market needs.

HERE WE GROW AGAIN: Medical Marijuana Testing Among RPC's Newest Service Offerings

Each year RPC adds new capabilities including new accreditations, new equipment, new people and new service offerings. The past year was no exception; three examples follow.

RPC introduced machine vision services and acquired equipment that allows for proof of concept work to be conducted. Machine vision is not a new technology but rather a newly affordable technology. The dramatically reduced costs and improved functionality of the equipment makes many applications economically viable.

A second example is 3D printing. RPC acquired a mid range printer and incorporates it in our product design services. RPC offers rapid new product design through a process that starts with computer modeling, printing and manufacturing of prototypes, optimization and test, followed by detailed engineering drawings.

A third example of a new service offering is medical marijuana testing. Health Canada is now licensing producers of medical marijuana and they are required to have testing done at an accredited lab. RPC is accredited for all the parameters required; a wide spectrum including inorganic chemistry, organic chemistry, and microbiology analyses.



RPC's mandate is to support market or business-led science and engineering needs (see *Winds of Change? Advocating Market-Led Research*, p 2) and we continue to excel in that area.

RPC's annual plan goals are developed to complement our five-year strategic plan (see inside cover and **Annual Plan Goals 2013-2014**, p 6). The primary performance indicator is our financial performance. As described in **Annual Plan Goals 2013-2014**, p 6, excellent progress was achieved on the three additional goals: succession, innovation, and promotion.

The Outlook

The economy continues to be fragile and not expected to recover in the coming year. Nationally, growth rate predictions have been adjusted downward, which is consistent with the regional forecast from the Atlantic Provinces Economic Council. However, there are some opportunities that may develop. For example, the Energy East pipeline could generate activities for environmental analyses and physical metallurgy testing. Regionally, economic activity remains strong in Newfoundland and Labrador where RPC has obtained some work. Several mining projects are poised to proceed but are awaiting either financing or commodity price improvement. Finally, improved business innovation funding availability should be helpful for RPC's applied research areas.

Operationally, RPC will be entering a strategic planning year. A review of the current plan will be conducted, and an updated strategic plan for 2015-2020 will be developed. The strategic planning exercise is an excellent opportunity to reflect on the organization's current state and future direction. As our newest lab turns 25 years old, a revitalization effort will be part of the plan.

We also expect the wave of retirements to continue with at least 3 senior employees retiring in the coming year.

Finally, and especially important as we enter a provincial election year, RPC will be working to maintain and build on our government relations.

Notes of Appreciation

Sincere gratitude is extended to the 980 clients who procured RPC's services during 2013-2014. The challenging economic climate impacted our clients, many of whom struggled with difficult decisions such as staff reductions. We are flattered by the positive feedback we receive and challenged to sustain and improve our service to meet and exceed your expectations.

We are grateful for the support of agencies that are committed to advancing the New Brunswick economy including Economic Development, the New Brunswick Research and Innovation Council, the New Brunswick Innovation Foundation (NBIF), Invest New Brunswick, the Industrial Research Assistance Program, Natural Science and Engineering Research Council and the Atlantic Canada Opportunities Agency. Notable additions during the past year are the NBIF Innovation Voucher Program and Economic Development's Industry Innovation Challenge Program. Both these programs target business-led research and innovation and directly complement RPC's mandate.

Thank you to our volunteer board of directors, individuals who are committed to helping New Brunswick's provincial research organization succeed (see *RPC Board of Directors*, p 10). RPC's directors understand the significant mandate of the organization and provide constructive direction and guidance.

As previously noted, there were a number of retirements during the past year, including Stephen Fox and Linda Horsman (see photo) who were an integral part of the executive management team. Stephen made enormous contributions to RPC in operations management, business development, and strategic planning. His work ethic and values set an example for all. Linda understood the pulse of the organization and has impeccable integrity, which allowed her to excel in her role, and make significant contributions in areas such as human resource management. While Steve and Linda have retired from daily operations, their influence on the corporate culture of RPC will be lasting. We thank them for their contribution.

Finally, we express sincere appreciation for RPC's exceptional employees. During the past year employees were flexible and helpful in addressing situations resulting from fluctuating workloads and employee departures. They maintained a customer focus and commitment to safety and quality. They approached their work with passion and professionalism. We thank them for their efforts and acknowledge their essential role in RPC's success.



Kenneth Reeder, P.Eng.
Chairman



Eric Cook, P.Eng., MBA
Executive Director/CEO



Photo:
Stephen Fox and
Linda Horsman

ANNUAL PLAN GOALS FOR 2013-2014

RPC's Annual Plan for 2013-2014 is a subsidiary document to the Strategic Plan 2010-2015. The Annual Plan cross references the strategic corporate objectives and is endorsed by the board of directors.

Progress achieved regarding *Corporate Objectives* identified in the 2013-2014 Annual Plan is summarized below.

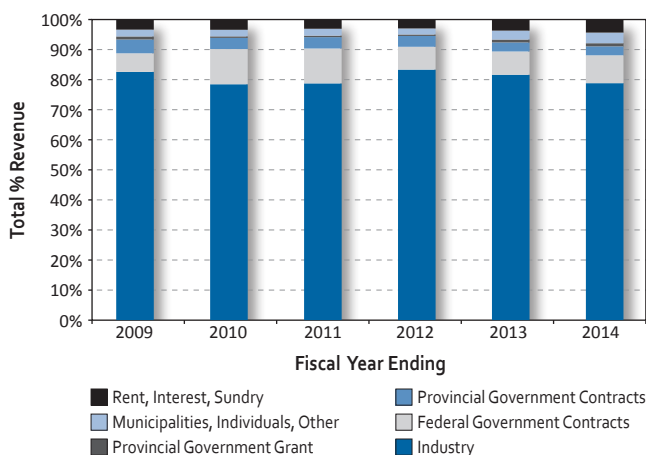
I. Produce a positive net income, meet our targets.

This objective was partially achieved. RPC generated a positive net income (see *Consolidated Statement of Operations*, p 14), but did not meet targets.

Challenging economic conditions resulted in a decline of \$673,000 in revenue. This decline was consistent with the conditions experienced by many of our clients and a direct result of a sluggish economy, one where provincial GDP was slightly negative. Challenges in mining and forestry continued. There was an absence of major projects such as the potash mine expansion and the Lepreau refurbishment. Government spending at all levels was restrained. Despite the decline in sales revenue, we achieved a positive result by managing costs.

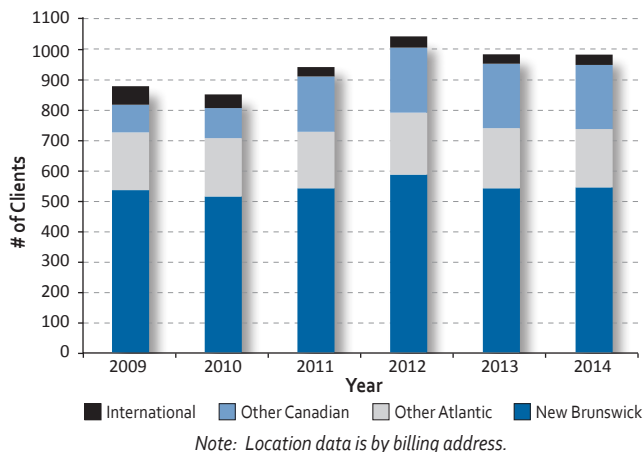
The *Revenue Sources Profile* (Chart 1) illustrates that the bulk of RPC's sales revenue (83%) continues to come from industry. Revenue from federal sources was up and remained the second largest revenue source (9.8%). Revenue from the provincial government was down (3.1%), the third year of decline. The provincial grant was \$100,000, a much-appreciated contribution, but substantially below historic funding for New Brunswick's provincial research organization.

CHART 1: REVENUE SOURCES PROFILE



The *Clients by Location* (Chart 2), illustrates that 543 of RPC's 980 clients (55%) were from New Brunswick, an outcome virtually identical to the previous year. Other clients were regional (20%), national (22%) and international (3%), performance consistent with prior years.

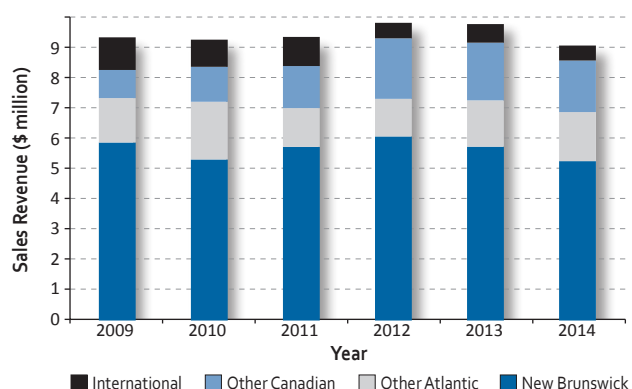
CHART 2: CLIENTS BY LOCATION



RPC's expertise attracted 437 clients from outside New Brunswick, including 34 international clients. Our export revenue is a crucial component of our sustainability, underscores our relevance and contributes to the provincial economy.

As illustrated in Chart 3, *Clients Served by Revenue*, RPC exported over \$3.8 million of services from the province, helping to create and maintain employment opportunities for highly skilled personnel in New Brunswick. International exports exceeded \$500,000, an important contribution, however, approximately half of previous highs that exceeded \$1 million. This reduction is directly attributed to a decline in mining sector.

CHART 3: CLIENTS SERVED BY REVENUE



As detailed by the analysis above and the results presented in the financial statements presented in this report, the objective of producing a profitable result was fulfilled but RPC did not meet targets.

II. Progress strategic hiring and succession planning.

This objective was fully achieved.

RPC has anticipated significant changes in our workforce as long serving employees begin to retire. During the past year, four senior employees retired from RPC; these people had prominent roles in the business and had a combined total experience exceeding 122 years.

Our succession planning was effective in managing the challenges associated with the departure of skilled and experienced employees. Four new hires are in place and have helped the transition to be successful. In addition to succession hires, RPC completed two strategic hires to support business areas that have growth opportunity.

There will be a number of additional retirements in the coming years that will be addressed with our ongoing succession planning.

III. Pursue innovation opportunities.

Excellent progress was made with this objective. Our efforts were enhanced with a renewed focus on business-led research. Innovation policy makers and funding agencies have begun to direct more attention on business-led research in an effort to encourage business to invest in research and development to ultimately increase innovation. See: *Winds of Change? Advocating Market-Led Research*, p 2.

An example is the New Brunswick Innovation Foundation who administered a new Innovation Voucher Fund. The program is targeted at business-led research and provides funding for the applicant to procure innovation services from a qualified source such as RPC. An RPC client was the first successful applicant of the program and RPC participated in several others.

Another new program is the Innovation Challenge, a program developed by the New Brunswick Research and Innovation Council (NBRIC). The Innovation Challenge provides matching funding for business innovation programs over 5 years to a maximum of \$5 million. RPC worked with McCain Foods Limited to develop a full proposal submission for the first round.

RPC also had excellent success with the National Research Council's (NRC) Industrial Research Assistance Program (IRAP). IRAP is highly regarded by business and RPC has enjoyed a successful relationship with the program administrators. During the year, RPC provided innovation services to more than 20 projects and clients.

RPC also worked to create greater awareness of our services. During the year we hosted the incoming Vice-President of ACOA for a tour and presentation. We also had a presentation and tour with Invest NB staff in May 2014.

IV. Promote and market RPC.

Promotion of RPC is a continuous effort. During the past year, RPC trialed a television advertising campaign on both CBC and CTV. The objective was to create more awareness, and the positive feedback that was received would indicate it was a success. RPC has also used social media for promotion. We make regular updates to our RPC LinkedIn company page resulting in a significant increase in viewers and follows. We also make regular updates to the RPC News section of our web site. Our extensive use of Google search words continues. See: *Spreading the Word*, below, for additional information.

RPC continued traditional promotion efforts by maintaining a high level of activity in industry groups, boards and committees. We participated in major project information sessions such as the shipbuilding project. We continued efforts with trade shows, including new additions such as the Newfoundland and Labrador Mining Show. We also advertised in print media with strategic targets such as engineers and radio.

Our intent is to continue advertising through various media channels, however we recognize that the most effective form of promotion is face to face meetings and building on established relationships.

SPREADING THE WORD

RPC employs a variety of media channels for advertisement, promotion, and awareness. We have been utilizing radio, print, and internet advertising for a number of years. Recently, we added social media and television advertising.

A TV ad campaign was launched on both the CBC and the CTV networks. We received positive feedback on our campaign. RPC also promoted its LinkedIn page, completed regular updates and grew the number of followers. This is a developing effort but the substantial number of views and the steadily increasing number of followers is encouraging.

RPC also increased its trade show participation during the last year participating in a number of local, regional, and national shows to promote our services.

An ongoing effort, RPC continues to spread the word to create awareness of our services.



2013-2014 Merit Award

Each year RPC recognizes an individual or team of individuals who are responsible for a substantial achievement at RPC. The 2013-14 merit award is presented to the Air Quality group for their efforts in significantly improving the breathing air lab with increased capacity, improved procedures, expanded scope and a significantly increased client base. Additionally, electronic reporting for asbestos and spore traps was implemented. Their efforts included upgrading of equipment with improved capacity, and expansion of test parameters. The dew point measurement process was completely revamped, leading to improved quality. Two important new accreditations were added; methane in water, and expanded parameters for diver's breathing air. The group's efforts to implement electronic reporting continued with the addition of spore traps and asbestos.

All of the above led to new clients, expanded capacity, and expanded capability; in one case providing critical assistance to a client who had a sudden need for large throughput. Improved quality, improved customer service and expanded business makes this effort worthy of the 2013-14 merit award.



2013-2014 Merit Award Team Members

Darren Tarr, Sandi Walker, Jodi Buckingham, Dr. Diane Botelho, Erin Craig, Karla McLellan, Bryan Bourque

2013-2014 Employee Career Milestones

Each year, RPC recognizes employee service milestones for 5-year increments.

5 Years Bryan Bourque
Gillian Hodges
Jessica Jones
Robert Kirouac
Tony Manning

15 Years Karen Broad
Lisa Ferrish
Eric Johnsen
Rebecca Liston

20 Years Ross Kean
Tracy Lean
Mike Skinner

25 Years Angela Colford
John Macaulay
Chris Steeves

40 Years Nettie Stewart

Senior Management Team (as of March 31, 2014)

Executive Management

Eric Cook, Executive Director/CEO
Adele Levesque, Manager of Accounting

Department Heads

John Aikens, Mechanical Systems & Diagnostics, and Physical Metallurgy
Eric Cook, Process and Environmental Technology
Dr. Ben Forward, Food, Fisheries and Aquaculture
Ross Kean, Inorganic Analytical Services
Bruce Phillips, Organic Analytical Services

Section Managers

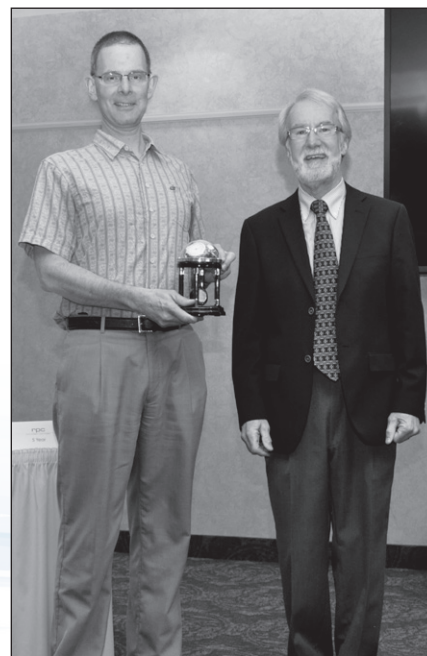
Leo Cheung, Mining and Industrial Services
Dr. Diane Botelho, Air Quality Service
Dr. John Macaulay, High Resolution Mass Spectrometry
John Speelman, Senior Metallurgist



40 Year Recipient - Nettie Stewart



25 Year Recipient - Angela Colford



25 Year Recipient - John Macaulay

BOARD OF DIRECTORS (as of March 31, 2014)

Ken Reeder, P.Eng.

Chairman
(Past) President & CEO Neill and Gunter Limited

Eric Cook, P.Eng.

Executive Director/CEO, RPC

Wayne Arsenault

Vice-President, Operations, Moosehead Breweries

Dr. Bev Bacon

President, RDI Strategies

David Beattie, P.Eng.

Senior Consultant, exp.com

Stephen Beatty, CMA

President, Integrated Project Services Inc.

Dr. David Burns

Vice-President (Research), University of New Brunswick

Lee Corey

President, Corey Nutrition Company

Bob Crawford, P.Eng.

(Past) Vice-President, NB Power

Doug Ettinger

President and CEO, Scotsburn Dairy Group

Daniel Laplante

Director of Operations, Enseignes Pattison Sign Group

Denis Caron

Deputy Minister, Economic Development

Michelyne Paulin

(Past) Regional Director-Atlantic
Foreign Affairs and International Trade Canada

HOT TOPICS:

RPC's Comprehensive Analytical Chemistry Services

RPC has an extensive scope of accreditation for analytical services including a comprehensive suite of inorganic and organic analytical chemistry. Everyday analyses are performed to support business, industry and all three levels of government. When a topic is newsworthy, RPC's analytical services are often involved in delivering associated services. This was true for several service lines during the past year.

Medical marihuana was in the news frequently during the past year and RPC is one of the very few commercial labs in the country offering accredited testing for the full suite of required parameters including the organic, inorganic and microbiology analyses.

Another hot topic has been shale gas. Analysis for methane in water is a frequent demand when shale gas is prominent. RPC is fully accredited for testing methane in water as well as all the required organic and inorganic analyses.

Radon gas made the news several times as research reports prove that radon is the second leading cause of lung cancer. Health Canada reduced the allowable limit for radon gas and publicized the health risks. RPC is certified to conduct radon gas analyses and offers multiple testing options.

Another issue that made the news was N-Nitrosodimethylamine or NDMA. The Canadian Drinking Water Guidelines have identified NDMA as a concern for drinking water. NDMA, a probable carcinogen, can be present in drinking water and wastewater primarily as a byproduct of the treatment process. RPC is accredited to conduct NDMA analyses.

A final example is Polybrominated Diphenyl Ethers (PBDEs) which made the news when an international study was published on the human health dangers. PBDEs have been used as flame-retardants; many have already been banned or restricted yet they persist in our environment. RPC is accredited to test for PBDEs.

As highlighted above, if a hot topic is in the news, there is a chance that RPC is already involved in conducting the science.



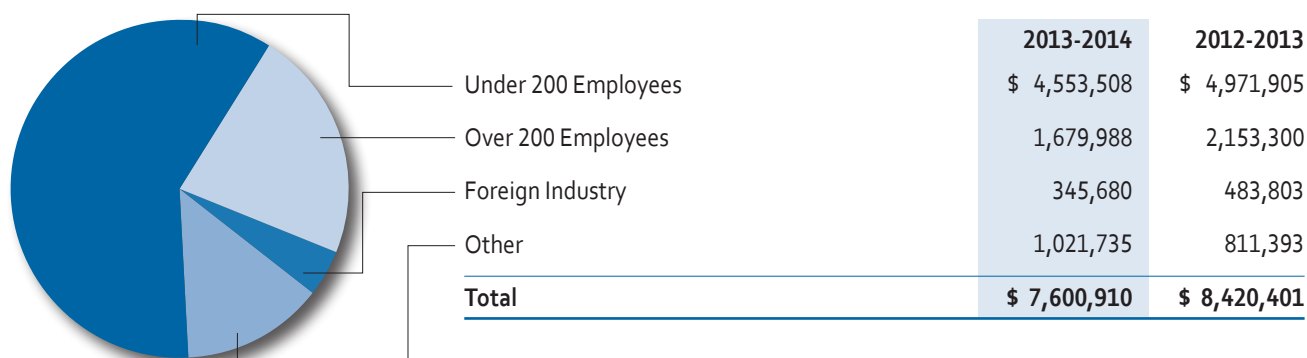
REVENUE HIGHLIGHTS

SOURCES OF REVENUE

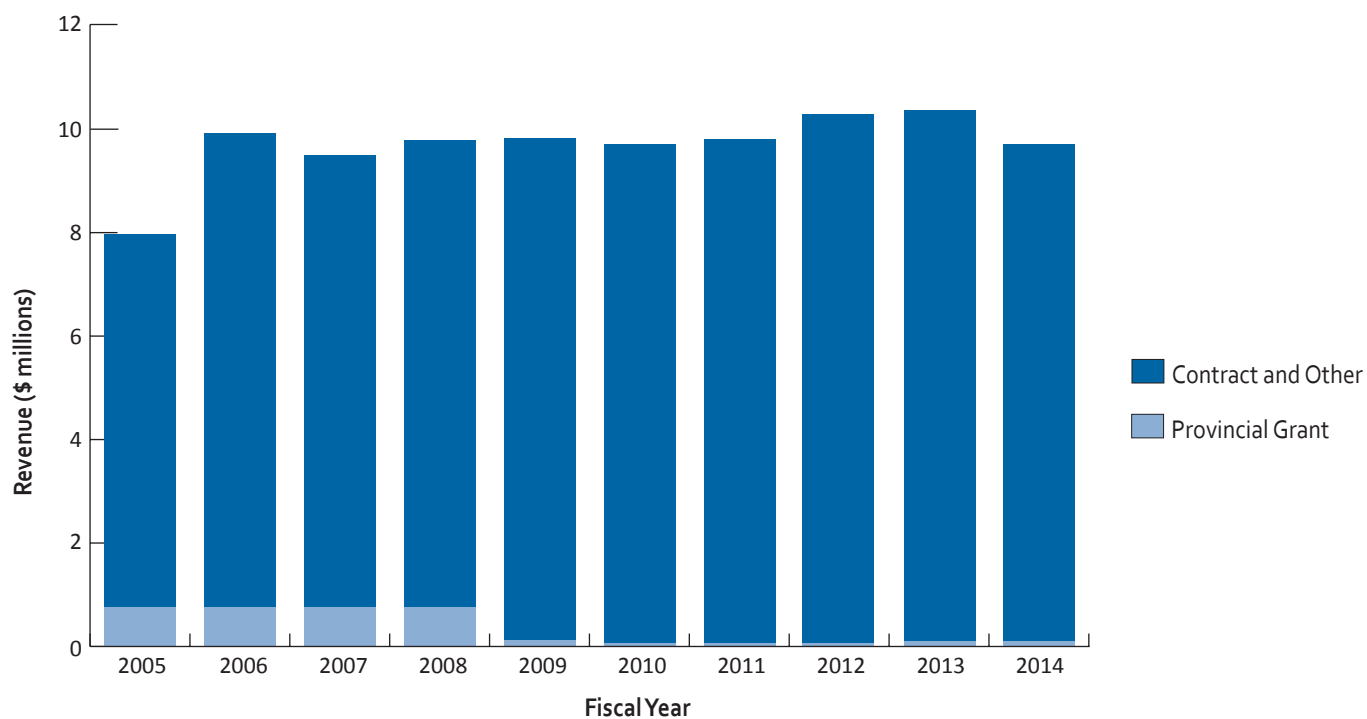


¹ Excludes provincial crown corporations such as NB Power.

DISTRIBUTION OF INDUSTRIAL REVENUE



TOTAL INCOME 2005-2014





INDEPENDENT AUDITOR'S REPORT

Premier of the Province of New Brunswick

- and -

To the Chairman and Members of the

New Brunswick Research and Productivity Council

Report on the consolidated financial statements

I have audited the accompanying consolidated financial statements of the New Brunswick Research and Productivity Council, which comprise the consolidated statement of financial position as at March 31, 2014 and the consolidated statements of operations, changes in fund balances, cash flows and remeasurement gains and losses for the year then ended and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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, these consolidated financial statements present fairly, in all material respects, the financial position of the New Brunswick Research and Productivity Council as at March 31, 2014, and the results of its operations, its changes in fund balances, its cash flows and its remeasurement gains and losses for the year then ended in accordance with Canadian public sector accounting standards.

Kim MacPherson, CPA, CA
Auditor General

October 1, 2014

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 MARCH 2014

	March 31 2014	March 31 2013
ASSETS		
Current assets		
Cash	\$ 1,050,189	\$ 987,563
Accounts receivable	1,830,452	1,826,352
Work in progress	93,750	132,342
Prepaid expenses	84,654	80,841
	<u>3,059,045</u>	<u>3,027,098</u>
Portfolio investments (Note 4)	8,328,180	8,003,896
Capital assets, net (Note 5)	2,795,041	2,863,151
	<u>\$ 14,182,266</u>	<u>\$ 13,894,145</u>
LIABILITIES AND FUND BALANCES		
Current liabilities		
Accounts payable and accrued liabilities	\$987,694	\$ 1,004,660
Deferred revenue	302,314	295,782
Current portion of note payable	-	18,152
	<u>1,290,008</u>	<u>1,318,594</u>
Long term liabilities		
Retirement allowances (Note 6)	952,700	1,025,200
Accrued sick pay benefits (Note 6)	74,000	71,000
	<u>1,026,700</u>	<u>1,096,200</u>
Deferred contributions	-	10,403
Fund balances		
Unrestricted	2,849,472	2,963,307
Internally restricted (Note 7)	6,221,045	5,671,045
Invested in capital assets	2,795,041	2,834,596
	<u>11,865,558</u>	<u>11,468,948</u>
	<u>\$ 14,182,266</u>	<u>\$ 13,894,145</u>

Approved by the Council



Chairman



Executive Director

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

CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED 31 MARCH 2014

	2014	2013
REVENUE		
Operations	\$ 9,122,587	\$ 9,834,613
Operating grant		
Province of New Brunswick	100,000	100,000
Investment	229,165	231,204
Sundry	187,538	144,708
Gain on sale	-	1,800
	<u>9,639,290</u>	<u>10,312,325</u>
EXPENSE		
Operations	6,840,810	7,021,249
Administration	2,274,445	2,175,369
Amortization (Note 5)	536,349	518,346
Bad debts (recovery)	(45,362)	40,697
	<u>9,606,242</u>	<u>9,755,661</u>
EXCESS OF REVENUE OVER EXPENSE	<u>\$ 33,048</u>	<u>\$ 556,664</u>

CONSOLIDATED STATEMENT OF REMEASUREMENT GAINS AND LOSSES FOR THE YEAR ENDED 31 MARCH 2014

	2014	2013
ACCUMULATED REMEASUREMENT GAINS, Beginning of year	\$ 577,179	\$ 413,393
Unrealized gains attributable to:		
Portfolio investments	296,038	183,471
Foreign exchange	67,524	-
Amounts reclassified to the statement of operations:		
(Gains)/Losses realized during the year	-	(19,685)
Change in accumulated remeasurement gains for the year	363,562	163,786
ACCUMULATED REMEASUREMENT GAINS, End of year	\$ 940,741	\$ 577,179

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

CONSOLIDATED STATEMENT OF CHANGES IN FUND BALANCES FOR THE YEAR ENDED 31 MARCH 2014

	Operating Unrestricted	Capital Board Restricted	Capital Invested in Capital Assets	Total 2014	Total 2013
BALANCE, Beginning of year	\$ 2,963,307	\$ 5,671,045	\$ 2,834,596	\$ 11,468,948	\$ 10,748,498
Excess of revenue over expense	33,048			33,048	556,664
Change in accumulated remeasurement gains	363,562			363,562	163,786
Acquisition of capital assets	(478,642)	-	478,642	-	-
Reduction in note payable	(18,152)	-	18,152	-	-
Amortization of capital assets	536,349		(536,349)	-	-
Interfund transfer (Note 7)	(550,000)	550,000		-	-
BALANCE, End of year	<u>\$ 2,849,472</u>	<u>\$ 6,221,045</u>	<u>\$ 2,795,041</u>	<u>\$ 11,865,558</u>	<u>\$ 11,468,948</u>

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2014

	2014	2013
CASH PROVIDED BY (USED FOR):		
Operating activities		
Excess of revenue over expense	\$ 33,048	\$ 556,664
Amortization	536,349	518,346
Net change in non-cash working capital	(38,138)	(137,757)
Net cash provided by operating activities	531,259	937,253
Capital activities		
Acquisition of capital assets	(478,642)	(584,921)
Investing activities		
Purchase or transfer of portfolio investments	28,161	(194,800)
Financing activities		
Reduction in note payable	(18,152)	(28,591)
NET INCREASE IN CASH	62,626	128,941
Cash, Beginning of year	987,563	858,622
CASH, End of year	\$ 1,050,189	\$ 987,563

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 MARCH 2014

1. Purpose of the organization

The New Brunswick Research and Productivity Council (the Council) is a government not-for-profit organization incorporated under the Research and Productivity Council Act 1962. The objectives of the Council are to promote, stimulate and expedite continuing improvement in productive efficiency and expansion in the various sectors of the New Brunswick economy. The Council provides independent research, testing and technical services to enterprises primarily within New Brunswick on a fee-for-service basis.

2. Summary of significant accounting policies

These financial statements are prepared by management in accordance with Canadian public sector accounting standards for not-for-profit organizations. A summary of the significant accounting policies used in the preparation of these financial statements are as follows:

(a) Fund accounting

Revenue and expense associated with delivery of services and administrative support are reported in the Operating Fund. The Capital Fund reports assets, liabilities, gains and expenditures related to the acquisition, disposal and financing of capital assets, as well as the amount of net assets restricted for capital purposes.

(b) Consolidation policy

These consolidated financial statements include the accounts of the Council and those of its inactive wholly owned subsidiary, Minuvar Ltd.

(c) Revenue recognition

Revenue is determined to be earned and is recorded in the Operating Fund as work is performed. The value of work completed but not yet billed is reported as work in progress; amounts received, but for which work has not been performed, are reported as deferred revenue.

Investment income includes dividends, interest, and realized gains and losses on investments. All investment income is reported in the Operating Fund in the year it is earned.

The Council follows the deferral method of accounting for grants received for operations and specific projects. Grants to be used for restricted purposes are recognized as revenue in the period in which the related expenditures are incurred. Where a portion of a grant relates to a future period, it is deferred and recognized in the subsequent period. Unrestricted grants are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Grants approved but not received at the end of an accounting period are accrued.

(d) Capital assets

Capital assets are recorded in the Capital Fund at cost. Amortization is provided on a straight-line basis over the assets' estimated useful lives.

(e) Financial instruments

Financial instruments are contracts that establish rights and obligations to receive or deliver economic benefits. Financial assets consist of cash, accounts receivable, portfolio investments, and financial liabilities consist of accounts payable and accrued liabilities.

Portfolio investments quoted in an active market are measured at fair value. The Council's other financial instruments are measured at carrying values which are considered to approximate fair value. Financial instruments measured at fair value are classified as level 1, 2 or 3 for purposes of describing the basis of the inputs used to measure the fair values of the financial instruments in the fair value measurement category, as described below:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the assets or liabilities, either directly or indirectly; and

Level 3 – inputs for the assets or liabilities that are not based on observable market data.

2. Summary of significant accounting policies - continued

(e) Financial instruments - continued

Unrealized gains and losses from changes in the fair value of financial instruments are recognized in the Statement of Remeasurement Gains and Losses. Upon settlement, the cumulative gain or loss is reclassified from the Statement of Remeasurement Gains and Losses to the Statement of Operations. Transaction costs for financial instruments measured at fair value are expensed. Financial assets are assessed annually to determine whether there is any objective evidence of impairment.

(f) Portfolio investments

Portfolio investments held by the Council include publicly traded short and long term fixed income securities and equity securities. Interest on fixed income securities is accrued as earned and reported on the statement of operations along with dividends and other investment income. Equity securities are classified as level 1 according to the fair value hierarchy and are reported at fair value as determined by quoted market prices on the financial statement date. Fixed income securities are classified as level 2 according to the fair value hierarchy and are reported at fair value as determined by RBC Capital Markets at the financial statement date.

(g) Pension

Effective January 1, 2014, qualifying employees of the Council became members of the New Brunswick Public Service Shared Risk Plan, formerly the New Brunswick Public Service Superannuation Plan. The converted plan continues to be a defined benefit multi-employer plan under which contributions are made by both the Council and its employees. The Council is not responsible for any unfunded liability in the plan nor does it have access to any plan surplus. The Council's cost is limited to its annual contributions which were \$442,065 for the year ended March 31, 2014 (2013 - \$390,246).

Pension administration services are provided by the Province of New Brunswick's Office of Human Resources at no cost to the Council.

(h) Retirement allowances

Employees who began full-time employment prior to April 1, 2011 are entitled to retirement allowance benefits. The accrued liability for this retirement allowance benefit was determined by an actuarial valuation carried out as of March 31, 2012 and extrapolated to March 31, 2014.

(i) Accrued sick pay benefits

Employees are entitled to sick pay benefits which accumulate but do not vest. The accrued liability for this benefit was determined by an actuarial valuation carried out as of March 31, 2012 and extrapolated to March 31, 2014.

(j) Measurement uncertainty

The preparation of consolidated financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes.

Significant estimates included in these financial statements include: assumptions used in determining liabilities for retirement allowance and sick pay benefits; accounts receivable which are, or may become, uncollectible; the valuation of work in progress and deferred revenue; and the useful life over which capital assets are amortized.

Estimates are based on the best information available at the time of preparation of the consolidated financial statements and are reviewed annually to reflect new information. Actual results could differ from these estimates.

3. Risk management

When investing, the Council follows a conservative investment policy (Note 9) in order to mitigate financial risk. The Council has no derivative investments and has not entered into hedging transactions to manage risk.

An analysis of significant risks from the Council's financial instruments is provided below:

i) Credit risk

Credit risk is the risk that one party to a financial instrument will cause financial loss for the other party by failing to discharge an obligation. The Council manages this exposure through credit approval procedures for new customers and obtaining advanced payment from high risk customers. The Council's maximum exposure to credit risk is equal to the receivables balance of \$1,830,452 at March 31, 2014.

The Council is also exposed to credit related risk in the event the counterparty to a fixed income security defaults or becomes insolvent. The Council manages this risk by dealing only with reputable banks and financial institutions and following a conservative framework governing the eligible investments, including a required credit rating of A or higher for bond issuers.

There have been no significant changes to credit risk exposure during the year.

ii) Liquidity risk

Liquidity risk is the risk of not being able to settle or meet an obligation on time or at a reasonable price. As the Council's cash and portfolio investment balance exceed its future obligations, it is not subject to significant liquidity risk.

iii) Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect future cash flows or fair values of financial instruments. The Council's investments in fixed-income securities are normally held until maturity, reducing the impact of rate fluctuations on cash flows. The fair value of these securities may vary with market rates.

iv) Currency risk

Currency risk arises on financial instruments denominated in a foreign currency. The Council has an insignificant number of transactions with customers and vendors denominated in foreign currency.

A portion of the Council's portfolio investments are equity securities denominated in USD as well as a portion of accounts receivable. The impact of a change in currency rate at March 31, 2014 would be limited to these balances:

Financial Instruments demoninated in USD	
Cash	\$ 76,618
Accounts receivable	123,787
Equity investments	593,769
	<u>\$ 794,174</u>

A 1% change in the exchange rate would have the impact of increasing or decreasing the value of these assets by \$7,942 depending on whether the rate increases or decreases.

4. Portfolio investments

Portfolio investments in the fair value category	Fair value hierarchy level	2014	2013
Equity securities	Level 1	\$ 2,843,133	\$ 2,620,206
Fixed income securities	Level 2	5,485,047	5,383,690
		<u>\$ 8,328,180</u>	<u>\$ 8,003,896</u>

5. Capital assets

	Amortization rates	Cost	2014	Net book value	2013
			Accumulated amortization		Net book value
Vehicle	25%	\$ 20,937	\$ 10,468	\$ 10,469	\$ 15,703
Computer equipment	25%	589,154	531,575	57,579	64,305
Operating equipment	12.50%	8,553,758	7,280,441	1,273,317	1,368,641
Land and buildings	3%	3,258,541	1,804,865	1,453,676	1,414,502
		<u>\$ 12,422,390</u>	<u>\$ 9,627,349</u>	<u>\$ 2,795,041</u>	<u>\$ 2,863,151</u>

Amortization expense is comprised of the following amounts:

	2014	2013
Amortization of assets	\$ 546,752	\$ 530,051
Amortization of deferred contributions	(10,403)	(11,705)
	<u>\$ 536,349</u>	<u>\$ 518,346</u>

6. Employee future benefits

(a) Retirement allowances

Those employees who began full-time employment prior to April 1, 2011 are entitled to payment of a retirement allowance based upon one week's pay for each full year of service to a maximum of 25 years. The retirement allowance is paid upon retirement after the age of 55, at the employee's final rate of pay. An actuarial valuation has been completed and forms the basis for the estimated liability reported in these financial statements.

(b) Sick Pay Benefits

Employees working full-time accumulate sick pay benefits that accumulate at 1.25 days per month and if unused can be carried forward to a maximum of 240 days. An actuarial valuation has been completed and forms the basis for the estimated liability reported in these financial statements.

Significant economic and demographic assumptions used in the actuarial valuations are:

Discount rate	3.75% (2013 - 3.5%)
Salary increases	3.5%
Retirement age	Age 60
Probability of excess sick leave	6.5%

	2014		2013	
	Retirement Allowances	Sick Pay Benefits	Retirement Allowances	Sick Pay Benefits
Accrued benefit obligation, April 1	\$ 1,103,400	\$ 76,400	\$ 1,044,500	\$ 74,000
Current service cost	67,500	5,100	65,200	4,900
Interest on obligation	36,600	2,700	36,900	2,600
Benefit payments	(181,900)	(5,200)	(43,200)	(5,100)
Actuarial loss	(25,600)	(2,000)	0	0
Accrued benefit obligation, March 31	<u>1,000,000</u>	<u>77,000</u>	<u>1,103,400</u>	<u>76,400</u>
Unamortized actuarial loss	(47,300)	(3,000)	(78,200)	(5,400)
Accrued benefit liability at March 31	<u>\$ 952,700</u>	<u>\$ 74,000</u>	<u>\$ 1,025,200</u>	<u>\$ 71,000</u>

7. Inter-fund transfers and internally restricted fund balances

The Council's board of directors has internally restricted resources amounting to \$6,221,045 as at March 31, 2014 (2013 - \$5,671,045). This internally restricted amount is intended for the acquisition of capital assets and payment of capital obligations and is not available for other purposes without the approval of the board of directors. This amount includes the March 31, 2014 transfer of \$550,000 from the Operating Fund to the Capital Fund (2013 - \$1,800,000).

8. Related party transactions

During the year the Council provided services to government departments and Crown agencies of the Province of New Brunswick. The Council provides these services under its normal terms and conditions.

	<u>2014</u>	<u>2013</u>
Revenue from services provided for the year		
Government departments and agencies	\$ 287,666	\$ 302,861
NB Power Group	<u>244,365</u>	<u>565,920</u>
	\$ 532,031	\$ 868,781
Accounts receivable at 31 March		
Government departments and agencies	\$ 42,336	\$ 23,102
NB Power Group	<u>38,265</u>	<u>22,441</u>
	\$ 80,601	\$ 45,543

9. Management of fund balances

The Council's objective in managing its fund balances is to remain a sustainable operation while fulfilling its overall mandate to provide independent research, testing and technical services organization. The Council achieves this objective through strong day-to-day management of cash flows and by regularly monitoring revenues and expenditures against annual operating and capital budgets.

The Council's investment policy has a target investment allocation as follows:

Cash and equivalents	10%
Fixed Income	65%
Equity	25%

The objective of the portfolio is to optimize the quality long-term income and growth with a conservative risk framework. Within the overall objective the portfolio should seek to earn a return equal to the risk free rate plus inflation over the long run.

10. Comparative figures

Where necessary, comparative figures have been reclassified or restated to be consistent with current year presentation.