

rpc

SCIENCE & ENGINEERING

# ANNUAL REPORT 2018-2019



# STRATEGIC PLAN 2015-2020

## RPC'S VISION STATEMENT

The Research and Productivity Council (RPC) will excel in scientific services and 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 business and industry to develop and apply innovative technology, and to provide specialized laboratory-based technical services.

## CORPORATE VALUES

RPC conducts business with the following core values:

- Safety:** RPC is committed to providing a safe work environment.
- Quality:** RPC is committed to quality in the work we perform.
- Service:** RPC is client-focused and committed to assisting clients to the best of our ability.
- Respect:** RPC is committed to treating clients, employees, and suppliers with respect and fairness.

## STRATEGIC CORPORATE OBJECTIVES

Strategic objectives have been derived from the mission statement and reflects 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 provides direction for the organization and has been endorsed by RPC's board of directors.

The strategic plan provides an overview of process within the context of required inputs and anticipated results. Organizational objectives, and the rationale behind them, evaluation metrics and preliminary actions are provided to bring clarity and actionability to the plan. In keeping with best practice, the objectives have been developed to be specific, measurable, actionable, realistic and timely (SMART).

### Revitalization:

#### Position the Organization to Serve its Mandate

RPC's mandate is to be a leading authority and service provider for scientific services and research and development. To achieve this, we must have qualified people, leading edge equipment, and appropriate facilities.

RPC will continue to strategically invest in human capital to support organizational succession planning and strategic growth, both in current areas of expertise and to capitalize on emerging opportunities.

RPC is focussed on the future. The organization's revitalization plan is focussed on both the present and the future.

First, renewal of existing physical assets, meaning increased annual capital spending on equipment replacement and facilities maintenance. Much of the current building infrastructure is approaching 50 years of operation and requires increased attention to ensure the physical environment supports the level of excellence needed, including efficiency, appropriateness and safety. RPC will commit up to \$1 million annually for capital improvements.

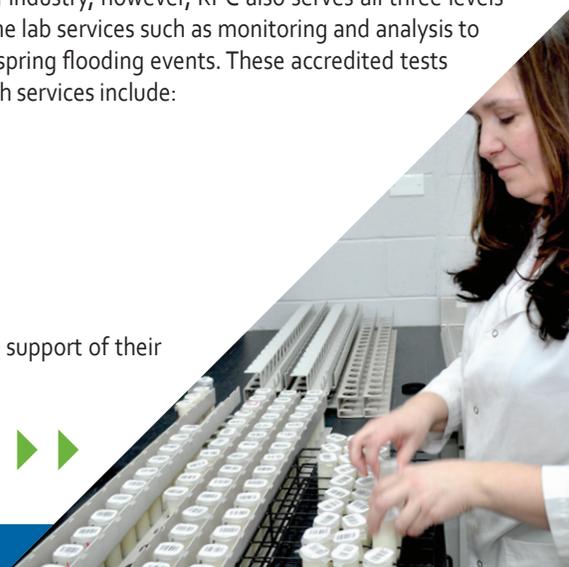
## AT YOUR SERVICE

The majority of RPC's activities, approximately 80%, are focused on supporting business and industry, however, RPC also serves all three levels of government. Of note is the service to the Province of New Brunswick, which includes routine lab services such as monitoring and analysis to support regulatory requirements and crisis response testing such as that required during the spring flooding events. These accredited tests are conducted in compliance with national and international standards. Some examples of such services include:

- Fish health analysis in support of the aquaculture industry
- Milk testing in support of the dairy industry
- Water testing to support health, tourism and environment
- Environmental monitoring tests to support construction, mining and other activities
- Mould testing supporting indoor air quality

RPC is proud to work closely with various government departments, providing lab services in support of their mandates.

RPC has expanded its dairy lab to provide increased capacity and decreased redundancy. ▶▶▶



RPC will also be pursuing a revitalization project. This project will focus on increasing both our capacity and capability. Growth in our existing lines of business require more physical space and new facilities are required to position us to take advantage of new and emerging opportunities. The last significant growth investment was a \$20 million revitalization project during 1987-1990; we anticipate a project of a similar magnitude.

## Pursue Growth Opportunities

RPC's services will continue to evolve to remain relevant to industry.

As a provincial research organization (PRO), growth includes expansion of service offerings, modernization of methods, obtaining accreditations, acquisition of expertise, acquiring of modern instruments and equipment, and developing appropriate labs and facilities. At RPC, growth is pursued with the objectives of organizational sustainability and relevance achieved through excellent client service.

Three types of growth will be considered:

- a. Organic Growth: Our primary focus will be on core growth that involves expanding service offerings, gaining new accreditations, or offering a new service line to increase our capacity and better serve our present and future clients.
- b. Acquisition: These are rare opportunities that involve a chance to acquire a private or perhaps public organization or service that fits with RPC's mandate, increasing capacity and better serving our present and future clients.
- c. Expansion: This would be the opening of a new site or a new facility to support growth, increasing capacity and better serving our present and future clients. It could also include the repurposing, updating and expansion of current space.

## Communications and Business Development

Increasing awareness of RPC, its people and its work, remains a priority. As with many research and development organizations, RPC is challenged to promote its services and celebrate its success while respecting client confidentiality and the proprietary nature of much of its work.

RPC is committed to the engagement of our employees through a series of focussed activities. Major milestones, achievements and long service are recognized and celebrated. Town Hall meetings help to ensure our people interact with one another, learn about our organization and engage in conversations that spur ideas and innovation. Social media and the intranet are used to provide updates.

RPC recognizes that achievement of its growth objectives requires a focus on business development. While RPC has relied upon a more organic expansion of business in the past, more focus is being placed on purposeful evaluation and targeting of business development opportunities that take advantage of current expertise and identify new areas for growth. We recognize that some of the capabilities we develop to serve New Brunswick, are exportable regionally, nationally, and in some cases internationally.

Strategic communications are key to our future. To support both internal and external communication, improvements will be made to our website, social media presence, and internal communications activities. Strategic tradeshow participation and industry association involvement will continue. New initiatives may include sales and communications training, acquisition of software tools such as customer relation management, expanded social media use, and a competitive intelligence initiative.

## Operational Excellence

RPC will continue to develop business systems and processes that enable the organization and its people to operate efficiently and effectively. Given the current economic climate and Government austerity programs, the organization will continue to make business decisions focussed on financial sustainability funded from operations.

To support excellence in operations, RPC will assess and review ERP/LIMS. The organization will continue work on the development and advancement of a facility maintenance plan that supports innovation, growth and continuous improvement of quality systems. Investment in the development of our people will continue as will support of a positive work environment and safety culture.

At the policy level RPC will continue to support Board development activities. These activities will focus on strengthening an understanding of the organization and its relationship to government, governance and fiduciary responsibilities.

## Corporate Social Responsibility

RPC will build on its well-earned reputation as a good corporate citizen, giving back to the community and complying with laws and regulations. Our goal is to have a positive impact on the community beyond our core operations.

Initiatives will include meeting our United Way contribution goals, sustaining fundraising efforts for food banks, encouraging employee-led charity initiatives, and continuing to expand our recycling initiatives.



**Innovation is the market  
introduction of a technical or  
organisational novelty, not just its invention.**  
- Joseph A. Schumpeter

# FROM THE CHAIRMAN AND THE EXECUTIVE DIRECTOR

The 2018-2019 year was yet another dominated by increased demand for the services and expertise of RPC resulting in remarkable growth. Sales revenue grew an astounding \$3.4 million or 25% to a record \$16.6 million (see *Consolidated Statement of Operations*, p. 16). Employment levels continued to grow as RPC added an additional 25 new positions. Most importantly, we enabled enormous client growth supporting them to develop new products, improved processes and expanded markets.

These successes were achieved while producing a healthy positive net income of \$567,496, allowing for the continued re-investment in RPC's operations. RPC is the only research and technology organization (RTO) in Canada succeeding without an annual operating grant. This past year is the 15<sup>th</sup> successive year of positive net income, allowing RPC to invest in facilities, instrumentation and people to better serve New Brunswick. RPC is helping New Brunswick to be a leader in science and technology, contributing to the success of established businesses, supporting new businesses and enhancing the value proposition for others to do business in New Brunswick.

RPC has invested heavily in capital, which is an investment in our future success. Over \$2.2 million in capital investments were made for new instrumentation and facility improvements (see *The Only Constant is Change: Renovations Continue at RPC*, below). The investments were enhanced by the support of funding partners including the Atlantic Canada Opportunities Agency (ACOA) and the Regional Development Corporation (RDC); we are appreciative of this support. We also significantly progressed our information technology project, including the Laboratory Information Management System (LIMS) replacement (see *Cyberspace: RPC Initiates IT Renewal Project*, p. 10).

Other achievements included successful quality audits including ISO 9001:2015 and ISO 17025. All three sites, Moncton, St. George and Fredericton, are now ISO 9001 accredited. We also added additional accreditations, part of our commitment to client service and quality. Accreditations illustrate that a service provider meets or exceeds quality standards. Accreditation is required by regulatory bodies and most industries. Accreditation by an independent third party demonstrates that RPC not only has the scientific capability to perform a test, but also has the processes, checks and balances to consistently complete it to internationally recognized standards.

We were pleased to recognize employee service milestones, as well as present the 2018-2019 merit award (see *RPC Merit Award*, p. 8). The merit award was presented to the RPC cannabis team, a group that has led the development of a service that has garnered provincial, regional, national and international acclaim.

We were pleased to launch our Technology Adoption Program, an enhancement of our ongoing support of manufacturers and industry. The program is designed to help industry adopt advanced manufacturing technologies, leading to improved competitiveness (see *RPC Launches Technology Adoption Program*, p. 7). Working with ACOA, the service is offered to clients at a subsidized rate. RPC also opened a new robotics lab, allowing for the demonstration and proof of concept for automation applications.

The growth in RPC's sales revenue illustrates the demand for the services of an RTO. With rapidly changing technology, global competition and increased business challenges we believe the mandate for RTOs has never been stronger.

## THE ONLY CONSTANT IS CHANGE: RENOVATIONS CONTINUE AT RPC

RPC's growth and new services has resulted in ongoing renovations and improvements. During the past year we completed upgrades, repurposing and modernization.



Completion of a new and significantly improved gas cylinder storage area



Addition of industrial racking to facilitate storage needs



Renovations to create a new automation lab



Opening of a new cannabis sample preparation lab



Relocation of the industrial hygiene lab

## THE OUTLOOK

The past three years have seen growth of 15, 18 and 25% propelling us near our capacity. We are forecasting more modest growth in the coming year, partly because of resource limitations (mainly facility). In anticipation of increasing demand for our services, we are focusing efforts on resource optimization, improved processes, alternative methods, and other opportunities to increase capacity. We are working to add new services, optimize existing services, increase employee training and maintain our quality systems, all efforts in the coming year that will show return in future years.

In addition to resource optimization, priorities in the coming year will include identifying a facility solution for our Fredericton location and developing a Strategic Plan for 2020-2025.

## NOTES OF APPRECIATION

RPC is successful when our clients are successful. We are appreciative of our client's loyalty, some who have been with us for over five decades. In addition to placing your trust in us, you push us to do more, and be better. Thank you.

We are thankful for the collaboration and support of partners including the Regional Development Corporation (RDC), the New Brunswick Innovation Foundation (NBIF), Opportunities New Brunswick (ONB), the Industrial Research Assistance Program (IRAP), and the Atlantic Canada Opportunities Agency (ACOA). Thank you for helping our province, and our region, to grow and be competitive.

The wisdom, encouragement, leadership, and oversight from our board of directors has contributed to our growth and success. Thank you for your commitment to RPC and our province (see *RPC Board of Directors*, p. 10).

RPC employees continue to be core to our success. The passion for excellent science and customer service is evident in our daily

activities and confirmed with client surveys, quality audits, and other performance measures. Thank you for your service, your commitment and your loyalty. Employees reaching five-year service milestones were recognized at our annual merit and service awards (see *2018-2019 Employee Career Milestones*, p. 9).

The past year can be summarized as record demand for our services resulting in record performance and record growth. RPC's success is remarkable and satisfying, but more impressive is the success of our clients. We are proud to have contributed to successes such as new product launches, new process improvements, new developments, and expanded operations, all while helping to meet regulatory, health, and safety requirements. These successes highlight the expected impacts of a Research and Technology Organization such as RPC.

The future holds both challenges and opportunities. RPC has outgrown its facility, much of which needs major refurbishment or replacement. Addressing facility needs will continue to be a priority. On the opportunity side, we are entering a strategic planning year which gives us a chance to reflect on the past and look to the future. The past four years have been successful beyond our most optimistic projections. With unprecedented demand for our services, rapidly expanding technology options and the challenges of a global economy, RPC's mandate is as relevant as it has ever been. Building on our success, we look forward to addressing the challenges and pursuing the opportunities.

Dr. Shelley Rinehart  
Chairperson

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



These changes are necessitated by RPC's substantial growth and aging facilities. We are appreciative of ACOA funding that helped with the new instruments and automation lab.

Repurposing of an area to create a research lab

Updating of some washrooms

Addition and replacement of instruments

Improvements in HVAC systems

Repurposing to create an expanded media preparation lab

# ANNUAL PLAN GOALS FOR 2018-2019

RPC'S ANNUAL PLAN FOR 2018-2019 is a subsidiary document to the Strategic Plan 2015-2020. The Annual Plan cross references the strategic corporate objectives and is endorsed by the board of directors.

Progress achieved regarding Corporate Priorities identified in the 2018-2019 Annual Plan is summarized below.

## I. Self-sustaining Financial Performance with Increased Revenue and Capital Investment

This objective was completed by a significant margin. Operational revenue was \$16.6 million, a remarkable 15% increase over 2018 and well beyond the targeted \$14.5 million (see *Consolidated Statement of Operations*, p. 16). Capital investments including new instrumentation and facility improvements was a record \$2.2 million. We also generated healthy margins and a positive net income of \$567,496.

The **Revenue Sources Profile (Chart 1)** illustrates that the majority of RPC's sales revenue (79.2%) continues to come from industry. The remaining revenue is from all three levels of government including the provincial government.

The **Clients by Location (Chart 2)**, illustrates that 648 of RPC's 1127 clients (57%) were from New Brunswick. The remaining clients were regional, national, and international, contributing to RPC's sustainability and creating employment for New Brunswickers.

As illustrated in **Chart 3, Clients Served by Revenue**, RPC exported \$7.9 million of services from the province, helping to create and maintain employment within New Brunswick. This is up 43% from last year's \$5.5 million.

## II. Facilities

This objective included addressing RPC current facility needs and future facility needs. Substantial progress was made on all of these objectives with work continuing.

Highlights include the opening of a new cannabis sample preparation lab (see *Building RPC's Cannabis Business*, p. 8), opening of a new automation lab (see *RPC Launches Advanced Manufacturing Technology Adoption Program*, p. 7), and acquisition of numerous instruments including a state-of-the-art milk composition analytical platform.

RPC also commissioned an engineering study of our existing facility, with a costed report on necessary upgrades and possible site expansion options. RPC also explored potential new build options and made presentations to governments and funding agencies on RPC 3.0.

## III. Communications and Business Development

Excellent progress was made on this objective, as evidenced by the unprecedented growth in sales revenue. Specific activities included increased trade show participation, expansion of the client services team, sustained industry association participation, branding of RPC vehicles and other business development and promotion activities.

## IV. Operations

This objective was also successfully progressed. Highlights include the launch of a \$2.4 million IT project that will involve a comprehensive upgrade of software and hardware (see *Cyberspace: RPC Initiates IT Renewal Project*, p. 10).

Other highlights included:

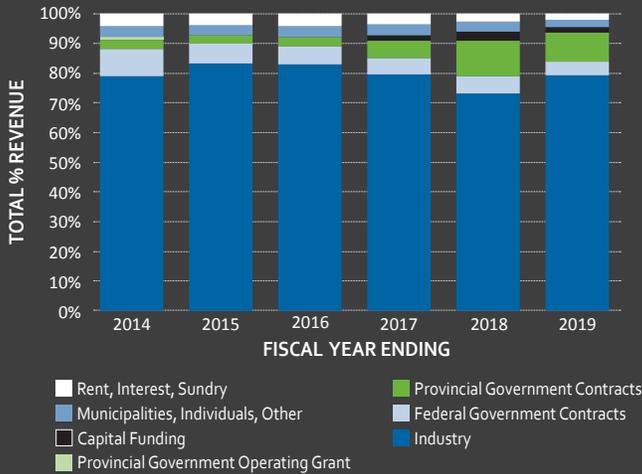
- Completed 5S training for 118 employees.
- Continued Quality Champions teambuilding and successfully completed ISO 17025, ISO 9001 and inspection body audits.
- Completed reviews and identified cost savings leading to improved margins.
- Selected new lab coats with improved safety features, RPC branding and employee names.
- Made numerous improvements to facilities security and other services such as cleaning.

## V. Employee Engagement and Corporate Citizenship

Over the past year, accomplishments included:

- Increased safety efforts including training and PPE improvements.
- Improved formal employee training including 5S, safety, quality, employee tours and other initiatives.
- Successful employee engagement initiatives throughout the year.
- Completion of an employee engagement survey.
- Continued charitable efforts with the United Way as our corporate charity and support of others such as food banks.

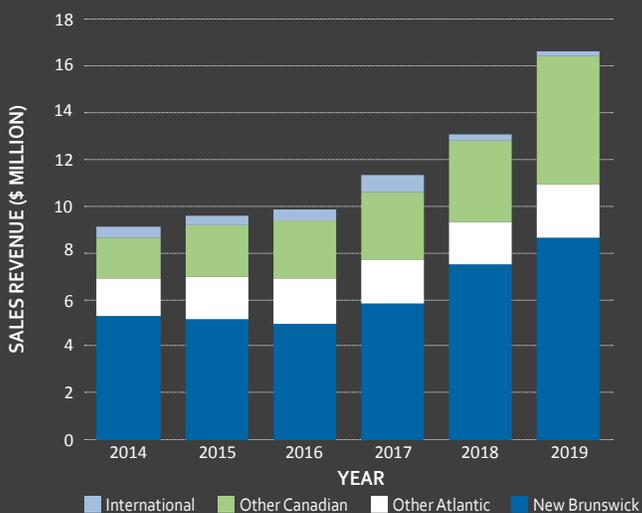
**CHART 1: REVENUE SOURCES PROFILE**



**CHART 2: CLIENTS BY LOCATION**



**CHART 3: CLIENTS SERVED BY REVENUE**

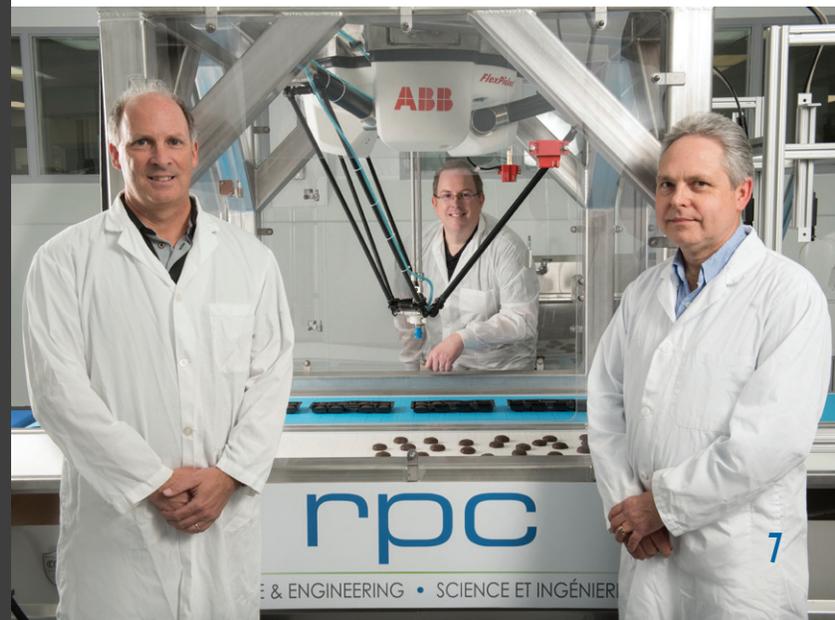


# RPC LAUNCHES ADVANCED MANUFACTURING TECHNOLOGY ADOPTION PROGRAM

With the collaboration and support of ACOA, RPC has launched an advanced manufacturing technology adoption program. The program consists of an on-site assessment to identify opportunities for automation, robotics, machine vision, data collection, process automation, data analytics, 3D printing, machine learning and other advanced manufacturing technologies that can help improve productivity, quality, and profitability. RPC can develop a proof of concept to demonstrate the functionality and performance of the proposed technology. Finally, we can assist with a turnkey implementation to integrate the technology into the client's production.

RPC has partnered with ACOA to help offset the costs of the assessment and proof of concept. Clients may be eligible for existing funding programs to offset the cost of the turnkey solution.

Technology advancements in machine learning, machine vision, robotics and other automation technologies have exponentially increased the number of feasible applications. The technology is more functional, more user friendly and more affordable leading to numerous opportunities for small and medium sized enterprises (SMEs). Advanced manufacturing technology is a key tool to address the challenges of a tightening labour market and global competition.



# RPC EMPLOYEES

## 2018-2019 RPC MERIT AWARD

### Building RPC's Cannabis Business

Building on decades of analytical science experience for the agriculture, aquaculture, forestry, food, and environmental sectors, RPC has become a leading provider of cannabis science services. The leadership has resulted in significant accomplishments including growth in revenue, growth in employment, adding new clients, and helping RPC and New Brunswick to be recognized nationally and internationally. During the past year, new labs, new equipment, and new quality procedures were advanced. RPC was recognized by Lift & Co. as the Top Testing lab in Canada.

The efforts have stimulated growth in other departments and new applied research services. Most importantly, this has helped dozens of clients to grow and create thousands of jobs.



### 2018-2019 Merit Award Team Members:

(L-R): Karen Broad, Bruce Phillips, April Boudreau, Troy Smith

## 2018-2019 EMPLOYEE CAREER MILESTONES

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

**5 Years**  
Mike Connor  
Scott Sanford  
Erica Currie-Fraser  
Jody Lavigne  
Angie Guitard

**10 Years**  
Tony Manning  
Bryan Bourque  
Jessica Storey  
Gillian Travis

**20 Years**  
Eric Johnsen  
Lisa Ferrish  
Rebecca Liston  
Karen Broad

**25 Years**  
Tracy Lean  
Nigel Skinner

**30 Years**  
Angela Colford  
Chris Steeves  
John Macaulay



Chairperson, Dr. Shelley Rinehart presents 30 Year Service Awards to Angela Colford, Chris Steeves and John Macaulay.



## RPC SENIOR MANAGEMENT TEAM

(as of June 30, 2019)

### Executive Management

Dr. Diane Botelho, Chief Science Officer  
Eric Cook, Executive Director/CEO  
Bev Corey, Controller  
Steve Holmes, Chief Operating Officer

### Department Heads

John Aikens, Engineering Services  
Dr. Ben Forward, Food, Fisheries and Aquaculture  
Ross Kean, Inorganic Analytical Services  
Bruce Phillips, Organic Analytical Services  
Leo Cheung, Minerals and Industrial Services



# BOARD OF DIRECTORS

(as of June 30, 2019)

## Dr. Shelley Rinehart

Chairperson  
Director MBA Program, UNB Saint John

## Annette Comeau

CEO, LearnSphere

## Janet Gagnon

(Retired) Vice President, ACOA New Brunswick

## Dr. Levi Hargrove

Director & Assistant Professor, Center for Bionic Medicine,  
Northwestern University

## Jeff Jennings

Finance and Audit Committee  
Owner, Strategic Direction Consulting Inc.

## Cathy LaRochelle

Finance and Audit Committee  
Deputy Minister, Agriculture, Aquaculture and Fisheries

## Bernard Morin

President, Thermopak

## Irene McCardle, CPA, CMA, CFP

Irene McCardle Accounting

## David Rogers

HR Committee  
Vice President Global Technical Services, McCain Foods Corporate

## Meaghan Seagrave

HR Committee  
Executive Director, BioNB

## Kelli Simmonds

Deputy Minister, Environment and Local Government

## Tracy Lean (non-voting)

Corporate Secretary

## Bev Corey (non-voting)

Treasurer

## CYBERSPACE: RPC INITIATES IT RENEWAL PROJECT

RPC's Board of Directors approved a significant IT renewal project, a multi-year effort that will result in a robust and efficient IT solution. The project will involve a complete renewal including:

- Best in class Laboratory Information Management System (LIMS);
- A new Enterprise Resource Planning (ERP) solution for business operations;
- Improved cyber security;
- New server solution, networking solution and user interface solutions.

The project will see significant efficiency improvements in handling data, communications, training, quality, and standard procedures. The improvements will also allow for increased capacity, an essential benefit necessitated by RPC's substantial growth.

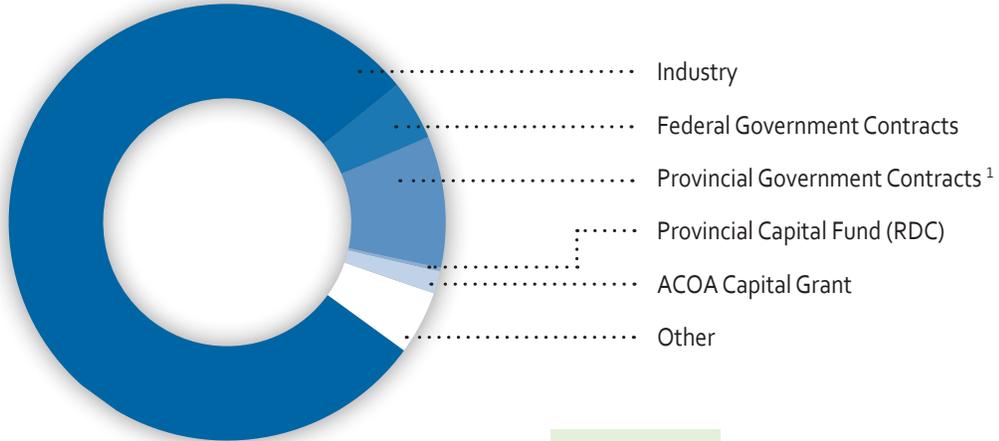
With the support of ACOA, the \$2.4 million project was launched in mid-2018 and is expected to be a multi-year effort.

Roxanne Stockford, RPC Shipper/Receiver, logs in samples in RPC's sample receiving area.



# REVENUE HIGHLIGHTS

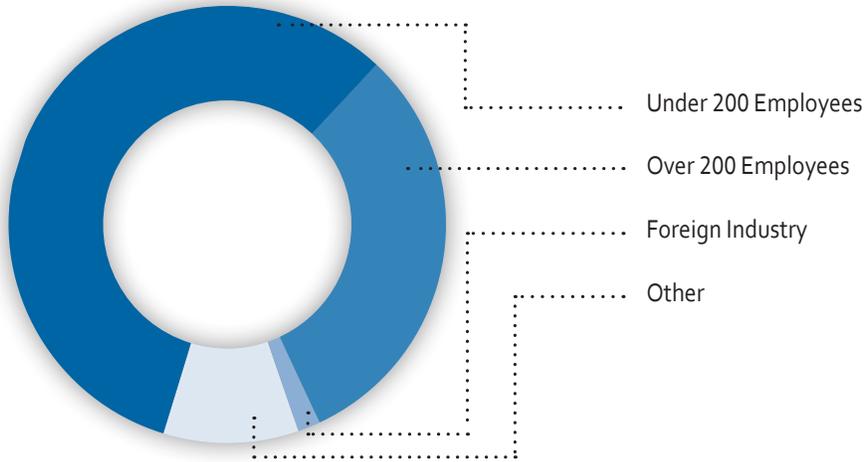
## ▶▶▶ SOURCES OF REVENUE



	2018-2019	2017-2018
Industry	\$ 13,642,083	\$ 10,293,128
Federal Government Contracts	787,754	844,460
Provincial Government Contracts <sup>1</sup>	1,686,797	1,687,472
Provincial Capital Fund (RDC)	22,139	173,281
ACOA Capital Grant	268,263	234,047
Other	809,820	866,680
<b>Total</b>	<b>\$ 17,216,856</b>	<b>\$ 14,099,067</b>

<sup>1</sup> Excludes provincial crown corporations such as NB Power.

## ▶▶▶ DISTRIBUTION OF INDUSTRIAL REVENUE



	2018-2019	2017-2018
Under 200 Employees	\$ 7,841,594	\$ 5,208,375
Over 200 Employees	4,276,094	3,300,662
Foreign Industry	220,669	483,219
Other	1,344,851	1,300,873
<b>Total</b>	<b>\$ 13,683,208</b>	<b>\$ 10,293,128</b>



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## INDEPENDENT AUDITORS' REPORT

To the Premier of the Province of New Brunswick and the Chairman and Members of the New Brunswick Research and Productivity Council

### *Opinion*

We have audited the consolidated financial statements of New Brunswick Research and Productivity Council, (the "Council"), which comprise:

- the consolidated statement of financial position as at March 31, 2019
- the consolidated statement of operations for the year then ended
- the consolidated statement of remeasurement gains and losses for the year then ended
- the consolidated statement of changes in net assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies.

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements, present fairly, in all material respects, the consolidated financial position of the Council as at March 31, 2019, and its results of consolidated operations and its consolidated cash flows for the year then ended in accordance with Canadian public sector accounting standards.

### *Basis for Opinion*

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.



We are independent of the Council in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### ***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 Council'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 Council or to cease operations, or has no realistic alternative but to do so.

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

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our 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 auditors' report that includes our 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 the financial statements.

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

We 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 our 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 Council's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- 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 Council's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Council to cease to continue as a going concern.
- 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.
- 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 we identify during our audit.

A handwritten signature in black ink that reads 'KPMG LLP'. The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

Chartered Professional Accountants  
Fredericton, Canada  
July 9, 2019

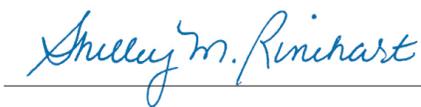
# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

## MARCH 31, 2019

ASSETS	2019	2018
Current assets		
Cash	\$ 782,835	\$ 1,249,360
Accounts receivable	3,985,544	2,400,018
Work in progress	215,946	75,771
Prepaid expenses	144,263	144,159
	5,128,588	3,869,308
Investments (Note 4)	7,164,682	6,961,287
Capital assets, net (Note 5)	8,428,560	7,287,670
	\$ 20,721,830	\$ 18,118,265
<b>LIABILITIES, DEFERRED CONTRIBUTIONS AND NET ASSETS</b>		
Current liabilities		
Accounts payable and accrued liabilities	\$ 2,854,623	\$ 1,355,133
Deferred revenue	188,779	334,517
	3,043,402	1,689,650
Deferred capital contributions (Note 6)	2,124,204	1,478,176
Employee future benefits (Note 7)	1,405,800	1,278,700
	3,530,004	2,756,876
Net assets		
Unrestricted	1,173,023	1,191,200
Internally restricted (Note 8)	6,671,045	6,671,045
Invested in capital assets	6,304,356	5,809,494
	14,148,424	13,671,739
	\$ 20,721,830	\$ 18,118,265

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

Approved by the Council



Chairperson



Executive Director

## CONSOLIDATED STATEMENT OF OPERATIONS FOR THE YEAR ENDED MARCH 31, 2019

	2019	2018
<b>REVENUE</b>		
Operations	\$ 16,627,885	\$ 13,277,383
Investment	294,600	376,353
Sundry	3,969	38,003
Project funding	22,139	172,651
Amortization of deferred capital contributions	268,263	234,677
	17,216,856	14,099,067
<b>EXPENSE (Note 9)</b>		
Operations	10,739,168	9,438,837
Administration	5,008,942	3,707,716
Amortization of capital assets	1,048,463	884,878
Foreign exchange losses (gains)	(193,436)	53,645
Bad debts	46,223	2,450
	16,649,360	14,087,526
<b>EXCESS OF REVENUE OVER EXPENSE</b>	\$ 567,496	\$ 11,541

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

## CONSOLIDATED STATEMENT OF REMEASUREMENT GAINS AND LOSSES FOR THE YEAR ENDED MARCH 31, 2019

	2019	2018
<b>ACCUMULATED REMEASUREMENT GAINS, Beginning of year</b>	\$ 1,133,850	\$ 1,343,257
Unrealized gains (losses) attributable to:		
Foreign exchange	9,456	(67,418)
Investments	17,471	(34,879)
Amounts reclassified to the statement of operations:		
Realized gains (losses) during the year	75,698	(160,755)
Foreign exchange gains (losses)	(193,436)	53,645
Change in accumulated remeasurement losses for the year	(90,811)	(209,407)
<b>ACCUMULATED REMEASUREMENT GAINS, End of year</b>	\$ 1,043,039	\$ 1,133,850

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

## CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED MARCH 31, 2019

	Unrestricted	Internally Restricted (Note 9)	Invested in Capital Assets	Total 2019	Total 2018
<b>BALANCE, Beginning of year</b>	\$ 1,191,200	\$ 6,671,045	\$ 5,809,494	\$ 13,671,739	\$ 13,869,605
Excess of revenue over expense	567,496	-	-	567,496	11,541
Change in accumulated remeasurement gains (losses)	(90,811)	-	-	(90,811)	(209,407)
Purchase of capital assets	(2,189,353)	-	2,189,353	-	-
Amounts funded by capital contributions	914,291	-	(914,291)	-	-
Amortization of capital assets	1,048,463	-	(1,048,463)	-	-
Amortization of deferred capital contributions	(268,263)	-	268,263	-	-
<b>BALANCE, End of year</b>	<b>\$ 1,173,023</b>	<b>\$ 6,671,045</b>	<b>\$ 6,304,356</b>	<b>\$ 14,148,424</b>	<b>\$ 13,671,739</b>

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

# CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31, 2019

	2019	2018
<b>CASH PROVIDED BY (USED FOR):</b>		
Operating activities		
Excess of revenue over expense	\$ 567,496	\$ 11,541
Items not involving cash:		
Amortization of capital assets	1,048,463	884,878
Amortization of deferred capital contributions	(268,263)	(234,677)
Change in employees future benefits	127,100	97,500
Net change in non-cash working capital	(603,572)	558,246
	871,224	1,317,488
Capital activities		
Purchase of capital assets*	(1,565,205)	(945,067)
Financing activities		
Capital contributions*	362,471	697,085
Line of credit	-	(770,000)
	362,471	(72,915)
Investing activities		
Net change in investments	(135,015)	12,946
<b>NET INCREASE (DECREASE) IN CASH</b>	(466,525)	312,452
Cash, Beginning of year	1,249,360	936,908
<b>CASH, End of year</b>	\$ 782,835	\$ 1,249,360

\* Purchase of capital assets in the amount of \$789,984.52 (2018 -\$165,836) is included in accounts payable and accrued liabilities at year end. Capital contributions of \$693,804 are included in accounts receivable at year end (2018 - \$141,984).

During the year, the Council paid cash for the purchase of capital assets that was unpaid and included in accounts payable and accrued liabilities in the prior year, in the amount of \$165,836 (2018 - \$29,796). This cash payment is reflected in the current year's purchase of capital assets.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## MARCH 31, 2019

### 1. PURPOSE OF THE ORGANIZATION

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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

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These consolidated financial statements are prepared by management in accordance with Canadian Public Sector Accounting Standards including the 4200 standards for government not-for-profit organizations. A summary of the significant accounting policies used in the preparation of these consolidated financial statements are as follows:

#### (a) Consolidation policy

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

#### (b) Revenue recognition

Revenue from operations and sundry are recognized when the services are provided. 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 recognized as revenue 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. Contributions restricted for the purchase of capital assets are deferred and amortized into revenues on a straight-line basis corresponding with the amortization rates of the related assets. 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.

#### (c) Capital assets

Capital assets are recorded at cost and amortized on a straight-line basis over the estimated useful lives of assets, as follows:

Land and buildings	3%
Operating equipment	12.50%
Computer equipment	25%
Vehicle	25%

When a capital asset no longer contributes to the Council's ability to provide services, its carrying amount is written down to its residual value.

#### (d) Financial instruments

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

Financial instruments are recorded at fair value on initial recognition. Investments quoted in an active market are measured at fair value. All other financial instruments are measured at cost or amortized cost unless management has elected to carry the instrument at fair value. Management has elected to record all investments at fair value as they are managed and evaluated on a fair value basis.

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:

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

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### (d) Financial instruments - continued

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.

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.

### (e) Foreign currency

Foreign currency transactions are recorded at the exchange rate at the time of the transactions.

Assets and liabilities denominated in foreign currencies are recorded at fair value using the exchange rate at the consolidated financial statement date. Unrealized foreign exchange gains and losses are recognized in the Statement of Remeasurement Gains and Losses. In the period of settlement, the realized foreign exchange gains and losses are recognized in the Statement of Operations and the unrealized balances are reversed from the Statement of Remeasurement Gains and Losses.

### (f) Investments

Investments held by the Council include publicly traded short and long term fixed income 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 valued at year end quoted closing prices where available. Fixed income securities are classified as Level 2 according to the fair value hierarchy and are valued at year end quoted closing prices where available. Where quoted prices are not available estimated fair values are calculated using comparative securities.

### (g) Employee future benefits

#### i) Pension

Qualifying employees of the Council are members of the New Brunswick Public Service Pension Plan. The plan is a Shared Risk 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 \$911,877 for the year ended March 31, 2019 (2018 - \$804,126).

Pension administration services are provided by Vestcor Pension Services Corporation at no cost to the Council.

#### ii) Retirement allowances

Employees who began full-time employment prior to April 1, 2011 are entitled to retirement allowance benefits. The Council recognized a liability and an expense in the period in which employees render services in return for the benefits. The accrued liability for this retirement allowance benefit was determined by an actuarial valuation carried out as of March 31, 2018 and extrapolated to March 31, 2019.

#### iii) Accrued sick pay benefits

Employees are entitled to sick pay benefits which accumulate but do not vest. The Council recognized a liability and an expense in the period in which employees render services in return for the benefits. The accrued liability for this benefit was determined by an actuarial valuation carried out as of March 31, 2018 and extrapolated to March 31, 2019.

### (h) Measurement uncertainty

The preparation of consolidated financial statements 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 consolidated 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 and deferred capital contributions are amortized.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

### (h) Measurement uncertainty - continued

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

The Council follows a conservative investment policy (Note 4) 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 \$3,985,544 at March 31, 2019 (2018 - \$2,400,018). The total receivables balance is net of an estimated allowance for doubtful accounts of \$104,761 (2018 - \$77,212).

As of March 31, 2019, \$571,770 (2018 - \$134,358) of accounts receivable were past due, but not impaired.

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. The maximum exposure to investment credit risk is outlined in Note 4.

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

### ii) 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 bear interest at coupon rates, reducing the impact of rate fluctuations on cash flows. The fair value of these securities may vary with market rates.

The line of credit, when outstanding, bears interest at a variable rate, which subjects the Council to cash flow risk.

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

### iii) Currency risk

Currency risk arises on financial instruments denominated in a foreign currency. A portion of the Council's investments are equity securities denominated in USD as well as a portion of accounts receivable and payables. The impact of a change in currency rate at March 31, 2019 would be limited to these balances:

Financial Instruments demoninated in USD

	<u>2019</u>	<u>2018</u>
Cash	\$ 261,423	\$ 672,045
Accounts receivable	69,448	28,182
Equity securities (at cost)	305,949	325,311
Accounts payable	(334,514)	(11,401)
	<u>\$ 302,306</u>	<u>\$ 1,014,137</u>

#### 4. INVESTMENTS

The Council's objective in managing its investments is to remain a sustainable operation while fulfilling its overall mandate to provide independent research, testing and technical services organization.

The Council's investments are managed by a third-party subject to an investment policy with target allocations as follows:

Cash and equivalents	10%
Fixed income	55%
Equity	35%

The objective of the investments 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.

Investments in the fair value category	Fair value hierarchy level	2019	2018
Cash and equivalents	Level 1	\$ 1,038,124	-
Equity securities	Level 1	2,475,294	\$ 2,573,270
Fixed income securities	Level 2	3,651,264	4,388,017
		<u>\$ 7,164,682</u>	<u>\$ 6,961,287</u>

There were no transfers between Level 1 and Level 2 during the year. Fixed income securities have interest rates from 1.7% to 3.1% (2018 – 1.7% to 3.1%) and mature between April 2019 and February 2024.

#### 5. CAPITAL ASSETS

	2019			2018
	Cost	Accumulated amortization	Net book value	Net book value
Land and buildings	\$ 6,694,961	\$ 2,475,477	\$ 4,219,484	\$ 4,281,059
Operating equipment	13,548,283	10,238,261	3,310,022	2,911,535
Computer equipment	832,721	764,285	68,436	95,076
Vehicle	79,180	35,497	43,683	-
Asset under construction	786,935	-	786,935	-
	<u>\$ 21,942,080</u>	<u>\$ 13,513,520</u>	<u>\$ 8,428,560</u>	<u>\$ 7,287,670</u>

#### 6. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions related to capital assets represent the unamortized amount of grants received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the Statement of Operations.

	2019	2018
Balance, beginning of year	\$ 1,478,176	\$ 1,466,768
Contributions	220,487	104,101
Contributions receivable	693,804	141,984
Amounts amortized to revenue	(268,263)	(234,677)
Balance, end of year	<u>\$ 2,124,204</u>	<u>\$ 1,478,176</u>

## 7. 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 consolidated 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 consolidated financial statements.

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

Discount rate	3.95%	(2018 - 3.70%)
Salary increases	3.50%	(2018 - 3.5%)
Retirement age	Age 60	(2018 - Age 60)
Probability of excess sick leave usage	6.20%	(2018 - 6.2%)

	2019			2018		
	Retirement Allowances	Sick Pay Benefits	Total	Retirement Allowances	Sick Pay Benefits	Total
Accrued benefit obligation, April 1	\$ 1,291,300	\$ 147,400	\$ 1,438,700	\$ 1,319,900	\$ 109,300	\$ 1,429,200
Current service cost	49,300	27,200	76,500	53,500	9,900	63,400
Interest on obligation	48,700	5,600	54,300	39,400	3,300	42,700
Benefit payments	-	(20,300)	(20,300)	(22,100)	(7,300)	(29,400)
Actuarial (gain)/loss	(28,900)	(2,200)	(31,100)	(99,400)	32,200	(67,200)
Accrued benefit obligation, March 31	1,360,400	157,700	1,518,100	1,291,300	147,400	1,438,700
Unamortized actuarial loss	(49,800)	(62,500)	(112,300)	(89,800)	(70,200)	(160,000)
Accrued benefit liability at March 31	<u>\$ 1,310,600</u>	<u>\$ 95,200</u>	<u>\$ 1,405,800</u>	<u>\$ 1,201,500</u>	<u>\$ 77,200</u>	<u>\$ 1,278,700</u>

## 8. INTERNALLY RESTRICTED NET ASSETS

The Council's board of directors has internally restricted resources amounting to \$6,671,045 as at March 31, 2019 (2018 - \$6,671,045). 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. There were no transfers back to operating funds as of March 31, 2019 (2018 - \$500,000).

## 9. EXPENSES BY OBJECT

	2019	2018
Personnel	\$ 10,286,910	\$ 8,746,084
Supplies	2,067,758	1,621,182
Amortization of capital assets	1,048,463	884,878
Facilities	1,009,458	901,777
Rechargeable	925,882	548,810
Office	835,890	734,298
Other	64,318	31,935
Professional fees	487,498	527,306
Foreign exchange losses (gains)	(193,436)	53,645
Safety	70,396	35,161
Bad debt	46,223	2,450
	<u>\$ 16,649,360</u>	<u>\$ 14,087,526</u>

## 10. RELATED PARTY TRANSACTIONS

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The Council is a Provincial Crown Corporation, established by the Province as described in Note 1. As such, Government departments and agencies as well as other Crown agencies are considered related parties.

During the year, the Council provided services to government departments and Crown agencies of the Province. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

	<u>2019</u>	<u>2018</u>
Revenue from services provided for the year		
Government departments and agencies	\$ 1,686,797	\$ 1,687,472
NB Power and related entities	<u>444,740</u>	<u>448,490</u>
	\$ 2,131,537	\$ 2,135,962
Accounts receivable at 31 March		
Government departments and agencies	\$ 167,770	\$ 175,463
NB Power and related entities	<u>62,280</u>	<u>28,817</u>
	\$ 230,050	\$ 204,280

The Regional Development Corporation approved capital funding projects for the Council in the amount of \$205,202 (2018 – \$91,114) which is included in deferred capital contributions.

## 11. LINE OF CREDIT

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The Council has a demand operating credit line available in the amount of \$1,000,000 for general business purposes at the bank's prime lending rate. The line of credit is secured by a 1<sup>st</sup> General Security Agreement and a Pledge agreement in the amount of \$1,000,000 on the Council's investments.