

Financial Statements of

**BRITISH COLUMBIA
INNOVATION COUNCIL**

Year ended March 31, 2016



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Minister of Technology, Innovation and Citizens' Services of British Columbia

We have audited the accompanying financial statements of British Columbia Innovation Council, which comprise the statement of financial position as at March 31, 2016, the statements of operations and accumulated surplus, changes in net financial assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the British Columbia Innovation Council as at March 31, 2016 and its results of operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants

May 10, 2016
Burnaby, Canada

Statement of Financial Position


March 31, 2016, with comparative information for 2015

	2016	2015
Financial Assets		
Cash and cash equivalents:		
Unrestricted	\$ 357,194	\$ 86,324
Restricted - deferred programs (note 6)	10,512	6,665
Restricted - NRAS endowment (note 7)	28	-
Investments:		
Unrestricted (note 3)	5,845,995	6,157,654
Restricted - deferred programs (notes 3 and 6)	6,915,620	9,468,859
Restricted - NRAS endowment (notes 3 and 7)	4,365,236	3,359,623
Accounts receivable	81,762	46,128
	<u>17,576,347</u>	<u>19,125,253</u>
Liabilities		
Accounts payable and accrued liabilities	115,340	104,716
Deferred program revenues (note 6)	6,926,132	9,475,524
Deferred revenue from NRAS endowment (note 7)	4,365,264	3,359,623
	<u>11,406,736</u>	<u>12,939,863</u>
Net Financial Assets	6,169,611	6,185,390
Non-Financial Assets		
Restricted - NRAS endowment:		
Investments (notes 3 and 7)	50,000,000	50,000,000
	<u>50,000,000</u>	<u>50,000,000</u>
Tangible capital assets (note 4)	239,155	217,206
Prepaid expenses	70,789	50,197
	<u>50,309,944</u>	<u>50,267,403</u>
Accumulated surplus (note 5)	<u>\$ 56,479,555</u>	<u>\$ 56,452,793</u>

Commitments (note 8)
 Contractual obligations (note 9)
 Employee future benefits (note 10)

See accompanying notes to financial statements.

Approved on behalf of the Board:


 _____ Director


 _____ Director

Statement of Operations and Accumulated Surplus

Year ended March 31, 2016, with comparative information for 2015

	Budget 2016 (note 2(e))	2016	2015
Revenue:			
Grants from the Province of British Columbia	\$ 6,090,000	\$ 8,090,000	\$ 8,090,000
Program revenue (note 6)	277,000	3,727,481	5,153,806
Other	-	259,321	53,049
Interest	125,000	133,880	159,611
NRAS endowment	1,000,000	44,621	-
	<u>7,492,000</u>	<u>12,255,303</u>	<u>13,456,466</u>
Expenses (note 12):			
Program expenses and disbursements:			
Academic	350,000	2,517,160	2,322,600
Commercialization	3,741,313	7,289,684	9,181,695
NRAS endowment	1,000,000	44,621	-
Premier's Technology Council	425,000	263,228	315,402
Technology Awareness	200,000	478,977	251,202
General administration (note 11)	1,775,687	1,634,871	1,384,331
	<u>7,492,000</u>	<u>12,228,541</u>	<u>13,455,230</u>
Annual surplus	-	26,762	1,236
Accumulated surplus, beginning of year	56,452,793	56,452,793	56,451,557
Accumulated surplus, end of year	<u>\$ 56,452,793</u>	<u>\$ 56,479,555</u>	<u>\$ 56,452,793</u>

See accompanying notes to financial statements.

Statement of Changes in Net Financial Assets

Year ended March 31, 2016, with comparative information for 2015

	Budget 2016 (note 2(e))	2016	2015
Annual surplus	\$ -	\$ 26,762	\$ 1,236
Acquisition of tangible capital assets	(100,000)	(89,401)	(146,990)
Amortization of tangible capital assets	36,500	67,452	38,496
	(63,500)	4,813	(107,258)
Acquisition of prepaid expenses	-	(111,782)	(100,588)
Use of prepaid expenses	-	91,190	82,591
	-	(20,592)	(17,997)
Change in net financial assets	(63,500)	(15,779)	(125,255)
Net financial assets, beginning of year	6,185,390	6,185,390	6,310,645
Net financial assets, end of year	\$ 6,121,890	\$ 6,169,611	\$ 6,185,390

See accompanying notes to financial statements.

Statement of Cash Flows

Year ended March 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating:		
Annual surplus	\$ 26,762	\$ 1,236
Items not involving cash:		
Amortization of tangible capital assets	67,452	38,496
Changes in non-cash operating working capital:		
Accounts receivable	(35,634)	(30,336)
Prepaid expenses	(20,592)	(17,997)
Accounts payable and accrued liabilities	10,624	(175,421)
Deferred program revenues	(2,549,392)	(4,446,019)
	(2,500,780)	(4,630,041)
Capital:		
Purchase of tangible capital assets	(89,401)	(146,990)
	(89,401)	(146,990)
Investments:		
Purchase of investments	(15,462,513)	(151,458,180)
Proceeds on maturity of investments	17,321,798	154,965,145
Increase in deferred revenue from NRAS endowment	1,005,641	933,497
	2,864,926	4,440,462
Increase (decrease) in cash and cash equivalents	274,745	(336,569)
Cash and cash equivalents, beginning of year	92,989	429,558
Cash and cash equivalents, end of year	\$ 367,734	\$ 92,989
Cash and cash equivalents are comprised of:		
Financial assets:		
Unrestricted	\$ 357,194	\$ 86,324
Restricted - deferred programs	10,512	6,665
Restricted - NRAS endowment	28	-
Cash and cash equivalents, end of year	\$ 367,734	\$ 92,989

See accompanying notes to financial statements.

1. Authority and purpose:

British Columbia Innovation Council (the "Council"), was established in 2006 by an amendment of the Innovation and Science Council Act to the British Columbia Innovation Council Act (the "Act").

The Council is governed by a Board of Directors, appointed by the provincial government of British Columbia (the "Province"). The Council is exempt from the payment of income taxes under Section 149 of the Income Tax Act.

Under Section 13 of the Act, the directors, officers, and employees of the Council have certain immunities in the exercise of their duties carried out in their connection with the Council.

The Council's mandate is to advance commercialization in British Columbia through focused support to startup companies and facilitation of partnerships between industry and academia.

2. Significant accounting policies:

(a) Basis of accounting and presentation:

These financial statements are prepared in accordance with Canadian public sector accounting standards as recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada.

(b) Cash and cash equivalents:

Cash and cash equivalents include investments with a term to maturity of 90 days or less at the date of acquisition.

(c) Investments:

Investments, which include investments with original terms to maturity of greater than 90 days, are recorded at amortized cost plus accrued interest, which approximates market value. Interest income is recognized in the period earned.

(d) Revenue recognition:

Unrestricted contributions and government grants are recorded as revenue when received or receivable, if the amounts can be estimated and collection is reasonably assured. Other unrestricted revenue, including sales of services and products, are reported as revenue at the time the services are provided or the goods delivered.

Investment income on unrestricted assets is recognized as revenue when it is earned.

Endowment contributions are recognized as revenue when received. Investment income earned from restricted cash and investments related to the endowment funds are deferred and recognized as revenue when they are spent or disbursed in accordance with the restrictions of the endowment.

BRITISH COLUMBIA INNOVATION COUNCIL

Notes to Financial Statements (continued)

Year ended March 31, 2016, with comparative information for 2015

2. Significant accounting policies (continued):

(d) Revenue recognition (continued):

Contributions externally restricted for non-capital specific purposes are recorded as deferred revenue and recognized as revenue in the year in which the stipulations are met.

Investment income that is subject to external restrictions is deferred and recognized as revenue in the year in which the related expense is incurred.

(e) Budget figures:

The budget figures presented in these financial statements are based on the 2016 operating budget approved by the Board of Directors on January 19, 2015.

(f) Government transfers:

Transfers from governments with restrictions are deferred and recognized as revenue when they are spent in accordance with the stipulations in the related agreements. Transfers from governments without restrictions are recognized as revenue when received or receivable if the amounts can be reasonably estimated and collection is reasonably assured.

(g) Financial instruments:

Financial instruments are classified into two categories: fair value or amortized cost:

Investments with fixed maturity dates are recorded at amortized costs. Income on these investments is recognized in the Statement of Operations and Accumulated Surplus over the period of time the investments are held. Sales and purchases of investments are recorded on the trade date. Transaction costs related to the acquisition of investments are included in the cost of the related investments.

The carrying amounts of other financial instruments such as cash and cash equivalents, and accounts receivables also approximate their fair value due to their short-term maturities.

The Council does not have any financial instruments required or elected to be subsequently recorded at fair value.

(h) Non-financial assets:

Non-financial assets are not available to discharge existing liabilities and are held for use in the provision of services. They may have useful lives extending beyond the current year and are not intended for sale in the ordinary course of operations.

BRITISH COLUMBIA INNOVATION COUNCIL

Notes to Financial Statements (continued)

Year ended March 31, 2016, with comparative information for 2015

2. Significant accounting policies (continued):

(i) Tangible capital assets:

Tangible capital assets are initially recorded at cost which includes amounts that are directly attributed to acquisition, construction, development or betterment of the asset. The historical cost, less residual value, of the tangible capital assets is amortized commencing at the time the asset is available for use based on the methods and rates as shown in the schedule below:

Asset	Amortization
Furniture, fixtures and equipment	20% declining balance
Computer hardware and software	33% declining balance
Leasehold improvements	Straight line over the lesser of the term of the lease and the useful life of the asset

When events or circumstances indicate that a tangible capital asset no longer has any long-term service potential, the net carrying amount is written down to the residual value of the asset. No write-downs were determined to be necessary during the current year.

(j) Prepaid expenses:

Prepaid expenses are recorded at cost and amortized over the period where the benefits are received.

(k) Employee future benefits:

The Council accrues employee vacation entitlements. These accruals are included in accounts payable and accrued liabilities. The Council is a member of the Public Service multi-employer pension plan (note 10). Defined contribution plan accounting is applied to the multi-employer defined benefit plan and, accordingly, contributions are expensed when paid or payable.

(l) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. The significant areas requiring the use of management estimates include the determination of useful lives of tangible capital assets for amortization and the accrual of liabilities. When actual results differ from the estimates and assumptions, the impact will be recorded in future periods when the difference becomes known.

BRITISH COLUMBIA INNOVATION COUNCIL

Notes to Financial Statements (continued)

Year ended March 31, 2016, with comparative information for 2015

3. Investments:

Restricted and unrestricted investments consist of term deposits and guaranteed investment certificates with maturity dates ranging from May 2016 to Dec 2018, bearing interest at rates ranging from 0.95% to 2.22%.

Included in unrestricted investments are shares of previous British Columbia Advanced Systems Foundation ("ASI") program participant private corporations received in exchange for all or a portion of loan or royalty interests.

As at March 31, 2016, the Council has assessed these shares of privately-held corporations to have nominal market value. As such, these investments are recorded at a nominal value of \$1 each for each company shareholding. The estimated market value of the long-term investments as at March 31, 2016 is \$20 (2015 - \$20).

4. Tangible capital assets:

Cost	Balance at March 31, 2015	Additions	Disposal	Balance at March 31, 2016
Furniture, fixtures and equipment	\$ 179,384	\$ 28,075	\$ -	\$ 207,459
Computer hardware and software	469,747	61,326	-	531,073
Leasehold improvements	120,569	-	-	120,569
	<u>\$ 769,700</u>	<u>\$ 89,401</u>	<u>\$ -</u>	<u>\$ 859,101</u>

Accumulated Amortization	Balance at March 31, 2015	Amortization	Accumulated amortization of disposals	Balance at March 31, 2016
Furniture, fixtures and equipment	\$ 131,435	\$ 12,545	\$ -	\$ 143,980
Computer hardware and software	393,289	35,707	-	428,996
Leasehold improvements	27,770	19,200	-	46,970
	<u>\$ 552,494</u>	<u>\$ 67,452</u>	<u>\$ -</u>	<u>\$ 619,946</u>

BRITISH COLUMBIA INNOVATION COUNCIL

Notes to Financial Statements (continued)

Year ended March 31, 2016, with comparative information for 2015

4. Tangible capital assets (continued):

	Net book value March 31, 2015	Net book value March 31, 2016
Furniture, fixtures and equipment	\$ 47,949	\$ 63,479
Computer hardware and software	76,458	102,077
Leasehold improvements	92,799	73,599
	<u>\$ 217,206</u>	<u>\$ 239,155</u>

There were no write-downs or reversals of write-downs previously recorded on any tangible capital assets.

5. Accumulated surplus:

Accumulated surplus is comprised of the following:

	2016	2015
Invested in tangible capital assets	\$ 239,155	\$ 217,206
NRAS Endowment	50,000,000	50,000,000
Unrestricted	6,240,400	6,235,587
	<u>\$ 56,479,555</u>	<u>\$ 56,452,793</u>

BRITISH COLUMBIA INNOVATION COUNCIL

Notes to Financial Statements (continued)

Year ended March 31, 2016, with comparative information for 2015

6. Deferred program revenues:

	Balance March 31, 2015	Funds received	Funds expended	Balance March 31, 2016
Agriculture Science and Innovation	\$ 2,426,615	\$ -	\$ 327,000	\$ 2,099,615
Aquaculture & Environment Research	376,024	-	-	376,024
Industrial Innovation Scholarship	102,750	-	-	102,750
LEEF Student Program	6,314,699	57,728	3,145,045	3,227,382
International Science and Technology Partnership	255,436	-	255,436	-
	9,475,524	57,728	3,727,481	5,805,771
BC Tech Summit (a)	-	2,222,611	1,102,250	1,120,361
Total	\$ 9,475,524	\$ 2,280,339	\$ 4,829,731	\$ 6,926,132

(a) The revenue and expenses for the BC Tech Summit are recorded on a net basis.

(b) Funds restricted for future program expenses have been separated and classified as restricted cash and cash equivalents - deferred programs and restricted investments - deferred programs.

7. Natural Resources and Applied Science Research Endowment (NRAS):

In fiscal year 2005/2006, the Council was charged with stewarding an endowment contribution of \$50,000,000 from the Ministry of Economic Development. Investment earnings are restricted for the support of training, research and development in natural resources and applied sciences. Restricted cash and investments of \$54,365,264 are comprised of the permanently restricted endowment balance of \$50,000,000 and unspent interest earnings of \$4,365,264.

Deferred revenue from the NRAS endowment balance comprises of the following:

	2016	2015
Accumulated interest, beginning of year	\$ 3,359,623	\$ 2,426,126
Interest earned net of fees	1,050,262	933,497
Administration and professional fees	(44,621)	-
Accumulated interest, end of year	\$ 4,365,264	\$ 3,359,623

BRITISH COLUMBIA INNOVATION COUNCIL

Notes to Financial Statements (continued)

Year ended March 31, 2016, with comparative information for 2015

8. Commitments:

The Council has entered into operating leases for their premises and certain office equipment. Total estimated lease payments up to the end of the lease terms are as follows:

2017	\$ 303,453
2018	310,601
2019	316,259
2020	263,946

9. Contractual obligations:

The Council has entered into a number of project grant contracts as at March 31, 2016 to provide future funding of research projects to be completed subsequent to the year end. These contractual obligations are funded in installments and payments are due based on conditions included in the contract being satisfied. As such, no liability has been accrued in the financial statements as the Council is not liable for payments until these conditions have been met.

The contractual obligations of the Council as at March 31, 2016 are \$6,667,800 (2015 - \$6,629,160).

10. Employee future benefits:

The Council and its employees contribute to the Public Service Pension Plan (the "Plan") in accordance with the *Public Sector Pension Plans Act* (the "Act"). The British Columbia Pension Corporation administers the plan, including payment of pension benefits to employees to whom the Act applies. As the Plan is a multi-employer, defined benefit plan, the Council accounts for its payments on the basis of a defined contribution plan. Under joint trusteeship, the risk and reward associated with the Plan's unfunded liability or surplus is shared between the employers and the Plan members and will be reflected in their future contributions. The most recent actuarial valuation (March 31, 2011) indicated an unfunded liability of \$275 million. The plan covers approximately 53,500 active employees. The next required valuation will be as of March 31, 2016 with results available for the Council's 2017 fiscal year.

During the year, the Council paid and expensed \$111,356 (2015 - \$102,122) for contributions to the Plan.

BRITISH COLUMBIA INNOVATION COUNCIL

Notes to Financial Statements (continued)

Year ended March 31, 2016, with comparative information for 2015

11. Related parties:

The Council is related through common ownership to all Province of British Columbia ministries, agencies, crown corporations, school districts, health authorities, hospital societies, universities and colleges that are included in the provincial government reporting entity. Transactions with these entities, unless disclosed otherwise, are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

The Council received \$8,090,000 (2014 - \$8,090,000) in provincial funding from the Ministry of Technology, Innovation and Citizens' Services.

12. Expenses by object:

The following is a summary of expenses by object:

	2016	2015
Expenses:		
Program expenses and disbursements	\$ 9,893,905	\$ 11,618,798
Salaries and benefits	1,644,453	1,346,993
Rent	306,702	172,574
Contracted services	61,586	97,169
Office expenses	133,619	81,943
Other costs	120,824	99,257
	12,161,089	13,416,734
Amortization	67,452	38,496
Total expense	\$ 12,228,541	\$ 13,455,230