

Combined Financial Statements of

**BRITISH COLUMBIA INNOVATION COUNCIL**

Year ended March 31, 2007



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## AUDITORS' REPORT TO THE DIRECTORS

We have audited the combined balance sheet of BC Innovation Council (the "Council") as at March 31, 2007 and the combined statements of operations, changes in net assets and cash flows for the year then ended. These combined financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these combined financial statements present fairly, in all material respects, the financial position of the Council as at March 31, 2007 and the results of its operations, changes in net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Burnaby, Canada

May 4, 2007

# BC INNOVATION COUNCIL

## Combined Statement of Financial Position

March 31, 2007

	2007	2006 (restated - note 3)
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 66,158,067	\$ 11,263,003
Short-term investments (note 4)	512,625	-
Accounts receivable	736,451	149,676
Awards and contributions receivable	27,747	50,185,232
Prepaid expenses	18,790	17,199
	<u>67,453,680</u>	<u>61,615,110</u>
Long-term investments (note 4)	2,968,444	3,251,498
Other assets (note 5)	29	28
Capital assets (note 6)	80,002	86,600
	<u>\$ 70,502,155</u>	<u>\$ 64,953,236</u>

## Liabilities and Net Assets

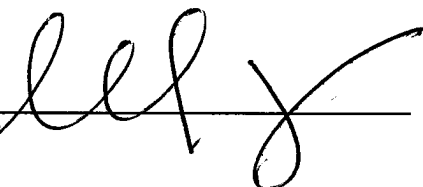
Current liabilities:		
Accounts payable and accrued liabilities	\$ 894,310	\$ 761,647
Deferred program revenues (note 7)	8,389,487	7,161,276
Funds committed to future programs (note 8)	3,417,575	1,791,903
	<u>12,701,372</u>	<u>9,714,826</u>
NRAS endowment liability (note 9)	52,058,626	50,000,000
Net assets:		
Invested in capital assets (note 6)	80,002	86,600
Unrestricted	5,662,155	5,151,810
	<u>5,742,157</u>	<u>5,238,410</u>
	<u>\$ 70,502,155</u>	<u>\$ 64,953,236</u>

Commitments and contingencies (note 10)  
Employee future benefits (note 11)

See accompanying notes to combined financial statements.

Approved on behalf of the Board:

Director



Director



# BC INNOVATION COUNCIL

## Combined Statement of Operations

Year ended March 31, 2007

	2007	2006 (restated - note 3)
Revenue:		
Province of British Columbia base funding (note 8)	\$ 1,661,328	\$ 1,860,253
Program revenue:		
Science and technology	2,784,316	1,964,871
Aquaculture	448,305	585,851
Fellowships	191,983	776,391
UC Net	321,000	312,200
BC BioProducts	-	237,965
Health Product and Functional Food	7,716	104,758
International	-	470,162
Leading Edge Endowment Fund	196,573	201,581
Premier's Technology Council	101,000	-
Ocean/Marine and Energy	51,304	5,000
Science Fair Recognition	5,100	5,000
Triumpf Scholarships	2,000	2,000
Interest	612,541	297,135
Other income	171,823	142,432
Gain on sale of other assets (note 5)	14,921	1,074,525
	<u>6,569,910</u>	<u>8,040,124</u>
Expenses:		
Program expenses:		
Science and technology	2,785,307	1,964,991
Aquaculture	355,863	564,910
Fellowships	191,983	776,298
UC Net	321,000	312,200
BC BioProducts	-	237,965
Health product and functional food	1,400	92,306
Communications and recognition	189,095	204,072
International	14,080	44,106
Leading Edge Endowment Fund	181,584	180,728
Premier's Technology Council	95,608	-
Ocean/Marine and Energy	80,505	41,772
Science Fair recognition	44,530	31,734
Triumpf Scholarships	3,411	3,005
IBM	115	286
Amortization and write-down	29,323	48,623
Operations	1,772,359	1,685,751
Other	-	1,357
	<u>6,066,163</u>	<u>6,190,104</u>
Excess of revenue over expenses	\$ 503,747	\$ 1,850,020

See accompanying notes to combined financial statements.

# BC INNOVATION COUNCIL

## Combined Statement of Changes in Net Assets

Year ended March 31, 2007

	Invested in capital assets (note 6)	Unrestricted	Externally restricted base fund (note 3(a))	2007 Total	2006 Total
Balance, beginning of year					
As previously reported	\$ 86,600	\$ 5,340,665	\$ 1,798,580	\$ 7,225,845	\$ 4,160,457
Adjustment for change in accounting policies (note 3(a))	-	(188,855)	(1,798,580)	(1,987,435)	(772,067)
As restated	86,600	5,151,810	-	5,238,410	3,388,390
Excess (deficiency) of revenue over expenses	(29,323)	533,070	-	503,747	1,850,020
Investment in capital assets	22,725	(22,725)	-	-	-
<b>Balance, end of year</b>	<b>\$ 80,002</b>	<b>\$ 5,662,155</b>	<b>\$ -</b>	<b>\$ 5,742,157</b>	<b>\$ 5,238,410</b>

See accompanying notes to combined financial statements.

# BC INNOVATION COUNCIL

## Combined Statement of Cash Flows

Year ended March 31, 2007

	2007	2006
		(restated - note 3)
Cash provided by (used in):		
Operations:		
Excess of revenue over expenses	\$ 503,747	\$ 1,850,020
Amortization of capital assets, an item not involving cash	29,323	48,623
Changes in non-cash operating working capital:		
Accounts receivable and awards and contributions receivable	49,570,710	396,061
Prepaid expenses	(1,591)	(948)
Accounts payable and accrued liabilities	132,664	(753,597)
Deferred program revenues	1,228,211	2,340,736
Funds committed to future programs	1,625,672	1,407,747
	53,088,736	5,288,642
Investments:		
Short-term investments	(512,625)	-
Long-term investments	283,054	(972,537)
Purchase of capital assets	(22,725)	(25,570)
Decrease (increase) in other assets	(1)	4
Increase in Endowment Fund	2,058,625	-
	1,806,328	(998,103)
Increase in cash and cash equivalents	54,895,064	4,290,539
Cash and cash equivalents, beginning of year	11,263,003	6,972,464
Cash and cash equivalents, end of year	\$ 66,158,067	\$ 11,263,003

See accompanying notes to combined financial statements.

# BC INNOVATION COUNCIL

Notes to Financial Statements

Year ended March 31, 2007

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## 1. Authority and purpose:

BC 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, who is 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.

In 2004, the Province of British Columbia announced a merger between the Innovation and Science Council of BC and the BC Advanced Systems Foundation ("BCASF"). At that time, the Council became known as the BC Innovation Council and its management team operated the affairs of BCASF on its behalf. As directed by the Minister of Advanced Education, Council entered into an assignment and assumption agreement on March 30, 2007 whereby the assets and liabilities of BCASF were formally transferred to the Council to effect the original intention of the merger. As both the Council and BSASF are within the provincial reporting entity, this transaction was accounted for using the continuity of interests method whereby the assets, liabilities and operating results have been consolidated for the current and prior years. The combined entity continues to operate under the name of the Council.

Under Section 13 of the Act, 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 support applied research and commercialization of science and technology to foster province-wide economic development.

## 2. Significant accounting policies:

### (a) Basis of accounting and presentation:

These financial statements are prepared in accordance with Canadian generally accepted accounting principles for not-for-profit organizations.

### (b) Cash and cash equivalents:

Cash and cash equivalents are defined to include highly liquid securities with original terms to maturity of three months or less when purchased.

### (c) Short-term investments:

Short-term investments, which are recorded at the lower of cost and market value, are defined to include investments with original terms to maturity of greater than three months and less than one year when purchased.

### (d) Long-term investments:

Long-term investments are defined to include investments with original terms to maturity of greater than one year when purchased. These investments are carried at cost and are written down to their estimated realizable value when this amount is less than cost, and the Council believes the impairment in value is other than temporary. The loss is recognized as an expense.

# BC INNOVATION COUNCIL

Notes to Combined Financial Statements

Year ended March 31, 2007

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## 2. Significant accounting policies (continued):

### (e) Capital assets:

Capital assets purchased by the Council with a value greater than \$1,000 are capitalized and recorded at historical cost. Capital assets are amortized over their estimated useful lives as shown in the schedule below.

Asset	Amortization
Furniture, fixtures and equipment	20% declining balance
Computer hardware and software	33-1/3% declining balance
Leasehold improvements	Lesser of the term of the lease and the useful life of the asset

### (f) Revenue recognition:

The Council follows the deferral method of accounting for contributions. Unrestricted contributions are recorded as revenue when received if the amounts can be estimated and collection is reasonably assured. Government grants not restricted as to their use are recognized as revenue when receivable. Other unrestricted revenue, including sales of services and products, are reported as revenue at the time the services are provided or the products are delivered.

Investment income on net asset balances is recognized as revenue when it is earned.

Externally restricted, non-capital contributions for specific purposes are recorded as deferred revenue and recognized as revenue in the year in which the related expense is incurred.

Investment income on deferred revenue balances is deferred and recognized as revenue in the year in which the related expense is incurred.

### (g) Employee future benefits:

The Council accrues employee future vacation entitlements. The Council is a member of the Public Service multi-employer pension plan.

### (h) 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 area requiring the use of management estimates is to the determination of useful lives of capital assets for amortization. Actual results may differ from these estimates.



# BC INNOVATION COUNCIL

## Notes to Combined Financial Statements

Year ended March 31, 2007

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### 3. Change in accounting policy:

During 2007, the Council changed its presentation and method of accounting for restricted contributions and investment income (note 2(d)) from the restricted fund method to the deferral method. As a result in this change in presentation in revenue recognition the prior year's opening net assets balance has decreased by \$1,987,435 from the amount previously reported. The \$50 million Natural Resources and Applied Science Research Endowment ("NRAS") 2006 endowment contribution, previously reported as revenue in 2006, is now reclassified as a liability on the statement of financial position.

### 4. Short-term and long-term investments:

The market value of the Council's short-term and long-term investments is \$3,526,006 (2006 - \$3,292,599). For fiscal 2007, the decline in market value is considered to be temporary in nature and as a result, no write-down has been reflected in these financial statements. Short-term and long-term investments are comprised of provincial and federal bonds and federal treasury bills with varying coupon rates ranging from 3.15% to 4.45% with maturity dates ranging from June 2, 2007 to December 1, 2011.

### 5. Other assets:

Other assets are share investments of previous BCASF program participant corporations received in exchange for all or a portion of loan or royalty interests. Shares are recorded at a nominal value of \$1 each for each company shareholding. The market value of shares of privately held corporations is not readily determinable because no active market exists for the shares. As at March 31, 2007 the market value of publicly traded shares held was \$36,010 (2006 - \$41,412).

### 6. Capital assets:

			2007	2006
	Cost	Accumulated amortization	Net book value	Net book value
Furniture and equipment	\$ 59,370	\$ 45,238	\$ 14,132	\$ 14,545
Computer hardware and software	149,088	97,947	51,141	51,772
Leasehold improvements	27,770	13,041	14,729	20,283
	\$ 236,228	\$ 156,226	\$ 80,002	\$ 86,600

# BC INNOVATION COUNCIL

## Notes to Combined Financial Statements

Year ended March 31, 2007

### 7. Deferred program revenues:

	2007	2006
Balance, beginning of year	\$ 7,161,276	\$ 4,815,540
Provincial contributions	1,000,000	3,500,000
Other contributions	1,028,953	706,337
Investment income	168,013	123,173
Less: amounts amortized to program revenues	(968,755)	(1,983,774)
Balance, end of year	\$ 8,389,487	\$ 7,161,276

### 8. Funds committed to future programs:

	2007	2006
Beginning	\$ 1,791,903	\$ 384,156
Base funding	3,287,000	3,268,000
Less funding recorded as revenue	(1,661,328)	(1,860,253)
Ending	\$ 3,417,575	\$ 1,791,903

The Ministry of Advanced Education (the "Ministry") provides base funding for the Council's general and administrative activities. Any portion of the contribution received as base funding from the Ministry, and interest earned thereon that has not been expended or committed in writing to be expended by the Council in or towards the reimbursement or the satisfaction of costs, prior to the end of each fiscal year, will at the sole discretion of the Province, either:

- become immediately due and repayable by the Council to the Province; or
- be applied and committed in a manner approved by the Province against additional activities in fulfillment of the Council's goals and objectives.

### 9. Natural Resources and Applied Science Research Endowment liability ("NRAS"):

In fiscal year 2005/2006 the Council was charged with stewarding \$50 million from the Ministry of Economic Development for the support of training, research and development in natural and applied sciences. As an endowment liability, it is expected that the capital and all interest earned will be preserved. Management of the endowment liability is being overseen by an independent steering committee appointed by the Province and it is anticipated that the resulting program will be managed by an independent organization external to the Council.

Investment earnings of the endowment liability are credited directly to the endowment liability on the statement of financial position.

# BC INNOVATION COUNCIL

Notes to Financial Statements

Year ended March 31, 2007

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## 10. Commitments and contingencies:

- (a) The Council's offices are occupied under a long-term lease with varying terms to November 29, 2009. Minimum annual payments include the Council's estimated share of utilities and other costs of occupancy.
- (b) The Council is committed to lease a photocopier until November, 2011 at a quarterly rental of \$2,307.

Total lease commitments for the next four years are as follows:

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2008	\$ 170,255
2009	174,149
2010	118,815
2011	5,432

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## 11. Employee future benefits:

The Council and its employees contribute to the Public Service Pension Plan in accordance with the *Public Sector Pension Plans Act*. The British Columbia Pension Corporation administers the plan, including payment of pension benefits to employees to whom the act applies. The Public Service Pension Plan is a multi-employer, defined benefit 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, 2005) has determined the Plan has an unfunded liability. As a result, the actuary determined that an increase in contribution rates, effective April 1, 2006, of 1.88% each, for plan members and employers was necessary in order for the plan to maintain its long-term financial soundness and thus its ability to meet the pension promise made to plan members.

Contributions to the plan by the Council for fiscal 2007 were \$71,492 (2006 - \$65,495).

## 12. Financial instruments:

The Council's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate their fair value due to their immediate or short term to maturity. The fair market value of short-term and long-term investments and share investments are disclosed in note 4 and 5 respectively.

## 13. Comparative figures:

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.