

Combined Financial Statements of

**BRITISH COLUMBIA INNOVATION COUNCIL**

Year ended March 31, 2010



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## AUDITORS' REPORT TO THE DIRECTORS

We have audited the combined statement of financial position of British Columbia Innovation Council (the "Council") as at March 31, 2010 and the combined statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Council's management. 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 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, 2010 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

April 30, 2010

# BRITISH COLUMBIA INNOVATION COUNCIL

## Combined Statement of Financial Position

March 31, 2010, with comparative figures for 2009


	2010	2009
<b>Assets</b>		
Current assets:		
Cash and cash equivalents - unrestricted	\$ 2,736,193	\$ 7,232,697
Cash and cash equivalents – restricted (note 5)	-	6,679,604
Short term investments – unrestricted	4,456,107	-
Short term investments – restricted (note 5)	5,246,023	-
Accounts receivable	71,846	95,934
Prepaid expenses	92,610	25,104
	<u>12,602,779</u>	<u>14,033,339</u>
Restricted cash and cash equivalents (note 6)	18,568,633	53,031,420
Restricted short term investments (note 6)	32,640,683	-
Long-term investments (note 3)	21	22
Capital assets (note 4)	208,909	204,109
	<u>\$ 64,021,025</u>	<u>\$ 67,268,890</u>

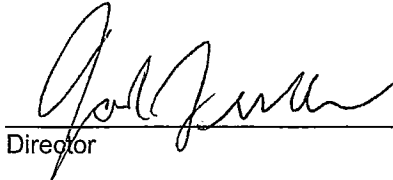
## Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,089,440	\$ 371,260
Deferred program revenues (note 5)	5,246,023	6,679,604
	<u>6,335,463</u>	<u>7,050,864</u>
NRAS endowment liability (note 6)	51,209,316	53,031,420
Net assets:		
Invested in capital assets	208,909	204,109
Unrestricted	6,267,337	6,982,497
	<u>6,476,246</u>	<u>7,186,606</u>
Commitments and contingencies (note 7)		
Contractual obligations (note 8)		
Employee future benefits (note 9)		
	<u>\$ 64,021,025</u>	<u>\$ 67,268,890</u>

See accompanying notes to the combined financial statements.

Approved on behalf of the Board:

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

# BRITISH COLUMBIA INNOVATION COUNCIL

## Combined Statement of Operations

Year ended March 31, 2010, with comparative figures for 2009

	2010	2009
Revenue:		
Province of British Columbia	\$ 8,500,000	\$ 9,293,000
Program revenue (note 5)	1,484,204	948,334
Revenue from NRAS Endowment	2,000,000	3,000,000
Interest	60,054	414,363
Other income	213,207	344,945
Gain (loss) on equity investments (note 3)	1,999	(197,354)
	<u>12,259,464</u>	<u>13,803,288</u>
Expenses:		
Program expenses and disbursements:		
Talent development and innovation	134,993	5,869,702
Contribution to NRAS program (note 6)	2,000,000	3,000,000
Commercialization	1,500,526	495,086
Science and technology fund	2,951,030	3,437,030
Sector programs	647,830	569,051
International program	1,296,544	645,673
Communications and recognition	313,904	440,380
Amortization	73,522	63,939
Operations	4,051,475	4,724,066
	<u>12,969,824</u>	<u>19,244,927</u>
Deficiency of revenue over expenses	<u>\$ (710,360)</u>	<u>\$ (5,441,639)</u>

See accompanying notes to the combined financial statements.

# BRITISH COLUMBIA INNOVATION COUNCIL

## Combined Statement of Changes in Net Assets

Year ended March 31, 2010, with comparative figures for 2009

	Invested in capital assets	Unrestricted	2010 Total	2009 Total
Balance, beginning of year	\$ 204,109	\$ 6,982,497	\$ 7,186,606	\$ 12,628,245
Deficiency of revenue over expenses	(73,522)	(636,838)	(710,360)	(5,441,639)
Invested in capital assets	78,322	(78,322)	-	-
Balance, end of year	\$ 208,909	\$ 6,267,337	\$ 6,476,246	\$ 7,186,606

See accompanying notes to the combined financial statements.

# BRITISH COLUMBIA INNOVATION COUNCIL

## Combined Statement of Cash Flows

Year ended March 31, 2010, with comparative figures for 2009

	2010	2009
Cash provided by (used in):		
Operations:		
Deficiency of revenue over expenses	\$ (710,360)	\$ (5,441,639)
Items not involving cash:		
Amortization of capital assets	73,522	63,939
Realized (gain) loss on disposal of long term investments	(1,999)	197,354
Changes in non-cash operating working capital:		
Accounts receivable	24,088	4,970
Prepaid expenses	(67,506)	(17,872)
Accounts payable and accrued liabilities	718,180	(1,242,795)
Deferred program revenues	(1,433,581)	(941,599)
	(1,397,656)	(7,377,642)
Investments:		
Net change in short-term investments	(42,342,813)	22,908,323
Proceeds on sale of long-term investments	2,000	123,953
Purchase of capital assets	(78,322)	(123,535)
Decrease in Endowment Fund	(1,822,104)	(1,241,344)
	(44,241,239)	21,667,397
Increase (decrease) in cash and cash equivalents	(45,638,895)	14,289,755
Cash and cash equivalents, beginning of year	66,943,721	52,653,966
Cash and cash equivalents, end of year	\$ 21,304,826	\$ 66,943,721

See accompanying notes to the combined financial statements.

# BRITISH COLUMBIA INNOVATION COUNCIL

Notes to the Combined Financial Statements

Year ended March 31, 2010

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## 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, 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.

The combined statements reflect the operations of the Council and the British Columbia Advanced Systems Foundation ("BCASF").

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 in order 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 include highly liquid securities with original terms to maturity of three months or less when purchased and have been classified as held for trading.

### (c) Short-term investments:

Short-term investments, which are recorded at amortized cost, less any impairment losses, include investments with original terms to maturity of greater than three months and less than one year when purchased and are classified as held-to-maturity.

### (d) Long-term investments:

Long-term investments, which include investments with original terms to maturity of greater than one year when purchased, are classified as available for sale and are recorded at market value. Gains and losses related to changes in market values are recorded in changes in net assets until the investment is disposed of or de-recognized.

# BRITISH COLUMBIA INNOVATION COUNCIL

Notes to the Combined Financial Statements (continued)

Year ended March 31, 2010

## 2. Significant accounting policies (continued):

### (e) Capital assets:

Capital assets are amortized 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	Lesser of the term of the lease and the useful life of the asset

Management has reviewed the carrying value of the capital assets and determined that there is no impairment.

### (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 received or receivable. 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.

Contributions externally restricted for non-capital 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.

The Council provides office services to certain entities, the revenue from which is netted against the cost, with any margin reflected in other income.

### (g) Employee future benefits:

The Council accrues employee vacation entitlements. The Council is a member of the Public Service multi-employer pension plan (note 9).



# BRITISH COLUMBIA INNOVATION COUNCIL

Notes to the Combined Financial Statements (continued)

Year ended March 31, 2010

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## 2. Significant accounting policies (continued):

### (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 areas requiring the use of management estimates include the determination of useful lives of capital assets for amortization and the accrual of liabilities. Actual results may differ from these estimates.

### (i) Adoption of accounting standards:

#### (i) Financial instruments:

During the Council's 2010 fiscal year, the CICA announced that not-for-profit organizations could elect to continue to apply Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, in place of Handbook Sections 3862, *Financial Instruments – Disclosure* and 3863, *Financial Instruments – Presentation*. The Council has elected to continue to apply the financial instrument disclosure and presentation standards in accordance with Section 3861.

#### (ii) Revisions to Not-for-Profit accounting standards:

Effective April 1, 2009, the Council adopted the amendments to CICA Handbook Sections 4400, *Financial Statement Presentation by Not-for-Profit Organizations*, and 4470, *Disclosure of Allocated Expenses by Not-for-Profit Organizations*. The amendments removed the requirement to disclose net assets invested in capital assets, clarified capital asset recognition criteria and amortization, expanded interim financial statement requirements to not-for-profit organizations that prepare interim financial statements, and added a requirements for disclosure of allocated fundraising and general support expenses by not-for-profit organizations, and a requirement to follow Handbook Section 1540, *Cash Flow Statements*. The application of these amendments did not have a material impact on the Council's financial statements.

### (j) Future accounting changes:

The Fund is classified as a not-for-profit organization. The Accounting Standards Board and Public Sector Accounting Board have released an exposure draft relating to the future of financial reporting by not-for-profit organizations. The Fund is in the process of reviewing the potential impact of the proposals on its reporting framework and financial statements.

# BRITISH COLUMBIA INNOVATION COUNCIL

Notes to the Combined Financial Statements (continued)

Year ended March 31, 2010

### 3. Long-term investments:

Long-term investments are share investments of previous BCASF program participant corporations received in exchange for all or a portion of loan or royalty interests. As at March 31, 2010, the Council has assessed the shares held of private 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 market value of the long-term investments as at March 31, 2010 is \$21 (2009 - \$22).

### 4. Capital assets:

			2010	2009
	Cost	Accumulated amortization	Net book value	Net book value
Furniture, fixtures and equipment	\$ 155,567	\$ 77,439	\$ 78,128	\$ 54,047
Computer hardware and software	359,701	229,111	130,590	146,441
Leasehold improvements	27,770	27,579	191	3,621
	\$ 543,038	\$ 334,129	\$ 208,909	\$ 204,109

### 5. Deferred program revenues:

	2010	2009
Balance, beginning of year	\$ 6,679,604	\$ 7,621,203
Federal contributions	-	280,000
Other contributions	31,235	71,929
Investment income	19,388	82,478
Reduction in award commitments	-	31,399
Refunds	-	(459,071)
Less amounts amortized to program revenues	(1,484,204)	(948,334)
Balance, end of year	\$ 5,246,023	\$ 6,679,604

# BRITISH COLUMBIA INNOVATION COUNCIL

Notes to the Combined Financial Statements (continued)

Year ended March 31, 2010

## 6. Natural Resources and Applied Science Research Endowment (“NRAS”):

In fiscal year 2005/2006, the Council was charged with stewarding \$50,000,000 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 required that the capital will be preserved. As such, restricted cash and short term investments of \$51,209,447 equal to the endowment liability are restricted.

Investment income earned from restricted cash and short-term investments related to the endowment liability are credited directly to the endowment liability on the statement of financial position. These amounts are recognized as revenue when they are spent or disbursed in accordance with the restrictions of the endowment.

## 6. Natural Resources and Applied Science Research Endowment (“NRAS”) (continued):

The endowment liability is calculated as follows:

	2010	2009
NRAS Endowment principal	\$ 50,000,000	\$ 50,000,000
Interest accumulated at beginning of year	3,031,420	4,272,764
Annual interest income	177,896	1,758,656
Program expenditures	(2,000,000)	(3,000,000)
Interest balance, end of year	1,209,316	3,031,420
Total balance principal plus interest	\$ 51,209,316	\$ 53,031,420

During the year ended March 31, 2010 the Council contributed \$2,689,097 (2009 - \$5,945,500) to the Vancouver Foundation, into a fund to be known as the British Columbia Innovation Council Fund. Of this amount, \$2,000,000 (2009 - \$3,000,000) was contributed from the interest earnings on the NRAS Endowment and the remaining amounts were contributed from the Council's general revenues and are included in Sector and International Programs expense. The Council's program directors provide input as to the disbursement decisions from this fund.

# BRITISH COLUMBIA INNOVATION COUNCIL

Notes to the Combined Financial Statements (continued)

Year ended March 31, 2010

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## 7. Commitments and contingencies:

- (a) The Council's offices are occupied under a long-term lease with varying terms to November 29, 2014. 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 August 2013 at a quarterly rental of \$3,396.

Total lease payments for the next five years are as follows:

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2011	\$ 280,777
2012	301,428
2013	321,126
2014	339,773
2015 and thereafter	221,125

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## 8. Contractual obligations:

The Council has entered into a number of project grant contracts as at March 31, 2010 for the 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 research project contractual obligations of the Council as at March 31, 2010 are \$550,563 (2009 - \$2,243,644).

## 9. 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, 2008) indicated a surplus of approximately \$487 million. The plan covers approximately 58,000 active employees. The next required valuation will be as of March 31, 2011 with results available in 2012.

During the year, the Council paid and expensed \$149,996 (2009 - \$131,508) to the Plan.

# BRITISH COLUMBIA INNOVATION COUNCIL

Notes to the Combined Financial Statements (continued)

Year ended March 31, 2010

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## 10. Capital management:

The Council receives its principal source of capital through funding received from government agencies. The Council defines capital to be net assets.

The Council's objective when managing capital is to fund its operations and capital asset additions. The Council manages the capital structure and makes adjustments based on the funding available and economic conditions. Currently, the Council's strategy is to monitor expenditures to preserve capital in accordance with budgeted funding.

The Council is not subject to debt covenants or any other capital requirements with respect to operating funding. Funding received for designated purposes is used for the purpose outlined in the funding letter. Non-compliance with external restrictions may result in reductions of future funding for designated purposes.

## 11. Financial instruments:

The Council's financial instruments, including cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities approximate their fair value due to their immediate or short term to maturity. Short-term investments are measured at amortized cost, which approximates fair value due to their short term to maturity. The fair market values of long-term investments are disclosed in note 3.

## 12. Comparative figures:

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