

Combined Financial Statements of

**BRITISH COLUMBIA INNOVATION COUNCIL**

Year ended March 31, 2011



**KPMG Enterprise™**  
Metrotower II  
Suite 2400 - 4720 Kingsway  
Burnaby BC V5H 4N2  
Canada

Telephone (604) 527-3600  
Fax (604) 527-3636  
Internet [www.kpmg.ca/enterprise](http://www.kpmg.ca/enterprise)

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors

We have audited the accompanying combined financial statements of British Columbia Innovation Council, which comprise the combined statement of financial position as at March 31, 2011, the combined statements of operations, changes in net 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 Combined Financial Statements*

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined 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 combined 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 combined financial statements.

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



*Opinion*

In our opinion, the combined financial statements present fairly, in all material respects, the combined financial position of the British Columbia Innovation Council as at March 31, 2011 and its combined results of operations and its combined cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*KPMG LLP*

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 single, horizontal, slightly curved line that serves as a flourish or underline.

Chartered Accountants

June 1, 2011

Burnaby, Canada

# BRITISH COLUMBIA INNOVATION COUNCIL

## Combined Statement of Financial Position

March 31, 2011, with comparative figures for 2010

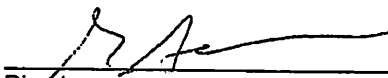
	2011	2010
<b>Assets</b>		
Current assets:		
Cash and cash equivalents - unrestricted	\$ 769,037	\$ 2,736,193
Short-term investments – unrestricted (note 3)	5,796,723	4,456,107
Short-term investments – restricted (note 3 and 5)	5,275,184	5,246,023
Accounts receivable	70,664	71,846
Prepaid expenses	67,452	92,610
	<u>11,979,060</u>	<u>12,602,779</u>
Restricted cash and cash equivalents (note 6)	49,345	18,568,633
Restricted short-term investments (notes 3 and 6)	12,103,447	32,640,683
Restricted long-term investments (notes 3 and 6)	37,923,440	-
Long-term investments – unrestricted (note 3)	21	21
Capital assets (note 4)	161,187	208,909
	<u>\$ 62,216,500</u>	<u>\$ 64,021,025</u>

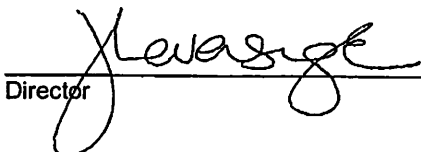
## Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 417,891	\$ 1,089,440
Deferred program revenues (note 5)	5,275,184	5,246,023
	<u>5,693,075</u>	<u>6,335,463</u>
NRAS endowment liability (note 6)	50,076,232	51,209,316
Net assets:		
Invested in capital assets	161,187	208,909
Unrestricted	6,286,006	6,267,337
	<u>6,447,193</u>	<u>6,476,246</u>
Commitments and contingencies (note 7)		
Contractual obligations (note 8)		
Employee future benefits (note 9)		
	<u>\$ 62,216,500</u>	<u>\$ 64,021,025</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, 2011, with comparative figures for 2010

	2011	2010
Revenue:		
Province of British Columbia	\$ 8,500,000	\$ 8,500,000
Program revenue (note 5)	-	1,484,204
Revenue from NRAS Endowment	1,800,000	2,000,000
Interest	87,449	60,054
Other income	242,061	213,207
Gain on equity investments	-	1,999
	<u>10,629,510</u>	<u>12,259,464</u>
Expenses:		
Program expenses and disbursements:		
Talent development and innovation	378,373	134,993
Contribution to NRAS program (note 6)	1,800,000	2,000,000
Commercialization	1,921,554	1,500,526
Science and technology fund	2,671,030	2,951,030
Sector programs	343,200	647,830
International program	-	1,296,544
Communications and recognition	424,143	313,904
Amortization	61,671	73,522
Operations	3,058,592	4,051,475
	<u>10,658,563</u>	<u>12,969,824</u>
Deficiency of revenue over expenses	\$ (29,053)	\$ (710,360)

See accompanying notes to the combined financial statements.

# BRITISH COLUMBIA INNOVATION COUNCIL

## Combined Statement of Changes in Net Assets

Year ended March 31, 2011, with comparative figures for 2010

	Invested in capital assets	Unrestricted	2011 Total	2010 Total
Balance, beginning of year	\$ 208,909	\$ 6,267,337	\$ 6,476,246	\$ 7,186,606
Excess (deficiency) of revenue over expenses	(61,671)	32,618	(29,053)	(710,360)
Invested in capital assets	13,949	(13,949)	-	-
Balance, end of year	\$ 161,187	\$ 6,286,006	\$ 6,447,193	\$ 6,476,246

See accompanying notes to the combined financial statements.

# BRITISH COLUMBIA INNOVATION COUNCIL

## Combined Statement of Cash Flows

Year ended March 31, 2011, with comparative figures for 2010

	2011	2010
Cash provided by (used in):		
Operations:		
Deficiency of revenue over expenses	\$ (29,053)	\$ (710,360)
Items not involving cash:		
Amortization of capital assets	61,671	73,522
Realized gain on disposal of long-term investments	-	(1,999)
Changes in non-cash operating working capital:		
Accounts receivable	1,182	24,088
Prepaid expenses	25,158	(67,506)
Accounts payable and accrued liabilities	(671,549)	718,180
Deferred program revenues	29,161	(1,433,581)
	(583,430)	(1,397,656)
Investing:		
Net change in short-term investments	19,167,459	(42,342,813)
Net change in long-term investments	(37,923,440)	-
Proceeds on sale of long-term investments	-	2,000
Purchase of capital assets	(13,949)	(78,322)
Decrease in endowment fund	(1,133,084)	(1,822,104)
	(19,903,014)	(44,241,239)
Decrease in cash and cash equivalents	(20,486,444)	(45,638,895)
Cash and cash equivalents (including restricted cash and cash equivalents), beginning of year	21,304,826	66,943,721
Cash and cash equivalents (including restricted cash and cash equivalents), end of year	\$ 818,382	\$ 21,304,826

See accompanying notes to the combined financial statements.

# BRITISH COLUMBIA INNOVATION COUNCIL

Notes to the Combined Financial Statements

Year ended March 31, 2011

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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 financial statements reflect the operations of the Council and the British Columbia Advanced Systems Foundation (BCASF) which is inactive and has no assets or liabilities.

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.

### (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 include investments with original terms to maturity of greater than three months and which mature within one year, are classified as available-for-sale and are recorded at market value with gains and losses related to changes in market values recorded in the combined statement of changes in net assets.

### (d) Long-term investments:

Long-term investments, which include investments with terms to maturity of greater than one year, are classified as available-for-sale and are recorded at market value with gains and losses related to changes in market values recorded in the combined statement of changes in net assets.



# BRITISH COLUMBIA INNOVATION COUNCIL

Notes to the Combined Financial Statements (continued)

Year ended March 31, 2011

## 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

### (f) Revenue recognition:

The Council follows the deferral method of accounting for contributions. 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.

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 externally restricted contributions, included in deferred revenue, 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 costs, 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). Defined contribution plan accounting is applied to the multi-employer defined benefit plan and, accordingly, contributions are expensed.

### (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, accrual of liabilities and the fair value of financial instruments. Actual results may differ from these estimates.

# BRITISH COLUMBIA INNOVATION COUNCIL

Notes to the Combined Financial Statements (continued)

Year ended March 31, 2011

## 2. Significant accounting policies (continued):

### (i) Future accounting framework:

Effective April 1, 2011, the Council will be transitioning to Public Sector Accounting Standards (PSAB) on a retrospective basis. The Council is reviewing the impact of this change on the financial statements.

## 3. Investments:

During the year, certain short-term investments classified as held-to-maturity were sold prior to their date of maturity. Accordingly, short-term investments previously classified as held-to-maturity have been reclassified as available-for sale.

Restricted and unrestricted short-term investments consist of term deposits and guaranteed investment certificates maturing on dates through to January of 2012, bearing interest at rates ranging from 1.45% to 1.55%.

Restricted long-term investments consist of term deposits and guaranteed investment certificates maturing on dates through to November 2014, bearing interest at rates ranging from 1.70% to 2.55%.

Unrestricted 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, 2011, 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, 2011 is \$21 (2010 - \$21).

## 4. Capital assets:

			2011	2010
	Cost	Accumulated amortization	Net book value	Net book value
Furniture, fixtures and equipment	\$ 155,567	\$ 93,064	\$ 62,503	\$ 78,128
Computer hardware and software	373,651	274,967	98,684	130,590
Leasehold improvements	27,770	27,770	-	191
	\$ 556,988	\$ 395,801	\$ 161,187	\$ 208,909

# BRITISH COLUMBIA INNOVATION COUNCIL

Notes to the Combined Financial Statements (continued)

Year ended March 31, 2011

## 5. Deferred program revenues:

	2011	2010
Balance, beginning of year	\$ 5,246,023	\$ 6,679,604
Other contributions	-	31,235
Investment income	29,161	19,388
Less amounts amortized to program revenues	-	(1,484,204)
Balance, end of year	\$ 5,275,184	\$ 5,246,023

The funds required for these future expenditures have been separated and classified as restricted short-term investments.

## 6. 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 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, short-term and long-term investments of \$50,076,232 equal to the endowment liability and unspent interest earnings are restricted.

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

The endowment liability is calculated as follows:

	2011	2010
NRAS Endowment principal	\$ 50,000,000	\$ 50,000,000
Interest accumulated, beginning of year	1,209,316	3,031,420
	51,209,316	53,031,420
Annual interest income	786,070	286,662
Administration and professional fees	(119,154)	(108,766)
Program expenditures	(1,800,000)	(2,000,000)
Interest balance, end of year	(1,133,084)	(1,822,104)
Total balance principal plus interest	\$ 50,076,232	\$ 51,209,316

# BRITISH COLUMBIA INNOVATION COUNCIL

Notes to the Combined Financial Statements (continued)

Year ended March 31, 2011

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

During the year ended March 31, 2011, the Council contributed \$1,839,000 (2010 - \$2,689,097) to the Vancouver Foundation, into a fund to be known as the British Columbia Innovation Council Fund. Of this amount, \$1,800,000 (2010 - \$2,000,000) 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 Commercialization (2010 - Sector Programs) expense. The Council's program directors provide input as to the disbursement decisions from this fund.

## 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 \$3,174.

Total estimated lease payments up to the end of the lease term are as follows:

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2012	\$ 300,540
2013	320,238
2014	339,773
2015	221,125
2016 and thereafter	-

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## 8. Contractual obligations:

The Council has entered into a number of project grant contracts as at March 31, 2011 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 combined 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, 2011 are \$215,000 (2010 - \$550,563).

# BRITISH COLUMBIA INNOVATION COUNCIL

Notes to the Combined Financial Statements (continued)

Year ended March 31, 2011

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## 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 \$108,733 (2010 - \$126,206) to the Plan.

## 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 and long-term investments are recorded at their fair value.

## 12. 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 considered in the normal course of operations and are recorded at the exchange amount, which is the amount of consideration established and agreed to by the related parties.