

Combined Financial Statements of

BRITISH COLUMBIA INNOVATION COUNCIL

Year ended March 31, 2008



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AUDITORS' REPORT TO THE DIRECTORS

We have audited the combined statement of financial position of BC Innovation Council (the "Council") as at March 31, 2008 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, 2008 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 8, 2008

BC INNOVATION COUNCIL

Combined Statement of Financial Position

March 31, 2008

	2008	2007
Assets		
Current assets:		
Cash and cash equivalents (note 9)	\$ 52,653,966	\$ 26,158,067
Short-term investments (notes 4 and 9)	22,908,323	20,512,625
Accounts receivable	93,906	736,451
Awards and contributions receivable	6,998	27,747
Prepaid expenses	7,232	18,790
	<u>75,670,425</u>	<u>47,453,680</u>
Long-term investments (note 5)	321,329	22,968,473
Capital assets (note 6)	144,513	80,002
	<u>\$ 76,136,267</u>	<u>\$ 70,502,155</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 1,614,055	\$ 894,310
Deferred program revenues (note 7)	7,621,203	8,389,487
Funds committed to future programs (note 8)	5,324,610	3,417,575
	<u>14,559,868</u>	<u>12,701,372</u>
NRAS endowment liability (note 9)	54,272,764	52,058,626
Net assets:		
Invested in capital assets (note 6)	144,513	80,002
Unrestricted	7,159,122	5,662,155
	<u>7,303,635</u>	<u>5,742,157</u>
Commitments and contingencies (note 10)		
Employee future benefits (note 11)		
	<u>\$ 76,136,267</u>	<u>\$ 70,502,155</u>

See accompanying notes to the combined financial statements.

Approved on behalf of the Board:



Director



Director

BC INNOVATION COUNCIL

Combined Statement of Operations

Year ended March 31, 2008

	2008	2007
Revenue:		
Province of British Columbia base funding (note 8)	\$ 3,033,158	\$ 1,661,328
Program revenue:		
Science and technology	2,731,807	2,784,316
Advanced technology sales	1,400,000	-
Business case development	200,000	-
Graduate scholarships	600,338	-
Aquaculture	340,642	448,305
Fellowships	60,621	191,983
UC Net	-	321,000
Health product and functional food	55,773	7,716
Leading Edge Endowment Fund	189,814	196,573
Premier's Technology Council	140,000	101,000
Interest	749,789	612,541
Other income	752,398	230,227
Gain on equity investments (note 5)	423,052	14,921
	<u>10,677,392</u>	<u>6,569,910</u>
Expenses:		
Program expenses:		
Science and technology	2,731,807	2,784,316
Advanced technology sales	1,400,000	-
Business case development	200,000	-
Graduate scholarships	600,338	-
Aquaculture	340,642	355,863
Fellowships	60,621	191,983
UC Net	-	321,000
Health product and functional food	55,773	1,400
Communications and recognition	283,188	233,625
Leading Edge Endowment Fund	173,828	181,584
Premier's Technology Council	130,718	95,608
Amortization	40,443	29,323
Operations	3,134,566	1,871,461
	<u>9,151,924</u>	<u>6,066,163</u>
Excess of revenue over expenses	<u>\$ 1,525,468</u>	<u>\$ 503,747</u>

See accompanying notes to the combined financial statements.

BC INNOVATION COUNCIL

Combined Statement of Changes in Net Assets

Year ended March 31, 2008

	Invested in capital assets (note 6)	Unrestricted	2008 Total	2007 Total
Balance, beginning of year:				
As previously reported	\$ 80,002	\$ 5,662,155	\$ 5,742,157	\$ 5,238,410
Adjustment to opening balance (note 2)	-	36,010	36,010	-
As restated	80,002	5,698,165	5,778,167	5,238,410
Excess (deficiency) of revenue over expenses	(40,443)	1,565,911	1,525,468	503,747
Invested in capital assets	104,954	(104,954)	-	-
Balance, end of year	\$ 144,513	\$ 7,159,122	\$ 7,303,635	\$ 5,742,157

See accompanying notes to the combined financial statements.

BC INNOVATION COUNCIL

Combined Statement of Cash Flows

Year ended March 31, 2008

	2008	2007
Cash provided by (used in):		
Operations:		
Excess of revenue over expenses	\$ 1,525,468	\$ 503,747
Items not involving cash:		
Amortization of capital assets	40,443	29,323
Unrealized gain on long-term investments	321,035	-
Changes in non-cash operating working capital:		
Accounts receivable and awards and contributions receivable	663,294	49,570,710
Prepaid expenses	11,558	(1,591)
Accounts payable and accrued liabilities	719,745	132,664
Deferred program revenues	(768,284)	1,228,211
Funds committed to future programs	1,907,035	1,625,672
	4,420,294	53,088,736
Investments:		
Short-term investments	(2,395,698)	(20,512,625)
Long-term investments	22,362,119	(19,716,947)
Purchase of capital assets	(104,954)	(22,725)
Increase in Endowment Fund	2,214,138	2,058,625
	22,075,605	(38,193,672)
Increase in cash and cash equivalents	26,495,899	14,895,064
Cash and cash equivalents, beginning of year	26,158,067	11,263,003
Cash and cash equivalents, end of year	\$ 52,653,966	\$ 26,158,067

See accompanying notes to the combined financial statements.

BC INNOVATION COUNCIL

Notes to the Combined Financial Statements

Year ended March 31, 2008

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.

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 to foster province-wide economic development.

2. Change in accounting policy:

Effective April 1, 2007, the Council adopted the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3855, *Financial Instruments – Recognition and Measurement*, CICA Handbook Section 3861, *Financial Instruments – Disclosure and Presentation* and CICA Handbook Section 3865, *Hedges*. These new Handbook sections provide comprehensive requirements for the recognition and measurement of financial instruments and related disclosures.

Under these new standards, all financial instruments are classified into one of the following five categories: held for trading, held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments, including derivatives, are included on the combined statement of financial position and are initially measured at fair market value. Subsequent measurement and recognition of changes in fair value of financial instruments depend on their initial classification. Held for trading financial investments are measured at fair value and all gains and losses are included in net income in the period they arise. Available-for-sale financial instruments are measured at fair value with revaluation gains and losses included in the net asset balance until the asset is removed from the statement of financial position. Loans and receivables, investments held-to-maturity and other financial liabilities are measured at amortized cost.

The standards require derivative instruments to be recorded as either assets or liabilities measured at their fair value unless exempted from derivative treatment as normal purchase and sale. Certain derivatives embedded in other contracts must also be measured at fair value. All changes in the fair value of derivatives are recognized as earnings unless specific hedge criteria are met, which require that the Council must formally document, designate and assess the effectiveness of transactions that receive hedge accounting.

BC INNOVATION COUNCIL

Notes to the Combined Financial Statements (continued)

Year ended March 31, 2008

2. Change in accounting policy (continued):

As a result of the adoption of these standards, the Council has classified cash and cash equivalents as held for trading, short term investments as held-to-maturity and long-term investments as held for trading. Accounts receivable are classified as loans and receivables. Accounts payable and accrued liabilities are classified as other financial liabilities. The Council has not identified any derivatives or embedded derivatives that are not closely related to the host contract.

As permitted, these standards have been applied prospectively with an adjustment to opening net assets.

The impact of adopting these standards at April 1, 2007 was an increase in net assets of \$36,010 and an increase in revenue over expenses in the current year of \$295,221.

3. 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 and have been classified as held for trading.

(c) Short-term investments:

Short-term investments, which are recorded at the lower of amortized 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 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 held for trading and are recorded at market value.

BC INNOVATION COUNCIL

Notes to the Combined Financial Statements (continued)

Year ended March 31, 2008

3. 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

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 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 (note 11).

(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 is the determination of useful lives of capital assets for amortization and accrued liabilities. Actual results may differ from these estimates.

BC INNOVATION COUNCIL

Notes to the Combined Financial Statements (continued)

Year ended March 31, 2008

3. Significant accounting policies (continued):

(i) Future changes in accounting standards:

Commencing with the fiscal year beginning April 1, 2008, the Council will be adopting CICA Handbook Section 3862, *Financial Instruments - Disclosures* and Section 3863 *Financial Instruments - Presentation*. These standards revise the current standards on financial instruments disclosure and presentation and place an increased emphasis on disclosures regarding the risks associated with both recognized and unrecognized financial instruments and how these risks are managed.

Management is currently determining the impact of the adoption of these standards on the financial statements for the 2009 fiscal year.

4. Short-term investments:

The market value of the Council's short-term investment is \$23,224,837 (2007 - \$20,499,525). The short term investments are a Bankers Acceptance of \$2,908,323 with a maturity date of May 5, 2008 and a term deposit of \$20,000,000 with a maturity date of March 31, 2009.

5. 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 (2007 figures included federal and provincial bonds, which matured or were disposed of during the year). Shares of privately held corporations and publicly traded shares are recorded at their market value. As at March 31, 2008, the Council has assessed the shares of privately held corporations to have no market value. As such, these investments are recorded at a nominal value of \$1 each for each company shareholding. As at March 31, 2008, the market value of long-term investments was \$321,329 (2007 - \$23,078,651).

6. Capital assets:

			2008	2007
	Cost	Accumulated amortization	Net book value	Net book value
Furniture, fixtures and equipment	\$ 96,506	\$ 51,778	\$ 44,728	\$ 14,132
Computer hardware and software	216,907	126,297	90,610	51,141
Leasehold improvements	27,770	18,595	9,175	14,729
	\$ 341,183	\$ 196,670	\$ 144,513	\$ 80,002

BC INNOVATION COUNCIL

Notes to the Combined Financial Statements (continued)

Year ended March 31, 2008

7. Deferred program revenues:

	2008	2007
Balance, beginning of year	\$ 8,389,487	\$ 7,161,276
Provincial contributions	50,000	1,000,000
Other contributions	98,407	1,028,953
Investment income	140,683	168,013
Less amounts amortized to program revenues	(1,057,374)	(968,755)
Balance, end of year	\$ 7,621,203	\$ 8,389,487

8. Funds committed to future programs:

	2008	2007
Balance, beginning of year	\$ 3,417,575	\$ 1,791,903
Province of British Columbia:		
Base funding	3,308,000	3,287,000
Additional program funding	3,000,000	-
Science and technology funding	2,964,000	2,784,316
Less funding recorded as revenue:		
Base	(3,033,158)	(1,661,328)
Science and technology	(2,731,807)	(2,784,316)
Advanced technology sales	(1,400,000)	-
Business case study development	(200,000)	-
Balance, end of year	\$ 5,324,610	\$ 3,417,575

The Ministry of Advanced Education (the "Ministry") provides funding for the Council's general and administrative activities as well as for science and technology initiatives. Any portion of the contribution received as 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.

BC INNOVATION COUNCIL

Notes to the Combined Financial Statements (continued)

Year ended March 31, 2008

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. As such, cash and cash equivalents of \$34,272,764 and short-term investments of \$20,000,000 equal to the endowment liability of \$54,272,764 are restricted.

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

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 \$3,174.

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

2009	\$ 206,026
2010	141,583
2011	6,348

- (c) The Council entered into gift agreements of \$2,300,000 with the University of British Columbia (“UBC”) to provide funding to the Sauder School of Business British Columbia Innovation Council Chair in Sales and Sales Management and to the British Columbia Innovation Council Business Case Library. During fiscal 2008, \$800,000 was paid to UBC and \$800,000 has been accrued as at March 31, 2008. The remaining \$700,000 is payable in 2009/2010 contingent on funding being allocated to the Council from the Government of British Columbia for fiscal 2009/2010.

BC INNOVATION COUNCIL

Notes to the Combined Financial Statements (continued)

Year ended March 31, 2008

11. 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. The 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 of \$767 million. 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 2008 were \$97,892 (2007 - \$71,492).

12. Financial instruments:

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