

Financial Statements of

BRITISH COLUMBIA INNOVATION COUNCIL

Years ended March 31, 2012 and 2011



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Minister of Jobs, Tourism and Innovation of British Columbia

We have audited the accompanying financial statements of British Columbia Innovation Council, which comprise the statements of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010, the statements of operations, changes in net financial assets and cash flows for the years 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 audits. 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 audits 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 in our audits 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, 2012, March 31, 2011 and April 1, 2010 and its results of operations and its cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with Canadian public sector accounting standards.

Chartered Accountants

May 14, 2012

Burnaby, Canada

BRITISH COLUMBIA INNOVATION COUNCIL

Statements of Financial Position

March 31, 2012, March 31, 2011 and April 1, 2010

	March 31, 2012	March 31, 2011	April 1, 2010
Financial Assets			
Cash:			
Unrestricted	\$ 601,836	\$ 762,001	\$ 2,729,157
Restricted – NRAS endowment (note 7)	501,676	49,345	1,209,316
Investments:			
Unrestricted (note 3)	5,687,314	5,796,744	4,456,128
Restricted – deferred programs (note 3 and 6)	5,330,974	5,275,184	5,246,023
Restricted – NRAS endowment (note 3 and 7)	-	26,887	-
Accounts receivable	245,821	70,664	71,846
	<u>12,367,621</u>	<u>11,980,825</u>	<u>13,712,470</u>
Liabilities			
Accounts payable and accrued liabilities	279,303	417,891	1,089,440
Deferred program revenues (note 6)	5,330,974	5,275,184	5,246,023
Deferred revenue from NRAS endowment (note 7)	501,676	76,232	1,209,316
	<u>6,111,953</u>	<u>5,769,307</u>	<u>7,544,779</u>
Net Financial Assets	6,255,668	6,211,518	6,167,691
Non-Financial Assets:			
Restricted – NRAS endowment:			
Cash (note 7)	-	-	17,359,317
Investments (notes 3 and 7)	50,000,000	50,000,000	32,640,683
	<u>50,000,000</u>	<u>50,000,000</u>	<u>50,000,000</u>
Tangible capital assets (note 4)	126,693	161,187	208,909
Prepaid expenses	66,280	74,488	99,646
	<u>50,192,973</u>	<u>50,235,675</u>	<u>50,308,555</u>
Accumulated surplus (note 5)	\$ 56,448,641	\$ 56,447,193	\$ 56,476,246

Commitments and contingencies (note 8)

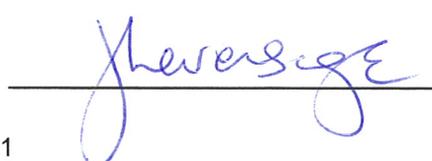
Contractual obligations (note 9)

Employee future benefits (note 10)

See accompanying notes to the financial statements.

Approved on behalf of the Board:

 Director

 Director

BRITISH COLUMBIA INNOVATION COUNCIL

Statements of Operations

Years ended March 31, 2012 and 2011

	Budget 2012 (unaudited - note 12)	2012	2011
Revenue:			
Province of British Columbia	\$ 8,500,000	\$ 9,650,000	\$ 8,500,000
Revenue from NRAS endowment	900,000	568,138	1,919,154
Interest	100,000	113,105	87,449
Other	210,000	10,649	242,061
	<u>9,710,000</u>	<u>10,341,892</u>	<u>10,748,664</u>
Expenses (note 13):			
Program expenses and disbursements:			
Talent development and innovation	1,049,047	1,166,775	907,141
Contribution to NRAS program (note 7)	983,533	607,821	1,973,739
Commercialization	2,317,124	4,058,312	2,409,859
Science and technology fund	3,118,095	2,912,251	2,825,245
Sector programs	-	-	381,188
Technology Awareness	633,433	267,183	746,026
Premier's Technology Council	425,000	326,845	425,000
General administration	1,183,768	1,001,257	1,109,519
	<u>9,710,000</u>	<u>10,340,444</u>	<u>10,777,717</u>
Annual surplus (deficit)	-	1,448	(29,053)
Accumulated surplus, beginning of year	56,447,193	56,447,193	56,476,246
Accumulated surplus, end of year	<u>\$ 56,447,193</u>	<u>\$ 56,448,641</u>	<u>\$ 56,447,193</u>

See accompanying notes to the financial statements.

BRITISH COLUMBIA INNOVATION COUNCIL

Statements of Changes in Net Financial Assets

Years ended March 31, 2012 and 2011

	Budget 2012 (unaudited - note 12)	2012	2011
Annual surplus (deficit)	\$ -	\$ 1,448	\$ (29,053)
Acquisition of tangible capital assets	(50,000)	(13,081)	(13,949)
Amortization of tangible capital assets	70,000	47,575	61,671
	20,000	35,942	18,669
Use of prepaid expenses	-	8,208	25,158
Change in net financial assets	20,000	44,150	43,827
Net financial assets, beginning of year	6,211,518	6,211,518	6,167,691
Net financial assets, end of year	\$ 6,231,518	\$ 6,255,668	\$ 6,211,518

See accompanying notes to the financial statements.

BRITISH COLUMBIA INNOVATION COUNCIL

Statements of Cash Flows

Years ended March 31, 2012 and 2011

	2012	2011
Cash provided by (used in):		
Operations:		
Annual surplus (deficit)	\$ 1,448	\$ (29,053)
Items not involving cash:		
Amortization of tangible capital assets	47,575	61,671
Changes in non-cash operating working capital:		
Accounts receivable	(175,157)	1,182
Prepaid expenses	8,208	25,158
Accounts payable and accrued liabilities	(138,588)	(671,549)
Deferred program revenues	55,790	29,161
	(200,724)	(583,430)
Capital:		
Purchase of tangible capital assets	(13,081)	(13,949)
Investing:		
Purchase of investments	(26,950,502)	(76,639,000)
Proceeds on maturity of investments	27,031,029	57,883,019
Increase (decrease) in deferred revenue from NRAS endowment	425,444	(1,133,084)
	505,971	(19,889,065)
Increase (decrease) in cash	292,166	(20,486,444)
Cash (including restricted cash), beginning of year	811,346	21,297,790
Cash (including restricted cash), end of year	\$ 1,103,512	\$ 811,346

See accompanying notes to the financial statements.

BRITISH COLUMBIA INNOVATION COUNCIL

Notes to Financial Statements

Years ended March 31, 2012 and 2011

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.

These financial statements do not include the operations of British Columbia Advanced Systems Foundation (BCASF), a dormant entity, whose assets and liabilities were transferred to the Council on March 30, 2007. Previously, the financial statements presented the operations of the Council and BCASF on a combined basis. The exclusion of BCASF in these financial statements resulted in no changes to the statements of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010 or to the statements of operations, changes in net financial assets and cash flows for the years ended March 31, 2012 and March 31, 2011.

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 support applied research and commercialization of science and technology in order to foster province-wide economic development.

On April 1, 2011, the Council adopted Canadian public sector accounting standards ("PSAB"). These are the first financial statements prepared in accordance with PSAB.

In accordance with the transitional provisions in PSAB, the Council has adopted the changes retrospectively, subject to certain exemptions allowed under these standards. The transition date is April 1, 2010 and all comparative information provided has been presented by applying PSAB.

There was no impact of the transition to PSAB on the Council's accumulated surplus as of April 1, 2010 or on the Council's annual surplus for the year ended March 31, 2011. There were no changes to cash flows from operations, financing, or investing for the year ended March 31, 2011, except for the recharacterization of the purchase of tangible capital assets as "capital."

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 Canadian Institute of Chartered Accountants.

(b) Investments:

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

BRITISH COLUMBIA INNOVATION COUNCIL

Notes to Financial Statements (continued)

Years ended March 31, 2012 and 2011

2. Significant accounting policies (continued):

(c) Revenue recognition:

The Council follows the accrual 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.

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

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

(d) 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.

(e) 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	Lesser of the term of the lease and the useful life of the asset

BRITISH COLUMBIA INNOVATION COUNCIL

Notes to Financial Statements (continued)

Years ended March 31, 2012 and 2011

2. Significant accounting policies (continued):

(f) Employee future benefits:

The Council accrues employee vacation entitlements, post employment benefits and compensated absences. 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.

(g) 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 accrual of liabilities. Actual results may differ from these estimates.

3. Investments:

Restricted and unrestricted investments consist of term deposits and guaranteed investment certificates with maturity dates ranging from May of 2012 to November of 2014, bearing interest at rates ranging from 1.45% to 2.55%.

Included in unrestricted investments are shares of previous BCASF program participant private corporations received in exchange for all or a portion of loan or royalty interests. As at March 31, 2012, 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, 2012 is \$20 (March 31, 2011 - \$21; April 1, 2010 - \$21).

BRITISH COLUMBIA INNOVATION COUNCIL

Notes to Financial Statements (continued)

Years ended March 31, 2012 and 2011

4. Tangible capital assets:

Cost	Balance at April 1, 2010	Additions	Disposal	Balance at March 31, 2011
Furniture, fixtures and equipment	\$ 155,567	\$ -	\$ -	\$ 155,567
Computer hardware and software	359,702	13,949	-	373,651
Leasehold improvements	27,770	-	-	27,770
	\$ 543,039	\$ 13,949	\$ -	\$ 556,988

Accumulated Amortization	Balance at April 1, 2010	Amortization	Accumulated amortization of disposals	Balance at March 31, 2011
Furniture, fixtures and equipment	\$ 77,439	\$ 15,625	\$ -	\$ 93,064
Computer hardware and software	229,112	45,855	-	274,967
Leasehold improvements	27,579	191	-	27,770
	\$ 334,130	\$ 61,671	\$ -	\$ 395,801

	Net Book value April 1, 2010		Net book value March 31, 2011
Furniture, fixtures and equipment	\$ 78,128		\$ 62,503
Computer hardware and software	130,590		98,684
Leasehold improvements	191		-
	\$ 208,909		\$ 161,187

BRITISH COLUMBIA INNOVATION COUNCIL

Notes to Financial Statements (continued)

Years ended March 31, 2012 and 2011

4. Tangible capital assets (continued):

Cost	Balance at March 31, 2011	Additions	Disposal	Balance at March 31, 2012
Furniture, fixtures and equipment	\$ 155,567	\$ -	\$ -	\$ 155,567
Computer hardware and software	373,651	13,081	-	386,732
Leasehold improvements	27,770	-	-	27,770
	\$ 556,988	\$ 13,081	\$ -	\$ 570,069

Accumulated Amortization	Balance at March 31, 2011	Amortization	Accumulated amortization of disposals	Balance at March 31, 2012
Furniture, fixtures and equipment	\$ 93,064	\$ 12,500	\$ -	\$ 105,564
Computer hardware and software	274,967	35,075	-	310,042
Leasehold improvements	27,770	-	-	27,770
	\$ 395,801	\$ 47,575	\$ -	\$ 443,376

	Net Book value March 31, 2011		Net book value March 31, 2012
Furniture, fixtures and equipment	\$ 62,503		\$ 50,003
Computer hardware and software	98,684		76,690
Leasehold improvements	-		-
	\$ 161,187		\$ 126,693

There were no writedowns or reversals of writedowns previously recorded on any tangible capital assets.

BRITISH COLUMBIA INNOVATION COUNCIL

Notes to Financial Statements (continued)

Years ended March 31, 2012 and 2011

5. Accumulated surplus:

Accumulated surplus is comprised of the following:

	March 31, 2012	March 31, 2011	April 1, 2010
Invested in tangible capital assets	\$ 126,693	\$ 161,187	\$ 208,909
NRAS Endowment	50,000,000	50,000,000	50,000,000
Unrestricted	6,321,948	6,286,006	6,267,337
	<u>\$ 56,448,641</u>	<u>\$ 56,447,193</u>	<u>\$ 56,476,246</u>

6. Deferred program revenues:

	March 31, 2012	March 31, 2011	April 1, 2010
Balance, beginning of year	\$ 5,275,184	\$ 5,246,023	\$ 6,679,604
Other contributions	-	-	31,235
Investment income	55,790	29,161	19,388
Less amounts amortized to program revenues	-	-	(1,484,204)
Balance, end of year	<u>\$ 5,330,974</u>	<u>\$ 5,275,184</u>	<u>\$ 5,246,023</u>

The funds required for these future expenditures have been separated and classified as 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 for the support of training, research and development in natural and applied sciences. As an endowment, it is required that the capital will be preserved. As such, restricted cash and investments of \$50,501,676 are comprised of the permanently restricted endowment balance of \$50,000,000 and unspent interest earnings of \$501,676.

BRITISH COLUMBIA INNOVATION COUNCIL

Notes to Financial Statements (continued)

Years ended March 31, 2012 and 2011

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

The deferred revenue from NRAS endowment balance is calculated as follows:

	March 31, 2012	March 31, 2011	April 1, 2010
Unspent interest, beginning of year	\$ 76,232	\$ 1,209,316	\$ 3,031,420
Annual interest earned	993,582	786,070	286,662
Administration and professional fees	(8,138)	(119,154)	(108,766)
Program expenditures	(560,000)	(1,800,000)	(2,000,000)
Unspent interest, end of year	\$ 501,676	\$ 76,232	\$ 1,209,316

During the year ended March 31, 2012, the Council contributed \$560,000 (2011 - \$1,839,000) to the Vancouver Foundation, into a fund to be known as the British Columbia Innovation Council Fund. This entire amount (2011 - \$1,800,000) was contributed from the interest earnings on the NRAS Endowment and none was contributed from the Council's general revenues. In the prior year, the remaining amount was contributed from the Council's general revenues and is included in commercialization expense. The Council allocated \$39,683 (2011 - \$54,585) of operation overheads and included in NRAS expense. The Council's program directors provide input as to the disbursement decisions from this fund.

8. Commitments and contingencies:

- The Council occupies offices 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.
- 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 terms are as follows:

2013	\$ 237,740
2014	252,657
2015	161,252

BRITISH COLUMBIA INNOVATION COUNCIL

Notes to Financial Statements (continued)

Years ended March 31, 2012 and 2011

9. Contractual obligations:

The Council has entered into a number of project grant contracts as at March 31, 2012 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, 2012 are \$377,500 (March 31, 2011 - \$215,000; April 1, 2010 - \$550,563).

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, 2014 with results available in 2015.

During the year, the Council paid and expensed \$86,505 (2011 - \$108,733) to the Plan.

11. Related parties:

The Council is related through common control 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.

BRITISH COLUMBIA INNOVATION COUNCIL

Notes to Financial Statements (continued)

Years ended March 31, 2012 and 2011

12. Budget data:

The unaudited budget data presented in these financial statements is based on the 2012 operating budget approved by the Board of Directors on December 15, 2011.

13. Expenses by object:

The following is a summary of expenses by object:

	2012	2011
Expenses:		
Program expenses and disbursements	\$ 7,998,477	\$ 8,268,565
Salaries and benefits	1,391,825	1,590,244
Rent	418,041	274,146
Contracted services	125,749	188,100
Office expenses	87,203	120,233
Other costs	271,574	274,758
	10,292,869	10,716,046
Amortization	47,575	61,671
Total expense	\$ 10,340,444	\$ 10,777,717

Rent expense includes a one-time rent provision setup of \$87,232 (2011 - nil) and a termination notice payment due to the reduction of office spaces of \$28,718 (2011 - nil).