



Financial Statements

Knowledge Network Corporation

(formerly Open Learning Agency)

March 31, 2009

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## Auditors' report

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To the Board of Directors of  
  
Knowledge Network Corporation

We have audited the statement of financial position of Knowledge Network Corporation (formerly Open Learning Agency) as at March 31, 2009 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Corporation'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 financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2009 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

*Grant Thornton LLP*

Vancouver, Canada

May 22, 2009

Chartered accountants

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# Knowledge Network Corporation

(formerly Open Learning Agency)

## Statement of Operations

Year Ended March 31

2009

2008

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Revenue		
Province of British Columbia		
Operating grants	\$ 7,716,499	\$ 7,625,405
Specified grants and contracts	80,125	279,198
Donations and sponsorships	2,228,362	2,717,357
Flowthrough project funding	1,511,436	-
Amortization of deferred contributions (Note 7)	468,279	488,622
Miscellaneous	257,334	447,545
Interest	75,542	125,109
Sales	101,275	87,988
User fees and rentals	19,572	31,010
Loss on investments	(68,351)	(24,025)
Total revenue	<u>12,390,073</u>	<u>11,778,209</u>
Expenditure		
Salaries, honoraria and benefits	4,046,345	5,722,941
Purchased services	1,666,788	2,065,954
Program acquisitions	2,594,559	1,843,850
Flowthrough project expenses	1,277,673	-
Facilities rental and maintenance	467,663	696,059
Amortization of property and equipment	515,292	488,622
Materials, supplies and postage	421,117	431,580
Satellite transmission services	370,952	370,952
Miscellaneous	151,510	156,880
Equipment rental, financing and maintenance	88,138	118,497
Travel	72,701	92,129
Communications	57,728	72,369
Expense recovery, building operating costs	(109,953)	(281,400)
Total expenditure	<u>11,620,513</u>	<u>11,778,433</u>
Excess (deficiency) of revenue over expenditure before unusual items	769,560	(224)
Unusual items		
Loss on transfer of land and building (Note 6)	(2,979,794)	-
Write-down of capital assets, net (Note 6)	-	-
Deficiency of revenue over expenditure	<u>\$ (2,210,234)</u>	<u>\$ (224)</u>

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See accompanying notes to the financial statements

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# Knowledge Network Corporation

(formerly Open Learning Agency)

## Statement of Financial Position

March 31

2009

2008

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### Assets

#### Current

Cash	\$ 1,917,298	\$ 3,799,923
Short term investments (Note 5)	1,490,572	-
Accounts receivable and prepaids	108,052	151,454
Work in progress, projects	-	20,360

3,515,922 3,971,737

Restricted investments (Note 5)

331,348 337,939

Capital assets (Note 4)

3,729,723 13,612,851

\$ 7,576,993 \$ 17,922,527

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### Liabilities

#### Current

Payables and accruals	\$ 1,156,816	\$ 1,754,151
Deferred revenue, projects	808,179	522,387

1,964,995 2,276,538

Deferred contributions, capital assets (Note 7)

3,349,334 11,237,910

5,314,329 13,514,448

### Net assets

Endowment fund	413,676	348,857
Invested in capital assets	442,539	2,979,794
Unrestricted	1,406,449	1,079,428

2,262,664 4,408,079

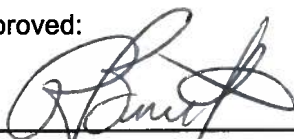
\$ 7,576,993 \$ 17,922,527

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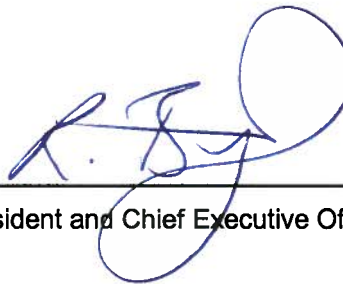
Operations (Note 1)

Commitments (Note 8)

Approved:



Chair of the Board



President and Chief Executive Officer

See accompanying notes to the financial statements

**Knowledge Network Corporation**  
 (formerly Open Learning Agency)  
**Statement of Changes in Net Assets**

Year Ended March 31

2009

2008

	Endowment Fund	Invested in Capital Assets	Unrestricted	Total	Total
Net assets, beginning of year	\$ 348,857	\$ 2,979,794	\$ 1,079,428	\$ 4,408,079	\$ 4,105,255
Changes during the year					
Excess (deficiency) of revenue over expenditure before unusual items	-	(47,013)	816,573	769,560	(224)
Loss on transfer of land and building	-	(2,979,794)	-	(2,979,794)	-
Internally funded capital assets purchase	-	(3,026,807)	816,573	(2,210,234)	(224)
Endowments	64,819	489,552	(489,552)	-	-
	<u>64,819</u>	<u>-</u>	<u>-</u>	<u>64,819</u>	<u>303,048</u>
	<u>64,819</u>	<u>(2,537,255)</u>	<u>327,021</u>	<u>(2,145,415)</u>	<u>302,824</u>
Net assets, end of year	\$ 413,676	\$ 442,539	\$ 1,406,449	\$ 2,262,664	\$ 4,408,079

See accompanying notes to the financial statements

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# Knowledge Network Corporation

(formerly Open Learning Agency)

## Statement of Cash Flows

Year Ended March 31

2009

2008

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Cash flows provided by (used in)

	2009	2008
<b>Operating activities</b>		
Deficiency of revenue over expenditure	\$ (2,210,234)	\$ (224)
Adjustments to determine cash flows:		
Loss on investments	68,351	24,025
Loss on transfer of land and building	2,979,794	-
Amortization of deferred contributions	(468,279)	(488,622)
Amortization of property and equipment	515,292	488,622
Change in non-cash operating working capital	(247,781)	720,319
	<u>637,143</u>	<u>744,120</u>
<b>Financing activities</b>		
Grants for capital assets	700,000	2,195,000
Receipts of endowment funds	64,819	303,048
	<u>764,819</u>	<u>2,498,048</u>
<b>Investing activities</b>		
Short term and restricted investments	(1,552,332)	152,782
Purchase of equipment	(1,732,255)	(1,590,147)
	<u>(3,284,587)</u>	<u>(1,437,365)</u>
(Decrease) increase in cash	(1,882,625)	1,804,803
Cash, beginning of year	<u>3,799,923</u>	<u>1,995,120</u>
Cash, end of year	<u>\$ 1,917,298</u>	<u>\$ 3,799,923</u>

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Change in non-cash operating working capital		
Accounts receivable	\$ 43,402	\$ 268,300
Grants receivable	-	100,000
Work in progress, projects	20,360	(12,954)
Payables and accruals	(597,335)	108,321
Deferred revenue, projects	285,792	256,652
	<u>\$ (247,781)</u>	<u>\$ 720,319</u>

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Non-cash investing and operating activities not included in cash flows (Note 6)

Transfer of land and building to BCIT	\$ 11,100,091	\$ -
Write-down of capital assets	-	1,218,474
Amortization of deferred contribution relating to write down of capital assets	-	(1,218,474)

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See accompanying notes to the financial statements

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# Knowledge Network Corporation

(formerly Open Learning Agency)

## Notes to the Financial Statements

March 31, 2009

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### 1. Operations

In prior years, the Open Learning Agency operated under the Open Learning Agency Act. In the current year, the Knowledge Network Corporation Act received Royal Assent and the entity officially became a crown corporation as Knowledge Network Corporation (the "Corporation"). The Corporation continues to be a registered charity under the provision of the Income Tax Act of Canada.

Knowledge Network Corporation is British Columbia's public educational television broadcaster. The principal source of funding is from the Ministry of Advanced Education and Labour Market Development.

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### 2. Summary of significant accounting policies

#### Basis of presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles.

#### Use of estimates

In conformity with generally accepted accounting principles, management is required to make estimates and assumptions that could 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 expense during the year. Actual results could differ from those reported.

#### Capital assets

Purchased capital assets are recorded at cost. Equipment is amortized over the estimated useful life on the declining balance basis at 10% to 30% per annum and leasehold improvements are amortized over the term of the lease. Additions in the current year are amortized at half the normal rate. Disposals in the current year are amortized to the month of disposal.

#### Revenue recognition

The Corporation follows the deferral method of accounting for contributions. Under this method, restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Endowment contributions are recognized as direct increases in net assets.

Donations are recorded on the cash basis.

#### Deferred contributions for capital assets

Government grants related to the acquisition of capital assets are deferred and amortized to income on the same basis as the related asset is depreciated or disposed.



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# Knowledge Network Corporation

(formerly Open Learning Agency)

## Notes to the Financial Statements

March 31, 2009

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### 2. Summary of significant accounting policies (Continued)

#### Financial instruments

All financial instruments are classified into one of five categories: held-for-trading, held-to-maturity, available for sale, loans and receivables, or other financial liabilities.

All financial instruments are measured at fair value except for loans and receivables, held-to-maturity, and other financial liabilities which are measured at amortized cost using the effective interest method. Subsequent measurement and changes in fair value will depend on their initial classification as follows: held-for-trading financial assets are measured at fair value and changes in fair value are recognized in net earnings. Available for sale financial instruments are measured at fair value with changes in fair value recorded in net assets. Loans and receivables, investments, held-to-maturity and other financial liabilities are measured at amortized cost using the effective interest rate methods.

Fair values are based on quoted market values where available from active markets.

The Corporation has classified their financial instruments as follows:

- cash as held-for-trading
- accounts receivable as loans and receivables
- investments as held-for-trading
- payables and accruals as other financial liabilities

#### Comparative figures

Certain of the prior year's figures have been reclassified to conform with the current year's financial statement presentation.

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### 3. Change in accounting policies

#### Current year changes

Effective April 1, 2008, the Corporation adopted The Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535 *Capital Disclosures*.

Section 1535 specifies the disclosure of (i) an entity's objectives, policies and procedures and process for managing capital; (ii) quantitative data about what the entity regards as capital; (iii) whether the entity has complied with any capital requirements; and (iv) if it has not complied, the consequences of such non-compliance. The impact of this new accounting standard on the Corporation's financial statements is disclosed in Note 12.

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# Knowledge Network Corporation

(formerly Open Learning Agency)

## Notes to the Financial Statements

March 31, 2009

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### 3. Change in accounting policies (Continued)

#### Future changes

Recent amendments to CICA Handbook Section 4400 *Financial Statement Presentation by Not-for-Profit Organizations* will modify the requirements with respect to various elements of financial statement presentation. These amendments include:

- reporting certain revenues' gross in the statement of revenues and expenditures;
- making Section 1540 *Cash Flow Statements* applicable to not for profit organizations;
- when a not for profit organization classifies its expenses by function and allocates some of its fundraising and general support costs to another function, disclosing the policy adopted for expenses and amounts allocated from each of these two functions to other functions; and,
- the elimination of the requirement to treat net assets invested in capital assets as a separate component of net assets.

Section 4460 *Disclosure of Related Party Transactions by Not-for-Profit Organizations* has been amended to align the definition of related parties to CICA 3840 *Related Party Transactions*. Related parties exist when one party has the ability to exercise, directly or indirectly, control, joint control or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or significant influence. Two not for profit organizations are related parties if one has an economic interest in the other. Related parties also include management and immediate family members.

Section 4470 *Disclosure of Allocated Expenses by Not-for-Profit Organizations* establishes disclosure standards for a not for profit organization that classifies its expenses by function and allocates its expenses to a number of functions to which the expenses relate.

These standards will be effective for the Corporation's 2010 fiscal year end. Management does not expect the adoption of these sections to have a material effect on the Corporation's financial statements.

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4. Capital assets			2009	2008
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	\$ -	\$ -	\$ -	\$ 2,979,794
Building	-	-	-	8,177,000
Furniture and fixtures	855,893	701,986	<b>153,907</b>	147,374
Equipment	2,507,696	2,403,386	<b>104,310</b>	90,519
Computer equipment	2,719,503	2,013,279	<b>706,224</b>	455,464
Software	365,755	356,765	<b>8,990</b>	17,979
Broadcast network equipment	12,633,524	9,910,432	<b>2,723,092</b>	1,744,721
Leasehold improvements	36,889	3,689	<b>33,200</b>	-
	<u>\$ 19,119,260</u>	<u>\$ 15,389,537</u>	<u>\$ 3,729,723</u>	<u>\$ 13,612,851</u>

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# Knowledge Network Corporation

(formerly Open Learning Agency)

## Notes to the Financial Statements

March 31, 2009

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### 5. Investments

#### a) Short term investments

Short term investments consist of bonds. The bond yield ranges from 1.2% to 2.3% with maturity dates on these instruments ranging between May 2014 and November 2017. Investments are classified as held-for-trading and are measured at the fair value at each reporting period with the changes in fair value included in the statement of operations.

#### b) Restricted investments

Restricted investments consist of mutual funds used for endowment awards. Investments are classified as held-for-trading and are measured at the fair value at each reporting period with the changes in fair value included in the statement of operations.

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### 6. Disposal of capital assets

#### a) Write-down of capital assets

In 2008 the Corporation wrote down analogue broadcast equipment as it was replaced with digital equipment, resulting in a loss of \$1,218,474. This loss was offset by recognizing deferred capital contribution revenue of \$1,218,474 relating to the analogue broadcast equipment. This resulted in a nil net effect in the prior year on the statement of operations.

#### b) Transfer of land and Building to British Columbia Institute of Technology ("BCIT")

On June 13, 2008 the Ministry of Advanced Education and Labour Market Development instructed the Corporation to transfer ownership of the land and building to BCIT by way of lease agreement and consideration of \$10. The transfer resulted in a loss of \$2,979,794.

The lease agreement entered into with BCIT is for a ten-year lease with an annual rent of \$1.00, plus the Corporation's proportionate share of common area operating expenses. In 2009 the common area operating expense paid to BCIT was approximately \$30,000 per month.

The fair value of this lease agreement is not determinable and thus no asset and corresponding liability has been recorded.

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**Knowledge Network Corporation**  
(formerly Open Learning Agency)  
**Notes to the Financial Statements**  
March 31, 2009

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**7. Deferred contributions**

Deferred contributions related to capital assets represent the unamortized amount of grants received for the purchase of capital assets. Amortization of deferred capital contributions is recorded as revenue.

	<b>2009</b>	2008
Balance, beginning of year	\$ 11,237,910	\$ 10,750,006
Contributions received	700,000	2,195,000
Less:		
Amounts recognized as revenue	(468,279)	(488,622)
Amounts relating to ownership transfer of building	(8,120,297)	-
Amounts relating to write-down of capital assets (Note 6)	-	(1,218,474)
Balance, end of year	<u>\$ 3,349,334</u>	<u>\$ 11,237,910</u>

The balance of unamortized capital contributions related to capital assets consists of the following:

Unamortized contributions for purchase of capital assets	\$ 3,287,184	\$ 10,633,058
Unspent capital funding	<u>62,150</u>	<u>604,852</u>
	<u>\$ 3,349,334</u>	<u>\$ 11,237,910</u>

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**8. Commitments**

**Satellite transmission services**

The Corporation acquires satellite transmission services at an annual cost of approximately \$370,000 under agreements that are renewed annually.

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**9. Related party transactions**

The Corporation is related through common ownership to all Province of British Columbia ministries, agencies, school districts, health authorities, colleges, universities, and crown corporations. Transactions with these entities, unless disclosed separately, are generally considered to be in the normal course of operations and are recorded at the exchange amount.

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# Knowledge Network Corporation

(formerly Open Learning Agency)

## Notes to the Financial Statements

March 31, 2009

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### 10. Pensions

The Corporation and its employees contribute to the College Pension Plan and Municipal Pension Plan, jointly trustee pension plans. The boards of trustees for these plans represent plan members and employers and are responsible for the management of the pension plan including investment of the assets and administration of benefits. The pension plans are multi-employer contributory pension plans. Basic pension benefits provided are defined. The College Pension Plan has over 11,000 active members from college senior administration and instructional staff and approximately 3,500 retired members. The Municipal Pension Plan has about 150,000 active members, with approximately 5,000 from colleges.

Every three years, an actuarial valuation is performed to assess the financial position of the plan and the adequacy of the plan funding. The valuation for the College Pension Plan as at August 31, 2006 indicated an unfunded liability of \$54 million for basic pension benefits. The next valuation will be as at August 31, 2009, with results available in 2010. The most recent valuation for the Municipal Pension Plan as at December 31, 2006 indicated a surplus of \$438 million for basic pension benefits. The next valuation will be as at December 31, 2009 with results available in 2010. The actuary does not attribute portions of the unfunded liability to individual employers.

Contributions to the plans in the current year amounted to \$287,265 (2008: \$317,533).

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### 11. Financial instruments

The Corporation's financial instruments include cash, short term investments, and restricted investments and have been recorded at their fair value. The carrying value of accounts receivable and payable and accruals approximate their fair values due to their immediate or short term maturity.

Unless otherwise noted, it is management's opinion that the Corporation is not exposed to significant currency, liquidity or credit risks arising from these financial instruments.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. The Corporation is exposed to fair value and interest rate risks on its short term and restricted investments.

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### 12. Capital management

The capital structure of the Corporation consists of net assets invested in the endowment fund, invested in capital assets, and unrestricted net assets. The primary objective of the Corporation's capital management is to provide financial flexibility to take advantage of future strategic opportunities.

The net assets invested in the endowment fund provide income to advance programming initiatives. Contributed principal to the endowment funds are held in perpetuity and invested in accordance with the Corporation's investment policy.

Net assets invested in capital assets represent the amount of net assets that are not available for other purposes because they have been invested.

Unrestricted net assets are funds available for the Corporation's future operations.



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