

Consolidated Financial Statements of

**KNOWLEDGE NETWORK CORPORATION**

Year ended March 31, 2018

# INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the Knowledge Network Corporation

To the Minister of Tourism, Arts, and Culture

We have audited the accompanying consolidated financial statements of Knowledge Network Corporation, which comprise the consolidated statement of financial position as at March 31, 2018 and the consolidated statements of operations, remeasurement gains and losses, changes in net financial assets and cash flows for the year then ended, and notes and schedules, comprising a summary of significant accounting policies and other explanatory information.

## *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation of these consolidated financial statements in accordance with the basis of accounting described in Note 2 to the consolidated financial statements, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained 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 Knowledge Network Corporation as at March 31, 2018, and its results of operations, its changes in net financial assets, and its cash flows for the year then ended in accordance with the basis of accounting as described in Note 2 to the financial statements.

*Emphasis of Matter*

Without modifying our opinion, we draw attention to Note 2 to the consolidated financial statements which describes the basis of accounting and the significant differences between such basis of accounting and Canadian public sector accounting standards.

Chartered Professional Accountants

\_\_\_\_\_, 2018  
Burnaby, Canada

# KNOWLEDGE NETWORK CORPORATION

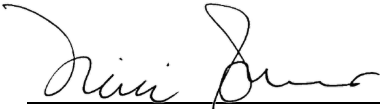
## Consolidated Statement of Financial Position

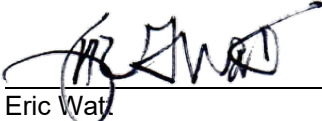
March 31, 2018, with comparative information for 2017

	2018	2017
Financial assets:		
Cash (note 3(a))	\$ 804,916	\$ 1,138,041
Accounts receivable	260,093	208,835
Income taxes receivable	18,286	-
Portfolio investments (note 3(b))	2,124,397	2,106,290
	<u>3,207,692</u>	<u>3,453,166</u>
Liabilities:		
Accounts payable and accrued liabilities	\$ 990,806	\$ 909,434
Income taxes payable	-	88,538
Deferred revenue, projects	310,042	320,356
Deferred contributions (note 4)	1,493,132	1,671,419
	<u>2,793,980</u>	<u>2,989,747</u>
Net financial assets	413,712	463,419
Non-financial assets:		
Broadcast rights (note 5)	\$ 9,487,597	\$ 9,238,350
Tangible capital assets (note 6)	2,167,156	2,158,317
Prepaid expenses	51,056	56,969
Endowment investments (note 3(b))	7,719,904	5,520,383
	<u>19,425,713</u>	<u>16,974,019</u>
Commitments (note 8)		
Accumulated surplus (note 12)	\$ 19,839,425	\$ 17,437,438
Accumulated surplus represented by:		
Accumulated surplus	\$ 19,604,940	\$ 17,322,199
Accumulated remeasurement gains	234,485	115,239
	<u>\$ 19,839,425</u>	<u>\$ 17,437,438</u>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

  
Nini Baird CM,  
Chair of the Board

  
Eric Watt  
Chair of the Audit and Finance Committee

# KNOWLEDGE NETWORK CORPORATION

## Consolidated Statement of Operations

Year ended March 31, 2018, with comparative information for 2017

	Budget (note 13)	2018	2017
<b>Revenue:</b>			
Province of British Columbia operating grants	\$ 6,259,506	\$ 6,558,429	\$ 6,259,506
Donations and sponsorships	4,025,000	4,513,024	4,331,127
Specialty TV channel subscription fees	903,199	907,898	1,268,679
Amortization of deferred contributions (note 4)	300,000	328,287	368,494
Endowment investment income	200,000	240,415	166,974
Other	245,000	366,930	291,596
	11,932,705	12,914,983	12,686,376
<b>Expenses (note 14):</b>			
Programming and presentation	1,960,924	2,110,132	1,955,024
Marketing and development	2,255,902	2,351,897	2,256,965
Broadcast platforms and corporate IT General	1,956,858	1,963,829	2,240,176
	583,979	503,937	450,777
Amortization of broadcast rights	3,063,116	3,077,480	2,973,198
Administration	1,248,727	1,292,456	1,260,129
Specialty TV channel	892,268	1,107,760	936,983
	11,961,774	12,407,491	12,073,252
Annual surplus (deficit) from operations	(29,069)	507,492	613,124
Endowment contributions received	400,000	1,775,249	1,137,892
Annual surplus	370,931	2,282,741	1,751,016
Accumulated surplus, beginning of year	17,322,199	17,322,199	15,571,183
Accumulated surplus, end of year	\$ 17,693,130	\$ 19,604,940	\$ 17,322,199

See accompanying notes to consolidated financial statements.

# KNOWLEDGE NETWORK CORPORATION,

## Consolidated Statement of Remeasurement Gains and Losses

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Accumulated remeasurement gains (losses), beginning of year	\$ 115,239	\$ (251,047)
Remeasurement gains attributable to investments	119,340	395,280
Amounts reclassified to statement of operations:		
Realized gain on investment	(94)	(28,994)
Net remeasurement gains for the year	119,246	366,286
Accumulated remeasurement gains, end of year	\$ 234,485	\$ 115,239

See accompanying notes to consolidated financial statements.

# KNOWLEDGE NETWORK CORPORATION

## Consolidated Statement of Changes in Net Financial Assets (Debt)

Year ended March 31, 2018, with comparative information for 2017

	Budget (note 13)	2018	2017
Annual surplus	\$ 370,931	\$ 2,282,741	\$ 1,751,016
Net remeasurement gains for the year	-	119,246	366,286
	370,931	2,401,987	2,117,302
Acquisition of tangible capital asset	(300,000)	(344,732)	(121,342)
Amortization of tangible capital assets	380,000	335,893	337,755
	80,000	(8,839)	216,413
Acquisition of broadcast rights	(3,440,813)	(4,024,454)	(3,650,994)
Amortization of broadcast rights	3,767,349	3,775,207	3,526,364
	326,536	(249,247)	(124,630)
Acquisition of investments	(400,000)	(2,199,521)	(1,555,324)
Acquisition of prepaid expenses	-	(51,056)	(56,969)
Use of prepaid expenses	-	56,969	88,839
	-	5,913	31,870
Increase (decrease) in net financial assets	377,467	(49,707)	685,631
Net financial assets (debt), beginning of year	463,419	463,419	(222,212)
Net financial assets, end of year	\$ 840,886	\$ 413,712	\$ 463,419

See accompanying notes to consolidated financial statements.

# KNOWLEDGE NETWORK CORPORATION

## Consolidated Statement of Cash Flows

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Cash provided (used by):		
Operations:		
Annual surplus	\$ 2,282,741	\$ 1,751,016
Items not involving cash:		
Gain on sale of investments	(94)	(28,994)
Amortization of deferred contributions	(328,287)	(368,494)
Amortization of capital assets	335,893	337,755
Amortization of broadcast rights	3,775,207	3,526,364
Changes in non-cash working capital:		
Accounts receivable	(51,258)	83,410
Prepaid expenses	5,913	31,870
Accounts payable and accrued liabilities	81,371	3,158
Income taxes receivable/payable	(106,824)	79,581
Deferred revenue, projects	(10,314)	15,081
	5,984,348	5,430,747
Financing:		
Contributions received for broadcast rights	150,000	26,220
Investing:		
Purchase of portfolio investments	(2,098,287)	(2,004,481)
Capital:		
Purchase of tangible capital assets	(344,732)	(121,342)
Purchase of broadcast rights	(4,024,454)	(3,650,994)
	(4,369,186)	(3,772,336)
Decrease in cash	(333,125)	(319,850)
Cash, beginning of year	1,138,041	1,457,891
Cash, end of year	\$ 804,916	\$ 1,138,041

See accompanying notes to consolidated financial statements.



# KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements

Year ended March 31, 2018

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## 1. Nature of operations:

Knowledge Network Corporation (the "Corporation") was incorporated as a Crown corporation in 2009 under the Knowledge Network Corporation Act, a statute of the Province of British Columbia.

The Corporation is British Columbia's public broadcaster across multiple platforms including television, web and mobile. The principal source of funding is from the Ministry of Tourism, Arts and Culture.

The Corporation is a registered charity under the provisions of the Income Tax Act of Canada and is not subject to income taxes. The Corporation's 50% owned subsidiary is subject to income taxes.

## 2. Significant accounting policies:

### (a) Basis of accounting:

These consolidated financial statements are prepared by management in accordance with Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia. This Section requires that the consolidated financial statements be prepared in accordance with Canadian public sector accounting standards established by the Canadian Public Sector Accounting Board, except in regard to the accounting for broadcast rights and government transfers.

The Corporation has obtained approval to continue to capitalize and amortize broadcast rights as non-financial assets. Canadian public sector accounting standards do not recognize intangible assets in their accounting framework and require that such amounts be expensed as incurred.

The Budget Transparency and Accountability Act and its related regulations require the Corporation to account for government transfers stipulated for the acquisition of tangible capital assets by deferring and amortizing them to income on the same basis as the related amortization expense for the assets. As these transfers do not contain additional stipulations that create a liability, Canadian public sector accounting standards would require these grants to be reported as revenue when spent.

The consolidated financial statements reflect the assets, liabilities, revenue, expenses, and accumulated surplus of the reporting entity, which includes the proportionate consolidation of the Corporation's 50% owned subsidiary, Knowledge-West Communications Corporation ("KWCC"). Inter-entity balances and transactions have been eliminated on consolidation.

### (b) Revenue recognition:

Externally 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.

# KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

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## 2. Significant accounting policies (continued):

### (b) Revenue recognition (continued):

Subscription fees are recorded on an accrual basis as services are provided, except when the amount cannot be determined with a reasonable degree of certainty. Interest and other revenues are recognized when earned.

### (c) Tangible capital assets:

Purchased tangible capital assets are recorded at cost. Equipment, furniture and fixtures are amortized over the estimated useful life on the declining balance basis at rates ranging from 10% to 30% per annum, computer software is amortized over the estimated useful life on the declining balance basis at 50%, and leasehold improvements are amortized on a straight-line basis over the term of the lease.

### (d) Deferred contributions for capital assets and broadcast rights:

Funding received from the Province of British Columbia specifically for the acquisition of tangible capital assets is recorded as deferred contributions and is recognized as revenue in the statement of operations on the same basis as the amortization charged on the assets purchased with the funding. This accounting treatment is not consistent with the requirements of Canadian public sector accounting standards, which require that government transfers be recognized as revenue when approved by the transferor and eligibility criteria have been met, unless the transfer contains a stipulation that creates a liability, in which case the transfer is recognized as revenue when or over the period that the liability is extinguished.

### (e) Broadcast rights:

Broadcast rights are recorded at cost and amortized over the authorized period of the broadcast right (generally 4 to 6 years).

### (f) Financial instruments:

Derivatives and equity instruments quoted in an active market are measured at fair value. The Corporation measures other specific financial instruments at cost or amortized cost to correspond with how they are evaluated and managed.

Financial instruments measured at fair value are classified as level one, two or three for the purposes of describing the basis of the inputs used to measure the fair values, as described below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Market-based inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3: Inputs for the asset or liability that are not based on observable market data; assumptions are based on the best internal and external information available and are most suitable and appropriate based on the type of financial instrument being valued in order to establish what the transaction price would have been on the measurement date in an arm's length transaction.

# KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

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## 2. Significant accounting policies (continued):

### (f) Financial instruments (continued):

Unrealized gains and losses from changes in the fair value of financial instruments are recorded in the statement of remeasurement gains and losses. Upon settlement, the cumulative gain or loss is reclassified from the statement of remeasurement gains and losses and recognized in the statement of operations.

For financial instruments measured using amortized cost, amortized cost is defined as the amount at which a financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus cumulative amortization using the effective interest method and minus any impairment losses. The effective interest rate method is used to determine interest revenue or expense.

For portfolio investments measured at cost, the cost method records the initial investment at cost and earnings from such investments are recognized only to the extent received or receivable. When an investment is written down to recognize an impairment loss, the new carrying value is deemed to be the new cost basis for subsequent accounting purposes.

Interest and dividends attributable to financial instruments are reported in the statement of operations.

Financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations and any related fair value changes previously recorded in the statement of remeasurement gains and losses are reversed to the extent of the impairment. Impairment losses are not reversed for a subsequent increase in value.

Transaction costs are a component of cost for financial instruments measured using cost or amortized cost.

Transaction costs are expensed for financial instruments measured at fair value.

The Corporation has designated its financial instruments as follows:

#### (i) Cash:

Cash includes cash in the bank and is measured at fair value.

#### (ii) Short-term investments:

Short-term investments are accounted for as portfolio investments. Investments quoted in an active market are reported at fair value and other investments are recorded at cost or amortized cost. These investments are highly liquid and held for the purpose of meeting short-term cash commitments. Investments reported at fair value recognize any changes in fair value in the statement of remeasurement gains and losses.

# KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

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## 2. Significant accounting policies (continued):

### (f) Financial instruments (continued):

#### (iii) Market securities:

Equity and debt investments quoted in an active market are reported at fair value. The Corporation has a diversified securities portfolio that includes short-term deposits, bonds and equities. Market securities are accounted for as portfolio investments and are reported at fair value with changes in fair value recognized in the statement of remeasurement gains and losses.

#### (iv) Other financial assets and financial liabilities:

Other assets and accounts payable and accruals are measured at amortized cost using the effective interest method.

### (g) Measurement uncertainty:

The preparation of financial statements in accordance with the framework described in note 2(a) 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 revenues and expenses during the year then ended. Significant areas of management estimate include the determination of tangible capital assets and broadcast rights and the related recognition of deferred contributions, and valuation of accounts receivable. Actual results could differ from those reported.

### (h) Foreign currency translation:

Monetary assets and liabilities denominated in foreign currencies, are translated into Canadian dollars at the exchange rate prevailing at the financial statement date. Unrealized foreign exchange gains and losses are recognized in the statement of remeasurement gains and losses. In the period of settlement, realized foreign exchange gains and losses are recognized in the statement of operations, and the cumulative amount of remeasurement gains and losses is reversed in the statement of remeasurement gains and losses.

### (i) Income taxes:

KWCC uses the taxes payable method to account for income taxes whereby the expense (income) of the period consists only of the cost (benefit) of current income taxes for that period, determined in accordance with the rules established by the taxation authorities.

# KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

### 3. Cash and investments:

(a) Cash:

The Corporation's bank accounts are held at one Canadian chartered bank. Interest is earned at prime minus 1.95% and is paid on a monthly basis. As at March 31, 2018, cash includes an amount of USD \$67,818 (2017 - USD \$109,982).

(b) Investments:

	2018	2017
Fixed income	\$ 2,466,186	\$ 1,674,806
Common shares	5,452,725	3,231,979
Mutual funds	1,718,193	1,814,686
Other	207,197	905,202
	<u>\$ 9,844,301</u>	<u>\$ 7,626,673</u>

	2018	2017
Portfolio investments	\$ 2,124,397	\$ 2,106,290
Endowment investments	7,719,904	5,520,383
	<u>\$ 9,844,301</u>	<u>\$ 7,626,673</u>

Mutual funds consist of money market funds which are redeemable at any time.

Changes in endowment fund investments are comprised of the following:

	2018	2017
Balance, beginning of year	\$ 5,520,383	\$ 3,965,059
Endowment contributions received	1,775,249	1,094,969
Internal transfer from cash	150,000	-
Withdrawals	(100,000)	-
Remeasurement gain	137,644	329,508
Endowment investment income	240,415	166,974
Investment costs included in other income	(3,787)	(36,217)
	<u>\$ 7,719,904</u>	<u>\$ 5,520,383</u>

Changes in portfolio investments are comprised of the following:

	2018	2017
Balance, beginning of year	\$ 2,106,290	\$ 1,261,853
Internal transfer from cash	-	770,166
Remeasurement gain (loss)	(18,398)	36,778
Investment income included in other income	36,505	37,493
	<u>\$ 2,124,397</u>	<u>\$ 2,106,290</u>

# KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

## 4. Deferred contributions

### (a) Capital assets:

Deferred contributions related to capital assets represents the unamortized amount of grants received for the purchase of capital assets.

	2018	2017
Balance, beginning of year	\$ 1,134,734	\$ 1,295,903
Less: amounts recognized as revenue	(148,707)	(161,169)
Balance, end of year	\$ 986,027	\$ 1,134,734

### (b) Broadcast rights:

Deferred contributions related to broadcast rights represent the unamortized amount of funds received for the acquisition of programs. Amortization of deferred contributions is recorded as revenue.

	2018	2017
Balance, beginning of year	\$ 536,685	\$ 717,790
Contribution received	150,000	26,220
Amounts recognized as revenue	(179,580)	(207,325)
Balance, end of year	\$ 507,105	\$ 536,685
Deferred contributions, end of year	\$ 1,493,132	\$ 1,671,419

# KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

## 5. Broadcast rights:

	2018	2017
Cost:		
Opening balance	\$ 17,846,637	\$ 17,511,540
Additions	4,024,454	3,650,994
Expired rights	(3,814,920)	(3,315,897)
	18,056,171	17,846,637
Accumulated amortization:		
Opening balance	8,608,287	8,397,820
Amortization (i)	3,775,207	3,526,364
Expired rights	(3,814,920)	(3,315,897)
	8,568,574	8,608,287
Net book value	\$ 9,487,597	\$ 9,238,350

(i) Amortization expense for broadcast rights is presented on the Statement of Operations as:

	2018	2017
Amortization of broadcast rights	\$ 3,077,480	\$ 2,973,198
Specialty TV channel expenses	697,727	553,166
	\$ 3,775,207	\$ 3,526,364

# KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

## 6. Tangible capital assets:

	Furniture and fixtures	Computer equipment	Other equipment	Software	Broadcast network equipment	Leasehold improvements	2018
Cost:							
Opening balance	\$ 880,545	\$ 3,051,757	\$ 2,396,439	\$ 438,229	\$ 13,959,187	\$ 37,695	\$ 20,763,852
Additions	-	36,832	-	-	307,900	-	344,732
Closing balance	880,545	3,088,589	2,396,439	438,229	14,267,087	37,695	21,108,584
Accumulated amortization:							
Opening balance	801,532	2,817,941	2,368,016	416,390	12,169,683	31,973	18,605,535
Amortization	7,903	50,446	12,363	10,919	248,540	5,722	335,893
Closing balance	809,435	2,868,387	2,380,379	427,309	12,418,223	37,695	18,941,428
Net book value	\$ 71,110	\$ 220,202	\$ 16,060	\$ 10,920	\$ 1,848,864	\$ -	\$ 2,167,156

	Furniture and fixtures	Computer equipment	Other equipment	Software	Broadcast network equipment	Leasehold improvements	2017
Cost:							
Opening balance	\$ 880,545	\$ 3,051,757	\$ 2,396,439	\$ 419,236	\$ 13,856,838	\$ 37,695	\$ 20,642,510
Additions	-	-	-	18,993	102,349	-	121,342
Closing balance	880,545	3,051,757	2,396,439	438,229	13,959,187	37,695	20,763,852
Accumulated amortization:							
Opening balance	792,753	2,759,488	2,363,000	404,046	11,917,951	30,542	18,267,780
Amortization	8,779	58,453	5,016	12,344	251,732	1,431	337,755
Closing balance	801,532	2,817,941	2,368,016	416,390	12,169,683	31,973	18,605,535
Net book value	\$ 79,013	\$ 233,816	\$ 28,423	\$ 21,839	\$ 1,789,504	\$ 5,722	\$ 2,158,317



# KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

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## 7. Credit facility:

The Corporation has a revolving demand credit facility bearing interest at prime plus 0.50% per annum. The available facility is to a maximum of \$500,000. As at March 31, 2018 no amount was drawn on this credit facility (2017 - nil).

## 8. Commitments:

### *Satellite transmission service*

The Corporation acquires satellite transmission services at an annual cost of approximately \$411,000 (2017 - \$404,650) under agreements covering a four year period ending August 31, 2022.

### *Production costs*

The Corporation acquires programs that require the commitment of funds. As at March 31, 2018, the Corporation is committed to pay \$2,641,751 (2017 - \$2,180,653) for license fees over the period from April 2018 to March 2020.

## 9. Related party transactions:

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

In the normal course of operations, the Corporation pays rent to the British Columbia Institute of Technology, a Provincially controlled post-secondary institution, of \$1 per annum and its share of the building operating costs totaling \$315,312 (2017 - \$269,840).

Included in accounts receivable is \$133,504 (2017 - \$37,899) related to advances, fees, and interest receivable from KWCC.

# KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

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## 10. Pensions:

The Corporation and its employees contribute to the College Pension Plan and Municipal Pension Plan ("The Plans"), jointly trustee pension plans. The boards of trustees for these plans, representing plan members and employers, are responsible for overseeing the management of the Plans, including investment of the assets and administration of benefits. The Plans are multi-employer contributory pension plans. Basic pension benefits provided are based on formulas. The College Pension Plan has about 13,580 active members from college senior administration and instructional staff and approximately 6,025 retired members. The Municipal Pension Plan has about 179,000 active members and approximately 71,000 retired members.

Active College Pension Plan members include approximately 23 contributors, and active Municipal Pension Plan members include approximately 33 contributors from the Corporation.

The most recent valuation for the College Pension Plan as at August 31, 2015 indicated a funding ratio of 103.6%. The most recent actuarial valuation for the Municipal Pension Plan as at December 31, 2015 indicated a funding ratio of 104.6%.

Employers participating in the Plans record their pension expense as the amount of employer contributions made during the fiscal year (defined contribution pension plan accounting). This is because the Plans record accrued liabilities and accrued assets for the Plans in aggregate with the result that there is no consistent and reliable basis for allocating the obligation, assets and cost to the individual employers participating in the Plans.

The Corporation paid \$366,303 (2017 - \$359,201) for employer contributions while employees contributed \$329,036 (2017 - \$342,957) to the Plans in fiscal 2018.

## 11. Financial instruments risks:

The Corporation, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a description of those risks at March 31, 2018.

### (a) Credit risk:

Credit risk is the risk that the Corporation will incur a loss due to the failure by its counterparties to financial assets to meet their contractual obligations. Financial instruments that potentially subject the Corporation to credit risk consist primarily of portfolio investments, endowment investments and accounts receivable. The Corporation has an investment policy to ensure investments are managed appropriately to secure the preservation of capital and the availability of liquid funds. The Corporation has also retained an investment firm to invest surplus funds in accordance with its investment policy. The receivables are due from various entities and individuals, thus the Corporation is not subject to concentrations of credit risk.

# KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

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## 11. Financial instruments risks (continued):

(b) Foreign exchange risk:

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Corporation's exposure to foreign exchange risk is limited to cash held in US dollar bank accounts as noted in note 3(a).

(c) Interest rate risk:

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Investments bear some interest rate risk as the market price of fixed income securities may fluctuate based on changes in interest rates (note 3(b)).

(d) Market risk:

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market (note 3(b)). The Corporation is exposed to fair value risks on its investments in common shares and mutual fund instruments.

(e) Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they fall due. The Corporation maintains adequate levels of working capital to ensure all its obligations can be met when they fall due.

## 12. Accumulated surplus:

Accumulated surplus is comprised of the following:

	2018	2017
Invested in tangible capital assets	\$ 1,181,129	\$ 1,023,583
Invested in broadcast rights	8,980,492	8,701,665
Endowment funds	7,719,904	5,520,383
Unrestricted amounts	1,957,900	2,191,807
Balance, end of year	\$ 19,839,425	\$ 17,437,438

# KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

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## 12. Budget figures:

Budget figures are provided for comparison purposes and have been derived from the budget approved by the Board of Directors on February 23, 2017.

## 13. Expense Presentation:

For reporting purposes, the Corporation's activities have been aggregated into operational categories. The schedule of consolidated expenses by object reports the revenues and expenses that are directly attributable to each operational category. The revenues and expenses that cannot be directly attributable or allocated on a reasonable basis to individual categories are reported in General category. The following describes the activities of each area:

### *Programing and presentation*

This category includes salaries and benefits costs of staff responsible for the acquisition of broadcast rights, management and design of broadcast content including branding, captioning of programs, and management of broadcast traffic. This category also includes the cost of contracted editors hired to create promotional content.

### *Marketing and development*

This category includes salaries and benefits costs of staff responsible for administering our Partners' donations and Knowledge Endowment Fund. This includes other operating costs related to the servicing of our donors such as the production and distribution of the program guide.

This category also includes salaries and benefits costs of staff responsible for maintaining government reporting requirements, reporting on audience and viewership results and implementing our marketing plans.

### *Broadcast platforms and corporate IT*

This category includes salaries and benefits costs of staff responsible for the maintenance and administration of the broadcast platforms and corporate information technology infrastructures. This category also includes operating costs related to the distribution of our broadcast signal to our audiences.

### *General*

This category includes amortization of tangible capital assets and other administrative expenses.

### *Amortization of broadcast rights*

This category includes the amortization of broadcast right assets over the authorized period of the broadcast right/

### *Administration*

This category includes salaries and benefits costs of staff responsible for overall administration, finance, and human resources. Operating costs also include the Corporation's share of leased facilities costs, and the costs of training and professional development of our staff.

# KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

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## **13. Expense Presentation (continued):**

### *Specialty TV channel*

This category represents the operations of the BBC Kids tier 2 digital specialty channel via KWCC. BBC Kids is available to Canadian cable and Internet TV subscribers.

## **14. Comparative information:**

Certain comparative information has been reclassified to conform to the financial statement presentation adopted in the current year.

# KNOWLEDGE NETWORK CORPORATION

## Schedule of consolidated expenses by object

Year ended March 31, 2018, with comparative information for 2017

	Programming and presentation	Marketing and development	Broadcast platforms and corporate IT	General	Amortization of broadcast rights	Administration	Specialty TV channel	2018 consolidated	Budget consolidated (note 13)	2017 consolidated
Salaries and benefits	\$ 1,546,657	\$ 1,074,009	\$ 1,179,040	\$ 46,499	\$ -	\$ 825,787	\$ 36,500	\$ 4,708,492	\$ 4,518,794	\$ 4,605,489
Amortization of capital assets and broadcast rights	-	-	-	315,893	3,077,480	-	717,727	4,111,100	4,147,349	3,864,119
Purchased services	444,630	658,324	145,881	21,579	-	42,243	122,952	1,435,609	1,319,650	1,435,868
Supplies, shipping, minor software, maintenance	35,349	448,220	597,125	74,995	-	13,396	82,619	1,251,704	1,210,871	1,374,970
Travel, miscellaneous, other	83,496	171,344	41,784	44,971	-	95,718	77,027	514,339	466,110	408,412
Facilities operating costs, rental	-	-	-	-	-	315,312	-	315,312	264,000	269,840
Income taxes	-	-	-	-	-	-	70,935	70,935	35,000	114,554
	\$ 2,110,132	\$ 2,351,897	\$ 1,963,829	\$ 503,937	\$ 3,077,480	\$ 1,292,456	\$ 1,107,760	\$ 12,407,491	\$ 11,961,774	\$ 12,073,252