

Consolidated Financial Statements of

**KNOWLEDGE NETWORK CORPORATION**

Year ended March 31, 2019



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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the Knowledge Network Corporation  
To the Minister of Tourism, Arts, and Culture

### ***Opinion***

We have audited the consolidated financial statements of Knowledge Network Corporation (the "Entity"), which comprise:

- the consolidated statement of financial position as at March 31, 2019
- the consolidated statement of operations and accumulated surplus for the year then ended
- the consolidated statement of remeasurement gains for the year then ended
- the consolidated statement of changes in net financial assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying consolidated financial statements as at and for the year ended March 31, 2019 of the Entity are prepared, in all material respects, in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

### ***Basis for Opinion***

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "***Auditors' Responsibilities for the Audit of the Financial Statements***" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

### ***Emphasis of Matter – Financial Reporting Framework***

We draw attention to note 2 to the financial statements which describes the applicable financial reporting framework and the significant differences between that financial reporting framework and Canadian public sector accounting standards.

Our opinion is not modified in respect of this matter.

### ***Responsibilities of Management and Those Charged with Governance for the Financial Statements***

Management is responsible for the preparation of the financial statements in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia, 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.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

*KPMG LLP*

Chartered Professional Accountants

Burnaby, Canada

May 17, 2019

# KNOWLEDGE NETWORK CORPORATION

## Consolidated Statement of Financial Position


March 31, 2019, with comparative information for 2018

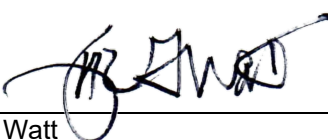
	2019	2018
<b>Financial assets:</b>		
Cash (note 3(a))	\$ 1,406,864	\$ 804,916
Accounts receivable	111,313	260,093
Income taxes recoverable	28,709	18,286
Portfolio investments (note 3(b))	732,705	2,124,397
	<u>2,279,591</u>	<u>3,207,692</u>
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	439,450	990,806
Deferred revenue, projects	324,616	310,042
Deferred contributions (note 4)	1,442,298	1,493,132
	<u>2,206,364</u>	<u>2,793,980</u>
Net financial assets	73,227	413,712
<b>Non-financial assets:</b>		
Broadcast rights (note 5)	10,439,177	9,487,597
Tangible capital assets (note 6)	1,945,886	2,167,156
Prepaid expenses	55,944	51,056
Endowment investments (note 3(b))	9,339,435	7,719,904
	<u>21,780,442</u>	<u>19,425,713</u>
Accumulated surplus (note 12)	<u>\$ 21,853,669</u>	<u>\$ 19,839,425</u>
Accumulated surplus is comprised of:		
Accumulated surplus	\$ 21,442,023	\$ 19,604,940
Accumulated remeasurement gains	411,646	234,485
	<u>\$ 21,853,669</u>	<u>\$ 19,839,425</u>

Commitments (note 8)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

  
Maurine Karagianis  
Chair of the Board

  
Eric Watt  
Chair of the Audit and Finance Committee

# KNOWLEDGE NETWORK CORPORATION

## Consolidated Statement of Operations and Accumulated Surplus

Year ended March 31, 2019, with comparative information for 2018

	Budget (note 13)	2019	2018
<b>Revenue:</b>			
Province of British Columbia operating grants	\$ 6,601,000	\$ 6,611,531	\$ 6,558,429
Donations and sponsorships	4,325,000	4,844,902	4,513,024
Specialty TV channel subscription fees	509,997	519,700	907,898
Amortization of deferred contributions (note 4)	320,000	300,834	328,287
Endowment investment income	200,000	285,746	240,415
Other	80,000	131,383	366,930
	12,035,997	12,694,096	12,914,983
<b>Expenses (note 14):</b>			
Programming and presentation	2,058,204	2,101,390	2,110,132
Marketing and development	2,291,447	2,248,509	2,351,897
Broadcast platforms and corporate IT General	2,055,621	2,059,841	1,963,829
	460,000	368,221	503,937
Amortization of broadcast rights	3,510,892	3,333,943	3,077,480
Administration	1,399,836	1,326,624	1,292,456
Specialty TV channel	613,056	727,629	1,107,760
	12,389,056	12,166,157	12,407,491
Annual surplus (deficit) from operations	(353,059)	527,939	507,492
Endowment contributions received	800,000	1,309,144	1,775,249
Annual surplus	446,941	1,837,083	2,282,741
Accumulated surplus, beginning of year	19,604,940	19,604,940	17,322,199
Accumulated surplus, end of year	\$ 20,051,881	\$ 21,442,023	\$ 19,604,940

See accompanying notes to consolidated financial statements.

# KNOWLEDGE NETWORK CORPORATION

## Consolidated Statement of Remeasurement Gains

Year ended March 31, 2019, with comparative information for 2018

	2019	2018
Accumulated remeasurement gains, beginning of year	\$ 234,485	\$ 115,239
Remeasurement gains attributable to investments	176,971	119,340
Amounts reclassified to statement of operations:		
Realized loss (gain) on investment	190	(94)
Net remeasurement gains for the year	177,161	119,246
Accumulated remeasurement gains, end of year	\$ 411,646	\$ 234,485

See accompanying notes to consolidated financial statements.

# KNOWLEDGE NETWORK CORPORATION

## Consolidated Statement of Changes in Net Financial Assets

Year ended March 31, 2019, with comparative information for 2018

	Budget (note 13)	2019	2018
Annual surplus	\$ 446,941	\$ 1,837,083	\$ 2,282,741
Net remeasurement gains for the year	-	177,161	119,246
	446,941	2,014,244	2,401,987
Acquisition of tangible capital asset	-	(83,192)	(344,732)
Amortization of tangible capital assets	380,000	304,462	335,893
	380,000	221,270	(8,839)
Acquisition of broadcast rights	(4,159,813)	(4,744,447)	(4,024,454)
Amortization of broadcast rights	3,986,571	3,792,867	3,775,207
	(173,242)	(951,580)	(249,247)
Acquisition of endowment investments	(400,000)	(1,619,531)	(2,199,521)
Acquisition of prepaid expenses	-	(55,944)	(51,056)
Use of prepaid expenses	-	51,056	56,969
	-	(4,888)	5,913
Increase (decrease) in net financial assets	253,699	(340,485)	(49,707)
Net financial assets, beginning of year	413,712	413,712	463,419
Net financial assets, end of year	\$ 667,411	\$ 73,227	\$ 413,712

See accompanying notes to consolidated financial statements.



# KNOWLEDGE NETWORK CORPORATION

## Consolidated Statement of Cash Flows

Year ended March 31, 2019, with comparative information for 2018

	2019	2018
Cash provided (used by):		
Operations:		
Annual surplus	\$ 1,837,083	\$ 2,282,741
Items not involving cash:		
Loss (gain) on sale of investments	190	(94)
Amortization of deferred contributions	(300,834)	(328,287)
Amortization of tangible capital assets	304,462	335,893
Amortization of broadcast rights	3,792,867	3,775,207
Changes in non-cash working capital:		
Accounts receivable	148,780	(51,258)
Income taxes recoverable	(10,423)	(106,824)
Prepaid expenses	(4,888)	5,913
Accounts payable and accrued liabilities	(551,356)	81,371
Deferred revenue, projects	14,574	(10,314)
	5,230,455	5,984,348
Financing:		
Contributions received for broadcast rights	250,000	150,000
Investing:		
Purchase of investments, net (note 3(b))	(50,868)	(2,098,287)
Capital:		
Acquisition of tangible capital assets	(83,192)	(344,732)
Acquisition of broadcast rights	(4,744,447)	(4,024,454)
	(4,827,639)	(4,369,186)
Increase (decrease) in cash	601,948	(333,125)
Cash, beginning of year	804,916	1,138,041
Cash, end of year	\$ 1,406,864	\$ 804,916

See accompanying notes to consolidated financial statements.

# KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements

Year ended March 31, 2019

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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 continues to be 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, Knowledge-West Communications Corporation ("KWCC") is subject to income taxes. On December 31, 2018, KWCC ceased operations and therefore will no longer be earning specialty TV channel subscription fees.

## 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 of the Chartered Professional Accountants Canada, 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 the 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 for capital assets by deferring and amortizing them to income on the same basis as the related amortization expense. As these transfers do not contain stipulations that create a liability, Canadian public sector accounting standards would require these grants to be reported in income.

The consolidated financial statements reflect the assets, liabilities, revenues, expenses, and accumulated surplus of the reporting entity, which includes proportionate consolidation of the Corporation's 50% owned subsidiary 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 reasonable estimated and collection is reasonable assured.

# KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2019

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## 2. Significant accounting policies (continued):

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

Subscription fees are recognized in the period in which the transactions occurred that gave rise to the revenues. All revenues are recorded on an accrual basis, except when the accruals cannot be determined with a reasonable degree of certainty or when their estimation is impractical. Interest and other revenues are recognized when earned.

### (c) Tangible capital assets:

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

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

Funding received from the Province of British Columbia used for the acquisition of tangible capital assets and broadcast rights is recorded as deferred contributions and is recognized as a recovery in the Statement of Operations equal to 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 over the period that the liability is extinguished.

### (e) Broadcast rights:

Broadcast rights are recorded at cost and amortized over the period the broadcast is authorized for (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

# KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2019

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## 2. Significant accounting policies (continued):

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

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.

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.

# KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2019

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## 2. Significant accounting policies (continued):

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

#### (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.

#### (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 accrued liabilities 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, valuation of accounts receivable, and provision for contingencies. Actual results could differ from those reported.

### (h) Foreign currency translation:

Monetary assets and liabilities included in the fair value measurement category 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.

# KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2019

## 2. Significant accounting policies (continued):

### (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. For the year ended March 31, 2019, an income tax expense of \$12,993 (2018 - \$70,934) has been included in Specialty TV channel expenses in the Statement of Operations.

## 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 of March 31, 2019 the balance in the US dollar account was \$39,971 (2018 - USD \$52,559).

### (b) Portfolio and endowment investments:

	2019	2018
Fixed income	\$ 2,638,996	\$ 2,466,186
Common shares	5,174,765	5,452,725
Mutual funds	255,627	1,718,193
Other	2,002,752	207,197
	<u>\$ 10,072,140</u>	<u>\$ 9,844,301</u>

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

	2019	2018
Portfolio investments	\$ 732,705	\$ 2,124,397
Endowment investments	9,339,435	7,719,904
	<u>\$ 10,072,140</u>	<u>\$ 9,844,301</u>

Changes in portfolio investments are comprised of the following:

	2019	2018
Balance, beginning of year	\$ 2,124,397	\$ 2,106,290
Internal transfer to cash	(1,500,000)	-
Remeasurement gain (loss)	18,473	(18,398)
Investment income included in other income	89,835	36,505
	<u>\$ 732,705</u>	<u>\$ 2,124,397</u>

# KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2019

### 3. Cash and investments (continued):

#### (b) Portfolio and endowment investments (continued):

Changes in endowment investments are comprised of the following:

	2019	2018
Balance, beginning of year	\$ 7,719,904	\$ 5,520,383
Endowment contributions received	1,309,144	1,775,249
Internal transfer from cash	-	150,000
Withdrawals	(100,000)	(100,000)
Remeasurement gain	158,688	137,644
Endowment investment income	285,746	240,415
Investment costs included in other income	(34,047)	(3,787)
Balance, end of year	\$ 9,339,435	\$ 7,719,904

### 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.

	2019	2018
Balance, beginning of year	\$ 986,027	\$ 1,134,734
Less: amounts recognized as revenue	(121,548)	(148,707)
Balance, end of year	\$ 864,479	\$ 986,027

#### (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.

	2019	2018
Balance, beginning of year	\$ 507,105	\$ 536,685
Contributions received	250,000	150,000
Amounts recognized as revenue	(179,286)	(179,580)
Balance, end of year	\$ 577,819	\$ 507,105

	2019	2018
Deferred contributions related to:		
Capital assets	\$ 864,479	\$ 986,027
Broadcast rights	577,819	507,105
	\$ 1,442,298	\$ 1,493,132

# KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2019

## 5. Broadcast rights:

	2019	2018
Cost:		
Opening balance	\$ 18,056,171	\$ 17,846,637
Additions	4,744,447	4,024,454
Expired rights	(1,937,438)	(3,814,920)
	20,863,180	18,056,171
Accumulated amortization:		
Opening balance	8,568,574	8,608,287
Amortization (i)	3,792,867	3,775,207
Expired rights	(1,937,438)	(3,814,920)
	10,424,003	8,568,574
Net book value	\$ 10,439,177	\$ 9,487,597

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

	2019	2018
Amortization of broadcast rights	\$ 3,333,943	\$ 3,077,480
Specialty TV channel expenses	458,924	697,727
	\$ 3,792,867	\$ 3,775,207



# KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2019

## 6. Tangible capital assets:

	Furniture and fixtures	Computer equipment	Other equipment	Software	Broadcast network equipment	Leasehold improvements	2019
Cost:							
Opening balance	\$ 880,545	\$ 3,088,589	\$ 2,396,439	\$ 438,229	\$ 14,267,087	\$ 37,695	\$ 21,108,584
Additions	-	47,537	-	-	35,655	-	83,192
Closing balance	880,545	3,136,126	2,396,439	438,229	14,302,742	37,695	21,191,776
Accumulated amortization:							
Opening balance	809,435	2,868,387	2,380,379	427,309	12,418,223	37,695	18,941,428
Amortization	7,111	48,794	2,409	5,460	240,688	-	304,462
Closing balance	816,546	2,917,181	2,382,788	432,769	12,658,911	37,695	19,245,890
Net book value	\$ 63,999	\$ 218,945	\$ 13,651	\$ 5,460	\$ 1,643,831	\$ -	\$ 1,945,886

	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

# KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2019

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## 7. Credit facility:

The Corporation has a revolving demand credit facility bearing interest a prime plus 0.50% per annum. The available facility is to a maximum of \$1,000,000 (2018 - \$500,000). As at March 31, 2019, no amount was drawn on this credit facility (2018 - nil).

## 8. Commitments:

### (a) Satellite transmission service:

The Corporation acquires satellite transmission services at an annual cost of approximately \$204,000 (2018 - \$411,000) under agreements covering a four year period ending August 31, 2021.

### (b) Production costs

The Corporation acquires programs which require the commitment of funds. As at March 31, 2019, the Corporation is committed to pay \$2,652,346 (2018 - \$2,641,751) for license fees over the period April 2019 to March 2021.

## 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, considered to be in the normal course of operations, are recorded at the exchange amount.

In the normal course of operations, the Corporations pays rent to BCIT, a Provincially controlled post-secondary institution, of \$1 per annum and its share of the building operating costs totaling \$265,827 (2018 - \$315,312).

Included in accounts receivable is \$5,181 (2018 - \$133,504) related to advances receivable from KWCC.

## 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 defined benefit pension plans. Basic pension benefits provided are based on a formula. As at August 31, 2018, the College Pension Plan has about 14,000 active members and approximately 8,000 retired members. As at December 31, 2017, the Municipal Pension Plan has approximately 197,000 active members, including approximately 6,000 from colleges and other participating employers.

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

# KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2019

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## 10. Pensions (continued):

Every three years, an actuarial valuation is performed to assess the financial position of the plans and adequacy of plan funding. The actuary determines an appropriate combined employer and member contribution rate to fund the plans. The actuary's calculated contribution rate is based on the entry-age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the plans. This rate may be adjusted for the amortization of any actuarial funding surplus and will be adjusted for the amortization of any unfunded actuarial liability.

The most recent actuarial valuation for the College Pension Plan as at August 31, 2015 indicated a \$67 million funding surplus for basic pension benefits on a going concern basis.

The most recent valuation for the Municipal Pension Plan as at December 31, 2015 indicated a \$2,224 million funding surplus for basic pension benefits on a going concern basis. As a result of the 2015 basic account actuarial valuation surplus and pursuant to the joint trustee agreement, \$1,927 million was transferred to the rate stabilization account and \$297 million of the surplus ensured the required contribution rates remained unchanged.

The next valuation for the College Pension Plan occurred August 31, 2018, with results available in 2019. The next valuation for the Municipal Pension Plan occurred December 31, 2018, with results available in 2019.

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 each plan in aggregate, resulting in no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plans.

The Corporation paid \$362,131 (2018 - \$366,303) for employer contributions while employees contributed \$336,458 (2018 - \$329,036) to the Plans in fiscal 2019.

## 11. Financial instruments risks:

The Corporation, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a measurement of those risks at March 31, 2019.

### (a) Credit risk:

Credit risk is the risk that the Corporation will incur a loss due to the failure by its debtors 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 concentration of credit risk.

# KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2019

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## 11. Financial instruments risks (continued):

(b) Foreign exchange risk:

Foreign exchange risk is the risk that the fair value of 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 (note 3(a)).

(c) Interest rate risk:

Interest 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. Portfolio and endowment investments bear some interest 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 portfolio and endowment investments in equity 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:

	2019	2018
Invested in tangible capital assets	\$ 1,081,407	\$ 1,181,129
Invested in broadcast rights	9,861,358	8,980,492
Endowment funds	9,339,435	7,719,904
Unrestricted amounts	1,571,469	1,957,900
Balance, end of year	\$ 21,853,669	\$ 19,839,425

## 13. Budget figures:

Consolidated budgeted figures have been provided for comparison purposes and have been derived from the estimates approved by the Board of Directors on February 22, 2018.

# KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2019

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## 14. Expenses 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 to allocated on a reasonable basis to individual categories are reported in the General category. The following describes the activities of each area:

### *Programming 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 K: Magazine.

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 capital assets and other expenses.

### *Amortization of broadcast rights*

This category includes the amortization of broadcast rights 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.

### *Specialty TV channel*

This category represents the operations of the BBC Kids tier 2 digital specialty channel via KWCC. BBC Kids was available to Canadian cable and Internet TV subscribers up to December 31, 2018.

# KNOWLEDGE NETWORK CORPORATION

## Schedule of consolidated expenses by object

Year ended March 31, 2019, with comparative information for 2018

	Programming and presentation	Marketing and development	Broadcast platforms and corporate IT	General	Amortization of broadcast rights	Administration	Specialty TV channel	2019 consolidated	Budget consolidated	2018 consolidated
Salaries and benefits	\$ 1,625,165	\$ 950,932	\$ 1,309,424	\$ 8,657	\$ -	\$ 855,174	\$ 25,000	\$ 4,774,352	\$ 4,803,756	\$ 4,708,492
Amortization of capital assets and broadcast rights	-	-	-	285,502	3,333,943	-	477,885	4,097,330	4,366,571	4,111,100
Purchased services	359,602	629,792	171,325	-	-	60,654	67,999	1,289,372	1,229,490	1,435,609
Supplies, shipping, minor software, maintenance	35,713	484,587	549,181	7,010	-	33,285	77,134	1,186,910	1,196,999	1,251,704
Travel, miscellaneous, other	80,910	174,750	29,911	67,052	-	111,684	66,617	530,924	493,240	514,339
Facilities operating costs, rental	-	8,448	-	-	-	265,827	-	274,275	264,000	315,312
Income taxes	-	-	-	-	-	-	12,994	12,994	35,000	70,935
	\$ 2,101,390	\$ 2,248,509	\$ 2,059,841	\$ 368,221	\$ 3,333,943	\$ 1,326,624	\$ 727,629	\$ 12,166,157	\$ 12,389,056	\$ 12,407,491