Knowledge Network Corporation

Financial Statements
For the year ended March 31, 2010

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Auditors' Report

To the Members of the
Knowledge Network Corporation

We have audited the Statement of Financial Position of Knowledge Network Corporation as at March 31, 2010 and the Statements of Changes in Net Assets, Operations 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 Knowledge Network Corporation as at March 31, 2010 and the results of its operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at and for the year ended March 31, 2009 were audited by another firm of chartered accountants who expressed an opinion without reservation in their report dated May 22, 2009.

BDO Canada LLP

Chartered Accountants

Vancouver, British Columbia
May 14, 2010

Knowledge Network Corporation
Statement of Financial Position

March 31	2010	2009
Assets		
Current		
Cash (Note 1)	$ 1,078,010	$ 1,917,298
Short-term investments (Note 1)	2,138,947	1,490,572
Accounts receivable	46,396	99,106
Prepaid expenses	17,823	8,946
	3,281,176	3,515,922
Restricted investments (Note 1)	512,245	331,348
Capital assets (Note 2)	3,657,888	3,729,723
Broadcast rights (Note 4)	6,448,929	5,725,102
	$13,900,238	$ 13,302,095
Liabilities		
Current		
Payables and accruals	$ 1,155,229	$ 1,156,816
Deferred revenue, projects	886,811	808,179
	2,042,040	1,964,995
Deferred contributions, capital assets (Note 5)	2,918,557	3,349,334
Deferred contributions, broadcast rights (Note 6)	82,700	-
	5,043,297	5,314,329
Net assets		
Endowment fund	529,676	413,676
Invested in capital assets	739,330	442,539
Invested in broadcast rights	6,366,229	5,725,102
Unrestricted	1,221,706	1,406,449
	8,856,941	7,987,766
	$13,900,238	$ 13,302,095

Commitments and Contingencies (Note 7)

Approved on behalf of:

____________________ Chair of the Board

____________________ President and Chief Executive Officer

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Knowledge Network Corporation
Statement of Changes in Net Assets

For the year ended March 31

	Endowment Fund	Invested in Capital Assets	Invested in Broadcast Rights	Unrestricted	Total 2010	Total 2009
Balance, beginning of year, as previously stated	$ 413,676	$ 442,539	$ -	$ 1,406,449	$ 2,262,664	$ 4,408,079
Adjustment to reflect broadcast rights, Note 12	-	-	5,725,102	-	5,725,102	4,764,346
Balance, beginning of year, as restated	413,676	442,539	5,725,102	1,406,449	7,987,766	9,172,425
Changes during year						
Excess (deficiency) of revenue over expenses before unusual items	-	(110,999)	(1,956,978)	2,828,101	760,124	1,730,316
Loss on transfer of land and building	-	-	-	-	-	(2,979,794)
	-	(110,999)	(1,956,978)	2,828,101	760,124	(1,249,478)
Internally funded capital assets purchase	-	407,790	-	(407,790)	-	-
Internally funded broadcast rights purchase	-	-	2,598,105	(2,598,105)	-	-
Endowments	109,051	-	-	-	109,051	64,819
Transfer to endowment fund	6,949	-	-	(6,949)	-	-
	116,000	296,791	641,127	(184,743)	869,175	(1,184,659)
Balance, end of year	$ 529,676	$ 739,330	$ 6,366,229	$ 1,221,706	$ 8,856,941	$ 7,987,766

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Knowledge Network Corporation
Statement of Operations

For the year ended March 31	2010	2009
Revenue		
Province of British Columbia		
Operating grants	$ 6,909,506	$ 7,716,499
Specified grants and contracts	-	80,125
Donations and sponsorships	2,188,623	2,228,362
Flowthrough project funding	-	1,511,436
Amortization of deferred capital contributions (Note 5)	430,777	468,279
Miscellaneous	8,067	257,334
Interest	84,882	75,542
Sales	115,259	101,275
User fees and rentals	18,215	19,572
Gain (loss) on investments	94,541	(68,351)
	9,849,870	12,390,073
Expenses		
Amortization of capital assets	541,776	515,292
Amortization of broadcast rights	1,956,978	1,626,168
Communications	28,243	57,728
Equipment rental, financing and maintenance	21,222	88,138
Expense recovery, building operating costs	-	(109,953)
Facilities rental and maintenance (Note 8)	391,406	467,663
Flowthrough project expenses	-	1,277,673
Materials, supplies and postage	543,686	421,117
Miscellaneous	137,009	151,510
Program acquisitions	-	7,635
Purchase services	1,172,236	1,666,788
Satellite transmission service	374,312	370,952
Salaries, honoraria and benefits	3,875,411	4,046,345
Travel	47,467	72,701
	9,089,746	10,659,757
Excess of revenue over expenses before unusual item	760,124	1,730,316
Unusual item		
Loss on transfer of land and building (Note 3)	-	(2,979,794)
Excess (deficiency) of revenue over expenses	$ 760,124	$ (1,249,478)
Supplemental information:		
Excess (deficiency) of revenue over expenses as above	$ 760,124	$ (1,249,478)
Loss on transfer of building	-	2,979,794
Purchase of capital assets from operations	(407,790)	(489,552)
Broadcast acquisitions from operations	(2,598,105)	(2,586,924)
Amortization of capital assets	541,776	515,292
Amortization of broadcast rights	1,956,978	1,626,168
Amortization of deferred contributions	(430,777)	(468,279)
Transfer to endowment fund	(6,949)	-
(Decrease) increase in unrestricted net assets	$ (184,743)	$ 327,021

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Knowledge Network Corporation
Statement of Cash Flows

For the year ended March 31	2010	2009
Cash provided (used) by		
Operating activities		
Excess (deficiency) of revenue over expenses	$ 760,124	$ (1,249,478)
Adjustments to determine cash flows:		
(Gain) loss on investments	(94,541)	68,351
Loss on transfer to land and building	-	2,979,794
Amortization of deferred contributions	(430,777)	(468,279)
Amortization of capital assets	541,776	515,292
Amortization of broadcast rights	1,956,978	1,626,168
Change in non-cash operating working capital	120,878	(247,781)
	2,854,438	3,224,067
Financing activities		
Contributions received for broadcast rights	82,700	-
Grants for capital assets	-	700,000
Receipts of endowment funds	109,051	64,819
	191,751	764,819
Investing activities		
Purchase of short-term and restricted investments	(734,732)	(1,552,332)
Purchase of capital assets	(469,940)	(1,732,255)
Purchase of broadcast rights	(2,680,805)	(2,586,924)
	(3,885,477)	(5,871,511)
Decrease in cash	(839,288)	(1,882,625)
Cash, beginning of year	1,917,298	3,799,923
Cash, end of year	$ 1,078,010	$ 1,917,298

	2010	2009
Change in non-cash operating working capital		
Accounts receivable	$ 52,710	$ 43,402
Prepaid expenses	(8,877)	20,360
Payables and accruals	(1,587)	(597,335)
Deferred revenue, projects	78,632	285,792
	$ 120,878	$ (247,781)
Non-cash investing and operating activities not included in cash flows (Note 3)		
Transfer of land and building to BCIT	$ -	$ 11,100,090

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Operations

In years prior to 2009, the Open Learning Agency operated under the Open Learning Agency Act. In 2009, the Knowledge Network Corporation Act received Royal Assent and the entity officially became a Crown corporation known 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.

Basis of Presentation

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles for not-for-profit organizations.

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.

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. Disposals in the current year are amortized to the month of disposal.

Deferred Contributions for Capital Assets and Broadcast Rights

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

Broadcast Rights - Change in Accounting Policy

Broadcast rights are recorded at cost and amortized over the period the broadcast is authorized for (generally 4 to 6 years). This is a change in accounting policy from the prior practice of expensing broadcast rights as paid (Note 12).

Financial Instruments

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.

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 rate 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 as 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.

The Corporation has classified their financial instruments as follows:

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

Cash, short-term investments, and restricted investments have been recorded at fair value. The carrying value of accounts receivable and payable and accruals approximate their fair values due to their immediate or short-term maturity.

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.

Comparative Figures

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

Future Accounting Framework

The Corporation's current financial reporting is based on the CICA Handbook's private entity standards which include the section 4400 series on not-for-profit accounting standards. In March 2010, the Public Sector Accounting Board released an Exposure Draft "Financial Reporting for Government Not-for-Profit Organizations", in which they propose that organizations like the Corporation utilize the Public Sector Accounting Handbook with incorporation of the existing 4400 series of standards. The proposed change would apply beginning in the Corporation's fiscal year ending March 31, 2013 with comparative figures to be provided on that basis for the preceding fiscal year.

If the proposal contained in the Exposure Draft is adopted, this would be a major change to the underlying framework of financial reporting. The implications of these potential changes has not been determined at this time.

1. 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.

b) Short-term investments

Short-term investments consist of a bond, a mutual fund, equity funds and a bond fund. The bond yields interest at 5.38% with a maturity date of 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.

c) 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 of each reporting period with the changes in fair value included in the statement of operations.

2. Capital Assets

	2010			2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture and fixtures	$ 871,317	$ 718,148	$ 153,169	$ 153,907
Equipment	2,506,614	2,417,951	88,663	104,310
Computer equipment	2,807,349	2,163,308	644,041	706,224
Software	365,755	361,260	4,495	8,990
Broadcast network equipment	11,780,914	9,040,680	2,740,234	2,723,092
Leasehold improvements	37,695	10,409	27,286	33,200
	$18,369,644	$14,711,756	$ 3,657,888	$ 3,729,723

3. Disposal of Land and Building

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 British Columbia Institute of Technology ("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 plus the Corporation's proportionate share of common area operating expenses (Note 8).

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

4. Broadcast Rights

			2010	2009
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Broadcast rights	$ 9,813,734	$ 3,364,805	$ 6,448,929	$ 5,725,102

5. Deferred Contributions, Capital Assets

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

	2010	2009
Balance, beginning of year	$ 3,349,334	$ 11,237,910
Contribution received	-	700,000
Less:		
Amounts recognized as revenue	(430,777)	(468,279)
Amounts relating to ownership transfer of building	-	(8,120,297)
Balance, end of year	$ 2,918,557	$ 3,349,334

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

Unamortized contributions for purchase of capital assets	$ 2,918,557	$ 3,287,184
Unspent contributions	-	62,150
	$ 2,918,557	$ 3,349,334

6. Deferred Contributions, 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.

	2010	2009
Balance, beginning of year	$ -	$ -
Contribution received	82,700	-
Balance, end of year	$ 82,700	$ -

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

Unamortized contributions for purchase of broadcast assets	$ 82,700	-
	$ 82,700	$ -

7. Commitments and Contingencies

Satellite Transmission Service

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

Production Costs

The Corporation acquires programs which require the commitment of funds. As at March 31, 2010 the Corporation is committed to pay $887,224 for licence fees over the period 2011 to 2013.

Contingencies

In the normal course of business, claims are brought against the Corporation. Where the outcomes are likely and the amounts reasonably estimatable, contingent losses are recorded. Where the outcomes are not likely, the nature and amount of the claims in excess of the amounts recorded are disclosed.

At March 31, 2010, there are no claims in excess of amounts recorded.

8. 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 Corporation pays rent to BCIT of $1 per annum and its share of the building operating costs totaling $391,406 (2009 - $270,022). As at March 31, 2010, accrued liabilities for building costs payable to BCIT are $20,000 (2009 - nil).

9. Pensions

The Corporation and its employees contribute to the College Pension Plan and Municipal Pension Plan, jointly trusteed 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 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 about 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 unfunded liability of $54 million for basic pension benefits. The next valuation will be as at August 31, 2009, with results being available in mid-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 December 31, 2009 with results being available in 2010. The actuary does not attribute portions of the unfunded liability to individual employees.

Employer contributions to the plans in the current year amounted to $268,749 (2009 - $287,265), and employee contributions amounted to $250,795 (2009 - $264,360).

10. 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, 2010.

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 cash, short-term investments, restricted 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.

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 is not exposed to foreign exchange risk as all securities are denominated in Canadian dollars.

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. Short-term and restricted investments bear some interest rate risk as the market price of fixed income securities may fluctuate based on changes in interest rates (Note 1).

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 1). The Corporation is exposed to fair value and interest rate risks on its short-term restricted investments.

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.

11. Capital Management

The capital structure of the Corporation consists of net assets invested in endowment fund, invested in capital assets, invested in broadcast right, 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 endowment funds are held in perpetuity and invested in accordance with the Corporation's investment policy.

Net assets invested in capital assets and invested in broadcast rights 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.

As at March 31, 2010, the Corporation had no externally imposed capital requirements.

12. Prior Period Adjustment - Broadcast Rights

In the current year the Corporation changed its method of accounting for broadcast rights such that the rights are capitalized and amortized over their authorized broadcast period. This change in accounting policy is in accordance with the CICA Handbook Section 1000 "Financial Statement Concepts" and was applied retroactively with result that prior periods were restated as follows:

- opening balance of net assets increased by $5,725,102 for 2010 and $4,764,346 for 2009
- broadcast rights asset created for 2009 with ending balance of $5,725,102
- amortization of broadcast rights expense created for 2009 with expense of $1,626,168
- reduction of program acquisitions expense for 2009 of $2,586,924
- increase in excess of revenue over expenses for 2009 of $960,756