

Knowledge Network Corporation
Consolidated Financial Statements
For the year ended March 31, 2011

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Consolidated Financial Statements
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Independent Auditor's Report

To the Board of Directors of the Knowledge Network Corporation

We have audited the accompanying consolidated financial statements of Knowledge Network Corporation, which comprise the Consolidated Statement of Financial Position as at March 31, 2011, and the Consolidated Statements of Operations, Changes in Net Assets and Cash Flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, 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.

Auditor's 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 overall 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of Knowledge Network Corporation as at March 31, 2011 and its consolidated results of operations and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Chartered Accountants

Vancouver, British Columbia
May 18, 2011

Knowledge Network Corporation
Consolidated Statement of Financial Position

March 31 **2011** **2010**

Assets

Current

Cash (Note 1)	\$ 1,507,167	\$ 1,078,010
Short-term investments (Note 1)	1,238,985	2,138,947
Accounts receivable	103,574	46,396
Prepaid expenses	6,439	17,823
	2,856,165	3,281,176

Restricted investments (Note 1)

	859,988	512,245
Capital assets (Note 2)	3,289,925	3,657,888
Broadcast rights (Note 3)	6,567,460	6,448,929
	\$13,573,538	\$ 13,900,238

Liabilities

Current

Payables and accruals	\$ 995,098	\$ 1,155,229
Deferred revenue, projects	496,004	886,811
	1,491,102	2,042,040

Deferred contributions, capital assets (Note 4)

	2,543,437	2,918,557
Deferred contributions, broadcast rights (Note 5)	511,651	82,700
	4,546,190	5,043,297

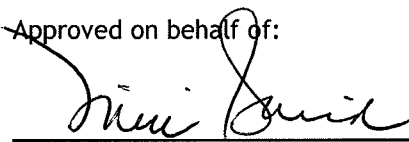
Net assets

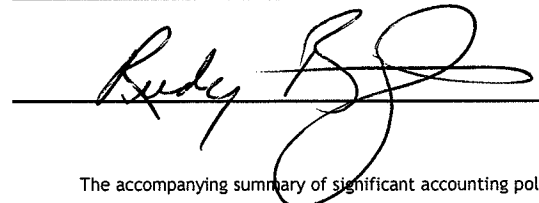
Endowment fund	819,694	529,676
Invested in capital assets	746,487	739,330
Invested in broadcast rights	6,055,809	6,366,229
Unrestricted	1,405,358	1,221,706
	9,027,348	8,856,941

\$13,573,538 **\$ 13,900,238**

Commitments and Contingencies (Note 6)

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
Consolidated Statement of Changes in Net Assets

For the year ended March 31

	Endowment Fund	Invested in Capital Assets	Invested in Broadcast Rights	Unrestricted	2011	Total 2010
Balance, beginning of year	\$ 529,676	\$ 739,330	\$ 6,366,229	\$ 1,221,706	\$ 8,856,941	\$ 7,987,766
(Deficiency) excess of revenue over expenses	8,360	(120,802)	(2,348,724)	2,349,915	(111,251)	760,124
Internally funded capital assets purchase	-	127,959	-	(127,959)	-	-
Internally funded broadcast rights purchase	-	-	2,038,304	(2,038,304)	-	-
Endowments	281,658	-	-	-	281,658	109,051
	290,018	7,157	(310,420)	183,652	170,407	869,175
Balance, end of year	\$ 819,694	\$ 746,487	\$ 6,055,809	\$ 1,405,358	\$ 9,027,348	\$ 8,856,941

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

Knowledge Network Corporation
Consolidated Statement of Operations

For the year ended March 31

2011

2010

Revenue

Province of British Columbia		
Operating grants	\$ 6,409,506	\$ 6,909,506
Donations and sponsorships	2,749,857	2,188,623
Amortization of deferred capital contributions (Notes 4 and 5)	442,171	430,777
Miscellaneous	151,128	8,067
Interest	118,465	84,882
Sales	59,706	115,259
User fees and rentals	-	18,215
Gain on investments	42,442	94,541
	<u>9,973,275</u>	<u>9,849,870</u>

Expenses

Amortization of capital assets	495,922	541,776
Amortization of broadcast rights	2,415,775	1,956,978
Communications	29,203	28,243
Equipment rental and maintenance	39,615	21,222
Facilities rental and maintenance (Note 7)	266,079	391,406
Materials, supplies and postage	677,675	543,686
Miscellaneous	250,424	137,009
Purchased services	1,525,386	1,172,236
Satellite transmission service	387,336	374,312
Salaries, honoraria and benefits	3,939,107	3,875,411
Travel	58,004	47,467
	<u>10,084,526</u>	<u>9,089,746</u>

(Deficiency) excess of revenue over expenses	\$ (111,251)	\$ 760,124
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(Deficiency) excess of revenue over expenses is comprised of:

Surplus from Knowledge Network Corporation	\$ 45,526	\$ 760,124
Pre-closing expenses of KWCC (Note 11)	(156,777)	-

Consolidated (deficiency) excess of revenue over expenses	\$ (111,251)	\$ 760,124
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Knowledge Network Corporation
Consolidated Statement of Cash Flows

For the year ended March 31

2011

2010

Cash provided (used) by

Operating activities

(Deficiency) excess of revenue over expenses	\$ (111,251)	\$ 760,124
Adjustments to determine cash flows:		
Gain on investments	(42,442)	(94,541)
Amortization of deferred contributions	(442,171)	(430,777)
Amortization of capital assets	495,922	541,776
Amortization of broadcast rights	2,415,775	1,956,978
Change in non-cash operating working capital	(596,734)	120,878
	1,719,099	2,854,438

Financing activities

Contributions received for broadcast rights	496,002	82,700
Receipts of endowment funds	281,658	109,051
	777,660	191,751

Investing activities

Redemption (purchase) of short-term and restricted investments	594,663	(734,732)
Purchase of capital assets	(127,959)	(469,940)
Purchase of broadcast rights	(2,534,306)	(2,680,805)
	(2,067,602)	(3,885,477)

Increase (decrease) in cash	429,157	(839,288)
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Cash, beginning of year	1,078,010	1,917,298
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Cash, end of year	\$ 1,507,167	\$ 1,078,010
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Change in non-cash operating working capital

Accounts receivable	\$ (57,178)	\$ 52,710
Prepaid expenses	11,384	(8,877)
Payables and accruals	(160,132)	(1,587)
Deferred revenue, projects	(390,808)	78,632
	\$ (596,734)	\$ 120,878

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

Knowledge Network Corporation Summary of Significant Accounting Policies

March 31, 2011

Operations	<p>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.</p> <p>Knowledge Network Corporation is British Columbia's public educational television broadcaster. The principal source of funding is from the Ministry of Advanced Education for fiscal 2011. Due to recent organizational restructuring of the ministries within the Province of British Columbia, effective March 14, 2011 the principal source of funding will be from the Ministry of Labour, Citizens' Services and Open Government.</p>
Basis of Presentation and Consolidation	<p>These financial statements have been prepared in accordance with Canadian generally accepted accounting principles for not-for-profit organizations and include the accounts of the Corporation's 100% owned subsidiary Knowledge-West Communications Corporation ("KWCC").</p>
Revenue Recognition	<p>The consolidated entity 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.</p> <p>Donations are recorded on the cash basis, but designated donations are deferred to match program expenditures.</p>
Capital Assets	<p>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, computer softwares are amortized over the estimated useful life on the declining balance basis at 50%, and leasehold improvements are amortized over the term of the lease.</p>
Deferred Contributions for Capital Assets and Broadcast Rights	<p>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.</p>
Broadcast Rights	<p>Broadcast rights are recorded at cost and amortized over the period the broadcast is authorized for (generally 4 to 6 years).</p>

Knowledge Network Corporation Summary of Significant Accounting Policies

March 31, 2011

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.

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

The Corporation has classified their financial instruments as follows:

- cash as held-for-trading
- accounts receivable as loans and receivables
- 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 Canadian 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.

New Accounting Pronouncements On September 7, 2010, the Treasury Board issued a directive to all taxpayer supported Crown agencies to adopt Public Sector Accounting Standards, without not-for-profit provisions, for all fiscal years commencing after January 1, 2011. Management is currently assessing the impact of the change on its financial statements.

Knowledge Network Corporation
Notes to the Consolidated Financial Statements

March 31, 2011

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

	2011		2010	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture and fixtures	\$ 871,317	\$ 733,465	\$ 137,852	\$ 153,169
Equipment	2,396,439	2,321,076	75,363	88,663
Computer equipment	2,816,560	2,293,037	523,523	644,041
Software	365,755	363,507	2,248	4,495
Broadcast network equipment	13,118,137	10,589,026	2,529,111	2,740,234
Leasehold improvements	37,695	15,867	21,828	27,286
	\$19,605,903	\$16,315,978	\$ 3,289,925	\$ 3,657,888

Knowledge Network Corporation
Notes to the Consolidated Financial Statements

March 31, 2011

3. Broadcast Rights

	2011		2010	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Broadcast rights	\$ 10,460,241	\$ 3,892,781	\$ 6,567,460	\$ 6,448,929

4. 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.

	2011		2010	
Balance, beginning of year	\$ 2,918,557		\$ 3,349,334	
Less:				
Amounts recognized as revenue		(375,120)		(430,777)
Balance, end of year	\$ 2,543,437		\$ 2,918,557	

5. 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.

	2011		2010	
Balance, beginning of year	\$ 82,700		\$ -	
Contribution received	496,002		82,700	
Amounts recognized as revenue		(67,051)		-
Balance, end of year	\$ 511,651		\$ 82,700	

Knowledge Network Corporation
Notes to the Consolidated Financial Statements

March 31, 2011

6. 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, 2011 the Corporation is committed to pay \$731,686 for licence fees over the period 2012 to 2014.

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, 2011, there are no claims in excess of amounts recorded.

7. 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, a Provincially controlled university, of \$1 per annum and its share of the building operating costs totaling \$261,882 (2010 - \$391,406). As at March 31, 2011, accrued liabilities for building costs payable to BCIT are nil (2010 - \$20,000).

Knowledge Network Corporation
Notes to the Consolidated Financial Statements

March 31, 2011

8. 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 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, 2009 indicated an unfunded liability of \$28 million for basic pension benefits. The next valuation will be as at August 31, 2012, with results being available in mid-2013. The most recent valuation for the Municipal Pension Plan as at December 31, 2009 indicated an unfunded liability of \$1.024 billion for basic pension benefits. The next valuation will be December 31, 2012 with results being available in 2013. The actuary does not attribute portions of the unfunded liability to individual employees.

Employer contributions to the plans in the current year amounted to \$274,003 (2010 - \$268,749).

9. 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, 2011.

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.

Knowledge Network Corporation
Notes to the Consolidated Financial Statements

March 31, 2011

9. Financial Instruments Risks - Continued

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.

10. 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, 2011, the Corporation had no externally imposed capital requirements.

Knowledge Network Corporation
Notes to the Consolidated Financial Statements

March 31, 2011

11. Subsequent Event

Subsequent to year-end, the Canadian Radio-Television and Telecommunications Commission ("CRTC") approved the acquisition of the BBC Kids channel by KWCC for \$500,000. The acquisition consisted mostly of broadcast rights, and as a result of the transaction, the Corporation sold 50% of the equity interest and 20% of its voting rights in KWCC to a third party.