

## Management's Report

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

The consolidated financial statements have been prepared by management in accordance with the basis of accounting described in Note 2 to the consolidated financial statements, and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for all of the notes to the consolidated financial statements and schedules, and for ensuring that this information is consistent, where appropriate, with the information contained in the consolidated financial statements. A summary of the significant accounting policies is described in Note 2 to the consolidated financial statements. The preparation of consolidated financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

Management is also responsible for implementing and maintaining a system of internal controls to provide reasonable assurance that reliable financial information is produced. The internal controls are designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded in compliance with legislative and regulatory requirements, and reliable financial information is available on a timely basis for preparation of the consolidated financial statements.

The Board of Directors are responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control, and exercises these responsibilities through the Board. The Board reviews internal consolidated financial statements on a quarterly basis and external audited consolidated financial statements yearly. The Board also discuss any significant financial reporting or internal control matters prior to their approval of the consolidated financial statements.

The external auditors, BDO Canada LLP, conduct an independent examination, in accordance with Canadian auditing standards, and express their opinion on the consolidated financial statements. The external auditors have full and free access to financial management of Knowledge Network Corporation and meet when required. The accompanying Independent Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the consolidated financial statements.

On behalf of Knowledge Network Corporation

  
\_\_\_\_\_  
Rudy Buttignol  
President and Chief Executive Officer

  
\_\_\_\_\_  
Nini Baird  
Chair of the Board

May 17, 2013

**Knowledge Network Corporation**  
**Consolidated Financial Statements**  
**For the year ended March 31, 2013**

**Knowledge Network Corporation**  
**Consolidated Financial Statements**  
**For the year ended March 31, 2013**

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Tel: 604 688 5421  
Fax: 604 688 5132  
vancouver@bdo.ca  
www.bdo.ca

BDO Canada LLP  
600 Cathedral Place  
925 West Georgia Street  
Vancouver BC V6C 3L2 Canada

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## Independent Auditor's Report

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### 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, 2013 and the Consolidated Statements of Operations, Remeasurement Gains and Losses, Changes in Net Financial 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 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.

#### 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 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 of Knowledge Network Corporation as at March 31, 2013 and the results of its consolidated operations and its cash flows for the year then ended are prepared, in all material respects, in accordance with the basis of accounting described in Note 2 to the financial statements.



### Basis of Accounting

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. Note 17 to the consolidated financial statements discloses the impact of these differences.

*BDO Canada LLP*

Chartered Accountants

Vancouver, British Columbia  
May 17, 2013

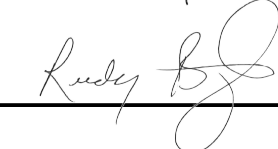
**Knowledge Network Corporation**  
**Consolidated Statement of Financial Position**

	March 31, 2013	March 31, 2012
<b>Financial Assets</b>		
Cash (Note 3)	\$ 753,494	\$ 1,608,557
Accounts receivable	1,555,571	1,369,908
Portfolio investments (Note 3)	2,222,269	1,833,480
Income taxes receivable (Note 8)	70,596	-
	4,601,930	4,811,945
<b>Liabilities</b>		
Accounts payables and accruals	962,772	948,153
Income taxes payable	-	112,187
Deferred revenue, projects	1,027,449	988,342
Deferred contributions (Note 6 and 7)	2,408,959	2,761,875
	4,399,180	4,810,557
<b>Net Financial Assets</b>	202,750	1,388
<b>Non-Financial Assets</b>		
Broadcast rights (Note 5)	8,311,314	7,206,859
Tangible capital assets (Note 4)	2,641,797	2,809,837
Prepaid expenses	77,832	5,956
	11,030,943	10,022,652
<b>Accumulated Surplus (Note 15)</b>	<b>\$11,233,693</b>	<b>\$ 10,024,040</b>
Accumulated surplus represented by:		
Accumulated surplus from operations	\$11,136,923	\$ 9,964,445
Accumulated remeasurement gains and losses	96,770	59,595
	<b>\$11,233,693</b>	<b>\$ 10,024,040</b>

**Commitments (Note 9)**

Approved on behalf of:

  
 \_\_\_\_\_ Chair of the Board

  
 \_\_\_\_\_ President and Chief Executive Officer

**Knowledge Network Corporation**  
**Consolidated Statement of Operations**

	Budget (Note 16)	March 31, 2013	March 31, 2012
<b>Revenue</b>			
Province of British Columbia			
Operating grants	\$ 6,409,506	\$ 6,409,512	\$ 6,409,506
Donations and sponsorships	2,925,000	3,439,010	3,159,760
Specialty TV channel subscription fees	1,453,500	1,430,467	1,310,449
Amortization of			
deferred capital contributions (Note 6 and 7)	281,297	352,916	460,605
Other	470,000	306,295	157,221
	<u>11,539,303</u>	<u>11,938,200</u>	<u>11,497,541</u>
<b>Expenses</b>			
Programming and presentation	1,782,372	1,670,465	1,668,411
Marketing and development	1,966,050	1,947,395	1,735,865
Broadcast platforms and corporate IT	2,139,669	2,120,473	2,076,948
General	2,932,320	3,263,934	3,058,680
Administration	1,265,392	1,224,844	1,336,672
Specialty TV channel	1,195,719	836,378	755,529
	<u>11,281,522</u>	<u>11,063,489</u>	<u>10,632,105</u>
Annual surplus from operations excluding endowment contributions	257,781	874,711	865,436
Endowment contributions	200,000	297,767	208,644
Annual surplus from operations	457,781	1,172,478	1,074,080
Accumulated surplus from operations, beginning of year	9,964,445	9,964,445	8,890,365
Accumulated surplus from operations, end of year	<u>\$10,422,226</u>	<u>\$11,136,923</u>	<u>\$ 9,964,445</u>

The accompanying notes are an integral part of these financial statements.

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**Knowledge Network Corporation**  
**Consolidated Statement of Remeasurement Gains and Losses**

<u>For the year ended March 31</u>	<u>2013</u>	<u>2012</u>
Accumulated remeasurement gains, beginning of year	\$ 59,595	\$ 136,983
Unrealized gains (losses) attributable to portfolio investments	62,805	(76,116)
Amounts reclassified to statement of operations:		
Realized loss on portfolio investments	<u>(25,630)</u>	<u>(1,272)</u>
Net remeasurement gains (losses) for the year	<u>37,175</u>	<u>(77,388)</u>
<u>Accumulated remeasurement gains, end of year</u>	<u>\$ 96,770</u>	<u>\$ 59,595</u>

The accompanying notes are an integral part of these financial statements.



**Knowledge Network Corporation**  
**Consolidated Statement of Changes in Net Financial Assets**

	Budget (Note 16)	March 31, 2013	March 31, 2012
Annual surplus	\$ 457,781	\$ 1,172,478	\$ 1,074,080
Remeasurement gains for the year	-	37,175	(77,388)
	457,781	1,209,653	996,692
Acquisition of tangible capital asset	(586,000)	(203,933)	(6,897)
Amortization of tangible capital assets	403,705	371,973	486,985
	(182,295)	168,040	480,088
Acquisition of broadcast rights	(3,502,000)	(4,048,898)	(3,253,807)
Amortization of broadcast rights	2,660,715	2,944,443	2,614,409
	(841,285)	(1,104,455)	(639,398)
Acquisition of prepaid expenses	-	(77,833)	(5,957)
Use of prepaid expenses	-	5,957	6,439
	-	(71,876)	482
Increase (decrease) in net debt	(565,799)	201,362	837,864
Net financial assets (net debt), beginning of year	1,388	1,388	(836,476)
Net financial assets (net debt), end of year	\$ (564,411)	\$ 202,750	\$ 1,388

The accompanying notes are an integral part of these financial statements.

**Knowledge Network Corporation**  
**Consolidated Statement of Cash Flows**

For the year ended March 31	2013	2012
<b>Cash provided (used) by</b>		
<b>Operating transactions</b>		
Annual surplus from operations	\$ 1,172,478	\$ 1,074,080
Items not involving cash:		
Amortization of deferred capital contributions	(352,916)	(460,605)
Amortization of capital assets	371,973	486,985
Amortization of broadcast rights	2,944,443	2,614,409
Change in non-cash operating working capital	(386,596)	(708,271)
	<b>3,749,382</b>	<b>3,006,598</b>
<b>Financing transaction</b>		
Contributions received for broadcast rights	-	167,392
<b>Investing transaction</b>		
Redemption (purchase) of portfolio investments	(351,614)	188,104
<b>Capital transactions</b>		
Purchase of capital assets	(203,933)	(6,897)
Purchase of broadcast rights	(4,048,898)	(3,253,807)
	<b>(4,252,831)</b>	<b>(3,260,704)</b>
Increase (decrease) in cash for the year	(855,063)	101,390
Cash, beginning of year	1,608,557	1,507,167
<b>Cash, end of year</b>	<b>\$ 753,494</b>	<b>\$ 1,608,557</b>
 <b>Change in non-cash operating working capital</b>		
Accounts receivable	\$ (185,663)	\$ (1,266,334)
Prepaid expenses	(71,876)	483
Payables and accruals	14,619	(46,945)
Income taxes receivable/payable	(182,783)	112,187
Deferred revenue, projects	39,107	492,338
	<b>\$ (386,596)</b>	<b>\$ (708,271)</b>

The accompanying notes are an integral part of these financial statements.

**Knowledge Network Corporation**  
**Consolidated Schedule of Segment Disclosure**

	Programming and Presentation	Marketing and Development	Broadcast Platforms and Corporate IT	General	Administration	Specialty TV Channel	March 31, 2013 Consolidated	Budget (Note 16) Consolidated	March 31, 2012 Consolidated
<b>Revenues</b>									
Provincial operating and other grants	\$ -	\$ -	\$ -	\$ 6,409,512	\$ -	\$ -	\$ 6,409,512	\$ 6,409,506	\$ 6,409,506
Donations and sponsorships	-	3,439,010	-	-	-	-	3,439,010	2,925,000	3,159,760
Specialty TV Channel subscription fees	-	-	-	-	-	1,430,467	1,430,467	1,453,500	1,310,449
Amortization of deferred contributions	-	-	-	352,916	-	-	352,916	281,297	460,605
Other	-	-	-	306,284	-	11	306,295	470,000	157,221
	-	3,439,010	-	7,068,712	-	1,430,478	11,938,200	11,539,303	11,497,541
<b>Expenses</b>									
Salaries and benefits	1,086,882	858,441	1,256,238	124,472	850,033	149,715	4,325,781	4,226,620	4,128,975
Amortization of capital assets and broadcast rights	-	-	-	3,057,763	-	336,696	3,394,459	3,064,420	3,101,394
Purchased services	480,394	582,301	209,122	5,103	58,203	139,272	1,474,395	1,923,471	1,456,311
Supplies, shipping, minor software, maintenance	58,556	404,666	631,611	68,011	13,480	148,506	1,324,830	1,233,676	1,235,551
Travel, miscellaneous, other	44,633	96,855	23,502	8,585	84,661	13,268	271,504	558,335	297,535
Facilities operating costs, rental	-	5,132	-	-	218,467	-	223,599	275,000	300,152
Income taxes (Note 8)	-	-	-	-	-	48,921	48,921	-	112,187
	1,670,465	1,947,395	2,120,473	3,263,934	1,224,844	836,378	11,063,489	11,281,522	10,632,105
	\$ (1,670,465)	\$ 1,491,615	\$ (2,120,473)	\$ 3,804,778	\$ (1,224,844)	\$ 594,100	\$ 874,711	\$ 257,781	\$ 865,436

The accompanying notes are an integral part of these financial statements.

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# Knowledge Network Corporation

## Notes to the Consolidated Financial Statements

March 31, 2013

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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. In years prior to 2009, the organization operated as part of the Open Learning Agency under the Open Learning Agency Act.

The Corporation is British Columbia's public educational broadcaster across multiple platforms including television, web, and mobile. The principal source of funding is from the Ministry of Citizens' Services and Open Government.

The Corporation continues to be a registered charity under the provision 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.

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### 2. Summary of 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.

In addition, the Corporation has obtained approval to continue to capitalize broadcast rights, the impact of which is described in Note 17.

The consolidated financial statements reflects 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.

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**Knowledge Network Corporation**  
**Notes to the Consolidated Financial Statements**

**March 31, 2013**

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**2. Summary of Significant Accounting Policies (Continued)**

(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.

Donations are recorded on the cash basis, but designated donations are deferred to match program expenditures.

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 impracticable. 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 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 over 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 is recorded as deferred contributions and is recognized as a recovery in the Statement of Operations equal to 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. See Note 17 for the impact of this policy on these financial statements.

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

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Knowledge Network Corporation  
Notes to the Consolidated Financial Statements

March 31, 2013

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2. Summary of Significant Accounting Policies (Continued)

(e) Financial Instruments

The Corporation's financial instruments consist of cash, accounts receivable, portfolio investments and accounts payable and accruals. Financial instruments other than portfolio investments are recorded at cost or amortized cost. Portfolio investments are recorded at market value.

(f) Measurement Uncertainty

The preparation of financial statements 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. Actual results could differ from those reported.

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3. Cash and Portfolio 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, 2013, the balance in US dollar account was \$15,112 (2012 - \$33,160).

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, 2013 and March 31, 2012 the Corporation did not utilize this credit facility.

(b) Portfolio investments

	March 31, 2013	March 31, 2012
Fixed income	\$ 378,930	\$ 450,303
Common shares	1,059,320	919,859
Mutual funds	685,799	411,795
Cash	89,524	51,523
Other	8,696	-
	<u>\$ 2,222,269</u>	<u>\$ 1,833,480</u>

Fixed income investments bear interest ranging from 2.63% - 8.00% (2012 - 3.15% - 8.00%) with maturities ranging from January 2017 to June 2041 (2012 - June 2013 to June 2041). Mutual funds consist of money market funds which are redeemable at any time.

**Knowledge Network Corporation**  
**Notes to the Consolidated Financial Statements**

**March 31, 2013**

**4. Tangible Capital Assets**

	Furniture and Fixtures	Computer Equipment	Equipment	Software	Broadcast Network Equipment	Leasehold Improvements	March 31, 2013
<b>Cost</b>							
Opening balance	\$ 871,317	\$ 2,816,560	\$ 2,396,439	\$ 365,755	\$ 13,072,150	\$ 37,695	\$ 19,559,916
Additions	9,228	185,892	-	-	8,813	-	203,933
Closing balance	880,545	3,002,452	2,396,439	365,755	13,080,963	37,695	19,763,849
<b>Accumulated Amortization</b>							
Opening balance	747,250	2,397,742	2,332,380	365,755	10,886,720	20,232	16,750,079
Amortization	12,868	102,352	9,609	-	243,651	3,493	371,973
Closing balance	760,118	2,500,094	2,341,989	365,755	11,130,371	23,725	17,122,052
<b>Net Book Value</b>	<b>\$ 120,427</b>	<b>\$ 502,358</b>	<b>\$ 54,450</b>	<b>\$ -</b>	<b>\$ 1,950,592</b>	<b>\$ 13,970</b>	<b>\$ 2,641,797</b>

	Furniture and Fixtures	Computer Equipment	Equipment	Software	Broadcast Network Equipment	Leasehold Improvements	March 31, 2012
<b>Cost</b>							
Opening balance	\$ 871,317	\$ 2,816,560	\$ 2,396,439	\$ 365,755	\$ 13,067,461	\$ 37,695	\$ 19,555,227
Additions	-	-	-	-	4,689	-	4,689
Closing balance	871,317	2,816,560	2,396,439	365,755	13,072,150	37,695	19,559,916
<b>Accumulated Amortization</b>							
Opening balance	733,465	2,293,037	2,321,076	363,507	10,589,026	15,867	16,315,978
Amortization	13,785	104,705	11,304	2,248	297,694	4,365	434,101
Closing balance	747,250	2,397,742	2,332,380	365,755	10,886,720	20,232	16,750,079
<b>Net Book Value</b>	<b>\$ 124,067</b>	<b>\$ 418,818</b>	<b>\$ 64,059</b>	<b>\$ -</b>	<b>\$ 2,185,430</b>	<b>\$ 17,463</b>	<b>\$ 2,809,837</b>

**Knowledge Network Corporation**  
Notes to the Consolidated Financial Statements

March 31, 2013

**5. Broadcast Rights**

	2013	2012
<b>Cost</b>		
Opening balance	\$ 12,073,056	\$ 10,460,241
Additions	4,048,898	3,253,807
Disposal of expired rights	(2,649,188)	(1,640,992)
Closing balance	13,472,766	12,073,056
<b>Accumulated Amortization</b>		
Opening balance	4,866,197	3,892,780
Amortization	2,944,443	2,614,409
Disposal of expired rights	(2,649,188)	(1,640,992)
Closing balance	5,161,452	4,866,197
<b>Net book value</b>	\$ 8,311,314	\$ 7,206,859

**6. 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.

	2013	2012
Balance, beginning of year	\$ 2,217,838	\$ 2,543,437
Less:		
Amounts recognized as revenue	(280,736)	(325,599)
Balance, end of year	\$ 1,937,102	\$ 2,217,838

**7. 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.

	2013	2012
Balance, beginning of year	\$ 544,037	\$ 511,651
Contribution received	-	167,392
Amounts recognized as revenue	(72,180)	(135,006)
Balance, end of year	\$ 471,857	\$ 544,037



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**Knowledge Network Corporation**  
**Notes to the Consolidated Financial Statements**

**March 31, 2013**

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**8. Income Taxes Receivable**

During the course of the year, KWCC paid monthly tax installments, estimated by the Canada Revenue Agency based on prior year's taxable income, totalling \$119,516. Once the actual income tax was calculated at \$48,921 a refund of \$70,956 was due at year-end.

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**9. Commitments and Contingencies**

*Satellite Transmission Service*

The Corporation acquires satellite transmission services at an annual cost of approximately \$440,500 under agreements that are renewed periodically.

*Production Costs*

The Corporation acquires programs which require the commitment of funds. As at March 31, 2013 the Corporation is committed to pay \$2,636,635 for licence fees over the period 2013 to 2015.

*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, 2013, there are no claims in excess of amounts recorded.

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**Knowledge Network Corporation**  
**Notes to the Consolidated Financial Statements**

**March 31, 2013**

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**10. 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 \$218,467 (2012 - \$289,433).

Included in the 2013 balance of accounts receivable is \$750,000 related to a loan due from its subsidiary. This represents the \$1,500,000 (2012 - \$1,500,000) balance of the loan less the 50% impact resulting from proportionate consolidation. The loan is unsecured and bears interest at 2% per annum.

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**11. Segmented Information**

For reporting purposes, the Corporation's activities have been aggregated into functional areas. The Consolidated Schedule of Segment Disclosure reports the revenues and expenses that are directly attributable to each functional segment. The revenues and expenses that cannot be directly attributable or allocated on a reasonable basis to individual segments are reported in the General segment. The following describes the activities of each segment:

***Program Management, Presentation, and Promotions***

This segment 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 segment also includes the cost of contracted editors hired to create promotional content.

***Marketing and Development***

This segment 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 segment 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 Information Technology***

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

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Knowledge Network Corporation  
Notes to the Consolidated Financial Statements

March 31, 2013

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11. Segmented Information - Continued

*General*

This segment includes all other revenues, and year-end adjustments related to the capitalization and amortization of assets, and minority interest in our subsidiary operations.

*Administration*

This segment 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 segment 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.

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12. 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 12,900 active members from college senior administration and instructional staff and approximately 5,100 retired members. The Municipal Pension Plan has about 176,000 active members and approximately 67,000 retired members.

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. Defined contribution plan accounting is applied to the Plan as the Plan exposes the participating entities to actuarial risks associated with the current and former employees of other entities, with the result that there is no consistent and reliable basis for allocating the obligation, Plan assets and cost to individual entities participating in the Plan.

Employer contributions to the plans in the current year amounted to \$306,495 (2012 - \$299,349).

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**13. 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, 2013.

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, portfolio 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's exposure to foreign exchange risk is limited to the funds denominated in US dollars as noted in Note 3.

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. Portfolio investments bear some interest rate risk as the market price of fixed income securities may fluctuate based on changes in interest rates (Note 3).

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). The Corporation is exposed to fair value and interest rate risks on its portfolio 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.

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**14. Capital Management**

The capital structure of the Corporation consists of accumulated surplus from operations and accumulated remeasurement gains and losses. The primary objective of the Corporation's capital management is to provide financial flexibility to take advantage of future strategic opportunities.

Included in accumulated surplus is the endowment fund which provides income to advance programming initiatives. Contributed principal to endowment funds are held in perpetuity and invested in accordance with the Corporation's investment policy.

Also included in accumulated surplus is the net investment in tangible capital assets and broadcast rights. These amounts are not available for other purposes because they have been invested.

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

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**15. Accumulated Surplus**

Accumulated surplus is comprised of the following:

	<u>March 31,</u> <u>2013</u>	<u>March 31,</u> <u>2012</u>
Invested in tangible capital assets	\$ 704,694	\$ 591,999
Invested in broadcast rights	7,839,458	6,662,822
Endowment funds	1,336,568	1,038,801
Unrestricted amounts	<u>1,352,973</u>	<u>1,730,418</u>
	<u>\$11,233,693</u>	<u>\$ 10,024,040</u>

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**16. Budgeted Figures**

Budgeted figures have been provided for comparison purposes and have been derived from the estimates approved by the Board of Directors.

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**17. Impact of Accounting for Intangible Assets and Government Transfers in Accordance with the Budget Transparency and Accountability Act**

As noted in the significant accounting policies, the Corporation has been granted approval to capitalize and amortize certain key intangible 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 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 impact of this difference on the financial statements of the Corporation is as follows:

**March 31, 2012**

Increase accumulated surplus and decrease deferred contributions by	\$ 2,217,838
Broadcast rights and accumulated surplus overstated by	\$ 7,206,859

**March 31, 2013**

Increase accumulated surplus and decrease deferred contributions by	\$ 1,937,102
Broadcast rights and accumulated surplus overstated by	\$ 8,311,314

**Year-ended March 31, 2012**

Amortization expense overstated by	\$ 2,614,409
Amortization of deferred capital contributions overstated by	\$ 460,605

**Year-ended March 31, 2013**

Amortization expense overstated by	\$ 2,944,443
Amortization of deferred capital contributions overstated by	\$ 352,916