

Management's Report

Management's Responsibility for the Consolidated Financial Statements

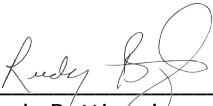
The consolidated financial statements have been prepared by management in accordance with the basis of accounting described in Note 2 to the consolidated financial statements, and the integrity and objectivity of these statements are management's responsibility. Management is also responsible for all 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.

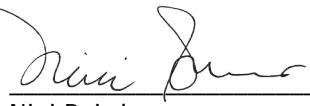
The Board of Directors are responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control, and exercises these responsibilities through the Board. The Board reviews internal consolidated financial statements on a quarterly basis and external audited 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 generally accepted 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 16, 2014

Knowledge Network Corporation
Consolidated Financial Statements
For the year ended March 31, 2014

Knowledge Network Corporation
Consolidated Financial Statements
For the year ended March 31, 2014

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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, 2014 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, 2014 and the results of its operations, changes in remeasurement gains and losses, net financial assets 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 consolidated 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.

A handwritten signature in black ink that reads "BDO Canada LLP". The letters are stylized and cursive.

Chartered Accountants

Vancouver, British Columbia
May 16, 2014

Knowledge Network Corporation
Consolidated Statement of Financial Position

March 31 2014 2013

Financial Assets

Cash (Note 3)	\$ 537,142	\$ 753,494
Accounts receivable (Note 10)	1,173,133	1,555,571
Portfolio investments (Note 3)	2,203,466	2,222,269
Income taxes receivable	-	70,596
	3,913,741	4,601,930

Liabilities

Accounts payable and accruals	649,494	962,772
Income taxes payable (Note 8)	40,242	-
Deferred revenue, projects	282,775	1,027,449
Deferred contributions (Notes 6 and 7)	2,686,319	2,408,959
	3,658,830	4,399,180

Net Financial Assets

254,911 **202,750**

Non-Financial Assets

Broadcast rights (Note 5)	8,953,490	8,311,314
Tangible capital assets (Note 4)	2,760,120	2,641,797
Prepaid expenses	50,702	77,832
	11,764,312	11,030,943

Accumulated Surplus (Note 15)

\$12,019,223 **\$ 11,233,693**

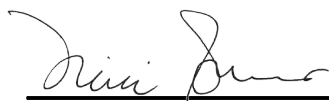
Accumulated surplus represented by:

Accumulated surplus	\$11,816,577	\$ 11,136,923
Accumulated remeasurement gains and losses	202,647	96,770

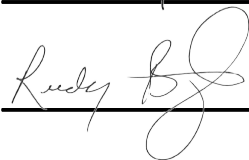
\$12,019,224 **\$ 11,233,693**

Commitments (Note 9)

Approved on behalf of:



Chair of the Board



President and Chief Executive Officer

Knowledge Network Corporation
Consolidated Statement of Operations

For the year ended March 31	Budget	2014	2013
	(Note 16)		
Revenue			
Province of British Columbia			
Operating grants	\$ 6,259,506	\$ 6,259,506	\$ 6,409,512
Donations and sponsorships	3,425,000	3,531,289	3,439,010
Specialty TV channel subscription fees	1,394,400	1,387,422	1,430,467
Amortization of deferred capital contributions (Notes 6 and 7)	131,185	472,089	352,916
Other	357,500	428,256	306,295
	<u>11,567,591</u>	<u>12,078,562</u>	<u>11,938,200</u>
Expenses			
Programming and presentation	1,691,638	1,850,204	1,670,464
Marketing and development	1,880,071	2,150,711	1,947,395
Broadcast platforms and corporate IT	2,079,886	2,252,754	2,120,474
General	3,682,657	3,294,347	3,263,934
Administration	1,176,062	1,228,671	1,224,844
Specialty TV channel	973,507	960,106	836,378
	<u>11,483,821</u>	<u>11,736,793</u>	<u>11,063,489</u>
Annual surplus from operations excluding endowment contributions	83,770	341,769	874,711
Endowment contributions	200,000	337,885	297,767
Annual surplus for the year	283,770	679,654	1,172,478
Accumulated surplus, beginning of year	11,136,923	11,136,923	9,964,445
Accumulated surplus, end of year	<u>\$11,420,693</u>	<u>\$11,816,577</u>	<u>\$ 11,136,923</u>

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

Knowledge Network Corporation
Consolidated Statement of Remeasurement Gains and Losses

<u>For the year ended March 31</u>	<u>2014</u>	<u>2013</u>
Accumulated remeasurement gains, beginning of year	\$ 96,770	\$ 59,595
Unrealized gains (losses) attributable to portfolio investments	(16,770)	62,805
Amounts reclassified to statement of operations:		
Realized gain (loss) on portfolio investments	<u>122,647</u>	<u>(25,630)</u>
Net remeasurement gains for the year	<u>105,877</u>	<u>37,175</u>
Accumulated remeasurement gains, end of year	<u>\$ 202,647</u>	<u>\$ 96,770</u>

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

Knowledge Network Corporation
Consolidated Statement of Changes in Net Financial Assets

For the year ended March 31	Budget	2014	2013
	(Note 16)		
Annual surplus	\$ 283,770	\$ 679,654	\$ 1,172,478
Remeasurement gains for the year	-	105,877	37,175
	<u>283,770</u>	<u>785,531</u>	<u>1,209,653</u>
Acquisition of tangible capital asset	(586,000)	(511,618)	(203,933)
Amortization of tangible capital assets	403,705	393,295	371,973
	<u>(182,295)</u>	<u>(118,323)</u>	<u>168,040</u>
Acquisition of broadcast rights	(3,502,000)	(3,966,290)	(4,048,898)
Amortization of broadcast rights	2,660,715	3,324,113	2,944,443
	<u>(841,285)</u>	<u>(642,177)</u>	<u>(1,104,455)</u>
Acquisition of prepaid expenses	-	(50,702)	(77,833)
Use of prepaid expenses	-	77,832	5,957
	<u>-</u>	<u>27,130</u>	<u>(71,876)</u>
Increase (decrease) in net debt	(739,810)	52,161	201,362
Net financial assets, beginning of year	<u>202,750</u>	<u>202,750</u>	<u>1,388</u>
Net financial assets (net debt), end of year	\$ (537,060)	\$ 254,911	\$ 202,750

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 **2014** **2013**

Cash provided (used) by

Operating transactions

Annual surplus from operations	\$ 679,654	\$ 1,172,478
Items not involving cash		
Gain (loss) on sale of investments	122,647	(25,630)
Amortization of deferred capital contributions	(472,089)	(352,916)
Amortization of capital assets	393,295	371,973
Amortization of broadcast rights	3,324,113	2,944,443
Change in non-cash operating working capital	(537,547)	(386,596)
	3,510,073	3,723,752

Financing transaction

Contributions received for broadcast rights	749,449	-
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Investing transaction

Redemption (purchase) of portfolio investments	2,034	(325,984)
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Capital transactions

Purchase of capital assets	(511,618)	(203,933)
Purchase of broadcast rights	(3,966,290)	(4,048,898)
	(4,477,908)	(4,252,831)

Decrease in cash for the year	(216,352)	(855,063)
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Cash, beginning of year	753,494	1,608,557
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Cash, end of year	\$ 537,142	\$ 753,494
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Change in non-cash operating working capital

Accounts receivable	\$ 382,438	\$ (185,663)
Prepaid expenses	27,129	(71,876)
Accounts payable and accruals	(313,278)	14,619
Income taxes receivable/payable	110,838	(182,783)
Deferred revenue, projects	(744,674)	39,107
	\$ (537,547)	\$ (386,596)

Knowledge Network Corporation
Consolidated Schedule of Segment Disclosure

For the year ended March 31

	Programming and Presentation	Marketing and Development	Broadcast Platforms and Corporate IT	General	Administration	Specialty TV Channel	2014 Consolidated	Budget Consolidated	2013 Consolidated
								(Note 16)	
Revenues									
Provincial operating and other grants	\$ -	\$ -	\$ -	\$ 6,259,506	\$ -	\$ -	\$ 6,259,506	\$ 6,259,506	\$ 6,409,512
Donations and sponsorships	-	3,531,289	-	-	-	-	3,531,289	3,425,000	3,439,010
Specialty TV Channel subscription fees	-	-	-	-	-	1,387,422	1,387,422	1,394,400	1,430,467
Amortization of deferred contributions	-	-	-	472,089	-	-	472,089	131,185	352,916
Other	-	-	-	428,256	-	-	428,256	357,500	306,295
	-	3,531,289	-	7,159,851	-	1,387,422	12,078,562	11,567,591	11,938,200
Expenses									
Salaries and benefits	1,281,454	984,386	1,263,553	-	810,386	99,424	4,439,203	4,297,301	4,325,781
Amortization of capital assets and broadcast rights	-	-	-	3,234,588	-	540,514	3,775,102	3,765,923	3,394,459
Purchased services	483,960	632,804	229,827	493	55,071	113,276	1,515,431	1,256,163	1,474,395
Supplies, shipping, minor software, maintenance	39,038	434,853	735,459	21,125	14,001	103,438	1,347,914	1,284,043	1,324,830
Travel, miscellaneous, other	45,752	98,668	23,915	38,141	100,751	11,875	319,102	633,551	271,504
Facilities operating costs, rental	-	-	-	-	248,462	-	248,462	246,840	223,599
Income taxes (Note 8)	-	-	-	-	-	91,579	91,579	-	48,921
	1,850,204	2,150,711	2,252,754	3,294,347	1,228,671	960,106	11,736,793	11,483,821	11,063,489
	\$ (1,850,204)	\$ 1,380,578	\$ (2,252,754)	\$ 3,865,504	\$ (1,228,671)	\$ 427,316	\$ 341,769	\$ 83,770	\$ 874,711

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

Knowledge Network Corporation

Notes to the Consolidated Financial Statements

March 31, 2014

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 Technology, Innovation and Citizens' Services.

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.

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.

Knowledge Network Corporation
Notes to the Consolidated Financial Statements

March 31, 2014

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).

Knowledge Network Corporation
Notes to the Consolidated Financial Statements

March 31, 2014

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.

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, 2014, the balance in US dollar account was \$100,175 (2013 - \$15,112).

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, 2014 and March 31, 2013 the Corporation did not utilize this credit facility.

(b) Portfolio investments

	March 31 2014	March 31 2013
Fixed income	\$ 343,901	\$ 378,930
Common shares	1,699,932	1,059,320
Mutual funds	7,146	685,799
Cash	81,669	89,524
Other	70,818	8,696
	<u>\$ 2,203,466</u>	<u>\$ 2,222,269</u>

Fixed income investments bear interest ranging from 2.63% - 8.00% (2013 - 2.63% - 8.00%) with maturities ranging from January 2017 to Sept 2041 (2013 - January 2017 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, 2014

4. Tangible Capital Assets

	Furniture and Fixtures	Computer Equipment	Equipment	Software	Broadcast Network Equipment	Leasehold Improvements	March 31, 2014
Cost							
Opening balance	\$ 880,545	\$ 3,002,452	\$ 2,396,439	\$ 365,755	\$ 13,080,963	\$ 37,695	\$ 19,763,849
Additions	-	3,044	-	25,943	482,631	-	511,618
Closing balance	880,545	3,005,496	2,396,439	391,698	13,563,594	37,695	20,275,467
Accumulated Amortization							
Opening balance	760,118	2,500,094	2,341,989	365,755	11,130,371	23,725	17,122,052
Amortization	12,043	100,776	8,167	6,486	263,029	2,794	393,295
Closing balance	772,161	2,600,870	2,350,156	372,241	11,393,400	26,519	17,515,347
Net Book Value	\$ 108,384	\$ 404,626	\$ 46,283	\$ 19,457	\$ 2,170,194	\$ 11,176	\$ 2,760,120

	Furniture and Fixtures	Computer Equipment	Equipment	Software	Broadcast Network Equipment	Leasehold Improvements	March 31, 2013
Cost							
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
Accumulated Amortization							
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
Net Book Value	\$ 120,427	\$ 502,358	\$ 54,450	\$ -	\$ 1,950,592	\$ 13,970	\$ 2,641,797

Knowledge Network Corporation
Notes to the Consolidated Financial Statements

March 31, 2014

5. Broadcast Rights

	2014	2013
Cost		
Opening balance	\$ 13,472,766	\$ 12,073,056
Additions	3,966,290	4,048,898
Disposal of expired rights	(1,861,119)	(2,649,188)
Closing balance	15,577,937	13,472,766
Accumulated Amortization		
Opening balance	5,161,452	4,866,197
Amortization	3,324,113	2,944,443
Disposal of expired rights	(1,861,118)	(2,649,188)
Closing balance	6,624,447	5,161,452
Net book value	\$ 8,953,490	\$ 8,311,314

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.

	2014	2013
Balance, beginning of year	\$ 1,937,102	\$ 2,217,838
Less: Amounts recognized as revenue	(244,006)	(280,736)
Balance, end of year	\$ 1,693,096	\$ 1,937,102

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.

	2014	2013
Balance, beginning of year	\$ 471,857	\$ 544,037
Contribution received	749,449	-
Amounts recognized as revenue	(228,083)	(72,180)
Balance, end of year	\$ 993,223	\$ 471,857

Knowledge Network Corporation
Notes to the Consolidated Financial Statements

March 31, 2014

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 \$50,868. Once the actual income tax was calculated at \$31,110, a refund of \$19,758 was due at year end. However, retroactive tax legislation reduced the ability of KWCC to claim the small business deduction for 2011/12 and 2012/13 with expected additional cost of \$60,000.

9. Commitments and Contingencies

Satellite Transmission Service

The Corporation acquires satellite transmission services at an annual cost of approximately \$440,245 under agreements that are renewed periodically.

Production Costs

The Corporation acquires programs which require the commitment of funds. As at March 31, 2014, the Corporation is committed to pay \$2,190,249 for licence fees over the period from April 2014 to March 2016.

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, 2014, there are no claims in excess of amounts recorded.

Knowledge Network Corporation
Notes to the Consolidated Financial Statements

March 31, 2014

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 \$248,462 (2013 - \$218,467).

Included in accounts receivable is \$750,000 (2013 - \$750,000) related to a loan due from its subsidiary, representing the \$1,500,000 (2013 - \$1,500,000) balance of the loan less the 50% impact resulting from proportionate consolidation. The loan is unsecured and bears interest at 5% per annum. Also included in accounts receivable is \$436,646 (2013 - \$336,131) related to advances, fees and interest payable.

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.

Knowledge Network Corporation
Notes to the Consolidated Financial Statements

March 31, 2014

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.

12. Pensions

The Corporation and its employees contribute to the College Pension Plan and Municipal Pension Plan ("The Plans"), jointly trustee pension plans. The boards of trustees for these plans, representing plan members and employers, and are responsible for overseeing the management of the Plans, including investment of the assets and administration of benefits. The Plans are multi-employer contributory pension plans. Basic pension benefits provided are based on formulas. The College Pension Plan has about 12,900 active members from college senior administration and instructional staff and approximately 5,100 retired members. The Municipal Pension Plan has about 179,000 active members and approximately 71,000 retired members.

Active College Pension Plan members include approximately 14 contributors, and active Municipal Pension Plan members include approximately 33 contributors from the Corporation.

The most recent valuation for the College Pension Plan as at August 31, 2012 indicated an unfunded liability of \$105 million for basic benefits. The most recent actuarial valuation for the Municipal Pension Plan as at December 31, 2012 indicated a \$1,370 million funding deficit for basic pension benefits. The next valuation will be as at December 31, 2015 with results available in 2016.

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

The Corporation paid \$327,868 (2013: \$306,388) for employer contributions while employees contributed \$300,535 (2013 - \$284,071) to the Plans in fiscal 2014.

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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, 2014.

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.

15. Accumulated Surplus

Accumulated surplus is comprised of the following:

	<u>2014</u>	<u>2013</u>
Invested in tangible capital assets	\$ 1,067,024	\$ 704,694
Invested in broadcast rights	7,960,267	7,839,458
Endowment funds	1,674,453	1,336,568
Unrestricted amounts	<u>1,317,480</u>	<u>1,352,973</u>
	<u>\$12,019,224</u>	<u>\$ 11,233,693</u>

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, 2013

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

March 31, 2014

Increase accumulated surplus and decrease deferred contributions by	\$ 1,693,096
Broadcast rights and accumulated surplus overstated by	\$ 8,953,490

Year ended March 31, 2013

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

Year ended March 31, 2014

Amortization expense overstated by	\$ 3,324,113
Amortization of deferred capital contributions overstated by	\$ 472,089