

Knowledge Network Corporation

2016/17 ANNUAL SERVICE PLAN REPORT



BRITISH COLUMBIA'S | **Knowledge Network:**

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Board Chair's Accountability Statement

The Knowledge Network Corporation *2016/17 Annual Service Plan Report* compares the Corporation's actual results to the expected results identified in the *2016/17 - 2018/19 Service Plan*. I am accountable for those results as reported.



Nini Baird, C.M.
Chair, Knowledge Network Corporation Board of Directors

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Chair/CEO Report Letter



Nini Baird, C.M.
Board Chair

On behalf of the Board of Directors, we are pleased to submit Knowledge Network Corporation's 2016/17 Annual Service Plan Report.

In an era of eroding confidence in commercial media, British Columbia's Knowledge Network offers informative and educational programming that the public has come to trust and depend on. Trust is our number one value and guides all our actions as a public service. Through expert curation of international documentary and children's programs as well as investment in original B.C. and Canadian stories, Knowledge Network provides a unique lens to see ourselves in the larger global context.



Rudy Buttignol, C.M.
President & CEO

In 2016/17, in support of our government mandate, our programming reflected topics of concern and relevance to British Columbians. We turned the spotlight on health care services at Vancouver General Hospital with the premiere of the second and third seasons of the popular documentary series *Emergency Room: Life and Death at VGH*. The new episodes probed the urgent health care issues of the day, including chronic care, the elderly, mental health, and end-of-life decisions. Produced in partnership with Vancouver Coastal Health and B.C.'s Lark Productions, *Emergency Room: Life and Death at VGH* has become our most watched documentary series on our television, web and app platforms.

Two documentary anthology series brought the world to British Columbians. *Discover Africa* explored the majestic landscapes, magnificent wildlife, and little known history of this fascinating continent. *India: Then and Now* took viewers on a six month journey to explore the people, places, and dynasties that are shaping modern India.

Knowledge Kids premiered *Ready Jet Go!* taking our youngest viewers on planetary adventures to explore the solar system and learn about astronomy and technology. This animated series was produced in Vancouver, with a special launch event for families at the TELUS World of Science.

To expand streaming video offerings and reach new audiences, a selection of foreign language titles were introduced to Knowledge.ca and the Knowledge App. The *First Hand Collection* and the *China Screen* anthology greatly expanded our library of international documentary programs.

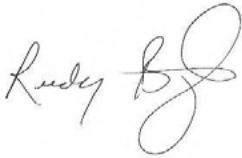
Space Suite II, a series of ten short films exploring the infinite wonders of our universe, premiered in the summer. The series was produced for Knowledge Network by B.C.'s Two Story Productions with the expert collaboration of UBC astrophysicist Dr. Jaymie Matthews. A wide range of other programming achievements, in support of our 2016/17 mandate letter, are summarized in Appendix C.

The Taxpayer Accountability Principles guide our planning and decision making. All Board members signed the Mandate Letter and Taxpayer Accountability Principles, and along with the senior management team, are in compliance with its requirements. An evaluation plan was developed to track Taxpayer Accountability Principles implementation and we continue to administer and refine the process. All new Board members received a detailed orientation and were encouraged to participate in professional development opportunities. The CEO and Board Chair met with the Minister and staff three times throughout the year to ensure Knowledge Network Corporation actions were aligned with the Ministry's direction.

Our achievements were made possible by the ongoing support of the Government of British Columbia and the generous financial contributions of our loyal donors across the province. British Columbians support Knowledge Network because they trust and value their public broadcasting service. We are grateful for the privilege to serve the province through the commercial-free broadcasting of new and challenging ideas, diverse perspectives and independent voices.



Nini Baird, C.M.
Chair, Knowledge Network Corporation Board of Directors



Rudy Buttignol, C.M.
President and CEO, Knowledge Network Corporation

Purpose of the Organization

British Columbia's Knowledge Network is a viewer-supported public broadcaster. We are dedicated to the exploration of life, connecting British Columbians to the world through commercial-free programming anytime, anywhere.

Knowledge Network delivers educational content to British Columbians through mandatory carriage on cable, direct-to-home satellite, and internet protocol television (IPTV) services. Content is also available through streaming video at Knowledge.ca, KnowledgeKids.ca, the Knowledge app and the Knowledge Kids Go app. We develop, license, and commission filmmaker-driven documentaries for broadcast on Knowledge Network's content platforms. We serve as a resource for independent producers across traditional and interactive media sectors for the creation of multi-platform content.

Enabling Legislation

Knowledge Network is a Crown corporation, created in 2008 under the [Knowledge Network Corporation Act](#).

Subsidiaries

Knowledge-West Communications Corporation (KWCC) owns and operates BBC Kids, a Canadian children's subscription channel. BBC Kids is a commercial-free service reinforcing the values of both Knowledge Network and the BBC.

For further information on Knowledge Network Corporation please see Appendix B.

Strategic Direction and Context

Knowledge Network's [2016/17 Mandate Letter](#) identifies four strategic priorities with the Taxpayer Accountability Principles as an overarching government priority.

- 1. Broadcast programming covering topics of interest to British Columbians such as: economic diversification; jobs and skills; Asian trade and cultural awareness; First Nations communities and cultural awareness; health care sustainability including seniors' demographic shifts; early learning initiatives; emergency preparedness; and the environment, including climate change.*
- 2. Develop a new documentary series on international trade through the lens of the Vancouver International Airport, in partnership with B.C.'s independent production sector.*
- 3. Expand the KNC website, Knowledge.ca, through the addition of curated arts and information content from trusted Canadian and international sources*
- 4. In year two of a three-year plan, self-finance the replacement of aging digital broadcast infrastructure.*

Knowledge Network operates a multi-platform broadcast service. As new technologies continue to evolve, our viewers expect access to high quality, commercial-free content, anywhere and anytime they choose. In response to the growing demand for content from non-traditional platforms, we are expanding our Knowledge Primetime digital product line. These improved platforms will offer a better streaming experience for our audience with a focus on expanding program selection and extending viewing to even more devices. Our investments in new platforms have resulted in continued growth in viewership on our websites and apps. With more viewers accessing content online, broadband usage and related costs have been steadily rising. We are very grateful to the Government of B.C. for the increase in our annual grant to support the advancement of our web channels.

Competition for programs and their multi-platform rights has been increasing. To ensure a steady supply of unique, relevant programs, Knowledge Network is playing a larger role in the creation of original content. In February 2017, Knowledge Network hosted Opportunity Knocks, a public event announcing increased investment in original content and exciting new opportunities for B.C.'s independent production community. By strengthening collaborations with independent producers, more projects will be generated that have an impact and a connection with our viewers across the province.

Report on Performance

Knowledge Network is in alignment with government direction through our Mandate Letter. The following actions from our Taxpayer Accountability Principles Evaluation Plan were completed:

- Review and approval of annual operating budget by Board of Directors;
- Quarterly financial review by Board members, provided by Director of Finance;
- Quarterly review of all department expenditures by Director of Finance;
- Adhere to PSEC compensation guidelines;
- Communicate strategic priorities and financial information to the public, available at Knowledge.ca;
- Ensure all audience enquiries receive a response within 48 hours;
- Ensure new Board members receive a detailed orientation including responsibilities under the Taxpayer Accountability Principles;
- Encourage Board members to attend professional development opportunities including the Public Sector Board Governance Professional Development Forum;
- Review and discuss Board governance principles annually with the Board;
- Ensure decisions of the Board of Directors and senior management are fully transparent to the public through Service Plans and Annual Reports, available at Knowledge.ca.

Our performance goals and strategies are based on our 2016-2019 Strategic Plan *Foundation: Content + Channels + Community*. This is our first year reporting out on the three-year strategic plan.

Goals, Strategies, Measures and Targets

Goal 1: *Strengthen public broadcasting for British Columbians by increasing the unique and relevant content available on all Knowledge Network platforms.*

Strategies

1. Commission and pre-license more B.C. content.
2. Improve access to broadcast rights by investing in Canadian and international projects earlier through pre-buying and pre-licensing.
3. Increase children’s content online by developing digital properties that support their social, emotional, and intellectual development (apps, games, e-books).
4. Expand Knowledge.ca by curating complementary content related to programming such as photographs and articles.

Performance Measure	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Direct investment in multi-platform content ¹	\$960,280	\$2,748,625	\$1,085,582	\$3,000,000	\$1,620,572	\$2,500,000	\$2,600,000
Indirect investment in multi-platform content (Canada media fund, telus) ²	\$969,944	\$654,688	\$1,211,584	\$900,000	\$1,882,030	\$1,500,000	\$1,600,000
B.C. Independent production budgets supported by knowledge network ³	\$12,000,000 ⁴	\$3,231,450	\$9,772,234 ⁵	\$2,500,000	\$4,332,862	\$4,000,000	\$4,000,000

¹ The amount Knowledge Network directs annually from its budget for original content rights. Includes investment in television and online original content for both children and adults. The number of pre-licensed projects varies from year to year.

² Based on our investment in Canadian productions, Knowledge Network receives a funding envelope from the Canada Media Fund which we allocate to children’s programming and documentaries. Knowledge Network also leverages funding from independent production funds such as the TELUS Fund for projects where we are the lead broadcaster.

³ This number represents all contributions to independent production budgets, including those committed by Knowledge Network in a fiscal year. It demonstrates the economic activity generated by independent production projects supported by Knowledge Network. Independent production budgets are comprised of funding from many sources, including domestic and international broadcasters, the Canada Media Fund, independent production funds and B.C. and Canada tax credits.

⁴ Reflects the budget for an international, animated children’s co-production supported by Knowledge Network. Projects of this scale are not the norm; targets for this measure will vary based on the non-cyclical nature of content production.

Discussion

Knowledge Network made direct investments in 22 original multi-platform projects in 2016/17. This included seven projects that Knowledge Network either commissioned or is the lead broadcaster:

- *Vancouver: No Fixed Address* - A portrait of Vancouver as seen by residents who can't afford to live there.
- *Where There's Hope* - A limited series following patients, their families and their health care providers through a year of treatment in HOPE - Lions Gate Hospital's new mental health facility.
- *Metamorphosis* - How humanity is being transformed by the climate change crisis.
- *This Mountain Life* - The lure of the B.C. mountains and the men and women who dare to live there.
- *Space Suite III* - A new series of ten short films that explore the infinite wonders of our universe and our interactions with the cosmos.
- *Looking at Edward Curtis* - The Pacific Northwestern work of photographer Edward Curtis as seen from an Aboriginal perspective.
- *Genius Genie* - A children's series about a genie and three resourceful children who use their smarts and ideas to solve everyday problems.

We exceeded targets for Indirect Investment in Multi-Platform Content and B.C. Independent Production Budget Supported by Knowledge, based in part on our direct investment in multi-platform content. The actuals for Direct Investment in Multi-Platform Content were lower due to the non-cyclical nature of content production. While we are increasing investment in original content, these activities are not always captured within the fiscal year measurement period. All performance measure targets for this goal moving forward have been updated based on 2016/17 actuals.

Knowledge Network advocated on behalf on B.C.'s independent production community to change the eligibility requirements for the Rogers Documentary Fund. B.C. filmmakers can now include projects with a broadcast commitment from Knowledge Network, and no longer require an additional broadcaster to qualify. This provides another opportunity for B.C. filmmakers to access financing for their projects.

Two British Columbia Institute of Technology co-op students were recruited to develop two new interactive online games. Their original games, *Draw with Inkie* and *Luna's Memory Match* are now available on KnowledgeKids.ca.

This goal supports the Taxpayer Accountability Principles by ensuring Knowledge Network is accountable and our actions are aligned with government's strategic mandate.

⁵ Reflects the budget for an international, animated children's co-production supported by Knowledge Network. Projects of this scale are not the norm; targets for this measure will vary based on the non-cyclical nature of content production.

Goal 2: Attract new audiences in British Columbia.

Strategies

1. Grow baby boomer (ages 50-70) audiences through strategic partnerships and marketing priorities.
2. Capture audiences from non-traditional platforms.
 - Invest in marketing Knowledge’s “TV – Everywhere” offerings (websites, apps, Video on Demand).
 - Seek carriage on emerging platforms (e.g. Apple TV, Chromecast).
3. Increase marketing efforts to strengthen the Knowledge brands.
 - Improve integration of marketing activities across all platforms.
 - Increase presence at community events to drive awareness of Knowledge and Knowledge Kids to new audiences.
4. Leverage the rollout of new low cost, basic service cable bundles to increase awareness of Knowledge Network and Knowledge Kids.

Television Channels (SD and HD)

Performance Measure		2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Total reach (people) ⁶	Knowledge Primetime	2,637,000	2,560,000	2,373,000	2,500,000	2,132,000	2,300,000	2,300,000
	Knowledge Kids ⁷	1,842,000	1,800,000	1,637,000	1,500,000	1,557,000	1,500,000	1,500,000
Average weekly hours viewed ⁸	Knowledge Primetime	1,454,410	1,450,250	1,329,015	1,200,000	1,295,371	1,250,000	1,250,000
	Knowledge Kids	468,546	510,862	438,421	375,000	401,000	375,000	375,000

Discussion

With internet TV viewing on the rise, we are starting to see shifts as viewers move from our linear service to our websites and apps. Knowledge.ca and KnowledgeKids.ca experienced significant growth across all performance measures as more viewers turn to websites and apps to watch content. Total Reach Primetime decreased by 10 per cent compared to fiscal 2015/16, however, total sessions for Knowledge.ca and KnowledgeKids.ca increased by 14 per cent during the same period.

⁶ Unduplicated number (number of people exposed) of those viewing at least one minute of programming in the Vancouver Extended Market for Knowledge Primetime (viewers 2+, 6pm to 12am) and Knowledge Kids (viewers 2+, 6am to 6pm, M-F; 6am to 12pm, Sat-Sun) measured by Numeris Canada.

⁷ The 2-8 demographic are consuming more content on other platforms (desktop computers, mobile and tablets).

⁸ Averaged over fiscal year, the total number of hours of programming viewed per week in the Vancouver Extended Market measured by Numeris Canada.

Knowledge Network remained the fourth most watched broadcaster in British Columbia increasing its market share to 4.9 per cent in Primetime (Numeris, Fall 2016, Vancouver Extended Market). Performance measure targets moving forward have been updated based on 2016/17 actuals.

Web Channels

Performance Measure		2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
Web sessions ⁹	Knowledge.ca	1,044,827	1,213,420	1,461,649	1,500,000	1,697,181	1,700,000	1,750,000
	Knowledgekids.ca	398,926	255,110	485,170	300,000	529,861	550,000	600,000
	TOTAL	1,443,753	1,468,530	1,946,819	1,800,000	2,227,042	2,250,000	2,350,000
Page views ¹⁰	Knowledge.ca	5,249,000	5,428,752	5,578,593	7,000,000	7,176,058	7,500,000	8,000,000
	Knowledgekids.ca	732,203	575,799	1,269,002	500,000	2,900,928	3,000,000	3,200,000
	TOTAL	5,981,203	6,004,551	6,847,595	7,500,000	10,076,986	10,500,000	11,200,000

Discussion

Over the last four years, total growth in sessions on Knowledge.ca and KnowledgeKids.ca has increased by 54 per cent. In 2016/17, season II and III of the award-winning documentary series *Emergency Room: Life and Death at VGH* premiered on-air and online. The series probed deeper into the health care issues impacting our province today, from the perspective of women and men on the forefront of emergency care. The companion website at Knowledge.ca/er facilitated dialogue and debate on current health care issues, and included 50 behind the scenes stories to discover more about the emergency department at VGH. *Emergency Room: Life and Death at VGH* was commissioned by Knowledge Network and produced by B.C.-based Lark Productions. It was made with the support of Vancouver Coastal Health and financed in part by the Canada Media Fund, the TELUS Fund and donations from Knowledge Partners. Performance measure targets moving forward have been updated based on 2016/17 actuals.

⁹ Period of interaction between visitor's browser and website, ending when browser is closed. Measured using Google Analytics.

¹⁰ View of a page on a website tracked by tracking code. There can be one or more page views per session. Measured using Google Analytics.

App Channels

Performance Measure		2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
APP sessions ¹¹	Knowledge App	N/A	N/A	44,199	60,000	123,432	150,000	175,000
	Knowledge Kids Go	N/A	N/A	332,477	40,000	1,249,759	1,300,000	1,325,000
	TOTAL	N/A	N/A	376,676	100,000	1,373,191	1,450,000	1,500,000
Screen views ¹²	Knowledge App	N/A	N/A	113,041	100,000	303,175	350,000	375,000
	Knowledge Kids Go	N/A	N/A	3,886,263	60,000	16,189,029 ¹³	16,500,000	16,575,000
	TOTAL	N/A	N/A	3,999,304	160,000	16,492,204	16,850,000	16,950,000

Discussion

Since launching in fiscal 2015/16, sessions on the Knowledge App and Knowledge Kids Go have increased by 265 per cent. Greater awareness of these platforms and changing viewer behavior contributed to this significant growth. To expand streaming video offerings and reach new audiences, a selection of foreign language titles were introduced to Knowledge.ca and the Knowledge App. The *First Hand Collection* and the *China Screen* anthology greatly expanded our library of international documentary programs. Performance measure targets moving forward have been updated based on 2016/17 actuals.

Community Outreach

Performance Measure	2013/14 Actual	2014/15 Actual	2015/16 Actual	2016/17 Target	2016/17 Actual	2017/18 Target	2018/19 Target
B.C. community events	15	9	17	10	10	11	12
British Columbians attending community events (estimated number of people) ¹⁴	N/A	3,140	5,29015	3,200	2,900	3,000	3,200

¹¹ A session is the period time a user is actively engaged with your app. All usage data (Screen Views, Events, Ecommerce, etc.) is associated with a session. Measured using Google Analytics.

¹² The total number of screens viewed. Repeated views of a single screen are counted. Measured using Google Analytics.

¹³ Only two months of data were available for Knowledge Kids Go when targets set as part of the 2016/17 Service Plan.

¹⁴ This is measured through capacity of venues and attendance. Reaching beyond the lower mainland is a priority, but less populated communities may have smaller events.

¹⁵ Due to venue and content availability, we hosted four Partner events in one fiscal year in 2015/16 (we usually host two).

Discussion

Knowledge Network participated in a number of community events with the general public. We also supported events with local filmmakers and with our Knowledge Partners:

- Kamloops – Kamloops Canadian and International Film Festival featuring the Knowledge Network commissioned documentary *Koneline*
- New Westminster – Knowledge Partners advance screening and reception
- Vancouver – *Emergency Room: Life & Death at VGH* advance screening and reception
- Vancouver – Knowledge Network 2016 broadcast season launch event
- Vancouver – President & CEO Presentation to the Regeneration Group
- Vancouver – President & CEO Keynote Address to CMC-BC Conference
- Vancouver – Opportunity Knocks Town Hall Forum for B.C.’s independent production community
- Vancouver – *Ready Jet Go* at the TELUS World of Science (two events)
- Vancouver – Vancouver International Film Festival featuring the Knowledge Network commissioned documentary *Koneline*
- Whistler – Knowledge Network presence at Canadian Cable Systems Alliance conference.

This goal supports the Taxpayer Accountability Principles by ensuring Knowledge Network engages in respectful and effective communications with our audiences and stakeholders across the province.

Goal 3: *Increase self-generated revenues through donations from the public and from entrepreneurial initiatives.*

Strategies

1. Explore opportunities to encourage more legacy gifts.
2. Align fundraising tactics and messaging with the philanthropic values of baby boomers emphasizing B.C. and Canadian identity of the Knowledge brand.
3. Expand fundraising appeals on new platforms to convert more Knowledge viewers and users to Knowledge Partners.
4. Explore opportunities to offer Knowledge Network in new territories.
5. Protect BBC Kids revenue in the face of a changing regulatory environment (e.g. Pick and Pay).

Performance Measure	2013/14 Actual	2014/15 actual	2015/16 Actual	2016/17 target	2016/17 Actual	2017/18 target	2018/19 target
Knowledge partner donations ¹⁶	\$3,400,000	\$3,889,552	\$4,020,000	\$3,900,000	\$4,292,887	\$4,200,000	\$4,200,000
Entrepreneurial revenues ¹⁷	\$550,000	\$550,000	\$550,000	\$600,000	\$400,000	\$400,000	\$500,000

¹⁶ Measured by tracking total Knowledge Partners donations received annually.

¹⁷ Knowledge Network receives revenues from an owned subsidiary. These target revenues are unconsolidated.

Discussion

The Knowledge Partners Annual Fund donations exceeded expectations reaching nearly \$4.3 million dollars. This is an increase of 6.9 per cent over last year. Our overall donor base (counted as households) increased by 3.3 per cent. Monthly giving now accounts for more than 32 per cent of our annual fund revenue.

In the fall of 2016, a contest to win a trip for two to Ireland was very successful in growing online donations. Overall, in 2016/17, Knowledge Network saw an improvement of 12 per cent in new donors over 2015/16.

Significant changes in the operating environment for our entrepreneurial venture BBC Kids, including new Canadian Radio-television and Telecommunications Commission (CRTC) broadcast policies (i.e. pick and pay), is putting pressure on revenues for Canadian specialty services. In response to recent declines in revenue for BBC Kids, our subsidiary Knowledge-West Communications Corporation (KWCC) reduced expenses including Knowledge Network's channel management fee.

Knowledge Network's total revenue for these performance measures was \$4,692,887, an increase of 2.6 per cent compared to last fiscal year. This goal supports the Taxpayer Accountability Principles by ensuring Knowledge Network delivers a cost-efficient, effective public service for British Columbians.

Financial Report

Discussion of Results

Increased charitable donations, media partnerships, and revenues from BBC Kids contributed to Knowledge Network Corporation ending 2016/17 with just over \$4.6 million in self-generated revenues. We will continue to monitor bandwidth costs which have been increasing as our audiences shift to web-based platforms.

Knowledge Network Corporation ended the fiscal year with a surplus of \$1.751 million which is slightly higher than the \$1.580 million surplus in 2015/16. The annual surplus from operations reduced from \$814 thousand in 2015/16 to \$614 thousand in 2016/17 due to reduction in endowment investment and other revenues. However, endowment contributions received and held in trust increased from \$766 thousand to \$1.138 million. Of the \$1.751 million surplus, \$1.268 million pertains to endowment contributions and earnings which are held in trust and not treated as operating revenue. As noted below, our actual operating surplus was \$483 thousand which represents 3.8 per cent of our overall operating budget.

2016/2017 Consolidated Surplus

	<u>2016/2017 Actual</u> <u>(\$millions)</u>	
Total Consolidated Revenue	\$12.686	100.0%
Amounts included in operating surplus:		
Endowment Contributions to be invested	\$1.138	9.0%
Endowment Net Income after management fees to be re-invested	\$130	1.0%
Actual operating surplus	\$483	3.8%
Total Operating Surplus	<u>\$1.751</u>	<u>13.8%</u>

Risks and Uncertainties

Knowledge Network has experienced an upward trend in charitable donations, even as charitable giving in Canada continues to decline amidst a growing number of charities seeking support. Combined with changing demographics and viewing habits, donations to Knowledge Network could plateau within the foreseeable future.

Due to significant changes in the operating environment for BBC Kids, including new CRTC broadcast policies, revenues from the operation of our national specialty service have begun to decline. Recent regulatory changes have placed independent specialty services at a disadvantage resulting in less favourable pricing for BBC Kids. In response, we have adjusted expenses for BBC Kids accordingly and will continue to closely monitor industry and regulatory changes to maintain profitability.

Financial Resource Summary Table

(\$000)	<u>2013/14</u> <u>Actual</u>	<u>2014/15</u> <u>Actual</u>	<u>2015/16</u> <u>Actual</u>	<u>2016/17</u> <u>Budget</u>	<u>2016/17</u> <u>Actual</u>	<u>2016/17</u> <u>Budget</u> <u>Variance</u>	<u>2015/16 to</u> <u>2016/17</u> <u>Variance</u>
Provincial Operating Grant	6,260	6,260	6,260	6,260	6,260	-	-
Donations and Sponsorships	3,531	3,906	4,025	3,925	4,331	406	306
Revenue from Subsidiary Operations	1,387	1,546	1,483	1,376	1,269	(107)	(215)
Amortization of Deferred Contributions	472	511	335	435	367	(67)	33
Endowment Investment and Other Revenue ¹⁸	428	508	836	480	459	(21)	(377)
Total Revenues	12,079	12,730	12,939	12,476	12,687	211	(253)
Programming and Presentation	1,850	1,925	1,916	1,961	1,955	(6)	39
Marketing and		2,034	2,143	2,263	2,257	(6)	114

¹⁸ Includes channel management fee and realized investment income.

Knowledge Network Corporation

Development	2,151						
Broadcast Platforms and Corporate IT	2,253	2,059	2,380	2,133	2,240	107	(140)
General ¹⁹	446	439	538	467	451	(16)	(87)
Amortization of Broadcast Rights	2,849	3,027	2,846	3,358	2,973	(385)	128
Administration	1,229	1,177	1,268	1,192	1,260	68	(8)
Subsidiary Operations	960	1,042	1,034	977	937	(40)	(97)
Total Expenses	11,737	11,704	12,125	12,352	12,073	(278)	(52)
Annual Surplus from Operations	342	1,026	814	124	614	489	(201)
Endowment Contributions Received (held in trust) ²⁰	338	1,149	766	400	1,138	738	372
Annual Surplus	680	2,175	1,580	524	1,751	1,227	171
Capital Expenditures	4,478	3,355	4,316	4,305	3,772	(533)	(544)
Total Liabilities	3,659	3,684	3,234	2,910	2,990	-	(324)
Accumulated Surplus	11,817	13,991	15,571	16,095	17,322		

Variance and Trend Analysis

Donations and Sponsorships

Donations from Knowledge Partners were \$406,000 more than budget and \$306,000 more than last fiscal. This can be attributed to our successful Ireland trip contest, an increase in new donors and the strong program offerings that generate viewer support.

Subsidiary Operations - Revenue

Subsidiary revenues were \$107,000 less than budget and \$215,000 less than last fiscal. Significant changes in the operating environment for BBC Kids, including new CRTC broadcast policies, is putting pressure on revenue models for Canadian specialty services.

Amortization of Deferred Contributions

During the year, actual deferred contributions amortized were \$67,000 less than budget and \$33,000 more than last fiscal. The increase from last fiscal is due to completion of the *Nico Can Dance* program and app.

¹⁹ Includes amortization of equipment.

²⁰ Endowment contributions are held in trust and not treated as operating revenue. Please see explanation on page 16.

Other Revenue

Other revenue was \$21,000 less than budget and \$377,000 less than last fiscal. The income last fiscal was unusual as Endowment Fund investments were liquidated and transferred to a new fund manager.

Programming and Presentation

These expenses were \$6,000 less than budget and \$39,000 more than last fiscal. The increase over last fiscal was due to more content development activity, with \$31,000 invested into development that did not advance to the production stage.

Marketing and Development

These expenses were \$6,000 less than budget and \$114,000 more than last fiscal. The increase over last fiscal is due to marketing salaries of \$77,000 and advertising of \$34,000.

Broadcast Platforms and Corporate IT

These expenses were \$107,000 more than budget and \$140,000 less than last fiscal. The budget variance was due to new website planning activities that were not budgeted \$38,000 and bandwidth costs that were higher than budget \$62,000. The decrease of \$140,000 from last fiscal is due to:

Reduction in software maintenance costs	\$28,000	
Replacement of various minor broadcast equipment previous fiscal only	\$39,000	
Reduction in one FTE	\$74,000	
Total	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="border-top: 1px solid black; border-bottom: 3px double black;">\$141,000</td> </tr> </table>	\$141,000
\$141,000		

General

General expenses were \$16,000 less than budget and \$87,000 less than last fiscal. The decrease from last fiscal is mainly due to a GST payment pertaining to broadcast rights that was made last year only for \$75,000.

Amortization of Capital Assets and Broadcast Rights

Amortization expense was \$385,000 less than budget and \$128,000 more than last fiscal. The budget variance was due to delays in commissioned projects that were not completed as anticipated by the end of fiscal 2016/17. The increase over last fiscal is mainly due to the full year amortization of *Emergency Room: Life and Death at VGH Season II*.

Administration

Administration costs were \$68,000 more than budget and \$8,000 less than last fiscal. The budget variance is mainly due to costs which were not budgeted:

Additional facilities rental costs	\$6,000
Personnel costs for co-op students	\$29,000
Personnel costs PT to FT positions	\$30,000
Total	\$65,000

Administration costs are detailed as:

Corporate training plan	\$34,000
Building lease and operating costs	\$270,000
President's Office and Board	\$349,000
Finance, Human Resources, Other	\$607,000
Total	\$1,260,000

Subsidiary Operations

Subsidiary expenses were \$40,000 less than budget and \$97,000 less than last fiscal. The budget variance and decrease from last fiscal were due to marketing costs that were not incurred.

Endowment Contributions

Endowment contributions received were \$738,000 more than budget and \$372,000 more than last fiscal. Due to the confidential nature of major gifts, it is difficult to predict when endowment contributions will be received.

Capital Expenditures

Capital assets purchased were \$533,000 less than budget and \$543,000 less than last fiscal. The budget variance is due to commissioned programs that were not started as anticipated. The decrease from last fiscal is due to a major project that was completed last fiscal (*Emergency Room: Life and Death at VGH Season II*).

Auditor's Report

Consolidated Financial Statements of

KNOWLEDGE NETWORK CORPORATION

Year ended March 31, 2017



KPMG LLP
Metro Tower I
4710 Kingsway, Suite 2400
Burnaby BC V5H 4M2
Canada
Telephone (604) 527-3600
Fax (604) 527-3636

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the Knowledge Network Corporation
To the Minister of Technology, Innovation and Citizens' Services

We have audited the accompanying consolidated financial statements of Knowledge Network Corporation, which comprise the Consolidated Statement of Financial Position as at March 31, 2017 and the Consolidated Statements of Operations, Remeasurement Gains and Losses, Changes in Net Financial Assets and Cash Flows for the year then ended, and notes and schedules, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated 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.

Auditors' 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.

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Knowledge Network Corporation
Page 2

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 financial statements present fairly, in all material respects, the financial position of Knowledge Network Corporation as at March 31, 2017, and its results of operations, its changes in net financial assets, and its cash flows for the year then ended in accordance with the basis of accounting as described in Note 2 to the financial statements.

Report on Other Legal and Regulatory Requirements

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.

KPMG LLP

Chartered Professional Accountants

May 19, 2017
Burnaby, Canada

Audited Financial Statements

KNOWLEDGE NETWORK CORPORATION

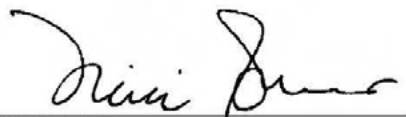
Consolidated Statement of Financial Position

March 31, 2017, with comparative information for 2016

	2017	2016
Financial assets:		
Cash (note 3(a))	\$ 1,138,041	\$ 1,457,891
Accounts receivable (note 9)	208,835	292,245
Portfolio investments (note 3(b))	2,106,290	1,261,853
	<u>3,453,166</u>	<u>3,011,989</u>
Liabilities:		
Accounts payable and accrued liabilities	\$ 909,434	\$ 906,276
Income taxes payable	88,538	8,957
Deferred revenue, projects	320,356	305,275
Deferred contributions (note 4)	1,671,419	2,013,693
	<u>2,989,747</u>	<u>3,234,201</u>
Net financial assets (debt)	463,419	(222,212)
Non-financial assets:		
Broadcast rights (note 5)	\$ 9,238,350	\$ 9,113,720
Tangible capital assets (note 6)	2,158,317	2,374,730
Prepaid expenses	56,969	88,839
Endowment investments (note 3(b))	5,520,383	3,965,059
	<u>16,974,019</u>	<u>15,542,348</u>
Commitments (note 8)		
Accumulated surplus (note 12)	<u>\$ 17,437,438</u>	<u>\$ 15,320,136</u>
Accumulated surplus represented by:		
Accumulated surplus	\$ 17,322,199	\$ 15,571,183
Accumulated remeasurement gains (losses)	115,239	(251,047)
	<u>\$ 17,437,438</u>	<u>\$ 15,320,136</u>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



Nini Baird CM,
Chair of the Board



Eric Watt
Chair of the Audit Committee

KNOWLEDGE NETWORK CORPORATION

Consolidated Statement of Operations

Year ended March 31, 2017, with comparative information for 2016

	Budget (note 13)	2017	2016
Revenue:			
Province of British Columbia operating grants	\$ 6,259,506	\$ 6,259,506	\$ 6,259,506
Donations and sponsorships	3,925,000	4,331,127	4,025,158
Specialty TV channel subscription fees	1,376,163	1,268,679	1,483,427
Amortization of deferred contributions (note 4)	435,000	368,494	335,265
Endowment investment income	100,000	166,974	490,873
Other	380,000	291,596	345,018
	12,475,669	12,686,376	12,939,247
Expenses (note 14):			
Programming and presentation	1,961,352	1,955,024	1,916,336
Marketing and development	2,262,628	2,256,965	2,172,183
Broadcast platforms and corporate IT	2,132,951	2,240,176	2,350,676
General	466,685	450,777	537,922
Amortization of broadcast rights	3,358,298	2,973,198	2,845,581
Administration	1,192,592	1,260,129	1,268,133
Specialty TV channel	976,922	936,983	1,034,453
	12,351,428	12,073,252	12,125,284
Annual surplus from operations	124,241	613,124	813,963
Endowment contributions received	400,000	1,137,892	765,871
Annual surplus	524,241	1,751,016	1,579,834
Accumulated surplus, beginning of year	15,571,183	15,571,183	13,991,349
Accumulated surplus, end of year	\$ 16,095,424	\$ 17,322,199	\$ 15,571,183

See accompanying notes to consolidated financial statements.

KNOWLEDGE NETWORK CORPORATION,

Consolidated Statement of Remeasurement Gains and Losses

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Accumulated remeasurement gains (losses), beginning of year	\$ (251,047)	\$ 290,554
Remeasurement gains (losses) attributable to investments	395,280	(243,555)
Amounts reclassified to statement of operations:		
Realized gain on investment	(28,994)	(298,046)
Net remeasurement gains (losses) for the year	366,286	(541,601)
Accumulated remeasurement gains (losses), end of year	\$ 115,239	\$ (251,047)

See accompanying notes to consolidated financial statements.

KNOWLEDGE NETWORK CORPORATION

Consolidated Statement of Changes in Net Financial Assets (Debt)

Year ended March 31, 2017, with comparative information for 2016

	Budget (note 13)	2017	2016
Annual surplus	\$ 524,241	\$ 1,751,016	\$ 1,579,834
Net remeasurement gains (losses) for the year	-	366,286	(541,601)
	524,241	2,117,302	1,038,233
Acquisition of tangible capital asset	(150,000)	(121,342)	(146,229)
Amortization of tangible capital assets	371,250	337,755	360,126
	221,250	216,413	213,897
Acquisition of broadcast rights	(4,155,300)	(3,650,994)	(4,169,508)
Amortization of broadcast rights	3,918,868	3,526,364	3,501,989
	(236,432)	(124,630)	(667,519)
Acquisition of investments	(400,000)	(1,555,324)	(1,122,727)
Acquisition of prepaid expenses	-	(56,969)	(88,839)
Use of prepaid expenses	-	88,839	54,741
	-	31,870	(34,098)
Increase (decrease) in net financial assets	109,059	685,631	(572,214)
Net financial assets (debt), beginning of year	(222,212)	(222,212)	350,002
Net financial assets (debt), end of year	\$ (113,153)	\$ 463,419	\$ (222,212)

See accompanying notes to consolidated financial statements.

KNOWLEDGE NETWORK CORPORATION

Consolidated Statement of Cash Flows

Year ended March 31, 2017, with comparative information for 2016

	2017	2016
Cash provided (used by):		
Operations:		
Annual surplus	\$ 1,751,016	\$ 1,579,834
Items not involving cash:		
Gain on sale of investments	(28,994)	(298,046)
Amortization of deferred contributions	(368,494)	(335,265)
Amortization of capital assets	337,755	360,126
Amortization of broadcast rights	3,526,364	3,501,989
Changes in non-cash working capital:		
Accounts receivable	83,410	385,427
Prepaid expenses	31,870	(34,098)
Accounts payable and accruals	3,158	(98,101)
Income taxes payable	79,581	(48,543)
Deferred revenue, projects	15,081	6,767
	<u>5,430,747</u>	<u>5,020,090</u>
Financing:		
Contributions received for broadcast rights	26,220	25,000
Investing:		
Purchase of portfolio investments	(2,004,481)	(2,171,754)
Capital:		
Purchase of tangible capital assets	(121,342)	(146,229)
Purchase of broadcast rights	(3,650,994)	(4,169,508)
	<u>(3,772,336)</u>	<u>(4,315,737)</u>
Decrease in cash	(319,850)	(1,442,401)
Cash, beginning of year	1,457,891	2,900,292
Cash, end of year	<u>\$ 1,138,041</u>	<u>\$ 1,457,891</u>

See accompanying notes to consolidated financial statements.

KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements

Year ended March 31, 2017

1. Nature of operations:

Knowledge Network Corporation (the "Corporation") was incorporated as a Crown corporation in 2009 under the Knowledge Network Corporation Act, a statute of the Province of British Columbia.

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

The Corporation is a registered charity under the provisions of the Income Tax Act of Canada and is not subject to income taxes. The Corporation's 50% owned subsidiary is subject to income taxes.

2. Significant accounting policies:

(a) Basis of accounting:

These consolidated financial statements are prepared by management in accordance with Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia. This Section requires that the consolidated financial statements be prepared in accordance with Canadian public sector accounting standards established by the Canadian Public Sector Accounting Board, except in regard to the accounting for broadcast rights and government transfers.

The Corporation has obtained approval to continue to capitalize and amortize broadcast rights as non-financial assets. Canadian public sector accounting standards do not recognize 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 stipulated for the acquisition of tangible capital assets by deferring and amortizing them to income on the same basis as the related amortization expense for the assets. As these transfers do not contain additional stipulations that create a liability, Canadian public sector accounting standards would require these grants to be reported as revenue when spent.

The consolidated financial statements reflect 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.

(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.

KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2017

2. Significant accounting policies (continued):

(b) Revenue recognition (continued)

Subscription fees are recorded on an accrual basis as services are provided, except when the amount cannot be determined with a reasonable degree of certainty. 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 rates ranging from 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 on a straight-line basis over the term of the lease.

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

Funding received from the Province of British Columbia specifically for the acquisition of tangible capital assets is recorded as deferred contributions and is recognized as revenue in the statement of operations on the same basis as the amortization charged on the assets purchased with the funding. This accounting treatment is not consistent with the requirements of Canadian public sector accounting standards, which require that government transfers be recognized as revenue when approved by the transferor and eligibility criteria have been met, unless the transfer contains a stipulation that creates a liability, in which case the transfer is recognized as revenue when or over the period that the liability is extinguished.

(e) Broadcast rights:

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

(f) Financial instruments:

Derivatives and equity instruments quoted in an active market are measured at fair value. The Corporation measures other specific financial instruments at cost or amortized cost to correspond with how they are evaluated and managed.

Financial instruments measured at fair value are classified as level one, two or three for the purposes of describing the basis of the inputs used to measure the fair values, as described below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Market-based inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3: Inputs for the asset or liability that are not based on observable market data; assumptions are based on the best internal and external information available and are most suitable and appropriate based on the type of financial instrument being valued in order to establish what the transaction price would have been on the measurement date in an arm's length transaction.

KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2017

2. Significant accounting policies (continued):

(f) Financial instruments (continued):

Unrealized gains and losses from changes in the fair value of financial instruments are recorded in the statement of remeasurement gains and losses. Upon settlement, the cumulative gain or loss is reclassified from the statement of remeasurement gains and losses and recognized in the statement of operations.

For financial instruments measured using amortized cost, amortized cost is defined as the amount at which a financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus cumulative amortization using the effective interest method and minus any impairment losses. The effective interest rate method is used to determine interest revenue or expense.

For portfolio investments measured at cost, the cost method records the initial investment at cost and earnings from such investments are recognized only to the extent received or receivable. When an investment is written down to recognize an impairment loss, the new carrying value is deemed to be the new cost basis for subsequent accounting purposes.

Interest and dividends attributable to financial instruments are reported in the statement of operations.

Financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are recorded in the statement of operations and any related fair value changes previously recorded in the statement of remeasurement gains and losses are reversed to the extent of the impairment. Impairment losses are not reversed for a subsequent increase in value.

Transaction costs are a component of cost for financial instruments measured using cost or amortized cost.

Transaction costs are expensed for financial instruments measured at fair value.

The Corporation has designated its financial instruments as follows:

(i) Cash

Cash includes cash in the bank and is measured at fair value.

(ii) Short-term investments

Short-term investments are accounted for as portfolio investments. Investments quoted in an active market are reported at fair value and other investments are recorded at cost or amortized cost. These investments are highly liquid and held for the purpose of meeting short-term cash commitments. Investments reported at fair value recognize any changes in fair value in the statement of remeasurement gains and losses.

KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2017

2. Significant accounting policies (continued):

(f) Financial instruments (continued):

(iii) Market securities

Equity and debt investments quoted in an active market are reported at fair value. The Corporation has a diversified securities portfolio that includes short-term deposits, bonds and equities. Market securities are accounted for as portfolio investments and are reported at fair value with changes in fair value recognized in the statement of remeasurement gains and losses.

(iv) Other financial assets and financial liabilities

Other assets and accounts payable and accruals are measured at amortized cost using the effective interest method.

(g) Measurement uncertainty:

The preparation of financial statements in accordance with the framework described in note 2(a) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the year then ended. Significant areas of management estimate include the determination of tangible capital assets and broadcast rights and the related recognition of deferred contributions, and valuation of accounts receivable. Actual results could differ from those reported.

(h) Foreign currency translation:

Monetary assets and liabilities denominated in foreign currencies, are translated into Canadian dollars at the exchange rate prevailing at the financial statement date. Unrealized foreign exchange gains and losses are recognized in the statement of remeasurement gains and losses. In the period of settlement, realized foreign exchange gains and losses are recognized in the statement of operations, and the cumulative amount of remeasurement gains and losses is reversed in the statement of remeasurement gains and losses.

(i) Income taxes:

KWCC uses the taxes payable method to account for income taxes whereby the expense (income) of the period consists only of the cost (benefit) of current income taxes for that period, determined in accordance with the rules established by the taxation authorities

KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2017

3. Cash and investments:

(a) Cash:

The Corporation's bank accounts are held at one Canadian chartered bank. Interest is earned at prime minus 1.95% and is paid on a monthly basis. As at March 31, 2017, cash includes an amount of USD \$26,096 (2016 - USD \$183,009).

(b) Investments:

	2017	2016
Fixed income	\$ 1,674,806	\$ 1,711,668
Common shares	3,231,979	2,387,557
Mutual funds	1,814,686	1,007,026
Other	905,202	120,661
	<u>\$ 7,626,673</u>	<u>\$ 5,226,912</u>
	2017	2016
Portfolio investments	\$ 2,106,290	\$ 1,261,853
Endowment investments	5,520,383	3,965,059
	<u>\$ 7,626,673</u>	<u>\$ 5,226,912</u>

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

4. Deferred contributions

(a) Capital assets:

Deferred contributions related to capital assets represents the unamortized amount of grants received for the purchase of capital assets.

	2017	2016
Balance, beginning of year	\$ 1,295,903	\$ 1,480,796
Less: amounts recognized as revenue	(161,169)	(184,893)
Balance, end of year	<u>\$ 1,134,734</u>	<u>\$ 1,295,903</u>

KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2017

4. Deferred contributions (continued):

(b) Broadcast rights:

Deferred contributions related to broadcast rights represent the unamortized amount of funds received for the acquisition of programs. Amortization of deferred contributions is recorded as revenue.

	2017	2016
Balance, beginning of year	\$ 717,790	\$ 843,162
Contribution received	26,220	25,000
Amounts recognized as revenue	(207,325)	(150,372)
Balance, end of year	\$ 536,685	\$ 717,790
Deferred contributions, end of year	\$ 1,671,419	\$ 2,013,693

5. Broadcast rights:

	2017	2016
Cost:		
Opening balance	\$ 18,167,204	\$ 17,117,694
Additions	3,650,994	4,169,508
Expired rights	(2,607,527)	(3,119,998)
	19,210,671	18,167,204
Accumulated amortization:		
Opening balance	9,053,484	8,671,493
Amortization (i)	3,526,364	3,501,989
Expired rights	(2,607,527)	(3,119,998)
	9,972,321	9,053,484
Net book value	\$ 9,238,350	\$ 9,113,720

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

	2017	2016
Amortization of broadcast rights	\$ 2,973,198	\$ 2,845,581
Specialty TV channel expenses	553,166	656,408
	\$ 3,526,364	\$ 3,501,989

KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2016, with comparative information for 2015

6. Tangible capital assets:

	Furniture and fixtures	Computer equipment	Equipment	Software	Broadcast network equipment	Leasehold improvements	2017
Cost:							
Opening balance	\$ 880,545	\$ 3,051,757	\$ 2,396,439	\$ 419,236	\$ 13,856,838	\$ 37,695	\$ 20,642,510
Additions	-	-	-	18,993	102,349	-	121,342
Closing balance	880,545	3,051,757	2,396,439	438,229	13,959,187	37,695	20,763,852
Accumulated amortization:							
Opening balance	792,753	2,759,488	2,363,000	404,046	11,917,951	30,542	18,267,780
Amortization	8,779	58,453	5,016	12,344	251,732	1,431	337,755
Closing balance	801,532	2,817,941	2,368,016	416,390	12,169,683	31,973	18,605,535
Net book value	\$ 79,013	\$ 233,816	\$ 28,423	\$ 21,839	\$ 1,789,504	\$ 5,722	\$ 2,158,317

	Furniture and fixtures	Computer equipment	Equipment	Software	Broadcast network equipment	Leasehold improvements	2016
Cost:							
Opening balance	\$ 880,545	\$ 3,051,757	\$ 2,396,439	\$ 419,236	\$ 13,710,609	\$ 37,695	\$ 20,496,281
Additions	-	-	-	-	146,229	-	146,229
Closing balance	880,545	3,051,757	2,396,439	419,236	13,856,838	37,695	20,642,510
Accumulated amortization:							
Opening balance	\$ 782,999	\$ 2,686,421	\$ 2,357,099	\$ 388,854	\$ 11,663,527	\$ 28,754	\$ 17,907,654
Amortization	9,754	73,067	5,901	15,192	254,424	1,788	360,126
Closing balance	792,753	2,759,488	2,363,000	404,046	11,917,951	30,542	18,267,780
Net book value	\$ 87,792	\$ 292,269	\$ 33,439	\$ 15,190	\$ 1,938,887	\$ 7,153	\$ 2,374,730

KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2016, with comparative information for 2015

7. Credit facility:

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, 2017 no amount was drawn on this credit facility (2016 - nil).

8. Commitments:

Satellite transmission service

The Corporation acquires satellite transmission services at an annual cost of approximately \$404,650 (2016 - \$360,473) under agreements covering a four year period ending August 31, 2017.

Production costs

The Corporation acquires programs that require the commitment of funds. As at March 31, 2017, the Corporation is committed to pay \$2,180,653 (2016 - \$1,495,169) for license fees over the period from April 2017 to March 2019.

9. Related party transactions:

The Corporation is related through common control 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 the British Columbia Technical Institute of Technology, a Provincially controlled post-secondary institution, of \$1 per annum and its share of the building operating costs totaling \$269,840 (2016 - \$252,400).

Included in accounts receivable is \$37,899 (2016 - \$78,824) related to advances, fees, and interest receivable from KWCC.

KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2017

10. 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, 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 13,580 active members from college senior administration and instructional staff and approximately 6,025 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 23 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, 2015 indicated a funding ratio of 103.6%. The most recent actuarial valuation for the Municipal Pension Plan as at December 31, 2015 indicated a funding ratio of 104.6%.

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 \$359,201 (2016 - \$330,170) for employer contributions while employees contributed \$342,957 (2016 - \$315,339) to the Plans in fiscal 2017.

11. Financial instruments risks:

The Corporation, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a description of those risks at March 31, 2017.

(a) Credit risk:

Credit risk is the risk that the Corporation will incur a loss due to the failure by its counterparties to financial assets to meet their contractual obligations. Financial instruments that potentially subject the Corporation to credit risk consist primarily of cash, portfolio investments, endowment investments and accounts receivable. The Corporation has an investment policy to ensure investments are managed appropriately to secure the preservation of capital and the availability of liquid funds. The Corporation has also retained an investment firm to invest surplus funds in accordance with its investment policy. The receivables are due from various entities and individuals, thus the Corporation is not subject to concentrations of credit risk.

KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2017

11. Financial instruments risks (continued):

(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 cash held in US dollar bank accounts as noted in Note 3(a).

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

(d) Market risk:

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market (Note 3(b)). The Corporation is exposed to fair value risks on its investments in equity instruments.

(e) Liquidity risk:

Liquidity risk is the risk that the Corporation will not be able to meet its obligations as they fall due. The Corporation maintains adequate levels of working capital to ensure all its obligations can be met when they fall due.

12. Accumulated surplus:

Accumulated surplus is comprised of the following:

	2017	2016
Invested in tangible capital assets	\$ 1,023,583	\$ 1,078,827
Invested in broadcast rights	8,701,665	8,395,930
Endowment funds	5,520,383	3,965,059
Unrestricted amounts	2,191,807	1,880,320
Balance, end of year	\$ 17,437,438	\$ 15,320,136

13. Budget figures:

Budget figures are provided for comparison purposes and have been derived from the budget approved by the Board of Directors on February 26, 2016.

KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2017

14. Expense presentation:

For reporting purposes, the Corporation's activities have been aggregated into operational categories. The schedule of consolidated expenses by object reports the revenues and expenses that are directly attributable to each operational category. The revenues and expenses that cannot be directly attributable or allocated on a reasonable basis to individual categories are reported in General category. The following describes the activities of each area:

Programming and presentation

This category includes salaries and benefits costs of staff responsible for the acquisition of broadcast rights, management and design of broadcast content including branding, captioning of programs, and management of broadcast traffic. This category also includes the cost of contracted editors hired to create promotional content.

Marketing and development

This category includes salaries and benefits costs of staff responsible for administering our Partners' donations and Knowledge Endowment Fund. This includes other operating costs related to the servicing of our donors such as the production and distribution of the program guide.

This category also includes salaries and benefits costs of staff responsible for maintaining government reporting requirements, reporting on audience and viewership results and implementing our marketing plans.

Broadcast platforms and corporate IT

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

General

This category includes amortization of tangible capital assets and other administrative expenses.

Administration

This category includes salaries and benefits costs of staff responsible for overall administration, finance, and human resources. Operating costs also include the Corporation's share of leased facilities costs, and the costs of training and professional development of our staff.

Specialty TV channel

This category represents the operations of the BBC Kids tier 2 digital specialty channel via KWCC. BBC Kids is available to Canadian cable and Internet TV subscribers.

15. Comparative information:

Certain comparative information has been reclassified to conform with the financial statement presentation adopted in the current year.

Knowledge Network Corporation

KNOWLEDGE NETWORK CORPORATION

Schedule of consolidated expenses by object

Year ended March 31, 2017, with comparative information for 2016

	Programming and presentation	Marketing and development	Broadcast platforms and Corporate IT	General	Amortization of broadcast rights	Administration	Specialty TV channel	2017 consolidated	Budget consolidated	2016 consolidated
Salaries and benefits	\$ 1,407,924	\$ 969,703	\$ 1,292,326	\$ 18,554	\$ -	\$ 827,922	\$ 89,060	\$ 4,605,489	\$ 4,551,642	\$ 4,559,595
Amortization of capital assets and broadcast rights	-	-	-	317,755	2,973,198	-	573,166	3,864,119	4,290,118	3,862,115
Purchased services	448,906	621,522	248,674	4,477	-	47,419	64,870	1,435,068	1,522,630	1,679,192
Supplies, shipping, minor software, maintenance	11,051	539,342	664,487	52,286	-	20,205	87,599	1,374,970	1,205,653	1,350,561
Travel, miscellaneous, other	87,143	126,398	34,689	57,705	-	94,743	7,734	408,412	445,385	363,548
Facilities operating costs, rental	-	-	-	-	-	269,840	-	269,840	264,000	252,400
Income taxes	-	-	-	-	-	-	114,554	114,554	72,000	57,873
	\$ 1,955,024	\$ 2,256,965	\$ 2,240,176	\$ 450,777	\$ 2,973,198	\$ 1,260,129	\$ 936,983	\$ 12,073,252	\$ 12,351,428	\$ 12,125,284

Appendix A – Subsidiaries and Operating Segments

Active Subsidiaries

Knowledge-West Communications Corporation (KWCC) was incorporated in 1981. KWCC owns and operates BBC Kids, a Canadian children’s subscription channel. The CRTC approved KWCC’s acquisition of assets for BBC Kids in April 2011. BBC Kids is a commercial-free service reinforcing the values of both Knowledge Network Corporation and the BBC. KWCC financial results are proportionately consolidated under Knowledge Network Corporation’s audited financial statements.

Financial Resource Summary Table

(\$000)	<u>2015/16 Actual</u>	<u>2016/17 Budget</u>	<u>2016/17 Actual</u>
Revenue from Subsidiary Operations	1,483	1,376	1,269
Expenses from Subsidiary Operations	1,034	977	937
Net Income from Subsidiary Operations	449	399	332

Appendix B – Additional Information

Corporate Governance

Knowledge Network is governed by a Board of Directors that is responsible to the Minister of Technology, Innovation and Citizens' Services. The Ministry is responsible for policy direction while the Board is responsible for operational policy and setting the strategic direction of the organization. The President and CEO is responsible for the day-to-day leadership and management of Knowledge Network. Please click [here](#) for more information on Knowledge Network's corporate governance.

Organizational Overview

Please click [here](#) to learn more about Knowledge Network Corporation.

Appendix C – Crown Corporation’s Mandate and Actions Summary

In the 2016/17 Mandate Letter from the minister responsible, Knowledge Network Corporation received direction on strategic priorities for the 2016/17 fiscal year. These priorities and the Crown corporation’s resulting actions are summarized below:

Mandate Letter Direction	Knowledge Network Corporation’s Action
Broadcast programming covering topics of interest to British Columbians.	In 2016/17, Knowledge Network broadcasted programs relevant to British Columbians in all areas as noted below.
<ul style="list-style-type: none"> Jobs and skills; 	<p>Industrious With 28 terminals and nearly 35,000 workers handling hundreds of thousands of vehicle shipments and cruise passengers each year, the Port of Vancouver is Canada’s largest and busiest port.</p> <p>Peak to Peak The building of the highest, longest and most technically challenging ski lift in the world linking Whistler and Blackcomb mountains.</p>
<ul style="list-style-type: none"> Asian trade and cultural awareness; 	<p>India: Then and Now A six month journey to explore the people, places and dynasties that are shaping modern India. Highlights include:</p> <p>The Backward Class Vancouver filmmaker Madeleine Grant follows the twelfth graders of Shanti Bhavan, a small school in rural southern India devoted to “untouchable” caste students.</p> <p>India: A Visual Homage The story of India from 1900 to 1985 told through stunning archival footage. From the colonial era to after the Partition, when India and Pakistan embarked on different but equally fascinating journeys in their attempts to define themselves and maintain unity.</p> <p>Indira Gandhi The confidence she gave India on the world stage has endured, yet the opinion of Indira Gandhi’s personal legacy still remains divided.</p> <p>India’s Frontier Railways Trains that cross the borders and reconnect families, cultures, and history with passengers whose jobs, history, and life stories are intertwined with the railways.</p>

	<p>Treasures of the Indus Explores the glorious artwork of three very different people, places, and dynasties that shaped modern India.</p> <p>Other program highlights include:</p> <p>Chinese New Year: The Biggest Celebration on Earth An eye-opening look at the planet’s biggest party, including an unprecedented behind-the-scenes look at the Chunwan Gala, a televised annual variety show watched by over 800 million viewers.</p> <p>The Chinese Mayor The controversial mayor of Datong, China wants to transform one of the world’s ugliest cities after decades of rampant coal mining by recreating its ancient walls and historic relics.</p> <p>Waterfront Cities of the World: Taipei The political, economic, and cultural capital of Taiwan is growing and modernizing at an exorbitant rate, but it's the small traditional neighbourhoods that reveal more about the soul of the city.</p>
<ul style="list-style-type: none"> • First Nations communities and cultural awareness; 	<p>How a People Live Traces the history of the Gwa’sala-‘Nakwaxda’xw Nations, forcibly relocated by the Canadian government from their traditional territories on the coast of B.C. in 1964.</p> <p>Spirit of the People How the rich culture of B.C.’s St’át’imc First Nation has helped them to thrive.</p>
<ul style="list-style-type: none"> • Health care sustainability including seniors’ demographic shifts; 	<p>Emergency Room: Life and Death at VGH Seasons II and III of Knowledge Network’s popular documentary series examining the major health care issues facing British Columbians.</p> <p>Happy Everyday: Park Life in China Retirement has elderly citizens dancing to techno music, playing in maraca troupes, and taking over playgrounds for their exercises.</p>
<ul style="list-style-type: none"> • Economic diversification; 	<p>Jacques Peretti Investigates Investigative journalist Jacques Peretti uncovers the hidden forces that control the economy and shape our behaviours within it. Highlights include:</p>

	<p>The Men Who Made Us Fat Explores the profitable ways eating habits have been revolutionized over the last 40 years, from the introduction of high-fructose corn syrup as a sweetener in the 1970s, to the “super-sizing” of portions and the similar effect on our waistlines, and the marketing campaigns that seduce us into buying “healthy” foods that are anything but.</p>
<ul style="list-style-type: none"> • Early learning initiatives; 	<p>Programming on Knowledge Kids, KnowledgeKids.ca and the Knowledge Kids Go App encourages early learning concepts such as cooperation, empathy, friendship, and problem solving. Highlights include:</p> <p>Shutterbugs A series about exploring the world and conquering worries and fears through observation and analysis, with techniques any child can use.</p> <p>Paw Patrol The pups work together to protect the community and solve problems.</p> <p>Splash and Bubbles Dives into the diversity and wonder of the undersea world.</p> <p>Ginalina’s Music Club Vancouver children’s musician Ginalina (also known as Gina Lam) explores the wonders and enchantment of the natural world through music.</p>
<ul style="list-style-type: none"> • Emergency preparedness; 	<p>Firestorm: Out of the Ashes The 2003 Okanagan Mountain Fire that consumed 239 homes, over 25,000 hectares, and forced the evacuation of more than 27,000 residents.</p> <p>Monster Quake: Will We Survive? Understanding the widespread and devastating damage that would result from a mega-quake along the west coast of North America.</p> <p>Monster Quake: Are We Next? What we can learn from the monster quake and tsunami that devastated Japan in 2011.</p>
<ul style="list-style-type: none"> • Environment, including climate change. 	<p>The Clean Bin Project A Vancouver couple go head-to head in a competition to see who can</p>

	<p>produce the least amount of garbage in an entire year.</p> <p>Haida Gwaii: On the Edge of the World The breathtakingly beautiful archipelago off B.C.’s northwest coast is home to a dedicated community uniting to protect land and sea for the next generation.</p> <p>Green China Rising How China, the world’s largest emitter of greenhouses gasses, is striking back with cutting-edge technologies.</p> <p>The Hollow Tree A group of citizens unite to find a solution to keep the Hollow Tree after a massive storm hit Stanely Park in 2006.</p> <p>The Polar Sea Scientists try to understand the complex phenomenon of Arctic climate change.</p> <p>Eden A new branded timeslot focusing on the natural world. Program highlights include:</p> <p>Atlantic The mysteries of the Atlantic Ocean, from its darkest depths to its coastline and islands.</p> <p>Madagascar A portrait of the fascinating but fragile island off the east coast of Africa and the diversity of animals that live there.</p> <p>On a River in Ireland The waterways, islands and lakes along the River Shannon, one of Ireland’s few remaining wild places.</p>
<p>Develop a new documentary series on international trade through the lens of the Vancouver International Airport, in partnership with B.C.’s independent production sector.</p>	<p>The development phase of the documentary series with our independent production partner did not yield the desired results. Therefore, we have revised our approach and are now using other story-based approaches to using YVR as a location for illustrating international trade in action. At the same time, we are still working with international distributors to provide complimentary programming on the subject of globalization through trade.</p>

<p>Expand the KNC website, Knowledge.ca, through the addition of curated arts and information content from trusted Canadian and international sources</p>	<p>To expand the content available at Knowledge.ca, articles from a variety of news publications, images and web only international documentaries titles were added.</p>
<p>In year two of a three-year plan, self-finance the replacement of aging digital broadcast infrastructure.</p>	<p>In 2016/17, \$121,342 was spent on digital broadcast upgrades with the digital broadcast infrastructure plan to be completed next fiscal year.</p>