

Knowledge Network Corporation

2018/19 ANNUAL SERVICE PLAN REPORT

July 2019



BRITISH
COLUMBIA'S

**Knowledge
Network:**

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Board Chair's Accountability Statement



The *Knowledge Network Corporation 2018/19 Annual Service Plan Report* compares the corporation's actual results to the expected results identified in the *2018/19 - 2020/21 Service Plan* created in February 2018. I am accountable for those results as reported.

A handwritten signature in black ink that reads 'Maurine Karagianis'.

Maurine Karagianis
Chair, Knowledge Network Corporation Board of Directors

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Chair/CEO Report Letter



Maurine Karagianis
Board Chair

On behalf of the Board of Directors, we are pleased to submit Knowledge Network Corporation's 2018/19 Annual Service Plan Report.

British Columbia's Knowledge Network is a trusted public service that informs, educates and inspires. Our programming shines a light on the environmental, social, cultural and economic forces that affect our daily lives – crucial to building and maintaining sustainable, healthy societies today and for generations to come.



Rudy Buttignol, C.M.
President & CEO

Knowledge Network supports Government priorities by providing a universally accessible service that provides programs in the public interest. We make life more affordable by providing a high quality public service free and commercial-free through television and streaming services, with new apps and curated collections added this year.

To deliver the services that people count on, we provide programming to meet the diverse needs of viewers, such as educational content that fosters learning for young children and their families and programs that connect seniors to their province and the world.

To build a strong, sustainable, innovative economy that works for everyone, we invest in original documentaries and programs for children. Four Knowledge Originals premiered in 2018/19: *Shut Up and Say Something*, *Looking at Edward Curtis*, *Living In HOpe* and *This Mountain Life*. Development opportunities for emerging and established filmmakers were also provided, most notably through the B.C. Documentary History Project Filmmaker Boot Camp. With the support of Creative B.C., Knowledge Network hosted filmmaker workshops about the multi-year documentary initiative commemorating the 150th anniversary of British Columbia's entry into Confederation in 2021.

In support of the United Nations Declaration on the Rights of Indigenous People and the Truth and Reconciliation Calls to Action, Knowledge Network reflects Indigenous cultural diversity through programming and projects from Indigenous filmmakers.

As B.C.'s public broadcaster, we are grateful for the support from loyal donors across the province. In fiscal 2018/19, we exceeded our target for the Knowledge Partners Annual Fund, raising \$4.82 million. Increased donations have enabled us to support more B.C. stories by B.C. filmmakers.

As a Crown corporation, a regulated broadcaster and a registered charity, accountability and transparency guide all our planning and decision making. All new Board members receive a detailed orientation and participate in professional development opportunities. The CEO and Board Chair meet with the Minister throughout the year to ensure Knowledge Network Corporation actions are aligned with our Mandate Letter.

Maurine Karagianis
Chair, Knowledge Network Corporation

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

Purpose of the Annual Service Plan Report

The Annual Service Plan Report (ASPR) is designed to meet the requirements of the *Budget Transparency and Accountability Act* (BTAA), which sets out the legislative framework for planning, reporting and accountability for Government organizations. Under the BTAA, the Crown Corporation's Board is required to report on the actual results of the Crown's performance related to the forecasted targets documented in the previous year's Service Plan.

Purpose of the Organization

Knowledge Network is a Crown corporation, created in 2008 under the [*Knowledge Network Corporation Act*](#) and it is federally licensed by the Canadian Radio-television and Telecommunications Commission (CRTC). Knowledge Network is also a registered charity with the Canada Revenue Agency, engaging in fundraising activities through Knowledge Partners and the Knowledge Endowment Fund.

British Columbia's Knowledge Network is supported through donations from viewers and an annual operating grant from the Province of B.C. 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 including content that informs and educates British Columbians about their province and about issues that are relevant to them. This content is delivered through mandatory carriage on cable, direct-to-home satellite and internet protocol television (IPTV) services. Programs are also available through streaming video at Knowledge.ca, KnowledgeKids.ca, the Knowledge apps and the Knowledge Kids Go apps. We develop, license and commission documentaries for broadcast on all platforms.

Subsidiaries

Knowledge-West Communications Corporation (KWCC) owned and operated BBC (British Broadcasting Corporation) Kids, a Canadian children's subscription channel. The BBC Kids channel closed in December 2018. The subsidiary will remain active, however, until 2019 when the final dividends are dispersed. For further information on KWCC, please see Appendix B.

Strategic Direction

The strategic direction set by Government in 2017 and expanded upon in the Board Chair's [Mandate Letter](#) from the Minister Responsible in 2018 shaped the [2018/19 Service Plan](#) and the results reported in this ASPR.

The following table highlights the key goals, objectives or strategies that support the key priorities of Government identified in the 2018/19 Knowledge Network Corporation Service Plan:

| Government Priorities | Knowledge Network Corporation Aligns with These Priorities By: |
|---|---|
| Making life more affordable | <ul style="list-style-type: none"> • Offer a high quality public service (free and commercial free) through any platform British Columbians choose to use (Objective 2.1). |
| Delivering the services people count on | <ul style="list-style-type: none"> • Enhancing the accessibility and quality of Knowledge Network's regularly scheduled broadcast service to maintain its relevance and importance to British Columbians (Goal #1). • Strengthening programming to meet the diverse needs of viewers, specifically positive, educational content that fosters learning for young children and their families, and programs that inform and inspire audiences 50+ (Objective 1.1). |
| A strong, sustainable economy | <ul style="list-style-type: none"> • Championing more B.C. stories and support more storytellers (Goal #3). • Creating more B.C. and Canadian stories and strengthen the independent production community through commissioning efforts (Objective 3.1). |

Operating Environment

Knowledge Network has identified three primary risks that impacted our public service. The strategies supporting our strategic goals helped mitigate these risks within our operating environment:

1. Multi-platform broadcast rights

- The increase in online streaming and video on demand (VOD) services created more competition for programs and their multi-platform rights, increasing costs and availability of content.

2. Audience behaviour

- Investments in multi-platform delivery continued to be essential as audiences' access content from platforms such as websites, apps and VOD.

3. Revenue generation

- Charitable giving in Canada continued to decline amidst a growing number of charities seeking support.

Report on Performance

Our goals and strategies are based on our Strategic Plan entitled *The Best Is Yet To Come*. This is our first year reporting out on this three-year plan. Investment in original programming, expansion of digital platforms and growth in donors and donations are reflected through our performance measures.

Goals, Objectives, Measures and Targets

Goal 1: Enhance the accessibility and quality of Knowledge Network's television service to maintain its relevance and importance to British Columbians

The rapid proliferation of new devices and web channels is changing the way television is watched. Regularly scheduled TV programming, however, continues to garner the majority of viewing, especially for older audiences. Knowledge Network's scheduled television service – delivered on cable, satellite, web and mobile apps – is the popular and vital foundation on which our growth is built.

Objective 1.1: Strengthen programming to meet the diverse needs of viewers, specifically positive, educational content that fosters learning for young children and their families, and programs that inform and inspire audiences 50+

Key Highlights:

- Premiered four Knowledge original documentaries:
 1. *Shut Up and Say Something* - acclaimed B.C. Indigenous spoken word artist Shane Koyczan embarks to reconnect with the father he never knew.
 2. *Looking at Edward Curtis* - explores the Pacific Northwestern work of photographer Edward Curtis from an Indigenous perspective.
 3. *Living In HOpe* - follows patients and health care providers at the HOpe Centre in North Vancouver as they work together on a bold, human approach to mental health.
 4. *This Mountain Life* - takes viewers high in the snowy peaks of B.C. with a mother and daughter who embark on a six-month trek through the treacherous Coast Mountains.
- Offered programming to meet the diverse needs of viewers, specifically positive, educational content that fosters learning for young children and their families, as well as programming that informs and inspires seniors.
- Continued to strengthen the primetime schedule with high quality arts, culture, social issue, history and natural history documentaries, performing arts and drama from B.C., Canada and the world. Highlights include *The Asian Century*, an eight-part series examining the major political events and the leading figures behind them in both China and India.
- Invested in programming that promotes literacy and numeracy for young children.
- Expanded *Storyville* timeslot from two hours to three to increase the number of feature documentaries and create more space for B.C. and Canadian storytellers.

| Performance Measures | | 2016/17 Actuals | 2017/18 Actuals | 2018/19 Target | 2018/19 Actuals | 2019/20 Target | 2020/21 Target |
|----------------------|--------------------------------------|--------------------|--------------------|-------------------|--------------------|-------------------|-------------------|
| 1.1a | Total Reach ¹ (People) | N/A ² | 2,913,000 | 3,000,000 | 3,018,000 | 3,000,000 | 3,000,000 |
| | Knowledge Kids | N/A ² | 2,191,000 | 2,000,000 | 2,173,000 | 2,000,000 | 2,000,000 |

Data Source: Numeris Canada

¹ Unduplicated number (number of people exposed) of those viewing at least one minute of programming in the Vancouver Extended Market and Western Prairie Balance Market for Knowledge Primetime/Overnight (viewers 2+, 6pm to 4am) and Knowledge Kids (viewers 2+, 6am to 6pm, M-F; 6am to 12pm, Sat-Sun).

² In the 2017/18 Annual Report, Total Reach was adjusted to include B.C. markets outside of the Lower Mainland and Vancouver Island, as well as overnight data. Fiscal 2016/17 Actual data with these adjustments is not available.

Discussion

Knowledge Network exceeded targets for all performance measures, reflecting the relevance of programming with audiences on television and streaming services. The performance measure for Total Reach was revised starting in 2017/18 to include B.C. markets outside of the Lower Mainland and Vancouver Island. In past years, this data was not included in the Western Prairie Balance Market numbers, as it was not balanced and fully weighted by Numeris (formerly Bureau of Broadcast Measurement). Numeris recently made changes to their panels which enabled us to include these markets in our reports. We can now reflect viewership across B.C., including overnight data which is part of the Primetime audience data.

Goal 2: Improve the audience experience for video on demand by increasing the number of available programs and through the development of next generation apps and platforms

As new devices and operating systems proliferate, Knowledge Network is working to ensure that our programming service is available on any platforms adopted by our audiences. We are also committed to a high-quality experience on all platforms.

Objective 2.1: Our public service is available on any platforms our audiences use and the experience is high quality

Key Highlights:

- Launched the next generation streaming service at Knowledge.ca
- Expanded the number of curated collections and individual programs for video on demand, with an emphasis on arts and culture documentaries.
- Built a new generation Knowledge IOS app that is AirPlay and Chrome-cast enabled for mobile devices, and the first generation Knowledge Apple TV App for Apple devices, based on the new Knowledge website technology.
- Developed and launched first generation Knowledge Kids apps in partnership with Samsung Canada for its Smart TV app store for 2016, 2017 and 2018 Samsung models. Knowledge App for Apple and Android devices will be completed in fiscal 2019/20.

| Performance Measures | | | 2016/17 Baseline | 2017/18 Actuals | 2018/19 Target | 2018/19 Actual | 2019/20 Target | 2020/21 Target |
|----------------------|----------------------------------|--|---------------------|--------------------|-------------------|-------------------|-------------------|-------------------|
| 2.1a | Total Subscribers ¹ | Knowledge.ca and Knowledge App | 24,593 | 33,381 | 51,700 | 77,714 | 95,000 | 105,000 |
| 2.1b | Total App Downloads ² | Knowledge Apps | 9,967 | 13,751 | 17,100 | 20,784 | 20,000 | 21,000 |
| | | Knowledge Kids Go Apps | 56,005 | 73,756 | 92,100 | 96,143 | 105,000 | 115,000 |
| 2.1c | Videos Played ³ | Knowledge.ca and Knowledge Apps | 1,133,912 | 1,124,496 | 1,160,000 | 1,355,764 | 1,396,436 | 1,438,330 |
| | | KnowledgeKids.ca and Knowledge Kids Apps | 10,211,432 | 8,356,841 | 10,310,000 | 6,674,551 | 8,550,000 | 8,600,000 |

Data Sources:

¹ Knowledge.ca website database. Tracks total users who complete registration for a Knowledge account (cumulative).

² Google Play Console (Android), iTunes Connect (Apple) and Samsung Smart TV Analytics. Tracks lifetime downloads (cumulative) for each fiscal year.

³ Google Analytics. Tracks total videos played across web and mobile platforms in a fiscal year.

Discussion

Knowledge Network met 4 of 5 targets for performance measures related to our streaming services. Increased competition combined with changes to video player technology on the Knowledge Kids Go App led to a decrease in videos played. In 2018/19, we launched continued expansion of our digital product line by launching the second generation Knowledge IOS App which is AirPlay and Chrome-cast enabled for phones and tablets, and the first generation Knowledge Apple TV App. We also launched first generation Knowledge Kids Samsung TV Apps for 2016, 2017 and 2018 Samsung models.

Future targets for performance measures have been adjusted based on actuals and align with what was last presented in the [2019/20 – 2021/22 Service Plan](#). Future targets for Total App Downloads – Knowledge Kids Go Apps and Videos Played – Knowledge.ca and Knowledge Apps performance measures have been increased compared to what was last presented in the 2019/20 – 2021/22 Service Plan.

Goal 3: Champion more B.C. stories and support more storytellers

Knowledge Network's investment in documentaries and children's programs produced by independent filmmakers leverage funding from federal and provincial, public and private sources. Increased investment in independent productions will support the creation of more B.C. stories and help develop skills within the community.

Objective 3.1: Create more B.C. and Canadian stories and strengthen the independent production community through commissioning efforts

Key Highlights:

- Supported early learning for B.C.'s youngest viewers through the development and production of *The Festival of Wishes*, an original animation series featuring Knowledge Kids' proprietary characters, Luna, Chip and Inkie.
- Invested in feature documentaries, shorts and series in partnership with B.C.'s independent production sector.
- Developed and commissioned more B.C. Indigenous stories told by Indigenous storytellers.
- Encouraged skills development and mentorship of emerging B.C. filmmakers in partnership with Creative BC and other federal and provincial organizations.
- Initiated the commissioning process for the B.C. Documentary History Project, including the four-part history series and short films from independent B.C. filmmakers, including Indigenous filmmakers.

| Performance Measures | 2016/17 Actuals | 2017/18 Actuals | 2018/19 Target | 2018/19 Actuals | 2019/20 Target | 2020/21 Target |
|--|-----------------|-----------------|----------------|-----------------|----------------|----------------|
| 3.1a Direct Investment in Multi-Platform Content ¹ | \$1,626,688 | \$2,372,241 | \$1,800,000 | \$2,268,966 | \$2,200,000 | \$2,200,000 |
| 3.1b Indirect Investment in Multi-Platform Content (CMF envelope, other CMF funding, Independent production funds, tax credits) ² | \$16,582,835 | \$6,733,573 | \$11,000,000 | \$20,218,767 | \$14,000,000 | \$12,000,000 |
| 3.1c B.C. Independent Production Budgets Supported by Knowledge Network ³ | \$4,332,862 | \$6,019,266 | \$5,000,000 | \$25,176,476 | \$7,000,000 | \$7,000,000 |

Data Sources:

¹ Letters of Intent, short-form commission/lead agreement, or long form commission/lead agreement entered into with independent producers in a fiscal year. Knowledge Network directs funds from its budget for original content rights. This measure includes Knowledge Network investment in television and online original content for both children and adults. Targets may be adjusted due to the non-cyclical nature of content production in future reports.

² Financing plans for projects where Knowledge Network has issued a Letter of Intent, short-form commission/lead agreement, or long form commission/lead agreement in a fiscal year. As a licensed broadcaster, Knowledge Network can help B.C. independent producers trigger funding for B.C. independent productions from third-party funding sources. Includes certified Canadian independent production funds, the Canada Media Fund (CMF), and federal and provincial tax credits. Based on Knowledge Network's investment, funding is generated from independent production funds towards B.C. and Canadian projects.

³ Project budgets submitted by independent producers where Knowledge Network has issued Letters of Intent, short-form commission/lead agreements, or long form commission/lead agreements. It represents all contributions to independent production budgets, including those committed by Knowledge Network in a fiscal year (includes certified Canadian independent production funds, the Canada Media Fund, and federal and provincial tax credits).

Discussion

Knowledge Network made direct investments in 22 original multi-platform projects in 2018/19. This included seven projects that Knowledge Network either commissioned or is the lead broadcaster. Highlights include *The Festival of Wishes*, our first original animation pilot featuring Knowledge Kids' proprietary characters, Luna, Chip and Inkie. The pilot went into production with Vancouver's Mainframe Studios.

The significant increases in performance measures 3.1b and 3.1c include the budgets for two Canadian, animated children's co-productions 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.

Future targets for performance measures have been adjusted based on actuals and align with what was last presented in the 2019/20 – 2021/22 Service Plan.

Goal 4: Connect with more viewers to enlarge the donor base and grow the Endowment Fund

Knowledge Network's current donor base is both loyal and generous. It is, however, vital to our long-term sustainability that we continue to attract new donors, as well as increase donations and long-term support through legacy giving in the Knowledge Endowment Fund.

Objective 4.1: Attract new donors to offset attrition and to increase donations and long-term support for B.C.'s public broadcaster

Key Highlights:

- Increased new donors by 20 per cent.
- Utilized the capabilities of the newly launched Knowledge.ca website to cultivate viewers and convert them to donors.
- Hosted an estate planning seminar for Knowledge Partners.

| Performance Measures | 2016/17 Actuals | 2017/18 Actuals | 2018/19 Target | 2018/19 Actual | 2019/20 Target | 2020/21 Target |
|---|-----------------|-----------------|----------------|----------------|----------------|----------------|
| 4.1a Knowledge Partner Donations ¹ | \$4,292,887 | \$4,530,238 | \$4,300,000 | \$4,831,352 | \$4,794,000 | \$4,800,000 |
| 4.1b Legacy Circle Donors ² | 585 | 675 | 700 | 825 | 850 | 900 |

Data Sources: Blackbaud donor database.

¹Tracks total Knowledge Partner donations received each year.

²Tracks total number of individuals who have notified us that they have left a gift to Knowledge Network in their will each fiscal year (cumulative).

Discussion

The Knowledge Partners Annual Fund donations exceeded expectations reaching over \$4.8 million dollars. This is an increase of 6.6 per cent over last year. Our overall donor base (counted as households) increased by 2.3 per cent, representing approximately 40,000 individual donors. This can be attributed to a very successful contest to win a trip for two to England in fall of 2018.

New donors increased by 20 per cent over 2017/18. This is significant, as Blackbaud Index Canada notes a 3.6 per cent decrease in overall charitable giving as of February 2019.

The number of Legacy Circle donors continues to grow. Knowledge Network hosted an estate planning seminar in February 2019 to help drive legacy prospects to the Knowledge Endowment Fund. In 2018/19, the Knowledge Endowment Fund received \$1.309 million in contributions.

Knowledge Network recently underwent an in-depth process to achieve accreditation in Imagine Canada's Standards Program, awarded to charities and non-profit organizations that demonstrate excellence in board governance, financial accountability, staff management and volunteer involvement. Imagine Canada accreditation will strengthen our visibility among potential new donors as a trusted charity in Canada.

Future targets for both performance measures have been increased compared to what was last presented in the 2019/20 – 2021/22 Service Plan.

Financial Report

Discussion of Results

Knowledge Network Corporation ended the fiscal year with an annual surplus of \$1.837 million, of which \$1.309 million pertains to Endowment contributions and \$233,000 in net investment income, which are held in trust and not treated as operating revenue. This year's operating surplus of \$295,000 represents 2.3 per cent of our overall operating budget.

2018/2019 Consolidated Surplus

| | Actual (\$000) | |
|---|-------------------|--------|
| Total Consolidated Revenue | \$12,694 | 100.0% |
| Amounts included in operating surplus: | | |
| Endowment contributions to be invested | \$1,309 | 10.3% |
| Endowment net income after management fees (to be reinvested) | \$233 | 1.8% |
| Actual operating surplus (or deficit) | \$295 | 2.3% |
| Total Annual Surplus on Financial Statements | \$1,837 | 14.5% |

Highlights

Resource Summary

| | <u>2017/18 Actual</u> | <u>2018/19 Budget¹</u> | <u>2018/19 Actual</u> | <u>2018/19 Budget Variance</u> |
|---|-----------------------|-----------------------------------|-----------------------|--------------------------------|
| (Reported in '000) | | | | |
| Provincial Operating Grant ² | 6,558 | 6,851 | 6,612 | (239) |
| Donations and Sponsorships | 4,513 | 4,325 | 4,845 | 520 |
| Revenue from Subsidiary Operations | 908 | 517 | 520 | 3 |
| Amortization of Deferred Contributions | 328 | 320 | 301 | (19) |
| Endowment Investment and Other Revenue ³ | 607 | 430 | 417 | (13) |
| Total Revenues | 12,914 | 12,443 | 12,695 | 252 |
| Programming and Presentation | 2,110 | 2,127 | 2,101 | (26) |
| Marketing and Development | 2,352 | 2,222 | 2,249 | 27 |
| Broadcast Platforms and Corporate IT | 1,964 | 2,056 | 2,060 | 4 |
| General | 504 | 417 | 368 | (49) |
| Amortization of Broadcast Rights | 3,077 | 3,511 | 3,334 | (177) |
| Administration | 1,292 | 1,443 | 1,327 | (116) |
| Subsidiary Operations | 1,108 | 613 | 728 | 115 |
| Total Expenses | 12,407 | 12,389 | 12,167 | (222) |
| Annual Surplus from Operations | 507 | 54 | 528 | 474 |
| Endowment Contributions ⁴ | 1,775 | 800 | 1,309 | 509 |
| Annual Surplus | 2,283 | 854 | 1,837 | 983 |
| Capital Expenditures | 4,369 | 4,000 | 4,828 | 828 |
| Total Liabilities | 2,794 | 2,851 | 2,206 | |
| Accumulated Surplus | 19,605 | 19,668 | 21,442 | |

¹ 2018/19 budget column matches the 2018/19 Service Plan, but differs from the audited financial statements. The difference is due to a change in the presentation of the deferred BC Documentary History Project grant.

² Excludes grant for BC Documentary History Project, allocated over 4 years: 2017/18:\$150,000; 2018/19:\$250,000; 2019/20:\$450,000; 2020/21:\$150,000. Grant has been deferred - refer to note 4b in the Audited Financial Statements.

³ Includes realized investment income.

⁴ Endowment contributions are held in trust and not treated as operating revenue.

Variance and Trend Analysis

Provincial Operating Grant

The operating grant was \$239k less than budget. This difference is due to the deferral of the B.C. Documentary History Project grant of \$250k.

The \$53k variance from the previous year is due to increased funding for the Economic Stability Mandate, from \$98k to 141k.

Donations and Sponsorships

Donations were \$520k more than budget, and \$332k more than last year. We experienced the largest donations ever received in seven of twelve months during the fiscal. Part of this success can be attributed to our *Jolly Olde England* contest.

Subsidiary Operations – Revenue

Subsidiary revenues were \$388k less than the previous year. The revenues represent nine months of operations as the BBC Kids service was discontinued on December 31, 2018 (see Appendix B).

Amortization of Deferred Contributions

During the year, actual deferred contributions amortized were \$19k less than budget and \$27k less than the previous year. The deferred contributions pertain to amounts that are recognized as revenue to offset amortization of externally funded projects.

Endowment Investment and Other Income

These revenues were \$13k less than budget and \$190k less than the previous year. The budget difference is mainly due to income from corporate investments being under budget by \$30k, partially offset by increases in other miscellaneous revenues.

The decrease from the previous year is due to income from our corporate investments \$32k, reduced deferred revenue \$100k and reduced channel management revenues \$30k.

Programming and Presentation

These expenses were \$26k less than budget and \$9k less than the previous year. The budget difference is mainly due to closed-captioning costs less than budget.

Marketing and Development

These expenses were \$27k more than budget and \$103k less than the previous year. The budget variance is due to higher credit card processing fees from increased online donations. The decrease from previous fiscal is due to reduced costs of producing our on-air pledge campaigns.

Broadcast Platforms and Corporate IT

These expenses were \$96k more than the previous year, due to these new positions: Broadcast IT Systems Technologist and Senior Software Engineer.

General

General expenses were \$49k less than budget and \$136k less than the previous year. The majority of the budget variance is due to amortization of capital equipment that was less than budget by \$75k.

The variance from the previous year is mainly due to these items:

| | |
|--|----------------|
| Computers, Boardroom tables and chairs purchased previous fiscal | 57,732 |
| Amortization of capital equipment less than previous fiscal | 30,391 |
| Renovations to lounge and donor recognition walls in previous fiscal | <u>21,067</u> |
| Total | <u>109,190</u> |

Amortization of Broadcast Rights

Amortization expense was \$177k less than budget and \$256k more than the previous year. The budget variance is due to broadcast rights for these program that were anticipated to be delivered by year-end, but will be deferred to 2019/20: *Pup Academy*; *Super Mighty Maker*; *Blink & Aazoo*; *Ping & Pong*; *Hope for Wildlife*; *Me, Mum & Willy*; *Haida Modern*; *Island Diaries*; *Northern Gold*; *The Man I Left Behind*; *Paramedics: Life on the Line*; *Space Suite 4*; *Apollo*; *B.C. History Project Shorts*; and *1871*.

The increase in costs from the previous year is due to increases from:

| | |
|--------------------------------|----------------|
| Program Acquisitions | 164,555 |
| Second Window broadcast rights | 39,635 |
| Lead Broadcast rights | <u>84,595</u> |
| Total | <u>288,785</u> |

Administration

Administration costs were \$116k less than budget and \$34k more than the previous year. The budget variance was due to budget savings in the training fund (\$29k), personnel costs for interns (\$16k) and personnel cost recovery of (\$50k) for subsidiary operations.

Administration costs include:

| | |
|------------------------------------|------------------|
| Corporate training plan | 20,780 |
| Building lease and operating costs | 265,827 |
| President's Office and Board | 400,685 |
| Finance, Human Resources, Other | <u>639,332</u> |
| Total | <u>1,326,624</u> |

Subsidiary Operations

Subsidiary operation expenses were \$115k more than budget and \$380k less than the previous year. The budget variance is a result of \$50k in channel management fees, \$25k in personnel costs, and expensed dividend payment not budgeted. The reduction in expenses from last year is a result of operating for nine months instead of twelve.

Endowment Contributions

Endowment contributions received were \$509k more than budget and \$466k less than the previous year. Due to the confidential nature of major gifts, it is difficult to predict when endowment contributions will be received.

Capital Expenditures

Capital asset purchases were \$828k more than budget and \$458k more than the previous year. The budget variance is primarily due to our commissions and acquisitions:

| | Budget | Actual | Variance |
|---|-----------|-----------|----------|
| <i>Paramedics: Life on the Line</i> | 500,000 | 640,625 | 140,625 |
| <i>BC Documentary History Project: People, Places, Things (shorts) and 1871⁵</i> | - | 359,502 | 359,502 |
| <i>Space Suite 4 & Apollo</i> | - | 30,750 | 30,750 |
| Acquisitions: Dramas | 460,000 | 573,613 | 113,613 |
| Acquisitions: Childrens' Programs | 550,000 | 644,035 | 94,035 |
| Total | 1,510,000 | 2,248,525 | 738,525 |

The variance from the previous year is due to new programs commissioned or acquired this year:

| | |
|---|---------|
| <i>Luna, Chip & Inkie in The Festival of Wishes</i> | 337,796 |
| Increase in Lead Broadcast rights | 84,595 |
| Increase in Second Window Broadcast rights | 39,635 |
| Total | 462,026 |

Risks and Uncertainties

One of the key risks in our operating environment is revenue generation. 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.

On-demand streaming services are becoming more numerous and popular with audiences. We are continuing to build out our digital product line with additional content and viewing incentives, and will be expanding online fundraising efforts.

BBC Kids, our Canadian children's subscription channel, was a successful revenue generating initiative. Although overall revenues far exceeded expectations, a number of significant factors led to a decline in profitability of BBC Kids in recent years. Specifically, significant changes in the operating and regulatory environment for BBC Kids. Regulatory changes placed independent specialty services at a disadvantage resulting in less favourable pricing for the channel. As a result, the BBC Kids channel was closed in December 2018. Knowledge Network will receive a final dividend payment in 2019/20. We continue to look for new opportunities to generate additional revenue to support our public service.

⁵ The final production budget for the BC Documentary History Project was confirmed in spring 2019 after the producers completed the development phase.

Auditor's Report & Audited Financial Statements

Consolidated Financial Statements of

KNOWLEDGE NETWORK CORPORATION

Year ended March 31, 2019



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the Knowledge Network Corporation

To the Minister of Tourism, Arts, and Culture

Opinion

We have audited the consolidated financial statements of Knowledge Network Corporation (the "Entity"), which comprise:

- the consolidated statement of financial position as at March 31, 2019
- the consolidated statement of operations and accumulated surplus for the year then ended
- the consolidated statement of remeasurement gains for the year then ended
- the consolidated statement of changes in net financial assets for the year then ended
- the consolidated statement of cash flows for the year then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(hereinafter referred to as the "financial statements").

In our opinion, the accompanying consolidated financial statements as at and for the year ended March 31, 2019 of the Entity are prepared, in all material respects, in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "**Auditors' Responsibilities for the Audit of the Financial Statements**" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.



Emphasis of Matter – Financial Reporting Framework

We draw attention to note 2 to the financial statements which describes the applicable financial reporting framework and the significant differences between that financial reporting framework and Canadian public sector accounting standards.

Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of the financial statements in accordance with the financial reporting provisions of Section 23.1 of the Budget Transparency and Accountability Act of the Province of British Columbia, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Entity's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Entity or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Entity's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.



Knowledge Network Corporation
Page 3

- Obtain an understanding of internal control relevant to the audit 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.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

Burnaby, Canada

May 17, 2019

KNOWLEDGE NETWORK CORPORATION

Consolidated Statement of Financial Position

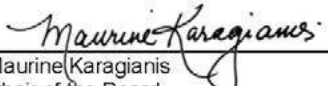
March 31, 2019, with comparative information for 2018

| | 2019 | 2018 |
|---|----------------------|----------------------|
| Financial assets: | | |
| Cash (note 3(a)) | \$ 1,406,864 | \$ 804,916 |
| Accounts receivable | 111,313 | 260,093 |
| Income taxes recoverable | 28,709 | 18,286 |
| Portfolio investments (note 3(b)) | 732,705 | 2,124,397 |
| | <u>2,279,591</u> | <u>3,207,692</u> |
| Liabilities: | | |
| Accounts payable and accrued liabilities | 439,450 | 990,806 |
| Deferred revenue, projects | 324,616 | 310,042 |
| Deferred contributions (note 4) | 1,442,298 | 1,493,132 |
| | <u>2,206,364</u> | <u>2,793,980</u> |
| Net financial assets | 73,227 | 413,712 |
| Non-financial assets: | | |
| Broadcast rights (note 5) | 10,439,177 | 9,487,597 |
| Tangible capital assets (note 6) | 1,945,886 | 2,167,156 |
| Prepaid expenses | 55,944 | 51,056 |
| Endowment investments (note 3(b)) | 9,339,435 | 7,719,904 |
| | <u>21,780,442</u> | <u>19,425,713</u> |
| Accumulated surplus (note 12) | \$ 21,853,669 | \$ 19,839,425 |
| Accumulated surplus is comprised of: | | |
| Accumulated surplus | \$ 21,442,023 | \$ 19,604,940 |
| Accumulated remeasurement gains | 411,646 | 234,485 |
| | <u>\$ 21,853,669</u> | <u>\$ 19,839,425</u> |

Commitments (note 8)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:


Maurine Karagianis
Chair of the Board


Eric Watt
Chair of the Audit and Finance Committee

KNOWLEDGE NETWORK CORPORATION

Consolidated Statement of Operations and Accumulated Surplus

Year ended March 31, 2019, with comparative information for 2018

| | Budget (note 13) | 2019 | 2018 |
|--|---------------------|---------------|---------------|
| Revenue: | | | |
| Province of British Columbia operating grants | \$ 6,601,000 | \$ 6,611,531 | \$ 6,558,429 |
| Donations and sponsorships | 4,325,000 | 4,844,902 | 4,513,024 |
| Specialty TV channel subscription fees | 509,997 | 519,700 | 907,898 |
| Amortization of deferred contributions (note 4) | 320,000 | 300,834 | 328,287 |
| Endowment investment income | 200,000 | 285,746 | 240,415 |
| Other | 80,000 | 131,383 | 366,930 |
| | 12,035,997 | 12,694,096 | 12,914,983 |
| Expenses (note 14): | | | |
| Programming and presentation | 2,058,204 | 2,101,390 | 2,110,132 |
| Marketing and development | 2,291,447 | 2,248,509 | 2,351,897 |
| Broadcast platforms and corporate IT | 2,055,621 | 2,059,841 | 1,963,829 |
| General | 460,000 | 368,221 | 503,937 |
| Amortization of broadcast rights | 3,510,892 | 3,333,943 | 3,077,480 |
| Administration | 1,399,836 | 1,326,624 | 1,292,456 |
| Specialty TV channel | 613,056 | 727,629 | 1,107,760 |
| | 12,389,056 | 12,166,157 | 12,407,491 |
| Annual surplus (deficit) from operations | (353,059) | 527,939 | 507,492 |
| Endowment contributions received | 800,000 | 1,309,144 | 1,775,249 |
| Annual surplus | 446,941 | 1,837,083 | 2,282,741 |
| Accumulated surplus, beginning of year | 19,604,940 | 19,604,940 | 17,322,199 |
| Accumulated surplus, end of year | \$ 20,051,881 | \$ 21,442,023 | \$ 19,604,940 |

See accompanying notes to consolidated financial statements.

KNOWLEDGE NETWORK CORPORATION

Consolidated Statement of Remeasurement Gains

Year ended March 31, 2019, with comparative information for 2018

| | 2019 | 2018 |
|--|------------|------------|
| Accumulated remeasurement gains, beginning of year | \$ 234,485 | \$ 115,239 |
| Remeasurement gains attributable to investments | 176,971 | 119,340 |
| Amounts reclassified to statement of operations: | | |
| Realized loss (gain) on investment | 190 | (94) |
| Net remeasurement gains for the year | 177,161 | 119,246 |
| Accumulated remeasurement gains, end of year | \$ 411,646 | \$ 234,485 |

See accompanying notes to consolidated financial statements.

KNOWLEDGE NETWORK CORPORATION

Consolidated Statement of Changes in Net Financial Assets

Year ended March 31, 2019, with comparative information for 2018

| | Budget (note 13) | 2019 | 2018 |
|---|---------------------|--------------|--------------|
| Annual surplus | \$ 446,941 | \$ 1,837,083 | \$ 2,282,741 |
| Net remeasurement gains for the year | - | 177,161 | 119,246 |
| | 446,941 | 2,014,244 | 2,401,987 |
| Acquisition of tangible capital asset | - | (83,192) | (344,732) |
| Amortization of tangible capital assets | 380,000 | 304,462 | 335,893 |
| | 380,000 | 221,270 | (8,839) |
| Acquisition of broadcast rights | (4,159,813) | (4,744,447) | (4,024,454) |
| Amortization of broadcast rights | 3,986,571 | 3,792,867 | 3,775,207 |
| | (173,242) | (951,580) | (249,247) |
| Acquisition of endowment investments | (400,000) | (1,619,531) | (2,199,521) |
| Acquisition of prepaid expenses | - | (55,944) | (51,056) |
| Use of prepaid expenses | - | 51,056 | 56,969 |
| | - | (4,888) | 5,913 |
| Increase (decrease) in net financial assets | 253,699 | (340,485) | (49,707) |
| Net financial assets, beginning of year | 413,712 | 413,712 | 463,419 |
| Net financial assets, end of year | \$ 667,411 | \$ 73,227 | \$ 413,712 |

See accompanying notes to consolidated financial statements.

KNOWLEDGE NETWORK CORPORATION

Consolidated Statement of Cash Flows

Year ended March 31, 2019, with comparative information for 2018

| | 2019 | 2018 |
|---|--------------|--------------|
| Cash provided (used by): | | |
| Operations: | | |
| Annual surplus | \$ 1,837,083 | \$ 2,282,741 |
| Items not involving cash: | | |
| Loss (gain) on sale of investments | 190 | (94) |
| Amortization of deferred contributions | (300,834) | (328,287) |
| Amortization of tangible capital assets | 304,462 | 335,893 |
| Amortization of broadcast rights | 3,792,867 | 3,775,207 |
| Changes in non-cash working capital: | | |
| Accounts receivable | 148,780 | (51,258) |
| Income taxes recoverable | (10,423) | (106,824) |
| Prepaid expenses | (4,888) | 5,913 |
| Accounts payable and accrued liabilities | (551,356) | 81,371 |
| Deferred revenue, projects | 14,574 | (10,314) |
| | 5,230,455 | 5,984,348 |
| Financing: | | |
| Contributions received for broadcast rights | 250,000 | 150,000 |
| Investing: | | |
| Purchase of investments, net (note 3(b)) | (50,868) | (2,098,287) |
| Capital: | | |
| Acquisition of tangible capital assets | (83,192) | (344,732) |
| Acquisition of broadcast rights | (4,744,447) | (4,024,454) |
| | (4,827,639) | (4,369,186) |
| Increase (decrease) in cash | 601,948 | (333,125) |
| Cash, beginning of year | 804,916 | 1,138,041 |
| Cash, end of year | \$ 1,406,864 | \$ 804,916 |

See accompanying notes to consolidated financial statements.

KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements

Year ended March 31, 2019

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 Tourism, Arts and Culture.

The Corporation continues to be 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, Knowledge-West Communications Corporation ("KWCC") is subject to income taxes. On December 31, 2018, KWCC ceased operations and therefore will no longer be earning specialty TV channel subscription fees.

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 of the Chartered Professional Accountants Canada, 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 the 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 consolidated financial statements reflect the assets, liabilities, revenues, expenses, and accumulated surplus of the reporting entity, which includes proportionate consolidation of the Corporation's 50% owned subsidiary 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, 2019

2. Significant accounting policies (continued):

(b) Revenue recognition (continued):

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 impractical. Interest and other revenues are recognized when earned.

(c) Tangible capital assets:

Purchased 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 are amortized over the estimated useful life on the declining balance basis at 50%, and leasehold improvements are amortized on a straight line basis at the lesser of estimated useful life and 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 and broadcast rights is recorded as deferred contributions and is recognized as a recovery in the Statement of Operations equal to 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 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

KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2019

2. Significant accounting policies (continued):

(f) Financial instruments (continued):

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.

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.

KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2019

2. Significant accounting policies (continued):

(f) Financial instruments (continued):

(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.

(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 accrued liabilities 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, valuation of accounts receivable, and provision for contingencies. Actual results could differ from those reported.

(h) Foreign currency translation:

Monetary assets and liabilities included in the fair value measurement category 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.

KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2019

2. Significant accounting policies (continued):

(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. For the year ended March 31, 2019, an income tax expense of \$12,993 (2018 - \$70,934) has been included in Specialty TV channel expenses in the Statement of Operations.

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 of March 31, 2019 the balance in the US dollar account was \$39,971 (2018 - USD \$52,559).

(b) Portfolio and endowment investments:

| | 2019 | 2018 |
|---------------|----------------------|---------------------|
| Fixed income | \$ 2,638,996 | \$ 2,466,186 |
| Common shares | 5,174,765 | 5,452,725 |
| Mutual funds | 255,627 | 1,718,193 |
| Other | 2,002,752 | 207,197 |
| | <u>\$ 10,072,140</u> | <u>\$ 9,844,301</u> |

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

| | 2019 | 2018 |
|-----------------------|----------------------|---------------------|
| Portfolio investments | \$ 732,705 | \$ 2,124,397 |
| Endowment investments | 9,339,435 | 7,719,904 |
| | <u>\$ 10,072,140</u> | <u>\$ 9,844,301</u> |

Changes in portfolio investments are comprised of the following:

| | 2019 | 2018 |
|--|-------------------|---------------------|
| Balance, beginning of year | \$ 2,124,397 | \$ 2,106,290 |
| Internal transfer to cash | (1,500,000) | - |
| Remeasurement gain (loss) | 18,473 | (18,398) |
| Investment income included in other income | 89,835 | 36,505 |
| Balance, end of year | <u>\$ 732,705</u> | <u>\$ 2,124,397</u> |

KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2019

3. Cash and investments (continued):

(b) Portfolio and endowment investments (continued):

Changes in endowment investments are comprised of the following:

| | 2019 | 2018 |
|---|--------------|--------------|
| Balance, beginning of year | \$ 7,719,904 | \$ 5,520,383 |
| Endowment contributions received | 1,309,144 | 1,775,249 |
| Internal transfer from cash | - | 150,000 |
| Withdrawals | (100,000) | (100,000) |
| Remeasurement gain | 158,688 | 137,644 |
| Endowment investment income | 285,746 | 240,415 |
| Investment costs included in other income | (34,047) | (3,787) |
| Balance, end of year | \$ 9,339,435 | \$ 7,719,904 |

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.

| | 2019 | 2018 |
|-------------------------------------|------------|--------------|
| Balance, beginning of year | \$ 986,027 | \$ 1,134,734 |
| Less: amounts recognized as revenue | (121,548) | (148,707) |
| Balance, end of year | \$ 864,479 | \$ 986,027 |

(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.

| | 2019 | 2018 |
|-------------------------------|------------|------------|
| Balance, beginning of year | \$ 507,105 | \$ 536,685 |
| Contributions received | 250,000 | 150,000 |
| Amounts recognized as revenue | (179,286) | (179,580) |
| Balance, end of year | \$ 577,819 | \$ 507,105 |

| | 2019 | 2018 |
|------------------------------------|--------------|--------------|
| Deferred contributions related to: | | |
| Capital assets | \$ 864,479 | \$ 986,027 |
| Broadcast rights | 577,819 | 507,105 |
| | \$ 1,442,298 | \$ 1,493,132 |

KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2019

5. Broadcast rights:

| | 2019 | 2018 |
|---------------------------|---------------|---------------|
| Cost: | | |
| Opening balance | \$ 18,056,171 | \$ 17,846,637 |
| Additions | 4,744,447 | 4,024,454 |
| Expired rights | (1,937,438) | (3,814,920) |
| | 20,863,180 | 18,056,171 |
| Accumulated amortization: | | |
| Opening balance | 8,568,574 | 8,608,287 |
| Amortization (i) | 3,792,867 | 3,775,207 |
| Expired rights | (1,937,438) | (3,814,920) |
| | 10,424,003 | 8,568,574 |
| Net book value | \$ 10,439,177 | \$ 9,487,597 |

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

| | 2019 | 2018 |
|----------------------------------|--------------|--------------|
| Amortization of broadcast rights | \$ 3,333,943 | \$ 3,077,480 |
| Specialty TV channel expenses | 458,924 | 697,727 |
| | \$ 3,792,867 | \$ 3,775,207 |

KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2019

6. Tangible capital assets:

| | Furniture and fixtures | Computer equipment | Other equipment | Software | Broadcast network equipment | Leasehold improvements | 2019 |
|---------------------------|---------------------------|-----------------------|--------------------|------------|-----------------------------------|---------------------------|---------------|
| Cost: | | | | | | | |
| Opening balance | \$ 880,545 | \$ 3,088,589 | \$ 2,396,439 | \$ 438,229 | \$ 14,267,087 | \$ 37,695 | \$ 21,108,584 |
| Additions | - | 47,537 | - | - | 35,655 | - | 83,192 |
| Closing balance | 880,545 | 3,136,126 | 2,396,439 | 438,229 | 14,302,742 | 37,695 | 21,191,776 |
| Accumulated amortization: | | | | | | | |
| Opening balance | 809,435 | 2,868,387 | 2,380,379 | 427,309 | 12,418,223 | 37,695 | 18,941,428 |
| Amortization | 7,111 | 48,794 | 2,409 | 5,460 | 240,688 | - | 304,462 |
| Closing balance | 816,546 | 2,917,181 | 2,382,788 | 432,769 | 12,658,911 | 37,695 | 19,245,890 |
| Net book value | \$ 63,999 | \$ 218,945 | \$ 13,651 | \$ 5,460 | \$ 1,643,831 | \$ - | \$ 1,945,886 |

| | Furniture and fixtures | Computer equipment | Other equipment | Software | Broadcast network equipment | Leasehold improvements | 2018 |
|---------------------------|---------------------------|-----------------------|--------------------|------------|-----------------------------------|---------------------------|---------------|
| Cost: | | | | | | | |
| Opening balance | \$ 880,545 | \$ 3,051,757 | \$ 2,396,439 | \$ 438,229 | \$ 13,959,187 | \$ 37,695 | \$ 20,763,852 |
| Additions | - | 36,832 | - | - | 307,900 | - | 344,732 |
| Closing balance | 880,545 | 3,088,589 | 2,396,439 | 438,229 | 14,267,087 | 37,695 | 21,108,584 |
| Accumulated amortization: | | | | | | | |
| Opening balance | 801,532 | 2,817,941 | 2,368,016 | 416,390 | 12,169,683 | 31,973 | 18,605,535 |
| Amortization | 7,903 | 50,446 | 12,363 | 10,919 | 248,540 | 5,722 | 335,893 |
| Closing balance | 809,435 | 2,868,387 | 2,380,379 | 427,309 | 12,418,223 | 37,695 | 18,941,428 |
| Net book value | \$ 71,110 | \$ 220,202 | \$ 16,060 | \$ 10,920 | \$ 1,848,864 | \$ - | \$ 2,167,156 |

KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2019

7. Credit facility:

The Corporation has a revolving demand credit facility bearing interest a prime plus 0.50% per annum. The available facility is to a maximum of \$1,000,000 (2018 - \$500,000). As at March 31, 2019, no amount was drawn on this credit facility (2018 - nil).

8. Commitments:

(a) Satellite transmission service:

The Corporation acquires satellite transmission services at an annual cost of approximately \$204,000 (2018 - \$411,000) under agreements covering a four year period ending August 31, 2021.

(b) Production costs

The Corporation acquires programs which require the commitment of funds. As at March 31, 2019, the Corporation is committed to pay \$2,652,346 (2018 - \$2,641,751) for license fees over the period April 2019 to March 2021.

9. 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 Corporations pays rent to BCIT, a Provincially controlled post-secondary institution, of \$1 per annum and its share of the building operating costs totaling \$265,827 (2018 - \$315,312).

Included in accounts receivable is \$5,181 (2018 - \$133,504) related to advances receivable from KWCC.

10. Pensions:

The Corporation and its employees contribute to the College Pension Plan and Municipal Pension Plan, jointly trustee pension plans. The boards of trustees for these plans represent plan members and employers and are responsible for the management of the pension plan, including investment of the assets and administration of benefits. The pension plans are multi-employer defined benefit pension plans. Basic pension benefits provided are based on a formula. As at August 31, 2018, the College Pension Plan has about 14,000 active members and approximately 8,000 retired members. As at December 31, 2017, the Municipal Pension Plan has approximately 197,000 active members, including approximately 6,000 from colleges and other participating employers.

Active College Pension Plan members include 23 contributors and active Municipal Pension Plan members include 33 contributors from the Corporation.

KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2019

10. Pensions (continued):

Every three years, an actuarial valuation is performed to assess the financial position of the plans and adequacy of plan funding. The actuary determines an appropriate combined employer and member contribution rate to fund the plans. The actuary's calculated contribution rate is based on the entry-age normal cost method, which produces the long-term rate of member and employer contributions sufficient to provide benefits for average future entrants to the plans. This rate may be adjusted for the amortization of any actuarial funding surplus and will be adjusted for the amortization of any unfunded actuarial liability.

The most recent actuarial valuation for the College Pension Plan as at August 31, 2015 indicated a \$67 million funding surplus for basic pension benefits on a going concern basis.

The most recent valuation for the Municipal Pension Plan as at December 31, 2015 indicated a \$2,224 million funding surplus for basic pension benefits on a going concern basis. As a result of the 2015 basic account actuarial valuation surplus and pursuant to the joint trustee agreement, \$1,927 million was transferred to the rate stabilization account and \$297 million of the surplus ensured the required contribution rates remained unchanged.

The next valuation for the College Pension Plan occurred August 31, 2018, with results available in 2019. The next valuation for the Municipal Pension Plan occurred December 31, 2018, with results available in 2019.

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 each plan in aggregate, resulting in no consistent and reliable basis for allocating the obligation, assets and cost to individual employers participating in the plans.

The Corporation paid \$362,131 (2018 - \$366,303) for employer contributions while employees contributed \$336,458 (2018 - \$329,036) to the Plans in fiscal 2019.

11. 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, 2019.

(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 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 concentration of credit risk.

KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2019

11. Financial instruments risks (continued):

(b) Foreign exchange risk:

Foreign exchange risk is the risk that the fair value of 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 (note 3(a)).

(c) Interest rate risk:

Interest 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 and endowment investments bear some interest 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 portfolio and endowment 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:

| | 2019 | 2018 |
|-------------------------------------|---------------|---------------|
| Invested in tangible capital assets | \$ 1,081,407 | \$ 1,181,129 |
| Invested in broadcast rights | 9,861,358 | 8,980,492 |
| Endowment funds | 9,339,435 | 7,719,904 |
| Unrestricted amounts | 1,571,469 | 1,957,900 |
| Balance, end of year | \$ 21,853,669 | \$ 19,839,425 |

13. Budget figures:

Consolidated budgeted figures have been provided for comparison purposes and have been derived from the estimates approved by the Board of Directors on February 22, 2018.

KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2019

14. Expenses 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 to allocated on a reasonable basis to individual categories are reported in the 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 K: Magazine.

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 capital assets and other expenses.

Amortization of broadcast rights

This category includes the amortization of broadcast rights over the authorized period of the broadcast right.

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 was available to Canadian cable and Internet TV subscribers up to December 31, 2018.

KNOWLEDGE NETWORK CORPORATION

Schedule of consolidated expenses by object

Year ended March 31, 2019, with comparative information for 2018

| | Programming and presentation | Marketing and development | Broadcast platforms and corporate IT | General | Amortization of broadcast rights | Administration | Specialty TV channel | 2019 consolidated | Budget consolidated | 2018 consolidated |
|--|------------------------------------|---------------------------------|--|------------|--|----------------|-------------------------|----------------------|------------------------|----------------------|
| Salaries and benefits | \$ 1,625,165 | \$ 950,932 | \$ 1,309,424 | \$ 8,657 | \$ - | \$ 855,174 | \$ 25,000 | \$ 4,774,352 | \$ 4,803,756 | \$ 4,708,492 |
| Amortization of capital assets and broadcast rights | - | - | - | 285,502 | 3,333,943 | - | 477,885 | 4,097,330 | 4,366,571 | 4,111,100 |
| Purchased services | 359,602 | 629,792 | 171,325 | - | - | 60,654 | 67,999 | 1,289,372 | 1,229,490 | 1,435,609 |
| Supplies, shipping, minor software, maintenance | 35,713 | 484,587 | 549,181 | 7,010 | - | 33,285 | 77,134 | 1,186,910 | 1,196,999 | 1,251,704 |
| Travel, miscellaneous, other | 80,910 | 174,750 | 29,911 | 67,052 | - | 111,684 | 66,617 | 530,924 | 493,240 | 514,339 |
| Facilities operating costs, rental | - | 8,448 | - | - | - | 265,827 | - | 274,275 | 264,000 | 315,312 |
| Income taxes | - | - | - | - | - | - | 12,994 | 12,994 | 35,000 | 70,935 |
| | \$ 2,101,390 | \$ 2,248,509 | \$ 2,059,841 | \$ 368,221 | \$ 3,333,943 | \$ 1,326,624 | \$ 727,629 | \$ 12,166,157 | \$ 12,389,056 | \$ 12,407,491 |

Appendix A – Additional Information

Corporate Governance

Knowledge Network is governed by a Board of Directors that is responsible to the Minister of Tourism, Arts & Culture. 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

British Columbia's Knowledge Network is a viewer-supported public broadcaster. Our mission is to provide all British Columbians with a trusted alternative for the commercial-free exploration of life, connecting them to the world through television, web and mobile platforms. Please [click here](#) to learn more about Knowledge Network.

Contact Information

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Email: info@knowledge.ca

Knowledge.ca

KnowledgeKids.ca

Appendix B – Subsidiaries and Operating Segments

Active Subsidiaries

Knowledge-West Communications Corporation (KWCC) was incorporated in 1981. KWCC owned and operated 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 and the BBC. KWCC financial results are proportionately consolidated under Knowledge Network Corporation’s audited financial statements.

After seven successful years of operations, the Knowledge-West Communications Corporation (KWCC) Board of Directors agreed to wind down the BBC Kids channel on December 31, 2018. Profitability of the service was impacted by a number of factors including changes in CRTC policies that disadvantage independent programming services such as BBC Kids.

During 2018/19, KWCC paid dividends totaling \$1,033M to its shareholders, of which Knowledge Network received \$400,000.

Resource Summary

| (\$000) | 2017/18 Actual | 2018/19 Budget | 2018/19 Actual |
|--|----------------|----------------|----------------|
| Total Revenue | 908 | 517 | 520 |
| Total Expenses | 1,108 | 613 | 728 |
| Net Income/Excess of Revenue over Expenses/Annual Surplus (Deficit) | (200) | (96) | (208) |