

# **Knowledge Network Corporation**

**2015/16**

## **ANNUAL SERVICE PLAN REPORT**



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

## **Board Chair's Accountability Statement**

The *Knowledge Network Corporation 2015/16 Annual Service Plan Report* compares the Corporation's actual results to the expected results identified in the *2015/16 - 2017/18 Service Plan*. I am accountable for those results as reported.

A handwritten signature in black ink, appearing to read 'Nini Baird', with a stylized flourish at the end.

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 2015/16 Annual Service Plan Report.

It's been another successful year for British Columbia's public broadcaster. Knowledge Network has supported B.C. stories and filmmakers from across the province and expanded web platforms to engage audiences anytime, on any device.



Rudy Buttignol, C.M.  
President & CEO

The strategic priorities in our 2015/16 Mandate Letter have been completed, and include three major initiatives. *Haida Gwaii: At the Edge of the World*, an original commission by Knowledge Network, has become an audience favourite in B.C. and across Canada (Mandate Letter: B.C. First Nations culture and issues and environmental issues). Featuring members of the Haida Nation, the documentary tells the story of a dedicated community uniting to protect land and sea for the next

generation. Knowledge Network hosted preview screenings of the award-winning program to appreciative audiences at the Haida Heritage Centre in Skidegate and a Haida carver's longhouse in Old Masset.

*Dreamers and Dissidents*, also an original Knowledge Network commission, brought stories from the Kootenays to B.C. audiences (Mandate Letter: cultural awareness, First Nations culture and issues). The series of short films explores the region's history through personal stories of individuals who have lived in the Kootenays over the past century. Knowledge Network hosted advance screenings for local communities at the historic Nelson Civic Theatre.

In December we launched Knowledge Kids Go, our newest app, with hundreds of full length videos and games based on trusted Knowledge Kids content (Mandate Letter: development of mobile app and second generation website for young children and parents). Free to download, with no in-app purchase required and free of advertising, Knowledge Kids Go has become a hit with kids and parents. In February it was named Best New App in Canada by the App Store.

With our success as a multi-platform public broadcaster come new risks. Upgrades to our digital broadcast infrastructure, now eight years old, have been self-financed through Knowledge Network's existing revenue streams. However, as more and more viewers consume content online through our web and mobile services, there is a correspondingly dramatic increase in bandwidth and storage costs. With our websites and apps now generating the greatest audience growth, paying for increased bandwidth to continue to operate and invest in these services is becoming a significant challenge.

Knowledge Network is in alignment with government direction through our Mandate Letter. Our Taxpayer Accountability Strategic Engagement Plan included the following actions:

- 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: Crown Director Effectiveness Course by the Institute of Corporate Directors, Emerging and Evolving Audit Committee Course by the Institute of Corporate Directors, and the Provincial Government's All Board of Directors Professional Development Meeting.
- 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.

The systems and structures we have in place ensure British Columbians receive an efficient, trusted broadcast service that provides valuable content in the public interest.

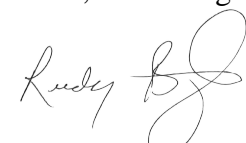
Knowledge Network is a viewer supported public broadcaster. Our achievements were made possible by the ongoing support of the Government of British Columbia. We are most grateful for the financial contributions from our loyal donors across the province, and were inspired by their enthusiastic attendance at Knowledge Partner events in Kelowna, Nanaimo, Saanich and Victoria.

The Board of Directors and staff are very proud of all that was achieved in 2015/16. We look forward to working with the Government of B.C. and all British Columbians in the year ahead.



Nini Baird, C.M.

Chair, Knowledge Network Corporation Board of Directors



Rudy Buttignol, C.M.

President and CEO, Knowledge Network Corporation

## Purpose

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.

Knowledge Network delivers educational content to British Columbians through mandatory carriage on cable, direct-to-home satellite, and 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 2015/16 [Mandate Letter](#) identifies four strategic priorities with the Taxpayer Accountability Principles as an overarching government priority.

- 1. Curate and broadcast the 2015/16 broadcast schedule to feature the following B.C. challenges: Seniors' demographic shifts; early learning initiatives; Asian trade and cultural awareness; health care sustainability; First Nations culture and issues; environmental challenges; economic issues.*
- 2. Launch a new, multiplatform documentary series on B.C. paramedics in partnership with B.C.'s independent television and interactive producers.<sup>1</sup>*
- 3. Develop a mobile app and second generation website for young children and parents.*

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<sup>1</sup> Due to the popularity of the first season of *Emergency Room: Life + Death at VGH*, we advanced our plans for a second season.



#### *4. Self-finance and upgrade digital broadcast infrastructure.*

Knowledge Network operates a multi-platform broadcast service. While most British Columbians still watch television by traditional means, many are turning to new platforms and devices connected to the internet for their viewing needs. We have responded to the changing behaviours of our audiences by expanding broadcast platforms. With more viewers accessing content online, broadband costs are increasing. Costs escalated significantly after the launch of the second generation Knowledge Kids website and the Knowledge Kids Go app and will continue to increase.

Knowledge Network receives generous support from donors across the province that funds programming on our public service. We monitor activity in the charitable giving environment, and are seeing some concerning trends. While donations to Knowledge Network have been growing, the Blackbaud Index Canada revealed an industry-wide 6.2% decrease in charitable giving in Canada from March 2015 to March 2016. The long-term trend in the charitable sector is larger gifts from a declining number of donors. In response to this trend, we introduced new initiatives to steward and engage with our donors, including a formalized email strategy.

## **Report on Performance**

The four strategic priorities in our 2015/16 Mandate Letter have been completed. The actions in our Taxpayer Accountability Strategic Engagement Plan were developed in consultation with our Ministry and have also been completed.

Our performance goals and strategies are based on our 2013-2016 Strategic Plan *Engaging You, British Columbia*. This was the final year for this three-year strategic plan.

## **Goals, Strategies, Measures and Targets**

### ***Goal 1: Expand digital platforms to serve audiences anywhere, anytime.***

Media consumption patterns and new technologies continue to evolve rapidly. Our viewers now expect access to high quality content, anywhere and anytime they choose. To maintain its relevance, Knowledge Network must ensure its presence on new platforms as they are adopted by consumers.

### **Strategies**

1. Expand carriage of High Definition channel.
2. Develop mobile Apps for Knowledge.ca and KnowledgeKids.ca.

## Performance Measures:

Performance Measures		2012/2013 Actual	2013/2014 Actual	2014/2015 Actual	2015/2016 Target	2015/2016 Actual	2016/2017 Target	2017/2018 Target
<b>TOTAL REACH<sup>2</sup></b> (TV Audience)	<b>Knowledge Primetime</b>	2,483,000	2,637,000	2,560,000	2,275,000	<b>2,373,000</b>	2,275,000	2,275,000
	<b>Knowledge Kids</b>	1,775,000	1,842,000	1,800,000	1,600,000	<b>1,637,000</b>	1,500,000	1,500,000
<b>AVERAGE WEEKLY HOURS VIEWED<sup>3</sup></b>	<b>Knowledge Primetime</b>	1,210,870	1,454,410	1,450,250	1,400,000	<b>1,329,015</b>	1,350,000	1,350,000
	<b>Knowledge Kids</b>	307,740	468,546	510,862	450,000	<b>438,421</b>	400,000	375,000
<b>WEB VISITS<sup>4</sup></b>	<b>Knowledge.ca</b>	903,650	1,044,827	1,213,420	1,000,000	<b>1,461,649</b>	1,600,000	1,700,000
	<b>KnowledgeKids.ca</b>	477,237	398,926	255,110	225,000	<b>485,170</b>	525,000	550,000
	<b>TOTAL</b>	1,380,887	1,423,753	1,468,530	1,225,000	<b>1,946,819</b>	2,125,000	2,250,000
<b>WEB PAGE VIEWS<sup>5</sup></b>	<b>Knowledge.ca</b>	3,009,248	5,249,000	5,428,752	4,600,000	<b>5,578,593</b>	5,700,000	5,800,000
	<b>KnowledgeKids.ca</b>	929,951	732,203	575,799	450,000	<b>1,269,002</b>	2,750,000	3,000,000
	<b>TOTAL</b>	3,939,199	5,981,203	6,004,551	5,050,000	<b>6,847,595</b>	8,450,000	8,800,000
<b>TOTAL HOURS ON SITE<sup>6</sup></b>	<b>Knowledge.ca</b>	252,617	373,061	457,955	400,000	<b>564,636</b>	600,000	650,000
	<b>KnowledgeKids.ca</b>	138,105	124,633	80,440	70,000	<b>130,526</b>	180,000	200,000
	<b>TOTAL</b>	390,722	497,694	538,395	470,000	<b>695,162</b>	780,000	850,000

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

<sup>3</sup> Averaged over the course of the fiscal year, the total number of hours of programming viewed per week in the Vancouver Extended Market measured by Numeris Canada.

<sup>4</sup> Period of interaction between visitor's browser and a website, ending when the browser is closed. Measured using Google Analytics.

<sup>5</sup> View of a page on a site tracked by a tracking code. There can be one or more page views per session. Measured using Google Analytics.

<sup>6</sup> The total aggregate time spent on Knowledge.ca and KnowledgeKids.ca by all visitors in hours.

## Discussion

While Knowledge Network's Total Reach on television remains strong, Average Weekly Hours Viewed on television decreased by 5.3% for primetime and 2.6% for Knowledge Kids. With internet TV viewing on the rise, we are seeing a gradual shift as viewers move from our linear service to our websites and apps. Both Knowledge.ca and KnowledgeKids.ca experienced significant growth across all performance measures. In 2015/16 we launched the Knowledge app, the Knowledge Kids Go app, and the second generation website KnowledgeKids.ca, offering more options for viewers to watch Knowledge Network content. Over the last four years, Knowledge Network has seen dramatic increases in online viewership.

This goal supports the Taxpayer Accountability Principles by ensuring Knowledge Network delivers a cost-efficient, effective public service for British Columbians. Based on the actuals, targets have been updated from those noted in our 2015/16 Service Plan.

***Goal 2: Commission original British Columbian content in partnership with independent producers for multi-platform delivery.***

The independent production community continues to be a key partner in the creation of original content. Growth in Knowledge Network's access to external project funding together with independent producers' developing expertise in multi-platform storytelling will help ensure that we can share B.C. stories on the platforms consumer's desire.

**Strategies**

1. Invest in British Columbian stories for distribution on multiple platforms.
2. Develop the intellectual property of the Knowledge Kids' characters, Luna, Chip, and Inkie, to create new content for children and families.

**Performance Measures:**

Performance Measures	2012/2013 Actual	2013/2014 Actual	2014/2015 Actual	2015/2016 Target	2015/2016 Actual	2016/2017 Target	2017/2018 Target
<b>BUDGET COMMITMENT TO ORIGINAL MULTI-PLATFORM CONTENT<sup>7</sup></b>	\$850,000	\$960,280	\$1,291,340	\$950,000	<b>\$1,085,582</b>	\$1,000,000	\$1,000,000
<b>B.C. INDEPENDENT PRODUCTION BUDGETS SUPPORTED BY KNOWLEDGE NETWORK<sup>8</sup></b>	\$2,300,000	\$12,000,000 <sup>9</sup>	3,231,450	\$2,400,000	<b>\$9,772,234<sup>10</sup></b>	\$2,450,000	\$2,450,000

<sup>7</sup> Knowledge Network funding of independent productions of original content for television and other media platforms.

<sup>8</sup> This number represents all contributions to independent production budgets, including those committed by Knowledge Network in a fiscal year. Independent production budgets are comprised of funding from many sources, including domestic and international broadcasters, the Canada Media Fund, private media funds and B.C. and Canada tax credits.

<sup>9</sup> Reflects the budget for an international, animated children's co-production supported by Knowledge Network.

<sup>10</sup> 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 invested in 22 original multi-platform projects, supporting the development and production of content that inspires, informs and engages our audiences. Projects include *Space Suite II* in partnership with B.C.'s Two Story Productions, a second season of *Kate and*

*Mim Mim* in partnership with DHX Media and animated in Vancouver, and the documentary *Shut Up and Say Something: A Shane Koyczan Story* in partnership with B.C.'s Stranger Productions.

The budgets for these documentaries are included in our performance measure for Total B.C. Production Budgets. This goal supports the Taxpayer Accountability Principles by ensuring Knowledge Network is accountable and our actions are aligned with government's strategic mandate.

### ***Goal 3: Engage audiences through personalized, interactive social experiences***

To be sustainable over the long term, Knowledge Network must enhance our ability to engage and attract audiences. By leveraging the most popularly adopted media platforms, we will strengthen our relationship with our 1.4 million weekly viewers by creating personalized experiences with our brand.

### **Strategies**

1. Develop interactive initiatives to “pull” viewers into our websites and social networks so that they may engage and interact with our content, complementing the traditional broadcast experience of “pushing” content out.
2. Launch personalization features on our web and mobile platforms that are driven by user preferences that encourage participation, such as personal playlists and schedules, recommendations, polls, ratings, and commenting.

### **Performance Measures:**

Performance Measures	2012/2013 Actual	2013/2014 Actual	2014/2015 Actual	2015/2016 Target	2015/2016 Actual	2016/2017 Target	2017/2018 Target
<b>COMMUNITY EVENTS<sup>11</sup></b>	8	15	9	8	<b>17</b>	8	8
<b>REGISTERED USERS ON KNOWLEDGE.CA<sup>12</sup></b>	N/A	BENCHMARK YEAR	2661	2,000	<b>11,129</b>	12,000	13,000
<b>NUMBER OF GAMES PLAYED AT KNOWLEDGEKIDS.CA<sup>13</sup></b>	539,112	464,474	384,086	300,000	<b>375,613</b>	400,000	450,000

<sup>11</sup> Number of events hosted and sponsored by Knowledge Network in B.C. communities

<sup>12</sup> Number of registered users on Knowledge.ca

<sup>13</sup> Measured using Google Analytics, through user interactions with content tracked from a web page or screen load.

### **Discussion**

Knowledge Network participated in a significant number of community outreach activities across the province, supporting local filmmakers and engaging with Knowledge Partners. The

Knowledge Network commissioned documentary *Haida Gwaii: On the Edge of the World* created unique opportunities for screenings in different communities.

Events included:

- Chilliwack - President and CEO Presentation to the Chilliwack Rotary Club
- Kamloops – Kamloops Canadian and International Film Festival featuring the Knowledge commissioned documentary *Haida Gwaii: On the Edge of the World*
- Kelowna - President & CEO Presentation to Kelowna Roundtable
- Kelowna – Knowledge Partner advance screening and reception
- Nanaimo - Knowledge Partner advance screening and reception
- Nelson – special screenings with local filmmaker of the Knowledge Network commissioned documentary *Dreamers and Dissidents*.
- Old Massett - special screening featuring the Knowledge Network commissioned documentary *Haida Gwaii: On the Edge of the World*
- Saanich – Knowledge Partner advance screening and reception
- Skidegate – special screening featuring the Knowledge Network commissioned documentary *Haida Gwaii: On the Edge of the World*
- Surrey – Canada Day Festival featuring Knowledge Kids
- Vancouver – President and CEO Presentation to Vancouver Women’s Probus Club
- Vancouver - President and CEO Presentation to Probus Vancouver
- Vancouver – Knowledge Network 2015 broadcast season launch event
- Vancouver – Vancouver International Film Festival featuring the Knowledge Network commissioned documentary *Haida Gwaii: On the Edge of the World*
- Vancouver – Knowledge Kids presented Wild Kratts Live!
- Victoria - Knowledge Partner advance screenings and reception (2 screenings)

The introduction of Watch Live, the streaming video of our linear channel at Knowledge.ca, contributed to the significant increase of Registered Users. We have seen a dramatic increase in Number of Games Played at Knowledgekids.ca since the launch of our second generation website in December.

Based on the actuals, targets have been updated from those noted in our 2015/16 Service Plan.

***Goal 4: Strengthen the Knowledge Network brand story and share it.***

Knowledge Network has grown from a single analogue television channel to a media network with multiple channels and web offerings. It’s imperative that current and prospective audiences identify Knowledge Network as a broadcasting and communication service that keeps pace with change and is dedicated to serving audiences anywhere, anytime. Now more than ever, the power of online networks offers a cost effective way to tell our brand story to a broader audience.

## Strategies

1. Brand Knowledge Network as British Columbia's multi-channel, multi-platform, commercial-free public broadcast service; and strengthen its appeal as an organization with charitable status.
2. Broaden awareness of Knowledge Kids by participating in events targeted at children and families.
3. Maintain, and where possible, improve the presence and visibility of Knowledge Network throughout the province with events in and outreach to B.C.'s diverse cultural communities.

## Performance Measures:

Performance Measures	2012/2013 Actual	2013/2014 Actual	2014/2015 Actual	2015/2016 Target	2015/2016 Actual	2016/2017 Target	2017/2018 Target
PUBLIC AWARENESS OF BRITISH COLUMBIA'S KNOWLEDGE NETWORK <sup>14</sup>	N/A	66%	66%	66%	66%	66%	66%

<sup>14</sup> Measured in spring 2016 using the Ipsos Reid Provincial Online Omnibus.

## Discussion

As audiences continue to fragment in the digital world, maintaining our percentage of brand awareness in British Columbia is an achievement. Competition for audiences is increasing with significant expansion of media choices. An annual omnibus survey was conducted in March 2016 and included the question, "*Have you heard of British Columbia's Knowledge Network?*" 66% of British Columbians reported yes, which has been consistent over the last three years.

### ***Goal 5: Increase revenue through entrepreneurial and philanthropic initiatives.***

Knowledge Network will continue to improve its long term sustainability. We will build on the success of the BBC Kids channel acquisition by seeking out new opportunities to generate entrepreneurial revenue that can, in turn, support the public service. The new systems we now have in place will allow us to expand our philanthropic initiatives in ways that previously were not viable.

## Strategies

### ***Philanthropic***

1. Convert a larger percentage of our 1.4 million weekly viewers to donors by employing new solicitation approaches enabled by our constituent relationship management database.

2. Retain current donors by strengthening relationships through personalized stewardship, increased interaction online and at face to face events, resulting in a higher renewal rate, increased gift size, and more additional gifts.
3. Continue our Major Gift and Legacy Gift programs with individual donors.
4. Identify and develop opportunities for corporate financial support.

### ***Entrepreneurial***

1. Explore revenue generating opportunities for expanded carriage of the Knowledge Network signal in new markets.
2. Develop partnership opportunities that leverage our broadcasting strengths and align with our competencies.

### **Performance Measures:**

Performance Measures	2012/2013 Actual	2013/2014 Actual	2014/2015 Actual	2015/2016 Target	2015/2016 Actual	2016/2017 Target	2017/2018 Target
<b>KNOWLEDGE PARTNER DONATIONS<sup>15</sup></b>	\$3,413,181	\$3,490,069	\$3,889,552	\$3,500,000	<b>\$4,020,000</b>	\$3,900,000	\$3,900,000
<b>OTHER BUDGETED REVENUES<sup>16</sup></b>	\$350,000	\$550,000	\$550,000	\$550,000	<b>\$550,000</b>	\$550,000	\$550,000

<sup>15</sup> Measured by tracking total Knowledge Partners donations received annually.

<sup>16</sup> From entrepreneurial initiatives including channel management fees.

### **Discussion**

The Knowledge Partners Annual Fund donations exceeded expectations surpassing \$4 million dollars. This is an increase of 3.43% over last year. Our overall donor base increased 2.5% and monthly recurring gifts now account for more than 30% of our annual fund revenue. These results are significant given the philanthropic climate in Canada over the last twelve months. As noted earlier, there has been an industry-wide decrease in charitable giving in Canada this past year. We also introduced a formalized email strategy to increase donor engagement and diversify donation revenue streams. In the fall of 2015, a contest to win a trip for two to Australia was very successful in growing online donations, driven principally by a new email strategy.

Knowledge Network receives an annual service fee for the management and operation of BBC Kids, a national children's subscription channel. BBC Kids is a joint-venture between BBC Worldwide and Knowledge Network Corporation.

This goal also supports the Taxpayer Accountability Principles by ensuring Knowledge Network delivers a cost-efficient, effective public service for British Columbians. Based on the actuals, targets have been updated from those noted in our 2015/16 Service Plan.

## **Financial Report**

### **Discussion of Results**

One of Knowledge Network's strategic goals was to increase self-generated revenues. We accomplished this by earning \$4.5 million from charitable donations, media partnerships, and revenues from BBC Kids. Of the \$814,000 surplus, over half represents endowment investment income.

The \$15 million in assets reflects our core business:

- Broadcast rights – we have a program inventory of over \$9 million.
- Tangible capital assets – we have over \$2 million of broadcast servers and other equipment.
- Endowment investments – we have a restricted endowment fund, supported through bequests and major gifts, that has reached approximately \$4 million.

We are continually investing in B.C.'s public broadcaster to provide a trusted, quality public service for audiences across the province. Operating costs are increasing, specifically for broadband, as more viewers are consuming content online through our websites and apps. Our web platforms are now generating the greatest audience growth.

#### Donations and Sponsorships

Donations from Knowledge Partners were \$500k more than budgeted, and \$119k more than last fiscal. This can be attributed to the introduction of a formalized email strategy to increase donor engagement and diversify donation revenue streams.

#### Subsidiary Operations - Revenue

Subsidiary revenues were (\$80k) less than budgeted and (\$62k) less than last fiscal. In the kids' market, linear television services are starting to contract as young viewers turn to web-based platforms for content.

#### Amortization of Deferred Contributions

During the year, actual deferred contributions amortized were (\$119k) less than budget and (\$176k) less than last fiscal. This is due to amortization now estimated to be over six years, instead of four years, to match the terms of recent programs.

#### Other Revenue

Other revenue was \$452k more than budgeted and \$327k more than last fiscal. This is due to realized gains on U.S. investments of \$294k, held in the Knowledge Network Endowment Fund, and endowment income earned \$133k more than budget.



### Salaries and Benefits

Salaries and benefits were \$208k more than budgeted and \$251k more than last fiscal. This is due to a severance that was accrued not budgeted, and the addition of 1.5 FTE's not budgeted. The increase over last fiscal is due to new positions hired to support Web Channels and Marketing.

### Amortization of Capital Assets and Broadcast Rights

Amortization expense was (\$227k) less than budgeted and (\$155k) less than last fiscal. This was due to recent program rights that were acquired for six year terms instead of four year terms.

### Marketing and Development

These expenses were \$41k more than budgeted and \$182k more than last fiscal. The budget variance is due to media relations services acquired to support the second season of *Emergency Room: Life and Death at VGH*.

Variances compared to last fiscal are due mainly to the following:

Media relations for <i>Emergency Room:</i> <i>Life and Death at VGH</i>	48,054
Partners' contests and online fundraising	30,394
Partners' events in Victoria, Nanaimo, Kelowna, and Saanich	29,053
Production of Leadership Circle videos	25,175
Mailing costs	18,077
Telemarketing service	14,345
Software maintenance	12,494
Total	<u><u>177,593</u></u>

### Subsidiary Operations - Expenses

Subsidiary expenses were (\$123k) less than budgeted and (\$8k) less than last fiscal due to lower costs in a variety of areas.

### Programming and Presentation

Expenses were \$100k more than budgeted, and (\$31k) less than last fiscal. During the course of the year, new projects/activities were expended but not budgeted:

Captioning	29,794
New music IDs	27,860
New B.C. footage	16,902
Cameras, computers, other equipment	15,385
On-air music for Partners	8,200
Total	<u><u>98,140</u></u>

### Broadcast Platforms and Corporate IT

These expenses were \$254k more than budgeted and \$176k more than last fiscal. During the course of the year, these new projects/activities were expended but not budgeted (some of these costs were higher as they were paid in U.S. funds):

Bandwidth costs for video streaming	122,103
Switches, satellite monitoring equipment, computers, monitors, audio visual equipment	54,900
Broadcast software maintenance and support	16,829
Computers and other testing equipment	14,591
Corporate software maintenance and support	13,980
Software licenses	9,122
Google analytics for K:Kids Go app	7,670
Total	<u>239,196</u>

The increases over last fiscal are due to:

Bandwidth costs for video streaming	79,701
Software maintenance and support	34,355
Broadcast equipment	33,004
Corporate internet	9,915
Google analytics for K:Kids Go app	7,670
Software licenses	7,153
Total	<u>171,799</u>

Canadian dollars were converted to U.S. dollars to pay for some of these costs.

#### General

General expenses were (\$214k) less than budgeted and (\$32k) less than last fiscal. This fiscal's budget had an unallocated amount of (\$227k) that was used to fund projects/activities during the year. Actual costs were not recorded as General expenses, but instead charged to appropriate areas.

#### Administration

Administration costs are detailed as:

Building lease and operating costs	252,400
Finance, Human Resources, and Other	144,021
President's Office and Board	50,705
Total	<u>447,126</u>

#### Endowment Contributions

It is difficult to predict when endowment contributions will be received due to their confidential nature. Endowment contributions received were \$466k more than budgeted and (\$383k) less than last fiscal.

#### Capital Expenditures

This represents broadcast rights that were \$777k more than budgeted and \$961k more than last fiscal. As per our strategic plan, increased investments were made to license British Columbia-based stories and documentaries.

## Financial Resource Summary Table

(Reported on '000)

	2010/11 Actual	2011/12 Actual	2012/13 Actual	2013/14 Actual	2014/15 Actual	2015/16 Budget	2015/16 Actual	Variance to 2015/16 Budget	Variance to 2014/15 Fiscal
Provincial Operating Grant	6,504	6,410	6,410	6,260	6,260	6,260	6,260	-	-
Donations and Sponsorships	2,902	3,160	3,439	3,531	3,906	3,525	4,025	500	119
Revenue from Subsidiary Operations	-	1,310	1,430	1,387	1,546	1,563	1,483	(80)	(62)
Amortization of Deferred Contributions	442	461	353	472	511	454	335	(119)	(176)
Other Revenue	117	157	306	428	508	384	836	452	327
<b>Total Revenues</b>	<b>9,965</b>	<b>11,498</b>	<b>11,938</b>	<b>12,079</b>	<b>12,730</b>	<b>12,186</b>	<b>12,939</b>	<b>758</b>	<b>213</b>
Salaries and Benefits	3,936	4,032	4,176	4,340	4,232	4,275	4,483	208	251
Amortization of Capital Assets and Broadcast Rights	2,912	2,959	3,058	3,235	3,353	3,425	3,198	(227)	(155)
Marketing and Development	1,005	963	1,089	1,166	1,073	1,214	1,255	41	182
Expenses from Subsidiary Operations	157	756	836	960	1,042	1,157	1,034	(123)	(8)
Programming and Presentation	596	582	584	569	646	515	615	100	(31)
Broadcast Platforms and Corporate IT	868	785	864	989	836	758	1,012	254	176
General	152	102	82	60	113	295	81	(214)	(32)
Administration	459	452	375	418	409	435	447	12	38
<b>Total Expenses</b>	<b>10,085</b>	<b>10,632</b>	<b>11,063</b>	<b>11,737</b>	<b>11,704</b>	<b>12,076</b>	<b>12,125</b>	<b>49</b>	<b>421</b>
<b>Annual Surplus from Operations</b>	<b>(120)</b>	<b>865</b>	<b>875</b>	<b>342</b>	<b>1,026</b>	<b>110</b>	<b>814</b>	<b>708</b>	<b>(208)</b>
Endowment Contributions	282	209	298	338	1,149	300	766	466	(383)
<b>Annual Surplus</b>	<b>162</b>	<b>1,074</b>	<b>1,172</b>	<b>680</b>	<b>2,175</b>	<b>410</b>	<b>1,580</b>	<b>1,174</b>	<b>(591)</b>
<b>Capital Expenditures</b>	<b>3,261</b>	<b>3,261</b>	<b>4,280</b>	<b>4,478</b>	<b>3,355</b>	<b>3,539</b>	<b>4,316</b>	<b>777</b>	<b>961</b>
<b>Total Liabilities</b>	<b>4,546</b>	<b>4,811</b>	<b>4,399</b>	<b>3,659</b>	<b>3,684</b>	<b>-</b>	<b>3,234</b>	<b>-</b>	<b>-</b>
<b>Accumulated Surplus</b>	<b>8,890</b>	<b>9,964</b>	<b>11,137</b>	<b>11,817</b>	<b>13,991</b>	<b>14,401</b>	<b>15,571</b>	<b>-</b>	<b>-</b>

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—Henry Ward Beecher

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Consolidated Financial Statements of

**KNOWLEDGE NETWORK CORPORATION**

Year ended March 31, 2016



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, 2016 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.

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



*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Knowledge Network Corporation as at March 31, 2016, 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.

A handwritten signature in black ink that reads "KPMG LLP" with a horizontal line underneath.

Chartered Professional Accountants

May 13, 2016

Burnaby, Canada



## KNOWLEDGE NETWORK CORPORATION

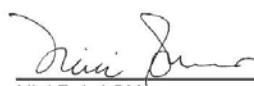
### Consolidated Statement of Financial Position

March 31, 2016, with comparative information for 2015

	2016	2015
Financial assets:		
Cash (note 3(a))	\$ 1,457,891	\$ 2,900,292
Accounts receivable (note 9)	292,245	677,672
Portfolio investments (note 3(b))	1,261,853	456,381
	3,011,989	4,034,345
Liabilities:		
Accounts payable and accrued liabilities	\$ 906,276	\$ 1,004,377
Income taxes payable	8,957	57,500
Deferred revenue, projects	305,275	298,508
Deferred contributions (note 4)	2,013,693	2,323,958
	3,234,201	3,684,343
Net financial assets (debt)	(222,212)	350,002
Non-financial assets:		
Broadcast rights (note 5)	\$ 9,113,720	\$ 8,446,201
Tangible capital assets (note 6)	2,374,730	2,588,627
Prepaid expenses	88,839	54,741
Endowment investments (note 3(b))	3,965,059	2,842,332
	15,542,348	13,931,901
Commitments (note 8)		
Accumulated surplus (note 13)	\$ 15,320,136	\$ 14,281,903
Accumulated surplus represented by:		
Accumulated surplus	\$ 15,571,183	\$ 13,991,349
Accumulated remeasurement gains (losses)	(251,047)	290,554
	\$ 15,320,136	\$ 14,281,903

See accompanying notes to consolidated financial statements.

Approved on behalf of:

  
 Nini Baird CM,  
 Chair of the Board

  
 Rudy Buttignol CM,  
 President and Chief Executive Officer

## KNOWLEDGE NETWORK CORPORATION

### Consolidated Statement of Operations

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

	Budget (note 14)	2016	2015
Revenue:			
Province of British Columbia operating grants	\$ 6,259,506	\$ 6,259,506	\$ 6,259,512
Donations and sponsorships	3,525,000	4,025,158	3,905,723
Specialty TV channel subscription fees	1,563,000	1,483,427	1,545,652
Amortization of deferred contributions (note 4)	454,000	335,265	510,949
Endowment investment income	60,000	490,873	163,664
Other	324,000	345,018	344,753
	12,185,506	12,939,247	12,730,253
Expenses (note 10):			
Programming and presentation	1,821,282	1,916,336	1,924,646
Marketing and development	2,172,591	2,142,664	2,034,234
Broadcast platforms and corporate IT	2,009,995	2,380,195	2,059,267
General	720,457	537,922	438,999
Amortization of broadcast rights	3,000,000	2,845,581	3,027,128
Administration	1,194,181	1,268,133	1,177,455
Specialty TV channel	1,157,285	1,034,453	1,042,499
	12,075,791	12,125,284	11,704,228
Annual surplus from operations	109,715	813,963	1,026,025
Endowment contributions received	300,000	765,871	1,148,748
Annual surplus	409,715	1,579,834	2,174,773
Accumulated surplus, beginning of year	13,991,349	13,991,349	11,816,576
Accumulated surplus, end of year	\$ 14,401,064	\$ 15,571,183	\$ 13,991,349

See accompanying notes to consolidated financial statements.

## KNOWLEDGE NETWORK CORPORATION,

### Consolidated Statement of Remeasurement Gains and Losses

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

	2016	2015
Accumulated remeasurement gains, beginning of year	\$ 290,554	\$ 202,647
Remeasurement gains (losses) attributable to investments	(243,555)	175,655
Amounts reclassified to statement of operations:		
Realized gain on investment	(298,046)	(87,748)
Net remeasurement gains (losses) for the year	(541,601)	87,907
Accumulated remeasurement gains (losses), end of year	\$ (251,047)	\$ 290,554

See accompanying notes to consolidated financial statements.

## KNOWLEDGE NETWORK CORPORATION

### Consolidated Statement of Changes in Net Financial Assets (Debt)

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

	Budget (note 14)	2016	2015
Annual surplus	\$ 409,715	\$ 1,579,834	\$ 2,174,773
Net remeasurement gains (losses) for the year	-	(541,601)	87,907
	409,715	1,038,233	2,262,680
Acquisition of tangible capital asset	(90,000)	(146,229)	(220,814)
Amortization of tangible capital assets	437,250	360,126	392,307
	347,250	213,897	171,493
Acquisition of broadcast rights	(3,448,516)	(4,169,508)	(3,133,686)
Amortization of broadcast rights	3,706,500	3,501,989	3,640,975
	257,984	(667,519)	507,289
Acquisition of investments	(300,000)	(1,122,727)	(1,167,879)
Acquisition of prepaid expenses	-	(88,839)	(54,741)
Use of prepaid expenses	-	54,741	50,702
	-	(34,098)	(4,039)
Increase (decrease) in net financial assets	714,949	(572,214)	1,769,544
Net financial assets (debt), beginning of year	350,002	350,002	(1,419,542)
Net financial assets (debt), end of year	\$ 1,064,951	\$ (222,212)	\$ 350,002

See accompanying notes to consolidated financial statements.

## KNOWLEDGE NETWORK CORPORATION

### Consolidated Statement of Cash Flows

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

	2016	2015
Cash provided (used by):		
Operations:		
Annual surplus	\$ 1,579,834	\$ 2,174,773
Items not involving cash:		
Gain on sale of investments	(298,046)	(87,748)
Amortization of deferred contributions	(335,265)	(510,949)
Amortization of capital assets	360,126	392,307
Amortization of broadcast rights	3,501,989	3,640,975
Changes in non-cash working capital:		
Accounts receivable	385,427	495,461
Prepaid expenses	(34,098)	(4,039)
Accounts payable and accruals	(98,101)	354,883
Income taxes receivable/payable	(48,543)	17,258
Deferred revenue, projects	6,767	15,733
	5,020,090	6,488,654
Financing:		
Contributions received for broadcast rights	25,000	148,588
Investing:		
Purchase of portfolio investments	(2,171,754)	(919,592)
Capital:		
Purchase of tangible capital assets	(146,229)	(220,814)
Purchase of broadcast rights	(4,169,508)	(3,133,686)
	(4,315,737)	(3,354,500)
Increase (decrease) in cash	(1,442,401)	2,363,150
Cash, beginning of year	2,900,292	537,142
Cash, end of year	\$ 1,457,891	\$ 2,900,292

See accompanying notes to consolidated financial statements.

## KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements

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

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### 1. Nature of operations:

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

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, 2016, with comparative information for 2015

---

### 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, 2016, with comparative information for 2015

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### 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, 2016, with comparative information for 2015

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### 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, 2016, with comparative information for 2015

### 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, 2016, cash includes an amount of USD \$183,009 (2015 – USD \$76,368).

#### (b) Investments:

	2016	2015
Fixed income	\$ 1,711,668	\$ 364,188
Common shares	2,387,557	2,739,307
Mutual funds	1,007,026	19,105
Other	120,661	176,113
	<u>\$ 5,226,912</u>	<u>\$ 3,298,713</u>
	2016	2015
Portfolio investments	\$ 1,261,853	456,381
Endowment investments	3,965,059	2,842,332
	<u>\$ 5,226,912</u>	<u>\$ 3,298,713</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.

	2016	2015
Balance, beginning of year	\$ 1,480,796	\$ 1,693,096
Less: amounts recognized as revenue	(184,893)	(212,300)
Balance, end of year	<u>\$ 1,295,903</u>	<u>\$ 1,480,796</u>

## KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

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

### 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.

	2016	2015
Balance, beginning of year	\$ 843,162	\$ 993,223
Contribution received	25,000	148,588
Amounts recognized as revenue	(150,372)	(298,649)
Balance, end of year	\$ 717,790	\$ 843,162
Deferred contributions, end of year	\$ 2,013,693	\$ 2,323,958

### 5. Broadcast rights:

	2016	2015
Cost:		
Opening balance	\$ 17,117,694	\$ 15,577,937
Additions	4,169,508	3,133,686
Expired rights	(3,119,998)	(1,593,929)
	18,167,204	17,117,694
Accumulated amortization:		
Opening balance	\$ 8,671,493	\$ 6,624,447
Amortization (i)	3,501,989	3,640,975
Expired rights	(3,119,998)	(1,593,929)
	9,053,484	8,671,493
Net book value	\$ 9,113,720	\$ 8,446,201

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

	2016	2015
Amortization of broadcast rights	2,845,571	3,027,128
Specialty TV channel expenses	656,418	613,847
	\$ 3,501,989	\$ 3,640,975

## 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	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	15,191	254,424	1,788	360,126
Closing balance	792,753	2,759,488	2,363,000	404,045	11,917,951	30,542	18,267,780
Net book value	\$ 87,792	\$ 292,269	\$ 33,439	\$ 15,191	\$ 1,938,887	\$ 7,153	\$ 2,374,730

	Furniture and fixtures	Computer equipment	Equipment	Software	Broadcast network equipment	Leasehold improvements	2015
Cost:							
Opening balance	\$ 880,545	\$ 3,005,496	\$ 2,396,439	\$ 391,698	\$ 13,563,594	\$ 37,695	\$ 20,275,467
Additions	-	46,261	-	27,538	147,015	-	220,814
Closing balance	880,545	3,051,757	2,396,439	419,236	13,710,609	37,695	20,496,281
Accumulated amortization:							
Opening balance	\$ 772,161	\$ 2,600,870	\$ 2,350,156	\$ 372,241	\$ 11,393,400	\$ 26,519	\$ 17,515,347
Amortization	10,838	85,551	6,943	16,613	270,127	2,235	392,307
Closing balance	782,999	2,686,421	2,357,099	388,854	11,663,527	28,754	17,907,654
Net book value	\$ 97,546	\$ 365,336	\$ 39,340	\$ 30,382	\$ 2,047,082	\$ 8,941	\$ 2,588,627

## KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

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

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### 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, 2016 no amount was drawn on this credit facility (2015 - nil).

### 8. Commitments:

#### *Satellite transmission service*

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

#### *Production costs*

The Corporation acquires programs that require the commitment of funds. As at March 31, 2016, the Corporation is committed to pay \$1,495,169 (2015 - \$1,784,961) for license fees over the period from April 2016 to March 2018.

### 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 \$252,400 (2015 - \$250,821).

Included in accounts receivable as at March 31, 2015 was \$400,000 related to a loan due from KWCC, representing the 50% portion of the \$800,000 loan balance attributable to the unrelated partner. The loan was fully repaid during the year ended March 31, 2016. The loan was unsecured and bore interest at prime plus 2% per annum.

Included in accounts receivable is \$78,824 (2015 - \$49,825) related to advances, fees, and interest receivable from KWCC.

## KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

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

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### 10. 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.



## KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

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

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### 11. 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, 2012 indicated an unfunded liability of \$105 million for basic benefits. The most recent actuarial valuation for the Municipal Pension Plan as at December 31, 2012 indicated a \$1,370 million funding deficit for basic pension benefits. The next valuation will be as at December 31, 2015 with results available in 2016.

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

The Corporation paid \$330,170 (2015 - \$333,694) for employer contributions while employees contributed \$315,339 (2015 - \$303,620) to the Plans in fiscal 2016.

### 12. 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, 2016.

#### (a) Credit risk:

Credit risk is the risk that the Corporation will incur a loss due to the failure by its debtors to meet their contractual obligations. Financial instruments that potentially subject the Corporation to credit risk consist primarily of cash, portfolio investments, 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, 2016, with comparative information for 2015

### 12. 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.

### 13. Accumulated surplus:

Accumulated surplus is comprised of the following:

	2016	2015
Invested in tangible capital assets	\$ 1,078,827	\$ 1,107,831
Invested in broadcast rights	8,395,930	7,603,039
Endowment funds	3,965,059	2,842,332
Unrestricted amounts	1,880,320	2,728,701
Balance, end of year	\$ 15,320,136	\$ 14,281,903

### 14. Budget figures:

Budget figures are provided for comparison purposes and have been derived from the budget approved by the Board of Directors on February 27, 2015.



# KNOWLEDGE NETWORK CORPORATION

Schedule of consolidated expenses by object

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

	Programming and presentation	Marketing and development	Broadcast platforms and Corporate IT	General	Amortization of broadcast rights	Administration	Specialty TV channel	2016 consolidated	Budget consolidated	2015 consolidated
Salaries and benefits	\$ 1,300,736	\$ 887,743	\$ 1,368,662	\$ 101,515	\$ -	\$ 824,175	\$ 76,764	\$ 4,559,595	\$ 4,361,749	\$ 4,309,366
Amortization of capital assets and broadcast rights	-	-	-	352,086	2,845,581	-	664,448	3,862,115	4,143,750	4,033,282
Purchased services	518,893	692,575	261,589	13,402	-	62,543	130,190	1,679,192	1,406,662	1,376,496
Supplies, shipping, minor software, maintenance	46,906	437,244	729,806	28,772	-	15,821	92,012	1,350,561	1,234,477	1,338,495
Travel, miscellaneous, other	49,801	125,102	20,138	42,147	-	113,194	13,166	363,548	618,132	341,916
Facilities operating costs, rental	-	-	-	-	-	252,400	-	252,400	264,000	250,821
Income taxes	-	-	-	-	-	-	57,873	57,873	47,021	53,852
	\$ 1,916,336	\$ 2,142,664	\$ 2,380,195	\$ 537,922	\$ 2,845,581	\$ 1,268,133	\$ 1,034,453	\$ 12,125,284	\$ 12,075,791	\$ 11,704,228

## 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

	<u>2014/15 Actual</u>	<u>2015/16 Budget</u>	<u>2015/16 Actual</u>
Revenue from Subsidiary Operations	1,546	1,563	<b>1,483</b>
Expenses from Subsidiary Operations	1,042	1,157	<b>1,034</b>
<b>Net Subsidiary Operations</b>	504	406	<b>449</b>

Subsidiary revenues were (\$80k) less than budgeted and (\$62k) less than last fiscal. In the kids' market, linear television services are starting to contract as young viewers turn to web based platforms for content. Subsidiary expenses were (\$123k) less than budgeted and (\$8k) less than last fiscal due to lower costs in a variety of areas.

For further information about KWCC please visit <https://www.knowledge.ca/about/knowledge-west-communications-corporation>

For further information about BBC Kids please visit <http://bbckids.ca/>

## **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: Knowledge Network Corporation Mandate and Actions Summary

In the 2015/16 Mandate Letter from the minister responsible, Knowledge Network Corporation received direction on strategic priorities for the 2015/16 fiscal year. These priorities and our actions are summarized below:

Mandate Letter Direction	Knowledge Network Actions
1. Curate and broadcast the 2015/16 program schedule to feature the following B.C. challenges:	Knowledge Network broadcasts programs relevant to British Columbians in all areas as noted below.
<ul style="list-style-type: none"> <li>Seniors' demographic shifts</li> </ul>	<p>Continued to offer commercial-free programs for boomers and seniors who are underserved by other broadcasters in B.C.'s mainstream television market. Highlights include:</p> <p><b><i>Pipers of the Trenches</i></b> - The role of pipers who served in the Great War, with their descendants visiting the battlefields. Among them is Surrey B.C. resident Garth Newlands, whose grandfather Alexander Newlands piped in almost every major battle of the war</p> <p><b><i>Last Tango in Halifax</i></b> – Two widows in their 70s, fall for each other all over again when they are reunited on the Internet after nearly 60 years.</p> <p><b><i>Alfred and Jakobine</i></b> – In 1954 Alfred and Jakobine journeyed around the world in a London taxi and at 84, are hoping for one last ride.</p>
<ul style="list-style-type: none"> <li>Early learning initiatives</li> </ul>	<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: <b><i>Kate &amp; Mim-Mim, Lah's-Lah's Adventures, Paw Patrol</i></b> and <b><i>Wild Kratts</i></b>.</p>
<ul style="list-style-type: none"> <li>Asian trade and cultural awareness</li> </ul>	<p>Continued to acquire content from the Asia Pacific region for our East is East branded strand. Highlights include:</p> <p><b><i>The Birth of Modern China</i></b> – A 27-week anthology series exploring how a once feudal society is becoming the world's dominant economy.</p>

	<p><b><i>China's Capitalist Revolution</i></b> – The story of the conversion of the Chinese Communist Party to capitalism;</p> <p><b><i>Building 173</i></b> – The history of Shanghai through the history of one building;</p> <p><b><i>The Art of China</i></b> – Explores the historical context of Chinese art;</p> <p><b><i>The Fastest Changing Place on Earth</i></b> – The story of modern China told through the eyes of villagers.</p>
<ul style="list-style-type: none"> <li>• Health care sustainability</li> </ul>	<p>Continued to acquire content for television, the web and mobile platforms that educates British Columbians about healthy living. Highlights include:</p> <p><b><i>How to Survive a Plague</i></b> – The story of activism and innovation that turned AIDS into a manageable condition;</p> <p><b><i>Chi</i></b> – Actress Babz Chula travelled to India to undergo treatment in an effort to manage her battle with cancer;</p> <p><b><i>When I Walk</i></b> – A young man's determination to triumph over MS and to make sense of a devastating disease through the art of cinema;</p> <p><b><i>Medieval Lives – A Good Birth</i></b> – The moment of labour and birth was a very dangerous time for a medieval woman.</p>
<ul style="list-style-type: none"> <li>• First Nations culture and issues</li> </ul>	<p>Continued to showcase aboriginal programming from local, national, and global perspectives. Highlights include:</p> <p><b><i>Haida Gwaii: On the Edge of the World</i></b> - 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><b><i>Dreamers and Dissidents: Sophie Pierre</i></b> – A series of short films exploring the history of the Kootenays through personal stories. Sophie Pierre was sent to a Residential School as a girl, removed her from her family and aboriginal culture. She went on to become a leader among her people, bringing about a transformation to the old residential school and the people whom the school had impacted.</p>

	<p><b><i>The People of the Kattawapiskak River</i></b> – Exposes the housing crisis and poor living conditions faced by 1,700 Cree in northern Ontario;</p> <p><b><i>Vanishing Point</i></b> – Two Inuit communities navigate through the greatest social and environmental challenges in their history.</p>
<ul style="list-style-type: none"> <li>• Environmental challenges</li> </ul>	<p>Continued to educate British Columbians on challenges facing the environment. Highlights include:</p> <p><b><i>The Polar Sea</i></b> – Scientists try to understand the complex phenomenon of Arctic climate change;</p> <p><b><i>Chasing Ice</i></b> – One man’s mission to gather undeniable photographic evidence of our changing planet;</p> <p><b><i>Green China Rising</i></b> – China is the world’s largest emitter of greenhouse gases and it is striking back with cutting-edge technologies;</p> <p><b><i>The Water Brothers</i></b> – Travel around the world to discover the challenges surrounding water conservation;</p> <p><b><i>Revenge of the Electric Car</i></b> – Follows the race to build the next generation of electric cars.</p>
<ul style="list-style-type: none"> <li>• Economic issues</li> </ul>	<p>Continued to acquire and broadcast documentaries on economic issues from a local, national and global perspective. Highlights include:</p> <p><b><i>China on Four Wheels</i></b> - How the country’s massive economic growth and booming car industry are affecting people’s lives;</p> <p><b><i>Inside Job</i></b> – A comprehensive analysis of the global financial crisis of 2008;</p> <p><b><i>Enron: The Smartest Guys in the Room</i></b> – How top executives of America’s seventh largest company walked away with more than one billion dollars, while investors and employees lost everything.</p>
<p>2. Launch a new, multi-platform documentary series on B.C. paramedics in partnership with B.C.’s independent television and interactive producers.</p>	<p>With the success of <b><i>Emergency Room: Life and Death at VGH</i></b> Knowledge Network commissioned a second season in partnership with B.C.’s Lark Productions and Vancouver Coastal Health. The series included 6 one hour episodes, 49 short stories and an interactive website. The world broadcast premiere on-air and online was on April 12, 2016.</p>

3. Develop a mobile App and 2 <sup>nd</sup> generation website for young children and parents.	The new Knowledge Kids website and Knowledge Kids Go app launched in December and have been hugely successful. The services deliver streaming video and games for 2-8 year olds in a safe and trusted online environment.
4. Self-finance and upgrade digital broadcast infrastructure	In year one of a three year plan, self-finance the replacement of aging digital broadcast infrastructure. \$146,229 was spent on digital broadcast upgrades in 2015/16.