

**Knowledge Network Corporation**

**2017/18**

**ANNUAL SERVICE PLAN REPORT**

**July 2018**



**BRITISH  
COLUMBIA'S**

**Knowledge  
Network:**

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## Board Chair's Accountability Statement



The *Knowledge Network Corporation 2017/18 Annual Service Plan Report* compares the corporation's actual results to the expected results identified in the *2017/18 - 2019/20 Service Plan* created in September 2017. I am accountable for those results as reported.

A handwritten signature in black ink, which appears to read "Nini Baird".

*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, it is our pleasure to submit Knowledge Network Corporation's 2017/18 Annual Service Plan Report.

British Columbia's Knowledge Network offers a trusted, universally accessible, commercial-free broadcast service that educates and inspires our viewers. Our programming provides viewers with information and perspectives on the environmental, social, cultural and economic forces that shape the world.



Rudy Buttignol, C.M.  
President & CEO

Knowledge Network supports Government priorities through actions that enhance the lives of all British Columbians. To make life more affordable, we provide a high quality public service, free and commercial free, through television, web and mobile platforms.

To deliver the services that people count on, Knowledge Network provides programming to meet the diverse needs of viewers, such as educational content that fosters learning for young children and their families and programs that inform and inspire seniors.

To build a strong, sustainable, innovative economy that works for everyone, Knowledge Network invests in original documentaries and kids programs. In support of the United Nations Declaration on the Rights of Indigenous People and its Calls to Action, Knowledge Network reflects Indigenous cultural diversity through its regular programming, and with projects from Indigenous filmmakers.

As B.C.'s public broadcaster, we are grateful for the support from loyal donors across the province. In fiscal 2017/18, we exceeded our target for the Knowledge Partners Annual Fund, raising \$4.53 million. Increased donations have enabled us to support more B.C. stories by B.C. filmmakers. Knowledge Network's investment in original B.C. content has nearly tripled in five years, from \$850,000 in 2012-13 to \$2.4 million in 2017/18.

As a Crown corporation, a regulated broadcaster and a registered charity, accountability and transparency guide all of 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.

We have had an exceptionally successful year, fulfilling our public mandate and strengthening our service. Our achievements were made possible by the ongoing support of the Government and donors who generously support public broadcasting in British Columbia.

A handwritten signature in black ink, appearing to read "Nini Baird".

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

A handwritten signature in black ink, appearing to read "Rudy Buttignol".

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

## **Purpose of the Organization**

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

Knowledge Network delivers educational content to British Columbians through mandatory carriage on cable, direct-to-home satellite and internet protocol television (IPTV) services. Programs are also available through streamlining video at Knowledge.ca, KnowledgeKids.ca, the Knowledge app and the Knowledge Kids Go apps. We develop, license and commission documentaries for broadcast on all platforms.

### **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 (British Broadcasting Corporation) 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 KWCC, please see Appendix B.

## **Strategic Direction and Operating Environment**

Knowledge Network's actions towards the [2017/18 Mandate Letter](#) priorities include:

### **Making life more affordable**

Offer a high quality public service (free and commercial free) through any platform British Columbians choose to use – television, web or mobile. In spring 2017, we continued expansion of our digital product line by launching the Knowledge Kids app for Apple TV to meet the growing demand for content from non-traditional platforms.

### **Delivering the services that people count on**

Offer 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.

### **Building a strong, sustainable, innovative economy that works for everyone**

Provide ongoing investment in original content that gives opportunities for B.C. filmmakers to share stories relevant to British Columbians. To build capacity in the independent production sector, Knowledge Network presented an immersive International Documentary Masterclass in partnership with Creative BC and the Canadian Media Producers Association-B.C. Producers Branch in June 2017. The Masterclass helped to develop B.C. projects that appeal to global audiences in collaboration with influential international decision makers. Knowledge Network has invested in two documentary projects presented in the Masterclass that are now in development.

## **Incorporating the United Nations Declaration on the Rights of Indigenous People and its Calls to Action**

Indigenous cultural history and perspectives were reflected in three documentary series:

*Masters of the Pacific Coast: The Tribes of the American Northwest* – Explores how Indigenous communities were nearly wiped out, and how a deep connection to the environment lies at the heart of their endurance.

*Konnected.TV*, in partnership with APTN (Aboriginal Peoples Television Network) – Features “tradition keepers” working to save to save their culture, language, spirituality and territories, including Ta’Kaiya Blaney, a young B.C. singer-songwriter, actress and environmental and indigenous rights activist.

*Looking at Edward Curtis* – Views the Pacific Northwestern work of photographer Edward Curtis from an Indigenous perspective (broadcast premiere in July 2018).

Knowledge Network has identified three primary risks that may impact our public service. The strategies identified in our 2017/18 Service Plan and implemented over the past two years helped mitigate these risks within our operating environment:

1. Multi-platform broadcast rights
  - The increase in online streaming and video on demand (VOD) services is creating more competition for programs and their multi-platform rights, increasing costs and availability of content (see strategies page 8).
2. Audience behaviour
  - Investments in multi-platform delivery continue to be essential as audiences’ access content from platforms such as websites, apps and VOD (see strategies page 9).
3. Revenue generation
  - Charitable giving in Canada continues to decline amidst a growing number of charities seeking support.
  - Significant changes in the operating and regulatory environment for BBC Kids is putting pressure on revenue models for Canadian specialty services (see strategies page 13).

## **Report on Performance**

Our goals and strategies are based on our Strategic Plan entitled *Foundation: Content + Channels + Community*. Investment in original programming, expansion of digital platforms and participation in community and industry events are reflected through our performance measures. This is our last year reporting out on this plan, as a new three year Strategic Plan entitled *The Best Is Yet To Come* was approved by our Board in December 2017.

## *Goals, Strategies, Measures and Targets*

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

#### **Strategies**

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

#### **Performance Measures**

<b>Performance Measures</b>	<b>2015/16 Actuals</b>	<b>2016/17 Actuals</b>	<b>2017/18 Target</b>	<b>2017/18 Actuals</b>	<b>2018/19 Target</b>	<b>2019/20 Target</b>
Direct Investment in Multi-Platform Content <sup>[1]</sup>	\$1,085,582	\$1,620,572 <sup>[2]</sup>	\$2,500,000	\$2,372,241	\$2,500,000	\$2,550,000
Indirect Investment in Multi-Platform Content <sup>[3]</sup>	\$1,211,584	\$1,882,030	\$1,500,000	\$2,945,250	N/A	N/A
B.C. Independent Production Budgets Supported by Knowledge Network <sup>[4]</sup>	\$9,772,234 <sup>[5]</sup>	\$4,332,862	\$4,000,000	\$6,019,266	\$5,000,000	\$7,000,000

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

<sup>[2]</sup> This has been corrected from the actual noted in the 2017/18 Service Plan.

<sup>[3]</sup> Based on our investment in Canadian productions, Knowledge Network receives a funding envelope from the Canada Media Fund which we allocate to children’s programming and documentaries. Knowledge Network also leverages funding from independent production funds such as the Telus Fund for projects where we are the lead broadcaster.

<sup>[4]</sup> This number represents all contributions to independent production budgets, including those committed by Knowledge Network in a fiscal year. It demonstrates the economic activity generated by independent production projects supported by Knowledge Network. Independent production budgets are comprised of funding from many sources, including domestic and international broadcasters, the Canada Media Fund and independent production funds.

<sup>[5]</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 made direct investments in 21 original multi-platform projects in 2017/18. This included seven projects that Knowledge Network either commissioned or is the lead broadcaster:

- *Paramedics: Life on the Line* – in partnership with B.C. Emergency Health Services, a ten-part documentary series with unprecedented access to the working lives of the men and women in the emergency medical services.
- *Search and Rescue: North Shore* - a four-part documentary series following highly skilled members of North Shore Rescue (NSR) as they risk their lives to find and rescue people in distress in the rugged mountains, canyons, forests and urban environments of North Vancouver.
- *How to Bee* - a filmmaker embarks on a journey to connect with her aging father through his passion for beekeeping.

The actuals for Direct Investment in Multi-Platform Content were lower due to the non-cyclical nature of content production, as projects are not always captured within the fiscal year measurement period estimated in our reported numbers. Future targets for this measure have been revised to reflect current plans for Knowledge Network commissions.

Targets for Indirect Investment in Multi-Platform Content and B.C. Independent Production Budgets Supported by Knowledge were exceeded, based in part on our direct investment in multi-platform content.

We note that future targets for Indirect Investment in Multi-platform Content have been revised to read not applicable (N/A). This performance measure was adjusted in our 2018/19 – 2020/21 Service Plan released February 2018. Moving forward, the performance measure will include all certified Canadian independent production funds (e.g. Shaw Rocket Fund, Bell Fund and Telus Fund) and tax credits to better reflect the range of private and federal dollars leveraged.

## Goal 2: Attract new audiences in British Columbia.

### Strategies

1. Grow baby boomer (ages 50-70) audiences through programming and marketing priorities.
2. Capture audiences from non-traditional platforms.
3. Market Knowledge's "TV-Everywhere" offerings (websites, apps, VOD).
4. Seek carriage on emerging platforms (e.g. Apple TV, Chromecast).
5. Increase marketing efforts to strengthen the Knowledge brands.
6. Maintain presence at community events to drive awareness of Knowledge and Knowledge Kids to new audiences.
7. Target new audiences including different cultural communities through cross-platform marketing activities.

## Performance Measures

### Television Channels (SD and HD)

Performance Measures		2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
Total Reach (People) <sup>[6]</sup>	Knowledge Primetime/Overnight	N/A	N/A	3,000,000	2,913,000	2,900,000	2,900,000
	Knowledge Kids	N/A	N/A	2,200,000	2,191,000	2,000,000	2,000,000
Average Weekly Hours Viewed <sup>[7]</sup>	Knowledge Primetime	1,329,015	1,295,371	1,250,000	1,161,953	N/A	N/A
	Knowledge Kids	438,421	401,000	375,000	235,744	N/A	N/A

### Revised Performance Measure:

**Total Reach:** This measure now includes 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.

## Discussion

With internet TV viewing on the rise, we are starting to see shifts as viewers move from our linear service to our websites and apps. Compared to the previous year, performance measure targets for television decreased. We note that future targets for Total Reach Primetime/Overnight are revised to reflect this change in audience behavior.

We also note that future targets for Average Weekly Hours Viewed are revised to read not applicable (N/A). This performance measure was retired in the 2018/19 – 2020/21 Service Plan released February 2018 as it does not support the goals and strategies of our 2018/19 - 2020/21 Strategic Plan.

Programming highlights from 2017/18 include *Globalization and its Discontents*, a season-long look at issues related to globalization and world trade which included the premiere of Knowledge Original *No Fixed Address* about the housing crisis in Vancouver. *For Dear Life*, the Knowledge Original following the journey of Vancouver theatre producer James Pollard after his terminal cancer diagnosis, premiered in March 2018. Knowledge Network was the lead broadcaster in Canada for the series *Island Diaries*, with the B.C. episode on Salt Spring Island being an audience favourite.

Knowledge Network was the third most watched broadcaster for children’s programming in British Columbia with a market share of 5.4 per cent in Daytime (Numeris, Fall 2017, Vancouver Extended Market). Knowledge Network remained the fourth most watched broadcaster in British Columbia,

<sup>[6]</sup> 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) measured by Numeris Canada (formerly Bureau of Broadcast Measurement).

<sup>[7]</sup> Averaged over fiscal year, the total number of hours of programming viewed per week in the Vancouver Extended Market measured by Numeris Canada.

increasing its market share to 5.1 per cent in Primetime (Numeris, Fall 2017, Vancouver Extended Market).

### Web Channels

Performance Measures		2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
Web Sessions <sup>[8]</sup>	Knowledge.ca	1,461,649	1,697,181	1,700,000	1,651,987	N/A	N/A
	KnowledgeKids.ca	485,170	529,861	550,000	526,756	N/A	N/A
	<b>TOTAL</b>	<b>1,946,819</b>	<b>2,227,042</b>	<b>2,250,000</b>	<b>2,178,743</b>	N/A	N/A
Page Views <sup>[9]</sup>	Knowledge.ca	5,578,593	7,176,058	7,500,000	6,601,067	N/A	N/A
	KnowledgeKids.ca	1,269,002	2,900,928	3,000,000	2,523,715	N/A	N/A
	<b>TOTAL</b>	<b>6,847,595</b>	<b>10,076,986</b>	<b>10,500,000</b>	<b>9,124,782</b>	N/A	N/A

## Discussion

Knowledge.ca experienced a decrease in web sessions and page views compared to the previous year. This can be attributed in part to the success of the second and third seasons of *Emergency Room: Life and Death at VGH* broadcast in fiscal 2016/17 which generated higher than average audiences across all web platforms. Compared to other top performing programs online, on average *Emergency Room: Life and Death at VGH* increased video plays by 60 per cent. Viewers for Watch Live, the streaming service for our regularly scheduled television programming, increased by 50 per cent compared to the previous year.

While KnowledgeKids.ca also experienced a slight decrease in web sessions and page views, video plays were up 13 per cent compared to fiscal 2016/17.

We note that future targets for Web Sessions and Page Views are revised to read not applicable (N/A). These performance measures were retired in our 2018/19 – 2020/21 Service Plan released February 2018, as they do not support the goals and strategies of our 2018/19 - 2020/21 Strategic Plan. They have been replaced with Videos Played and Total Subscribers.

### App Channels

Performance Measures		2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
App Sessions <sup>[10]</sup>	Knowledge App	44,199	123,432	150,000	120,931	N/A	N/A
	Knowledge Kids Go	332,477	1,249,759	1,300,000	977,478	N/A	N/A
	<b>TOTAL</b>	<b>376,676</b>	<b>1,373,191</b>	<b>1,450,000</b>	<b>1,098,409</b>	N/A	N/A
Screen Views <sup>[11]</sup>	Knowledge App	113,041	303,175	350,000	281,676	N/A	N/A
	Knowledge Kids Go	3,886,263	16,189,029 <sup>[12]</sup>	16,500,000	12,777,165	N/A	N/A
	<b>TOTAL</b>	<b>3,999,304</b>	<b>16,492,204</b>	<b>16,850,000</b>	<b>13,058,841</b>	N/A	N/A

<sup>[8]</sup> Period of interaction between visitor's browser and website, ending when browser is closed. Measured using Google Analytics.

<sup>[9]</sup> View of a page on a website tracked by tracking code. There can be one or more page views per session. Measured using Google Analytics.

<sup>[10]</sup> Period of time a user is actively engaged with your app. All usage data (screen views, events, ecommerce, etc.) is associated with a session. Measured using Google Analytics.

<sup>[11]</sup> The total number of screens viewed. Repeated views of a single screen are counted. Measured using Google Analytics.

## Discussion

Compared to the previous year when the successful second and third seasons of *Emergency Room: Life and Death at VGH* were broadcast, Knowledge Network experienced a decrease in performance across app channel measures. This can also be attributed to significant competition in the app environment for both kids and adults. To reach new audiences, we launched the Knowledge Kids Go App for 4<sup>th</sup> generation Apple TV on June 1, 2017. As of April 1 2018, there have been 6,164 downloads of the app and 449,400 video plays.

In 2017/18, we recruited a co-op student from Simon Fraser University to support Knowledge Kids app expansion, and a co-op student from Langara College to support our IT platform.

We note that future targets for App Sessions and Screen Views are revised to read not applicable (N/A). These performance measures were retired in the 2018/19 – 2020/21 Service Plan released February 2018, as they do not support the goals and strategies of our 2018/19 – 2020/21 Strategic Plan. They have been replaced with Total Subscribers and Total App Downloads.

### Community Outreach

Performance Measure(s)	2015/16 Actuals	2016/17 Actuals	2017/18 Target	2017/18 Actuals	2018/19 Target	2019/20 Target
B.C. Community Events	17	10	11	13	N/A	N/A
British Columbians Attending Community Events (Estimated Number of People) <sup>[13]</sup>	5,290 <sup>[14]</sup>	2,900	3,000	5,485 <sup>[15]</sup>	N/A	N/A

## Discussion

Knowledge Network exceeded the targets for Community Outreach by participating in a number of community events with the general public. We also supported events with local filmmakers, and with our donors (Knowledge Partners):

- Chilliwack – Knowledge Partners Advance Screening
- Kamloops – President & CEO presentation to Thompson Rivers University
- Kamloops – Kamloops Canadian and International Film Festival featuring the Knowledge Network commissioned documentary *Shut Up and Say Something*
- Vancouver – Presentation and panel discussion for B.C.’s independent production community entitled “Invested in Docs.”
- Vancouver – Knowledge Partners Advance Screening and Reception (two events)
- Vancouver – President & CEO presentation to the Probus Club
- Vancouver – President & CEO presentation to the Oxford and Cambridge Society

<sup>[12]</sup> Only two months of data were available for Knowledge Kids Go when targets were set as part of the 2017/18 Service Plan.

<sup>[13]</sup> This is measured through capacity of venues and attendance. Reaching beyond the lower mainland is a priority, but less populated communities may have smaller events.

<sup>[14]</sup> Due to venue and content availability, we hosted four Partner events in one fiscal year in 2015/16 (we usually host two).

<sup>[15]</sup> Our participation in the Vancouver International Children’s Festival had a significant impact on this measure.

- Vancouver – Knowledge Network 2017 broadcast season launch event
- Vancouver – Vancouver International Film Festival featuring the Knowledge Network commissioned documentary *Shut Up and Say Something*
- Vancouver – President & CEO presentation to Simon Fraser University’s Life Long Learners Society
- Vancouver – Knowledge Network presence at the Vancouver International Children’s Festival
- Salt Spring Island – Knowledge Partners Advance Screening

Two Simon Fraser University co-op students were recruited to support our communications and outreach activities in 2017/18.

We note that future targets for B.C. Community Events and British Columbians Attending Community Events have been revised to read not applicable (N/A). They were retired in the 2018/19 – 2020/21 Service Plan released February 2018, as they do not support the goals and strategies of our 2018/19 – 2020/21 Strategic Plan.

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

#### **Strategies**

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

#### **Performance Measures**

<b>Performance Measures</b>	<b>2015/16 Actuals</b>	<b>2016/17 Actuals</b>	<b>2017/18 Target</b>	<b>2017/18 Actuals</b>	<b>2018/19 Target</b>	<b>2019/20 Target</b>
Knowledge Partner Donations <sup>[16]</sup>	\$4,020,000	\$4,292,887	\$4,000,000	\$4,530,238	\$4,300,000	\$4,350,000
Entrepreneurial Revenues <sup>[17]</sup>	\$550,000	\$400,000	\$400,000	\$310,000	N/A	N/A

<sup>[16]</sup> Measured by tracking total Knowledge Partners donations received annually.

<sup>[17]</sup> Knowledge Network receives dividends and a management fee from a 50% owned subsidiary. These target revenues are unconsolidated.

## Discussion

The Knowledge Partners Annual Fund donations exceeded expectations reaching \$4.53 million. This is an increase of five per cent over last year. Monthly giving now accounts for 34 per cent of our annual fund revenue.

The performance measure for Entrepreneurial Revenues represents dividends and a management fee from our subsidiary. The actual dividend was lower than budgeted as a result of deferring a portion to future years. Future targets for Entrepreneurial Revenues have been revised to read not applicable (N/A). These performance measures were retired in the 2018/19 – 2020/21 Service Plan released February 2018, as they do not support the goals and strategies of our 2018/19 – 2020/21 Strategic Plan.

## Financial Report

### *Discussion of Results*

#### Highlights

Knowledge Network Corporation ended the fiscal year with an annual surplus of \$2.283 million, of which \$1.962 million pertains to endowment contributions and income which are held in trust and not treated as operating revenue. This year's operating surplus of \$321,000 represents 2.5 per cent of our overall operating budget. In 2016/17, we had an operating surplus of \$483,000.

Endowment contributions increased from \$1.138 million in 2016/17 to \$1.775 million in 2017/18.

#### 2017/2018 Consolidated Surplus

	Actual (\$000s)	
Total Consolidated Revenue	\$12,915	100.0%
Amounts included in operating surplus:		
Endowment contributions to be invested	\$1,775	13.7%
Endowment net income after management fees (to be reinvested)	\$187	1.4%
Actual Operating surplus	\$321	2.5%
Total Operating Surplus	<u>\$2,283</u>	<u>17.7%</u>

Increased charitable donations and revenues from BBC Kids contributed to Knowledge Network Corporation ending 2017/18 with just over \$6 million in self-generated revenues. Opportunities to invest on original programming and to expand video on demand programming increased our capital expenditures by 16 per cent compared to 2016/17.

**Financial Resource Summary Table<sup>(18)</sup>**

(\$000)	<u>2014/15</u> <u>Actual</u>	<u>2015/16</u> <u>Actual</u>	<u>2016/17</u> <u>Actual</u>	<u>2017/18</u> <u>Budget</u>	<u>2017/18</u> <u>Actual</u>	<u>2017/18</u> <u>Variance</u>
Provincial Operating Grant	6,260	6,260	6,260	6,558	6,558	-
Donations and Sponsorships	3,906	4,025	4,331	4,025	4,513	488
Revenue from Subsidiary Operations	1,546	1,483	1,269	952	908	(44)
Amortization of Deferred Contributions	511	335	368	300	328	28
Endowment Investment and Other Revenue <sup>(19)</sup>	508	836	459	395	607	212
<b>Total Revenues</b>	<b>12,730</b>	<b>12,939</b>	<b>12,686</b>	<b>12,230</b>	<b>12,915</b>	<b>685</b>
Programming and Presentation	1,925	1,916	1,955	1,978	2,110	132
Marketing and Development	2,034	2,143	2,257	2,290	2,352	62
Broadcast Platforms and Corporate IT	2,059	2,380	2,240	2,184	1,964	(221)
General <sup>(20)</sup>	439	538	451	591	504	(87)
Amortization of Broadcast Rights	3,027	2,846	2,973	3,213	3,077	(136)
Administration	1,177	1,268	1,260	1,261	1,292	31
Subsidiary Operations	1,042	1,034	937	840	1,108	268
<b>Total Expenses</b>	<b>11,704</b>	<b>12,125</b>	<b>12,073</b>	<b>12,358</b>	<b>12,407</b>	<b>49</b>
<b>Annual Surplus from Operations</b>	<b>1,026</b>	<b>814</b>	<b>613</b>	<b>(128)</b>	<b>507</b>	<b>636</b>
Endowment Contributions Received (held in trust) <sup>(21)</sup>	1,149	766	1,138	400	1,775	1,375
<b>Annual Surplus</b>	<b>2,175</b>	<b>1,580</b>	<b>1,751</b>	<b>272</b>	<b>2,283</b>	<b>2,011</b>
Capital Expenditures	3,355	4,316	3,772	4,000	4,369	369
Total Liabilities	3,684	3,234	2,990	2,621	2,794	
<b>Accumulated Surplus (Invested in Broadcast Rights &amp; Capital Assets, Endowment Fund)</b>	<b>13,991</b>	<b>15,571</b>	<b>17,437</b>	<b>17,309</b>	<b>19,605</b>	

<sup>(18)</sup> The 2017/18 budget column was updated as part of our September 2017 Service Plan Update. The 2017/18 audited financial statements included with this report reflect the 2017/18 budget as approved by the board of directors in January 2017.

<sup>(19)</sup> Includes dividends from subsidiary.

<sup>(20)</sup> Includes amortization of equipment.

<sup>(21)</sup> Endowment contributions are held in trust and not treated as operating revenue. Please see explanation on page 15.

## **Variance and Trend Analysis**

### Donations and Sponsorships

Donations from our Knowledge Partners were \$488,000 more than budget. This can be attributed to our successful France trip contest, new Knowledge Partner campaign spots and strong program offerings that generate viewer support.

### Subsidiary Operations – Revenue

Subsidiary revenues were \$44,000 less than budget. Significant changes in the operating and regulatory environment for BBC Kids is putting pressure on revenue models for Canadian specialty services.

### Amortization of Deferred Contributions

During the year, actual deferred contributions amortized were \$28,000 more than budget. 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 \$212,000 more than budget. This is due in part to unbudgeted channel management fee revenues from our 50 per cent owned subsidiary of \$80,000, an unbudgeted contribution towards the Masterclass for B.C. independent filmmakers of \$48,000 and actual earnings from investments of \$52,000.

### Programming and Presentation

These expenses were \$132,000 more than budget. We added a Brand Producer position to develop station branding elements, and a Supervising Producer position to work with filmmakers on our new BC 150 project.

### Marketing and Development

These expenses were \$62,000 more than budget. The increases were due in part to \$64,000 for producing the new on-air campaigns.

### Broadcast Platforms and Corporate IT

These expenses were \$221,000 less than budget. This is due in part to salary savings of \$67,000, a reduction in web article expenses of \$50,000 and a reduction in broadband expenses of \$104,000 due to a bridge contract to bring us in line with the fiscal year cycle.

### General

General expenses were \$87,000 less than budget. The variance was due in part to amortization of equipment being \$44,000 less than budget, and \$50,000 budget contingency that was not spent.

### Amortization of Broadcast Rights

Amortization expenses were \$136,000 less than budget due to the cyclical nature of independent production. We estimated that more programs would be completed by year end.

### Administration

Administration costs were \$31,000 more than budget. The variances were primarily due to increases on personnel costs for co-op students and an increase in building operating costs.

Administration costs are detailed as:

Corporate training plan	27,132
Building lease and operating costs	315,312
President's Office and Board	363,125
Finance, Human Resources, Other	586,887
Total	<u>\$ 1,292,456</u>

### Subsidiary Operations

Subsidiary expenses were \$268,000 more than budget, primarily due to increased income taxes payable, channel management fee and salary and benefits charges.

### Endowment Contributions

Endowment contributions received were \$1.375 million more than budget. Due to the confidential nature of major gifts, it is difficult to predict when endowment contributions will be received.

### Capital Expenditures

Capital assets purchased were \$369,000 more than budget. This was due in part to additional opportunities for investment in original content becoming available totaling \$117,118, opportunities to expand video on demand arts programming resulting in an additional expenditure of \$162,801 and required upgrades to our broadcast plant totaling \$44,732.

## **Risks and Uncertainties**

As noted earlier, 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.

Due to significant changes in the operating and regulatory environment for BBC Kids, revenues from the operation of our national specialty service have begun to decline. Regulatory changes have placed independent specialty services at a disadvantage resulting in less favourable pricing for BBC Kids. Moving forward, we will adjust expenses for BBC Kids accordingly to minimize the impact of reduced revenues.

*Auditor's Report & Audited Financial Statements*

Consolidated Financial Statements of

**KNOWLEDGE NETWORK CORPORATION**

Year ended March 31, 2018



KPMG LLP  
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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 Tourism, Arts, and Culture

We have audited the accompanying consolidated financial statements of Knowledge Network Corporation, which comprise the consolidated statement of financial position as at March 31, 2018 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.



Knowledge Network Corporation  
Page 2

*Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Knowledge Network Corporation as at March 31, 2018, 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.

*Emphasis of Matter*

Without modifying our opinion, we draw attention to Note 2 to the consolidated financial statements which describes the basis of accounting and the significant differences between such basis of accounting and Canadian public sector accounting standards.

*KPMG LLP*

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Chartered Professional Accountants

May 18, 2018

Burnaby, Canada

## KNOWLEDGE NETWORK CORPORATION

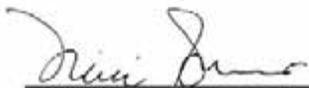
Consolidated Statement of Financial Position

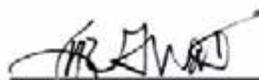
March 31, 2018, with comparative information for 2017

	2018	2017
<b>Financial assets:</b>		
Cash (note 3(a))	\$ 804,916	\$ 1,138,041
Accounts receivable	260,093	208,835
Income taxes receivable	18,286	-
Portfolio investments (note 3(b))	2,124,397	2,106,290
	<u>3,207,692</u>	<u>3,453,166</u>
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 990,806	\$ 909,434
Income taxes payable	-	88,538
Deferred revenue, projects	310,042	320,356
Deferred contributions (note 4)	1,493,132	1,671,419
	<u>2,793,980</u>	<u>2,989,747</u>
<b>Net financial assets</b>	<b>413,712</b>	<b>463,419</b>
<b>Non-financial assets:</b>		
Broadcast rights (note 5)	\$ 9,487,597	\$ 9,238,350
Tangible capital assets (note 6)	2,167,156	2,158,317
Prepaid expenses	51,056	56,969
Endowment investments (note 3(b))	7,719,904	5,520,383
	<u>19,425,713</u>	<u>16,974,019</u>
<b>Commitments (note 8)</b>		
<b>Accumulated surplus (note 12)</b>	<b>\$ 19,839,425</b>	<b>\$ 17,437,438</b>
<b>Accumulated surplus represented by:</b>		
Accumulated surplus	\$ 19,604,940	\$ 17,322,199
Accumulated remeasurement gains	234,485	115,239
	<u>\$ 19,839,425</u>	<u>\$ 17,437,438</u>

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

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

  
 \_\_\_\_\_  
 Eric Watt  
 Chair of the Audit and Finance Committee

## KNOWLEDGE NETWORK CORPORATION

### Consolidated Statement of Operations

Year ended March 31, 2018, with comparative information for 2017

	Budget (note 13)	2018	2017
<b>Revenue:</b>			
Province of British Columbia operating grants	\$ 6,259,506	\$ 6,558,429	\$ 6,259,506
Donations and sponsorships	4,025,000	4,513,024	4,331,127
Specialty TV channel subscription fees	903,199	907,898	1,268,679
Amortization of deferred contributions (note 4)	300,000	328,287	368,494
Endowment investment income	200,000	240,415	166,974
Other	245,000	366,930	291,596
	<u>11,932,705</u>	<u>12,914,983</u>	<u>12,686,376</u>
<b>Expenses (note 14):</b>			
Programming and presentation	1,980,924	2,110,132	1,955,024
Marketing and development	2,255,902	2,351,897	2,256,965
Broadcast platforms and corporate IT	1,956,858	1,963,829	2,240,176
General	583,979	503,937	450,777
Amortization of broadcast rights	3,063,116	3,077,480	2,973,198
Administration	1,248,727	1,292,456	1,260,129
Specialty TV channel	892,268	1,107,760	936,983
	<u>11,961,774</u>	<u>12,407,491</u>	<u>12,073,252</u>
Annual surplus (deficit) from operations	(29,069)	507,492	613,124
Endowment contributions received	400,000	1,775,249	1,137,892
Annual surplus	370,931	2,282,741	1,751,016
Accumulated surplus, beginning of year	17,322,199	17,322,199	15,571,183
Accumulated surplus, end of year	<u>\$ 17,693,130</u>	<u>\$ 19,604,940</u>	<u>\$ 17,322,199</u>

See accompanying notes to consolidated financial statements.

**KNOWLEDGE NETWORK CORPORATION,**

Consolidated Statement of Remeasurement Gains and Losses

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Accumulated remeasurement gains (losses), beginning of year	\$ 115,239	\$ (251,047)
Remeasurement gains attributable to investments	119,340	395,280
Amounts reclassified to statement of operations:		
Realized gain on investment	(94)	(28,994)
Net remeasurement gains for the year	119,246	366,286
Accumulated remeasurement gains, end of year	\$ 234,485	\$ 115,239

See accompanying notes to consolidated financial statements.

## KNOWLEDGE NETWORK CORPORATION

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

Year ended March 31, 2018, with comparative information for 2017

	Budget (note 13)	2018	2017
Annual surplus	\$ 370,931	\$ 2,282,741	\$ 1,751,016
Net remeasurement gains for the year	-	119,246	366,286
	370,931	2,401,987	2,117,302
Acquisition of tangible capital asset	(300,000)	(344,732)	(121,342)
Amortization of tangible capital assets	380,000	335,893	337,755
	80,000	(8,839)	216,413
Acquisition of broadcast rights	(3,440,813)	(4,024,454)	(3,650,994)
Amortization of broadcast rights	3,767,349	3,775,207	3,526,364
	326,536	(249,247)	(124,630)
Acquisition of investments	(400,000)	(2,199,521)	(1,555,324)
Acquisition of prepaid expenses	-	(51,056)	(56,969)
Use of prepaid expenses	-	56,969	88,839
	-	5,913	31,870
Increase (decrease) in net financial assets	377,467	(49,707)	685,631
Net financial assets (debt), beginning of year	463,419	463,419	(222,212)
Net financial assets, end of year	\$ 840,886	\$ 413,712	\$ 463,419

See accompanying notes to consolidated financial statements.

## KNOWLEDGE NETWORK CORPORATION

### Consolidated Statement of Cash Flows

Year ended March 31, 2018, with comparative information for 2017

	2018	2017
Cash provided (used by):		
Operations:		
Annual surplus	\$ 2,282,741	\$ 1,751,016
Items not involving cash:		
Gain on sale of investments	(94)	(28,994)
Amortization of deferred contributions	(328,287)	(368,494)
Amortization of capital assets	335,893	337,755
Amortization of broadcast rights	3,775,207	3,526,364
Changes in non-cash working capital:		
Accounts receivable	(51,258)	83,410
Prepaid expenses	5,913	31,870
Accounts payable and accrued liabilities	81,371	3,158
Income taxes receivable/payable	(106,824)	79,581
Deferred revenue, projects	(10,314)	15,081
	5,984,348	5,430,747
Financing:		
Contributions received for broadcast rights	150,000	26,220
Investing:		
Purchase of portfolio investments	(2,098,287)	(2,004,481)
Capital:		
Purchase of tangible capital assets	(344,732)	(121,342)
Purchase of broadcast rights	(4,024,454)	(3,650,994)
	(4,369,186)	(3,772,336)
Decrease in cash	(333,125)	(319,850)
Cash, beginning of year	1,138,041	1,457,891
Cash, end of year	\$ 804,916	\$ 1,138,041

See accompanying notes to consolidated financial statements.

## KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements

Year ended March 31, 2018

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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 Tourism, Arts and Culture.

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, 2018

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### 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 authorized period of the broadcast right (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, 2018

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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, 2018

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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, 2018

### 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, 2018, cash includes an amount of USD \$67,818 (2017 - USD \$109,982).

(b) Investments:

	2018	2017
Fixed income	\$ 2,466,186	\$ 1,674,806
Common shares	5,452,725	3,231,979
Mutual funds	1,718,193	1,814,686
Other	207,197	905,202
	<u>\$ 9,844,301</u>	<u>\$ 7,626,673</u>

	2018	2017
Portfolio investments	\$ 2,124,397	\$ 2,106,290
Endowment investments	7,719,904	5,520,383
	<u>\$ 9,844,301</u>	<u>\$ 7,626,673</u>

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

Changes in endowment fund investments are comprised of the following:

	2018	2017
Balance, beginning of year	\$ 5,520,383	\$ 3,965,059
Endowment contributions received	1,775,249	1,094,969
Internal transfer from cash	150,000	-
Withdrawals	(100,000)	-
Remeasurement gain	137,644	329,508
Endowment investment income	240,415	166,974
Investment costs included in other income	(3,787)	(36,127)
Balance, end of year	<u>\$ 7,719,904</u>	<u>\$ 5,520,383</u>

Changes in portfolio investments are comprised of the following:

	2018	2017
Balance, beginning of year	\$ 2,106,290	\$ 1,261,853
Internal transfer from cash	-	770,166
Remeasurement gain (loss)	(18,398)	36,778
Investment income included in other income	36,505	37,493
Balance, end of year	<u>\$ 2,124,397</u>	<u>\$ 2,106,290</u>

## KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

### 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.

	2018	2017
Balance, beginning of year	\$ 1,134,734	\$ 1,295,903
Less: amounts recognized as revenue	(148,707)	(161,169)
Balance, end of year	\$ 986,027	\$ 1,134,734

#### (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.

	2018	2017
Balance, beginning of year	\$ 536,685	\$ 717,790
Contribution received	150,000	26,220
Amounts recognized as revenue	(179,580)	(207,325)
Balance, end of year	\$ 507,105	\$ 536,685
Deferred contributions, end of year	\$ 1,493,132	\$ 1,671,419

### 5. Broadcast rights:

	2018	2017
Cost:		
Opening balance	\$ 17,846,637	\$ 17,511,540
Additions	4,024,454	3,650,994
Expired rights	(3,814,920)	(3,315,897)
	18,056,171	17,846,637
Accumulated amortization:		
Opening balance	8,608,287	8,397,820
Amortization (i)	3,775,207	3,526,364
Expired rights	(3,814,920)	(3,315,897)
	8,568,574	8,608,287
Net book value	\$ 9,487,597	\$ 9,238,350

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

	2018	2017
Amortization of broadcast rights	\$ 3,077,480	\$ 2,973,198
Specialty TV channel expenses	697,727	553,166
	\$ 3,775,207	\$ 3,526,364

**KNOWLEDGE NETWORK CORPORATION**

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

**6. Tangible capital assets:**

	Furniture and fixtures	Computer equipment	Other equipment	Software	Broadcast network equipment	Leasehold improvements	2018
<b>Cost:</b>							
Opening balance	\$ 660,545	\$ 3,051,757	\$ 2,396,439	\$ 438,229	\$ 13,656,187	\$ 37,695	\$ 20,763,852
Additions	-	36,832	-	-	307,900	-	344,732
Closing balance	660,545	3,088,589	2,396,439	438,229	14,267,087	37,695	21,108,584
<b>Accumulated amortization:</b>							
Opening balance	601,532	2,817,941	2,368,016	418,390	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	609,435	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	\$ 1,648,864	\$ -	\$ 2,167,156

	Furniture and fixtures	Computer equipment	Other equipment	Software	Broadcast network equipment	Leasehold improvements	2017
<b>Cost:</b>							
Opening balance	\$ 660,545	\$ 3,051,757	\$ 2,396,439	\$ 419,236	\$ 13,656,838	\$ 37,695	\$ 20,642,510
Additions	-	-	-	18,993	102,349	-	121,342
Closing balance	660,545	3,051,757	2,396,439	438,229	13,656,187	37,695	20,763,852
<b>Accumulated amortization:</b>							
Opening balance	702,753	2,750,488	2,363,000	404,046	11,017,951	30,542	18,267,780
Amortization	8,779	58,453	6,016	12,344	261,732	1,431	337,756
Closing balance	601,532	2,817,941	2,369,016	416,390	12,169,683	31,973	18,605,535
Net book value	\$ 79,013	\$ 233,816	\$ 28,423	\$ 21,839	\$ 1,786,504	\$ 6,722	\$ 2,158,317

## KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

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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, 2018 no amount was drawn on this credit facility (2017 - nil).

### 8. Commitments:

#### *Satellite transmission service*

The Corporation acquires satellite transmission services at an annual cost of approximately \$411,000 (2017 - \$404,650) under agreements covering a four year period ending August 31, 2022.

#### *Production costs*

The Corporation acquires programs that require the commitment of funds. As at March 31, 2018, the Corporation is committed to pay \$2,641,751 (2017 - \$2,180,653) for license fees over the period from April 2018 to March 2020.

### 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 Institute of Technology, a Provincially controlled post-secondary institution, of \$1 per annum and its share of the building operating costs totalling \$315,312 (2017 - \$269,840).

Included in accounts receivable is \$133,504 (2017 - \$37,899) related to advances, fees, and interest receivable from KWCC.

### 10. Pensions:

The Corporation and its employees contribute to the College Pension Plan and Municipal Pension Plan ("The Plans"), jointly trustee pension plans. The boards of trustees for these plans, representing plan members and employers, are responsible for overseeing the management of the Plans, including investment of the assets and administration of benefits. The Plans are multi-employer contributory pension plans. Basic pension benefits provided are based on formulas. The College Pension Plan has about 13,580 active members from college senior administration and instructional staff and approximately 6,025 retired members. The Municipal Pension Plan has about 179,000 active members and approximately 71,000 retired members.

## KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

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### 10. Pensions (continued):

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

The most recent valuation for the College Pension Plan as at August 31, 2015 indicated a funding ratio of 103.6%. The most recent actuarial valuation for the Municipal Pension Plan as at December 31, 2015 indicated a funding ratio of 104.6%.

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

The Corporation paid \$366,303 (2017 - \$359,201) for employer contributions while employees contributed \$329,036 (2017 - \$342,957) to the Plans in fiscal 2018.

### 11. Financial instruments risks:

The Corporation, through its financial assets and liabilities, is exposed to various risks. The following analysis provides a description of those risks at March 31, 2018.

#### (a) Credit risk:

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

#### (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)).

## KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

### 11. Financial instruments risks (continued):

(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 common shares and mutual fund 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:

	2018	2017
Invested in tangible capital assets	\$ 1,181,129	\$ 1,023,583
Invested in broadcast rights	8,980,492	8,701,665
Endowment funds	7,719,904	5,520,383
Unrestricted amounts	1,957,900	2,191,807
Balance, end of year	\$ 19,839,425	\$ 17,437,438

### 13. Budget figures:

Budget figures are provided for comparison purposes and have been derived from the budget approved by the Board of Directors on February 23, 2017.

### 14. Expense Presentation:

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

*Programming and presentation*

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

## KNOWLEDGE NETWORK CORPORATION

Notes to Consolidated Financial Statements (continued)

Year ended March 31, 2018

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### 14. Expense Presentation (continued):

#### *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.

#### *Amortization of broadcast rights*

This category includes the amortization of broadcast right assets 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 is available to Canadian cable and Internet TV subscribers.

### 15. Comparative information:

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

**KNOWLEDGE NETWORK CORPORATION**

Schedule of consolidated expenses by object

Year ended March 31, 2018, with comparative information for 2017

	Programming and presentation	Marketing and development	Broadcast platforms and corporate IT	General	Amortization of broadcast rights	Administration	Specialty TV channel	2018 consolidated	Budget consolidated (note 13)	2017 consolidated
Salaries and benefits	\$ 1,648,657	\$ 1,074,000	\$ 1,170,040	\$ 46,490	\$ -	\$ 926,787	\$ 38,500	\$ 4,708,402	\$ 4,618,794	\$ 4,606,480
Amortization of capital assets and broadcast rights	-	-	-	315,893	3,077,480	-	717,727	4,111,100	4,147,349	3,984,119
Purchased services	444,020	658,334	145,001	21,579	-	42,343	122,952	1,430,609	1,319,650	1,430,900
Supplies, shipping, minor software, maintenance	35,349	448,220	597,125	74,995	-	13,390	82,619	1,251,704	1,210,871	1,314,970
Travel, miscellaneous, other	63,499	171,344	41,793	44,971	-	95,719	77,027	514,309	465,110	406,412
Facilities operating costs, rental	-	-	-	-	-	316,312	-	316,312	264,000	265,840
Income taxes	-	-	-	-	-	-	70,836	70,836	35,000	114,654
	\$ 2,110,132	\$ 2,351,867	\$ 1,963,829	\$ 623,937	\$ 3,077,480	\$ 1,282,456	\$ 1,107,760	\$ 12,407,481	\$ 11,661,774	\$ 12,073,262

## **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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## Appendix B – 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 and the BBC. KWCC financial results are proportionately consolidated under Knowledge Network Corporation’s audited financial statements.

### **Financial Resource Summary Table**

(\$000)	2016/17 Actual	2017/18 Budget	2017/18 Actual
<b>Total Revenue</b>	1,269	952	908
<b>Management Fee and Other Income</b>	-	400	230
<b>Total Expenses</b>	(937)	(840)	(1,108)
<b>Net Income/Excess of Revenue over Expenses/Annual Surplus (Deficit)</b>	<b>332</b>	<b>512</b>	<b>30</b>