

**School District No. 73
Business Company
Financial Statements
For the year ended March 31, 2014**

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Independent Auditor's Report

To the Shareholder of
School District No. 73 Business Company

We have audited the accompanying financial statements of School District No. 73 Business Company, which comprise the balance sheet as at March 31, 2014, and the statements of operations and retained earnings, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management based on Canadian accounting standards for private enterprises.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for private enterprises; this includes determining that Canadian accounting standards for private enterprises are an acceptable basis for the preparation of the financial statements in the circumstances, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 overall presentation of the financial statements.

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

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2014, and the results of its operations and cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.



Basis of Accounting and Restriction on Use

Without modifying our opinion, we draw attention to Note 1 to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist School District No. 73 Business Company with its internal reporting to its shareholder, School District No. 73 (Kamloops/Thompson) and the Province of British Columbia. As a result, the financial statements may not be suitable for another purpose. Our report is intended solely for School District No. 73 Business Company and School District No. 73 (Kamloops/Thompson) and should not be used by parties other than School District No. 73 Business Company and School District No. 73 (Kamloops/Thompson) and the Province of British Columbia.

BDO CANADA LLP

Chartered Accountants
Kamloops, British Columbia
August 13, 2014

School District No. 73 Business Company
Balance Sheet

As at March 31 **2014** **2013**

Assets

Current

Cash	\$	499,626	\$	419,360
Accounts receivable		208,124		182,067
Prepaid expenses		1,461		11,415
Due from Virtual School Society		50,000		-

759,211 **612,842**

Property, plant and equipment (Note 6)		168,458		211,439
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\$ 927,669 **\$ 824,281**

Liabilities and Shareholders' equity

Current

Accounts payable and accrued liabilities (Note 3)	\$	185,850	\$	180,237
Deferred revenue		98,849		156,995
Due to Virtual School Society		-		6,727
Due to shareholder (Note 3)		122,522		76,183

407,221 **420,142**

Shareholders' equity

Share capital (Note 4)		1		1
Contributed surplus (Note 5)		370,101		313,374
Retained earnings		150,346		90,764

520,448 **404,139**

\$ 927,669 **\$ 824,281**

Commitments (Note 8)

Approved on behalf of the Board:

_____ Director

_____ Director

School District No. 73 Business Company
Statement of Operations and Retained Earnings

For the year ended March 31	2014	2013
Revenue		
LearnNowBC	\$ 2,100,000	\$ 1,210,977
Course fees	209,065	184,294
Interest revenue	12,777	2,443
Other revenue	128,596	125,953
	<u>2,450,438</u>	<u>1,523,667</u>
Expenses		
Amortization	44,815	51,930
Bank charges and interest	1,587	2,403
Global Education contractors	107,762	89,135
Global Education website	12,272	16,801
Insurance	5,827	4,795
LearnNowBC academic advising	24,300	16,400
LearnNowBC contracted management services	180,758	81,136
LearnNowBC office lease	52,502	39,795
LearnNowBC website	1,276,235	689,361
Management fees (Note 3)	122,522	76,183
Office expenses	31,596	16,740
Professional fees	23,384	8,952
Training	5,686	5,820
Travel and marketing	42,158	26,986
Tutoring	459,452	322,220
	<u>2,390,856</u>	<u>1,448,657</u>
Net income for the year	59,582	75,010
Retained earnings, beginning of year	90,764	15,754
Retained earnings, end of year	\$ 150,346	\$ 90,764

School District No. 73 Business Company
Statement of Cash Flows

	2014	2013
Operating activities		
Cash receipts from customers	\$ 2,362,060	\$ 1,533,639
Cash paid to contractors and suppliers	(2,357,238)	(1,124,322)
Interest received	11,482	2,443
	16,304	411,760
Cash flows from operating activities		
Investing activities		
Purchase of capital assets	(1,833)	-
Loans and advances with related parties	65,795	-
	63,962	-
Cash flows from investing activities		
Net increase in cash and cash equivalents	80,266	411,760
Cash, beginning of year	419,360	7,600
Cash, end of year	\$ 499,626	\$ 419,360

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

School District No. 73 Business Company Notes to Financial Statements

March 31, 2014

1. Significant Accounting Policies

Basis of Accounting

As a government business enterprise, Canadian public sector accounting standards require School District No. 73 Business Company (the "Business Company") to adhere to the standards applicable to publicly accountable enterprises in the CICA handbook - Accounting. Accordingly the Company is required under Canadian generally accepted accounting principles to prepare its financial statements using International Financial Reporting Standards. Management has determined that the internal reporting needs of the Company and its shareholder, School District No. 73 (Kamloops/Thompson), are met through the use of Canadian accounting standards for private enterprises ("ASPE") and, therefore, these financial statements have been prepared in accordance with that framework. Since ASPE is not designed to necessarily meet the needs of all users of the financial statements of a government business enterprise, the readers of these financial statements may require additional information.

Revenue Recognition

Course fees are recognized as revenue once 14 days or 5% of the course has been completed as course fees become non refundable at this point.

Service contract revenues are recognized as revenue in the year that the services are provided.

Property and Equipment

Property and equipment are stated at cost less accumulated amortization. In the event that the facts and circumstances indicate that the Business Company's property and equipment may be impaired, an evaluation of the recoverability would be performed. Such an evaluation entails comparing the future undiscounted cash flows associated with the asset to the asset's carrying amount to determine if a writedown to market value or cash flow is required. Any impairment is included in earnings for the year. Amortization is recorded beginning in the year after acquisition. Amortization is provided over the estimated useful life of the assets, using the declining balance method, at the following annual rates:

Computer equipment	50%
Computer software	20%
Furniture and fixtures	20%

School District No. 73 Business Company Notes to Financial Statements

March 31, 2014

1. Significant Accounting Policies - continued

Use of Estimates

The preparation of financial statements in accordance with Canadian accounting standards for private enterprises requires management to make assumptions and estimates that have an effect on 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 revenue and expenses during the period. Actual results could be different from those estimates.

Foreign Currency Translation

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year end date, monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date. The resulting foreign exchange gains and losses are included in income in the current period except for the foreign currency gains and losses on long-term monetary items which are deferred and amortized over the remaining terms of the related items.

2. Nature of Operations

The Business Company is a wholly owned subsidiary of School District No. 73 (the "School District") which is a school district as defined by the *School Act of British Columbia*. As such, the Business Company is also governed by the School Act and was incorporated under the *School Act of British Columbia* on February 14, 2006. The Business Company has two operating divisions: Global Education that delivers quality on-line courses to international students, and LearnNowBC which provides Distributed Learning Courses, Tutoring, Academic Advising and Web Conferencing to all students, educators and parents in British Columbia.

School District No. 73 Business Company Notes to Financial Statements

March 31, 2014

3. Related Party Transactions

During the year, the Company charged School District No. 73 (Kamloops/Thompson) an administration fee in the amount of \$122,522 (2013 - \$76,183). This fee represents administrative and other support provided by the School District. This amount is included in due to/from related parties at year end.

The advances to the Business Company are non-interest bearing with no specific terms of repayment.

4. Share Capital

Authorized:

1 Class A, common share without par value

Issued:

Class A Share

	2014	2013
Class A Share	\$ 1	\$ 1

5. Contributed Surplus

During the 2013 year, the Virtual School Society transferred the operations and assets of LearnNowBC to the Business Company. As a result of the transfer of operations, the Business Company acquired the infrastructure and working capital relating to this contract from the Virtual School Society (VSS). The Province, by way of Memorandum of Understanding and Transfer Under Agreement with the Business Company, was able to provide continued funding which LearnNowBC is economically dependent upon. As such, the transfer of operations was transacted at carrying value and the Business Company acquired the following, which resulted in contributed surplus in the financial statements:

Property and equipment	\$ 263,370
Working capital	50,004
Adjustment	56,727
Contributed Surplus	\$ 370,101

During the current year, the operations of the VSS formally ceased. On closing it was determined that \$56,726.82 in liabilities that were estimated to be transferred in the prior year were absorbed by VSS. As such, the Business Company realized this gain against contributed surplus.

School District No. 73 Business Company
Notes to Financial Statements

March 31, 2014

6. Property, Plant and Equipment

	2014		2013	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer equipment	\$ 4,436	\$ 2,869	\$ 2,603	\$ 141
Computer software	256,345	92,284	256,345	51,269
Furniture and equipment	4,422	1,592	4,422	521
	265,203	96,745	263,370	51,931
Net book value		\$ 168,458		\$ 211,439

7. Financial Instruments

Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Business Company is exposed to credit risk resulting from the possibility that a customer or counterparty to a financial instrument defaults on their financial obligations; if there is a concentration of transactions carried out with the same counterparty; or of financial obligations which have similar economic characteristics such that they could be similarly affected by changes in economic conditions. The Business Company's financial instruments that are exposed to concentrations of credit risk relate primarily to the accounts receivable from companies that operate in the same industry.

8. Commitments

The Business Company has entered into a lease for a building for \$4,985 per month under a lease expiring March 31, 2015.

The minimum annual operating lease commitment is as follows:

2015	\$59,820
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Independent Auditor's Comments on Supplementary Information

To the Shareholder of
School District No. 73 Business Company

We have audited the financial statements of School District No. 73 Business Company, which comprise the balance sheet as at March 31, 2014, and the statements of operations and retained earnings and cash flows for the year then ended, and the notes to the financial statements, and have issued our report thereon dated August 13, 2014 which contained an unqualified opinion on the financial statements as a whole. The following supplementary financial information is presented for the purposes of additional analysis and is not a required part of the financial statements. Such supplementary information is the responsibility of management and was derived from the underlying accounting and other records used to prepare the financial statements.

The supplementary information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such supplementary information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves.

Chartered Accountants

Kamloops, British Columbia
August 13, 2014

School District No. 73 Business Company
Statement of Operations
Schedule 1 - Global Education

	<u>2014</u>	<u>2013</u>
Revenue		
Course fees	\$ 209,065	\$ 184,294
Interest revenue	1,096	296
	<u>210,161</u>	<u>184,590</u>
Expenses		
Bank charges and interest	1,295	2,079
Global Education contractors	107,762	89,135
Global Education website	12,272	16,801
Insurance	316	292
Management fees	10,508	9,229
Office expenses	-	62
Professional fees	672	1,517
Training	5,686	5,820
Travel and marketing	14,750	11,663
	<u>153,261</u>	<u>136,598</u>
Net income for the year	\$ 56,900	\$ 47,992

School District No. 73 Business Company
Statement of Operations
Schedule 2 - LearnNowBC

	2014	2013
Revenue		
LearnNowBC	2,100,000	1,210,977
Interest revenue	11,681	2,147
Other revenue	\$ 128,596	125,953
	<u>2,240,277</u>	<u>1,339,077</u>
Expenses		
Amortization	44,815	51,930
Bank charges and interest	291	323
Insurance	5,511	4,504
LearnNowBC academic advising	24,300	16,400
LearnNowBC contracted management services	180,758	81,136
LearnNowBC office lease	52,502	39,795
LearnNowBC website	1,276,235	689,361
Management fees	112,014	66,954
Office expenses	31,596	16,678
Professional fees	22,712	7,434
Travel and marketing	27,408	15,324
Tutoring	459,452	322,220
	<u>2,237,594</u>	<u>1,312,059</u>
Net income for the year	\$ 2,683	\$ 27,018