

School District No. 73
Business Company
Financial Statements
For the year ended March 31, 2013

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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, 2013, and the statements of operations and retained earnings, and cash flows for the years ended March 31, 2013, 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, 2013, and the results of its operations and cash flows for the year ended March 31, 2013 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). 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).

BDO Canada Inc.

Chartered Accountants

Kamloops, British Columbia
September 20, 2013

School District No. 73 Business Company
Balance Sheet

As at March 31 2013 2012

Assets

Current

Cash	\$	419,360	\$	7,600
Accounts receivable		182,067		41,382
Prepaid expenses		11,415		1,867
		612,842		50,849
Property and equipment (Note 6)		211,439		-
		\$ 824,281		\$ 50,849

Liabilities and Shareholders' equity

Current

Accounts payable and accrued liabilities (Note 3)	\$	256,420	\$	22,594
Deferred revenue		156,995		12,500
Due to Virtual School Society		6,727		-
		420,142		35,094

Shareholders' equity

Share capital (Note 4)		1		1
Contributed surplus (Note 5)		313,374		-
Retained earnings		90,764		15,754
		404,139		15,755
		\$ 824,281		\$ 50,849

Approved on behalf of the Board:

Signature on File Director

Signature on File Director

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

For the year ended March 31	2013	2012
Revenue		
LearnNowBC	\$ 1,210,977	\$ -
Course fees	184,294	73,605
Interest revenue	2,443	210
Other revenue	125,953	-
	<u>1,523,667</u>	<u>73,815</u>
Expenses		
Amortization	51,930	-
Bank charges and interest	2,403	40
Global Education contractors	89,135	48,854
Global Education website	16,801	-
Insurance	4,795	3,021
LearnNowBC academic advising	16,400	-
LearnNowBC contracted management services	81,136	-
LearnNowBC office lease	39,795	-
LearnNowBC website	689,361	-
Management fees (Note 3)	76,183	-
Office expenses	16,740	-
Professional fees	8,952	2,916
Training	5,820	3,208
Travel and marketing	26,986	8,320
Tutoring	322,220	-
	<u>1,448,657</u>	<u>66,359</u>
Net income (loss) for the year	75,010	7,456
Retained earnings, beginning of year	15,754	8,298
Retained earnings, end of year	\$ 90,764	\$ 15,754

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

School District No. 73 Business Company
Statement of Cash Flows

	2013	2012
Operating activities		
Cash receipts from customers	\$ 1,536,082	\$ 37,532
Cash paid to contractors and suppliers	<u>(1,124,322)</u>	<u>(52,019)</u>
Cash flows from operating activities	<u>411,760</u>	<u>(14,487)</u>
Net increase (decrease) in cash and cash equivalents	411,760	(14,487)
Cash, beginning of year	<u>7,600</u>	<u>22,087</u>
Cash, end of year	<u>\$ 419,360</u>	<u>\$ 7,600</u>

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

School District No. 73 Business Company

Notes to Financial Statements

March 31, 2013

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	<p>Course fees are recognized as revenue once 14 days or 5% of the course has been completed as course fees are non refundable at this point.</p> <p>Service contract revenues are recognized as revenue in the year that the services are provided.</p>						
Property and Equipment	<p>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 provided over the estimated useful life of the assets, using the declining balance method, at the following annual rates:</p> <table><tr><td>Computer equipment</td><td style="text-align: right;">50%</td></tr><tr><td>Computer software</td><td style="text-align: right;">10%</td></tr><tr><td>Furniture and fixtures</td><td style="text-align: right;">20%</td></tr></table>	Computer equipment	50%	Computer software	10%	Furniture and fixtures	20%
Computer equipment	50%						
Computer software	10%						
Furniture and fixtures	20%						

School District No. 73 Business Company Notes to Financial Statements

March 31, 2013

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, 2013

3. Related Party Transactions

During the year, the Company charged School District No. 73 (Kamloops/Thompson) an administration fee in the amount of \$76,183 (2012 - \$Nil). This fee represents administrative and other support provided by the School District. This amount is included in accounts payable and accrued liabilities at year end.

4. Share Capital

Authorized:

1 Class A, common share without par value

Issued:

Class A Share

<u>2013</u>	<u>2012</u>
\$ 1	\$ 1

5. Contributed Surplus

During the year, the Virtual School Society transferred the operations and assets of LearnNowBC to the School District No.73 Business Company (SD73BC). 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 SD73BC, 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	<u>50,004</u>
Contributed Surplus	<u>\$ 313,374</u>

School District No. 73 Business Company
Notes to Financial Statements

March 31, 2013

6. Property, Plant and Equipment

	2013		2012	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer equipment	\$ 2,603	\$ 141	\$ -	\$ -
Furniture and equipment	4,422	521	-	-
Computer software	256,345	51,269	-	-
	263,370	51,931	-	-
Net book value		\$ 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.