

**School District No. 73 Business Company
Financial Statements
For the Year Ended June 30, 2018**

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Independent Auditor's Report

To the shareholders 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 June 30, 2018, and the statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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, 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, the financial statements present fairly, in all material respects, the financial position of School District No. 73 Business Company as at June 30, 2018, and the results of its operations and its 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 (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.

Chartered Professional Accountants

Kamloops, British Columbia
October 16, 2018

**School District No. 73 Business Company
Balance Sheet**

June 30	2018	2017
Assets		
Current		
Cash	\$ 1,262,802	\$ 1,181,697
Accounts receivable	74,223	88,451
Prepaid expenses	40,342	22,072
Due from Virtual School Society	2,000	2,000
	1,379,367	1,294,220
Property, plant and equipment (Note 3)	1,024	93,388
	\$ 1,380,391	\$ 1,387,608
Liabilities and Shareholder's Equity		
Current		
Accounts payable and accrued liabilities (Note 4)	\$ 73,867	\$ 122,450
Deferred revenue	119,012	300,000
Due to shareholder (Note 5)	76,100	55,369
	268,979	477,819
Shareholder's Equity		
Share capital (Note 6)	1	1
Contributed surplus (Note 7)	370,101	370,101
Retained earnings	741,310	539,687
	1,111,412	909,789
	\$ 1,380,391	\$ 1,387,608

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

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

For the year ended June 30	2018	2017
Revenue		
Course fees	\$ 981,644	\$ 51,100
LearnNowBC	150,000	-
Interest revenue	17,171	2,954
Other revenue	-	3,803
	<u>1,148,815</u>	<u>57,857</u>
Operating expenses		
Agent fees	299,313	92,287
Amortization	22,073	5,936
Bad debt expense	2,291	203
Global Education contractors	311,332	51,283
Global Education website	12,628	267
Insurance	3,928	405
LearnNowBC website	5,000	-
Management fees	56,582	2,893
Office expenses	1,045	583
Professional fees	48,492	-
Training	1,143	877
Travel and marketing	30,691	4,680
Wages and benefits	81,018	19,746
	<u>875,536</u>	<u>179,160</u>
Income (loss) before other income	273,279	(121,303)
Other income		
Loss on write-off of property, plant and equipment	(71,656)	-
Net income (loss)	201,623	(121,303)
Retained earnings, beginning of the year	<u>539,687</u>	<u>660,990</u>
Retained earnings, end of the year	<u>\$ 741,310</u>	<u>\$ 539,687</u>

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

School District No. 73 Business Company Statement of Cash Flows

For the year ended June 30	2018	2017
Cash flows from operating activities		
Cash receipts from customers	\$ 964,884	\$ 106,107
Cash paid to suppliers and employees	(863,734)	(73,821)
Interest received	17,171	2,954
	118,321	35,240
Cash flows from investing activities		
Acquisition of property and equipment	(1,365)	-
Advances to related parties	(35,851)	(699)
	(37,216)	(699)
Net increase in cash	81,105	34,541
Cash, beginning of the year	1,181,697	1,147,156
Cash, end of the year	\$ 1,262,802	\$ 1,181,697

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

School District No. 73 Business Company

Notes to Financial Statements

June 30, 2018

1. Significant Accounting Policies

Basis of Accounting	<p>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 CPA Handbook-Accounting. Accordingly the Company is required under the Canadian generally accepted accounting principles to prepare its financial statmenet using the International Financial Reporting Standards. Mangagement has determined that the interal 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 enterprise ("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.</p>
Revenue Recognition	<p>Course fees are recognized as revenue once 14 days or 5% of the courses has been completed ascourse fees become non refundable at this point.</p> <p>Service contract revenues are recognized as revenue in the year that the services are provided.</p>

School District No. 73 Business Company Notes to Financial Statements

June 30, 2018

1. Significant Accounting Policies (continued)

Financial Instruments

Financial instruments are recorded at fair value at initial recognition.

In subsequent years, equities traded in an active market and derivatives are reported at fair value, with any change in fair value reported in income. All other financial instruments are reported at cost or amortized cost less impairment. Transaction costs on the acquisition, sale or issue of financial instruments are expensed for those items measured at fair value and charged to the financial instrument for those measured at amortized cost.

Financial assets are tested for impairment when indicators of impairment exist. When a significant change in the expected timing or amount of the future cash flows of the financial asset is identified, the carrying amount of the financial asset is reduced and the amount of the write-down is recognized in net income. A previously recognized impairment loss may be reversed to the extent of the improvement, provided it is not greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously, and the amount of the reversal is recognized in net income.

Property, Plant and Equipment

Property, plant 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:

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

School District No. 73 Business Company Notes to Financial Statements

June 30, 2018

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 these 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 the long-term monetary items which are deferred and amortized over the remaining terms of the related items.

School District No. 73 Business Company Notes to Financial Statements

June 30, 2018

2. Nature of Operations

The Business Company is a wholly owned subsidiary of the School District No.73 (Kamloops/Thompson) (the "School District") which is a school district 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 one operating division: Global Education that delivers quality on-line courses to international students.

3. Property, Plant and Equipment

	2018		2017	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer equipment	\$ 1,365	\$ 341	\$ 17,730	\$ 6,411
Computer software	-	-	256,345	176,546
Furniture and equipment	-	-	5,892	3,622
	1,365	341	279,967	186,579
		\$ 1,024		\$ 93,388

4. Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities are government remittances payable of \$2,753 (2017 - \$1,273).

5. Related Party Transactions

During the year, the Business Company was charged an administration fee by the School District in the amount of \$56,582 (2017 - \$2,893). 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 amount due from the shareholder relates to the administration fee payable to the School District and is subject to normal credit terms for trade payables.

School District No. 73 Business Company Notes to Financial Statements

June 30, 2018

6. Share Capital

Issued and outstanding shares:

	<u>2018</u>	<u>2017</u>
Class A Share	<u>\$ 1</u>	<u>\$ 1</u>

7. Contributed Surplus

During the 2013 year, the Virtual School Society transferred the operations and assets of the LearnNowBC to the Business Company. As a result of the transfer of operations, the Business Company acquired 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 dependant 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	<u>56,727</u>
Contributed Surplus	<u>\$ 370,101</u>
