

**School District No. 73 Business
Company
Financial Statements
For the year ended March 31, 2016**

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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 (the "Business Company"), which comprise the balance sheet as at March 31, 2016, 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.



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Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Business Company as at March 31, 2016, 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.

Chartered Professional Accountants

Kamloops, British Columbia
October 28, 2016

School District No. 73 Business Company
Balance Sheet

As at March 31 **2016** **2015**

Assets

Current

Cash	\$ 528,601	\$ 506,121
Accounts receivable	366,274	316,869
Prepaid expenses	1,662	1,546
Due from Virtual School Society	2,000	2,000

898,537 **826,536**

Property, plant and equipment (Note 6)

109,486 **135,767**

\$ 1,008,023 **\$ 962,303**

Liabilities and Shareholder's equity

Current

Accounts payable and accrued liabilities (Note 8)	\$ 62,024	\$ 130,832
Deferred revenue	11,000	97,270
Due to shareholder (Note 3)	112,021	117,744

185,045 **345,846**

Shareholder's equity

Share capital (Note 4)	1	1
Contributed surplus (Note 5)	370,101	370,101
Retained earnings	452,876	246,355

822,978 **616,457**

\$ 1,008,023 **\$ 962,303**

Commitments

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	2016	2015
Revenue		
LearnNowBC	\$ 1,900,000	\$ 2,100,000
Course fees	221,413	224,265
Interest revenue	6,115	11,758
Other revenue	111,413	18,950
	<u>2,238,941</u>	<u>2,354,973</u>
Expenses		
Amortization	27,388	34,162
Bad debts	-	7,500
Bank charges and interest	1,875	2,623
Global Education contractors	109,689	103,309
Global Education website	14,590	10,906
Insurance	3,134	1,461
LearnNowBC academic advising	1,270	50,861
LearnNowBC contracted management services	89,546	95,652
LearnNowBC office lease	59,090	57,394
LearnNowBC website	1,048,414	1,162,556
Management fees (Note 3)	111,947	117,749
Office expenses	29,341	34,296
Professional fees	9,878	21,115
Training	13,380	7,884
Travel and marketing	21,994	37,973
Tutoring	329,651	452,374
Wages and benefits	161,233	61,149
	<u>2,032,420</u>	<u>2,258,964</u>
Net income for the year	206,521	96,009
Retained earnings, beginning of year	<u>246,355</u>	<u>150,346</u>
Retained earnings, end of year	<u>\$ 452,876</u>	<u>\$ 246,355</u>

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

School District No. 73 Business Company
Statement of Cash Flows

	2016	2015
Operating activities		
Cash receipts from customers	\$ 2,097,150	\$ 2,232,891
Cash paid to contractors and suppliers	(2,073,954)	(2,279,907)
Interest received	6,115	11,758
	29,311	(35,258)
Investing activities		
Purchase of capital assets	(1,108)	(1,469)
Loans and advances with related parties	(5,723)	43,222
	(6,831)	41,753
Net increase in cash and cash equivalents	22,480	6,495
Cash, beginning of year	506,121	499,626
Cash, end of year	\$ 528,601	\$ 506,121

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

School District No. 73 Business Company Notes to Financial Statements

March 31, 2016

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 CPA Canada 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 equipment	20%

School District No. 73 Business Company Notes to Financial Statements

March 31, 2016

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.

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.

School District No. 73 Business Company Notes to Financial Statements

March 31, 2016

2. Nature of Operations

The Business Company is a wholly owned subsidiary of School District No. 73 (Kamloops/Thompson) (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.

3. Related Party Transactions

During the year, the Business Company charged the School District an administration fee in the amount of \$111,947 (2015 - \$117,749). 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

	<u>2016</u>	<u>2015</u>
	\$ 1	\$ 1

School District No. 73 Business Company
Notes to Financial Statements

March 31, 2016

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	<u>56,727</u>
Contributed Surplus	<u>\$ 370,101</u>

6. Property, Plant and Equipment

	<u>2016</u>		<u>2015</u>	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer equipment	\$ 5,544	\$ 4,044	\$ 4,436	\$ 3,652
Computer software	256,345	151,346	256,345	125,096
Furniture and equipment	<u>5,892</u>	<u>2,905</u>	<u>5,892</u>	<u>2,158</u>
	<u>267,781</u>	<u>158,295</u>	<u>266,673</u>	<u>130,906</u>
Net book value		<u>\$ 109,486</u>		<u>\$ 135,767</u>

School District No. 73 Business Company Notes to Financial Statements

March 31, 2016

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 if 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. Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities are government remittances payable of \$Nil (2015 - \$2,935)

9. LearnNowBC

Subsequent to the year end, the Ministry of Education terminated the LearnNowBC program. As a result of the termination, the Company will be ceasing all operations related to the program. Individual financial results relating to the program are included in Schedule 2 to these financial statements. Management has not yet determined how the assets relating to the LearnNowBC program will be distributed or disposed of.

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

	2016	2015
Revenue		
Course fees	\$ 221,413	\$ 224,265
Interest revenue	606	1,125
	222,019	225,390
Expenses		
Agent fees	13,380	7,884
Bad debt expense	-	7,500
Bank charges and interest	1,191	2,333
Global Education contractors	109,689	103,309
Global Education website	14,590	10,906
Management fees	11,101	11,269
Professional fees	135	127
Travel and marketing	-	4,513
	150,086	147,841
Net income for the year	\$ 71,933	\$ 77,549

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

	2016	2015
Revenue		
LearnNowBC	\$ 1,900,000	\$ 2,100,000
Interest revenue	5,509	10,633
Other revenue	111,413	18,950
	2,016,922	2,129,583
Expenses		
Amortization	27,388	34,162
Bank charges and interest	683	289
Insurance	3,134	1,461
LearnNowBC academic advising	1,270	50,861
LearnNowBC contracted management services	89,546	95,652
LearnNowBC office lease	59,090	57,394
LearnNowBC website	1,048,414	1,162,556
Management fees	100,846	106,479
Office expenses	29,341	34,296
Professional fees	9,743	20,988
Travel and marketing	21,994	33,459
Tutoring	329,651	452,374
Wages and benefits	161,233	61,152
	1,882,333	2,111,123
Net income for the year	\$ 134,589	\$ 18,460