

**School District No. 73 Business Company
Financial Statements
For the Period Ended June 30, 2017**

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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 (the "Business Company"), which comprise the balance sheets as at June 30, 2017 and March 31, 2017, and the statements of operations and retained earnings and cash flows for the periods ended March 31, 2017 and June 30, 2017, 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; 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 audits. We conducted our audits 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, these financial statements present fairly for both periods, in all material respects, the financial position of School District No. 73 Business Company as at March 31, 2017 and June 30, 2017, and the results of its operations and its cash flows for the periods 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
November 8, 2017

School District No. 73 Business Company Balance Sheet

As at	June 30, 2017	March 31, 2017	March 31, 2016, restated
Assets			
Current			
Cash	\$ 1,181,697	\$ 1,147,156	\$ 528,601
Accounts receivable	88,451	214,655	229,761
Prepaid expenses	22,072	1,625	1,662
Due from Virtual School Society	2,000	2,000	2,000
	1,294,220	1,365,436	762,024
Property, plant and equipment (Note 5)	93,388	99,324	109,485
	\$ 1,387,608	\$ 1,464,760	\$ 871,509
Liabilities and Shareholder's Equity			
Current			
Accounts payable and accrued liabilities (Note 8)	\$ 122,450	\$ 5,493	\$ 62,023
Deferred revenue	300,000	375,000	11,000
Due to shareholder (Note 3)	55,369	53,175	112,021
	477,819	433,668	185,044
Shareholder's Equity			
Share capital (Note 4)	1	1	1
Contributed surplus (Note 6)	370,101	370,101	370,101
Retained earnings	539,687	660,990	316,363
	909,789	1,031,092	686,465
	\$ 1,387,608	\$ 1,464,760	\$ 871,509

Contingencies (Note 10)

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 period ended	June 30, 2017	March 31, 2017	March 31, 2016, restated
	(3 months)	(12 months)	(12 months)
Revenue			
LearnNowBC	\$ -	\$ 500,000	\$ 1,900,000
Course fees	51,100	602,937	221,413
Interest revenue	2,954	7,112	6,115
Other revenue	3,803	23,731	111,413
	<u>57,857</u>	<u>1,133,780</u>	<u>2,238,941</u>
Operating expenses			
Agent fees	92,287	78,279	13,380
Amortization	5,936	22,347	27,388
Bank charges and interest	203	3,768	1,875
Global Education website	267	21,604	14,590
Global Education contractors	43,350	106,673	109,689
Insurance	405	2,177	3,134
LearnNowBC academic advising	-	565	1,270
LearnNowBC contracted management services	-	44,002	89,546
LearnNowBC office lease	-	19,554	59,090
LearnNowBC website	-	188,306	1,184,927
Management fees (Note 3)	2,893	56,689	111,947
Office expenses	8,516	31,031	29,341
Professional fees	-	17,336	9,878
Training	877	-	-
Travel and marketing	4,680	22,560	21,994
Tutoring	-	88,848	329,651
Wages and benefits	19,746	85,416	161,233
	<u>179,160</u>	<u>789,155</u>	<u>2,168,933</u>
Net income (loss)	<u>(121,303)</u>	<u>344,625</u>	<u>70,008</u>
Retained earnings, beginning of the year, as previously reported	660,990	452,878	246,355
Prior period adjustment (Note 11)	-	(136,513)	-
Retained earnings, beginning of the year, as restated	<u>660,990</u>	<u>316,365</u>	<u>246,355</u>
Retained earnings, end of the year	<u>\$ 539,687</u>	<u>\$ 660,990</u>	<u>\$ 316,363</u>

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

School District No. 73 Business Company Statement of Cash Flows

For the period ended	June 30, 2017	March 31, 2017	March 31, 2016 restated
	(3 months)	(12 months)	(12 months)
Cash flows from operating activities			
Cash receipts from customers	\$ 226,107	\$ 1,505,773	\$ 2,097,150
Cash paid to suppliers and employees	(193,821)	(824,005)	(2,073,954)
Interest received	2,954	7,112	6,115
	<u>35,240</u>	<u>688,880</u>	<u>29,311</u>
Cash flows from investing activities			
Acquisition of property and equipment	-	(12,186)	(1,108)
Advances to related parties	(699)	(58,139)	(5,723)
	<u>(699)</u>	<u>(70,325)</u>	<u>(6,831)</u>
Net increase in cash	34,541	618,555	22,480
Cash, beginning of the year	<u>1,147,156</u>	528,601	506,121
Cash, end of the year	\$ 1,181,697	\$ 1,147,156	\$ 528,601

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

School District No. 73 Business Company

Notes to Financial Statements

June 30, 2017

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 Handbook- Accounting. Accordingly the Company is required under Canadian generally accepted accounting principles to prepare its financial statements using the 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 courses 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 the 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

June 30, 2017

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

June 30, 2017

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 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 course to international students, and Learn Now BC which provides Distributed Learning Courses, Tutoring, Academic Advising and Web Conferencing to all students, educators and parents in British Columbia. On June 30, 2016 the LearnNowBC program ended. Refer to Note 9 for further discussion.

3. Related Party Transactions

During the year, the Business Company was charged an administration fee by the School District in the amount of \$2,893 (March 2017 \$56,689; 2016 \$111,947). 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.

4. Share Capital

Issued	June 30, 2017	March 31, 2017	March 31, 2016
Class A Share	\$ 1	\$ 1	\$ 1

School District No. 73 Business Company Notes to Financial Statements

June 30, 2017

5. Property, Plant and Equipment

	June 30, 2017		March 31, 2017		March 31, 2016	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Computer equipment	\$ 17,730	\$ 6,411	\$ 17,730	\$ 4,794	\$ 5,544	\$ 4,044
Computer software	256,345	176,546	256,345	172,346	256,345	151,346
Furniture and equipment	5,892	3,622	5,892	3,503	5,892	2,906
	<u>279,967</u>	<u>186,579</u>	<u>279,967</u>	<u>180,643</u>	<u>267,781</u>	<u>158,296</u>
		<u>\$ 93,388</u>		<u>\$ 99,324</u>		<u>\$ 109,485</u>

6. 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 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	56,727
Contributed Surplus	<u>\$ 370,101</u>

School District No. 73 Business Company Notes to Financial Statements

June 30, 2017

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 its 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 \$1,273 (2017 \$2,845; 2016 \$Nil).

9. LearnNowBC

As at June 30, 2016, the Ministry of Education terminated the LearnNowBC program. As a result of the termination, the Business Company has ceased 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.

10. Contingencies

The nature of the Business Company's activities is such that there can be litigation pending or in progress at any time. With respect to the ongoing lawsuit at June 30, 2017, management is still uncertain of the outcome but management will work with the Ministry of Education to mitigate the impact on the School District No.73 Business Company.

**School District No. 73 Business Company
Notes to Financial Statements**

June 30, 2017

11. Prior Period Adjustment

During the period, it was identified that for an expense amount recorded recoverable was in fact not eligible to be recovered in the 2016 year.

The error has been corrected on a retrospective basis, the impact of which at March 31, 2016 is:

	Previously reported	Change	Adjusted
Accounts receivable	\$ 366,274	\$ (136,513)	\$ 229,761
Operating expense	2,032,420	136,513	2,168,933
Net income	206,521	(136,513)	70,008
Closing retained earnings	452,876	(136,513)	316,363

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

For the year ended	June 30, 2017	March 31, 2016	March 31, 2016
Revenue			
Course fees	\$ 51,100	\$ 602,937	\$ 221,413
Interest revenue	2,750	3,806	606
	53,850	606,743	222,019
Expenses			
Agent fees	92,287	78,279	13,380
Bank charges and interest	203	3,768	1,191
Global Education contractors	43,350	106,673	109,689
Global Education website	267	21,604	14,590
Management fees	2,893	-	11,101
Office expenses	9,393	18,977	-
Professional fees	-	1,565	135
Travel and marketing	4,680	20,558	-
Wages and benefits	\$ 19,746		
	172,819	251,424	150,086
Net (loss) income for the year	\$ (118,969)	\$ 355,319	\$ 71,933

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

For the year ended As at	June 30, 2017	March 31, 2016	March 31, 2016, restated
Revenue			
LearnNowBC	\$ -	\$ 500,000	\$ 1,900,000
Interest Revenue	205	3,306	5,509
Other revenue	3,803	23,731	111,413
	4,008	527,037	2,016,922
Expenses			
Amortization	5,936	22,347	27,388
Bank charges and interest	-	-	683
Insurance	405	2,177	3,134
LearnNowBC academic advising	-	565	1,270
LearnNowBC contracted management services	-	44,002	89,546
LearnNowBC office lease	-	19,554	59,090
LearnNowBC website	-	188,306	1,048,414
Management fees	-	56,689	100,846
Office expenses	-	12,055	29,341
Professional fees	-	15,770	9,743
Travel and marketing	-	2,001	21,994
Tutoring	-	88,848	329,651
Wages and benefits	-	85,416	161,233
	6,341	537,730	1,882,333
	\$ (2,333)	\$ (10,693)	\$ 134,589
Net (loss) income for the year			