

THE VIRTUAL SCHOOL SOCIETY

FINANCIAL STATEMENTS

Year Ended July 31, 2010

DRAFT – FOR DISCUSSION PURPOSES ONLY

AUDITORS' REPORT

To: The Members of The Virtual School Society

We have audited the statement of financial position of The Virtual School Society (the "Society") as at July 31, 2010 and the statements of operations and net assets and cash flows for the year then ended. These financial statements are the responsibility of the Society's management. 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 plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Society as at July 31, 2010 and the results of its operations and changes in net assets and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Victoria, B.C.
October 13, 2010

Chartered Accountants

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THE VIRTUAL SCHOOL SOCIETY

STATEMENT OF FINANCIAL POSITION

JULY 31, 2010

	2010 \$	2009 \$
<u>ASSETS</u>		
Current assets:		
Cash	1,310,194	2,174,084
GST and HST recoverable	56,402	92,985
Prepaid licenses and services	134,051	99,345
	1,500,647	2,366,414
Equipment (Note 3)	37,471	66,058
Intangible assets (Note 4)	591,594	871,902
	<u>2,129,712</u>	<u>3,304,374</u>
<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accounts payable and accrued liabilities	132,629	228,220
Deferred operating grants (Note 5)	731,296	312,936
	<u>863,925</u>	<u>541,156</u>
Net assets:		
Invested in equipment	37,471	66,058
Unrestricted	1,228,316	2,697,160
	<u>1,265,787</u>	<u>2,763,218</u>
	<u>2,129,712</u>	<u>3,304,374</u>

Commitment (Note 6)

Approved by the Board:

_____ Director

_____ Director

(See accompanying notes)

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THE VIRTUAL SCHOOL SOCIETY

STATEMENT OF OPERATIONS

YEAR ENDED JULY 31, 2010

	2010 \$	2009 \$
Revenues:		
Grants – Province of British Columbia	1,081,640	93,845
Grants – Legacies now	132,000	-
Interest earned	6,466	62,502
Conference income	-	161,555
Rent	7,800	-
Total revenues	1,227,906	317,902
Expenses:		
Programs –		
Academic advisors	84,070	107,386
Amortization of equipment	28,587	25,094
Amortization of intangible assets	537,840	506,338
BCED Transition to VSS	-	1,143
Courses	35,000	170,930
Daily physical activity	4,938	15,568
Demo schools	1,691	49,413
Learning object repository	24,493	54,762
Learn Now BC website	951,361	1,234,329
On-Line classrooms	377,963	333,047
On-Line learning conference	908	307,572
Parent information	1,640	58,775
Professional development	19,987	138,504
Rural educators	-	10,578
Tutoring	394,408	1,051,057
Total program costs	2,462,886	4,064,496
Administration:		
Administration	-	91,998
Board services	29,230	30,521
Contracted management services	93,302	158,461
Office	30,342	41,457
Professional and marketing services	48,198	136,618
Rent	54,996	52,232
Travel	6,383	9,830
Total administrative costs	262,451	521,117
Total expenditures	2,725,337	4,585,613
(Deficiency) of revenues over expenses	(1,497,431)	(4,267,711)

(See accompanying notes)

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THE VIRTUAL SCHOOL SOCIETY
STATEMENT OF CHANGES IN NET ASSETS
YEAR ENDED JULY 31, 2010

	Investment in Equipment \$	Unrestricted \$	2010 \$	2009 \$
NET ASSETS, beginning of year	66,058	2,697,160	2,763,218	7,030,929
(DEFICIENCY) OF REVENUES OVER EXPENSES	(28,587)	(1,468,844)	(1,497,431)	(4,267,711)
INVESTMENT IN EQUIPMENT	-	-	-	-
NET ASSETS, end of year	37,471	1,228,316	1,265,787	2,763,218

(See accompanying notes)
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THE VIRTUAL SCHOOL SOCIETY

STATEMENT OF CASH FLOWS

YEAR ENDED JULY 31, 2010

	2010 \$	2009 \$
Cash from operating activities:		
Adjustments for:		
(Deficiency) of revenues over expenses	(1,497,431)	(4,267,711)
Amortization of equipment	28,587	25,094
Amortization of intangible assets	537,840	506,338
	(931,004)	(3,736,279)
Changes in non-cash working capital:		
GST and HST recoverable	36,583	81,057
Accounts receivable	-	1,000
Prepaid licenses and services	(34,707)	406,871
Accounts payable	(95,591)	(303,728)
Deferred operating grants	418,360	(69,353)
Net cash from operations	(606,359)	(3,620,432)
Investing activities:		
Purchase of equipment	-	(21,797)
Purchase of intangible assets	(257,531)	(545,730)
	(257,531)	(567,527)
(Decrease) in cash	(863,890)	(4,187,959)
Cash, beginning of year	2,174,084	6,362,043
Cash, end of year	1,310,194	2,174,084

(See accompanying notes)

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THE VIRTUAL SCHOOL SOCIETY
NOTES TO THE FINANCIAL STATEMENTS

JULY 31, 2010

1. Description of Society

The Virtual School Society ("the Society") is a non-profit organization incorporated under the Society Act (British Columbia). As a non-profit organization pursuant to paragraph 149(l) of the Income Tax Act, no tax is payable by the Society under Part I of the Act.

The purposes of the Society are (a) to enhance the educational achievement of students taking educational programs through distributed learning, (b) to make British Columbia a recognized world leader in the delivery of education programs through distributed learning, and (c) to enhance the use of distributed learning to make British Columbia the best educated and most literate jurisdiction in North America.

The constitution of the Society requires that any profits or other accretions be used for the purposes of the Society.

2. Significant Accounting Policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles, and include the following significant accounting policies.

(a) Equipment

Equipment of the Society is recorded at cost. Amortization is based on the estimated useful life and is recorded using the methods indicated at the following annual rates:

Computer equipment	3 years straight-line
Furniture and equipment	5 years straight-line

In the year of acquisition only one-half the normal rate is applied.

(b) Intangible Assets

Intangible assets are recorded at cost. Amortization is based on their estimated useful life and is recorded using the following annual rates:

Learn Now BC Website	3 years straight-line
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In the year of acquisition only one-half the normal rate is applied.

(c) Revenue Recognition

The Society uses the deferral method of accounting for contributions.

Restricted contributions are recognized as revenue when the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or when pledged if the amount pledged can be reasonably estimated and collection is reasonably assured.

Contributions of equipment are recognized only when a fair value as of the date of contribution can be reasonably estimated, the equipment is to be used in the normal course of operations and would otherwise have been purchased.

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THE VIRTUAL SCHOOL SOCIETY
NOTES TO THE FINANCIAL STATEMENTS
JULY 31, 2010

(d) Use of Estimates

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are reviewed periodically and adjustments are made to income as appropriate in the year they become known.

Actual results may vary from the current estimates.

(e) Financial Instruments

The Society's financial instruments consist of cash, short-term investments, accounts receivable, accounts payable and accrued liabilities. The Society classifies its financial instruments as held-for-trading.

3. Equipment

	2010		2009
	\$		\$
	Cost	Accumulated Amortization	Net
Computer equipment	62,210	(45,001)	17,209
Furniture and equipment	39,742	(19,480)	20,262
	<u>101,952</u>	<u>(64,481)</u>	<u>37,471</u>
			<u>66,058</u>

4. Intangible Assets

	2010		2009
	\$		\$
	Cost	Accumulated Amortization	Net
Learn Now BC Website	<u>2,048,472</u>	<u>(1,456,878)</u>	<u>591,594</u>
			<u>871,902</u>

THE VIRTUAL SCHOOL SOCIETY
NOTES TO THE FINANCIAL STATEMENTS

JULY 31, 2010

5. Deferred Operating Grants

Deferred operating grants are comprised of restricted funding received during the current period which will be recognized as revenue in a subsequent period when the related expenses are incurred. Changes in deferred operating grants are as follows:

	2010 \$	2009 \$
Balance, beginning of year	312,936	382,289
Recognized in revenue	(1,640)	(69,353)
Balance, end of year	<u>311,296</u>	<u>312,936</u>

The balance in deferred operating grants consists of the following:

	2010 \$	2009 \$
Restricted for development of a Parent Information Center website	121,874	123,514
Restricted for centralization and development of a Rural Education Network website	189,422	189,422
Restricted for services to the Ministry of Education	<u>420,000</u>	<u>-</u>
Balance, end of year	<u>731,296</u>	<u>312,936</u>

6. Commitment

The Society leases its premises under an agreement which expires March 31, 2013. The total minimum annual rent per year is \$50,580.

7. Economic Dependence

The Society receives substantially all its operating funds from the Province of British Columbia, Ministry of Education, on which it is economically dependent for continued operation.

8. Financial Instruments

The carrying values of cash, accounts payable and accrued liabilities approximate their fair values due to the short term nature of these assets and liabilities.

Unless otherwise noted, it is management's opinion that under normal circumstances, the Society is not exposed to significant interest or currency risks arising from its financial instruments.

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**The Virtual School Society
Spending Summary to March 31, 2010**

Contractual Commitments 2009-2013	
VSS Bank Account	Cost
\$3,690,000.00	\$240,000.00 Elluminate-Oct 31/09
\$3,450,000.00	\$600,000.00 Tutoring and Advising - Aug 31/09
\$2,850,000.00	\$840,000.00 Web site operational - March -Aug 09
\$2,010,000.00	\$704,500.00 Content - School District 33,34, 39, 43, 63, BCSPAC
\$1,305,500.00	\$200,000.00 Lease Agreement - Office Lease 2013
\$1,105,500.00	\$240,000.00 NetNation - Hosting and Backup 2011
\$865,500.00	\$36,000.00 Shaw/Telus -Internet and Phones - 2010
\$829,500.00	\$36,000.00 Licenses - Marqui Virus, SSL, Tape Backup, Domains, CMS, DBAdmin, LOR, Microsoft, Visual Studio, Linux, Moodle - March 2010
\$793,500.00	\$350,000.00 Conference Costs - 2009
\$443,500.00	\$60,000.00 AquaVan - Jan 2010
	\$90,000.00 Online Educator Support - Rural Startegy, Teacher Essentials, KnowWeeks, Teaching Online Course Sept 2009
\$383,500.00	
\$293,500.00	Bank Balance after commitments
	\$3,396,500.00 Total Commitments
Operational Costs - September -March 2010	
	\$150,000.00 Elluminate - Nov 09 - March 2010 - high short term contract
	\$700,000.00 Tutoring/Advising - Sept 09 - March 2010
	\$980,000.00 Web site operational - Sept - March -Online Educator Support - Rural Strategy, Teacher Essentials, KnowWeeks, Teaching Online Course
	\$1,830,000.00 Total Operating in addition to commitments Sept -March 2010

Close

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4 Mar 2009

Show All Transactions for the last 30 days

Date	Description	Withdrawals	Deposits	Balance
2 Mar 2009	SERVICE FEE	10.00		3,692,059.53
2 Mar 2009	DEPOSIT INTEREST		2,999.45	
18 Feb 2009	BR TO BR - 7512	100,000.00		3,689,070.08
11 Feb 2009	BR TO BR - 7512	100,000.00		3,789,070.08
11 Feb 2009	BR TO BR - 7512	5.00		
4 Feb 2009	BR TO BR - 7512	100,000.00		3,889,075.08
2 Feb 2009	SERVICE FEE	10.00		3,989,075.08
2 Feb 2009	DEPOSIT INTEREST		5,172.42	

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VSS/LearnNowBC Grant History

Term	Virtual School Society	
	Fiscal year	Grant Funding
March 28, 2006	2005/06	\$ 5,900,000
March 15, 2007	2006/07	\$ 2,400,000
March 15, 2007	2006/07	\$ 200,000
March 15, 2007	2006/07	\$ 200,000
March 15, 2007	2006/07	\$ 4,000,000
	2007/08	\$ -
	2008/09	\$ -
Sept 30 2009 to March 31 2010	2009/10	\$ 900,000
June 1 2010 to March 31 2011	2010/11	\$ 2,100,000
Apr 1 2011 to March 31 2012	2011/12	\$ 2,100,000
Apr 1 2012 to September 14 2012	2012/13	\$ 1,254,148