

CFE CANDIDATE NUMBER:

--	--	--	--	--	--	--	--

Common Final Examination
May 22, 2025 – Day 2
(Booklet #1 – Case)

Total examination time: 5 hours.

Further details on the examination can be found on the next page.

GENERAL INSTRUCTIONS BEFORE THE EXAMINATION

1. Fill in your candidate number on the booklets. The examination booklets (or paper response, as instructed) must be submitted before leaving the examination writing centre. They must NOT BE REMOVED from the writing centre. If these items are not received, the response may not be accepted.
2. Follow the instructions provided. Instructions must not be removed from the writing centre.
3. Sign the Policy Statement and Agreement Regarding Examination Confidentiality below.

Policy Statement and Agreement Regarding Examination Confidentiality

I understand that all examination materials are the property of CPA Canada and are under the exclusive custody and control of CPA Canada. CPA Canada has the exclusive authority over examination materials to determine the content, use, retention, disposition and disclosure of this material. Candidates will not have access to their examination response, the examination marking keys or any other marking materials. The examination questions and marking guides will only be publicly available when published by CPA Canada.

I hereby agree that I will not:

- Obtain or use answers or information from, or give answers or information to, another candidate or person during the sitting of the examination;
- Refer to unauthorized material or use unauthorized equipment during the examination including but not limited to generative artificial intelligence and similar technologies (for example, ChatGPT, Grammarly, ChatBots, etc.); or
- Remove or attempt to remove any CPA Canada Examination materials, notes or any other items from the examination writing centre.

I further agree to report to the Regional/Provincial/Territorial Body any situations where there is a material risk of compromising the integrity of the examination.

I affirm that I have had the opportunity to read the *CPA In-Person Examination Regulations* and the *Policy on Academic Integrity and the Use of Artificial Intelligence* and I agree to all of their terms and conditions.

In addition, I understand that failure to comply with this Policy Statement and Agreement will result in the invalidation of my results and may result in my disqualification from future examinations, expulsion from the profession and possible legal action.

CANDIDATE NAME (Please print)

SIGNATURE

Examination Details

The examination consists of:

Booklet #1 – Case (this booklet)

Booklet #2 – Rough notes

Candidates are allowed **five (5) hours** to respond.

The case should be answered using the examination software provided, which includes a word processor and spreadsheet for inputting your response. The main body of your response should be in the word processor file. Only supporting calculations should appear in the spreadsheet file, in **Sheet 1**. All financial tables in the case with ten lines or more have been preloaded into the spreadsheets that follow Sheet 1. Those spreadsheets are in read-only mode. You must copy and paste the financial information into your Sheet 1, where you can then do all your calculations. You are responsible for clearly explaining all your calculations.

Answers or part answers will not be evaluated if they are recorded using anything other than the examination software or, in the event of computer failure, the CPA Canada writing paper provided.

Rough-note paper is available in a separate booklet. Rough notes, and any other notations made in the examination booklets, will not be evaluated.

The CPA Canada Handbooks, the *Income Tax Act* and the *Excise Tax Act* are available in the examination software throughout the entire examination. These materials provide the standards in effect and tax laws substantively enacted as at December 31, 2024.

A tax shield formula and other relevant tax information are available at the end of this booklet.

Candidates are instructed to consider and respond to the examination questions as presented even though the circumstances described in the examination questions may not be reflective of the current environment.

Chartered Professional Accountants of Canada, CPA Canada, CPA
are trademarks and/or certification marks of the Chartered Professional Accountants of Canada.
Copyright © 2025, Chartered Professional Accountants of Canada. All Rights Reserved.
Common Final Examination, 2025

Chartered Professional Accountants of Canada
277 Wellington Street West
Toronto, Ontario M5V 3H2

Case

Assume the pre-selected role in which you will be formulating your response. Answer all requireds as specifically directed in your role. Within the requireds for each role, candidates are directed to look at specific additional appendices, which are unique to each role. Use only the information you have been directed to refer to.

Information that is shared by all roles is presented in the “Common Information” section. Additional information, customized to each role, is presented in the “Specific Information” section.

Common Information – to be read by all roles	<u>Page</u>
---	--------------------

Background	3
------------------	---

Specific Requirements – read only pages specified for your pre-selected role

Assurance Requirements	4
Finance Requirements	6
Performance Management Requirements	8
Taxation Requirements	10

Common Information – to be read by all roles

Appendix I – Additional Industry and Company Information	11
Appendix II – Excerpts from Draft Financial Statements	12
Appendix III – Information for School #8.....	15
Appendix IV – KLI Draft Fiscal Year 2025 Operating Budget	16
Appendix V – Cost of Quality – School #4	17
Appendix VI – Notes from Meeting with Randy Gotlieb, CFO	18

Specific Information – read only pages specified for your pre-selected role

Appendix VII – Assurance – Additional Information	22
Appendix VII – Finance – Additional Information	28
Appendix VII – Performance Management – Additional Information	40
Appendix VII – Taxation – Additional Information	48

BACKGROUND
COMMON INFORMATION FOR ALL ROLES

Keats Learning Institute (KLI), opened 15 years ago, operates private schools covering pre-school (pre-kindergarten, junior kindergarten, and senior kindergarten) and elementary (Grades 1 through 6). KLI is a private for-profit company and is not eligible to receive any government funding. The company has eight schools throughout Ontario and complies with all regulatory requirements. KLI follows a distinct teaching approach that is respected in the industry. Where KLI operates, elementary public schools go up to Grade 6 and then students attend junior high school.

KLI was started by two friends, Adrianna Halliday and Bruce Zhang, who both reside in Ontario and each own 50% of the outstanding shares. The company follows IFRS. Both shareholders eventually want to retire, so they have decided to try to sell KLI. To get the best offer, they need to make operational and academic quality improvements.

Bruce is the CEO. Adrianna is VP Academics and has responsibility over the teaching faculty and classroom learning. Randy Gotlieb has been CFO for the past five years.

The academic school year runs from September 1 to June 30; however, KLI has a December 31 fiscal year end. Today is February 21, 2025.

Additional information, customized to your role, is presented in your role package.

REQUIREMENTS FOR YOUR ROLE
(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)

ASSURANCE REQUIREMENTS

You, CPA, work as a senior at Harrison & Company LLP (Harrison). KLI has hired your firm as an external consultant to assess a variety of issues to ready the company for sale. You met with Garry, the partner on the KLI consulting engagement, who has asked you to assist with some work required by KLI.

Adrianna needs help with applying activity-based costing to School #8. Adrianna also needs us to review KLI's draft 2025 operating budget, completed by KLI's junior staff member, and make corrections. KLI's staff has also prepared a cost of quality analysis for School #4, and Adrianna has asked you to review this, revise it as required, and discuss the implications and possible actions the shareholders should consider.

In addition, before finalizing the financial statements, Randy wants confirmation that his financial reporting treatments were correct for the new method of billing and collecting fees for the 2024-2025 academic year, the donated equipment, and two liabilities. Randy is also unsure of the financial reporting treatment for a defined benefit pension plan KLI introduced at the beginning of the 2024-2025 academic year.

Bruce noted that KLI is in preliminary discussions with a prospective buyer; however, they require KLI's audited financial statements before moving forward. The external auditor used in prior years has retired, so KLI will need to engage a new firm. Garry would like you to explain to Bruce whether the proposed accounting firms would be able to conduct the audit for KLI from an independence perspective and recommend which firm to engage. He would also like you to describe the audit procedures the external auditor will likely perform on the financial reporting issues identified.

Garry had a junior conduct substantive analytical procedures over salaries, wages, and benefits for teachers, principals, and other staff. He asks you to review the work performed and make revisions, as necessary. He also asks you to discuss any internal control weaknesses you identify within KLI's additional programs (before-school, lunch, and after-school programs) and provide recommendations to address them.

REQUIREMENTS FOR YOUR ROLE
(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)

ASSURANCE REQUIREMENTS (continued)

KLI is interested in performing some internal audit engagements in the coming year but is unsure what areas of risk to focus on. Therefore, Garry asks you to perform a risk assessment at the overall financial statement level. In addition, Garry is concerned about what assertion level risks may arise related to the additional programs.

Finally, Adrianna has recently been informed that the Innovative Administrators Council (IAC), the licensing body that oversees KLI's curriculum and teaching methods, has invoked its right to obtain assurance that KLI is in compliance with the curriculum requirements. Garry asks you to describe what audit procedures could be performed to demonstrate KLI's compliance with the IAC's requirements.

In addition to the common appendices (I to VI), information provided in Appendix VII (Assurance) is relevant for your analysis.

REQUIREMENTS FOR YOUR ROLE
(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)

FINANCE REQUIREMENTS

You, CPA, work as a financial analyst with Freedman & Associates LLP (Freedman) and report directly to Kyle, who has asked you to assist with the work required by KLI.

Adrianna needs help with applying activity-based costing to School #8. Adrianna also needs us to review KLI's draft 2025 operating budget, completed by KLI's junior staff member, and make corrections. KLI's staff has also prepared a cost of quality analysis for School #4, and Adrianna has asked you to review this, revise it as required, and discuss the implications and possible actions the shareholders should consider.

In addition, before finalizing the financial statements, Randy wants confirmation that his financial reporting treatments were correct for the new method of billing and collecting fees for the 2024-2025 academic year, the donated equipment, and two liabilities.

Randy is wondering whether KLI should offer a monthly payment plan. He wants an analysis of whether this plan would allow KLI to pay for operating expenses without financing, as well as a qualitative assessment of the plan.

Randy has requested that you analyze and discuss the financial performance of Schools #1 and #2 and provide recommendations to help better performance at each school.

To sell the company for a favourable price in the next few years, Bruce is looking to expand by offering junior high classes. He is considering two options: (i) acquire Achieve Junior High Schools (AJHS); or (ii) add junior high classes at KLI's existing schools. Bruce would like you to provide a qualitative analysis of these options and provide a recommendation.

REQUIREMENTS FOR YOUR ROLE
(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)

FINANCE REQUIREMENTS (continued)

For his negotiations with AJHS, Bruce asks you to prepare a capitalized cash flow valuation and conclude on the reasonableness of the purchase price. To finance this purchase, Bruce has identified three options and has asked you to analyze them and provide a recommendation.

KLI is considering purchasing the land and building for School #7. Randy asks you to review the offer price and determine whether it is reasonable. He also wants you to recommend, from a financial perspective, whether KLI should purchase the property or continue leasing it.

Finally, Randy has prepared an income forecast for a potential expansion into Manitoba. He asks you to comment on the reliability and relevance of the data sources used in the forecast and recommend improvements.

In addition to the common appendices (I to VI), information provided in Appendix VII (Finance) is relevant for your analysis.

REQUIREMENTS FOR YOUR ROLE
(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)

PERFORMANCE MANAGEMENT REQUIREMENTS

You, CPA, work as a financial analyst at Freedman & Associates LLP (Freedman), which has been contracted by KLI to report on a number of financial reporting and performance management issues. You report directly to Petra Osman, who has asked you to assist with the work required by KLI.

Adrianna needs help with applying activity-based costing to School #8. Adrianna also needs us to review KLI's draft 2025 operating budget, completed by KLI's junior staff member, and make corrections. KLI's staff has also prepared a cost of quality analysis for School #4, and Adrianna has asked you to review this, revise it as required, and discuss the implications and possible actions the shareholders should consider.

In addition, before finalizing the financial statements, Randy wants confirmation that his financial reporting treatments were correct for the new method of billing and collecting fees for the 2024-2025 academic year, the donated equipment, and two liabilities.

Adrianna is also wondering if there are any issues with KLI's current teacher appraisal process and whether information from additional interested parties should be incorporated into the appraisal process. Adrianna has also asked Freedman to comment on the benefits of the proposed Parent Portal, any possible downsides, and ways to mitigate those issues.

Bruce is considering offering some discount programs and would like Freedman's help determining which ones, if any, result in increased tuition revenues for KLI.

Bruce would also like you to discuss the benefits of KLI's current parent advisory boards compared to the benefits of implementing an external advisory board.

KLI is considering introducing a French immersion program at School #6 to fill up the excess capacity, due to stronger than anticipated demand for this program. Bruce would like to determine whether to limit enrolment in this program to the school's unused capacity, or to allow all interested students to enrol. He would also like you to discuss the advantages and disadvantages of introducing this program.

**REQUIREMENTS FOR YOUR ROLE
(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)**

PERFORMANCE MANAGEMENT REQUIREMENTS (continued)

In addition, Bruce has asked Freedman to analyze the results of the province-wide elementary school provincial assessments to determine if the results at KLI schools are better or worse than the provincial results.

Finally, Bruce would like you to discuss how KLI could compare the performance of its schools, other than by the results of standardized tests.

In addition to the common appendices (I to VI), information provided in Appendix VII (Performance Management) is relevant for your analysis.

REQUIREMENTS FOR YOUR ROLE
(READ ONLY THE ONE SPECIFIED FOR YOUR PRE-SELECTED ROLE)

TAXATION REQUIREMENTS

You, CPA, work as a tax analyst at Freedman & Associates LLP (Freedman) and report directly to David Rodriguez, who has asked you to assist with the work required by KLI.

Adrianna needs help with applying activity-based costing to School #8. Adrianna also needs us to review KLI's draft 2025 operating budget, completed by KLI's junior staff member, and make corrections. KLI's staff has also prepared a cost of quality analysis for School #4, and Adrianna has asked you to review this, revise it as required, and discuss the implications and possible actions the shareholders should consider.

In addition, before finalizing the financial statements, Randy wants confirmation that his financial reporting treatments were correct for the new method of billing and collecting fees for the 2024-2025 academic year, the donated equipment, and two liabilities.

David has asked you to determine, for the 2024 taxation year, KLI's federal income taxes payable and the ending general rate income pool (GRIP) balance.

Adrianna and Bruce recently received an offer from Future Education Inc. (FEI) to purchase KLI. David asks you to determine the after-tax proceeds available to each shareholder under each alternative (sale of shares or sale of assets) and to discuss the GST/HST consequences of both alternatives.

KLI has started offering some new benefits for its employees (excluding Bruce and Adriana) and is proposing some more. David has asked you to comment on the personal income tax and GST/HST consequences of each benefit.

Bruce will gift some money to each of his daughters: Lisa (17 years old) and Wendy (21 years old). David has asked you to advise Bruce on the most effective income tax strategies for Lisa and Wendy to achieve their objectives for the money.

KLI has hired a soccer coach, Amanda, to coach the teams at School #2. Randy is unsure whether he will have to include Amanda on payroll and wants to know the income tax and GST/HST implications of her contract.

In addition to the common appendices (I to VI), information provided in Appendix VII (Taxation) is relevant for your analysis.

APPENDIX I – COMMON ADDITIONAL INDUSTRY AND COMPANY INFORMATION

Industry

To differentiate from public schools, private schools have specific objectives and use specialized teaching methods, and they charge fees accordingly. Parents choose a school based on their family values, aspirations for their children, and offerings like before- and after-school programs. Because parents have diverse preferences, the industry is highly fragmented.

A convenient location and a good reputation are critical for success in this industry. Exceeding expectations in these areas will lead to high enrolments and reduced withdrawals. A good reputation is based on a school's students achieving academic excellence and excellent ratings from parents' evaluations. Therefore, parent engagement and communication are key. Historically, there has been very little innovation in the industry, but this is changing as parents want their children to be ready for an increasingly technological world.

KLI

A key objective for KLI is to achieve academic excellence, which is measured by students' academic scores on standardized tests. Students attain high scores when their school follows the most up-to-date prescribed curriculum and uses innovative teaching methods. Studies have also shown that faculty development is an important part of ensuring academic excellence.

To meet another key objective, parent engagement, KLI has parent advisory boards at each school. KLI's reputation varies significantly by school. Currently, School #4 has the lowest number of students, the highest withdrawal rates, the lowest number of new registrations, and the most teacher sick days. School #8 appears to be the best-performing school.

**APPENDIX II – COMMON
EXCERPTS FROM DRAFT FINANCIAL STATEMENTS**

*Keats Learning Institute
Statement of Financial Position
As at December 31
(in thousands of Canadian dollars)*

	<u>Note</u>	<u>2024</u> Draft	<u>2023</u> Audited
Assets			
Cash and cash equivalents		\$ 15,650	\$ 11,665
Inventories of books and supplies		520	506
Prepaid assets		350	134
Total current assets		<u>16,520</u>	<u>12,305</u>
Property and equipment (P&E)	1	5,624	5,900
Right-of-use (ROU) assets	1, 3	<u>6,875</u>	<u>8,594</u>
Total assets		<u><u>\$ 29,019</u></u>	<u><u>\$ 26,799</u></u>
Liabilities			
Accounts payable and accrued liabilities	2	\$ 201	\$ 99
Contract liabilities		12,748	11,689
Income taxes payable		150	35
Current portion of parents' deposits		78	0
Current portion of lease obligations		1,883	1,743
Current portion of term loan		50	50
Total current liabilities		<u>15,110</u>	<u>13,616</u>
Parents' deposits		523	0
Lease obligations	3	6,601	8,484
Term loan	4	350	400
Deferred income taxes		368	402
Total liabilities		<u>22,952</u>	<u>22,902</u>
Shareholders' Equity			
Share capital	5	600	600
Retained earnings	6	5,467	3,297
Total equity		<u>6,067</u>	<u>3,897</u>
Total liabilities and equity		<u><u>\$ 29,019</u></u>	<u><u>\$ 26,799</u></u>

APPENDIX II – COMMON (CONTINUED)
EXCERPTS FROM DRAFT FINANCIAL STATEMENTS

Keats Learning Institute
Statement of Profit or Loss and Comprehensive Income
For the years ending December 31
(in thousands of Canadian dollars)

	<u>Note</u>	<u>2024</u> Draft	<u>2023</u> Audited
Revenues:			
Academic fees (enrolment, tuition, activity)		\$ 21,265	\$ 20,145
Additional fees (before-school, lunch, and after-school programs)		1,178	1,116
Total revenues		<u>22,443</u>	<u>21,261</u>
Expenses:			
Advertising and marketing		350	330
Building occupancy costs		812	803
Depreciation of P&E		850	846
Amortization of ROU assets		1,719	1,719
Student-related costs	7	4,345	4,088
Teachers' and principals' salaries and benefits	2, 8	5,882	5,580
Shareholders' salaries and benefits	9	1,000	1,000
Other wages and benefits	10	863	835
General and administrative costs		1,067	1,088
Total expenses		<u>16,888</u>	<u>16,289</u>
Operating profit		5,555	4,972
Interest income on cash equivalents		328	298
Interest on term loan		(38)	(43)
Interest on lease obligations		(818)	(947)
Profit before income taxes		<u>5,027</u>	<u>4,280</u>
Income taxes		<u>(1,357)</u>	<u>(1,156)</u>
Net profit and comprehensive income		<u>\$ 3,670</u>	<u>\$ 3,124</u>

APPENDIX II – COMMON (CONTINUED)
EXCERPTS FROM DRAFT FINANCIAL STATEMENTS

Notes:

1. KLI owns the land and building at School #1, which also contains the head office. All other schools are leased. Assets are depreciated straight-line by month, beginning in the month acquired. KLI has commitments to spend a total of \$2,050,000 for upgrades to furniture and kitchen equipment in August 2025; these assets are expected to last five years.
2. Included in these amounts is the training leave accrual.
3. The leases have annual payments of \$2,562,000 and 10-year terms, on average. No leases matured in 2024 or are maturing in 2025.
4. The term loan was obtained to construct a new gymnasium at School #1. The loan has annual principal repayments of \$50,000 and bears annual interest at 9%. It is secured by the land and building.
5. Adrianna and Bruce each contributed \$300,000 for 50 common shares of KLI upon incorporation.
6. In each of February 2023 and 2024, the company paid dividends of \$1,500,000.
7. Included in student-related costs are variable expenses for classroom and gym supplies, meals, and field trips.
8. In December 2024, some teachers and principals were advised that their salaries for 2025 would increase due to merit and experience rating increases, effective January 1, 2025. In total, these pay increases will cost an additional \$300,000 annually, including benefits.
9. The two shareholders each receive annual salaries of \$500,000.
10. Other wages and benefits include wages and benefits for other management staff, administrative staff, teaching assistants, and staff for before-school, lunch, and after-school programs.

APPENDIX III – COMMON INFORMATION FOR SCHOOL #8

Information for School #8 for 2024

Adrianna would like you to calculate the cost of each of the shareholders' key objectives using activity-based costing and discuss any potential operational improvements. The key objectives to monitor for the school are student academic excellence, faculty development, and parent engagement.

Cost category	Amount (\$)
Building occupancy costs	406,350
Classroom supplies and costs of field trips and meals	506,718
Teachers' salaries and benefits	642,500
Principal's salary and benefits	103,700
General and administrative costs	258,800
Total	1,918,068

School #8 has 161 students, 10 teachers, and 1 principal. The school is 10,090 square feet, of which 7,690 is for classrooms and gym and 2,400 is for the lobby, offices, meeting rooms, and kitchen.

At this school, teachers and the principal tracked their time for the month of January. The percentage of time spent on activities is summarized below:

Activity	Teachers' time	Principal's time
Grade-level meetings with teachers	8%	9%
Helping individuals or small groups of students	20%	15%
Intervention in class and yard supervision	5%	19%
Oversight of teachers and recruitment	0%	19%
Parent communication and conferences	6%	12%
Professional development	5%	13%
Lesson planning and student marking	22%	0%
Classroom instruction	34%	13%
Total	100%	100%

APPENDIX IV – COMMON
KLI DRAFT FISCAL YEAR 2025 OPERATING BUDGET

(in thousands of Canadian dollars)

		<u>Assumption</u>
Revenue		
Academic fees	\$ 23,024	1
Additional fees	1,237	2
Total revenue	<u>24,261</u>	
Expenses		
Advertising and marketing	368	3
Building occupancy costs	853	3
Depreciation of P&E	960	4
Amortization of ROU assets	1,719	4
Variable student-related costs	4,562	3
Teachers' and principals' salaries and benefits	6,177	5
Shareholders' salaries and benefits	1,000	5
Other wages and benefits	906	5
General and administrative costs	1,210	3
Total expenses	<u>17,755</u>	
Operating income	<u>\$ 6,506</u>	

Budget assumptions:

- Academic fees for pre-school will increase by \$100 for the 2025-2026 academic year:
635 pre-school students × \$18,400
600 elementary students × \$18,900
- Additional fees will increase by 5%.
- These expenses will increase by 5%.
- Depreciation and amortization will remain unchanged.
- Teachers' and principals' salaries will increase again by 5% on September 1, 2025.
Shareholders' salaries will remain unchanged from 2024. Other wages will increase by 5% on January 1, 2026.

APPENDIX V – COMMON COST OF QUALITY– SCHOOL #4

The time tracked by the staff working at School #4 was used as a basis to determine the costs related to providing a good quality of education, by task, as follows:

Cost of quality	Total cost (\$)	Percentage of total cost of quality
Costs to prevent poor quality of education		
Grade-level meetings with teachers	34,920	
Helping individuals or small groups of students	125,634	
Lesson planning	49,560	
Professional development for teachers	19,938	
Total costs to prevent poor quality of education	230,052	28%
Costs to assess the quality of education		
Parent-teacher conferences and reports for parents	52,078	
Faculty recruitment	82,028	
Student marking and assessment	49,560	
Total costs to assess the quality of education	183,666	22%
Costs to improve the quality of education		
Reviewing parents' evaluations of teachers	36,084	
Costs related to teachers' sick days	62,140	
Increased marketing costs to attract new students	31,000	
Total costs to improve the quality of education	129,224	15%
Costs resulting from poor quality of education		
Dealing with parents' concerns	104,858	
Loss of revenue due to withdrawals	120,000	
Attending parent advisory board meetings	30,000	
Observing classes to evaluate teachers' performance	38,112	
Total costs resulting from poor quality of education	292,970	35%
Total allocated costs	835,912	100%

**APPENDIX VI – COMMON
NOTES FROM MEETING WITH RANDY GOTLIEB, CFO**

New Method of Billing and Collecting Fees

In 2024, KLI changed the method of billing and collecting fees from parents. Historically, there was no enrolment fee, and activity fees were billed at cost and collected separately a week after each field trip was completed. However, since these field trips are often planned well in advance, requiring KLI to pay deposits, management decided to have parents pay an annual activity fee as part of the total fee. The following are fees collected for the 2024-2025 academic year:

Student category	Enrolment fee per student (\$)	Tuition fee per student (\$)	Activity fee per student (\$)	Total fee per student (\$)	Number of students	Total fees collected (\$)
Pre-school	250	18,050	0	18,300	625	11,437,500
Elementary	250	17,300	1,350	18,900	576	10,886,400
Total fees collected						22,323,900

Parents sign an enrolment confirmation form that indicates the following:

- The total fee is due by August 15, 2024, which is the contract date.
- The enrolment fee enrolls the child in the school for the coming year.
- For elementary students, the activity fee covers attendance at two field trips – one in November 2024 and one in April 2025. There is no refund or extra charge if actual costs differ from this estimate.
- The tuition fee is for the academic school year, September 1, 2024, to June 30, 2025.
- Enrolment, tuition, and activity fees are exempt from GST/HST.

Only the tuition fee is refundable and will be prorated based on the number of full months remaining in the academic year after notice of withdrawal is given. KLI recognized the enrolment fees and activity fees as revenue on September 1, 2024. Tuition fees are recognized in revenue evenly over the academic year. The unrecognized amount is recorded in contract liabilities on the statement of financial position.

On August 15, 2024, the expected costs per field trip were \$675 per student. For the November 2024 field trip, the actual cost was \$660 per student.

APPENDIX VI – COMMON (CONTINUED)
NOTES FROM MEETING WITH RANDY GOTLIEB, CFO

Donated Computer Equipment

In October 2024, a computer retail store donated some new computer equipment to KLI. If KLI had purchased this equipment, the total cost would have been \$288,000. The parent who owns the store indicated that its cost of this equipment was 40% of the retail price. As these assets were donated and there is no related expenditure, KLI has not recognized anything on the financial statements related to these assets.

APPENDIX VI – COMMON (CONTINUED)
NOTES FROM MEETING WITH RANDY GOTLIEB, CFO

Liabilities

Parents' Refundable Deposits

For the 2024-2025 academic year, KLI began charging a refundable deposit of \$500 per student. According to the contractual arrangement, this deposit was due September 1, 2024, and will be fully refundable at the time the student withdraws or graduates from the school. This is common practice in the industry and allows schools to finance their occasional equipment purchases. Parents can withdraw their children at any point, but historically, most withdrawals occur after senior kindergarten or after Grade 3. Following Grade 6, students graduate from KLI and attend junior high school elsewhere.

Randy determined the current and non-current portions of the deposits as follows:

Grade	Number of students	Historical percentage leaving KLI	Students leaving KLI	Expected refund (\$500 per student) (\$)
Pre-kindergarten and junior kindergarten	440			
Senior kindergarten	185	25%	46.25	23,125
Grades 1 and 2	240			
Grade 3	113	60%	67.80	33,900
Grades 4 and 5	182			
Grade 6	41	100%	41.00	20,500
Total students	1,201		155.05	
Total estimated to be refunded June 2025 (current liability)				77,525
Remaining students (non-current liability)	1,045.95			522,975
Total deposits collected				600,500

APPENDIX VI – COMMON (CONTINUED)
NOTES FROM MEETING WITH RANDY GOTLIEB, CFO

Liabilities (continued)

New Training Leave Benefit

On September 1, 2024, KLI instituted a new training leave available to teachers and principals who have worked for KLI for at least seven years. The training leave would be approved for eligible employees. They will observe and learn new teaching methods by spending six months during the academic year at other similar schools in Canada, instead of spending that time teaching at KLI.

The parent advisory boards have raised concerns that KLI's curriculum and teaching methods are not up to date with current trends. Therefore, the objective of the training leave is for experienced teachers and principals to learn new and innovative methods that can be applied at KLI's schools. During a training leave, KLI would pay the employee at the same frequency, at 80% of the employee's salary at the time of the leave.

At the end of December 2024, four teachers and four principals qualified for a training leave. The total annual salary for these eight individuals is \$660,000. KLI requires a notice period of two years before a training leave; therefore, training leave for these employees could start as early as 2027. As at December 31, 2024, KLI has accrued \$176,000, representing one-third of the amount required to be paid, as there are three years until the training leave can be taken.

<p><i>ASSURANCE ROLE</i> <i>ADDITIONAL INFORMATION</i></p>
--

APPENDIX VII – ASSURANCE ADDITIONAL INFORMATION

Introduction of a Pension Plan

To attract and retain employees, KLI introduced a defined benefit pension plan for full-time KLI employees on September 1, 2024. KLI did not have a pension plan before this time. The plan is managed by PPA, the fund administrator. KLI made a contribution of \$600,000 on September 1, 2024, to PPA to fund the plan and another contribution of \$350,000 on December 31, 2024. Both contributions have been recorded in general and administrative costs on the financial statements.

Details of KLI's pension plan are as follows:

- Employees will get credit for up to five years of past experience. This past service cost adjustment, determined by an actuary, is \$1,500,000.
- Current service costs for the first full year total \$614,400.
- The interest rate is 5.2%.
- The actual return on the plan assets as of December 31, 2024, was \$7,500.
- The defined benefit obligation balance as at December 31, 2024, as determined by an actuary, was \$1,728,000.
- No employees have retired to date under KLI's defined benefit plan.

Recap of Garry's Discussion with Bruce

Garry met with Bruce last week to discuss his requirement for an audit. Bruce is not sure who can conduct the work for KLI but wants to engage someone as soon as possible. Below are the different options considered by Garry:

- Your Bookkeeper (YBK): Holly, a CPA, is Randy's wife. She runs an independent bookkeeping business, YBK, where she is the only employee. Holly is licensed to perform assurance engagements, but for the past 10 years, YBK's focus has been on performing bookkeeping services for small businesses.
- T&T Inc.: T&T is a CPA firm that KLI uses to file its tax returns annually and has used since its inception. T&T assists KLI with tax preparation only.
- KCJ: Randy is considering hiring Xie for the director of finance position at KLI. The previous director of finance left in the fall of 2024, and KLI is in the process of interviewing candidates for the role. Xie, a CPA, works at a public accounting firm, KCJ, and would be the engagement partner for KLI if KCJ is appointed auditors.
- Harrison: Bruce has enjoyed working with you, as you have supported KLI with several consulting engagements. Therefore, his first choice would be to engage Harrison.

APPENDIX VII – ASSURANCE (CONTINUED)
ADDITIONAL INFORMATION

Salaries, Wages, and Benefits Substantive Analytical Procedure

Prepared: Junior Associate

Date: February 14, 2025

Description	Teachers and principals	Other staff	Total
2023 salaries, wages, and benefits	✓ \$5,580,000	✓ \$835,000	\$6,415,000
Inflation adjustment for 2024 (Note 1)	1.03	1.03	1.03
Expected 2024 salaries, wages, and benefits	\$5,747,400	\$860,050	\$6,607,450
Actual amount, per general ledger	\$5,882,000	\$863,000	\$6,745,000
Variance (actual – expected)	\$ 134,600	\$ 2,950	\$ 137,550

✓ Agreed to audited 2023 financial statements.

Note 1: Average inflation for 2024 was 3%.

Conclusion

The 2024 salaries, wages, and benefits at KLI are in line with the inflation rate, as expected. Total variances are less than materiality of \$251,350 (5% of profit before income taxes). Therefore, no further work is required on these accounts.

Information on Employees at KLI

- As of December 31, 2023, KLI had 76 teachers, 8 principals, and 26 other staff as employees. Other staff consists of 10 full-time salaried employees and 16 part-time employees paid hourly. After the 2023-2024 academic year, four teachers and three part-time other staff left KLI for other opportunities. At the start of the 2024-2025 academic year, KLI hired six new teachers and two part-time other staff.
- All teachers and principals are salaried employees. In 2023, teachers had an average salary and benefits of \$63,545/year and principals of \$93,825/year. Teachers work and are paid only during the academic year (September – June). Principals work throughout the year and are paid over the 12 months.
- As of December 31, 2023, salaried other staff had an average salary and benefits of \$51,520/year. Part-time employees work 80 hours a month and typically work a total of 10 months a year, with the summers off and unpaid.
- Hourly employees were paid at a rate of \$25/hour in 2023 and received a \$1/hour raise on January 1, 2024.

APPENDIX VII – ASSURANCE (CONTINUED)

ADDITIONAL INFORMATION

Additional Program Information

KLI offers additional programs to students, including before-school, lunch, and after-school. Before- and after-school programs are optional, but parents must opt out if they do not want their child to participate in these programs. Revenue for these programs is recorded monthly, on the last day of the month, based on the number of students who have not been opted out.

During the last week of August, an online form is emailed to the parents of students to opt out of the before- and after-school programs for the year. Parents are asked to return the completed form by September 1. For 2024, 35% of parents stated that they had not received the email. Before the deadline, 47% of students had been opted out of the before- and after-school programs.

Daily, the staff responsible for the before- and after-school programs record attendance in a spreadsheet. The spreadsheet is saved on a shared drive accessible by all KLI staff, and KLI has no ability to track changes made. At the end of every month, the head office accountant invoices parents directly for the actual days attended by students based on the attendance spreadsheet. On average, each school has a total of 40 children participating in the before- and after-school programs each day. Some children only attend the programs on specific days of the week. KLI likes to keep the programs flexible for parents.

All students at KLI participate in the lunch program. At each school, one staff member is responsible for managing the lunch program, which includes planning the meals and ordering the food for the week. When the food is delivered to the school, any KLI employee can sign off on the receiving slip. The invoices for food purchases are sent directly to the head office, and the accounts payable department pays the invoices it receives.

Every Friday, at the end of the day, the staff member responsible for the lunch program conducts an inventory count. There is no tracking of what food was used during the week and what food was disposed of based on quality.

To purchase supplies for all programs, staff have credit cards issued in the school's name. A consolidated credit card statement is sent to the accounts payable department at head office for payment processing. Staff are not required to retain receipts.

APPENDIX VII – ASSURANCE (CONTINUED)
ADDITIONAL INFORMATION

Innovative Administrators Council (IAC) Curriculum Requirements

1. All teachers and principals of schools must have attended an accredited college that delivers training programs for Innovative Administrators. These training programs are developed and governed by the IAC.
2. Teachers must complete a minimum of 32 hours of qualifiable professional development per calendar year. IAC standards outline what professional development activities qualify.
3. The student-to-teacher ratio must not exceed 10:1 for pre-school classrooms and 24:1 for elementary classrooms.
4. For students in Grades 3 to 6, the lesson plan must focus on technology for a minimum of 20% of teaching time.
5. Each month, parents must be informed of their child's progress, participation, and behaviour in the classroom.

You met with Adrianna to discuss IAC's requirements and KLI's processes, and she explained the following:

- KLI employees complete professional development throughout the year and are provided with a certificate of completion detailing the number of hours earned and the date each training was provided. KLI requires that employees maintain a log of their professional development for the calendar year to support their attestation on the completion of these hours by January 31 of the following year.
- Teachers must input details on their students' progress, participation, and behaviour in the classroom into the system on a weekly basis. Automated reports on each student are generated from this system and sent to parents via email.

(THIS PAGE INTENTIONALLY LEFT BLANK)

<p><i>FINANCE ROLE</i> <i>ADDITIONAL INFORMATION</i></p>
--

**APPENDIX VII – FINANCE
ADDITIONAL INFORMATION****Monthly Payment Plan**

Bruce has heard feedback from parents who find the annual payments difficult to budget for. Other schools that offer a monthly payment option charge a 5% premium on their total fees to those who choose this option. If offered, fees would be paid in 10 equal monthly payments, payable the first of the month from August to May. Bruce expects 60% of parents would select this option.

Per Randy, the expected cash balance at the end of July before payments are due is \$300,000. Expenses are paid evenly each month of the year, except for the annual lease payment in August and the term loan repayment (including interest) in December.

APPENDIX VII – FINANCE (CONTINUED)
ADDITIONAL INFORMATION

Financial Performance of Schools #1 and #2

KLI has some financial benchmarks it uses to evaluate the schools' overall performance:

Ratio	KLI benchmark
Equipment net book value per student (Note 1)	\$2,000
Days in supplies inventory	200 days
Operating profit margin	30%
Revenue per square foot	\$300

Note 1: Equipment includes furniture and fixtures, computer equipment, gym equipment, and kitchen equipment.

Information on Schools #1 and #2 for 2024:

Item	School #1	School #2
Equipment net book value (Note 1)	\$ 369,120	\$ 209,949
Number of students	160	141
Supplies inventory at Dec. 31 (Note 2)	\$ 82,000	\$ 33,000
Annual supplies usage	\$ 65,000	\$ 60,000
Academic revenue	\$ 2,973,000	\$ 2,618,100
Additional fees revenue	\$ 135,000	\$ 225,000
Square feet (Note 3)	10,400	7,500
Expenses:		
Student-related costs	\$ 576,000	\$ 635,000
Teachers' salaries	\$ 765,000	\$ 650,000
Amortization and utility costs	\$ 502,000	\$ 363,600
Other expenses (Note 4)	\$ 238,100	\$ 445,880
Total expenses	\$ 2,081,100	\$ 2,094,480

APPENDIX VII – FINANCE (CONTINUED)
ADDITIONAL INFORMATION

Financial Performance of Schools #1 and #2 (continued)

Notes:

1. Donated computer equipment in 2024 was distributed equally amongst all schools.
2. Supplies inventory includes books, paper, art supplies, and printing supplies.
3. Each school's maximum capacity is capped at 50 square feet per student.
4. Other expenses include principal and other staff salaries (administrative and additional programs).

School #1

School #1, KLI's first school, is the only school for which the land and building are owned by KLI. The square footage includes KLI's head office, which takes up 1,500 square feet. The school was constructed in 1985 and purchased 15 years ago. KLI's most experienced teaching staff work here. Equipment at School #1 excludes the head office's furniture and equipment. The head office salaries and other head office expenses are not allocated to School #1. The average age of computer equipment at this school is two years.

School #2

School #2 opened 14 years ago, and the building is leased. KLI is the original tenant, and the building was constructed in 2011. This school has been running a pilot of offering its before- and after-school programs to both KLI students and other children. KLI's other schools only offer these programs to their current students. The pilot has succeeded in more than doubling the school's revenue from additional fees since it was introduced in the past year. The average age of computer equipment at this school is five years.

APPENDIX VII – FINANCE (CONTINUED)
ADDITIONAL INFORMATION

Achieve Junior High Schools (AJHS)

Jin Li, the current owner and CEO of AJHS, has offered to sell the shares of the company to KLI for \$15 million. Randy has provided a relevant discount rate of 16%.

AJHS is a corporation that owns and operates three junior high schools in Ontario. All schools are in areas where KLI currently operates.

Additional information regarding AJHS:

- AJHS owns all school buildings and land.
- AJHS outsources its accounting and finance functions. Randy expects that KLI will absorb these functions.
- AJHS focuses on sports and music programming. Each school has a dedicated gym teacher and music teacher. This is a major selling point for parents. The schools earn supplemental income by offering additional optional programming.
- AJHS follows a more mainstream approach to teaching as compared to KLI.

AJHS annual revenues and costs are expected to grow at a rate of 5%.

APPENDIX VII – FINANCE (CONTINUED)
ADDITIONAL INFORMATION

Achieve Junior High Schools
Statement of Earnings
For the year ended December 31
(In thousands of Canadian dollars)

	2024
	Draft
Revenue	\$ 9,365
Expenses	
Depreciation of P&E	1,885
Student-related and other costs	2,370
Salaries and benefits (Note 1)	2,787
Interest expense (Note 2)	240
Administrative costs (Note 3)	2,000
Total expenses	9,282
Profit before taxes	83
Income taxes	(22)
Net profit	\$ 61

Notes:

1. Salaries and benefits

Category	Amount (\$)
Teachers	1,794,000
Principals	393,000
Administrative staff	250,000
CEO	350,000
Total salaries and benefits	2,787,000

Teacher and principal salaries and benefits are at the market rates for junior high schools, which is about 10% higher than KLI. The principals are paid an additional \$60,000 stipend to lead a not-for-profit that Jin operates as a separate venture. The CEO salary is for Jin. His functions will be absorbed by Bruce's, Adrianna's, and Randy's roles in KLI if the acquisition occurs. Jin would stay on as a consultant at an estimated cost of \$50,000/year.

APPENDIX VII – FINANCE (CONTINUED)
ADDITIONAL INFORMATION

Notes (continued):

2. Interest expense is related to a loan of \$3,000,000 at 8% annual interest.
3. Administrative costs

Category	Amount (\$)
School administration	1,625,000
Software and technology	200,000
Property taxes on vacant land	25,000
Consulting	150,000
Total administrative costs	2,000,000

AJHS is constantly updating its classroom technology on a rotational basis, incurring capital acquisitions of \$130,000 net of tax shield annually.

AJHS is paying property taxes on vacant land that it purchased to build a new gym. However, environmental testing determined the land exceeded allowable contamination levels for schools. Despite contamination, it can be used for industrial purposes, and AJHS got a recent offer of \$300,000 for this land. The original cost was \$200,000, and selling costs are estimated at 5% of selling price.

Consulting costs were \$150,000 in 2024 and related to review of the schools' accessibility measures, a requirement based on new regulation. AJHS estimates the cost of implementing recommendations at \$50,000 annually going forward.

Offering Junior High Classes at Current Schools

If KLI does not purchase AJHS, it could offer junior high classes at some of its current schools. By consolidating classes at the higher grade levels, which currently have fewer students registered, KLI could create classroom space for these new groups. If demand is high, portable classrooms could be used on existing school sites, a common practice in rapidly expanding schools. Currently there is enough capacity to offer junior high classes at three schools without using portable classrooms.

APPENDIX VII – FINANCE (CONTINUED)
ADDITIONAL INFORMATION

AJHS Financing Options

Convertible Preferred Shares

Jin is interested in receiving \$15 million in non-voting convertible preferred shares in KLI with a cumulative annual dividend of 8%. The shares are convertible at Jin's option into KLI's common shares. The number of shares Jin receives on conversion will be based on a fair market valuation of KLI's common shares at the date of conversion. This valuation will be paid for by Jin.

Current Bank

KLI's current bank is offering a loan of up to \$15 million at prime (currently 5.2%) plus 5%. Principal payments of \$750,000 are required annually over 20 years, with interest payable annually. The assets of KLI and AJHS would secure the loan.

Credit Union

KLI is also eligible for a loan of up to \$15 million at a fixed rate of 11% from a local credit union. Blended interest and principal payments of \$206,625 are due monthly over a 10-year period. The credit union would secure the loan with AJHS's land and buildings and require a personal guarantee by the shareholders.

APPENDIX VII – FINANCE (CONTINUED)
ADDITIONAL INFORMATION

Purchase of Leased School

Randy would like KLI to own the land and buildings of more of its schools as he considers real estate an attractive investment. The current landlord of School #7 is willing to sell the land and building to KLI for \$6.5 million. Randy estimates that he will be able to give a 20% downpayment and finance the remainder.

Information on School #7

- Square footage is 10,100.
- The current lease has 10 years remaining, with an option to extend for an additional 15 years at a higher rate.
- Remaining useful life on the building is estimated at 25 years if \$1 million of capital improvements are undertaken in 2035.
- The land is expected to appreciate 5% annually. Selling costs are expected to be 6% of the proceeds.
- The landlord currently pays for groundskeeping and snow removal. If purchased, this will cost KLI \$25,000 annually at the end of each year.
- The mortgage rate offered is 10%.
- The purchase price would be allocated 20% to land and 80% to the building.
- The present value of future lease payments, including the extension period, is \$4,432,200.

Market Information

- The city evaluation for property tax purposes as at December 31, 2020, on School #7 was \$6 million.
- Several commercial properties in the area sold recently, including a 15,000 square foot shopping centre for \$9 million and a 2,000 square foot daycare centre for \$1.5 million.

APPENDIX VII – FINANCE (CONTINUED)
ADDITIONAL INFORMATION

Manitoba Expansion Forecast

	Students (Note 1)	Tuition fees (Note 2)	
Revenue			
Pre-school	250	\$ 13,800	\$ 3,450,000
Elementary	100	14,175	1,417,500
Additional fees			257,250 (Note 3)
Total revenue			<u>5,124,750</u>
Expenses			
Lease costs			600,000 (Note 4)
Teachers' salaries			1,100,000 (Note 5)
Other costs			2,102,314
Total expenses			<u>3,802,314</u>
Operating income before taxes			<u>\$ 1,322,436</u>

Notes:

1. Bruce estimates a higher percentage of registration for pre-school in Manitoba than in Ontario based on a 2023 Statistics Canada forecast expecting the population of pre-school-aged children in Manitoba to increase by 50% in the next 10 years.
2. Randy read a report from the Manitoba Home Builders' Association showing the cost of living in Manitoba is 25% lower than in Ontario, so he estimated the fees to be 25% lower than the 2025 Ontario KLI fees.
3. The average additional fees per student in Ontario are \$980. Based on the cost-of-living data noted above, Randy estimated the additional fees per student to be 25% lower.
4. KLI's average lease cost in Ontario is \$40 per square foot. A commercial real estate market report for December 2024 shows that the average commercial lease cost per square foot in Winnipeg, Manitoba, is \$25. Bruce estimated KLI would start with two schools at 10,000 square feet each.

APPENDIX VII – FINANCE (CONTINUED)
ADDITIONAL INFORMATION

Manitoba Expansion Forecast (continued)

Notes (continued):

5. Randy has assumed 20 teachers—10 per school—and that their salaries would match the average starting salary amounts taken from the salary charts of the largest Manitoba teachers' union.

(THIS PAGE INTENTIONALLY LEFT BLANK)

***PERFORMANCE MANAGEMENT ROLE
ADDITIONAL INFORMATION***

APPENDIX VII – PERFORMANCE MANAGEMENT ADDITIONAL INFORMATION

Parent Engagement and Other Additional Information

KLI engages with parents via an annual parent survey, which contains questions regarding their satisfaction with the school, their plans to continue their child's enrolment, and their likelihood of recommending KLI to other parents. The survey also contains space for parents to comment on other matters. Common views gathered from these qualitative responses include concerns about curriculum falling behind the public school system, too much homework, and not enough focus on arts and languages.

Parent-teacher conferences are held several times a year. Since most KLI students are young children, discussions during these conferences are often focused on how the school is developing the children for future success. Teachers are not required to solicit feedback from parents during these sessions.

Recently, a group of parents lodged a complaint about the quality and availability of facilities, such as gyms and libraries, at KLI schools. These parents also cited a lack of technological learning resources, such as computers and tablets, at certain KLI schools.

Teacher Appraisals

At present, KLI teachers are evaluated by their school principal. All teachers are appraised twice in their first year and once every following year. Principals typically perform a scheduled classroom observation to provide information in a detailed report for their teacher appraisals. If workload permits, principals will also perform an unscheduled classroom observation. To alleviate principal workload, schools contract with temporary staff to manage the school during the teacher appraisal process.

Each year, KLI teachers are required to prepare and update an annual learning plan. This plan documents the teacher's professional learning goals for the year, such as learning new teaching methods. This is seen as a way of maintaining teacher engagement, by motivating them to stay current with the required curriculum and use innovative teaching methods. Each plan should include the teacher's professional goals and proposed strategies and timelines for achieving these goals. Since they are used for self-growth, these plans are maintained by the teachers and are not reviewed by principals or other staff.

APPENDIX VII - PERFORMANCE MANAGEMENT (CONTINUED)

ADDITIONAL INFORMATION

Parent Portal

KLI is considering implementing Parent Portal, an online hub for parents to access important information, such as grades, report cards, assignments, and announcements.

An online profile will be generated for each student, as well as for their parents. Since some students have multiple households, each parent will be able to create an account. There is no formal requirement to close accounts when students leave the school.

Parent Portal will be developed by Neta Inc. (Neta), an American software developer. Information would be stored on Neta servers. As part of the agreement, Neta will be allowed to use profiles to market specific learning tools to parents. Neta will also market teaching materials, such as workbooks and lesson plans, to the schools.

Neta will provide training to teachers on the new portal, which includes security awareness. KLI will have the option of tracking and recording users' online activity via cookies and other user history tools.

Enrolment Discounts

While most students enrol at KLI in pre-school, many students leave KLI after pre-school to join the public system. As a result, KLI student enrolment peaks in pre-school.

KLI is considering offering a 10% discount for first-time students, which is expected to increase enrolment among first-time students by 13%. This discount would only apply to pre-school students. In the previous school year, there were 346 first-time pre-school students at KLI schools.

KLI is also considering offering a sibling discount of 20% to each student with a sibling enrolled at KLI. There are currently 425 students with siblings enrolled at KLI. This discount is expected to reduce attrition amongst students with siblings by 16 percentage points but will not increase the number of new students. The average annual attrition rate is 22% subsequent to pre-school for students with siblings. Attrition is calculated as the percentage of students from the previous year who did not enrol in the subsequent year.

APPENDIX VII – PERFORMANCE MANAGEMENT (CONTINUED)

ADDITIONAL INFORMATION

Enrolment Discounts (continued)

Enrolment fees and activity fees are not subject to the discounts since these fees are set to cover KLI's administration costs. While most schools can accommodate additional students in the elementary grades, most pre-school classes are at capacity.

Parent Advisory Board

At each school, a parent advisory board provides oversight over school policies and procedures. These boards are composed of 8 to 10 parents with varying backgrounds, which are not required to be related to education. The mandates of these parent boards vary, although typically they help with fundraisers for field trips, generate support for activities such as open houses and school concerts, and administer the annual parent survey. Some board members invest additional volunteer time, such as providing pro-bono legal advice or acting as chaperones on field trips. The parent advisory boards have no disciplinary authority but are often consulted when breaches in student or teacher conduct have taken place.

External Advisory Board

KLI is considering implementing an external advisory board to provide additional oversight of its operations. This board would be composed of a variety of professionals in related fields, such as curriculum development, child psychology, and education administration. A well-known child psychologist has been recruited to be the first chair. The board would provide KLI with advice regarding strategic planning, curriculum development, and disciplinary measures. While most KLI principals welcome the creation of an external advisory board, there has been some concern from teachers and parent advisory boards over this board's role and level of authority.

APPENDIX VII – PERFORMANCE MANAGEMENT (CONTINUED)
ADDITIONAL INFORMATION

French Program

In response to unused capacity at School #6, KLI is considering creating a new French immersion program for Grades 4 to 6 at that school. Tuition fees have been estimated at \$19,950.

School #6 currently has two unused classrooms, each of which could accommodate 30 students. The preliminary response from parents is encouraging, and 90 students are estimated to be interested in enrolling. To date, KLI has spent \$1,400 advertising the program.

Student-related costs for existing students are \$3,800 per student, which includes textbooks and fees for standardized testing. To create this program, KLI would need to invest \$40,000 in a new curriculum. Since finding suitable French teachers can be difficult, KLI would need to pay \$72,000 per French teacher, while existing teachers make \$55,000, on average. In addition, KLI would need to pay \$6,000 per year in licence fees for French language learning software.

Additional costs related to the French program include \$900 in additional textbooks per year per student and \$750 in fees for French language standardized testing per year per student. They also include \$50 in substitute teacher costs for each sick day taken by French teachers. School #6 averages one sick day per month amongst its teachers.

Enrolment fees for the French program would be the same as for existing students. Administration costs related to enrolment are equal to the fees charged to existing students but would rise by \$100 for each French student to cover translation costs.

APPENDIX VII – PERFORMANCE MANAGEMENT (CONTINUED)

ADDITIONAL INFORMATION

School Performance

KLI currently compares the performance of its various schools using the results from standardized tests. These evaluations are administered at schools throughout the province at the end of Grade 3 and Grade 6, and they test the reading, writing, and math skills that students are expected to have learned by the end of those grades. Since these tests are province-wide, they allow KLI to compare academic performance internally and with other private and public schools. Overall, KLI schools received the following scores on the most recent Grade 6 assessments:

Percentage of students meeting provincial standard in	2023	2024
Reading	86%	86%
Writing	80%	82%
Mathematics	55%	53%

Technological Devices

Due to concerns raised by a group of parents, KLI took inventory of its technological devices available for use by elementary students. The count was performed in June 2024.

School	#1	#2	#3	#4	#5	#6	#7	#8
Computers	10	10	14	30	18	60	10	28
Tablets	3	0	30	0	12	30	45	15
Total	13	10	44	30	30	90	55	43

Student Population

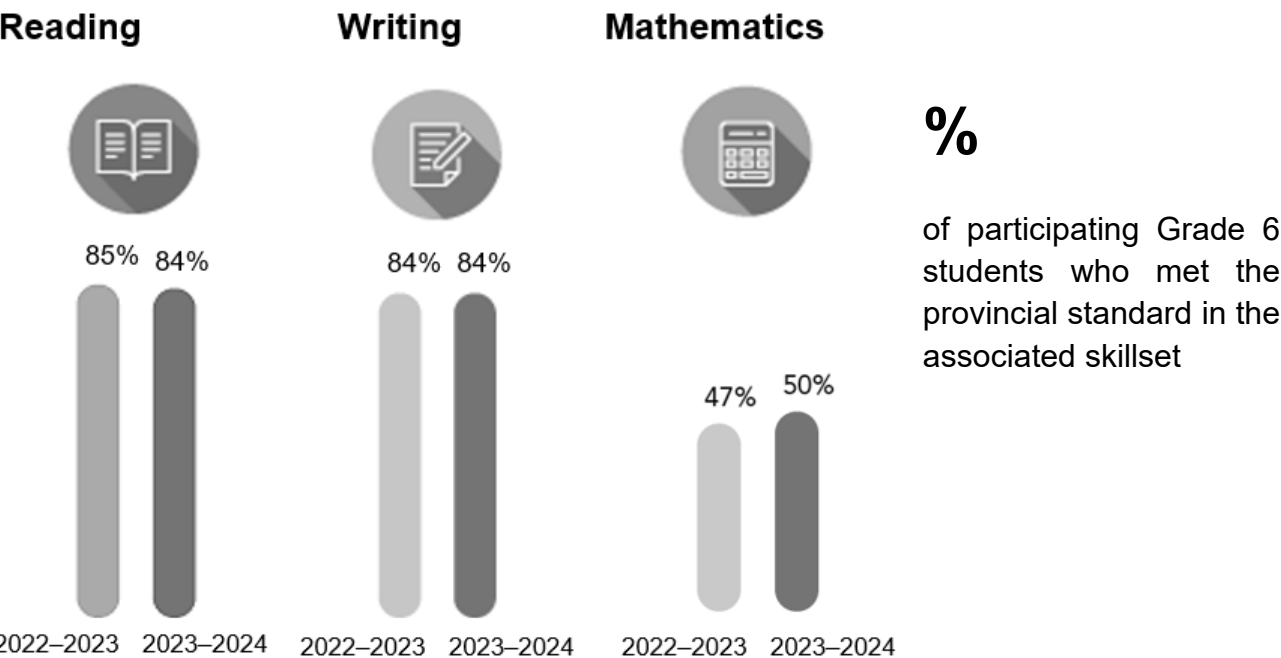
KLI currently has 1,201 students attending its schools. Of these, 625 are pre-school students and 576 are elementary students. KLI has 149 students who have been identified as having special education needs, of which 102 are in pre-school. KLI incurs an average of \$4,830 in student-related costs for each student with special education needs.

Pre-school students are not included in the province's calculations of number of students.

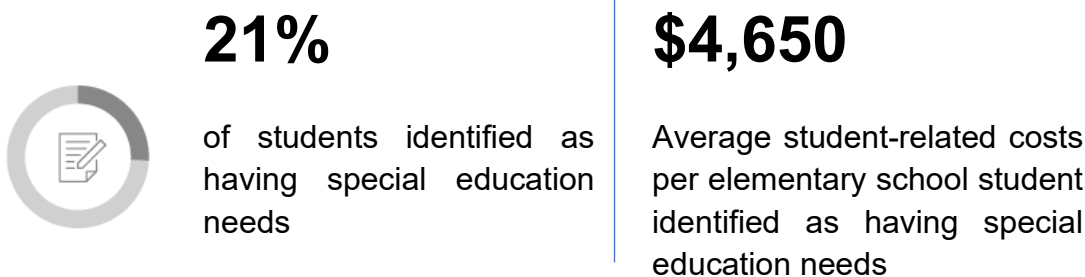
APPENDIX VII – PERFORMANCE MANAGEMENT (CONTINUED)
ADDITIONAL INFORMATION

Province-Wide Results of Elementary School Provincial Assessments (For All Schools in Ontario)

Standardized Testing in Reading, Writing, and Mathematics



Special Education Needs



APPENDIX VII – PERFORMANCE MANAGEMENT (CONTINUED)
ADDITIONAL INFORMATION

Province-Wide Results of Elementary School Provincial Assessments (For All Schools in Ontario) (continued)

Technological Access

3:1

Average ratio of elementary school students to computers in schools across the province



76%

of elementary school students from **all households** who indicated they had access to a computer at home

44%

of elementary school students from **lower-income households** who indicated they had access to a computer at home

<p><i>TAXATION ROLE ADDITIONAL INFORMATION</i></p>

APPENDIX VII – TAXATION ADDITIONAL INFORMATION

General and Administrative Costs

Included in general and administrative costs are the following:

- Meals and entertainment expenses of \$20,000. This includes \$5,000 related to a holiday party held in December, to which all employees of KLI were invited.
- Life insurance premiums of \$50,000 for policies taken out on Adrianna and Bruce. These policies were taken out voluntarily.
- Donations to registered Canadian charities of \$60,000.
- Interest of \$1,000:
 - \$700 paid to CRA relating to late-remitted payroll contributions
 - \$300 paid to suppliers relating to late-paid invoices

Student-Related Costs

Of the student-related costs, \$2,536,000 are meal costs. This represents the cost of operating the cafeterias for students and providing meals to the staff. KLI estimates that \$2,000,000 relates to students and \$536,000 to staff.

Dividends

The dividends of \$1,500,000 declared in each of 2023 and 2024 were designated as dividends other than eligible dividends.

Property and Equipment

In August 2024, KLI purchased \$683,000 of new furniture and equipment and \$15,000 of new computers.

In October 2024, after receiving the donated computer equipment, KLI sold old computers for proceeds equal to their net book value of \$125,000. The original cost of these computers was \$200,000.

There were no acquisitions or dispositions of Class 13 assets during 2023 or 2024.

Interest Income

KLI has determined that the interest income it earns is on excess cash and, therefore, not linked to the activities involved in carrying on a business.

APPENDIX VII – TAXATION (CONTINUED)
ADDITIONAL INFORMATION

**Excerpts from T2 Corporation Income Tax Return Filed for the Taxation Year
Ended December 31, 2023**

Schedule 8 reflected the following ending undepreciated capital cost (UCC) balances:

Class	UCC (\$)
Class 1 (6%)	2,000,000
Class 8	175,000
Class 13	250,000
Class 50	75,000

CCA for Class 13 assets was \$110,000.

KLI's ending tax attributes were as follows:

Attribute	Balance (\$)
ERDTOH	0
NERDTOH	0
CDA	0
GRIP	5,631,801

Proposed Sale of KLI

FEI has offered to pay either \$30 million for the shares of KLI or \$34.4 million for its assets. KLI and FEI have set a proposed closing date immediately following the end of the current school year (July 1, 2025). Neither KLI nor FEI is a GST/HST registrant.

Both shareholders will have fully used their lifetime capital gains exemptions and Canadian Entrepreneurs' Incentives by selling other ventures in 2025, so those will not be available for this sale.

APPENDIX VII – TAXATION (CONTINUED)
ADDITIONAL INFORMATION

Proposed Sale of KLI (continued)

KLI estimates it will sell the following assets on the closing date:

Asset	ACB (\$)	FMV (\$)
Cash and cash equivalents	2,400,000	2,400,000
Inventory	520,000	520,000
Prepays	350,000	350,000
Land	250,000	800,000
Building	3,510,000	3,000,000
Furniture and equipment	920,000	780,000
Leasehold improvements	2,100,000	1,050,000
Computer equipment	1,240,000	500,000
Goodwill	0	25,000,000
Total	11,290,000	34,400,000

KLI will have \$4 million of liabilities to be settled in cash upon finalizing the sale of assets. KLI does not anticipate any P&E purchases before the sale date in 2025.

If assets are sold, the right-of-use assets and corresponding lease liabilities will be assigned to the buyer at cost and should be disregarded.

In addition to federal taxes, and for purposes of this analysis only, use the following provincial amounts:

Item	Rate
Income tax rate for KLI	11.5% on all income
Income tax rate for Adrianna and Bruce	20.5% on all income
Dividend tax credit (eligible dividends)	10% of the grossed-up dividend
Dividend tax credit (other than eligible dividends)	3% of the grossed-up dividend

APPENDIX VII – TAXATION (CONTINUED)
ADDITIONAL INFORMATION

New Employee Benefits – 2024

Fitness

KLI has begun to let all employees use the gymnasium and athletic equipment at each school before and after class hours, if they are not otherwise in use. KLI charges them a \$5 monthly fee for the incremental cleaning and maintenance associated with the increased use of the facilities. KLI estimates the fair value of access to similar facilities would be \$15 per month.

Recognizing that the school's fitness facilities are limited, KLI has also begun to pay up to \$500 for fitness memberships at third-party gyms for employees.

Meal Program

During 2024, KLI began offering a meal program to staff. Staff members enjoy a complimentary hot breakfast. For lunches they pay for only the cost of the meal if they choose to participate.

Proposed Employee Benefits – 2025

Tuition Discount

Employees have asked for a discount when enrolling their own children at KLI. KLI is considering offering a 50% discount on tuition for children of staff members.

School Supply Fund

KLI stocks classrooms with all necessary supplies so teachers can teach the curriculum and so all students have access to the items they need. KLI is proposing to provide each teacher with a \$1,000 advance to purchase additional supplies at their discretion, based on the specific needs of their class. The advance will be made in cash at the beginning of each school year, and teachers will not be required to provide receipts.

APPENDIX VII – TAXATION (CONTINUED)
ADDITIONAL INFORMATION

Gift to Bruce's Daughters

Prior to this gift, Bruce has not funded either of his daughters' lifestyle or education needs. He will gift \$50,000 to each of them to help give them a financial head start.

In advance of the gift, Bruce opened a self-directed investing account for Lisa, and Wendy has opened her own self-directed investing account. Both accounts are non-registered, but Bruce would like suggestions on whether there is a more tax-efficient way for them to hold investments.

Wendy is currently in university and plans to use the funds towards purchasing her first home after she graduates next year. Lisa wants to use the money similarly; however, she will first need to spend some of it on her own post-secondary education.

Wendy works part-time during university and has earned \$20,000 in each of the last three years. She has spent these earnings on tuition and has not previously made any investments nor opened any registered accounts.

Lisa is focused on her high school studies and has yet to begin working, and she has not previously made any investments.

APPENDIX VII – TAXATION (CONTINUED)
ADDITIONAL INFORMATION

Soccer Coach

Amanda is well known locally for her specialty business, Amanda's Soccer Academy (ASA), which is not incorporated. KLI is excited to have her work with its students. The terms of the contract between Amanda and KLI are as follows:

- Amanda is the head soccer coach for School #2 and may use her expertise to design drills, provide instruction and feedback to players, and make strategic decisions before, during, and after games.
- KLI dictates the practice schedule for each School #2 team (by age group), and the game schedule is determined by the local association, for a total of approximately 10 hours of work per week.
- Amanda may not provide similar services to any other educational institution without the permission of KLI.
- Amanda may subcontract some coaching responsibilities to assistant coaches that work at ASA.
- KLI requires Amanda, and all subcontractors used by Amanda, to undergo a background check before working with children.
- KLI must ensure at least one member of its classroom teaching staff attends each game and practice to provide oversight, since KLI is responsible for its students.
- KLI provides access to the field, soccer balls, and nets for Amanda to use in her coaching. ASA provides all other specialized training equipment.
- Amanda provides services to KLI each school year during the soccer season, which runs from February until June.
- KLI pays Amanda a flat fee for each soccer season, with payments occurring biweekly from February to June.
- Amanda would earn a bonus for each School #2 team that wins the regional championship.

Randy has not included Amanda in the payroll system so far, and no income tax, CPP, or EI has been withheld on the first payment made to her.

End of Examination

**CPA COMMON FINAL EXAMINATION
REFERENCE SCHEDULE**

Present Value of Tax Shield for Amortizable Assets

Present value of total tax shield from CCA for a new asset acquired on or after January 1, 2024, and before January 1, 2028, other than those eligible for immediate expensing, which would normally be subject to the half-year rule.

$$= \frac{CdT}{(d+k)}$$

Present value of total tax shield from CCA for a new asset acquired after November 20, 2018, and before January 1, 2024, or, under proposed legislation, on or after January 1, 2025, and before January 1, 2030, other than those eligible for immediate expensing.

$$= \frac{CdT}{(d+k)} \left(\frac{1+1.5k}{1+k} \right)$$

Notation for above formula:

C = net initial investment

T = corporate tax rate

k = discount rate or time value of money

d = maximum rate of capital cost allowance

Selected Prescribed Automobile Amounts

Item	2024	2025
Maximum depreciable cost — Class 10.1	\$37,000 + sales tax	\$38,000 + sales tax
Maximum depreciable cost — Class 54	\$61,000 + sales tax	\$61,000 + sales tax
Maximum monthly deductible lease cost	\$1,050 + sales tax	\$1,100 + sales tax
Maximum monthly deductible interest cost	\$350	\$350
Operating cost benefit — employee	33¢ per km of personal use	34¢ per km of personal use
Non-taxable automobile allowance rates		
— first 5,000 kilometres	70¢ per km	72¢ per km
— balance	64¢ per km	66¢ per km

Individual Federal Income Tax Rates

For 2024:

If taxable income is between	Tax on base amount	Tax on excess
\$0 and \$55,867	\$0	15%
\$55,868 and \$111,733	\$8,380	20.5%
\$111,734 and \$173,205	\$19,833	26%
\$173,206 and \$246,752	\$35,815	29%
\$246,753 and any amount	\$57,144	33%

For 2025:

If taxable income is between	Tax on base amount	Tax on excess
\$0 and \$57,375	\$0	15%
\$57,376 and \$114,750	\$8,606	20.5%
\$114,751 and \$177,882	\$20,368	26%
\$177,883 and \$253,414	\$36,782	29%
\$253,415 and any amount	\$58,687	33%

Selected indexed amounts for purposes of computing income tax

Personal tax credits are a maximum of 15% of the following amounts:

Item	2024	2025
Basic personal amount, and spouse, common-law partner, or eligible dependant amount for individuals whose net income for the year is greater than or equal to the amount at which the 33% tax bracket begins	\$14,156	\$14,538
Basic personal amount, and spouse, common-law partner, or eligible dependant amount for individuals whose net income for the year is less than or equal to the amount at which the 29% tax bracket begins	15,705	16,129
Age amount if 65 or over in the year	8,790	9,028
Net income threshold for age amount	44,325	45,522
Canada employment amount	1,433	1,471
Disability amount	9,872	10,138
Canada caregiver amount for children under age 18, and addition to spouse, common-law partner, or eligible dependant amount with respect to the Canada caregiver amount	2,616	2,687
Canada caregiver amount for other infirm dependants age 18 or older (maximum amount)	8,375	8,601
Net income threshold for Canada caregiver amount	19,666	20,197
Adoption expense credit limit	19,066	19,580

Other indexed amounts are as follows:

Item	2024	2025
Medical expense tax credit — 3% of net income ceiling	\$2,759	\$2,834
Old age security repayment threshold	90,997	93,454
Annual TFSA dollar limit	7,000	7,000
RRSP dollar limit	31,560	32,490
Lifetime capital gains exemption		1,250,000
Lifetime capital gains exemption for dispositions before June 25	1,016,836	
Lifetime capital gains exemption for dispositions after June 24	1,250,000	

Prescribed interest rates (base rates)

Year	Jan. 1 – Mar. 31	Apr. 1 – June 30	July 1 – Sep. 30	Oct. 1 – Dec. 31
2025	4	4		
2024	6	6	5	5
2023	4	5	5	5

This is the rate used for taxable benefits for employees and shareholders, low-interest loans, and other related-party transactions. The rate is 4 percentage points higher for overdue income taxes payments and unremitted withholdings. The rate is 2 percentage points higher for tax refunds to taxpayers, with the exception of corporations, for which the base rate is used.

Maximum capital cost allowance rates for selected classes

Class	Rate	Additional information
Class 1	4%	For all buildings except those below
Class 1	6%	For buildings acquired for first use after March 18, 2007, and \geq 90% of the square footage is used for non-residential activities
Class 1	10%	For buildings acquired for first use after March 18, 2007, and \geq 90% of the square footage is used for manufacturing and processing activities
Class 8	20%	
Class 10	30%	
Class 10.1	30%	
Class 12	100%	
Class 13	N/A	Straight-line over original lease period plus one renewal period (minimum 5 years and maximum 40 years)
Class 14	N/A	Straight-line over length of life of property
Class 14.1	5%	For property acquired after December 31, 2016
Class 17	8%	
Class 29	50%	Straight-line
Class 43	30%	
Class 44	25%	
Class 45	45%	
Class 50	55%	
Class 53	50%	
Class 54	30%	

(THIS PAGE INTENTIONALLY LEFT BLANK)

