Treasurer's Report on the December 31, 2003 Audited Financial Statements

2003 was an exciting year for NCF. Member donations for the year were up, and the revenue and related expenses from the community network projects also increased significantly. Significant variances from the 2002 annual audited financial statements are highlighted below:

1) Segregated cash of $54,263 represents amounts received from HRDC for a network project. The prior year's segregated cash of $81,659 was also from HRDC. The decrease in the balance from last year is due to the winding down of the project, which is expected to be fully completed by March 2004. Of the current year's balance, $48,000 is to be repaid to HRDC, and has been included in accounts payable.

2) Accounts receivable is up significantly. As was the case in 2002, the 2003 balance is comprised almost entirely of amounts owing from Smart Capital, for November and December claims. The increase in the balance is due to increased project activity, which resulted in higher billings in these months compared to the same time last year. Subsequent to year end, the majority of the receivables balance has been collected.

3) The increase in prepaid expenses is due to the increased cost of insurance. The cost of insurance is recorded as a prepaid expense, and then charged to expenses over the term of the insurance contract.

4) Capital assets are down significantly from last year. This is mainly due to the continuing amortization of the existing equipment (every year, a portion of the capital assets are amortized, and recorded as expenses). In addition, the organization replaced all of the old modem type telecom equipment with much cheaper and more effective switching equipment installed this year.

Because the majority of capital assets are donated, these capital assets are offset by a liability called Deferred Contributions, which has also decreased from the prior year, due to continuing amortization. The liability is amortized to income on the same basis as the assets.

5) Accounts payable and accrued liabilities comprise mainly of the segregated cash to be repaid to HRDC, invoices from project contractors, accrual for audit fees, and other general accrued expenses. The increase from prior year is due mainly to the HRDC repayment amount, which did not occur in the prior year. Also expenses are higher, which generally leads to higher payables.

6) The increase in donations revenue is due to an increase in the organization's membership during 2003, as well as an increase in the average donations received per user. These were the result of increased marketing efforts, as well as overall improvements to service areas, such as upgraded modem lines and increased size of the modem pools.

7) Revenue and expenses from community network projects were higher as projects were further along in terms of development work performed this year compared to last year. These projects, mainly HRDC and Smart Capital, are expected to be completed in March 2004.

8) The increase in revenue from amortization of deferred contributions is offset by the increase in expenses from amortization of capital assets. This increase in amortization is due to 2003 being the first full year in which the assets donated in 2002 were amortized. The assets donated last year were only partially amortized last year, in accordance with NCF's amortization policy.

9) The gain on disposal of assets in 2002 arose on the disposal of certain assets during that year. A similar situation did not occur in 2003.

10) The increase in telecommunications expense arose as a result of the organization switching over to more advanced telecommunication lines, as well as an increase in the number of lines in use.

11) The decrease in administration and professional fees arose mainly because much of the administration time was directly chargeable to the projects. The result was increased project expenses (and related revenue) and decreased administrative expenses.