

Financial Statements of

**NATIONAL CAPITAL FREENET  
INCORPORATED**

Year ended December 31, 2011

## **REVIEW ENGAGEMENT REPORT TO THE MEMBERS**

We have reviewed the statement of financial position of National Capital FreeNet Incorporated as at December 31, 2011 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Our review was made in accordance with Canadian generally accepted standards for review engagements and accordingly consisted primarily of enquiry, analytical procedures and discussion related to information supplied to us by the Company.

A review does not constitute an audit and consequently we do not express an audit opinion on these financial statements.

Based on our review, nothing has come to our attention that causes us to believe that these financial statements are not, in all material respects, in accordance with Canadian generally accepted accounting principles.

Chartered Accountants, Licensed Public Accountants

Ottawa, Canada

(date)

# NATIONAL CAPITAL FREENET INCORPORATED

Statement of Financial Position  
(Unaudited)

December 31, 2011, with comparative figures for 2010

|                               | 2011              | 2010             |
|-------------------------------|-------------------|------------------|
| <b>Assets</b>                 |                   |                  |
| Current assets:               |                   |                  |
| Cash                          | \$ 91,006         | \$ 71,960        |
| Amounts receivable            | 612               | 612              |
| Inventory                     | 1,575             | 3,360            |
| Prepaid expenses              | 6,279             | 6,279            |
|                               | <u>99,472</u>     | <u>82,211</u>    |
| Capital assets:               |                   |                  |
| Computer equipment            | 82,446            | 82,484           |
| Telecommunications equipment  | 12,546            | 32,546           |
| Systems software              | 332,273           | 317,925          |
| Business equipment            | 6,728             | 6,728            |
|                               | <u>433,993</u>    | <u>439,683</u>   |
| Less accumulated amortization | <u>416,368</u>    | <u>425,595</u>   |
|                               | 17,625            | 14,088           |
|                               | <u>\$ 117,097</u> | <u>\$ 96,299</u> |

## Liabilities and Net Assets

|  |               |               |
|--|---------------|---------------|
| Current liabilities:                     |               |               |
| Accounts payable and accrued liabilities | \$ 41,848     | \$ 48,525     |
| Net assets:                              |               |               |
| Unrestricted                             | 57,624        | 33,686        |
| Invested in capital assets               | 17,625        | 14,088        |
|  | <u>75,249</u> | <u>47,774</u> |

Commitment (note 3)

|  |            |           |
|--|------------|-----------|
|  | \$ 117,097 | \$ 96,299 |
|--|------------|-----------|

See accompanying notes to financial statements.

On behalf of the Board:

\_\_\_\_\_ Director

\_\_\_\_\_ Director

# NATIONAL CAPITAL FREENET INCORPORATED

Statement of Operations  
(Unaudited)

Year ended December 31, 2011, with comparative figures for 2010

|   | 2011             | 2010               |
|---|------------------|--------------------|
| Revenue:  |                  |                    |
| DSL service                                     | \$ 1,011,777     | \$ 928,843         |
| Donations                                       | 144,674          | 147,862            |
| DSL equipment                                   | 54,378           | 48,504             |
| Interest  | 578              | 691                |
| Amortization of deferred contributions (note 2) | —                | 620                |
|   | <u>1,211,407</u> | <u>1,126,520</u>   |
| Expenses:                                       |                  |                    |
| DSL service                                     | 867,669          | 821,136            |
| Administration and professional fees            | 203,974          | 220,066            |
| Telecommunications                              | 55,724           | 66,087             |
| DSL equipment                                   | 24,285           | 28,237             |
| Office and supplies                             | 18,101           | 15,145             |
| Amortization of capital assets                  | 13,955           | 9,048              |
| Loss on disposal of capital assets              | 224              | —                  |
|   | <u>1,183,932</u> | <u>1,159,719</u>   |
| Excess (deficiency) of revenue over expenses    | <u>\$ 27,475</u> | <u>\$ (33,199)</u> |

See accompanying notes to financial statements.

# NATIONAL CAPITAL FREENET INCORPORATED

## Statement of Changes in Net Assets (Unaudited)

Year ended December 31, 2011, with comparative figures for 2010

|  | Unrestricted | Invested in<br>capital assets | 2011<br>Total | 2010<br>Total |
|--|--------------|-------------------------------|---------------|---------------|
| Balance, beginning of year                             | \$ 33,686    | \$ 14,088                     | \$ 47,774     | \$ 80,973     |
| Excess (deficiency) of revenue<br>over expenses        | 27,475       | —                             | 27,475        | (33,199)      |
| Additions to capital assets                            | (17,716)     | 17,716                        | —             | —             |
| Amortization and loss on disposal of<br>capital assets | 14,179       | (14,179)                      | —             | —             |
| Balance, end of year                                   | \$ 57,624    | \$ 17,625                     | \$ 75,249     | \$ 47,774     |

See accompanying notes to financial statements.

# NATIONAL CAPITAL FREENET INCORPORATED

Statement of Cash Flows  
(Unaudited)

Year ended December 31, 2011, with comparative figures for 2010

|  | 2011             | 2010             |
|--|------------------|------------------|
| Cash provided by (used in):                  |                  |                  |
| Operations:                                  |                  |                  |
| Excess (deficiency) of revenue over expenses | \$ 27,475        | \$ (33,199)      |
| Items not involving cash:                    |                  |                  |
| Amortization of deferred contributions       | —                | (620)            |
| Amortization of capital assets               | 13,955           | 9,048            |
| Loss on disposal of capital assets           | 224              | —                |
| Changes in non-cash working capital items:   |                  |                  |
| Accounts receivable                          | —                | (362)            |
| Inventory                                    | 1,785            | (23)             |
| Prepaid expenses                             | —                | 888              |
| Accounts payable and accrued liabilities     | (6,677)          | (4,448)          |
|  | <u>36,762</u>    | <u>(28,716)</u>  |
| Investing activities:                        |                  |                  |
| Additions to capital assets                  | (17,716)         | (13,742)         |
| Decrease in cash                             | 19,046           | (42,458)         |
| Cash, beginning of year                      | 71,960           | 114,418          |
| Cash, end of year                            | <u>\$ 91,006</u> | <u>\$ 71,960</u> |

See accompanying notes to financial statements.

# NATIONAL CAPITAL FREENET INCORPORATED

Notes to Financial Statements  
(Unaudited)

Year ended December 31, 2011

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National Capital FreeNet Incorporated ("the Company") is a not-for-profit organization, the aims and objectives of which are to establish and operate a community based computer network to store, access and exchange information between individuals and organizations in the national capital region.

The Company was incorporated on September 29, 1992 under the Canada Corporations Act as a not-for-profit organization without share capital within the meaning of the Income Tax Act (Canada) and accordingly is exempt from income tax.

## 1. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are summarized as follows:

### (a) Capital assets:

Amortization is provided using the following methods and annual rates:

| Asset                        | Basis         | Rate    |
|------------------------------|---------------|---------|
| Systems software             | Straight-line | 3 years |
| Telecommunications equipment | Straight-line | 3 years |
| Business equipment           | Straight-line | 3 years |
| Furniture and fixtures       | Straight-line | 5 years |

Purchased equipment and systems software are recorded at cost. Contributed equipment and software are recorded at fair value at the date of contribution. Contributed equipment and software are also recorded as a deferred contribution and recognized as revenue at an amount equal to the related amortization on those assets.

### (b) Revenue recognition:

Donations are recognized as revenue when received. DSL service and equipment are recognized as revenue when the product is shipped to the customer or the service is provided.

# NATIONAL CAPITAL FREENET INCORPORATED

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(Unaudited)

Year ended December 31, 2011

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## 1. Significant accounting policies (continued):

### (c) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from these estimates. These estimates are reviewed annually and as adjustments become necessary, they are recognized in the financial statements in the year in which they become known.

## 2. Deferred contributions:

Deferred contributions relate to the unrecognized portion of contributed capital assets. The changes in the deferred contributions balance for the year are as follows:

|                                   | 2011 | 2010   |
|-----------------------------------|------|--------|
| Balance, beginning of year        | \$ – | \$ 620 |
| Less amount recognized as revenue | –    | (620)  |
| Balance, end of year              | \$ – | \$ –   |

## 3. Commitment:

The Company is committed to payments under operating leases for management services, telecommunications lines and premises which expire in 2012. The minimum payments due over the next year are as follows:

|      |          |
|------|----------|
| 2012 | \$ 6,762 |
|------|----------|

## 4. Fair value of financial assets and financial liabilities:

The carrying values of all financial assets and liabilities approximate their fair market values.



# NATIONAL CAPITAL FREENET INCORPORATED

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(Unaudited)

Year ended December 31, 2011

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## **5. Capital disclosure:**

The Company considers its capital to consist of its net assets. The Company's overall objective with respect to its capital is to fund the acquisition of capital assets, future projects and ongoing operations. The Company is not subject to externally imposed capital requirements and its overall strategy with respect to capital remains unchanged from the year ended December 31, 2011.