Financial Statements of

NATIONAL CAPITAL FREENET INCORPORATED

Year ended December 31, 2013

REVIEW ENGAGEMENT REPORT

To the Members of National Capital FreeNet Incorporated

We have reviewed the statement of financial position of National Capital FreeNet Incorporated as at December 31, 2013 and the statements of operations, changes in net assets and cash flows for the year then ended. 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 accounting standards for not-for-profit organizations.

Chartered Professional Accountants, Licensed Public Accountants

(date)

Ottawa, Canada

NATIONAL CAPITAL FREENET INCORPORATED

Statement of Financial Position

December 31, 2013, with comparative figures for 2012
(Unaudited)

	2013	2012
Assets		
Current assets:		
Cash	$ 343,520	$ 113,362
Amounts receivable	10,262	15,250
Inventory	792	1,289
Prepaid expenses	10,908	6,613
	365,482	136,514
Capital assets (note 2)	37,492	65,023
Donated service contract (note 3)	11,690	14,953
	$ 414,664	$ 216,490
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 4)	$ 109,550	$ 87,540
Loan payable (note 5)	–	14,753
Current portion of obligation under capital lease (note 6)	9,805	9,805
	119,355	112,098
Obligations under capital lease (note 6)	2,451	12,256
Deferred capital contributions (note 6)	9,805	19,610
Deferred contributions (note 3)	11,690	14,953
Net assets:		
Unrestricted	233,871	(7,450)
Invested in capital assets	37,492	65,023
	271,363	57,573
	$ 414,664	$ 216,490

See accompanying notes to financial statements.

On behalf of the Board:

__________________________ Director

__________________________ Director

NATIONAL CAPITAL FREENET INCORPORATED

Statement of Operations

Year ended December 31, 2013, with comparative figures for 2012
(Unaudited)

	2013	2012
Revenue:		
DSL service	$ 1,173,735	$ 1,057,393
Donations	95,225	99,838
DSL equipment	43,586	39,798
Amortization of deferred contribution revenue	13,068	11,164
Interest	1,526	524
	1,327,140	1,208,717
Expenses:		
DSL service	766,150	863,877
Administration and professional fees	231,000	231,698
Amortization of capital assets	38,583	41,642
Telecommunications equipment	38,566	53,283
DSL equipment	18,302	15,702
Office and supplies	17,486	18,832
Amortization of donated service contract	3,263	1,359
	1,113,350	1,226,393
Excess (deficiency) of revenue over expenses	$ 213,790	$ (17,676)

See accompanying notes to financial statements.

NATIONAL CAPITAL FREENET INCORPORATED

Statement of Changes in Net Assets

Year ended December 31, 2013
(Unaudited)

	Unrestricted	Invested in capital assets	2013 Total	2012 Total
Balance, beginning of year	$ (7,450)	$ 65,023	$ 57,573	$ 75,249
Excess (deficiency) of revenue over expenses	213,790	–	213,790	(17,676)
Additions to capital assets	(11,052)	11,052	–	–
Amortization of capital assets	28,778	(28,778)	–	–
Amortization of deferred capital contributions related to capital assets	9,805	(9,805)	–	–
Balance, end of year	$ 233,871	$ 37,492	$ 271,363	$ 57,573

See accompanying notes to financial statements.

NATIONAL CAPITAL FREENET INCORPORATED

Statement of Cash Flows

Years ended December 31, 2013 and 2012
(Unaudited)

	2013	2012
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenue over expenses	$ 213,790	$ (17,676)
Items not involving cash:		
Amortization of deferred contribution revenue	(13,068)	(11,164)
Amortization of capital assets	38,583	41,642
Amortization of donated service contract	3,263	1,359
Changes in non-cash working capital items:		
Accounts receivable	4,988	(14,638)
Inventory	497	286
Prepaid expenses	(4,295)	(334)
Accounts payable and accrued liabilities	22,010	45,692
	265,768	45,167
Investing activities:		
Additions to capital assets	(11,052)	(59,625)
Financing activities:		
Increase in obligations under capital lease	–	29,415
Principal payments on obligations under capital lease	(9,805)	(7,354)
Increase in loan payable	–	35,000
Principal payments on loan payable	(14,753)	(20,247)
	(24,558)	36,814
Increase in cash	230,158	22,356
Cash, beginning of year	113,362	91,006
Cash, end of year	$ 343,520	$ 113,362

See accompanying notes to financial statements.

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:

The financial statements have been prepared by management in accordance with Canadian Accounting Standards for Not-For-Profit Organizations in Part III of the CPA Canada Handbook.

(a) Capital assets:

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

(b) Impairment of long-lived assets:

Long-lived assets, including capital assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by a comparison of the asset's carrying amount to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the asset. When quoted market prices are not available, the Company uses the expected future cash flows discounted at a rate commensurate with the risks associated with the recovery of the asset as an estimate of fair value.

1. Significant accounting policies (continued):

(c) Revenue recognition:

The Company follows the deferral method of accounting for contributions which include donations from customers, corporations and other organizations. Contributions of capital assets are deferred and amortized into revenue on a straight-line basis, at a rate corresponding with the amortization rate for the related capital assets.

Donations are recognized as revenue when received. Revenue from the sale of DSL service and equipment is recognized when the services are provided or the goods are shipped to the customer.

(d) Inventory:

Inventory consists of modems and filters for resale. Inventory is valued at the lower of cost on a first-in, first-out basis, and net realizable value.

(e) Contributed services:

A substantial number of volunteers contribute a significant amount of their time each year. Because of the difficulty of determining the fair value, contributed services are not recognized in the financial statements unless they are professional services rendered by third parties for which a fair value is easily determinable.

(f) Use of estimates:

The preparation of the financial statements 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 year. Actual results could differ from those estimates.

(g) Financial instruments:

The Company has classified amounts receivable as loans and receivables and accounts payable and accrued liabilities and loans payable as other liabilities. Upon initial recognition, these financial assets and liabilities are recorded at fair value and are subsequently measured at amortized cost using the effective interest method of amortization.

1. Significant accounting policies (continued):

(g) Financial instruments (continued):

The Company has classified amounts receivable as loans and receivables and accounts payable and accrued liabilities and loans payable as other liabilities. Upon initial recognition, these financial assets and liabilities are recorded at fair value and are subsequently measured at amortized cost using the effective interest method of amortization.

Financial instruments are recorded at fair value on initial recognition. Equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. The Company has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, the Company determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount the Company expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

2. Capital assets:

	Cost	Accumulated amortization	2013 Net book value	2012 Net book value
Computer equipment	$ 73,516	$ 53,906	$ 19,610	$ 40,341
Telecommunication equipment	3,397	3,397	–	–
Systems software	62,062	46,933	15,129	23,535
Business equipment	10,871	8,118	2,753	1,147
	$ 149,846	$ 112,354	$ 37,492	$ 65,023

2. Capital assets (continued):

Cost and accumulated amortization at December 31, 2012 amounted to $140,061 and $75,038 respectively.

Computer equipment includes a router under a capital lease agreement. The cost of the leased router is $29,415. The accumulated amortization of the leased router as at December 31, 2013 is $19,610. The net book value of the leased router as at December 31, 2013 is $9,805.

In 2013, the Company disposed of fully amortized capital assets in the amount of $1,267.

3. Deferred contributions:

Deferred contributions relate to the unamortized portion of a contributed five year service contract donated by Cisco Systems. The changes in the deferred contributions balance for the year are as follows:

		2013		2012
Balance, beginning of year	$	14,953	$	–
Contributions received		–		16,312
Less amortization recognized as revenue		(3,263)		(1,359)
Balance, end of year	$	11,690	$	14,953

4. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of $22,243 (2012 - $7,468), which includes amounts payable for harmonized sales tax.

5. Loan payable:

The Company entered into a loan payable on June 12, 2012. The loan was fully repaid on May 31, 2013.

6. Obligation under capital lease:

The Company entered into a three-year capital lease agreement with Cisco Systems on April 4, 2012, to acquire a Cisco router. The total value of the leased asset is $29,415. Under the lease agreement, the Company is required to make monthly payments of $817.

The following is a schedule of minimum lease payments under the capital lease expiring March 31, 2015, together with the balance of the obligation:

Year ending December 31,

2014	$ 9,805
2015	2,451
Total minimum lease payments	12,256
Less current portion	9,805
	$ 2,451

7. Deferred capital contributions:

Deferred capital contributions relate to the unrecognized portion of contributed capital assets (Cisco router donated by Cisco Systems). The changes in the deferred contributions balance for the year are as follows:

	2013	2012
Capital contributions, beginning of year	$ 36,996	$ 390,956
Less dispositions of contributed capital	–	(383,375)
Add contributions received	–	29,415
Capital contributions, end of year	36,996	36,996
Accumulated amortization, beginning of year	(17,386)	(390,956)
Less accumulated amortization on disposed assets	–	383,375
Add amount recognized as revenue during the year	(9,805)	(9,805)
Accumulated amortization, end of year	(27,191)	(17,386)
Balance, end of year	$ 9,805	$ 19,610

8. Commitments:

The Company rents office space and has a commitment related to a service contract with Cisco Systems expiring in 2015. Future minimum payments over the next five years are as follows:

2014	$	29,788
2015		29,753
2016		28,937
2017		28,937
2018		28,937
	$	146,352

9. 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, 2012.

10. Financial risks and concentration of credit risk:

(a) Currency risk:

The Company is not exposed to currency risk.

(b) Liquidity risk:

Liquidity risk is the risk that the Company will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Company manages its liquidity risk by monitoring its operating requirements. The Company prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations. There has been no change to the risk exposures from 2012.

10. Financial risks and concentration of credit risk (continued):

(c) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Company's DSL users are charged a monthly fee. Payment is usually made automatically though an electronic funds transfer through the customers' credit cards or debit cards. As a result, credit risk is low because customer payments are made automatically. The Company is still exposed to credit risk if customers do not have sufficient funds in their bank accounts (if they are paying by debit card) or if they have reached their credit limit (if they are using a credit card). The Company will incur a service charge from the bank if a customer's automatic payment cannot be made for the reasons described above. Therefore, the Company is still exposed to credit risk.