

Financial Statements of

**NATIONAL CAPITAL FREENET  
INCORPORATED**

Year ended December 31, 2005



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

We have reviewed the statement of financial position of National Capital FreeNet Incorporated as at December 31, 2005 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.

A handwritten signature in black ink that reads 'KPMG LLP'. The letters are written in a cursive, flowing style.

Chartered Accountants

Ottawa, Canada

March 17, 2006

# NATIONAL CAPITAL FREENET INCORPORATED

Statement of Financial Position  
(Unaudited)

December 31, 2005, with comparative figures for 2004

	2005	2004
<b>Assets</b>		
Current assets:		
Cash	\$ 35,906	\$ 28,365
Accounts receivable	815	—
Prepaid expenses	5,627	7,600
	<u>42,348</u>	<u>35,965</u>
Capital assets:		
Computer equipment	102,577	190,094
Telecommunications equipment	48,636	77,536
Systems software	615,106	624,069
Business equipment	2,793	2,793
	<u>769,112</u>	<u>894,492</u>
Less accumulated amortization	<u>703,190</u>	<u>688,609</u>
	<u>65,922</u>	<u>205,883</u>
	<u>\$ 108,270</u>	<u>\$ 241,848</u>

## Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 17,609	\$ 876
Deferred contributions related to equipment and software (note 2)	62,643	202,141
Net assets:		
Unrestricted	24,739	35,089
Invested in capital assets	3,279	3,742
	<u>28,018</u>	<u>38,831</u>
Commitment (note 3)		
	<u>\$ 108,270</u>	<u>\$ 241,848</u>

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, 2005, with comparative figures for 2004

	2005	2004
Revenue:		
Donations	\$ 229,073	\$ 206,187
Network projects	–	99,532
Amortization of deferred contributions (note 2)	139,498	166,579
DSL equipment sales	15,416	–
DSL service	12,259	–
	<u>396,246</u>	<u>472,298</u>
Expenses:		
Telecommunications	110,321	108,377
Network projects	–	100,870
Administration and professional fees	44,792	39,861
Office and supplies	11,380	759
Amortization of capital assets	140,709	167,240
Systems administration	74,605	66,932
DSL service equipment	25,252	5,815
	<u>407,059</u>	<u>489,854</u>
Deficiency of revenue over expenses	<u>\$ (10,813)</u>	<u>\$ (17,556)</u>

See accompanying notes to financial statements.

# NATIONAL CAPITAL FREENET INCORPORATED

## Statement of Changes in Net Assets (Unaudited)

Year ended December 31, 2005, with comparative figures for 2004

	Unrestricted	Invested in capital assets	2005 Total	2004 Total
Balance, beginning of year	\$ 35,089	\$ 3,742	\$ 38,831	\$ 56,387
Deficiency of revenue over expenses	(10,813)	—	(10,813)	(17,556)
Additions to capital assets	(748)	748	—	—
Amortization of capital assets	140,709	(140,709)	—	—
Amortization of deferred contributions related to capital assets	(139,498)	139,498	—	—
Balance, end of year	\$ 24,739	\$ 3,279	\$ 28,018	\$ 38,831

See accompanying notes to financial statements.

# NATIONAL CAPITAL FREENET INCORPORATED

## Statement of Cash Flows (Unaudited)

Year ended December 31, 2005, with comparative figures for 2004

	2005	2004
Cash provided by (used in):		
Operations:		
Deficiency of revenue over expenses	\$ (10,813)	\$ (17,556)
Items not involving cash:		
Amortization of deferred contributions	(139,498)	(166,579)
Amortization of capital assets	140,709	167,240
Changes in non-cash working capital items:		
Accounts receivable	(815)	64,889
Prepaid expenses	1,973	(2,744)
Accounts payable and accrued liabilities	16,733	(99,324)
Deferred revenue	—	(5,809)
	<u>8,289</u>	<u>(59,883)</u>
Investing activities:		
Contribution of capital assets	—	2,145
Contribution of capital assets put in service	—	(2,145)
Additions to capital assets	(748)	(4,198)
	<u>(748)</u>	<u>(4,198)</u>
Increase (decrease) in cash and cash equivalents	7,541	(64,081)
Cash and cash equivalents, beginning of year	28,365	92,446
Cash and cash equivalents, end of year	<u>\$ 35,906</u>	<u>\$ 28,365</u>

See accompanying notes to financial statements.

# NATIONAL CAPITAL FREENET INCORPORATED

Notes to Financial Statements  
(Unaudited)

Year ended December 31, 2005

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National Capital FreeNet Incorporated 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:

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

Amortization is provided on the straight-line basis using an annual rate of 25%. One half of the rate is used in the year of acquisition.

### (b) 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 those estimates.

## 2. Deferred contributions:

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

	2005	2004
Balance, beginning of year	\$ 202,141	\$ 366,575
Add contributed equipment and software	–	2,145
Less amount recognized as revenue	(139,498)	(166,579)
Balance, end of year	\$ 62,643	\$ 202,141

# NATIONAL CAPITAL FREENET INCORPORATED

Notes to Financial Statements, page 2  
(Unaudited)

Year ended December 31, 2005

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### **3. Commitment:**

The Company is committed to payments under an agreement for telephone lines to May 30, 2006. Payments over the next year amount to \$23,200.

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

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

### **5. Comparative figures:**

Certain 2004 comparative figures have been reclassified to conform with the financial statement presentation adopted for 2005.