

Financial Statements of

**NATIONAL CAPITAL FREENET  
INCORPORATED**

Year ended December 31, 2006

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

We have reviewed the statement of financial position of National Capital FreeNet Incorporated as at December 31, 2006 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

Ottawa, Canada

February 27, 2007

# NATIONAL CAPITAL FREENET INCORPORATED

Statement of Financial Position  
(Unaudited)

December 31, 2006, with comparative figures for 2005

	2006	2005
<b>Assets</b>		
Current assets:		
Cash	\$ 56,785	\$35,906
Accounts receivable	–	815
Inventory	4,728	–
Prepaid expenses	5,804	5,627
	<u>67,317</u>	<u>42,348</u>
Capital assets:		
Computer equipment	105,786	102,577
Telecommunications equipment	37,441	48,636
Systems software	306,969	615,106
Business equipment	7,200	2,793
	<u>457,396</u>	<u>769,112</u>
Less accumulated amortization	<u>448,432</u>	<u>703,190</u>
	8,964	65,922
	<u>\$ 76,281</u>	<u>\$ 108,270</u>

## Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 30,393	\$17,609
Deferred contributions related to capital assets (note 2)	5,671	62,643
Net assets:		
Unrestricted	36,924	24,739
Invested in capital assets	3,293	3,279
	<u>40,217</u>	<u>28,018</u>

Commitment (note 3)

	\$ 76,281	\$ 108,270
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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, 2006, with comparative figures for 2005

	2006	2005
Revenue:		
Donations	\$ 229,259	\$
	229,073	
Amortization of deferred contributions (note 2)	61,922	139,498
Revenue from DSL service	213,942	27,675
Interest	419	—
	<u>505,542</u>	<u>396,246</u>
Expenses:		
Telecommunications	98,991	110,711
DSL service equipment	174,405	25,252
Administration and professional fees	144,470	126,875
Office and supplies	10,361	3,512
Amortization of capital assets	65,116	140,709
	<u>493,343</u>	<u>407,059</u>
Excess (deficiency) of revenue over expenses	\$ 12,199	\$ (10,813)

See accompanying notes to financial statements.

# NATIONAL CAPITAL FREENET INCORPORATED

## Statement of Changes in Net Assets (Unaudited)

Year ended December 31, 2006, with comparative figures for 2005

	Unrestricted	Invested in capital assets	2006 Total	2005 Total
Balance, beginning of year	\$ 24,739	\$ 3,279	\$ 28,018	\$ 38,831
Excess (deficiency) of revenue over expenses	12,199	—	12,199	(10,813)
Additions to capital assets	(8,158)	8,158	—	—
Additions to deferred contributions related to capital assets	4,950	(4,950)	—	—
Amortization of capital assets	65,116	(65,116)	—	—
Amortization of deferred contributions related to capital assets	(61,922)	61,922	—	—
Balance, end of year	\$ 36,924	\$ 3,293	\$ 40,217	\$ 28,018

See accompanying notes to financial statements.

# NATIONAL CAPITAL FREENET INCORPORATED

Statement of Cash Flows  
(Unaudited)

Year ended December 31, 2006, with comparative figures for 2005

	2006	2005
Cash provided by (used in):		
Operations:		
Excess (deficiency) of revenue over expenses	\$ 12,199 (10,813)	\$
Items not involving cash:		
Amortization of deferred contributions	(61,922)	(139,498)
Amortization of capital assets	65,116	140,709
Changes in non-cash working capital items:		
Accounts receivable	815	(815)
Inventory	(4,728)	—
Prepaid expenses	(177)	1,973
Accounts payable and accrued liabilities	12,784	16,733
	<u>24,087</u>	<u>8,289</u>
Investing activities:		
Additions to capital assets	(8,158)	(748)
Increase in deferred contributions related to capital assets	4,950	—
	<u>(3,208)</u>	<u>(748)</u>
Increase in cash and cash equivalents	20,879	7,541
Cash and cash equivalents, beginning of year	35,906	28,365
Cash and cash equivalents, end of year	<u>\$ 56,785</u>	<u>\$ 35,906</u>

See accompanying notes to financial statements.

# NATIONAL CAPITAL FREENET INCORPORATED

Notes to Financial Statements  
(Unaudited)

Year ended December 31, 2006

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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 capital assets. The changes in the deferred contributions balance for the year are as follows:

	2006	2005
Balance, beginning of year	\$ 62,643	\$ 202,141
Add contributed capital assets	4,950	—
Less amount recognized as revenue	(61,922)	(139,498)
Balance, end of year	\$ 5,671	\$62,643

# NATIONAL CAPITAL FREENET INCORPORATED

Notes to Financial Statements, page 2  
(Unaudited)

Year ended December 31, 2006

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### 3. Commitment:

The Company renewed an agreement for payments for telephone lines to May 30, 2009. Minimum payments over the next year amount to \$80,640. As well, a new rental lease was signed in 2006 that commits the company to an annual rent of \$9,499 until August 31, 2009.

Future minimum payments are approximately as follows:

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2007	\$90,139
2008	90,139
2009	39,932
	\$
	220,210

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

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