Financial Statements of

NATIONAL CAPITAL FREENET INCORPORATED

Year ended December 31, 2015

INDEPENDENT AUDITORS' REPORT

To the Members of National Capital FreeNet Incorporated

We have audited the financial statements of National Capital FreeNet Incorporated, which comprise the statement of financial position as at December 31, 2015, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of National Capital FreeNet Incorporated as at December 31, 2015, and its results of operations, its changes in net assets and its cash flows for the year then ended 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, 2015, with comparative information for 2014

	2015	2014
Assets		
Current assets:		
Cash	$ 433,089	$ 406,741
Amounts receivable	16,736	5,768
Inventory	3,178	1,701
Prepaid expenses	10,067	11,166
	463,070	425,376
Capital assets (note 2)	13,594	10,386
Donated service contract (note 3)	5,164	8,427
	$ 481,828	$ 444,189
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities (note 4)	$ 92,153	$ 83,214
Current portion of obligation under capital lease	–	2,451
Deferred revenue	3,812	–
	95,965	85,665
Deferred contributions (note 3)	5,164	8,427
Net assets:		
Unrestricted	376,910	349,516
Invested in capital assets	3,789	581
	380,699	350,097
Commitments and contingencies (note 5)		
	$ 481,828	$ 444,189

See accompanying notes to financial statements.

On behalf of the Board:

__________________________ Director

__________________________ Director

NATIONAL CAPITAL FREENET INCORPORATED

Statement of Operations

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Revenue:		
DSL service	$ 1,319,953	$ 1,224,116
Donations	69,221	79,728
DSL equipment	62,505	67,299
Amortization of deferred contribution revenue	3,263	13,068
Interest	1,765	2,931
Subsidies, grants and other income	9,415	–
	1,466,122	1,387,142
Expenses:		
DSL service	997,168	877,126
Administration and professional fees	304,261	278,116
Amortization of capital assets	10,379	35,829
Telecommunications equipment	26,336	27,608
DSL equipment	43,610	43,120
Office and supplies	46,038	36,181
Amortization of donated service contract	3,263	3,263
Bad debts	4,465	7,165
	1,435,520	1,308,408
Excess of revenue over expenses	$ 30,602	$ 78,734

See accompanying notes to financial statements.

NATIONAL CAPITAL FREENET INCORPORATED

Statement of Changes in Net Assets

Year ended December 31, 2015, with comparative information for 2014

	Unrestricted	Invested in capital assets	2015 Total	2014 Total
Balance, beginning of year	$ 349,516	$ 581	$ 350,097	$ 271,363
Excess of revenue over expenses	30,602	–	30,602	78,734
Additions to capital assets	(13,587)	13,587	–	–
Amortization of capital assets	10,379	(10,379)	–	–
Balance, end of year	$ 376,910	$ 3,789	$ 380,699	$ 350,097

See accompanying notes to financial statements.

NATIONAL CAPITAL FREENET INCORPORATED

Statement of Cash Flows

Year ended December 31, 2015, with comparative information for 2014

	2015	2014
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	$ 30,602	$ 78,734
Items not involving cash:		
Amortization of deferred contribution revenue	(3,263)	(13,068)
Amortization of capital assets	10,379	35,829
Amortization of donated service contract	3,263	3,263
Change in non-cash operating working capital items:		
Accounts receivable	(10,968)	4,494
Inventory	(1,477)	(909)
Prepaid expenses	1,099	(258)
Accounts payable and accrued liabilities	8,939	(26,336)
Deferred revenue	3,812	–
	42,386	81,749
Investing activities:		
Additions to capital assets	(13,587)	(8,723)
Financing activities:		
Principal payments on obligation under capital lease	(2,451)	(9,805)
Increase in cash	26,348	63,221
Cash, beginning of year	406,741	343,520
Cash, end of year	$ 433,089	$ 406,741

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 - Accounting.

(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 on the straight-line basis over the following useful lives:

Asset	Useful life
Systems software	3 years
Telecommunications equipment	3 years
Business equipment	3 years
Furniture and fixtures	5 years

(b) Impairment of long-lived assets:

Long-lived assets, including property, plant and equipment and intangible 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.

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.

1. Significant accounting policies (continued):

(g) Financial instruments (continued):

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	2015 Net book value	2014 Net book value
Computer equipment	$ 85,310	$ 77,915	$ 7,395	$ 4,423
Systems software	66,823	64,345	2,478	4,268
Business equipment	10,859	7,138	3,721	1,695
Telecommunication equipment	3,397	3,397	–	–
	$ 166,389	$ 152,795	$ 13,594	$ 10,386

Cost and accumulated amortization at December 31, 2014 amounted to $155,952 and $145,566, respectively.

In 2015, the Company disposed of fully amortized capital assets in the amount of $3,150 (2014 - $2,617).

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:

	2015	2014
Balance, beginning of year	$ 8,427	$ 11,690
Less amortization recognized as revenue	(3,263)	(3,263)
Balance, end of year	$ 5,164	$ 8,427

4. Accounts payable and accrued liabilities:

Included in accounts payable and accrued liabilities are government remittances payable of $Nil (2014 - $2,087).

5. Commitments and contingencies:

Lease commitments:

The Company rents office space and has future minimum annual lease payments approximately as follows:

2016	$ 28,937
2017	28,937
2018	28,937
	$ 86,811

A Bell ICS contract for an initial term of three years started in August 2014. The minimum remaining commitment is $3,600 per month as follows:

2016	$ 43,200
2017	28,800
	$ 72,000

6. 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, 2014.

7. 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 2014.

(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.