

NATIONAL CAPITAL FREENET INCORPORATED

FINANCIAL STATEMENTS

DECEMBER 31, 2017

NATIONAL CAPITAL FREENET INCORPORATED

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INDEPENDENT AUDITOR'S REPORT

To the Members of
National Capital FreeNet Incorporated

We have audited the accompanying financial statements of National Capital FreeNet Incorporated, which comprise the statement of financial position as at December 31, 2017, and the statements of operations, changes in net assets and cash flows for the year then ended, and 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.

Auditor's 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 the auditor's 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, the auditor considers 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, 2017, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Other Matters

The financial statements of National Capital FreeNet Incorporated for the year ended December 31, 2016, were audited by another auditor who expressed an unmodified opinion on those statements on March 17, 2017.

Without modifying our opinion, we draw attention to Note 2 to the financial statements which states that the comparative figures were restated.



Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Ontario
April 18, 2018

NATIONAL CAPITAL FREENET INCORPORATED

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2017

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	2017	2016 (Restated) (Note 2)
REVENUE		
DSL services	\$ 1,553,634	\$ 1,450,855
Grants (Note 4)	95,540	35,741
Donations	65,020	74,862
DSL equipment	64,338	52,213
Interest	449	1,152
	1,778,981	1,614,823
EXPENSES		
DSL services	1,023,441	1,088,262
Salaries and benefits	411,607	292,643
Direct project expenses (Schedule A)	52,139	7,085
DSL equipment	50,911	35,874
Rent	40,380	41,403
Advertising and promotion	19,283	1,196
Office expenses	13,859	7,443
Professional development	12,447	-
Telecommunications equipment	11,080	15,881
Insurance	10,347	10,424
Bad debts	4,971	4,934
Professional fees	24,978	24,574
Service charges	35,256	30,081
Amortization of capital assets	21,757	7,502
	1,732,456	1,567,302
EXCESS OF REVENUE OVER EXPENSES	\$ 46,525	\$ 47,521

NATIONAL CAPITAL FREENET INCORPORATED

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2017

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	Unrestricted	Invested in capital assets	2017 Total	2016 Total (Restated) (Note 2)
BALANCE, BEGINNING OF YEAR	\$ 381,217	\$ (3,713)	\$ 377,504	\$ 329,983
Excess of revenue over expenses	68,282	(21,757)	46,525	47,521
Investment in capital assets	(130,597)	130,597	-	-
BALANCE, END OF YEAR	\$ 318,902	\$ 105,127	\$ 424,029	\$ 377,504

NATIONAL CAPITAL FREENET INCORPORATED

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2017

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	2017	2016 (Restated) (Note 2)
ASSETS		
CURRENT ASSETS		
Cash	\$ 504,341	\$ 498,366
Accounts receivable (Note 5)	17,845	8,068
Inventories	3,229	10,327
Prepaid expenses	22,054	12,099
	547,469	528,860
CAPITAL ASSETS (Note 6)	105,127	6,092
	\$ 652,596	\$ 534,952
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 7)	\$ 144,170	\$ 81,894
Deferred revenue	63,140	62,139
Deferred contributions (Note 8)	21,257	13,415
	228,567	157,448
NET ASSETS		
Unrestricted	318,902	381,217
Invested in capital assets	105,127	(3,713)
	424,029	377,504
	\$ 652,596	\$ 534,952

ON BEHALF OF THE BOARD


_____, Director


_____, Director

NATIONAL CAPITAL FREENET INCORPORATED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2017

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	2017	2016 (Restated) (Note 2)
OPERATING ACTIVITIES		
Excess of revenue over expenses	\$ 46,525	\$ 47,521
Adjustment for:		
Amortization of capital assets	21,757	7,502
	68,282	55,023
Net change in non-cash working capital items:		
Accounts receivable	(9,777)	8,668
Inventories	7,098	(7,149)
Prepaid expenses	(9,955)	(129)
Accounts payable and accrued liabilities	62,276	(10,259)
Deferred revenue	1,001	5,708
Deferred contributions	7,842	13,415
	58,485	10,254
	126,767	65,277
INVESTING ACTIVITY		
Acquisition of capital assets	(120,792)	-
INCREASE IN CASH AND CASH EQUIVALENTS	5,975	65,277
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	498,366	433,089
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 504,341	\$ 498,366

Cash and cash equivalents consist of cash.

NATIONAL CAPITAL FREENET INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

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1. STATUTE AND NATURE OF OPERATIONS

National Capital FreeNet Incorporated (NCF) 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. NCF is incorporated without share capital under the Canada not-for-profit Corporations Act and, accordingly, is exempt from income tax.

2. PRIOR YEAR RESTATEMENT

During the year, the Organization had to restate its financial statements as at December 31, 2016 to increase the deferred revenues for DSL services in the amount of \$55,800 that were not recorded in the financial statements as at December 31, 2016 (2015: \$50,716). DSL services revenue for the year ended December 31, 2016 and excess of revenue over expenses have been decreased by \$5,084, deferred revenue as at December 31, 2016 has been increased by \$55,800 and the opening unrestricted net assets as at January 1, 2016 has been decreased by \$50,716.

3. SIGNIFICANT ACCOUNTING POLICIES

The Organization applies Canadian accounting standards for not-for-profit organizations (ASNFPO) in accordance with Part III of the CPA Canada Handbook – Accounting.

Use of estimates

The preparation of financial statements in compliance with the ASNFPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses for the periods covered. The main estimate relates to the net realizable value of its accounts receivable from members for DSL services and to the useful lives of capital assets.

Revenue recognition

The Organization follows the deferral method of accounting for grants. Restricted grants for expenses of future periods are recognized in the year in which the related expenses are incurred, the amount can be reasonably estimated and the collection is reasonably assured.

Revenue from the sale of DSL services and equipment is recognized when there is persuasive evidence that an arrangement exists, delivery has occurred or the services have been rendered and the price is fixed or determinable. Revenues are deferred until the services or equipment are delivered to the members. Revenues are also recognized provided that collection is reasonably assured.

Donations are recognized as revenue when received or receivable.

Contributions in materials or services are recorded as revenue only when fair value can be reasonably estimated and when they are used in the normal course of the Centre's operations and would otherwise have been purchased.

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NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Contribution receivable

A contribution receivable is recognized as an asset when the amount to be received can be reasonably estimated and ultimate collection is reasonably assured.

Financial instruments

Measurement of financial instruments

The Organization initially measures its financial assets and financial liabilities at fair value, except for certain non-arm's length transactions.

The Organization subsequently measures all its financial assets and financial liabilities at amortized cost.

Financial assets measured at amortized cost include cash and accounts receivable.

Financial liabilities measured at amortized cost include accounts payable and accrued liabilities.

Impairment

Financial assets measured at cost and amortized cost are tested for impairment when there are indicators of possible impairment. The Organization determines whether a significant adverse change has occurred in the expected timing or amount of future cash flows from the financial asset. If this is the case, the carrying amount of the asset is reduced directly to the higher of the present value of the cash flows expected to be generated by holding the asset, and the amount that could be realized by selling the asset at the balance sheet date. The amount of the write-down is recognized in operations. The previously recognized impairment loss may be reversed to the extent of the improvement, provided it is no greater than the amount that would have been reported at the date of the reversal had the impairment not been recognized previously. The amount of the reversal is recognized in operations.

Transaction costs

Transaction costs related to financial instruments subsequently measured at amortized cost reduce the carrying amount of the financial asset or liability and are accounted for in the statement of operations using the straight-line method.

Inventories

Inventories are measured at the lower of cost and net realizable value, with cost being determined using the first-in, first-out method. Net realizable value is the estimated selling price in the ordinary course of business, less any applicable variable selling costs.

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NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2017

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital assets

Capital assets are accounted for at cost. Amortization is calculated on their respective estimated useful lives using the following methods and periods:

	Methods	Rates or periods
Computer equipment	Straight-line method	3 years
Office equipment	Straight-line method	5 years
Network equipment	Diminishing balance	40%

Write-down of capital assets

When a capital asset no longer contributes to the Organization's ability to provide services, its carrying amount is written down to residual value, if any. The excess of its net carrying amount over any residual value is recognized as an expense in the statement of operations.

Cash and cash equivalents

The Organization's policy is to disclose bank balances under cash and cash equivalents, including bank overdrafts with balances that fluctuate frequently from being positive to overdrawn.

4. GRANTS

	2017	2016
Ontario Trillium Foundation	\$ 36,643	\$ -
CIRA - Digital Access Day	23,000	-
ESDC - WiseNet: Connecting Seniors	7,585	11,585
Other grants	28,313	24,156
	\$ 95,541	\$ 35,741

5. ACCOUNTS RECEIVABLE

	2017	2016
DSL services receivable from members	\$ 4,812	\$ 2,920
Sales tax receivable	5,939	4,898
Other receivable	7,094	250
	\$ 17,845	\$ 8,068

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NOTES TO THE FINANCIAL STATEMENTS

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6. CAPITAL ASSETS

	Cost	Accumulated amortization	2017	2016
Network equipment	\$ 114,938	\$ 16,254	\$ 98,684	\$ -
Computer equipment	90,158	86,118	4,040	3,483
Office equipment	11,865	9,462	2,403	2,609
	\$ 216,961	\$ 111,834	\$ 105,127	\$ 6,092

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2017	2016
Accounts payable and accrued liabilities	\$ 132,833	\$ 64,899
Government remittances	11,337	16,995
	\$ 144,170	\$ 81,894

8. DEFERRED CONTRIBUTIONS

Deferred contributions represent unspent resources restricted for specific projects. Changes in deferred contributions balances are as follows :

	2017	2016
Balance, beginning of year	\$ 13,415	\$ -
Plus: Amount received during the year	76,900	13,415
Less: Amount recognized as revenue during the year	(63,228)	-
Less: Amount reimbursed - unspent contribution	(5,830)	-
Balance, end of year	\$ 21,257	\$ 13,415

9. FINANCIAL INSTRUMENTS

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Organization's main credit risks relate to its accounts receivable. The Organization provides credit to its members in the normal course of its operations.

The Organization establishes allowances for doubtful accounts while keeping in mind the specific credit risk of clients, their historic tendencies and economic situation. There is no existing account receivable that represents a substantial risk for the Organization.

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10. CONTRACTUAL OBLIGATIONS

The commitments of the Organization under a lease agreement for its office space and under a contract with Bell for its Internet Connect Services aggregate to \$155,645. The instalments over the next two years are the following:

2018	\$	143,980
2019	\$	11,665

11. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to be consistent with the current year's presentation.

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ADDITIONAL INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2017

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	2017	2016
SCHEDULE A - DIRECT PROJECT EXPENSES		
Ontario Trillium Foundation	\$ 27,988	\$ -
CIRA - Digital Access Day	18,066	-
ESDC - WiseNet: Connecting Seniors	6,085	7,085
	\$ 52,139	\$ 7,085
