2018 ANNUAL REPORT

May 2019

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Chair's Report

For the year of 2018
To: Our members, Partners and Supporters

I am pleased to present our Annual Report for the year ended 31 December 2018.

This year, there have been a significant number of changes within National Capital FreeNet, not the least of which was a refresh of our logo, as above. What has not changed however, is the unique ability of this organization to continue to adapt to an environment that remains volatile and challenging, but we continue to respond in a manner that reflects our qualities, values and experience.

By year-end, our membership had grown to well over 5000 members, including more than 3300 DSL members. And despite a planned deficit this year, NCF continues in a strong financial position, as you will read in our Treasurer's report. Our long-standing expertise in supporting our members and stakeholders is highly regarded. Moving into 2019 I believe we are well positioned for further growth: in services, membership, and sustainability.

Our partnership with Ottawa Community Housing Corporation (OCH), which we launched in December of 2016, continued to strengthen our commitment to bridge the digital divide affecting OCH tenants and enables them to build digital and online skills; which are increasingly needed for academic success and gainful employment. By year-end, there were more than 260 participants in this program.

We continued to pursue our main objective of ensuring that everyone has access to the Internet and associated technology at fair and affordable prices, and to providing training and education in its effective use, thus building confidence and assuring a safe and secure experience.

We provided many workshops and training materials throughout the year as our Executive Director has detailed in her report. A high point in this work to ensure universal access, was founding the inaugural "Digital Access Day" in June at Jean Pigott Place, Ottawa City Hall. Nearly 200 participants from the tech industry, NGOs, government, academia, and people struggling with the digital divide attended the full-day conference to delve into the issue of digital access: the means to reliably connect to the internet, understand its uses and implications, feel safe online, and engage with how the internet is governed and develops.

Perhaps the most important accomplishment of the organization in 2018 was our Strategic Planning process. We kicked the undertaking off in October and began to conduct a thorough review of our

business in an even stronger and more decisive manner. We carefully considered the challenges that affect our industry, as well as our role as an important not-for-profit component of the Ottawa community fabric. This led to the development of a comprehensive new Strategic Plan that provides clarity, direction and measures targeted for success, for the Board, Management and Staff of National Capital FreeNet.

This Plan details Strategic Goals and associated Strategic Initiatives aimed to address the envisioned challenges and position the organization towards sustainability and growth over the course of the next five years. You can see the plan overview at: www.ncf.ca/stratplan. In 2019, we will complete this planning process through development of a supporting Operations Plan together with a comprehensive set of key performance indicators. Moving forward we will be reporting on our work towards these goals during future AGMs.

I am confident that you will appreciate the importance of this strategy and recognize both the honest assessment on which it is based and the fundamental nature of the changes it will introduce.

I continue to be impressed with the dedication and commitment of our staff. They, along with more than seven regular office volunteers are to be commended for all they do to ensure that NCF is not only seen as a leader in community networking but remains committed to ensuring that everyone in the region has access to the Internet.

On behalf of the Board of Directors, the staff, the many volunteers and the thousands of people in Ottawa who make up the National Capital FreeNet community, I want to say thank you for your continuing commitment, your generous contributions and most of all, your ongoing participation.

And of course, I am always open to hearing ideas to make the organization even stronger. Please feel free to email me at chair@ncf.ca.

Thank you,
Chris Cope
Chair, NCF Board of Directors

Treasurer's Report

Fellow Members,

From a financial perspective, it has been a transitional year for NCF. For the year ending December 31st, 2018 National Capital FreeNet is reporting a deficiency of revenue over expenses in the amount of $74,712. Even though this amount is 29.13% below the budgeted deficiency approved by the board for the fiscal year 2018 ($105,420), the revenue was 1.03% higher in 2018 compared to 2017.

We can cite a number of circumstances that contributed to that result. The main factor was the fact that NCF has kept its prices without change while covering an increase in the cost of the DSL services that went from 65.6% of the DSL revenue in 2017 to 72.64% of the DSL revenue in 2018. Using 2017's DSL cost percentage of 65.6% over the 2018 DSL revenue of $1,602,905, we would get a theoretical DSL cost of $1,051,487 instead of the $1,164,377 accounted in reality. That single factor alone could explain a theoretical deficiency of $112,890. While having an increase of $49,271 on the DSL revenue from 2017 to 2018, the increase in cost for the DSL services was $145,211. Also, grants fell 21.84% to $74,677 in 2018 from $95,540 in 2017. Donations fell 9.55% to $58,808 in 2018 from $65,020 in 2017.

Part of the adverse effect in revenue was mitigated by the reorganization of the operations undertaken by management during 2018. General expenses not related to the DSL services dropped by 3.60% to $666,652 in 2018 from $691,533 in 2017. Of those expenses, 64.68% were salaries and benefits, while rent accounted for 6.09%, professional fees for 5.82%, service charges for 5.41% and DSL equipment cost for 5.74%.

Amortization of capital assets increased 88.72% to $41,059 in 2018 from $21,757 in 2017. That increase was due to the change in the depreciation method of the network equipment. The new method for calculating amortization of the network equipment is the diminishing balance methodology. The dismissing balance method is a good depreciation method for assets that quickly lose their value or become obsolete, like network equipment. According to the methodology, depreciation is charged at a fixed percentage (40% in our case) of the book value of the network equipment. As the book value reduces every year, thus the amount of depreciation; that is the reason why the methodology is also known as the reducing balance methodology. This methodology is based on the assumption that the reduction to the value of the assets is larger in the early years than in the later years, hence more amount of depreciation should be charged in the earlier years.

Due to the previously enumerated factors, the net assets fell 17.62% in 2018. Out of the $349,317 in net assets, 81.66% ($285,249) are unrestricted assets, and 18.34% ($64,068) are invested in capital assets. Out of the total assets of $581,124, (62.71%) were cash and cash equivalent (term deposit), while accounts receivable account for 21.71% or $126,138. Most of the amount in accounts receivables (58.76%) was a Bell credit receivable for DSL services in the amount of $74,127.

We would like to note that if due to some unforeseen event we cannot continue to receive income, the cash levels shown as of December 31st would allow us to pay for 6.56 months of fixed expenses not related to revenue. If we include accounts receivables in the mix, then we would be able to cover 8.83 months of expenses without receiving any revenue.

The main tangible liability is the accounts payable to Bell for DSL services in the amount of $147,036, and government remittances for $18,768. NCF's current ratio is 2.23, which means NCF would be able to pay more than 2 times its current liabilities with its current assets.

In 2019 National Capital FreeNet will face many challenges including balancing pricing with the demands of member's use of bandwidth and DSL increased costs, increasing membership, and managing the infrastructure and operations to support all the changes while keeping this important social enterprise sustainable.

Also, even though NCF received a clean opinion from our auditors, there were a number of suggestions and recommendations that will further enhance controls and oversight by the Board that will require capital investment and changes to our back-end software to fully be implemented.

As treasurer, I would like to recognize the dedication of volunteers, staff and members for their time and effort into bringing safe and affordable internet services to the National Capital Region. I would also like to let you know how important their contributions have been in making NCF a viable organization that has not only been able to survive but also to adapt and grow in the face of never-ending challenges and changes for more than twenty-five years.

Best Regards,
Sterling Jimenez, PhD Economic & Financial Risks
Treasurer, NCF Board of Directors

Executive Director's Report

NCF is in a state of transition — but maybe it always has been. Running a local not-for-profit tech organization in the age of multi-billion dollar telecom companies and dominant multinational platforms like Amazon, Google and Facebook comes with many challenges, but also many rewards.

It's certainly true that the internet is much more central to everyday life than when we started in 1992, and we're here to help our members navigate a changing digital landscape.

This past December, the NCF Board kicked off a Strategic Planning process building on the organization's history with a view to where we're going. You can see a one-page overview of this work here: www.ncf.ca/stratplan

Our vision is, and has always been, digital access for everyone in our region. For us, this means that people should be able to afford high quality connectivity, understand how to use it, and feel safe online.

This report details how we worked towards our vision in 2018.

Membership:

NCF is a social enterprise, supported by its members. Some members use our email, basic web-hosting and dial-up services, sustaining us with donations, and some subscribe to our high-speed DSL internet and pay monthly fees for those services. Collectively, we had more than 5000 active members throughout 2018.

We started the year with 3270 DSL members and ended with 3321. That's a net growth of 51 members, but we actually had 528 new members join and 477 members cancel their DSL memberships in 2018.

This includes those members subscribed through our Community Access Fund, an unlimited-use lower-cost 6 Mbps package available to more than 32,000 Ottawa Community Housing tenants. We started the year with 188 members using this service, ending with 262. Moving forward, we're hoping to increase the eligibility for this program.

We're pleased that we're still growing, but would obviously like to grow faster while retaining existing members – the more members we have, the more we benefit from economies of scale, ensuring we can continue to keep our internet prices lower for longer and improve and grow our other services, as well as digital literacy and advocacy programs.

**Here is the trend of DSL member growth since 2011:**
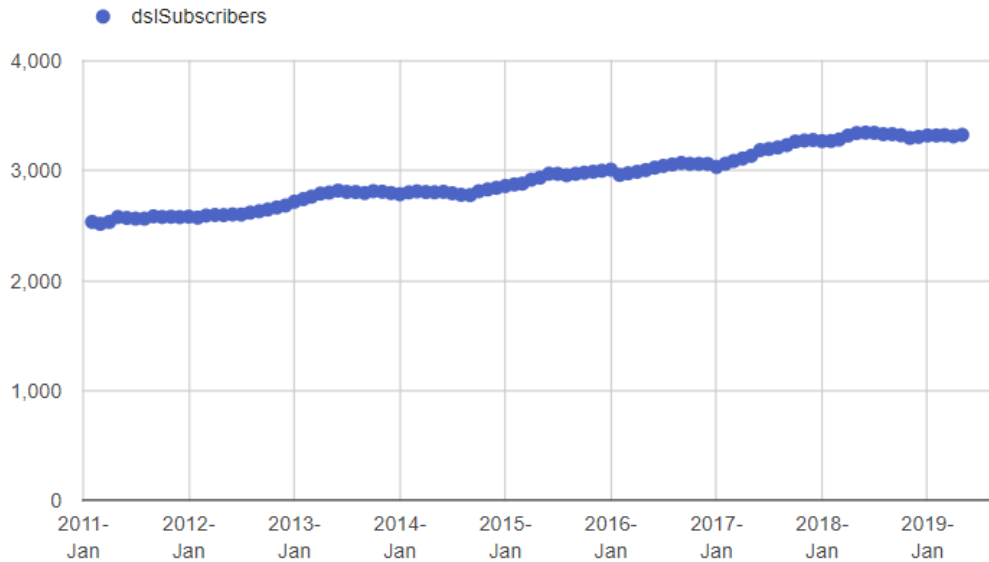
Many existing members also upgraded to higher speeds this past year, in part to accommodate more internet-connected devices running multiple applications, often including multiple streaming video services.

This is also reflected in DSL members' growing use of bandwidth. In January of 2018, the average NCF DSL member used an average of 144.1 GBs per month. By December, the average DSL member was using an average of 160.7 GBs per month, an annual increase of more than 10 percent.

This drives up our capacity costs, particularly when we work hard to ensure a high quality service with little to no congestion during peak times.

Here is the trend of bandwidth usage since 2011:
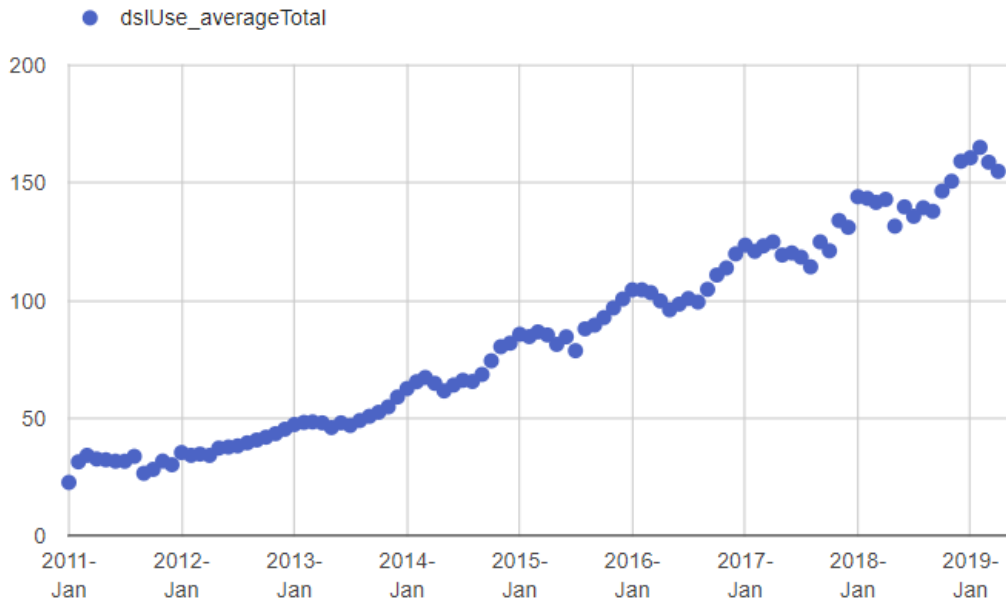
More than 2000 members accessed our StartPage throughout the year, which includes access to our locally-hosted email services. And at the end of 2018 we had 77 members who use dial-up to access the internet.

Network and Operations:

In 2017 we invested more than $100,000 from our savings in two 10G routers to grow our capacity and ensure our network is resilient. Throughout 2018 we installed and tested all the new equipment, increased our capacity, diversified our suppliers and deployed our own IPv4 space, having previously relied on Bell for their address space. In some ways, this work is never done, but 2018 was a major leap forward.

We also started work on a server replacement plan, currently being implemented. This will help support our current services, but also sets the stage for us to look into new offerings.

Both the front and back-end of our website were custom designed in 2003 and have served us well. But times have changed and so we are using the current website as a jumping off point for future developments. At the end of 2018 we secured a $10,000 grant and $2500 loan combination from a provincial government-funded program called "Uncapped", offered through the Centre for Social Enterprise Development (CSED), to redesign our front-end website, with some related back-end integration.

In 2018 we continued to refurbish donated modems and make them available to members at a very low cost – thanks to all those who brought in modems they are no longer using. We also introduced the SmartRG SR506n. We tested some range extenders and also established a beta-testing group of members willing to try out new services and provide feedback.

As we grow, we have been growing the staff team. As part of that work, this past year we established a Management Team that includes me as Executive Director, Service Operations Manager Andrew Martey Asare, Service Development Manager Will Robson, and System and Network Analyst Andre Dalle. Together, we work to make sure our current services run as smoothly as possible but also that we stay on top of change in our sector and be prepared for it. If NCF is going to survive and thrive, we need to be able to adapt, as we did when we added DSL service in 2005.

But added staff resources also cost more money, so in 2019 we have done a staff re-organization to lower staff costs moving forward.

In terms of volunteers, we have a core group of dedicated regulars, but not as many as we used to. There are still many who are interested in volunteering though, so we updated our training program this year to ensure that prospective volunteers learn everything they need to help members on the HelpDesk, without making the training process too onerous.

And I'm thrilled to say that a grant we applied for in 2018 to help improve our organizational bilingualism, including recruiting and training bilingual volunteers, was just approved by the Department of Canadian Heritage!

Finally, our HelpDesk staff and volunteers handled more than 7700 tickets throughout 2018. Thanks to them for all their hard work to keep things moving!

Donations, fundraising and pricing:

Thanks to all those who donated to NCF this past year!

Given the changing nature of the organization, donations have been steadily dropping for the last 14 years as most of those who were donating because they were using dial-up services have switched to paying for high-speed DSL services. In 2018 we made $58,808 from member donations, a drop of $6212 from the previous year.

And despite increased costs, we kept our prices the same throughout 2018. We are currently reviewing pricing in relation to our service costs and expect to make some pricing changes again this summer.

In terms of fundraising, we continue to apply for grants and employment subsidies with some success, bringing in almost $75,000 in 2018. This included funding from Employment and Social Development Canada through the Canada Summer Jobs program and Senior HelpDesk Analyst James Ouzas completed the Applied Business Management program from Algonquin College, funded through the Canada Ontario Job Grant.

Finances:

There is a report from our Treasurer, Sterling Jimenez, in this report so I will keep this brief.

As a social enterprise committed to keeping our services affordable, growing our digital literacy and advocacy programs, and keeping the organization sustainable, we walk a fine line and always have.

In 2015, 2016 and 2017 we had total surpluses of more than $135,000 and retained earnings at the end of 2017 were $318,902. We used some of that savings to pay for our network upgrades, and then made the decision to depreciate that equipment at a faster rate. This amplifies its effect on 2018's income statement but we believe also sets us up for future growth.

At the same time, as noted, our costs increased and some business conditions with suppliers changed. We had anticipated some of these conditions and had budgeted a loss for 2018.

We ended 2018 with $285,249 in retained earnings and feel this is prudent, for now, but ensuring our operations are sustainable is crucial. As such, in 2019 the Board requested a balanced budget and this requires finding ways to both cut costs and raise more money.

Community outreach:

NCF has a strong tradition of digital literacy training and advocacy, and we are always working to build on that work. In 2018 that included:

Access = Skills = Opportunities:
This project was funded by the Ontario Trillium Foundation. We partnered with Ottawa ACORN to help

those living on low to moderate incomes apply online to two under-used government subsidies: the Ontario Electricity Support Program and the Canada Learning Bond.

As part of that work we had two summer students produce a bilingual handbook we used in the workshops and held 12 community info-sessions and workshops. Thanks to Ottawa Public Library for providing some of the meeting space!

Some of the information in the handbooks has since changed so we are updating it and will be posting it on the website soon.

Digital Access Day:
This project was funded by the Canadian Internet Registration Authority (CIRA) with additional sponsorships from the Internet Society, Intuit, and Shopify. We partnered with CompuCorps, a local tech charity that offers computer repair services and sells refurbished equipment, and the Internet Society Canada Chapter.

We founded Digital Access Day because we believe the internet helps address serious social and economic needs. But too often, the digital divide mirrors existing inequities.

We held a number of related events, including a kick-off in October 2017, an 16-person advisory committee dinner to help plan the conference itself, and brought in Shuli Hallak to discuss her photography of core Internet infrastructure. This event, called "Seeing the Internet" was also supported by the Ottawa Public Library as part of digital inclusion week and was featured on CBC radio.

The day-long conference itself was last June, at Ottawa City Hall's Jean Pigott Place and had almost 200 participants and a range of speakers from NGOs, the tech sector, government, universities, and those most affected by the digital divide to talk about good work already underway, identify what else can be done, and measure progress. Topics ranged from addressing access for rural, remote and Indigenous communities, affordability, and digital literacy.

We learned a lot about how we can grow our own digital access initiatives and the event has been continued by the Internet Society Canada Chapter.

Saved with a Click:
This project was funded by the City of Ottawa's Community Economic Development program and showed people how they could use online services to save money.

We organized nine workshops at Ottawa Public Library branches on topics including using free open source software, how to access free entertainment online that respects copyright, and finding and using free anti-virus programs and best practices when using public wifi.

We are also finishing up a related bilingual handbook of these resources. The final workshop had to be postponed and has been re-scheduled for Wednesday, June 26th at the Main Branch Library auditorium. It is a panel discussion on the privacy trade-offs of using free online services. The

handbook will be launched at that time. You can always access a list of upcoming workshops at www.ncf.ca/workshops

Other community outreach work we did throughout the year included:

~Running a survey for our members on bilingualism: more than 550 of you answered! We did not use a survey aggregator to avoid third-party commercialization of member data, but we will release the results soon. We also used the data to help support our successful application for funding to support increased bilingualism. Thanks to all who participated!

~Presenting at the Public Policy Forum's Digital Inclusion Summit in Toronto
~Participating in the federal Social Enterprise Consultation, hosted by Causeway Work Centre
~Being part of the Canadian Network Operators Consortium ISP Summit planning committee
~Being selected to attend the first-ever North American School of Internet Governance in San Juan, Puerto Rico
~Andrew Martey Asare being selected as a Fellow for an American Registry of Internet Numbers (ARIN) conference
~Being asked to participate in a Law Commission of Ontario day-long even on Human Rights in the Digital Age
~Presenting to Ottawa Civic Tech
~Presenting on the history of NCF at the Glebe Community Centre
~Speaking at a Canadian Internet Registration Authority (CIRA) member event in Calgary
~Shelley joining the Board of the Ottawa-Gatineau Internet Exchange and Andre and Andrew both joining the Operations Committee
~The Board joined Diversity in Leadership Ottawa to recruit new Board candidates from the community and participated in a diversity and inclusion workshop

Conclusion and next steps:

I started by saying NCF is in a state of transition, and probably always has been. There are regulatory changes and technological changes on the horizon, and we are working hard to ensure NCF can meet them head-on.

I would like to thank the staff and volunteers, who work very hard to make sure we offer high quality services that reflect our role as a community-based member-driven organization.

I would like to thank the Board, who oversee all elements of NCF while also laying a plan for its future. It's not an easy job! I'm particularly excited about the new Strategic Plan the Board developed, with input from staff in its development and now a role to meet Key Performance Indicators and establish related workplans. As previously mentioned, you can see an overview of it at www.ncf.ca/stratplan.

The plan focuses on member retention and growth through improving current core services while also looking ahead to new services, building our digital literacy programming and developing a greater role for digital advocacy.

I would like to thank our funders and donors, who help ensure we have the money to offer digital literacy and advocacy programs.

And of course I would like to thank all our members. We appreciate your support, whether it is financial, or by asking tough questions and pushing us to do more and better, or by your kind comments online and in-person. (And sometimes, dropping off cookies just when we need them most!)

As always, please feel free to contact me at execdir@ncf.ca if you have any specific questions or things to discuss.

Shelley Robinson,
NCF Executive Director