

NATIONAL CAPITAL FREENET INCORPORATED

FINANCIAL STATEMENTS

DECEMBER 31, 2018

NATIONAL CAPITAL FREENET INCORPORATED

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INDEPENDENT AUDITOR'S REPORT

To the Members of
National Capital FreeNet Incorporated

Opinion

We have audited the financial statements of National Capital FreeNet Incorporated (the Organization), which comprise the statement of financial position as at December 31, 2018, and the statements of operations, changes in net assets and cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2018, 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.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Organization in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Organization or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Organization's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Organization's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Organization's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Organization to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Chartered Professional Accountants, Licensed Public Accountants

Ottawa, Ontario
May 21, 2019

NATIONAL CAPITAL FREENET INCORPORATED

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 2018

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	2018	2017
REVENUE		
DSL services	\$ 1,602,905	\$ 1,553,634
Grants (Note 3)	74,677	95,540
Donations	58,808	65,020
DSL equipment	56,611	64,338
Interest	4,375	449
	1,797,376	1,778,981
EXPENSES		
DSL services	1,164,377	1,019,166
Salaries and benefits	431,164	411,607
Rent	40,567	40,380
DSL equipment	38,254	50,911
Direct project expenses (Schedule A)	35,460	52,139
Telecommunications equipment	15,099	11,080
Office expenses	10,406	13,859
Insurance	10,239	10,347
Memberships	5,972	4,275
Bad debts	3,328	4,971
Professional development	848	12,447
Advertising and promotion	445	19,283
Professional fees	38,794	24,978
Service charges	36,076	35,256
Amortization of capital assets	41,059	21,757
	1,872,088	1,732,456
EXCESS (DEFICIENCY) OF REVENUE OVER EXPENSES	\$ (74,712)	\$ 46,525

NATIONAL CAPITAL FREENET INCORPORATED

STATEMENT OF CHANGES IN NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2018

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	Unrestricted	Invested in capital assets	2018 Total	2017 Total
BALANCE, BEGINNING OF YEAR	\$ 318,902	\$ 105,127	\$ 424,029	\$ 377,504
Excess (deficiency) of revenue over expenses	(33,653)	(41,059)	(74,712)	46,525
BALANCE, END OF YEAR	\$ 285,249	\$ 64,068	\$ 349,317	\$ 424,029

NATIONAL CAPITAL FREENET INCORPORATED

STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2018

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	2018	2017
ASSETS		
CURRENT ASSETS		
Cash	\$ 214,427	\$ 504,341
Term deposit, 2.10%, maturing March 2, 2019	150,000	-
Accounts receivable (Note 4)	126,138	17,845
Inventories	3,347	3,229
Prepaid expenses	23,144	22,054
	517,056	547,469
CAPITAL ASSETS (Note 5)	64,068	105,127
	\$ 581,124	\$ 652,596
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and accrued liabilities (Note 6)	\$ 165,804	\$ 144,170
Deferred revenue - DSL Services	66,003	63,140
Deferred contributions (Note 7)	-	21,257
	231,807	228,567
NET ASSETS		
Unrestricted	285,249	318,902
Invested in capital assets	64,068	105,127
	349,317	424,029
	\$ 581,124	\$ 652,596

ON BEHALF OF THE BOARD

_____, Director

_____, Director

NATIONAL CAPITAL FREENET INCORPORATED

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018

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	2018	2017
OPERATING ACTIVITIES		
Excess (deficiency) of revenue over expenses	\$ (74,712)	\$ 46,525
Adjustment for:		
Amortization of capital assets	41,059	21,757
	(33,653)	68,282
Net change in non-cash working capital items:		
Accounts receivable	(108,293)	(9,777)
Inventories	(118)	7,098
Prepaid expenses	(1,090)	(9,955)
Accounts payable and accrued liabilities	21,634	62,276
Deferred revenue - DSL Services	2,863	1,001
Deferred contributions	(21,257)	7,842
	(106,261)	58,485
	(139,914)	126,767
INVESTING ACTIVITIES		
Acquisition of term deposit	(150,000)	-
Acquisition of capital assets	-	(120,792)
	(150,000)	(120,792)
INCREASE IN CASH AND CASH EQUIVALENTS	(289,914)	5,975
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	504,341	498,366
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 214,427	\$ 504,341

Cash and cash equivalents consist of cash.

NATIONAL CAPITAL FREENET INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

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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. 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, the deferred revenue 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.

Interests are recognized when earned.

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.

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.

NATIONAL CAPITAL FREENET INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

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2. SIGNIFICANT ACCOUNTING POLICIES (continued)

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, term deposit, 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 adjust 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.

NATIONAL CAPITAL FREENET INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 2018

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2. 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 can fluctuate from being positive to overdrawn.

3. GRANTS

	2018	2017
Ontario Trillium Foundation	\$ 15,557	\$ 36,643
CIRA - Digital Access Day	28,900	23,000
City of Ottawa CED	23,500	-
Other grants	6,720	28,312
ESDC - WiseNet: Connecting Seniors	-	7,585
	\$ 74,677	\$ 95,540

4. ACCOUNTS RECEIVABLE

	2018	2017
DSL services receivable from members	\$ 12,678	\$ 5,060
Sales tax receivable	14,418	5,939
Contribution receivable	20,550	6,846
Bell credit receivable for DSL Services	74,127	-
Accrued interest receivable	4,365	-
	\$ 126,138	\$ 17,845

NATIONAL CAPITAL FREENET INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS

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5. CAPITAL ASSETS

	Cost	Accumulated amortization	2018	2017
Network equipment	\$ 114,938	\$ 54,626	\$ 60,312	\$ 98,684
Computer equipment	90,158	87,734	2,424	4,040
Office equipment	11,865	10,533	1,332	2,403
	\$ 216,961	\$ 152,893	\$ 64,068	\$ 105,127

6. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	2018	2017
Accounts payable and accrued liabilities	\$ 147,036	\$ 132,833
Government remittances	18,768	11,337
	\$ 165,804	\$ 144,170

7. DEFERRED CONTRIBUTIONS

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

	2018	2017
Balance, beginning of year	\$ 21,257	\$ 13,415
Plus: Amount received during the year	21,150	76,900
Less: Amount recognized as revenue during the year	(49,957)	(63,228)
Less: Amount reimbursed - unspent contribution	-	(5,830)
Plus: Amount receivable at year end	7,550	-
Balance, end of year	\$ -	\$ 21,257

8. 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.

NATIONAL CAPITAL FREENET INCORPORATED

NOTES TO THE FINANCIAL STATEMENTS

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9. 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 \$11,665. The instalments over the next year total \$11,665.

NATIONAL CAPITAL FREENET INCORPORATED

ADDITIONAL INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2018

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	2018	2017
SCHEDULE A - DIRECT PROJECT EXPENSES		
CIRA - Digital Access Day	\$ 17,815	\$ 18,066
City of Ottawa CED	10,216	-
Ontario Trillium Foundation	7,429	27,988
ESDC - WiseNet: Connecting Seniors	-	6,085
	\$ 35,460	\$ 52,139