

EASTERN ONTARIO REGIONAL NETWORK INC.

FINANCIAL STATEMENTS

MARCH 31, 2013

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EASTERN ONTARIO REGIONAL NETWORK



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EASTERN ONTARIO REGIONAL NETWORK INC.

For The Year Ended March 31, 2013

MANAGEMENT REPORT

The accompanying financial statements of the Eastern Ontario Regional Network Inc. are the responsibility of management and have been approved by the Board of Directors.

The financial statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards. Financial statements are not precise since they include certain amounts based on estimates and judgements. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances, in order to ensure that the financial statements are presented fairly, in all material respects.

The organization maintains systems of internal accounting and administrative controls of high quality, consistent with reasonable cost. Such systems are designed to provide reasonable assurance that the financial information is relevant, reliable and accurate and the organization's assets are appropriately accounted for and adequately safeguarded.

The organization's Board of Directors are responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving financial statements.

The Board of Directors reviews and approves the organization's financial statements for issuance to the members of the Eastern Ontario Regional Network Inc. The Board of Directors meets periodically with management, as well as the external auditors, to discuss internal controls over the financial reporting process, auditing matters and financial reporting issues, to satisfy themselves that each party is properly discharging their responsibilities and to review the financial statements and the independent auditors' report.

The financial statements have been audited by Collins Barrow Kawarthas LLP in accordance with Canadian generally accepted auditing standards on behalf of the organization. Collins Barrow Kawarthas LLP has full and free access to the organization.

Chair

ORPN

Date

2013-10-04

Chief Financial Officer

Jhimi

Date

2013-10-04

INDEPENDENT AUDITORS' REPORT

www.collinsbarrowkawarthas.com

To the Members of the Board of Directors of the Eastern Ontario Regional Network Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of the Eastern Ontario Regional Network Inc., which comprise the statement of financial position as at March 31, 2013, the statements of operations and accumulated surplus, net financial 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 Public Sector Accounting Standards, and for such internal controls as management determines are 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 the auditors' 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 controls 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 controls. 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, these financial statements present fairly, in all material respects, the financial position of the Eastern Ontario Regional Network Inc. as at March 31, 2013 and the results of its operations and cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards.

Collins Barrow Kawarthas LLP

Chartered Accountants
Licensed Public Accountants

Peterborough, Ontario
October 4, 2013

EASTERN ONTARIO REGIONAL NETWORK INC.

STATEMENT OF FINANCIAL POSITION

At March 31, 2013

	2013	2012
	\$	\$
FINANCIAL ASSETS		
Cash	26,808,357	3,113,814
HST receivable (note 3)	2,063,774	4,954,255
Grants receivable	6,878,438	10,797,290
Accounts receivable	13,127	21,884
TOTAL FINANCIAL ASSETS	35,763,696	18,887,243
LIABILITIES		
Accounts payable and accrued liabilities	6,521,623	13,097,777
Advances from EOWC (note 4)	6,134,301	5,540,466
Deferred revenue (note 5)	22,654,090	-
TOTAL LIABILITIES	35,310,014	18,638,243
NET FINANCIAL ASSETS	453,682	249,000
NON-FINANCIAL ASSETS		
Prepaid expenses	-	1,000
ACCUMULATED SURPLUS (note 10)	453,682	250,000

The accompanying notes are an integral part of these financial statements

EASTERN ONTARIO REGIONAL NETWORK INC.

STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS For the Year Ended March 31, 2013

	Budget 2013 \$	Actual 2013 \$	Actual 2012 \$
REVENUES			
Government of Canada	11,657,748	11,885,575	16,965,263
Province of Ontario	12,834,902	12,976,458	17,931,995
Municipal contributions	1,041,768	949,981	1,156,614
In-kind contributions (note 6)	15,168,759	14,121,294	15,745,538
Interest	-	85,587	107,560
Sustainability funding - private sector partners	200,000	203,682	250,000
TOTAL REVENUES	40,903,177	40,222,577	52,156,970
EXPENSES			
General - eligible	1,765,733	1,636,326	1,450,097
General - ineligible	482,768	519,583	830,183
Backbone	11,602,922	12,542,669	44,741,565
Satellite	4,065,778	4,229,573	3,023,379
Access	22,785,976	21,090,744	1,861,746
TOTAL EXPENSES	40,703,177	40,018,895	51,906,970
ANNUAL SURPLUS	200,000	203,682	250,000
ACCUMULATED SURPLUS - beginning of year	250,000	250,000	-
ACCUMULATED SURPLUS - end of year	450,000	453,682	250,000

The accompanying notes are an integral part of these financial statements

EASTERN ONTARIO REGIONAL NETWORK INC.

STATEMENT OF NET FINANCIAL ASSETS For the Year Ended March 31, 2013

	Budget 2013 \$	Actual 2013 \$	Actual 2012 \$
ANNUAL SURPLUS	200,000	203,682	250,000
Decrease in prepaid expenses	-	1,000	17,217
INCREASE IN NET FINANCIAL ASSETS	200,000	204,682	267,217
NET FINANCIAL ASSETS (LIABILITIES)			
- beginning of year	249,000	249,000	(18,217)
NET FINANCIAL ASSETS - end of year	449,000	453,682	249,000

The accompanying notes are an integral part of these financial statements

EASTERN ONTARIO REGIONAL NETWORK INC.

STATEMENT OF CASH FLOWS For the Year Ended March 31, 2013

	2013	2012
	\$	\$
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Annual surplus	203,682	250,000
(Increase)/decrease in HST receivable	2,890,481	(3,873,410)
(Increase)/decrease in grants receivable	3,918,852	(3,055,062)
(Increase)/decrease in accounts receivable	8,757	(21,884)
Decrease in prepaid expenses	1,000	17,217
Increase/(decrease) in accounts payable and accrued liabilities	(6,576,154)	4,566,439
Net increase/(decrease) in cash from operating transactions	446,618	(2,116,700)
FINANCING		
Increase/(decrease) in advances from EOWC	593,835	(1,379,767)
Increase in deferred revenue	22,654,090	-
INCREASE/(DECREASE) IN CASH	23,694,543	(3,496,467)
CASH - beginning of year	3,113,814	6,610,281
CASH - end of year	26,808,357	3,113,814

The accompanying notes are an integral part of these financial statements

EASTERN ONTARIO REGIONAL NETWORK INC.

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended March 31, 2013

1. NATURE OF ORGANIZATION

Eastern Ontario Regional Network Inc. was incorporated without share capital on May 20, 2010 and was formed to manage a project of the Eastern Ontario Wardens' Caucus (EOWC) to improve internet access to at least 95 percent of homes and businesses in Eastern Ontario, with the support of the Federal, Provincial and Municipal governments and the private sector.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles for local governments as recommended by the Public Sector Accounting Board of the Canadian Institute of Chartered Accountants. Significant aspects of the accounting policies are as follows:

(a) Reporting Entity

These financial statements reflect the assets, liabilities, revenues and expenses and accumulated surplus of the Eastern Ontario Regional Network Inc..

(b) Tangible Capital Assets

Network Infrastructure

The organization retains ownership of 51% of the funded network assets of this project; however, all repairs and maintenance and upgrade costs are the responsibility of the service providers contracted to provide the network infrastructure. Since the organization does not retain operational control over the network infrastructure, they have not been recorded as tangible capital assets but are reported as an expense on the statement of operations and accumulated surplus.

Other

The organization does not have any other tangible capital assets.

(c) Recognition of Revenues and Expenses

Revenues and expenses are reported on the accrual basis of accounting. The accrual basis of accounting recognizes revenues in the period in which the transactions or events occurred that give rise to the revenue; expenses are recognized in the period the goods or services are acquired and a legal liability is incurred or transfers are due.

(d) Non-financial Assets

Non-financial assets are accounted for as assets by the organization because they can be used to provide services in future periods. These assets do not normally provide resources to discharge the liabilities of the organization unless they are sold.

(e) Reserves

Certain amounts are set aside in reserves for future operating purposes. Transfers to and/or from reserves are an adjustment to the respective fund when approved.

EASTERN ONTARIO REGIONAL NETWORK INC.

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended March 31, 2013

2. SIGNIFICANT ACCOUNTING POLICIES, continued

(f) Government Funding

Government funding is recognized in the financial statements as revenues in the period in which events giving rise to the transfers occur, providing the transfers are authorized, any eligibility criteria have been met, and reasonable estimates of the amounts can be made.

(g) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions on such areas as grants and HST receivables. These estimates and assumptions 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 and are based on the organization's best information and judgment. Actual results could differ from these estimates.

(h) Financial Instruments

The organization's financial instruments consist of cash, HST receivable, grants receivable, accounts receivable, accounts payable and accrued liabilities and advances from EOWC. Unless otherwise noted, it is management's opinion that the carrying value of the financial instruments approximates their fair values and that the organization does not have any significant concentration of interest, currency or credit risk.

3. HST RECEIVABLE

In previous years there was uncertainty with respect to the organization's status for claiming HST rebates. Management had previously recorded HST rebates based on the organization being eligible for rebates as a Municipal organization. Canada Revenue Agency has subsequently denied the organizations eligibility as a Municipal organization. As such, management has revised its calculation of HST rebates to the applicable rebates for a qualifying non-profit organization. The change in status resulted in a reduction of HST rebates to March 31, 2012 of \$962,271. The reduction in HST rebates also resulted in an increase in expenses for the broadband project of \$962,271, an increase in provincial grants of \$941,388 and an increase in member contributions of \$20,883. The adjustments have been recorded as revenues and expenses in fiscal 2013 as the HST status decision was not received until June 2013.

4. ADVANCES FROM EOWC

The organization has received advances from a related organization, Eastern Ontario Wardens' Caucus (EOWC), in order to fund the network construction project. Interest on the advances is payable annually at a rate of 5% per annum based on the contribution agreements between EOWC and each of the municipalities.

5. DEFERRED REVENUE

Deferred revenue consists of amounts received from the Province of Ontario in advance of claims plus interest on those advances.

EASTERN ONTARIO REGIONAL NETWORK INC.

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended March 31, 2013

6. IN-KIND CONTRIBUTIONS

In-kind contributions are comprised of private sector contributions to the project.

7. BUDGET FIGURES

The budget, approved by the organization, for 2013 is reflected on the Statement of Operations and Accumulated Surplus and the Statement of Change in Net Financial Assets. Budget figures have been reclassified for the purposes of these financial statements to comply with PSAB reporting requirements. Budget figures are not subject to audit.

8. ECONOMIC DEPENDENCE

The organization receives the majority of its funding from government grants, municipal contributions and private sector partners' contributions. As such the organization is economically dependent on these funding sources for its ongoing operations.

9. COMMITMENTS

The organization has entered into an agreement with the County of Peterborough for geographic information systems, information technology and procurement services with a cost of \$205,000 per year.

The organization has entered into an agreement with the County of Hastings for financial and administrative services with a cost of \$112,500 per year.

The organization has been committed by the Eastern Ontario Warden's Caucus (EOWC) to fulfill contracts signed by EOWC. There are over 20 contracts for the construction of the network and satellite and access services. The total value of these contracts is approximately \$146,407,000. The remaining commitment at March 31, 2013 is estimated to be \$44,981,000 and will be funded by Federal, Provincial and private sector contributions.

10. ACCUMULATED SURPLUS

Accumulated surplus consists of the following:

	2013	2012
	\$	\$
Reserves		
Sustainability funding reserve	453,682	250,000
	453,682	250,000

As part of EORN's various funding agreements with governments and private sector partners, EORN will receive sustainability funding that is being set aside in a reserve to fund operating expenses after March 31, 2014.