

EASTERN ONTARIO REGIONAL NETWORK INC.

FINANCIAL STATEMENTS

MARCH 31, 2014

EASTERN ONTARIO REGIONAL NETWORK INC.

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EASTERN ONTARIO REGIONAL NETWORK



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EASTERN ONTARIO REGIONAL NETWORK INC.

For The Year Ended March 31, 2014

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



Date

2014-09-08

Chief Financial Officer



Date

2014-09-08

INDEPENDENT AUDITORS' REPORT**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, 2014, 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, 2014 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 Professional Accountants
Peterborough, Ontario
September 8, 2014

EASTERN ONTARIO REGIONAL NETWORK INC.

STATEMENT OF FINANCIAL POSITION

At March 31, 2014

	2014	2013
	\$	\$
FINANCIAL ASSETS		
Cash	18,887,496	26,808,357
HST receivable	1,775,915	2,063,774
Grants receivable	7,193,663	6,878,438
Accounts receivable	98,294	13,127
TOTAL FINANCIAL ASSETS	27,955,368	35,763,696
LIABILITIES		
Accounts payable and accrued liabilities	8,040,823	6,521,623
Advances from EOWC (note 3)	5,258,985	6,134,301
Deferred revenue (note 4)	13,868,314	22,654,090
TOTAL LIABILITIES	27,168,122	35,310,014
NET FINANCIAL ASSETS	787,246	453,682
NON-FINANCIAL ASSETS		
Prepaid expenses	1,039	-
ACCUMULATED SURPLUS (note 9)	788,285	453,682

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, 2014

	Budget 2014 \$ (Unaudited)	Actual 2014 \$	Actual 2013 \$
REVENUES			
Government of Canada	11,163,018	8,038,901	11,885,575
Province of Ontario	12,366,256	9,109,644	12,976,458
Municipal contributions	1,123,441	924,162	949,981
In-kind contributions (note 5)	22,534,377	16,744,254	14,121,294
Interest	-	69,561	85,587
Sustainability funding - private sector partners	312,760	334,603	203,682
TOTAL REVENUES	47,499,852	35,221,125	40,222,577
EXPENSES			
General - eligible	1,804,856	1,606,113	1,636,326
General - ineligible	544,322	488,703	519,583
Backbone	-	-	12,542,669
Satellite	6,269,716	6,363,218	4,229,573
Access	38,568,198	26,428,488	21,090,744
TOTAL EXPENSES	47,187,092	34,886,522	40,018,895
ANNUAL SURPLUS	312,760	334,603	203,682
ACCUMULATED SURPLUS - beginning of year	453,682	453,682	250,000
ACCUMULATED SURPLUS - end of year	766,442	788,285	453,682

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, 2014

	Budget 2014 \$ (Unaudited)	Actual 2014 \$	Actual 2013 \$
ANNUAL SURPLUS	312,760	334,603	203,682
(Increase)/decrease in prepaid expenses	-	(1,039)	1,000
INCREASE IN NET FINANCIAL ASSETS	312,760	333,564	204,682
NET FINANCIAL ASSETS - beginning of year	453,682	453,682	249,000
NET FINANCIAL ASSETS - end of year	766,442	787,246	453,682

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, 2014

	2014	2013
	\$	\$
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Annual surplus	334,603	203,682
Decrease in HST receivable	287,859	2,890,481
(Increase)/decrease in grants receivable	(315,225)	3,918,852
(Increase)/decrease in accounts receivable	(85,167)	8,757
(Increase)/decrease in prepaid expenses	(1,039)	1,000
Increase/(decrease) in accounts payable and accrued liabilities	1,519,200	(6,576,154)
Net increase in cash from operating transactions	1,740,231	446,618
FINANCING		
Increase/(decrease) in advances from EOWC	(875,316)	593,835
Increase/(decrease) in deferred revenue	(8,785,776)	22,654,090
Net increase/(decrease) in cash from financing transactions	(9,661,092)	23,247,925
INCREASE/(DECREASE) IN CASH	(7,920,861)	23,694,543
CASH - beginning of year	26,808,357	3,113,814
CASH - end of year	18,887,496	26,808,357

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, 2014

1. NATURE OF OPERATIONS

Eastern Ontario Regional Network Inc. (EORN) 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 the standards in the Chartered Professional Accountants Canada Public Sector Accounting (PSA) Handbook. 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) 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.

(c) 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.

(d) 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.

(e) Non-financial Assets

Tangible capital and other 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.

EASTERN ONTARIO REGIONAL NETWORK INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended March 31, 2014

2. SIGNIFICANT ACCOUNTING POLICIES, continued

(f) Reserves

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

(g) Use of Estimates

The preparation of financial statements in conformity with Canadian Public Sector Accounting Standards requires management to make estimates and assumptions, in such areas as accrued liabilities and collectability of receivables, 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 revenues and expenses during the year. Actual results could differ from those 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. 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. The advances are based on contribution agreements between EOWC and each of the member municipalities. No interest was payable on the advances for fiscal 2014.

4. DEFERRED REVENUE

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

	2014	2013
	\$	\$
Balance - beginning of year	22,654,090	-
Add amounts received:		
Province of Ontario	-	23,615,499
Interest	236,802	24,025
	236,802	23,639,524
Less transfer to operations:		
Claims released per statement of account	9,022,578	985,434
Balance - end of year	13,868,314	22,654,090

EASTERN ONTARIO REGIONAL NETWORK INC.

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended March 31, 2014

5. IN-KIND CONTRIBUTIONS

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

6. BUDGET FIGURES

The budget, approved by the organization, for 2014 is reflected on the Statement of Operations and Accumulated Surplus and the Statement of Net Financial Assets. Budget figures have been reclassified for the purposes of these financial statements to comply with PSA reporting requirements. Budget figures are not subject to audit.

7. 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.

8. 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 Wardens' Caucus (EOWC) to fulfill contracts signed by EOWC. There are over 40 contracts for the construction of the network and satellite and access services. The total value of these contracts is approximately \$162,847,000. The remaining commitment at March 31, 2014 is estimated to be \$28,613,000 and will be funded by Federal, Provincial and private sector contributions.

9. ACCUMULATED SURPLUS

Accumulated surplus consists of the following:

	2014	2013
	\$	\$
Reserves		
Sustainability funding reserve	788,285	453,682
	<u>788,285</u>	<u>453,682</u>

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, 2015.