

EASTERN ONTARIO REGIONAL NETWORK INC.

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2019

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EASTERN ONTARIO REGIONAL NETWORK



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EASTERN ONTARIO REGIONAL NETWORK INC.

For The Year Ended March 31, 2019

MANAGEMENT REPORT

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

The consolidated 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 auditor, 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 auditor's report.

The consolidated financial statements have been audited by Baker Tilly KDN LLP in accordance with Canadian generally accepted auditing standards on behalf of the Organization. Baker Tilly KDN LLP has full and free access to the Organization.

Chair

Date

SEPT. 11/19

Chief Executive Officer

Date

Sept 11 2019

INDEPENDENT AUDITOR'S REPORT

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

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Opinion

We have audited the consolidated financial statements of the Eastern Ontario Regional Network Inc. and its local boards (the Organization), which comprise the consolidated statement of financial position as at March 31, 2019, the consolidated statements of operations and accumulated surplus, net financial assets and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Organization as at March 31, 2019, and the results of its consolidated operations and its consolidated cash flows for the year then ended in accordance with Canadian Public Sector Accounting Standards.

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 Consolidated 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 consolidated 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.

Other Matter

The financial statements of the Organization as at and for the year ended March 31, 2018 were audited by Collins Barrow Kawarthas LLP, which became Baker Tilly KDN LLP effective January 10, 2019.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Canadian Public Sector Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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.

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Baker Tilly KDN LLP is a member of Baker Tilly Canada Cooperative, which is a member of the global network of Baker Tilly International Limited. All members of Baker Tilly Canada Cooperative and Baker Tilly International Limited are separate and independent legal entities.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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 consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the consolidated financial information of the entities or business activities within the Organization to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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.

Baker Tilly KDN LLP

Chartered Professional Accountants
Licensed Public Accountants

Peterborough, Ontario
September 11, 2019

EASTERN ONTARIO REGIONAL NETWORK INC.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION At March 31, 2019

	2019	2018
	\$	\$
FINANCIAL ASSETS		
Cash	3,047,174	3,240,758
HST receivable	69,151	65,369
Accounts receivable	111,705	132,912
Due from EOLC	-	5,477
TOTAL FINANCIAL ASSETS	3,228,030	3,444,516
LIABILITIES		
Accounts payable and accrued liabilities	154,236	80,752
Government remittances payable	3,014	-
Deferred revenue - cell gap (note 7)	238,203	-
Due to EOLC	66,418	-
Advances from EOWC	1,866,142	2,251,509
TOTAL LIABILITIES	2,328,013	2,332,261
NET FINANCIAL ASSETS	900,017	1,112,255
ACCUMULATED SURPLUS (note 8)	900,017	1,112,255

The accompanying notes are an integral part of these financial statements

EASTERN ONTARIO REGIONAL NETWORK INC.

CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS For the Year Ended March 31, 2019

	Budget 2019 \$ (Unaudited)	Actual 2019 \$	Actual 2018 \$
REVENUES			
Member contributions - broadband	600,687	385,367	377,905
Sustainability funding	251,418	251,418	316,346
Municipal contributions - cell gap	520,000	281,797	-
Interest	-	68,602	49,150
Consulting services	-	25,500	120,490
In-kind contributions	9,000	7,243	10,876
TOTAL REVENUES	1,381,105	1,019,927	874,767
EXPENSES			
Operations - broadband	945,881	847,272	827,693
Regional economic development	-	-	11,758
Eastern Ontario Leadership Council	50,000	50,000	33,612
Municipal services project	-	-	52,817
Broadband education project	-	-	15,721
Cell gap project	570,600	281,797	55,744
Consulting services	-	53,096	27,422
TOTAL EXPENSES	1,566,481	1,232,165	1,024,767
ANNUAL DEFICIT	(185,376)	(212,238)	(150,000)
ACCUMULATED SURPLUS - beginning of year		1,112,255	1,262,255
ACCUMULATED SURPLUS - end of year		900,017	1,112,255

The accompanying notes are an integral part of these financial statements

EASTERN ONTARIO REGIONAL NETWORK INC.

CONSOLIDATED STATEMENT OF NET FINANCIAL ASSETS For the Year Ended March 31, 2019

	Budget 2019 \$ (Unaudited)	Actual 2019 \$	Actual 2018 \$
ANNUAL DEFICIT	(185,376)	(212,238)	(150,000)
NET FINANCIAL ASSETS - beginning of year	1,112,255	1,112,255	1,262,255
NET FINANCIAL ASSETS - end of year	926,879	900,017	1,112,255

The accompanying notes are an integral part of these financial statements

EASTERN ONTARIO REGIONAL NETWORK INC.

CONSOLIDATED STATEMENT OF CASH FLOWS For the Year Ended March 31, 2019

	2019	2018
	\$	\$
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Annual deficit	(212,238)	(150,000)
Change in non-cash assets and liabilities		
HST receivable	(3,782)	(15,425)
Grants receivable	-	22,596
Accounts receivable	21,207	41,536
Due from EOLC	5,477	(5,477)
Accounts payable and accrued liabilities	73,484	(69,195)
Government remittances payable	3,014	-
Deferred revenue - cell gap	238,203	(72,290)
Due to EOLC	66,418	-
Net change in cash from operating activities	191,783	(248,255)
FINANCING ACTIVITIES		
Decrease in advances from EOWC	(385,367)	(377,717)
NET CHANGE IN CASH	(193,584)	(625,972)
CASH - beginning of year	3,240,758	3,866,730
CASH - end of year	3,047,174	3,240,758

The accompanying notes are an integral part of these financial statements

EASTERN ONTARIO REGIONAL NETWORK INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended March 31, 2019

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.

EORN is now focused on expanding and leveraging regional broadband access, both fixed and mobile. In 2015, EORN developed a 10-year Digital Strategy to ensure that improved broadband access will deliver economic growth and a better quality of life to Eastern Ontario communities.

2. SIGNIFICANT ACCOUNTING POLICIES

These consolidated 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 consolidated financial statements reflect the assets, liabilities, revenues and expenses and accumulated surplus of the reporting entity.

The reporting entity is comprised of all organizations, committees and local boards accountable for the administration of their financial affairs and resources to the Organization and which are owned and controlled by the Organization. These consolidated financial statements include:

- EORN Consulting Services 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.

Revenue

Member contributions are earned based on operating and other project expenses in excess of other revenue sources. The total remaining unspent member contributions is shown as advances from EOWC on the Consolidated Statement of Financial Position.

Sustainability funding is recognized in the consolidated financial statements as revenues in the period in which it is earned based on the terms of the funding agreement.

Interest income is recorded when earned.

In-kind contributions are recorded as both a revenue and expense based on the fair value of the goods or services received at no cost.

Consulting services are recognized in the financial statements as revenues in the period in which it is earned based on the terms of the agreements.

EASTERN ONTARIO REGIONAL NETWORK INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended March 31, 2019

2. SIGNIFICANT ACCOUNTING POLICIES, continued

(c) Tangible Capital Assets

Network Infrastructure

During 2017, the organization transferred ownership of its 51% share of the funded network assets of the network construction project completed in 2015 to the service providers.

Other

The Organization does not have any other tangible capital assets.

(d) Deferred Revenue

Deferred revenue represents grants, user charges and fees which have been collected but for which the related services have yet to be performed. These amounts will be recognized as revenues in the fiscal year the services are performed.

(e) Use of Estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

(f) Related Party Transactions

The Organization has entered into related party transactions with those organizations described in note 10.

Allocated costs and recovery of costs are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Unallocated costs are measured at the carrying amount, which is the amount recorded in the records of the Organization.

3. IN-KIND CONTRIBUTIONS

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

4. BUDGET FIGURES

The budget, approved by the Organization for 2019 is reflected on the Consolidated Statement of Operations and Accumulated Surplus and the Consolidated Statement of Net Financial Assets. Budget figures are not subject to audit.

EASTERN ONTARIO REGIONAL NETWORK INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended March 31, 2019

5. CREDIT FACILITY AGREEMENT

The Organization has an outstanding letter of credit in favour of the Ontario Municipal Employees Retirement System (OMERS) in the amount of \$47,000 with the Bank of Montreal.

6. PENSION AGREEMENTS

Certain employees of the Organization's are eligible members of the Ontario Municipal Employees Retirement System (OMERS), a multi-employer pension plan.

The Actuarial Opinion contained in the 2018 Annual Report disclosed total actuarial liabilities of \$100,081 million in respect of benefits accrued for service with actuarial assets of \$95,890 million indicating an actuarial deficit of \$4,191 million. Because OMERS is a multi-employer plan, any pension plan surpluses or deficits are a joint responsibility of Ontario municipal organizations and their employees. As a result, the Organization does not recognize any share of the OMERS pension surplus or deficit.

The Organization's required contributions to OMERS in 2019 were \$34,654 (2018 - \$32,053).

7. DEFERRED REVENUE

Included in deferred revenue are the following amounts:

	2019	2018
	\$	\$
Member municipalities - cell gap project	238,203	-

The continuity of deferred revenue is as follows:

	2019	2018
	\$	\$
Balance - beginning of year	-	-
Add amounts received:		
Member municipalities	520,000	-
Less transfer to operations:		
Cell gap expenses	281,797	-
Balance - end of year	238,203	-

EASTERN ONTARIO REGIONAL NETWORK INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended March 31, 2019

8. ACCUMULATED SURPLUS

Accumulated surplus consists of the following:

	2019	2018
	\$	\$
Surplus/(Deficit)		
EORN Consulting Services Inc.	(26,903)	-
Reserves		
Sustainability funding reserve	926,920	1,112,255
	900,017	1,112,255

The sustainability funding reserve has been generated from various funding agreements with private sector partners to fund operating expenses after March 31, 2015.

9. COMPARATIVE FIGURES

Certain comparative figures were restated, where required, to conform with the current year presentation.

10. RELATED PARTY TRANSACTIONS

Several organizations, including Eastern Ontario Regional Network Inc. (EORN), Eastern Ontario Wardens' Caucus (EOWC), Eastern Ontario Mayors' Caucus (EOMC) and Eastern Ontario Leadership Council (EOLC) were created to conduct research and enhance municipal service delivery in Eastern Ontario. As these organizations were created by the same group of member municipalities, often have common board members and management, transactions between these organizations are considered related party transactions. Transactions with the member municipalities are also related party transactions.

The Organization has received advances from the 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 its member municipalities.

EASTERN ONTARIO REGIONAL NETWORK INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS For the Year Ended March 31, 2019

10. RELATED PARTY TRANSACTIONS, continued

Eastern Ontario Leadership Council (EOLC) is not incorporated but was formed to lead the implementation of the regional economic development strategy. EOLC consists of five partner organizations including EOWC and EORN. EOLC transactions are processed by EORN through a due from (to) account as disclosed below.

Details of the related party revenue and expense transactions are as follows:

	2019	2018
	\$	\$
Revenues:		
Member contributions	385,367	377,905
Municipal contributions	281,797	-
	667,164	377,905
Expenses:		
Eastern Ontario Leadership Council	50,000	33,612
County of Hastings - financial and administrative services	103,940	119,791
County of Peterborough - IT and support services	30,500	30,500
	184,440	183,903

Details of the related party assets/(liabilities) are as follows:

	2019	2018
	\$	\$
Due from (to) EOLC	(66,418)	5,477
Advances from EOWC	(1,866,142)	(2,251,509)
Accounts receivable - City of Kawartha Lakes	40,000	-
	(1,892,560)	(2,246,032)

Due from (to) balances, accounts receivable and advances are unsecured, without interest and have no specific terms of repayment.