

EASTERN ONTARIO REGIONAL NETWORK INC.

CONSOLIDATED FINANCIAL STATEMENTS

MARCH 31, 2021

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EASTERN ONTARIO REGIONAL NETWORK INC.

For The Year Ended March 31, 2021

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

Chief Executive Officer

October 7, 2021

INDEPENDENT AUDITOR'S REPORT**To the Members of the Board of Directors of the Eastern Ontario Regional Network Inc.****T: (705) 742-3418**
F: (705) 742-9775**www.bakertilly.ca***Opinion*

We have audited the consolidated financial statements of the Eastern Ontario Regional Network Inc. and its subsidiary (the Organization), which comprise the consolidated statement of financial position as at March 31, 2021, 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, 2021, 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.

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.

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
October 7, 2021

EASTERN ONTARIO REGIONAL NETWORK INC.**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**
At March 31, 2021

	2021	2020
	\$	\$
FINANCIAL ASSETS		
Cash	8,935,714	8,795,976
Due from Province of Ontario	242,606	-
Due from Government of Canada	242,646	-
HST receivable	129,426	85,818
Accounts receivable	21,590	25,062
TOTAL FINANCIAL ASSETS	9,571,982	8,906,856
LIABILITIES		
Accounts payable and accrued liabilities (note 8)	662,627	312,923
Due to Eastern Ontario Leadership Council (EOLC) (note 8)	44,779	48,939
Advances from Eastern Ontario Wardens' Caucus (EOWC) (note 8)	1,062,750	1,165,151
Advances from municipalities - Cell Gap Project (note 8)	7,323,930	6,690,263
TOTAL LIABILITIES	9,094,086	8,217,276
NET FINANCIAL ASSETS	477,896	689,580
NON-FINANCIAL ASSETS		
Tangible capital assets (note 4)	9,600	12,800
Prepaid expenses	6,100	-
TOTAL NON-FINANCIAL ASSETS	15,700	12,800
ACCUMULATED SURPLUS (note 5)	493,596	702,380

The accompanying notes are an integral part of these financial statements

CONSOLIDATED STATEMENT OF OPERATIONS AND ACCUMULATED SURPLUS
For the Year Ended March 31, 2021

	Budget 2021 \$ (Unaudited)	Actual 2021 \$	Actual 2020 \$
REVENUES			
Broadband project:			
Member contributions (note 8)	297,414	141,079	700,991
Sustainability funding	251,418	251,418	251,418
Interest	13,571	15,330	59,457
In-kind contributions (note 6)	10,827	14,161	9,049
Cell Gap Project:			
Government of Canada	1,619,803	536,771	-
Province of Ontario	1,619,803	536,899	-
Municipal contributions (note 8)	1,880,998	1,407,294	172,809
In-kind contributions (note 6)	1,130,000	169,763	-
Interest	56,661	61,897	47,941
Cell Gap CRTC analysis (note 8)	-	-	238,203
Other	-	641	1,684
TOTAL REVENUES	6,880,495	3,135,253	1,481,552
EXPENSES			
Broadband operations	488,057	485,190	1,108,787
Cell Gap Project:			
Construction	3,390,000	385,427	-
General - eligible	1,469,410	1,286,946	-
General - ineligible	1,391,195	1,040,252	220,749
Cell Gap CRTC analysis	-	-	312,142
Gig Project	200,000	91,982	-
EOLC (note 8)	25,000	25,000	25,000
Consulting services	-	23,560	12,511
General	42,000	5,680	-
TOTAL EXPENSES	7,005,662	3,344,037	1,679,189
ANNUAL DEFICIT	<u>(125,167)</u>	(208,784)	(197,637)
ACCUMULATED SURPLUS - beginning of year		702,380	900,017
ACCUMULATED SURPLUS - end of year		493,596	702,380

The accompanying notes are an integral part of these financial statements

CONSOLIDATED STATEMENT OF NET FINANCIAL ASSETS
For the Year Ended March 31, 2021

	Budget 2021 \$ (Unaudited)	Actual 2021 \$	Actual 2020 \$
ANNUAL DEFICIT	(125,167)	(208,784)	(197,637)
Amortization of tangible capital assets	-	3,200	3,200
Purchase of tangible capital assets	-	-	(16,000)
Change in prepaid expenses	-	(6,100)	-
DECREASE IN NET FINANCIAL ASSETS	(125,167)	(211,684)	(210,437)
NET FINANCIAL ASSETS - beginning of year	689,580	689,580	900,017
NET FINANCIAL ASSETS - end of year	564,413	477,896	689,580

The accompanying notes are an integral part of these financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended March 31, 2021

	2021	2020
	\$	\$
CASH PROVIDED BY (USED IN)		
OPERATING ACTIVITIES		
Annual deficit	(208,784)	(197,637)
Items not involving cash		
Amortization of tangible capital assets	3,200	3,200
Change in non-cash assets and liabilities		
Due from Province of Ontario	(242,606)	-
Due from Government of Canada	(242,646)	-
HST receivable	(43,608)	(16,667)
Accounts receivable	3,472	86,643
Prepaid expenses	(6,100)	-
Accounts payable and accrued liabilities	349,704	158,687
HST payable	-	(3,014)
Deferred revenue	-	(238,203)
Due to EOLC	(4,160)	(17,479)
Net change in cash from operating activities	(391,528)	(224,470)
CAPITAL ACTIVITIES		
Purchase of tangible capital assets	-	(16,000)
FINANCING ACTIVITIES		
Advances from EOWC transferred to operations	(102,401)	(700,991)
Advances from municipalities - Cell Gap Project:		
Amounts received	2,040,961	6,863,072
Amounts transferred to operations	(1,407,294)	(172,809)
Net change in cash from financing activities	531,266	5,989,272
NET CHANGE IN CASH	139,738	5,748,802
CASH - beginning of year	8,795,976	3,047,174
CASH - end of year	8,935,714	8,795,976

The accompanying notes are an integral part of these financial statements

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 achieved that goal in 2015 and continues to focus its energy and efforts on expanding connectivity for the region to ensure both rural and urban residents have access to reliable broadband and cellular services.

In 2015, EORN developed a 10-year digital strategy to ensure that improved access to connectivity will deliver economic growth and a better quality of life to eastern Ontario communities. In 2020, with funding allocated by the three levels of government, the EORN Cell Gap Project began. The physical build will take approximately five years to complete and will address the issues around coverage and capacity related to cellular service. Total government and partner contributions to the project are expected to be in excess of \$300 million.

EORN also recognizes that broadband services for the region need to continue to evolve and improve. EORN will continue its advocacy and encourage the Government of Canada and Province of Ontario to continue to invest in broadband in eastern Ontario.

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) Tangible Capital Assets

Tangible capital assets are recorded at cost which includes all amounts that are directly attributable to acquisition, construction, development or betterment of the asset. The cost, less residual value, if any, of tangible capital assets is amortized on a straight-line basis, over the expected useful life of the asset, as follows:

Computer equipment	5 years
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(c) Deferred Revenue

Deferred revenue represents grants and contributions 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.

2. SIGNIFICANT ACCOUNTING POLICIES, continued**(d) 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.

Government Funding

Government funding is recognized in the consolidated 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.

Other revenue

Member contributions for broadband 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.

Municipal contributions for Cell Gap Project are earned based on operating and other project expenses in excess of other revenue sources. The total remaining unspent Municipal contributions is shown as advances from municipalities for the Cell Gap Project 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.

(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) Inter-Entity Transactions

The Organization has entered into related party transactions with those organizations described in note 8.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended March 31, 2021

2. SIGNIFICANT ACCOUNTING POLICIES, continued

(g) Non-financial Assets

Tangible capital 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.

3. CREDIT FACILITY AGREEMENT

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

4. TANGIBLE CAPITAL ASSETS

The net book value of the Organization's tangible capital assets are:

	2021 Computer Equipment \$	2020 Computer Equipment \$
COST		
Balance, beginning of year	16,000	-
Add: additions during the year	-	16,000
Balance, end of year	16,000	16,000
ACCUMULATED AMORTIZATION		
Balance, beginning of year	3,200	-
Add: additions during the year	3,200	3,200
Balance, end of year	6,400	3,200
NET BOOK VALUE OF TANGIBLE CAPITAL ASSETS	9,600	12,800

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended March 31, 2021

5. ACCUMULATED SURPLUS

Accumulated surplus consists of the following:

	2021	2020
	\$	\$
Surplus/(Deficit)		
EORN Consulting Services Inc.	(60,650)	(37,730)
Invested In Capital Assets		
Tangible capital assets - net book value	9,600	12,800
Reserves		
Broadband sustainability funding	544,646	727,310
	493,596	702,380

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

6. IN-KIND CONTRIBUTIONS

In-kind contributions are comprised of the following private sector contributions:

	2021	2020
	\$	\$
Broadband project	14,161	9,049
Cell Gap project	169,763	-
	183,924	9,049

7. PENSION AGREEMENTS

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

The Actuarial Opinion contained in the 2020 Annual Report disclosed total actuarial liabilities of \$113,055 million in respect of benefits accrued for service with actuarial assets of \$109,844 million indicating an actuarial deficit of \$3,211 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 2021 were \$112,979 (2020 - \$35,180).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended March 31, 2021

8. INTER-ENTITY TRANSACTIONS

Several organizations, including EORN, EOWC, Eastern Ontario Mayors' Caucus (EOMC) and 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 EOWC in order to fund the broadband project. The advances are based on contribution agreements between EOWC and each of its member municipalities.

During 2019 advances were received from EOWC member municipalities to initiate the Cell Gap CRTC analysis process and in 2019, 2020 and 2021 additional advances were received from municipalities for their 10 million dollar contribution to the Cell Gap Project agreement with the Government of Canada and Province of Ontario.

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 inter-entity expense transactions are as follows:

	2021	2020
	\$	\$
Revenues:		
Member contributions - broadband	141,079	700,991
Municipal contributions:		
Cell Gap Project	1,407,294	172,809
Cell Gap CRTC analysis	-	238,203
	1,548,373	1,112,003
Expenses:		
EOLC	25,000	25,000
County of Hastings - financial and administrative services	181,895	103,940
County of Hastings - human resources services	-	15,591
County of Peterborough - procurement services	39,699	78,076
County of Peterborough - GIS services	139,500	-
County of Frontenac - Indigenous consultant	70,492	-
County of Frontenac - policy analyst	70,492	-
Interest on Cell Gap advances	249,067	84,982
	776,145	307,589
	2,324,518	1,419,592

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the Year Ended March 31, 2021

8. INTER-ENTITY TRANSACTIONS, continued

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

	2021	2020
	\$	\$
Due to EOLC	(44,779)	(48,939)
Advances from EOWC	(1,062,750)	(1,165,151)
Advances from municipalities - Cell Gap Project	(7,323,930)	(6,690,263)
Accounts payable - interest on Cell Gap advances due to municipalities	(100,811)	(84,982)
Accounts payable - County of Hastings	(77,955)	(15,591)

Unless otherwise noted, due from (to) balances, accounts receivable, accounts payable and advances are unsecured, without interest and have no specific terms of repayment.

Prepaid advances from municipalities for the Cell Gap Project will bear interest at 5% annually.

9. BUDGET FIGURES

The budget, approved by the Organization for 2021 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.

10. COMPARATIVE FIGURES

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

11. UNCERTAINTY CAUSED BY COVID-19

In March 2020, the World Health Organization categorized COVID-19 as a pandemic. The potential economic effects within the Organization's environment and in the global markets, possible disruption in supply chains, and measures being introduced at various levels of government to curtail the spread of the virus (such as travel restrictions, closures of non-essential municipal and private operations, imposition of quarantines and social distancing) could have a material impact on the Organization's operations. The extent of the impact of this outbreak and related containment measures on the Organization's operations cannot be reliably estimated at this time.