

**EASTERN ONTARIO REGIONAL NETWORK INC.**

**FINANCIAL STATEMENTS**

**MARCH 31, 2012**

**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, 2012

### 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

John Jenike

Date

January 09 2012

Chief Financial Officer

Shirley

Date

January 09, 2012



**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, 2012, the statements of operations and accumulated surplus, net financial liabilities 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, 2012 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 AccountantsPeterborough, Ontario  
January 9, 2013

# EASTERN ONTARIO REGIONAL NETWORK INC.

## STATEMENT OF FINANCIAL POSITION At March 31, 2012

	2012	2011
	\$	\$
<b>FINANCIAL ASSETS</b>		
Cash	3,113,814	6,610,281
HST receivable (note 3)	4,954,255	1,080,845
Grants receivable	10,797,290	7,742,228
Accounts receivable	21,884	-
<b>TOTAL FINANCIAL ASSETS</b>	<b>18,887,243</b>	<b>15,433,354</b>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	13,097,777	8,531,338
Advances from EOWC (note 4)	5,540,466	6,920,233
<b>TOTAL LIABILITIES</b>	<b>18,638,243</b>	<b>15,451,571</b>
<b>NET FINANCIAL ASSETS/(LIABILITIES)</b>	<b>249,000</b>	<b>(18,217)</b>
<b>NON-FINANCIAL ASSETS</b>		
Prepaid expenses	1,000	18,217
<b>ACCUMULATED SURPLUS (note 9)</b>	<b>250,000</b>	<b>-</b>

*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, 2012

	Budget 2012 \$	Actual 2012 \$	Actual 2011 \$
<b>REVENUES</b>			
Government of Canada	16,970,165	16,965,263	5,027,293
Province of Ontario	17,981,178	17,931,995	5,027,293
Municipal contributions	1,277,984	1,156,614	1,104,807
In-kind contributions (note 5)	15,972,289	15,745,538	4,407,854
Interest	-	107,560	9,557
Sustainability funding - private sector partners	-	250,000	-
<b>TOTAL REVENUES</b>	<b>52,201,616</b>	<b>52,156,970</b>	<b>15,576,804</b>
<b>EXPENSES</b>			
General - eligible	1,510,209	1,450,097	783,395
General - ineligible	778,788	830,183	850,821
Backbone	44,035,053	44,741,565	13,378,719
Satellite	3,033,399	3,023,379	556,632
Access	2,844,167	1,861,746	7,237
<b>TOTAL EXPENSES</b>	<b>52,201,616</b>	<b>51,906,970</b>	<b>15,576,804</b>
<b>ANNUAL SURPLUS</b>	<b>-</b>	<b>250,000</b>	<b>-</b>
<b>ACCUMULATED SURPLUS - end of year</b>	<b>-</b>	<b>250,000</b>	<b>-</b>

*The accompanying notes are an integral part of these financial statements*

# EASTERN ONTARIO REGIONAL NETWORK INC.

## STATEMENT OF NET FINANCIAL LIABILITIES For the Year Ended March 31, 2012

	Budget 2012 \$	Actual 2012 \$	Actual 2011 \$
<b>ANNUAL SURPLUS</b>	-	250,000	-
<u>(Increase)/decrease in prepaid expenses</u>	-	17,217	(18,217)
<b>INCREASE/(DECREASE) IN NET FINANCIAL ASSETS</b>	-	267,217	(18,217)
<b>NET FINANCIAL LIABILITIES - beginning of year</b>	(18,217)	(18,217)	-
<b>NET FINANCIAL ASSETS (LIABILITIES) - end of year</b>	(18,217)	249,000	(18,217)

*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, 2012

	2012	2011
	\$	\$
<b>NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES:</b>		
<b>OPERATING</b>		
Annual surplus	250,000	-
Increase in HST receivable	(3,873,410)	(1,080,845)
Increase in grants receivable	(3,055,062)	(7,742,228)
Increase in accounts receivable	(21,884)	-
(Increase)/decrease in prepaid expenses	17,217	(18,217)
Increase in accounts payable and accrued liabilities	4,566,439	8,531,338
<b>Net decrease in cash from operating transactions</b>	<b>(2,116,700)</b>	<b>(309,952)</b>
<b>FINANCING</b>		
Increase/(decrease) in advances from EOWC	(1,379,767)	6,920,233
<b>INCREASE/(DECREASE) IN CASH</b>	<b>(3,496,467)</b>	<b>6,610,281</b>
<b>CASH - beginning of year</b>	<b>6,610,281</b>	<b>-</b>
<b>CASH - end of year</b>	<b>3,113,814</b>	<b>6,610,281</b>

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, 2012

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### 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, 2012

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### 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

The organization has applied for a ruling with respect to its status for claiming HST rebates. Management has recorded HST rebates based on the organization being eligible for rebates as a Municipal organization. If the organization is ultimately only eligible for rebates as a qualifying non-profit organization the expected rebates would be reduced by \$962,271. Since this would result in an increase in eligible expenses for the broadband project, the recorded revenues and expenses would both be understated by \$962,271. In addition, HST receivable would be overstated by \$962,271, grants receivable would be understated by \$947,216 and advances from EOWC would be overstated by \$15,055.

### 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. IN-KIND CONTRIBUTIONS

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



# EASTERN ONTARIO REGIONAL NETWORK INC.

## NOTES TO THE FINANCIAL STATEMENTS For the Year Ended March 31, 2012

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### 6. BUDGET FIGURES

The budget, approved by the organization, for 2012 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.

### 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 20 contracts for the construction of the network and satellite and access services. The total value of these contracts is approximately \$144,630,000. The remaining commitment at March 31, 2012 is estimated to be \$81,061,000 and will be funded by Federal, Provincial and private sector contributions.

### 9. ACCUMULATED SURPLUS

Accumulated surplus consists of the following:

	2012	2011
	\$	\$
<b>Reserves</b>		
Sustainability funding reserve	250,000	-
	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.