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Resolution AGM-01-2019-06

SOUTHWESTERN INTEGRATED FIBRE TECHNOLOGY INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2018

**SOUTHWESTERN INTEGRATED FIBRE TECHNOLOGY INC.
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FOR THE YEAR ENDED DECEMBER 31, 2018**

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SOUTHWESTERN INTEGRATED FIBRE TECHNOLOGY INC.

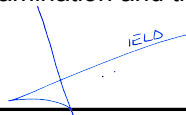
MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accompanying financial statements of the Southwestern Integrated Fibre Technology Inc. (the "Organization") are the responsibility of the Organization's management and have been prepared in accordance with Canadian public sector accounting standards established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada, as described in Note 1 to the financial statements.

The preparation of financial statements necessarily involves the use of estimates based on management's judgment, particularly when transactions affecting the current accounting period cannot be finalized with certainty until future periods.

The Organization's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded, transactions are properly authorized and recorded (in accordance with Canadian public sector accounting standards established by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada), and reliable financial information is available on a timely basis for preparation of the financial statements. These systems are monitored and evaluated by management. The Board of Directors meet with management and the external auditor to review the financial statements and discuss any significant financial reporting or internal control matters prior to their approval of the financial statements.

The financial statements have been audited by Baker Tilly SGB LLP, independent external auditor appointed by the Organization. The accompanying Independent Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the Organization's financial statements.



Chief Operating Officer - Barry Field
February 19, 2019

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Members of Southwestern Integrated Fibre Technology Inc.:

Opinion

We have audited the financial statements of the Southwestern Integrated Fibre Technology Inc. (the Organization), which comprise the statement of financial position as at December 31, 2018, and the statements of operations, change in net financial assets and cash flow for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2018, and its results of operations and 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 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 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 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 control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Organization's ability to continue as a going concern, disclosing, as applicable, matters relating 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 Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 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 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 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 financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 SQB LLP

Licensed Public Accountants
Collingwood, Ontario
February 19, 2019

SOUTHWESTERN INTEGRATED FIBRE TECHNOLOGY INC.
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017
	ACTUAL	ACTUAL
	\$	\$
FINANCIAL ASSETS		
Cash in Bank	6,776,523	4,359,420
Accounts Receivable from Members	0	600,000
AR Other	21,735	10,730
HST Recoverable	92,275	208,033
Government Grants Receivable (Note 6)	500,437	1,112,754
TOTAL FINANCIAL ASSETS	7,390,970	6,290,937
LIABILITIES		
Accounts Payable and Accruals	233,636	356,217
NET FINANCIAL ASSETS	7,157,334	5,934,720
Net Financial Assets and Accumulated Surplus (Note 3)	7,157,334	5,934,720

Approved



Gerry Marshall

Chair

February 21, 2019

Date

The accompanying notes and schedules are an integral part of this financial statement.

SOUTHWESTERN INTEGRATED FIBRE TECHNOLOGY INC.
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018 BUDGET \$	2018 ACTUAL \$	2017 ACTUAL \$
	(Note 7)		
REVENUE			
Contributions from Members (Note 5)	3,400,000	3,246,511	5,001,119
Contributions from Others (Note 8)	27,582,167	0	0
Government Grants (Note 6 & Note 8)	55,164,334	1,025,602	944,754
Memberships	20,000	64,308	34,450
Interest	15,000	127,783	32,287
Other Revenue	0	18	721
	<u>86,181,501</u>	<u>4,464,222</u>	<u>6,013,331</u>
EXPENSES			
Consulting	1,459,500	1,706,450	1,485,428
Insurance	25,000	25,656	20,967
Marketing	30,000	5,143	15,577
Miscellaneous	44,020	4,356	25,115
Netco (Note 8)	80,546,500	0	0
Office Expense	39,300	25,819	15,429
Professional Fees	707,500	751,748	540,886
Salaries and Wages	954,000	669,989	565,042
Travel	71,200	52,447	43,134
	<u>83,877,020</u>	<u>3,241,608</u>	<u>2,711,578</u>
ANNUAL SURPLUS	2,304,481	1,222,614	3,301,753
ACCUMULATED SURPLUS, beginning of the year	<u>5,934,720</u>	<u>5,934,720</u>	<u>2,632,967</u>
ACCUMULATED SURPLUS, end of the year (Note 3)	<u><u>8,239,201</u></u>	<u><u>7,157,334</u></u>	<u><u>5,934,720</u></u>

The accompanying notes and schedules are an integral part of this financial statement.

SOUTHWESTERN INTEGRATED FIBRE TECHNOLOGY INC.
STATEMENT OF CHANGE IN NET FINANCIAL ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018 BUDGET \$ (Note 7)	2018 ACTUAL \$	2017 ACTUAL \$
ANNUAL SURPLUS	2,304,481	1,222,614	3,301,753
Change in Net Financial Assets	2,304,481	1,222,614	3,301,753
NET FINANCIAL ASSETS, beginning of the year	5,934,720	5,934,720	2,632,967
NET FINANCIAL ASSETS, end of the year	8,239,201	7,157,334	5,934,720

The accompanying notes and schedules are an integral part of this financial statement.

SOUTHWESTERN INTEGRATED FIBRE TECHNOLOGY INC.
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED DECEMBER 31, 2018

	2018	2017
	ACTUAL	ACTUAL
	\$	\$
Cash flows from (for):		
OPERATING TRANSACTIONS		
Annual Surplus	1,222,614	3,301,753
Changes in:		
Accounts Receivable from Members	600,000	1,960,811
Due from the Western Ontario Wardens' Caucus	0	58,909
Accounts Receivable from Other	(11,005)	(10,730)
HST Recoverable	115,758	(201,295)
Government Grants Receivable	612,317	(944,754)
Accounts Payable and Accruals	(122,581)	194,726
Net change in cash from operations	2,417,103	4,359,420
Net Change in Cash Position	2,417,103	4,359,420
CASH, beginning of the year	4,359,420	0
CASH, end of the year	6,776,523	4,359,420

The accompanying notes and schedules are an integral part of this financial statement.

**SOUTHWESTERN INTEGRATED FIBRE TECHNOLOGY INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

Nature of Operations

Southwestern Integrated Fibre Technology Inc. ("the Organization") is a government not-for-profit organization incorporated without share capital under the Canada Not-for-profit Corporations Act on October 19, 2015. The corporation was formed by the Western Ontario Wardens' Caucus (WOWC) on behalf of WOWC, Region of Waterloo, Region of Niagara, Town of Caledon and the separated cities in the project area. Members include municipalities, first nations, schools, health care providers and community networks. The purpose of the Organization is to bring high speed broadband internet to the South Western Ontario Region.

1. Summary of 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 Southwestern Integrated Fibre Technology Inc.

(b) Recognition of revenue 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 good or services are acquired and a legal liability is incurred or transfers are due.

Contributions from members are recorded as revenue at the time invoices are issued and contributions become collectible.

Government grants are recognized in the financial statements as revenues in the period in which the events giving rise to the transfer occur, providing the transfers are authorized, any eligibility criteria have been met and reasonable estimates of the amounts can be made. Conditional government grants are recognized when monies are receivable. Grants are recognized as deferred revenue when grant stipulations give rise to a liability. Grant revenue is recognized in the statement of operations as the stipulation liabilities are settled.

All memberships revenue, interest income, contributions from others are recorded as revenue as earned.

(c) Cash and Cash Equivalents

Cash and cash equivalents include all cash balances and short-term, highly liquid financial instruments with a maturity of three months or less from the date of acquisition.

(d) Use of estimates

The preparation of the financial statements in conformity with Canadian public sector accounting standards requires management to make estimates and assumptions 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.

SOUTHWESTERN INTEGRATED FIBRE TECHNOLOGY INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

1. Summary of Significant Accounting Policies (continued)

(e) Tangible capital assets

(i) Network Infrastructure

The Organization retains ownership of 51% of the funded network assets of the network construction 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 have been reported as an expense on the Statement of Operations.

(f) Pension Plan

The Organization offers a pension plan for its full-time employees through the Ontario Municipal Employee Retirement System (OMERS). OMERS is a multi-employer, contributory, public sector pension fund established for employees of municipalities, local boards and school boards in Ontario. Participating employers and employees are required to make plan contributions based on participating employees' contributory earnings. The Organization accounts for its participation in OMERS as a defined contribution plan and recognizes the expense related to this plan as contributions are made, even though OMERS is itself a defined benefit plan.

2. Contingencies

The year following delivery of broadband services to users and generating positive net revenues, a portion of those revenues for each fiscal year will be allocated to repay the refundable portion of the contributions made by members. Refundable portions are defined in member agreements and range from 49% to 71% of the amount contributed. As of December 31, 2018 \$17,644,491 has been pledged by members. Of the \$11,991,441 (2017 - \$8,744,930) invoiced, \$5,759,912 (2017 - \$4,319,934) is refundable when positive net revenues are earned. Repayment of the refundable portion will be made to members based on their proportion of all member contributions. Members have the option to waive repayment at the time it becomes eligible and to require the Organization to reinvest the funds into the high speed broadband internet network infrastructure.

3. Accumulated Surplus

Accumulated surplus consists of sustainability funding that the Organization received as part of agreements with members to fund operating expenses after October 19, 2015.

4. Related Party Transactions

Included in expenses is \$0 (2017 - \$227,463) paid to The Corporation of the County of Grey for wage and benefit costs incurred to administer the Organization.

Also included in expenses is \$637,276 (2017 - \$332,798) paid to The Corporation of the County of Lambton for wage and benefit costs incurred to administer the Organization.

**SOUTHWESTERN INTEGRATED FIBRE TECHNOLOGY INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018**

5. Contributions from Members

Members have agreed to contribute \$17,644,491 over the period beginning in fiscal year 2016 and ending December 31,2021. As of December 31,2018 \$11,991,441 (2017 - \$8,744,930) was billed and recognized as revenue. The remaining revenue will be recognized as billed in future periods.

6. Government Grants

The Governments of Canada and Ontario will each provide up to \$1,069,178 under Phase 1 of the high speed broadband internet network project. Phase 1 of the project includes information gathering, planning, analysis and assessment of the technical and financial feasibility of the project. As of December 31,2018 a total of \$2,138,356 has been earned, based on eligible expenses incurred. As of Oct 12,2018 Contribution Agreement 1 was completed, and all eligible funding, totaling \$2,138,356 has been earned.

7. Budget Amounts

The operating budget approved by the Board of Directors for 2018 is reflected on the Statement of Operations and the Statement of Change in Net Financial Assets and was not audited. Budget figures have been reclassified for the purposes of these financial statements to comply with PSAB reporting requirements.

8. Netco Construction

Netco Construction is the first phase of installing fibre internet throughout Southwestern Ontario, which was originally planned to start in 2018. This activity has been delayed due to complexity of the procurement process. Budget reflected a funding total of \$80,546,500 to be funded equally by the Provincial Government, Federal Government and Telecom Service Provider.

SOUTHWESTERN INTEGRATED FIBRE TECHNOLOGY INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2018

9. Pension Agreements

The Organization makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of 4 members of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employees based on the length of service and rates of pay. Employees and employers contribute jointly to the plan.

The Administration Corporation Board of Directors, representing plan members and employers, is responsible for overseeing the management of the pension plan, including investment of the plan assets and administration of the benefits. OMERS provides pension services to nearly 500,000 active and retired members and approximately 1,000 employers. Each year an independent actuary determines the funding status of OMERS Primary Pension Plan (the Plan) by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. The most recent actuarial valuation of the Plan was conducted at December 31, 2017. The results of the valuation disclosed total actuarial liabilities of \$93,600 million in respect of benefits accrued for service with actuarial assets at that date of \$88,200 million indicating an actuarial deficit of \$5,400 million.

Because OMERS is a multi-employer pension 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 amount contributed to OMERS for 2018 was \$43,964 (2017 - \$5,241) for current service and is included as an expenditure on the Statement of Operations. The OMERS Board rate was 9.0% to 14.6% depending on income level for 2018 (2017 - 9.0% to 14.6% depending on income level).

The Organization makes no contributions under the past services provisions of the OMERS Agreement.