

**Huron Telecommunications Co-operative Limited**

**Financial Statements**

**For the Year Ended December 31, 2019**

## **Independent Auditors' Report**

To The Members of Huron Telecommunications Co-operative Limited

### **Opinion**

We have audited the financial statements of Huron Telecommunications Co-operative Limited, which comprise the balance sheet as at December 31, 2019, and the statements of income, retained earnings 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 company as at December 31, 2019, and the results of its operations and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises.

### **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 Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company 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 the financial statements in accordance with Canadian accounting standards for private enterprises, 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 Company'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 Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

### **Auditors' 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 auditors' 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.

**Huron Telecommunications Co-operative Limited**  
**Balance Sheet**  
**December 31, 2019**

	<u>2019</u>	<u>2018</u>
<b>Assets</b>		
Current Assets		
Cash	\$ 1,283,868	1,273,000
Short term investments (Note 3)	6,097,284	4,046,132
Accounts receivable	1,371,223	1,369,827
Income taxes receivable	54,151	-
Inventory	310,079	175,625
Prepaid expenses	27,065	48,134
	<u>9,143,670</u>	<u>6,912,718</u>
Capital Assets (Note 4)	27,362,887	27,440,186
Investment Assets (Note 5)	<u>210,874</u>	<u>183,526</u>
	<u>\$ 36,717,431</u>	<u>34,536,430</u>
<b>Liabilities</b>		
Current Liabilities		
Accounts payable and accrued liabilities (Note 7)	\$ 1,625,764	1,389,819
Income taxes payable	-	284,189
Deferred revenue	855,217	817,267
	<u>2,480,981</u>	<u>2,491,275</u>
Future Income Taxes	478,000	421,000
	<u>2,958,981</u>	<u>2,912,275</u>
<b>Shareholders' Equity</b>		
Share Capital (Note 8)	8,665	8,313
Contributed Surplus	5,052,039	5,052,039
Retained Earnings	28,697,746	26,563,803
	<u>33,758,450</u>	<u>31,624,155</u>
	<u>\$ 36,717,431</u>	<u>34,536,430</u>

**APPROVED BY THE BOARD:**

 , Director

 , Director

See accompanying notes to the financial statements

## **Auditors' Responsibilities for the Audit of the 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 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' 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 Company 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.

Exeter, Ontario

February 27, 2020

*PTMG* LLP

Chartered Professional Accountants  
Licensed Public Accountants

**Huron Telecommunications Co-operative Limited**  
**Statement of Income**  
**For the Year Ended December 31, 2019**

	<u>2019</u>	<u>2018</u>
<b>Revenue</b>		
Internet	\$ 4,793,678	4,435,885
Cellular	2,905,990	2,790,133
Telephone	2,520,997	2,591,068
Television	2,427,207	2,247,802
Rental	546,111	497,062
Direct toll contribution	114,422	115,817
Installation and service charges	113,222	102,992
Data network services	89,305	91,990
High cost serving area subsidy	67,937	120,617
Other	32,404	26,902
Directory advertising	21,043	9,761
Late pay charges	5,330	5,284
	<u>13,637,646</u>	<u>13,035,313</u>
<b>Direct Costs</b>		
Television	1,914,023	1,828,136
Cellular	1,887,400	1,551,780
System maintenance and repairs	876,364	969,819
Internet	841,151	721,761
Telephone	226,161	219,977
	<u>5,745,099</u>	<u>5,291,473</u>
<b>Gross Margin</b>	7,892,547	7,743,840
<b>Expenses</b>		
Amortization of capital assets	3,299,938	3,249,153
General and Administrative Expenses (See Schedule)	1,745,951	1,430,529
	<u>5,045,889</u>	<u>4,679,682</u>
<b>Other Income</b>		
Interest	112,639	65,935
Foreign exchange	(9,354)	963
	<u>103,285</u>	<u>66,898</u>
<b>Income Before Income Taxes</b>	2,949,943	3,131,056
<b>Income Taxes</b>		
Current	759,000	814,000
Future	57,000	16,000
	<u>816,000</u>	<u>830,000</u>
<b>Net Income</b>	<u>\$ 2,133,943</u>	<u>2,301,056</u>

See accompanying notes to the financial statements

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**Huron Telecommunications Co-operative Limited**  
**Statement of Retained Earnings**  
**For the Year Ended December 31, 2019**

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	<u>2019</u>	<u>2018</u>
Balance, beginning of year	\$ 26,563,803	24,262,747
Net income	<u>2,133,943</u>	<u>2,301,056</u>
Balance, end of year	<u>\$ 28,697,746</u>	<u>26,563,803</u>

See accompanying notes to the financial statements

**Huron Telecommunications Co-operative Limited**  
**Statement of Cash Flow**  
**For the Year Ended December 31, 2019**

	<u>2019</u>	<u>2018</u>
<b>Operating Activities</b>		
Net income	\$ 2,133,943	2,301,056
Items not affecting cash		
Amortization of capital assets	3,306,660	3,256,900
Future income taxes	<u>57,000</u>	<u>16,000</u>
	<b>5,497,603</b>	<b>5,573,956</b>
Net change in non-cash working capital items		
Increase in accounts receivable	(1,396)	(98,091)
Increase in income taxes recoverable	(54,151)	-
Increase in inventory	(134,454)	(52,713)
Decrease in prepaid expenses	21,069	27,433
Increase (Decrease) in accounts payable and accrued liabilities	235,946	(121,047)
Increase (Decrease) in income taxes payable	(284,189)	227,807
Increase in deferred revenue	<u>37,950</u>	<u>42,773</u>
	<b>5,318,378</b>	<b>5,600,118</b>
<b>Investing Activities</b>		
Purchase of capital assets	(3,229,361)	(1,889,911)
Increase in investment assets	<u>(2,078,501)</u>	<u>(4,038,690)</u>
	<b>(5,307,862)</b>	<b>(5,928,601)</b>
<b>Financing Activities</b>		
Increase in member shares	<u>352</u>	<u>400</u>
Net increase (decrease) in cash	<b>10,868</b>	<b>(328,083)</b>
Cash, beginning of year	<u>1,273,000</u>	<u>1,601,083</u>
Cash, end of year	<b><u>\$ 1,283,868</u></b>	<b><u>1,273,000</u></b>

See accompanying notes to the financial statements

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**Huron Telecommunications Co-operative Limited**  
**Notes to the Financial Statements**  
**December 31, 2019**

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**1. Nature of Business**

Huron Telecommunications Co-operative Limited, operates a telecommunications system under the regulatory jurisdiction of the Canadian Radio-Television Telecommunications Commission (CRTC).

**2. Summary of Significant Accounting Policies**

These financial statements are prepared in accordance with Canadian accounting standards for private enterprises and are in accordance with generally accepted accounting principles. The significant policies are detailed as follows:

**(a) Cash and cash equivalents**

Cash and cash equivalents consist of cash on hand, bank balances and short term investments with maturities of three months or less.

**(b) Inventory**

Inventory is stated at the lower of cost and net realizable value. Cost is determined on a specific items basis.

**(c) Property, plant and equipment**

Property, plant and equipment are recorded at cost. Amortization based on the estimated useful life of the asset is calculated on a straight-line basis as follows:

Buildings	30 years
Plant, equipment and station connections	3 to 20 years
Maintenance tools and equipment	5 years
Office equipment	20 years
Vehicles	5 years
Computer equipment	5 years
Computer software	5 years

**(d) Investments**

Short term and long term debt securities are initially and subsequently measured at amortized cost. Any bond premiums or discounts are amortized on a straight-line basis over the life of the bond.

Equity securities that are not quoted in an active market are recorded at cost less impairment. When there is an indication of impairment, the co-operative determines whether a significant adverse change has occurred during the period in the expected timing or amount of future cash flows from the investment.



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**Huron Telecommunications Co-operative Limited**  
**Notes to the Financial Statements**  
**December 31, 2019**

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**2. Summary of Significant Accounting Policies**

**(e) Revenue recognition**

Revenue from customer services is recognized when the services are provided in accordance with its sales agreements. Other revenue is recognized by the co-operative according to the terms of their funding agreements as explained below.

The co-operative receives compensation from a telecommunication industry funded National Contribution Fund (High Cost Serving Area subsidy), at levels established by the CRTC. These amounts are provided to the Co-operative and other telecommunication companies in Canada to ensure the affordability of residential telephone service to customers residing in the rural and remote areas of Canada.

The co-operative also receives a direct toll contribution from long distance providers registered with the CRTC to provide long distance services to its customers.

**(f) Income taxes**

The co-operative follows the future income taxes method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse.

**(g) Translation of foreign currencies**

Transactions denoted in foreign currencies are translated into Canadian dollars on the following basis:

- Assets, liabilities, revenues and expenses at the exchange rate prevailing at the transaction date.
- Monetary assets and liabilities at exchange rates prevailing at the balance sheet date;

**(h) Use of estimates**

The preparation of financial statements in accordance with Canadian accounting standards for private enterprises requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in earnings in the period in which they become known. Actual results could differ from those estimates.

**Huron Telecommunications Co-operative Limited**  
**Notes to the Financial Statements**  
**December 31, 2019**

**3. Short term investments**

	<u>2019</u>	<u>2018</u>
Guaranteed investment certificates, all coming due within the 2020 year bearing interest at rates ranging from 1.45 - 2.00 %	\$ <u>6,097,284</u>	<u>4,046,132</u>

**4. Capital Assets**

	<u>2019</u>			<u>2018</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Land and rights of way \$	688,148	-	688,148	688,148
Buildings	3,804,083	1,774,332	2,029,751	2,156,759
Plant, equipment and station connections	62,056,501	37,608,667	24,447,834	24,357,545
Maintenance tools and equipment	318,803	311,184	7,619	13,640
Office equipment	212,939	157,667	55,272	61,993
Vehicles	1,137,487	1,056,915	80,572	113,949
Computer equipment	229,769	229,769	-	-
Computer software	1,321,720	1,268,029	53,691	48,152
	<u>\$ 69,769,450</u>	<u>42,406,563</u>	<u>27,362,887</u>	<u>27,440,186</u>

**5. Investment Assets**

	<u>2019</u>	<u>2018</u>
Note Receivable - Comcentric Networking Inc., bearing interest at Canadian bank prime rate with no set terms of repayment	\$ 210,842	183,494
Other	<u>32</u>	<u>32</u>
	<u>\$ 210,874</u>	<u>183,526</u>

**6. Bank indebtedness**

The co-operative has available a bank operating line of credit to a maximum of \$2,500,000, of which no amount was utilized at December 31, 2019. The operating line of credit is due on demand, bears interest at the bank's prime rate plus 0.5% and is secured by a general security agreement.

**7. Accounts Payable and Accrued Liabilities**

	<u>2019</u>	<u>2018</u>
Accounts payable and accrued liabilities	\$ 1,593,923	1,367,043
Government remittances payable	<u>31,841</u>	<u>22,776</u>
	<u>\$ 1,625,764</u>	<u>1,389,819</u>

**Huron Telecommunications Co-operative Limited**  
**Notes to the Financial Statements**  
**December 31, 2019**

**8. Share Capital**

	<u>2019</u>	<u>2018</u>
Issued:		
8,665 Member shares	\$ <u>8,665</u>	<u>8,313</u>

**9. Transactions with Non-members**

Less than 20% of the co-operative's business was transacted with non-members.

**10. Financial Instruments**

It is the opinion of the co-operative's management that the co-operative is not exposed to significant credit, interest rate, currency or liquidity risks.

**11. Rate Regulation**

Approximately 19% of the co-operative's customer service is subject to rate regulations by the CRTC. The fact the co-operative is subject to rate regulation does not result in the co-operative selecting accounting policies that would differ from accounting standards for private enterprises.

**12. Comparative Figures**

The presentation of certain amounts on the financial statements for the previous year has been changed where necessary to conform with the financial statement presentation adopted for 2019. Net income for the previous year is not affected by this reclassification.

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**Huron Telecommunications Co-operative Limited**  
**Schedule of General and Administrative Expenses**  
**For the Year Ended December 31, 2019**

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Management and office	\$ 1,029,077	754,621
Billing, postage and printing	211,815	189,375
Bank charges and interest	111,962	112,523
Advertising	84,501	114,336
Municipal tax	84,480	80,772
Insurance	63,309	63,320
Bad debts	57,295	40,490
Miscellaneous and convention	64,387	40,841
Professional fees	24,483	21,518
Amortization - office equipment	6,722	7,747
Directors fees	7,920	4,986
	<u>\$ 1,745,951</u>	<u>1,430,529</u>