

**Huron Telecommunications Co-operative Limited**

**Financial Statements**

**For the Year Ended December 31, 2020**

## **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, 2020, 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, 2020, 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.

## **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 26, 2021

*PTMG* LLP

Chartered Professional Accountants  
Licensed Public Accountants

**Huron Telecommunications Co-operative Limited**  
**Balance Sheet**  
**December 31, 2020**

	<u>2020</u>	<u>2019</u>
<b>Assets</b>		
Current Assets		
Cash	\$ 2,059,225	1,283,868
Short term investments (Note 3)	4,052,647	6,097,284
Accounts receivable	1,351,475	1,371,223
Income taxes receivable	-	54,151
Inventory	440,680	310,079
Prepaid expenses	<u>50,762</u>	<u>27,065</u>
	7,954,789	9,143,670
Capital Assets (Note 4)	25,871,729	27,362,887
Long term Investments (Note 5)	<u>5,205,731</u>	<u>210,874</u>
	<u>\$ 39,032,249</u>	<u>36,717,431</u>
<b>Liabilities</b>		
Current Liabilities		
Accounts payable and accrued liabilities (Note 7)	\$ 861,447	1,625,764
Income taxes payable	188,932	-
Deferred Revenue	<u>875,994</u>	<u>855,217</u>
	1,926,373	2,480,981
Future Income Taxes	<u>502,000</u>	478,000
	2,428,373	2,958,981
<b>Shareholders' Equity</b>		
Share Capital (Note 8)	8,958	8,665
Contributed Surplus	5,052,039	5,052,039
Retained Earnings	<u>31,542,879</u>	<u>28,697,746</u>
	<u>36,603,876</u>	<u>33,758,450</u>
	<u>\$ 39,032,249</u>	<u>36,717,431</u>

**APPROVED BY THE BOARD:**

\_\_\_\_\_, Director

\_\_\_\_\_, Director

See accompanying notes to the financial statements

**Huron Telecommunications Co-operative Limited**  
**Statement of Income**  
**For the Year Ended December 31, 2020**

	<u>2020</u>	<u>2019</u>
<b>Revenue</b>		
Internet	\$ 5,219,864	4,793,678
Cellular	2,856,221	2,905,990
Telephone	2,480,884	2,520,997
Television	2,469,142	2,427,207
Rental	587,036	546,111
Direct toll contribution	115,302	114,422
Data network services	85,209	89,305
Installation and service charges	59,359	113,222
High cost serving area subsidy	41,547	67,937
Other	34,165	32,404
Late pay charges	2,583	5,330
Directory advertising	-	21,043
	<u>13,951,312</u>	<u>13,637,646</u>
<b>Direct Costs</b>		
Television	1,633,267	1,914,023
Cellular	1,663,868	1,887,400
System maintenance and repairs	934,056	876,364
Internet	891,371	841,151
Telephone	151,169	226,161
	<u>5,273,731</u>	<u>5,745,099</u>
<b>Gross Margin</b>	<b>8,677,581</b>	<b>7,892,547</b>
<b>Expenses</b>		
Amortization of capital assets	3,387,919	3,299,938
General and administrative expenses (See Schedule)	1,538,281	1,745,951
	<u>4,926,200</u>	<u>5,045,889</u>
<b>Other Income</b>		
Interest	115,971	112,639
Foreign exchange	(4,219)	(9,354)
	<u>111,752</u>	<u>103,285</u>
<b>Income Before Income Taxes</b>	<b>3,863,133</b>	<b>2,949,943</b>
<b>Income Taxes</b>		
Current	994,000	759,000
Future	24,000	57,000
	<u>1,018,000</u>	<u>816,000</u>
<b>Net Income</b>	<b>\$ <u>2,845,133</u></b>	<b><u>2,133,943</u></b>

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, 2020**

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	<u>2020</u>	<u>2019</u>
Balance, beginning of year	\$ 28,697,746	26,563,803
Net income	<u>2,845,133</u>	<u>2,133,943</u>
Balance, end of year	<u>\$ 31,542,879</u>	<u>28,697,746</u>

See accompanying notes to the financial statements

**Huron Telecommunications Co-operative Limited**  
**Statement of Cash Flow**  
**For the Year Ended December 31, 2020**

	<u>2020</u>	<u>2019</u>
<b>Operating Activities</b>		
Net income	\$ 2,845,133	2,133,943
Items not affecting cash		
Amortization of capital assets	3,393,409	3,306,660
Future income taxes	<u>24,000</u>	<u>57,000</u>
	<b>6,262,542</b>	<b>5,497,603</b>
Net change in non-cash working capital items		
Decrease (Increase) in accounts receivable	19,748	(1,396)
Decrease (Increase) in income taxes recoverable	54,151	(54,151)
Increase in inventory	(130,601)	(134,454)
Decrease (Increase) in prepaid expenses	(23,697)	21,069
Increase (Decrease) in accounts payable and accrued liabilities	(764,316)	235,946
Increase (Decrease) in income taxes payable	188,932	(284,189)
Increase in deferred revenue	<u>20,776</u>	<u>37,950</u>
	<b>5,627,535</b>	<b>5,318,378</b>
<b>Investing Activities</b>		
Purchase of capital assets	(1,902,251)	(3,229,361)
Increase in investment assets	<u>(2,950,220)</u>	<u>(2,078,501)</u>
	<b>(4,852,471)</b>	<b>(5,307,862)</b>
<b>Financing Activities</b>		
Increase in member shares	<u>293</u>	<u>352</u>
Net increase in cash	775,357	10,868
Cash, beginning of year	<u>1,283,868</u>	<u>1,273,000</u>
Cash, end of year	<b><u>\$ 2,059,225</u></b>	<b><u>1,283,868</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, 2020**

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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, 2020**

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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, 2020**

**3. Short Term Investments**

	<u>2020</u>	<u>2019</u>
Guaranteed investment certificates, all coming due within the 2021 year, bearing interest at rates ranging from 0.80 - 1.20 %	\$ <u>4,052,647</u>	<u>6,097,284</u>

**4. Capital Assets**

	<u>2020</u>			<u>2019</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	1,899,656	1,904,427	2,029,751
Plant, equipment and station connections	63,913,242	40,812,283	23,100,959	24,447,834
Maintenance tools and equipment	318,803	315,030	3,773	7,619
Office equipment	214,519	163,157	51,362	55,272
Vehicles	1,174,490	1,090,258	84,232	80,572
Computer equipment	229,769	229,769	-	-
Computer software	1,328,648	1,289,820	38,828	53,691
	<u>\$ 71,671,702</u>	<u>45,799,973</u>	<u>25,871,729</u>	<u>27,362,887</u>

**5. Investment Assets**

	<u>2020</u>	<u>2019</u>
Note Receivable - Comcentric Networking Inc., bearing interest at Canadian bank prime rate with no set terms of repayment	\$ 205,699	210,842
Guaranteed investment certificates, all coming due within the 2022 year bearing interest at rates ranging from 0.60 - 1.36%.	5,000,000	-
Other	<u>32</u>	<u>32</u>
	<u>\$ 5,205,731</u>	<u>210,874</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, 2020. 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.

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**Huron Telecommunications Co-operative Limited**  
**Notes to the Financial Statements**  
**December 31, 2020**

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**7. Accounts Payable and Accrued Liabilities**

	<u>2020</u>	<u>2019</u>
Accounts payable and accrued liabilities	\$ 837,918	1,593,923
Government remittances payable	<u>23,529</u>	<u>31,841</u>
	<u>\$ 861,447</u>	<u>1,625,764</u>

**8. Share Capital**

	<u>2020</u>	<u>2019</u>
Issued:		
8,958 Member shares	\$ <u>8,958</u>	<u>8,665</u>

**9. Transactions with Non-members**

Less than 10% 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 14% 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. Commitment**

In 2020 the co-operative entered into a project agreement with Southwestern Integrated Fibre Technology Inc. (SWIFT) to install infrastructure for the purpose of providing broadband connectivity to customers. The estimated cost of the project is \$1,312,000 of which SWIFT will fund \$875,000 and the co-operative will fund the remaining amount. The project will begin in 2021 with an expected completion date of March 2022. SWIFT retains ownership of 51% of the assets for seven years and provides the co-operative with a nominal purchase option at the end of that period. All the income earned from the customers using the project assets will belong to the co-operative.

**13. Impact of the COVID-19 Pandemic**

The economic impact of the COVID-19 outbreak and related government measures has been widespread, affecting most businesses and organizations. At the date of issue of these financial statements, the overall financial impact of the pandemic on the subsequent year's operating results has not been substantial. The Board of Directors and management will continue to monitor the situation and reflect the impact in the financial statements as appropriate.

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**Huron Telecommunications Co-operative Limited**  
**Schedule of General and Administrative Expenses**  
**For the Year Ended December 31, 2020**

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Management and office	\$ 858,998	1,029,077
Billing, postage and printing	193,684	211,815
Bank charges and interest	122,519	111,962
Municipal taxes	82,863	84,480
Advertising	76,165	84,501
Insurance	66,467	63,309
Miscellaneous and convention	65,054	64,387
Professional fees	39,457	24,483
Bad debts	17,166	57,295
Directors fees	10,418	7,920
Amortization - office equipment	5,490	6,722
	<u>\$ 1,538,281</u>	<u>1,745,951</u>