

HAY COMMUNICATIONS CO-OPERATIVE LIMITED

FINANCIAL STATEMENTS

December 31, 2023

SEEBACH & COMPANY
Chartered Professional Accountants



MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Hay Communications Co-operative Limited (the "Company") are the responsibility of the Company's management and have been prepared in accordance with Canadian accounting standards for private enterprises (ASPE) 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 Company's management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded from loss, transactions are properly authorized and recorded, and reliable information is available on a timely basis for preparation of the financial statements. These statements are monitored and evaluated by the Company's management. The Board of Directors meets with management and the external auditor to review the financial statements and discuss and significant financial reporting or internal control matters prior to their approval.

The financial statements have been audited by Seebach & Company, independent external auditors appointed by the Company. The accompanying Independent Auditor's Report outlines their responsibilities, the scope of their examination and their opinion on the Company's financial statements.

HAY COMMUNICATIONS CO-OPERATIVE LIMITED

A handwritten signature in blue ink that reads "Angela Lawrence".

Angela Lawrence
General Manager / Secretary-Treasurer

February 6, 2024

Seebach & Company

Chartered Professional Accountants

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INDEPENDENT AUDITOR'S REPORT

To the Members of Hay Communications Co-operative Limited

Opinion

We have audited the accompanying financial statements of Hay Communications Co-operative Limited ("the Company"), which are comprised of the balance sheet as at December 31, 2023 and the statement of income and expense and retained earnings, and the cash flow statement 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, 2023, and its financial performance and its cash flows for the year then ended in accordance with Canadian accounting standards for private enterprises (ASPE).

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 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 ASPE, 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.

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.

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INDEPENDENT AUDITOR'S REPORT (continued)

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 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 Company 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.

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.



Seebach & Company
Chartered Professional Accountants
Licensed Public Accountants

Clinton, Ontario
February 6, 2024

Hay Communications Co-operative Limited

Balance Sheet

as at December 31

	<u>2023</u>	<u>2022</u>
<u>Assets</u>		
Current assets		
Cash (note 2)	938,008	1,367,305
Interest receivable	60,955	32,725
Settlements receivable (note 3)	16,986	17,342
Customer accounts receivable	60,730	92,631
Sundry accounts receivable	349,095	465,311
Corporate taxes receivable	27,117	84,732
Materials and supplies inventory	860,281	914,267
Sales inventory	100,130	72,270
Prepaid expenses	175,760	228,614
	<u>2,589,062</u>	<u>3,275,197</u>
Investments (note 4)	8,099,982	9,796,681
Capital assets (note 5)	30,968,293	26,099,799
Intangible assets (note 6)	195,000	255,000
	<u>\$ 41,852,337</u>	<u>\$ 39,426,677</u>
<u>Liabilities and Members' Equity</u>		
<u>Liabilities</u>		
Current and accrued liabilities		
Accounts payable and accrued liabilities	2,492,948	1,833,159
Customer deposits	45,750	49,300
	<u>2,538,698</u>	<u>1,882,459</u>
Future income taxes	453,171	261,388
	<u>2,991,869</u>	<u>2,143,847</u>
<u>Members' Equity</u>		
Capital stock (note 7)		
Membership shares	9,398	9,073
Contributed surplus (note 8)		
Contribution by Township of Hay	9,573,816	9,573,816
Retained earnings		
Per statement of retained earnings	29,277,254	27,699,941
	<u>38,860,468</u>	<u>37,282,830</u>
	<u>\$ 41,852,337</u>	<u>\$ 39,426,677</u>

Approved by the Board of Directors:

Jack Glavin, Director

Henry VanderBurgt, Director

Hay Communications Co-operative Limited
Statement of Income and Expense and Retained Earnings
for the years ended December 31

	<u>2023</u>	<u>2022</u>
Operating revenues		
Internet revenue	5,202,787	4,978,360
Cellular revenue	3,075,791	2,846,319
IPTV (Internet Protocol TV) revenue	3,392,297	2,710,273
Local services revenue	1,685,303	1,711,272
Services to cable TV companies	110,358	295,333
Long distance revenue	72,616	86,759
Network Access Tariff settlement	65,877	83,238
Miscellaneous revenue	73,540	154,971
Direct Toll settlement (note 3)	102,913	105,542
Bad debts net of collections	(10,820)	(8,183)
	13,770,662	12,963,884
Operating expenses		
Maintenance and network expense	2,425,932	2,242,767
Depreciation expense	1,924,717	1,978,162
Amortization expense	60,000	45,000
Direct internet expense	682,664	603,367
Direct long distance expense	25,379	25,069
Marketing and promotion	208,326	207,242
General office and administration	1,513,261	1,485,113
Other operating expense	1,102,522	1,038,843
Direct IPTV	2,354,010	1,720,227
Direct cellular expense	1,295,452	1,372,512
	11,592,263	10,718,302
Net operating income	2,178,399	2,245,582
Investment income		
Interest income	195,222	147,973
Share of income of investment accounted for on the equity basis	41,888	113,122
	237,110	261,095
Net income before income taxes and patronage returns	2,415,509	2,506,677
Income taxes		
Current income taxes	441,303	443,542
Future income taxes	191,783	125,373
	633,086	568,915
Net income before patronage returns to members	1,782,423	1,937,762
Patronage returns to members		
Patronage returns	(279,061)	(292,183)
Less: Reduction in corporation income taxes resulting from patronage allocation	73,951	77,428
	(205,110)	(214,755)
Net income	1,577,313	1,723,007
Retained earnings, opening balance	27,699,941	25,976,934
Retained earnings, closing balance	\$ 29,277,254	\$ 27,699,941

Hay Communications Co-operative Limited

Cash Flow Statement

for the years ended December 31

	<u>2023</u>	<u>2022</u>
Operating activities		
Net income before patronage returns	1,782,423	1,937,762
Items not requiring outlay or providing inflow of funds:		
Depreciation expense	1,924,717	1,978,162
Amortization expense	60,000	45,000
Future income taxes accrued	191,783	125,373
Share of equity increase in subsidiary	(41,888)	(113,122)
Changes in working capital:		
Interest receivable	(28,230)	48,219
Settlements receivable	356	7,789
Customer accounts receivable	31,901	(89,855)
Sundry accounts receivable	116,216	474,777
Corporation taxes receivable/payable	57,615	(154,784)
Materials and supplies inventory	53,986	(111,805)
Sales inventory	(27,860)	38,203
Prepaid expenses	52,854	(9,094)
Accounts payable and accrued liabilities	659,789	334,278
Customer deposits	(3,550)	7,700
	<u>4,830,112</u>	<u>4,518,603</u>
Investing activities		
Purchase of capital assets	(6,807,611)	(5,190,862)
Proceeds of disposition of capital assets	14,400	24,500
Purchase of intangible assets	-	(300,000)
Redemption of investments	1,738,587	1,355,389
	<u>(5,054,624)</u>	<u>(4,110,973)</u>
Financing activities		
Membership share capital issued	325	550
Patronage returns to members - net of income taxes	(205,110)	(214,755)
	<u>(204,785)</u>	<u>(214,205)</u>
Net increase (decrease) in cash during year	(429,297)	193,425
Cash beginning of year	1,367,305	1,173,880
Cash end of year	<u>\$ 938,008</u>	<u>\$ 1,367,305</u>

Hay Communications Co-operative Limited

Notes to Financial Statements

December 31, 2023

1. Significant Accounting Policies

(a) Nature of Business

Hay Communications Co-operative Limited operates a telecommunications system under the regulatory jurisdiction of the Canadian Radio-television and Telecommunications Commission (CRTC).

(b) 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 amounts of assets and liabilities and disclosure of contingent liabilities at the date of the financial statements, and the reported amounts 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 those estimates.

(c) Inventory

Materials and supplies inventory is stated at cost. Sales inventory is stated at the lower of cost and net realizable value. Cost is determined on a specific item basis.

(d) Capital Assets

Capital assets are recorded at cost.

The acquisition, maintenance, depreciation and retirement of telephone plant in service is accounted for as follows:

Tools, test equipment, buildings and office equipment with a unit value of less than \$1,500 are expensed in the year of purchase.

Vehicle, plant overhead, and labour costs are allocated to operating and capital accounts on the basis of related labour hours.

Cable, terminals, loading coils, poles and other materials generally used for cable and conduit construction are carried as inventory until they are installed. These inventories are reported at cost. Customer equipment is capitalized at the time of purchase whether or not it is immediately put into service, and remains in capital until retired or sold.

(e) Intangible Assets

Intangible assets are recorded at cost less accumulated amortization. Management has determined that the carrying amount should be amortized over five years. The carrying value of the intangibles and the amortization period is periodically reviewed by management to determine if the facts and circumstances suggest that they might be impaired.

(f) Depreciation

Depreciation is recorded using the straight line method for groups of capital assets having an estimated equal life using the following rates:

Buildings	30-40 years
Towers	10-15 years
Central office equipment	10-34 years
Cable and conduit	10-40 years
Furniture and office equipment	5 years
Computer hardware	3-5 years
Computer software	5 years
Motor vehicles	7 years
Tools and test equipment	17 years

(g) Revenue Recognition

Revenue from services is recognized when the services are provided in accordance with the sales agreements.

Hay Communications Co-operative Limited

Notes to Financial Statements

December 31, 2023

1. Significant Accounting Policies (continued)

(h) Income Taxes

Income taxes are accounted for using the asset and liability method of allocation. This method requires that income tax reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Future income tax assets and liabilities are determined for these accumulated differences using current income tax rates.

(i) Financial Instruments

Financial assets and liabilities consist of cash, receivables, investments, future income taxes, accounts payable and accrued liabilities, and customer deposits. It is the opinion of management that the Co-operative is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of the Co-operative's financial instruments approximate their carrying values unless otherwise noted. The fair value of amounts due from affiliated companies are less than their carrying value as amounts are non-interest bearing. As the amounts have no terms of repayment, the fair value can not be calculated with any degree of certainty. Investments over which the company exerts significant influence are accounted for using the equity method.

2. Cash

Cash consists primarily of cash in bank and cashable investments. Interest is earned on cash in bank at the bank prime rate less 1.9%. At December 31, 2023 the interest rate earned was 5.30% (2022: 4.55%).

3. Settlements Receivable

The Co-operative receives Direct Toll Settlement from long distance carriers registered with the CRTC to allow them to provide service in the Co-operative's local serving territory. The direct toll settlement was determined by CRTC Decision 2017-282. This resulted in a net receivable of \$16,986 which is included in Settlements Receivable at December 31, 2023 (2022: \$17,342). The amount received by the Co-operative through this settlement is determined by the usage of direct toll services by these long distance carriers.

4. Investments

Bonds and Investment Certificates

Bonds and investment certificates are reported at their carrying value of cost which is considered to be their fair value. Interest rates range from 0.55% to 7.05% (2022 : 0.55% to 7.05%).

	<u>2023</u>	<u>2022</u>
Classification of these investments by maturity dates is as follows:		
Maturity in one year	250,000	2,499,134
Maturity in two years	2,326,274	1,864,818
Maturity in three years	656,025	635,963
Maturity in four years and beyond	1,426,474	1,297,295
	<u>\$ 4,658,773</u>	<u>\$ 6,297,210</u>

Hay Communications Co-operative Limited

Notes to Financial Statements

December 31, 2023

4. Investments (continued)

Advances to Shareholders and Equity Investments

These investments are reported at cost except for the investments in 2206275 Ontario Inc. and 2521624 Ontario Inc. for which the carrying value is equal to shareholder advances plus common shares plus accumulated retained earnings of the company (equity-based valuation).

	<u>2023</u>	<u>2022</u>
Canadian Portable Contribution Consortium		
- one Class F share	10	10
Canadian Local Number Portability Consortium		
- one Class B share	10	10
Canadian Numbering Administration Consortium (an organization administering telephone numbering in Canada)		
- one common share	10	10
Co-operative Synergies Inc. (a co-operative corporation servicing its members who are engaged in providing telephone communication services)		
- one membership share (one-seventeenth interest)	1	1
Canadian Communication Systems Alliance		
- three common shares	3	2
Libro Credit Union (one membership share and profit shares)	11,899	7,738
Hensall District Co-operative Incorporated	6,194	5,773
Comcentric Networking Inc. (a corporation formed to supply and market networking solutions in South western Ontario)		
- advances of cash and equipment bearing interest at chartered bank prime rate	117,715	122,448
- one common share (one-sixth interest)	1	1
2521624 Ontario Inc. (a corporation formed to operate security monitoring and installation services as well as customer technical support)		
- shareholder advances - non-interest bearing (1/2 portion)	400,551	400,551
- equity investment - 1 common shares at cost (1/2 portion)	1	1
- equity investment - accumulated earnings (1/2 portion)	(214,214)	(212,860)
2206275 Ontario Inc. (a corporation formed to hold the shares of a company engaged in the operation of cable TV services)		
- shareholder advances - non-interest bearing (1/3 portion)	536,275	636,275
- equity investment - 100 common shares at cost (1/3 portion)	500	500
- equity investment - accumulated earnings (1/3 portion)	2,582,253	2,539,011
	3,441,209	3,499,471
	\$ 8,099,982	\$ 9,796,681

5. Capital Assets

Accumulated depreciation reflects the depreciation incurred by the predecessor municipal system in prior years, as well as the depreciation incurred by the Co-operative. Costs, accumulated depreciation, and net book value are as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	754,311	-	754,311
Buildings	3,345,081	2,048,253	1,296,828
Towers	359,971	359,971	0
Central office equipment	16,640,153	12,660,810	3,979,343
Cable and conduit	35,394,987	11,100,930	24,294,057
Furniture and office equipment, computer hardware and software	602,019	544,535	57,484
Motor vehicles, tools and test equipment	1,532,829	946,559	586,270
as at December 31, 2023	\$58,629,351	\$27,661,058	\$30,968,293

Hay Communications Co-operative Limited

Notes to Financial Statements

December 31, 2023

5. Capital Assets (continued)

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land	477,336	-	477,336
Buildings	3,127,587	2,027,116	1,100,471
Towers	359,971	350,295	9,676
Central office equipment	14,810,963	11,709,325	3,101,638
Cable and conduit	31,159,498	10,264,502	20,894,996
Furniture and office equipment, computer hardware and software	600,417	520,745	79,672
Motor vehicles, tools and test equipment	1,374,797	938,787	436,010
as at December 31, 2022	<u>\$51,910,569</u>	<u>\$25,810,770</u>	<u>\$26,099,799</u>

6. Intangible Assets

	<u>2023</u>	<u>2022</u>
Licensing agreements	300,000	300,000
Less: Accumulated amortization	<u>(105,000)</u>	<u>(45,000)</u>
	<u>\$195,000</u>	<u>\$255,000</u>

7. Capital Stock

Authorized total capital is \$220,000,000 consisting of:

- \$20,000,000 in membership shares at a par value of \$1 each
- \$200,000,000 in preferred shares divided into
 - \$90,000,000 in Class A redeemable preferred shares at a par value of \$1 each,
 - \$90,000,000 in Class B redeemable preferred shares at a par value of \$10 each, and
 - \$20,000,000 in Class C redeemable preferred shares at a par value of \$100 each.

Membership shares are non-transferable and redeemable at par upon the member terminating service as a customer.

The maximum number of preferred shares that may be issued by the Co-operative is:

Class A	90,000,000
Class B	9,000,000
Class C	200,000

Issued capital consists of:

	<u>2023</u>	<u>2022</u>
Membership shares at a par value of \$1 each	<u>\$9,398</u>	<u>\$9,073</u>

8. Contributed Surplus

The Co-operative was formerly a municipally owned telephone system. Effective December 31, 1994 the assets and liabilities of the telephone system were transferred from the municipality to the Co-operative. Net assets on the transfer are denoted as contributed surplus.

9. Related Party Transactions

	<u>2023</u>	<u>2022</u>
The Co-operative had the following revenue and expense transactions with 2206275 Ontario Inc. (a corporation formed to hold the shares of a company engaged in the operation of cable TV services):		
Service Revenue	115,907	301,166
Maintenance of system	(1,228,506)	(755,007)
Capital expenditures	(31,100)	(49,525)
	<u>\$ (1,143,699)</u>	<u>\$ (503,366)</u>

The Co-operative had the following revenue and expense transactions with 2521624 Ontario Inc. (a corporation formed to operate security monitoring and installation services as well as customer technical support):

Service Revenue	4,153	3,556
Support	(210,000)	(172,500)
	<u>\$ (205,847)</u>	<u>\$ (168,944)</u>

Hay Communications Co-operative Limited

Notes to Financial Statements

December 31, 2023

10. Pension Agreements

Contributions for current service to an employees' defined contribution pension plan have been made in the amount of \$247,768 (2022 : \$227,791).

11. Statutory Information

The remuneration of directors and senior officers for the year, as defined by the Co-operative Corporations Act, R.S.O. 1990 was \$45,725 (2022 : \$44,900).

Business transacted with non-members did not exceed 50 per cent of the total business of the Co-operative.

12. Comparative Amounts

The presentation of certain amounts on the financial statements for the previous year has been changed to conform with the financial statement presentation adopted for 2023. Net income for the previous year is not affected by this reclassification.