

Financial Statements of

**OCEAN NETWORKS  
CANADA SOCIETY**

Year ended March 31, 2014



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## INDEPENDENT AUDITORS' REPORT

To the Members of Ocean Networks Canada Society

### Report on the Financial Statements

We have audited the accompanying financial statements of Ocean Networks Canada Society, which comprise the statement of financial position as at March 31, 2014, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising 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 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.

#### *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 an 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 our 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, we consider internal control 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 control. 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, the financial statements present fairly, in all material respects, the financial position of Ocean Networks Canada Society as at March 31, 2014, and its results of operations, its changes in net assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.



**Report on Other Legal and Regulatory Requirements**

As required by the Society Act of British Columbia, we report that, in our opinion, the accounting policies applied in preparing and presenting the financial statements in accordance with Canadian public sector accounting standards have been applied on a basis consistent with that of the preceding year.

*KPMG LLP*

Chartered Accountants

June 12, 2014

Victoria, Canada

# OCEAN NETWORKS CANADA SOCIETY

## Statement of Financial Position

March 31, 2014, with comparative figures for 2013

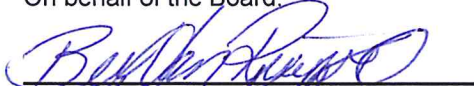
	2014	2013
<b>Assets</b>		
Current assets:		
Accounts receivable	\$ 4,117,307	\$ 68,450
Prepaid expenses	774,535	82,660
Due from University of Victoria	-	3,141,849
	<u>4,891,842</u>	<u>3,292,959</u>
Capital assets (note 2)	2,710,936	103,427
	<u>\$ 7,602,778</u>	<u>\$ 3,396,386</u>

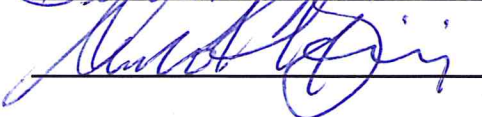
## Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 2,045,989	\$ 167,273
Deferred revenue	5,062	6,934
Due to University of Victoria	1,858,646	-
	<u>3,909,697</u>	<u>174,207</u>
Deferred contributions (note 3)	754,012	2,876,396
Unamortized deferred capital contributions (note 4)	2,702,204	91,488
Net assets:		
Invested in capital assets	8,732	11,939
Unrestricted	228,133	242,356
	<u>236,865</u>	<u>254,295</u>
Commitments (note 7)		
	<u>\$ 7,602,778</u>	<u>\$ 3,396,386</u>

See accompanying notes to financial statements.

On behalf of the Board:

  
\_\_\_\_\_  
Director

  
\_\_\_\_\_  
Director

# OCEAN NETWORKS CANADA SOCIETY

## Statement of Operations

Year ended March 31, 2014, with comparative figures for 2013

	2014	2013
<b>Revenue:</b>		
Natural Sciences and Engineering Research Council	\$ 2,696,274	\$ 1,655,616
Other federal	519,791	28,802
Miscellaneous	145,710	435,617
Amortization of deferred capital contributions	424,806	18,297
	<u>3,786,581</u>	<u>2,138,332</u>
<b>Expenses:</b>		
Salaries and benefits	1,523,379	1,135,803
Travel	229,745	152,198
Operational expenses	578,063	232,494
Consulting fees	605,604	202,588
Amortization of capital assets	428,013	29,404
Supplies	387,065	140,973
Professional fees	24,702	21,175
Hospitality	27,440	14,418
	<u>3,804,011</u>	<u>1,929,053</u>
Excess (deficiency) of revenue over expenses	\$ (17,430)	\$ 209,279

See accompanying notes to financial statements.

# OCEAN NETWORKS CANADA SOCIETY

## Statement of Changes in Net Assets

Year ended March 31, 2014, with comparative figures for 2013

	Invested in capital assets	Unrestricted	Total
Net assets, March 31, 2012	\$ 23,046	\$ 21,970	\$ 45,016
Excess (deficiency) of revenue over expenses	(11,107)	220,386	209,279
Net assets, March 31, 2013	11,939	242,356	254,295
Deficiency of revenue over expense	(3,207)	(14,223)	(17,430)
Net assets, March 31, 2014	\$ 8,732	\$ 228,133	\$ 236,865

See accompanying notes to financial statements.

# OCEAN NETWORKS CANADA SOCIETY

## Statement of Cash Flows

Year ended March 31, 2014, with comparative figures for 2013

	2014	2013
Cash provided by (used in):		
Operations:		
Excess (deficiency) of revenue over expenses	\$ (17,430)	\$ 209,279
Items not involving cash:		
Amortization of deferred capital contributions	(424,806)	(18,297)
Amortization of capital assets	428,013	29,404
Decrease in deferred contributions related to operations	(2,986,862)	(1,655,616)
Change in non-cash operating working capital:		
Increase in accounts receivable	(148,857)	(46,952)
Decrease in inventories	-	1,991
Increase in prepaid expenses	(691,875)	(78,856)
Change in due to/from University of Victoria	5,000,495	1,523,940
Increase in accounts payable and accrued liabilities	1,878,716	71,918
Increase (decrease) in deferred revenue	(1,872)	6,934
	3,035,522	43,745
Capital:		
Acquisition of capital assets	(3,035,522)	(43,745)
Cash position, beginning of year	-	-
Net change in cash and cash, end of year	\$ -	\$ -

See accompanying notes to financial statements.

# OCEAN NETWORKS CANADA SOCIETY

## Notes to Financial Statements

Year ended March 31, 2014

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Ocean Networks Canada Society ("ONCS") is a non-profit society incorporated under the Society Act of British Columbia on July 19, 2007. ONCS was established by the University of Victoria to provide an effective and unified management structure for the operation of the University's two ocean networks, VENUS and NEPTUNE Canada. The revenues and expenses of these networks are not reflected in these financial statements.

### 1. Significant accounting policies:

These financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards ("PSAB") with the 4200 standards for government not-for-profit organizations. The following is a summary of the significant accounting policies used in preparation of these financial statements.

#### (a) Capital assets:

Capital assets are initially recorded at cost. When a capital asset no longer contributes to ONCS' ability to provide services, its carrying value is written down to its residual value with no reversals of such write downs in subsequent periods. Rates and bases of amortization applied to write off the cost less estimated residual value of assets over their estimated useful lives are as follows:

Asset	Basis	Rate
Furniture and equipment	straight-line	8 years
Computer equipment	straight-line	3 years
Computer software	straight-line	3 years
Patents	straight-line	10 years

#### (b) Financial instruments:

Financial instruments are initially recorded at fair value. Accounts receivable, due from the University of Victoria, accounts payable and accrued liabilities are recorded at fair value on initial recognition and subsequently recorded at cost or amortized cost. It is management's opinion that ONCS is not exposed to significant interest, currency or credit risks arising from these financial instruments.



# OCEAN NETWORKS CANADA SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2014

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## 1. Significant accounting policies (continued):

### (c) Revenue recognition:

ONCS follows the deferral method of accounting for grants and contributions received.

Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Externally restricted capital contributions are recorded as deferred contributions until the amount is invested in capital assets. Contributions for capital assets that will be amortized are transferred to unamortized deferred capital contributions in the period the asset is acquired. Contributions for capital assets that will not be amortized, such as land, are not transferred to unamortized deferred capital contributions or recognized as revenue, but are recorded as a direct increase in net asset in the period the asset is acquired.

Unamortized deferred capital contributions are recognized as revenue on the same basis as the related capital assets are amortized.

### (d) Contributed materials and services:

The University of Victoria and other organizations contribute materials and services at no cost to ONCS. These transactions are not reflected in these financial statements (note 6).

### (e) Use of estimates:

The preparation of financial statements in conformity with PSAB 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.

# OCEAN NETWORKS CANADA SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2014

## 2. Capital assets:

March 31, 2014			
	Cost	Accumulated amortization	Net book value
Furniture and equipment	\$ 1,006,616	\$ 86,124	\$ 920,492
Computer equipment	1,983,136	349,850	1,633,286
Computer software	142,181	28,355	113,826
Patents	45,613	2,281	43,332
	<u>\$ 3,177,546</u>	<u>\$ 466,610</u>	<u>\$ 2,710,936</u>

March 31, 2013			
	Cost	Accumulated amortization	Net book value
Furniture and equipment	\$ 104,197	\$ 20,486	\$ 83,711
Computer equipment	81,530	62,755	18,775
Computer software	5,617	4,676	941
	<u>\$ 191,344</u>	<u>\$ 87,917</u>	<u>\$ 103,427</u>

## 3. Deferred contributions:

Deferred contributions represent externally restricted contributions received but not yet spent. Changes in deferred contributions in the year are as follows:

	2014	2013
Balance, beginning of year	\$ 2,876,396	\$ 4,575,757
Contributions received	3,900,000	-
	<u>6,776,396</u>	<u>4,575,757</u>
Transfers to revenue	(2,986,862)	(1,655,616)
Transfers to unamortized deferred capital contributions	(3,035,522)	(43,745)
	<u>(6,022,384)</u>	<u>(1,699,361)</u>
Balance, end of year	<u>\$ 754,012</u>	<u>\$ 2,876,396</u>

# OCEAN NETWORKS CANADA SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2014

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#### 4. Unamortized deferred capital contributions:

Unamortized deferred capital contributions represent externally restricted contributions spent on capital assets. These contributions are recognized as revenue in future periods on the same basis as amortization of the related capital asset. Changes in unamortized deferred capital contributions in the year are as follows:

	2014	2013
Balance, beginning of year	\$ 91,488	\$ 66,040
Transfers from deferred contributions	3,035,522	43,745
	3,127,010	109,785
Transfers to revenue	(424,806)	(18,297)
Balance, end of year	\$ 2,702,204	\$ 91,488

#### 5. Related party transactions:

During the year and consistent with prior years, ONCS received in-kind contributions from the University of Victoria consisting of various services, including provision of certain management and administrative staff, administrative services such as payroll and cash management and premises rental, all of which were provided at no cost to ONCS. These transactions have not been recorded in these financial statements, and amounts have not been estimated due to the related party nature and difficulty to estimate fair value.

During the year, ONCS purchased goods and services totalling \$379,024 from ASL Environment Sciences Inc., a company controlled by a director.

#### 6. Contributed materials and services:

Materials and services received by ONCS during the year for which fair value was reasonably estimable were \$3,304,009 (2013 - \$2,011,737). These materials and services were contributed principally by IBM Canada Ltd. at no cost to ONCS for information and communications technology and public engagement initiatives of ONCS. These transactions are not reflected in these financial statements.

# OCEAN NETWORKS CANADA SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2014

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## 7. Commitments:

The Society has entered into various funding agreements to support the creation of the Smart Oceans BC program. This program has a budget commitment of \$29.3 million to 2016 including significant expenditures which are to be funded through gift in kind contributions and certain expenditures that will be directly incurred by third parties. The largest funders are Western Economic Diversification Canada and IBM Canada Ltd. At March 31, 2014, approximately \$9.6 million of the budget commitment has been incurred. This includes \$1.9 million in gifts in kind which are not recorded in the financial statements under the accounting policies followed by the Society and \$3.4 million in expenditures incurred by others or deferred on the statement of financial position.

A total amount of \$6,576,760 received from the Natural Sciences and Engineering Research Council of Canada (NSERC) in March 2009 has been fully expended as at the deadline date of March 31, 2014. From April, 1 2014 a new grant of \$4,396,799 has been approved from NSERC (\$3,297,600) and Social Sciences and Humanities Research Council of Canada (\$1,099,199) which is to be fully expended by March 31, 2017.