

Financial Statements of

**OCEAN NETWORKS  
CANADA SOCIETY**

Year ended March 31, 2016



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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, 2016, 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, 2016, 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 Professional Accountants

June 23, 2016  
Victoria, Canada

# OCEAN NETWORKS CANADA SOCIETY

## Statement of Financial Position

March 31, 2016, with comparative information for 2015

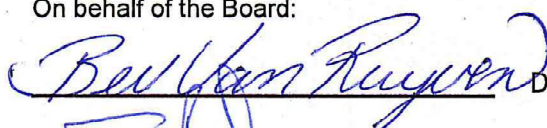
	2016	2015
<b>Assets</b>		
Current assets:		
Accounts receivable	\$ 4,741,850	\$ 3,043,714
Due from University of Victoria	544,957	-
	<u>5,286,807</u>	<u>3,043,714</u>
Capital assets (note 2)	5,211,233	4,837,060
	<u>\$ 10,498,040</u>	<u>\$ 7,880,774</u>

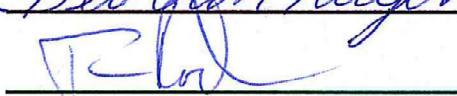
## Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,954,505	\$ 570,148
Due to University of Victoria	-	651,606
Deferred revenue	69,767	57,305
	<u>4,024,272</u>	<u>1,279,059</u>
Deferred contributions (note 3)	1,013,138	1,551,660
Unamortized deferred capital contributions (note 4)	5,196,966	4,830,667
Net assets:		
Invested in capital assets	14,267	6,393
Unrestricted	249,397	212,995
	<u>263,664</u>	<u>219,388</u>
Commitments (note 8)		
	<u>\$ 10,498,040</u>	<u>\$ 7,880,774</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, 2016, with comparative information for 2015

	2016	2015
Revenue:		
Government of Canada (note 5)	\$ 9,727,706	\$ 6,872,274
Contract revenue	1,042,179	158,293
Miscellaneous	168,342	35,876
Province of British Columbia	70,000	24,000
Amortization of deferred capital contributions	1,069,655	925,883
	<u>12,077,882</u>	<u>8,016,326</u>
Expenses:		
Operational expenses (note 6)	8,422,322	4,489,086
Salaries and benefits	1,842,953	1,707,555
Consulting fees	162,744	602,866
Travel	329,759	182,081
Supplies	147,156	76,912
Hospitality	21,379	23,916
Professional fees	33,999	23,165
Amortization of capital assets	1,073,294	928,222
	<u>12,033,606</u>	<u>8,033,803</u>
Excess (deficiency) of revenue over expenses	\$ 44,276	\$ (17,477)

See accompanying notes to financial statements.

# OCEAN NETWORKS CANADA SOCIETY

## Statement of Changes in Net Assets

Year ended March 31, 2016, with comparative information for 2015

	Invested in capital assets	Unrestricted	Total
Net assets, March 31, 2014	\$ 8,732	\$ 228,133	\$ 236,865
Deficiency of revenue over expenses	(2,339)	(15,138)	(17,477)
Net assets, March 31, 2015	6,393	212,995	219,388
Excess (deficiency) of revenue over expenses	(3,639)	47,915	44,276
Capital assets acquired with unrestricted net assets	11,513	(11,513)	-
Net assets, March 31, 2016	\$ 14,267	\$ 249,397	\$ 263,664

See accompanying notes to financial statements.

# OCEAN NETWORKS CANADA SOCIETY

## Statement of Cash Flows

Year ended March 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operations:		
Excess (deficiency) of revenue over expenses	\$ 44,276	\$ (17,477)
Items not involving cash:		
Amortization of deferred capital contributions	(1,069,655)	(925,883)
Amortization of capital assets	1,073,294	928,222
Increase (decrease) in deferred contributions related to operations	(538,522)	797,648
Changes in non-cash operating working capital:		
Decrease (increase) in accounts receivable	(1,698,136)	1,073,593
Decrease in prepaid expenses	-	774,535
Increase (decrease) in accounts payable and accrued liabilities	3,384,357	(1,475,841)
Increase in deferred revenue	12,462	52,243
	1,208,076	1,207,040
Capital:		
Acquisition of capital assets	(1,447,467)	(3,054,346)
Financing:		
Change in due to and from University of Victoria	(1,196,563)	(1,207,040)
Funding allocated to deferred capital contributions	1,435,954	3,054,346
	239,391	1,847,306
Net change in cash, being cash, beginning and end of year	\$ -	\$ -

See accompanying notes to financial statements.

# OCEAN NETWORKS CANADA SOCIETY

## Notes to Financial Statements

Year ended March 31, 2016

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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:

Accounts receivable, due to/from the University of Victoria, and 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, 2016

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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 assets 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 7).

### (e) Foreign currency:

The functional currency of ONCS is the Canadian dollar. Transactions in foreign currencies are translated into Canadian dollars at the exchange rate in effect on the transaction date. Monetary assets and liabilities denominated in foreign currencies are reflected in the financial statements in equivalent Canadian dollars at the exchange rate in effect at each reporting date. Any gain or loss resulting from a change in rates between the transaction date and the settlement date or reporting date is recognized in the statement of operations.

### (f) 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 revenue 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, 2016

## 2. Capital assets:

March 31, 2016			
	Cost	Accumulated amortization	Net book value
Furniture and equipment	\$ 4,761,498	\$ 425,193	\$ 4,336,305
Computer equipment	2,063,968	1,659,567	404,401
Computer software	741,884	344,778	397,106
Patents	88,383	14,962	73,421
	<b>\$ 7,655,733</b>	<b>\$ 2,444,500</b>	<b>\$ 5,211,233</b>

March 31, 2015			
	Cost	Accumulated amortization	Net book value
Furniture and equipment	\$ 3,587,902	\$ 218,721	\$ 3,369,181
Computer equipment	2,048,201	1,002,586	1,045,615
Computer software	524,128	154,126	370,002
Patents	59,814	7,552	52,262
	<b>\$ 6,220,045</b>	<b>\$ 1,382,985</b>	<b>\$ 4,837,060</b>

## 3. Deferred contributions:

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

	2016	2015
Balance, beginning of year	\$ 1,551,660	\$ 754,012
Contributions received	10,695,138	10,748,269
	12,246,798	11,502,281
Transfers to revenue	(9,797,706)	(6,896,275)
Transfers to unamortized deferred capital contributions	(1,435,954)	(3,054,346)
	(11,233,660)	(9,950,621)
Balance, end of year	<b>\$ 1,013,138</b>	<b>\$ 1,551,660</b>

Deferred contributions at March 31, 2016 comprise unspent Government of Canada contributions which are restricted in use to delivering the Innovation Centre Business Plan. Future expenditures may be operating or capital in nature.

# OCEAN NETWORKS CANADA SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2016

## 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:

	2016	2015
Balance, beginning of year	\$ 4,830,667	\$ 2,702,204
Transfers from deferred contributions	1,435,954	3,054,346
	6,266,621	5,756,550
Transfers to revenue	(1,069,655)	(925,883)
Balance, end of year	\$ 5,196,966	\$ 4,830,667

## 5. Government of Canada:

Government of Canada revenue is comprised of the following:

	2016	2015
Transport Canada	\$ 7,400,000	\$ 4,200,000
Natural Sciences and Engineering Research Council	1,055,025	1,148,315
Western Economic Diversification Canada	629,952	678,100
CANARIE	117,359	475,874
Social Sciences and Humanities Research Council	294,567	369,985
Polar Knowledge Canada	205,888	-
Environment Canada	24,915	-
	\$ 9,727,706	\$ 6,872,274

# OCEAN NETWORKS CANADA SOCIETY

Notes to Financial Statements (continued)

Year ended March 31, 2016

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## **6. Related party transactions:**

Operational expenses include \$7,250,402 (2015 - \$4,200,000) of charges from the University of Victoria related to research activities for the Smart Oceans Contribution Program.

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 totaling \$116,977 (2015 - \$97,002) from ASL Environment Sciences Inc., a company controlled by a director.

All related party transactions have been recorded at the amount of consideration paid or received as agreed to by the related party.

## **7. Contributed materials and services:**

Materials and services contributed to ONCS during the year for which fair value was reasonably estimable were \$1,622,880 (2015 - \$6,921,717). 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, 2016

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## 8. Commitments:

The Society has entered into various funding agreements to support the creation of the Smart Oceans BC program. The infrastructure expansion 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, 2016, approximately \$27.6 million of the budget commitment has been incurred, including \$8.8 million of Western Economic Diversification Canada's \$9.1 million three year commitment (\$3.9 million in year one of the program, fiscal 2014 and \$3.0 million in year two of the program, fiscal 2015 and \$2.0 million in year three of the program, fiscal 2016). As a result of delays in the installation of some of the infrastructure, Western Economic Diversification Canada approved a no-cost extension and budget re-profiling to accommodate this delay until fiscal 2018.

An additional program which funds the operations of the Smart Oceans Contribution Program through to March 31, 2017 has a budget commitment of \$53.9 million, 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 Transport Canada, Canada Foundation for Innovation, the University of Victoria, and BC Ferries. The Society is committed to purchasing \$8.4 million of services from the University of Victoria over the remaining term of this program.

From April 1, 2014 a new grant of \$4,396,799 has been approved from the Natural Sciences and Engineering Research Council of Canada (\$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.

In June 2015 a new ONCS-led sea-ice modelling science initiative involving researchers from various institutions and universities across Canada was funded by Polar Knowledge Canada. The project has a budget commitment of \$700,000 over three years, \$220,000 in year one (fiscal 2016), and \$240,000 in each of years two and three.