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CHARTERED ACCOUNTANTS

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March 8, 2010

Board of Directors
Kingston Economic Development Corporation
945 Princess St
KINGSTON ON K7L 3N6

Dear Committee Chair:

re Audit of 2009 Financial Statements

The objective of an audit is to obtain reasonable assurance whether the financial statements are free of any material misstatement and it is not designed to identify matters that may be of interest to management in discharging its responsibilities. Accordingly, an audit would not usually identify all such matters.

During the course of our audit of the financial statements for the year ended December 31, 2009 we did not identify any of the following errors:

- Misstatements, other than trivial errors;
- Fraud;
- Misstatements that may cause future financial statements to be materially misstated;
- Illegal or possibly illegal acts, other than ones considered inconsequential; or
- Significant weaknesses in internal control.

As a result of our audit work, we have outlined below some observations and suggestions for your consideration.

Segregation of Duties

During the course of the audit we were made aware of 2010 proposed plans to reassign certain day-to-day accounting responsibilities to Ann McDougall. As you work towards finalizing the assignment of various 2010 accounting/finance responsibilities we want to remind you of the importance of adequate segregation of duties within the transaction cycles.

We understand that every organization is constrained by its administrative budget and its available human resources. An organization must set appropriate levels of segregation of duties within a transaction cycle according to its available administrative resources. However, we remind you of the importance of segregating duties as much as possible within a transaction cycle. Oftentimes organizations will have a board member or a finance committee member provide a review or oversight function within a transaction cycle to enhance internal controls. We recommend that you review segregation of duties around following functions and processes:

- Bank deposits
- Payroll
- Bank reconciliations

Operations and HR Policy Manual

As part of our audit we compared the consistency between actual workflow and procedures being employed and the policies and procedures written in the Operations and HR Policy Manual. We found many differences between actual practice and the written policies. For example, 7.3 Cash handling needs to be updated to reflect actual practice.

We understand that organizational processes change over time. The organization has a comprehensive set of policies and procedures in place through the HR Policy Manual. We encourage the updating of the manual to reflect current practice as well as some more internal monitoring of compliance with the organizational policies and procedures.

Prior Year Recommendations

We observed through our audit work that the recommendation of utilizing a block stamp to cancel invoices has been implemented consistently during the current year.

There were no observed instances of cheques greater than \$25,000 signed by persons contrary to the organizational policy.

This communication is prepared solely for the information of the Board of Directors and is not intended for any other purposes. We accept no responsibility to a third party who uses this communication.

We would like to express our appreciation for the cooperation and assistance which we received during the course of our audit from your staff.

We shall be pleased to discuss with you further any matters mentioned in this report at your convenience.

Yours very truly,

SECKER, ROSS & PERRY



Tyler Rider, CA
Partner

KINGSTON ECONOMIC DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

Auditors' Report

Statement of Financial Position

Statement of Operations

Statement of Changes in Fund Balances

Statement of Cash Flow

Notes to Financial Statements

SECKER, ROSS & PERRY

Chartered Accountants

AUDITORS' REPORT

To the Board of Directors of
Kingston Economic Development Corporation

We have audited the statement of financial position of Kingston Economic Development Corporation as at December 31, 2009 and the statements of operations, changes in fund balances and cash flow for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In common with many not-for-profit organizations, the organization derives revenue from events and seminars, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of this revenue was limited to the amounts recorded in the records of the organization and we were not able to determine whether any adjustments might be necessary to revenues and fund balances.

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of revenues referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the organization as at December 31, 2009 and the results of its operations and cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Licenced Public Accountants
Kingston, Ontario
February 19, 2010

KINGSTON ECONOMIC DEVELOPMENT CORPORATION

STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2009

	<u>2009</u>	<u>2008</u>
Assets		
Current Assets		
Cash	\$ 664,580	\$540,005
Accounts receivable	149,371	18,867
Inventory	35,088	26,177
GST recoverable	14,758	9,326
Prepaid expenses (note 3)	<u>20,565</u>	<u>16,558</u>
	<u>884,362</u>	<u>610,933</u>
Funds on Deposit with Unity Savings and Credit Union Limited (note 4)	<u>100,000</u>	<u>100,000</u>
Capital Assets (note 5)	<u>289,074</u>	<u>99,598</u>
	<u>\$1,273,436</u>	<u>\$810,531</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 252,038	\$101,321
Deferred revenue (note 6)	<u>7,069</u>	<u>19,975</u>
	<u>259,107</u>	<u>121,296</u>
Deferred Contributions Related to Capital Assets (note 7)	<u>214,284</u>	<u>18,316</u>
Deferred Lease Inducements (note 8)	<u>14,063</u>	<u>-</u>
Fund Balances		
Investment in Capital Assets (note 9)	74,790	81,282
Board Restricted (note 4)	100,000	100,000
Unrestricted	<u>611,192</u>	<u>489,637</u>
	<u>785,982</u>	<u>670,919</u>
	<u>\$1,273,436</u>	<u>\$810,531</u>

Commitments and Contingencies (note 11)

Approved on behalf of the Board

Director

Director

See accompanying notes to financial statements

KINGSTON ECONOMIC DEVELOPMENT CORPORATION

STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31, 2009

	<u>2,009</u>	<u>2,008</u>
Revenues		
Investment from City of Kingston	\$2,416,380	\$2,369,000
Partnership revenue and corporate investors	214,883	207,133
Federal government	4,180	3,860
Provincial government	105,880	162,659
National Research Council Canada - IRAP	117,165	-
Events and seminars	18,365	17,740
Resale materials	209,229	154,700
Interest	3,465	19,153
Amortization of deferred capital contributions (note 7)	<u>19,032</u>	<u>14,049</u>
	<u>3,108,579</u>	<u>2,948,294</u>
Expenses		
Accounting and legal	28,710	25,858
Advertising	513,141	350,666
Amortization	56,216	53,158
Bad debts	-	765
Bank charges	11,604	12,474
Client development	7,183	26,486
Equipment rental	9,232	13,833
Events and meetings	197,907	163,471
Insurance	7,448	7,184
Moving expenses	21,248	-
Office and miscellaneous	86,689	78,928
Physician recruitment	26,465	33,987
Professional contractors	40,860	80,499
Professional development	24,163	19,634
Project expenses - IRAP	117,165	-
Rent (note 11)	183,978	199,637
Repairs and maintenance	17,329	9,031
Resale materials	116,895	91,176
Salaries and benefits	1,344,156	1,304,998
Sponsorships and donations	69,617	133,656
Telephone	45,200	45,398
Travel	<u>68,310</u>	<u>85,560</u>
	<u>2,993,516</u>	<u>2,736,399</u>
Excess of revenues over expenses	<u>\$ 115,063</u>	<u>\$ 211,895</u>

See accompanying notes to financial statements

KINGSTON ECONOMIC DEVELOPMENT CORPORATION

STATEMENT OF CHANGES IN FUND BALANCES

YEAR ENDED DECEMBER 31, 2009

	Investment in Capital Assets	Board Restricted	Unrestricted	Total 2009	Total 2008
Fund balances at beginning of year	\$ 81,282	\$100,000	\$ 489,637	\$670,919	\$459,024
Excess (deficiency) or revenues over expenses	(37,184)		152,247	115,063	211,895
Investment in capital assets	<u>30,692</u>	<u> </u>	<u>(30,692)</u>	<u> </u>	<u> </u>
Fund balances at end of year	<u>\$ 74,790</u>	<u>\$100,000</u>	<u>\$ 611,192</u>	<u>\$785,982</u>	<u>\$670,919</u>

See accompanying notes to financial statements

KINGSTON ECONOMIC DEVELOPMENT CORPORATION**STATEMENT OF CASH FLOW****YEAR ENDED DECEMBER 31, 2009**

	<u>2009</u>	<u>2008</u>
Cash Flow from Operating Activities		
Excess of revenues over expenses	\$ 115,063	\$ 211,895
Add (deduct) items not affecting cash		
Amortization	56,216	53,158
Amortization of deferred capital contributions	(19,032)	(14,049)
Deferred lease inducements	<u>14,063</u>	<u>-</u>
	166,310	251,004
Changes in non-cash working capital balances		
Accounts receivable	(130,504)	42,447
Inventory	(8,911)	(2,715)
GST recoverable	(5,432)	6,378
Prepaid expenses	(4,007)	48,723
Accounts payable and accrued liabilities	150,717	(174,113)
Deferred revenue	<u>(12,906)</u>	<u>(7,827)</u>
	<u>155,267</u>	<u>163,897</u>
Cash Flow used in Investing Activities		
Purchase of capital assets	<u>(30,692)</u>	<u>(56,010)</u>
Net increase in cash	124,575	107,887
Cash at beginning of year	<u>640,005</u>	<u>532,118</u>
Cash at end of year	<u>\$ 764,580</u>	<u>\$ 640,005</u>
Represented by:		
Cash	\$ 664,580	\$ 540,005
Deposit with Unity Savings and Credit Union Limited	<u>100,000</u>	<u>100,000</u>
	<u>\$ 764,580</u>	<u>\$ 640,005</u>
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Leaseholds received from landlord by way of deferred contributions to capital assets	<u>\$ 215,000</u>	<u>\$ -</u>

See accompanying notes to financial statements

KINGSTON ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2009

1. Purpose of the Organization

Kingston Economic Development Corporation is incorporated without share capital as a not-for-profit organization under the laws of Ontario. The organization's mission is to undertake and promote economic development for Kingston, fostering local investment, job creation, assessment growth and community prosperity through the support of strategic economic projects in the industrial, commercial, institutional, technological and tourism sectors.

2. Significant Accounting Policies

(a) Revenue Recognition

The organization follows the deferral method of accounting for contributions.

Restricted contributions are recognized as revenue in the year in which the related expenditures 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.

Revenue from resale materials, events and seminars are recognized when merchandise is received by or service is provided to the customer.

(b) Inventory

Inventory is valued at the lower of cost or net realizable value where cost is computed using the average cost method. Obsolete and slow-moving items are written down to their estimated net realizable values.

(c) Amortization

Property and equipment are recorded at cost and amortization is provided using the straight-line method over the estimated useful life as follows:

Computer software	2 years
Computer hardware	3 years
Furniture and equipment	5 years
Display units	7 years
Signs	7 years
Voicemail system	7 years
Leasehold improvements	10 years

(d) Donated Materials and Services

The organization receives donated advertising services from the Provincial government. Because of the difficulty of determining the fair market value, donated advertising services are not recognized in these financial statements.

(e) Deferred contributions

Deferred contributions related to capital assets represent financial assistance received for the purchase of capital assets. This financial assistance is deferred and amortized to income on the same basis as the related capital assets.

KINGSTON ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (continued)

YEAR ENDED DECEMBER 31, 2009

2. Significant Accounting Policies (continued)

(f) Deferred Lease Inducements

Deferred lease inducements represent various lease inducements received from the landlord pursuant to a lease agreement for premises occupied by the corporation. These lease inducements include an initial rent-free period and reduced rent payments in the early periods of the lease. The deferred lease inducements are amortized on a straight-line basis against rent expense over the term of the lease.

(g) Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles 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 period. Actual results could differ from those estimates.

3. Prepaid Expenses

	<u>2009</u>	<u>2008</u>
Innovation Park office rent	\$ 8,333	\$ -
Trade show registration	5,502	2,268
Travel costs	500	-
Publication costs	1,700	4,655
Tourist Information office rent	1,572	1,572
Memberships	445	75
Wages	-	5,475
Website costs	<u>2,513</u>	<u>2,513</u>
	<u>\$20,565</u>	<u>\$16,558</u>

4. Funds on Deposit with Unity Savings and Credit Union Limited

In conjunction with a cash deposit of \$100,000 to an interest bearing account with Unity Savings and Credit Union Limited (Unity), the board approved the establishment of a new internally restricted fund of the same amount. The purpose of the fund is to provide a guarantee for loans advanced by Unity under a lending program for new and emerging small businesses operating in Kingston known as First Capital Business Loan Fund. It is intended that the guarantee will be provided for a minimum of five years with the provision that it can be withdrawn with written notice of termination.

5. Capital Assets

	<u>2009</u>			<u>2008</u>
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Net</u>	<u>Net</u>
Computer software	\$ 9,321	\$ 9,321	\$ -	\$ -
Computer hardware	131,915	118,312	13,603	22,039
Furniture and equipment	82,703	58,374	24,329	21,612
Display units	48,861	37,500	11,361	11,753
Signs	76,786	49,694	27,092	33,402
Voicemail system	34,444	28,890	5,554	-
Leasehold improvements	147,677	145,688	1,989	10,792
Leasehold improvements - Innovation Park	<u>215,000</u>	<u>9,854</u>	<u>205,146</u>	<u>-</u>
	<u>\$746,707</u>	<u>\$457,633</u>	<u>\$289,074</u>	<u>\$99,598</u>

KINGSTON ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (continued)

YEAR ENDED DECEMBER 31, 2009

6. Deferred Revenue

	<u>2009</u>	<u>2008</u>
Empire Life Physician recruitment	\$ -	\$10,000
Tourism partner program	<u>7,069</u>	<u>9,975</u>
	<u>\$7,069</u>	<u>\$19,975</u>

7. Deferred Contributions Related to Capital Assets

The changes in the deferred contributions balance for the year are as follows:

	<u>2009</u>	<u>2008</u>
Balance at beginning of year	\$ 18,316	\$ 32,365
Add contributions received - Innovation Park	215,000	-
Less amounts amortized to revenue - existing	(9,178)	(14,049)
- Innovation Park	<u>(9,854)</u>	<u>-</u>
Balance at end of year	<u>\$ 214,284</u>	<u>\$ 18,316</u>

8. Deferred Lease Inducements

Changes in the deferred lease inducements balance for the year are as follows:

Balance at beginning of year	\$ -
Add straight-line rent expense for the period	51,563
Less rent paid during the period	<u>37,500</u>
Balance at end of year	<u>\$ 14,063</u>

9. Investment in Capital Assets

	<u>2009</u>	<u>2008</u>
Capital assets	\$ 289,074	\$ 99,598
Less deferred contributions related to capital assets	<u>(214,284)</u>	<u>(18,316)</u>
	<u>\$ 74,790</u>	<u>\$ 81,282</u>

10. Bank Credit Facility

The organization has a short-term line of credit facility of \$100,000 (2008 - \$100,000) of which none had been drawn as at December 31, 2009 and 2008. The line of credit bears interest at prime and is secured by a general security agreement.

11. Commitments and Contingencies

- (a) The organization is committed to a lease for office space under an operating lease expiring July 2019. Annual lease payments over the next five years amount to \$100,000 per year. The annual lease payments for the period July 15, 2014 to July 31, 2019 amount to \$125,000 per year.

Under the terms of the lease, the organization can terminate the lease in July 2014 with six months written notice and the repayment of \$107,500 related to leasehold improvements performed by the landlord on behalf of the organization.

KINGSTON ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (continued)

YEAR ENDED DECEMBER 31, 2009

11. Commitments and Contingencies (continued)

- (b) The organization is committed to equipment leases expiring on various dates up to October 2010. The total annual lease payments over the next year is \$6,457.

- (c) According to a Memorandum of Understanding, the organization has committed, "through cash or cash-in-kind, \$200,000 towards the start-up and/or operating costs" to the Kingston Technology Exchange Centre by 2012. Management has interpreted this to mean that the contributions can be cash and/or in-kind contributions. To date \$49,784 (2008 - \$49,784) cash has been contributed and \$131,880 (2008 - \$131,880) of in-kind contributions have been made.

12. Pension Costs and Obligations

The organization makes contributions to the Ontario Municipal Employees Retirement Fund (OMERS), which is a multi-employer plan, on behalf of its staff. The plan is a defined benefit plan which specifies the amount of the retirement benefit to be received by the employee based on the length of service and rate of pay.

The amount contributed to OMERS for 2009 was \$74,522 (2008 - \$80,014).

13. Financial Instruments

The following policies and assumptions were used to determine the fair value of each class of financial assets and financial liabilities.

- (a) Cash, Accounts Receivable and Accounts Payable and Accrued Liabilities
These financial assets and liabilities are classified as held for trading and are measured at their carrying amount since it is comparable to their fair value due to the approaching maturity of these financial instruments.

It is management's opinion that the organization is not exposed to significant interest, currency or credit risks arising from these financial instruments.

14. Related Party Transactions

The City of Kingston ("City") significantly influences the organization by virtue of the fact that the City has representation on the Board of Directors and is the major source of revenue for the organization.

The City provided investment revenue of \$2,416,380 (2008 - \$2,369,000).

The organization paid rent of \$31,458 (2008 - \$25,000) to the City for the Tourist Information office. The lease expires December 31, 2010.

Kingston Economic Development Corporation significantly influences Kingston Technology Exchange Centre by virtue of the fact that the organization has the ability to appoint 50% of the board members. There were no transactions with Kingston Technology Exchange Centre during the year.

The transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.