

SECKER, ROSS & PERRY
CHARTERED ACCOUNTANTS

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March 28, 2011

Board of Directors
Kingston Economic Development Corporation
945 Princess Street at Innovation Park
Kingston, ON
K7L 3N6

Dear Committee Chair:

Re: Audit of 2010 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, 2010, we did not identify any of the following matters:

- 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.

Operations and HR Policy Manual and Corporate Bylaws

Each year as a part of our audit we look for consistency between actual workflow and procedures being employed and the policies and procedures written in the Operations and HR Policy Manual. In the past we have commented on the need to update the Operations and HR Policy Manual to reflect current actual procedures as we have noted some discrepancies. We understand from our discussions with management that this is a planned project for fiscal 2011. This is an opportunity to reflect on current practice and build in any additional controls and safeguards if possible. We recommend that after the policies and procedures are refreshed and established in the Operations and HR Policy Manual that compliance with the policies is monitored on an on-going basis.

We also recommend that at the same time you consider revisiting the corporate bylaws to ensure congruence of bylaws and policies and procedures.

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 Ann, Matt and other staff members.

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

Yours very truly,

SECKER, ROSS & PERRY

A handwritten signature in black ink, appearing to read "T. Rider". The signature is written in a cursive, flowing style.

Tyler Rider, CA
Partner

KINGSTON ECONOMIC DEVELOPMENT CORPORATION
FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2010

Independent Auditors' Report

Statement of Financial Position

Statement of Operations

Statement of Changes in Fund Balances

Statement of Cash Flow

Notes to Financial Statements

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Kingston Economic Development Corporation

We have audited the accompanying financial statements of Kingston Economic Development Corporation which comprise the statement of financial position as at December 31, 2010 and the statements of operations, changes in fund balances and cash flow for the year then ended, and 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 generally accepted accounting principles 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 the 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 the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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 qualified audit opinion.

Basis for Qualified Opinion

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

Qualified Opinion

In our opinion, except for the effects of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of the revenues referred to in the preceding paragraph, these financial statements present fairly, in all material respects the financial position of the corporation as at December 31, 2010 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
March 29, 2011

KINGSTON ECONOMIC DEVELOPMENT CORPORATION**STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2010**

	<u>2010</u>	<u>2009</u>
Assets		
Current Assets		
Cash	\$ 698,979	\$ 664,580
Accounts receivable	108,878	149,371
Inventory	42,127	35,088
Federal sales tax recoverable	23,114	14,758
Prepaid expenses (note 3)	<u>26,153</u>	<u>20,565</u>
	<u>899,251</u>	<u>884,362</u>
Funds on Deposit with Unity Savings and Credit Union Limited (note 4(a))	<u>100,000</u>	<u>100,000</u>
Capital Assets (note 5)	<u>244,873</u>	<u>289,074</u>
	<u>\$1,244,124</u>	<u>\$1,273,436</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 192,192	\$ 252,038
Deferred revenue (note 6)	<u>-</u>	<u>7,069</u>
	<u>192,192</u>	<u>259,107</u>
Deferred Contributions Related to Capital Assets (note 7)	<u>154,244</u>	<u>214,284</u>
Deferred Lease Inducements (note 8)	<u>26,563</u>	<u>14,063</u>
Fund Balances		
Investment in Capital Assets (note 9)	90,629	74,790
Board Restricted (note 4(a))	100,000	100,000
Other Board Restricted (note 4(b))	85,000	
Unrestricted	<u>595,496</u>	<u>611,192</u>
	<u>871,125</u>	<u>785,982</u>
	<u>\$1,244,124</u>	<u>\$1,273,436</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, 2010

	<u>2010</u>	<u>2009</u>
Revenues		
Investment from City of Kingston	\$2,464,708	\$2,416,380
Partnership revenue and corporate investors	240,293	214,883
Federal government	401	4,180
Provincial government	87,750	105,880
National Research Council Canada - IRAP	82,835	117,165
Events and seminars	9,591	18,365
Resale materials	198,253	209,229
Interest	5,292	3,465
Amortization of deferred capital contributions (note 7)	<u>20,233</u>	<u>19,032</u>
	<u>3,109,356</u>	<u>3,108,579</u>
Expenses		
Accounting and legal	22,290	28,710
Advertising	477,057	513,141
Amortization	49,674	56,216
Bad debts	567	-
Bank charges	10,245	11,604
Client development	-	7,183
Enterprise Facilitation Program expenses - IRAP	139,104	117,165
Equipment rental	12,077	9,232
Events and meetings	162,740	197,907
Insurance	7,545	7,448
Memberships and licences	34,504	24,024
Moving expenses	-	21,248
Office and miscellaneous	34,505	62,665
Physician recruitment	21,948	26,465
Professional contractors	86,004	40,860
Professional development	29,665	24,163
Rent (note 11)	151,562	183,978
Repairs and maintenance	20,400	17,329
Resale materials	109,932	116,895
Salaries and benefits	1,383,579	1,344,156
Sponsorships and donations	162,493	69,617
Telephone	28,155	45,200
Travel	<u>80,167</u>	<u>68,310</u>
	<u>3,024,213</u>	<u>2,993,516</u>
Excess of revenues over expenses	<u>\$ 85,143</u>	<u>\$ 115,063</u>

*AS Winton
25 April 2011*

DEREK WINTON

*Debi Wells
25 April 11*

DEBI WELLS

See accompanying notes to financial statements

KINGSTON ECONOMIC DEVELOPMENT CORPORATION

STATEMENT OF CHANGES IN FUND BALANCES

YEAR ENDED DECEMBER 31, 2010

	<u>Investment in Capital Assets</u>	<u>Board Restricted</u>	<u>Other Board Restricted</u>	<u>Unrestricted</u>	<u>Total 2010</u>	<u>Total 2009</u>
Fund balances at beginning of year	\$ 74,790	\$100,000		\$ 611,192	\$785,982	\$670,919
Excess (deficiency) of revenues over expenses	(29,441)			114,584	85,143	115,063
Interfund transfers (note 4(b))			\$85,000	(85,000)		
Investment in capital assets	<u>45,280</u>	<u> </u>	<u> </u>	<u>(45,280)</u>	<u> </u>	<u> </u>
Fund balances at end of year	<u>\$ 90,629</u>	<u>\$100,000</u>	<u>\$85,000</u>	<u>\$ 595,496</u>	<u>\$871,125</u>	<u>\$785,982</u>

See accompanying notes to financial statements

KINGSTON ECONOMIC DEVELOPMENT CORPORATION**STATEMENT OF CASH FLOW****YEAR ENDED DECEMBER 31, 2010**

	<u>2010</u>	<u>2009</u>
Cash flow from (used in) operating activities		
Excess of revenues over expenses	\$ 85,143	\$ 115,063
Add (deduct) items not affecting cash		
Amortization	49,674	56,216
Amortization of deferred capital contributions	(20,233)	(19,032)
Deferred lease inducements	<u>12,500</u>	<u>14,063</u>
	127,084	166,310
Changes in non-cash working capital balances		
Accounts receivable	40,493	(130,504)
Inventory	(7,039)	(8,911)
Federal sales tax recoverable	(8,356)	(5,432)
Prepaid expenses	(5,588)	(4,007)
Accounts payable and accrued liabilities	(59,846)	150,717
Deferred revenue	<u>(7,069)</u>	<u>(12,906)</u>
	<u>79,679</u>	<u>155,267</u>
Cash flow used in investing activities		
Purchase of capital assets	<u>(45,280)</u>	<u>(30,692)</u>
Net increase in cash	34,399	124,575
Cash at beginning of year	<u>764,580</u>	<u>640,005</u>
Cash at end of year	<u>\$ 798,979</u>	<u>\$ 764,580</u>
Represented by:		
Cash	\$ 698,979	\$ 664,580
Deposit with Unity Savings and Credit Union Limited	<u>100,000</u>	<u>100,000</u>
	<u>\$ 798,979</u>	<u>\$ 764,580</u>
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Leaseholds received from (reduced by) landlord by way of deferred contributions to capital assets	<u>\$ (39,807)</u>	<u>\$ 215,000</u>

See accompanying notes to financial statements

KINGSTON ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2010

1. Purpose of the Corporation

Kingston Economic Development Corporation is incorporated without share capital as a not-for-profit corporation under the laws of Ontario. The corporation'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 corporation 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
CRM system	10 years

(d) Donated Materials and Services

The corporation 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.

KINGSTON ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (continued)

YEAR ENDED DECEMBER 31, 2010

2. Significant Accounting Policies (continued)

(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.

(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>2010</u>	<u>2009</u>
Innovation Park office rent	\$ 8,333	\$ 8,333
Trade show registration	5,500	5,502
Travel costs	500	500
Publication costs	3,985	1,700
Tourist Information office rent	1,572	1,572
Memberships	250	445
Sponsorship	3,500	-
Website costs	<u>2,513</u>	<u>2,513</u>
	<u>\$26,153</u>	<u>\$20,565</u>

4. Board Restricted Funds

(a) 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.

(b) The corporation is committed to future sponsorship of certain events as follows:

Online reservation system	\$25,000
2011 Scotties Tournament of Hearts	50,000
Cultural tourism	<u>10,000</u>
	<u>\$85,000</u>

The total committed amounts were approved by the Board of Directors during the year.

KINGSTON ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (continued)

YEAR ENDED DECEMBER 31, 2010

5. Capital Assets

	2010			2009
	Cost	Accumulated Amortization	Net	Net
Computer software	\$ 9,321	\$ 9,321	\$ -	\$ -
Computer hardware	133,375	128,569	4,806	13,603
Furniture and equipment	95,744	68,600	27,144	24,329
Display units	48,861	40,269	8,592	11,361
Signs	76,786	56,003	20,783	27,092
Voicemail system	34,444	29,816	4,628	5,554
Leasehold improvements	-	-	-	1,989
Leasehold improvements - Innovation Park	175,193	27,053	148,140	205,146
CRM system	30,780	-	30,780	-
	<u>\$604,504</u>	<u>\$359,631</u>	<u>\$244,873</u>	<u>\$289,074</u>

6. Deferred Revenue

	<u>2010</u>	<u>2,009</u>
Tourism partner program	<u>\$ -</u>	<u>\$7,069</u>

7. Deferred Contributions Related to Capital Assets

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

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$ 214,284	\$ 18,316
Contributions received (reduction) - Innovation Park	(39,807)	215,000
Less amounts amortized to revenue - existing	(3,034)	(9,178)
- Innovation Park	<u>(17,199)</u>	<u>(9,854)</u>
Balance at end of year	<u>\$ 154,244</u>	<u>\$214,284</u>

8. Deferred Lease Inducements

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

	<u>2010</u>	<u>2009</u>
Balance at beginning of year	\$ 14,063	\$ -
Add straight-line rent expense for the year	112,500	51,563
Less rent paid during the year	<u>(100,000)</u>	<u>(37,500)</u>
Balance at end of year	<u>\$ 26,563</u>	<u>\$ 14,063</u>

9. Investment in Capital Assets

	<u>2010</u>	<u>2009</u>
Capital assets	\$ 244,873	\$ 289,074
Less deferred contributions related to capital assets	<u>(154,244)</u>	<u>(214,284)</u>
	<u>\$ 90,629</u>	<u>\$ 74,790</u>

KINGSTON ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (continued)

YEAR ENDED DECEMBER 31, 2010

10. Bank Credit Facility

The corporation has a short-term line of credit facility of \$100,000 (2009 - \$100,000) of which none had been drawn as at December 31, 2010 and 2009. The line of credit bears interest at prime and is secured by a general security agreement.

11. Commitments and Contingencies

- (a) The corporation 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 corporation can terminate the lease in July 2014 with six months written notice and the repayment of \$95,000 related to leasehold improvements performed by the landlord on behalf of the corporation.

- (b) The corporation is committed to a service level agreement with the City of Kingston for information systems and technology services. The annual charges for these services amounted to \$20,400 in 2010. The costs for these services for 2011 is expected to be \$38,000.
- (c) According to a Memorandum of Understanding, the corporation 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 (2009 - \$49,784) cash has been contributed and \$131,880 (2009 - \$131,880) of in-kind contributions have been made.

12. Pension Costs and Obligations

The corporation 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 2010 was \$73,717 (2009 - \$74,522).

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 corporation is not exposed to significant interest, currency or credit risks arising from these financial instruments.

KINGSTON ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (continued)

YEAR ENDED DECEMBER 31, 2010

14. Related Party Transactions

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

The City provided investment revenue of \$2,464,708 (2009 - \$2,416,380).

The corporation paid rent of \$36,465 (2009 - \$31,458) to the City for the Tourist Information office. The lease expires December 31, 2010. The lease was renewed with the same terms including an escalation factor of 2% and an expiry date of December 31, 2013.

Kingston Economic Development Corporation significantly influences Kingston Technology Exchange Centre by virtue of the fact that the corporation 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.

15. Capital Disclosure

The corporation's objectives with respect to capital management are to maintain a minimum capital base that allows the corporation to continue with and execute its overall purpose as outlined in note 1. The corporation's board of directors performs periodic reviews of the corporation's capital needs to ensure they remain consistent with the risk tolerance that is acceptable to the corporation.