

March 29, 2012

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

Re: Audit of 2011 Financial Statements

Dear Board Chair:

The objective of an audit is to obtain reasonable assurance whether the financial statements are free of any material misstatement and it is not specifically designed to identify other 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, 2011, 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; or
- Significant weaknesses in internal control.

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

Unrestricted Net Assets

We have recently seen some of our non-profit organization clients receive cautionary audit letters from Canada Revenue Agency ("CRA") warning that their level of accumulated surplus may effect the organization's tax exempt status as a non-profit organization ("NPO") under the Income Tax Act ("ITA"). It seems from these letters that CRA wants to see that the accumulated surplus is representative of a reasonable need to carry on the organization's non-profit activities and operations.

When a NPO accumulates surplus funds in excess of its current needs it may indicate that the organization's objectives include not only its non-profit purpose but also a purpose to earn profit. In such a case the operated exclusively requirement in paragraph 149(1)(l) of the ITA may not be met and this may affect the organization's tax exempt status as an NPO.

Kingston Economic Development Corporation has accumulated a total of \$607,240 in unrestricted net assets as at December 31, 2011. We understand that this surplus is accumulated predominately to protect against various possible future contingent liabilities such as the case of winding the organization down due to loss of funding.

We recommend that the corporation review the adequacy of the unrestricted net assets annually to evaluate whether or not the status as an NPO might be in question with CRA.

Cash Holdings

During the course of our audit we noticed that there were large cash balances in the operating account throughout the year.

We recommend that management and the board consider creating an investment policy for guiding the investment of surplus cash.

Corporate Bylaws

During the course of our audit we reviewed the changes in the year made by the corporation to the corporate bylaws. One additional bylaw which the organization should consider is a dissolution bylaw to cover the organization in case of a wind-up.

This communication is prepared solely for the information of management and the board of directors and is not intended for any other purposes.

We would like to express our appreciation for the co-operation and assistance which we received during the course of our audit from the Kingston Economic Development Corporation staff and management.

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

Yours very truly,

SECKER ROSS & PERRY LLP

Tyler Rider, CA
Partner

KINGSTON ECONOMIC DEVELOPMENT CORPORATION

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2011

Independent Auditors' Report

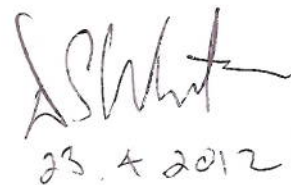
Statement of Financial Position

Statement of Operations

Statement of Changes in Fund Balances

Statement of Cash Flow

Notes to Financial Statements

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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, 2011 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, 2011 and the results of its operations and cash flow for the year then ended in accordance with Canadian generally accepted accounting principles.

Secker Ross & Perry LLP

Chartered Accountants
Licenced Public Accountants
Kingston, Ontario
March 29, 2012

KINGSTON ECONOMIC DEVELOPMENT CORPORATION**STATEMENT OF FINANCIAL POSITION AS AT DECEMBER 31, 2011**

	<u>2011</u>	<u>2010</u>
Assets		
Current Assets		
Cash	\$ 266,545	\$ 698,979
Cash - New Energy Project (note 14(c))	21,881	-
Cash - interest earned on funds on deposit (note 4(a))	1,692	-
Accounts receivable	672,891	108,878
Inventory	51,110	42,127
Federal sales tax recoverable	58,900	23,114
Prepaid expenses (note 3)	<u>52,941</u>	<u>26,153</u>
	<u>1,125,960</u>	<u>899,251</u>
Other Deposits and Advances		
Funds on deposit with Unity Savings and Credit Union Limited (note 4(a))	100,000	100,000
Advances to Parteq Angel Network (note 4(a))	<u>50,000</u>	<u>-</u>
	<u>150,000</u>	<u>100,000</u>
Capital Assets (note 5)	<u>217,561</u>	<u>244,873</u>
	<u>\$1,493,521</u>	<u>\$1,244,124</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 194,877	\$ 192,192
Deferred revenue (notes 6 and 14(c))	<u>89,781</u>	<u>-</u>
	<u>284,658</u>	<u>192,192</u>
Deferred Contributions Related to Capital Assets (note 7)	<u>135,011</u>	<u>154,244</u>
Deferred Lease Inducements (note 8)	<u>39,063</u>	<u>26,563</u>
Fund Balances		
Investment in Capital Assets (note 9)	82,550	90,629
Board Restricted (note 4(a))	150,000	100,000
Other Board Restricted (note 4(b))	194,999	85,000
Unrestricted	<u>607,240</u>	<u>595,496</u>
	<u>1,034,789</u>	<u>871,125</u>
	<u>\$1,493,521</u>	<u>\$1,244,124</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, 2011

	<u>2011</u>	<u>2010</u>
Revenues		
Investment from City of Kingston	\$2,514,000	\$2,464,708
Partnership revenue and corporate investors	174,595	240,293
Federal government	34,020	401
Provincial government	108,321	87,750
National Research Council Canada - IRAP	-	82,835
Events and seminars	13,106	9,591
Resale materials	192,596	198,253
Interest	8,048	5,292
Amortization of deferred capital contributions (note 7)	19,233	20,233
On-line reservation	8,271	-
	<u>3,072,190</u>	<u>3,109,356</u>
Expenses		
Accounting and legal	19,220	22,290
Advertising	361,991	477,057
Amortization	47,650	49,674
Bad debts	355	567
Bank charges	13,778	10,245
Enterprise Facilitation Program expenses - IRAP	-	139,104
Equipment rental	12,948	12,077
Events and meetings	172,915	162,740
Insurance	7,041	7,545
Memberships and licences	30,186	34,504
Office and miscellaneous	35,465	34,505
Physician recruitment	16,082	21,948
Professional contractors	68,062	86,004
Professional development	34,550	29,665
Rent (note 11)	153,095	151,562
Repairs and maintenance	41,171	20,400
Resale materials	107,566	109,932
Salaries and benefits	1,396,734	1,383,579
Sponsorships and donations (note 14(c))	197,928	162,493
Telephone	30,191	28,155
Travel	102,152	80,167
	<u>2,849,080</u>	<u>3,024,213</u>
Excess of revenues over expenses before the undernoted item	223,110	85,143
Expenses of board restricted fund (note 4(b))	59,446	-
Excess of revenues over expenses	<u>\$ 163,664</u>	<u>\$ 85,143</u>

See accompanying notes to financial statements

KINGSTON ECONOMIC DEVELOPMENT CORPORATION

STATEMENT OF CHANGES IN FUND BALANCES

YEAR ENDED DECEMBER 31, 2011

	<u>Investment in Capital Assets</u>	<u>Board Restricted</u>	<u>Other Board Restricted</u>	<u>Unrestricted</u>	<u>Total 2011</u>	<u>Total 2010</u>
Fund balances at beginning of year	\$ 90,629	\$100,000	\$ 85,000	\$ 595,496	\$ 871,125	\$785,982
Excess (deficiency) of revenues over expenses	(28,417)	-	(59,446)	251,527	163,664	85,143
Interfund transfers (note 4(c))	-	50,000	169,445	(219,445)	-	-
Investment in capital assets	<u>20,338</u>	<u>-</u>	<u>-</u>	<u>(20,338)</u>	<u>-</u>	<u>-</u>
Fund balances at end of year	<u>\$ 82,550</u>	<u>\$150,000</u>	<u>\$194,999</u>	<u>\$ 607,240</u>	<u>\$1,034,789</u>	<u>\$871,125</u>

See accompanying notes to financial statements

KINGSTON ECONOMIC DEVELOPMENT CORPORATION

STATEMENT OF CASH FLOW

YEAR ENDED DECEMBER 31, 2011

	<u>2011</u>	<u>2010</u>
Cash flow from (used in) operating activities		
Excess of revenues over expenses	\$ 163,664	\$ 85,143
Add (deduct) items not affecting cash		
Amortization	47,650	49,674
Amortization of deferred capital contributions	(19,233)	(20,233)
Deferred lease inducements	<u>12,500</u>	<u>12,500</u>
	204,581	127,084
Changes in non-cash working capital balances		
Accounts receivable	(564,013)	40,493
Inventory	(8,983)	(7,039)
Federal sales tax recoverable	(35,786)	(8,356)
Prepaid expenses	(26,788)	(5,588)
Accounts payable and accrued liabilities	2,685	(59,846)
Deferred revenue	<u>89,781</u>	<u>(7,069)</u>
	<u>(338,523)</u>	<u>79,679</u>
Cash flow used in investing activities		
Advances to the Parteq Angel Network	(50,000)	-
Purchase of capital assets	<u>(20,338)</u>	<u>(45,280)</u>
	<u>(70,338)</u>	<u>(45,280)</u>
Net increase (decrease) in cash	(408,861)	34,399
Cash at beginning of year	<u>798,979</u>	<u>764,580</u>
Cash at end of year	<u>\$ 390,118</u>	<u>\$ 798,979</u>
Represented by:		
Cash	\$ 266,545	\$ 698,979
Cash - New Energy Project	21,881	-
Deposit with Unity Savings and Credit Union Limited	100,000	100,000
Cash - interest earned on funds on deposit	<u>1,692</u>	<u>-</u>
	<u>\$ 390,118</u>	<u>\$ 798,979</u>

See accompanying notes to financial statements

KINGSTON ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (continued)

YEAR ENDED DECEMBER 31, 2011

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) Impairment of Funds Advanced for Economic Development Initiatives

The funds on deposit with Unity Savings and Credit Union Limited and funds advanced to the Parteq Angel Fund are carried at cost. Each advance is evaluated annually for possible impairment in the carrying value. Management makes its best estimate of the expected net recoverability of the advances in relation to estimates pertaining to the financial solvency of the underlying investments.

(h) 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.

Significant estimates include the estimated net recoverability of the funds advanced related to various economic development initiatives. Management has made their best estimate for any impairment to the carrying values. Actual results could differ from those estimates.

3. Prepaid Expenses

	<u>2011</u>	<u>2010</u>
Innovation Park office rent	\$ 8,333	\$ 8,333
Trade show registration	6,570	5,500
Travel costs	1,199	500
Publication costs	4,335	3,985
Tourist Information office rent	1,925	1,572
Memberships	1,521	250
Sponsorship	589	3,500
Professional development	5,404	-
Events and meetings	23,065	-
Website costs	-	2,513
	<u>\$52,941</u>	<u>\$26,153</u>

4. Board Restricted Funds

(a) Board restricted funds are comprised of:

	<u>2011</u>	<u>2010</u>
First Capital Business Loan Fund	\$100,000	\$100,000
Parteq Angel Network Fund	50,000	-
	<u>\$150,000</u>	<u>\$100,000</u>

KINGSTON ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (continued)

YEAR ENDED DECEMBER 31, 2011

4. Board Restricted Funds (continued)

(a) First Capital Business Loan Fund

This fund was established with a cash deposit of \$100,000 to an interest bearing account with Unity Savings and Credit Union Limited (Unity). The purpose of the fund is to provide a guarantee for loans advanced by Unity under a lending program for new and emerging small business. It is intended that the guarantee will be provided for a minimum of five years ending in 2013 with the provision that it can be withdrawn with written notice of termination.

The cash deposit has accumulated interest earnings of \$1,692 at December 31, 2011.

Parteq Angel Network Fund

During the year, the board approved the transfer of \$50,000 from unrestricted surplus to a new board restricted fund called the Parteq Angel Network Fund. A \$50,000 cash advance was then paid to Parteq Angel Fund Network Inc. in exchange for 50,000 participation units in the Parteq Angel Network ("Network"). The purpose of the Network is to make investments in early stage business ventures that meet the specified investment criteria of the Network.

The participation units are non-interest bearing, unsecured, long-term, irrevocable advances that can only be repaid to the participants in the event of a liquidity event of one or more of the Network's underlying investments.

(b) The corporation is committed to various future expenditures. The expenditures have been approved by the Board of Directors up to the following amounts:

	Opening <u>Balance</u>	Transfer <u>in year</u>	Expenses <u>in year</u>	Ending <u>Balance</u>
Online reservation system	\$25,000	\$(4,831)	\$20,169	\$ -
2013 Scotties Tournament of Hearts	50,000	25,000	-	75,000
Cultural Tourism	10,000	-	10,000	-
Feasibility Study - Conference Centre	-	19,277	19,277	-
Military & Veteran Health Forum	-	10,000	10,000	-
Specific Attraction Incentive	-	49,999	-	49,999
Strategic Planning Position	-	70,000	-	70,000
	<u>\$85,000</u>	<u>\$169,445</u>	<u>\$59,446</u>	<u>\$194,999</u>

The board approved the transfer of \$169,445 from Unrestricted Surplus to Other Board Restricted Funds to provide for these commitments.

KINGSTON ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (continued)

YEAR ENDED DECEMBER 31, 2011

5. Capital Assets

	2011			2010
	Cost	Accumulated Amortization	Net	Net
Computer software	\$ 9,321	\$ 9,321	\$ -	\$ -
Computer hardware	133,375	132,889	486	4,806
Furniture and equipment	95,744	78,744	17,000	27,144
Display units	48,861	43,038	5,823	8,592
Signs	97,124	65,218	31,906	20,783
Voicemail system	34,444	30,741	3,703	4,628
Leasehold improvements	-	-	-	-
Leasehold improvements - Innovation Park	175,193	44,252	130,941	148,140
CRM system	30,780	3,078	27,702	30,780
	\$624,842	\$407,281	\$217,561	\$244,873

Cost and accumulated amortization in 2010 were \$604,504 and \$359,631 respectively.

6. Deferred Revenue

	2011	2010
Event attraction	\$54,650	\$ -
KAP program	13,250	-
NEP program	21,881	-
	\$89,781	\$ -

7. Deferred Contributions Related to Capital Assets

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

	2011	2010
Balance at beginning of year	\$ 154,244	\$ 214,284
Contributions received (reduction) - Innovation Park	-	(39,807)
Less amounts amortized to revenue - existing	(2,034)	(3,034)
- Innovation Park	(17,199)	(17,199)
Balance at end of year	\$ 135,011	\$ 154,244

8. Deferred Lease Inducements

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

	2011	2010
Balance at beginning of year	\$ 26,563	\$ 14,063
Add straight-line rent expense for the year	112,500	112,500
Less rent paid during the year	(100,000)	(100,000)
Balance at end of year	\$ 39,063	\$ 26,563

KINGSTON ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (continued)

YEAR ENDED DECEMBER 31, 2011

9. Investment in Capital Assets

	<u>2011</u>	<u>2010</u>
Capital assets	\$ 217,561	\$ 244,873
Less deferred contributions related to capital assets	<u>(135,011)</u>	<u>(154,244)</u>
	<u>\$ 82,550</u>	<u>\$ 90,629</u>

10. Bank Credit Facility

The corporation has a short-term line of credit facility of \$100,000 (2010 - \$100,000) of which none had been drawn as at December 31, 2011 and 2010. 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 up to July 2014 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 \$35,184 (2010 - \$20,400).
- (c) According to a Memorandum of Understanding the corporation has committed up to, "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 (2010 - \$49,784) cash has been contributed and \$131,880 (2010 - \$131,880) of in-kind contributions have been made.
- (d) The corporation is committed in 2012 to another \$25,000 contribution related to the 2013 Scotties Tournament of Hearts.

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 2011 was \$79,744 (2010 - \$73,717).

KINGSTON ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (continued)

YEAR ENDED DECEMBER 31, 2011

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.

14. Related Party Transactions

(a) 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 revenues of \$2,514,000 (2010 - \$2,464,708).

The corporation paid rent of \$35,905 (2010 - \$36,465) to the City for the Tourist Information office. The lease expires December 31, 2013.

(b) 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.

(c) The corporation is party to a group of partners that have formed the New Energy Project Steering Committee ("Committee") which is responsible for project delivery. The corporation through its agreement with the Committee are providing financial management services to support the plan's implementation.

The corporation is acting as an agent for the Committee and as such has not recorded any revenues or expenses related to the New Energy Project in its statement of operations. There is \$21,821 of cash and deferred revenue related to the New Energy Project recorded on the statement of financial position.

The following represents the assets, liabilities, revenues and expenses of the New Energy Project:

Assets	
Cash	<u>\$21,821</u>
Liabilities	
Deferred revenue	<u>\$21,821</u>
Revenues	
Partnership revenue	<u>\$40,619</u>
Expenses	
Professional contractors	\$38,150
Events and meetings	706
Advertising	<u>1,763</u>
	<u>\$40,619</u>

KINGSTON ECONOMIC DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS (continued)

YEAR ENDED DECEMBER 31, 2011

14. Related Party Transactions (continued)

The corporation has recorded its contribution to the New Energy Program as \$20,000 in sponsorships and donations.

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.

16. Future Accounting Changes

The Accounting Standards Board ("AcSB") of the Canadian Institute of Chartered Accountants have issued new standards for not-for-profit organizations. These standards permit not-for-profit organizations to either adopt Part III of the CICA Handbook or the International Financial Reporting Standards in Part I of the CICA Handbook. The new accounting standards for not-for-profit organizations are effective for years commencing after January 1, 2012.

The organization's board of directors will review the new accounting standards to determine the impact on future financial statements.