

April 1, 2015

Finance Committee
Kingston Economic Development Corporation
945 Princess Street at Innovation Park
KINGSTON ON K7L 3N6

Dear Finance Committee of Kingston Economic Development Corporation:

Re: Audit of 2014 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 other matters that may be of interest to management and the Finance Committee in discharging its responsibilities. An audit cannot be expected to disclose defalcations and other irregularities and it is not designed to express an opinion as to whether the systems of internal control established by management have been properly designed or have been operating effectively. 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, 2014, 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.

During the course of the audit we established an understanding of the design and implementation of various internal controls of the general accounting transaction cycles. In some cases we did samples to test the operating effectiveness of some of the identified controls. The results of our audit tests found the identified controls to be adequately implemented and operating effectively.

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.

Secker Ross & Perry^{LLP}

chartered accountants
tax and business advisors

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

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

Yours sincerely,

SECKER ROSS & PERRY LLP



Tyler Rider, CPA, CA, Licensed Public Accountant
Partner

**Kingston Economic Development
Corporation**

Financial Statements

Year Ended December 31, 2014

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, 2014 and the statements of operations, changes in fund balances and cash flow, 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 accounting standards for not-for-profit organizations, 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 auditors 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 qualified audit opinion.

Secker Ross & Perry^{LLP}

chartered accountants
tax and business advisors

Basis for Qualified Opinion

In common with many not-for-profit organizations, the corporation derives certain revenues from events and seminars, as well as resale materials, 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. Therefore, we were not able to determine whether any adjustments might be necessary to revenues, the excess of revenues over expenses and cash flow from operating activities for the year ended December 31, 2014 and the fund balances at January 1 and December 31, 2014.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, these financial statements present fairly, in all material respects, the financial position of the corporation as at December 31, 2014 and the results of its operations and cash flow for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

Secker Ross & Perry LLP

Chartered Accountants
Licensed Public Accountants
Kingston, Ontario
March 26, 2015

Kingston Economic Development Corporation

Statement of Financial Position as at December 31, 2014

	<u>2014</u>	<u>2013</u>
Assets		
Current Assets		
Cash	\$1,023,415	\$507,387
Cash - interest earned on funds on deposit (note 5(a))	7,544	5,774
Investments (note 3)	162,094	152,902
Accounts receivable	99,179	85,003
Inventory	31,339	62,731
Sales tax recoverable	73,673	46,341
Prepaid expenses and refundable deposits (note 4)	62,099	33,783
	<u>1,459,343</u>	<u>893,921</u>
Other Deposits and Advances		
Funds on deposit with Kawartha Credit Union (note 5(a))	100,000	100,000
Investment in PARTEQ Angel Network (note 5(a))	20,000	20,000
	<u>120,000</u>	<u>120,000</u>
Capital Assets (note 6)	<u>146,311</u>	<u>158,762</u>
	<u>\$1,725,654</u>	<u>\$1,172,683</u>
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities (note 7)	\$233,833	\$119,222
Payable to Corporation of the City of Kingston (note 16)	509,414	-
Deferred revenue (note 8)	72,845	-
	<u>816,092</u>	<u>119,222</u>
Deferred Contributions Related to Capital Assets (note 9)	79,346	96,545
Deferred Lease Inducements (note 10)	64,822	64,063
	<u>960,260</u>	<u>279,830</u>
Fund Balances		
Investment in Capital Assets (note 11)	66,965	62,217
Board Restricted (note 5(a))	120,000	120,000
Other Board Restricted (note 5(b))	17,457	34,876
Unrestricted	560,972	675,760
	<u>765,394</u>	<u>892,853</u>
	<u>\$1,725,654</u>	<u>\$1,172,683</u>

Commitments and Contingencies (note 13)

Approved on behalf of the Board:

Member *Sandra G. Gilson*

Member *[Signature]*

27 April 2015

See accompanying notes to financial statements.

Kingston Economic Development Corporation

Statement of Operations

Year Ended December 31, 2014

	<u>2014</u>	<u>2013</u>
Revenues		
Contributions from the Corporation of the City of Kingston (note 16)	\$2,654,673	\$2,589,925
Provincial government contributions	178,586	118,633
Resale materials	173,485	178,935
Partnership revenue and corporate investors	59,348	69,877
Events and seminars	54,092	42,390
Federal government contributions	26,085	10,952
Amortization of deferred contributions (note 9)	17,199	19,233
Interest	12,831	9,442
On-line reservation	4,072	4,350
	<u>3,180,371</u>	<u>3,043,737</u>
Expenses		
Accounting and legal	33,042	28,617
Advertising	296,536	342,217
Amortization	54,234	46,268
Bank charges	12,426	11,870
Equipment rental	4,513	9,031
Events and meetings	206,830	213,309
Information technology support (notes 13(b) and 16)	55,439	53,058
Insurance	6,879	6,851
Memberships and licenses	55,734	41,105
Office and miscellaneous	61,588	44,541
Professional contractors	101,196	100,613
Professional development	35,915	27,983
Rent (note 13(a))	155,008	153,965
Resale materials	104,619	93,630
Salaries and benefits	1,647,646	1,481,918
Sponsorships and donations	198,261	198,061
Telephone	27,727	27,011
Travel	101,491	114,984
	<u>3,159,084</u>	<u>2,995,032</u>
Excess of revenues over expenses before the undernoted item	21,287	48,705
Expenses of board restricted fund (note 5(b))	148,746	63,926
Deficiency of revenues over expenses	<u>\$(127,459)</u>	<u>\$(15,221)</u>

See accompanying notes to financial statements.

Kingston Economic Development Corporation
Statement of Changes in Fund Balances
Year Ended December 31, 2014

	Investment in Capital Assets	Board Restricted	Other Board Restricted	Unrestricted	Total 2014	Total 2013
Balance at beginning of year	\$62,217	\$120,000	\$34,876	\$675,760	\$892,853	\$908,074
Excess (deficiency) of revenues over expenses	(37,035)	-	(148,746)	58,322	(127,459)	(15,221)
Interfund transfers (note 5(b))	-	-	131,327	(131,327)	-	-
Investment in capital assets	41,783	-	-	(41,783)	-	-
Balance at end of year	\$66,965	\$120,000	\$17,457	\$560,972	\$765,394	\$892,853

See accompanying notes to financial statements.

Kingston Economic Development Corporation

Statement of Cash Flow

Year Ended December 31, 2014

	<u>2014</u>	<u>2013</u>
Cash flow from (used in) operating activities		
Deficiency of revenues over expenses	\$(127,459)	\$(15,221)
Add (deduct) items not affecting cash		
Amortization	54,234	46,268
Amortization of deferred capital contributions	(17,199)	(19,233)
Deferred lease inducements	759	12,500
	<u>(89,665)</u>	<u>24,314</u>
Changes in non-cash working capital balances		
Accounts receivable	(14,176)	(47,825)
Inventory	31,392	482
Sales tax recoverable	(27,332)	6,609
Prepaid expenses and refundable deposits	(28,316)	112
Accounts payable and accrued liabilities	114,611	64,692
Payable to Corporation of the City of Kingston	509,414	-
Deferred revenue	72,845	(38,131)
	<u>568,773</u>	<u>10,253</u>
Cash flow from (used in) investing activities		
Return of investment in the PARTEQ Angel Network	-	30,000
Purchase of capital assets	(41,783)	(10,365)
Purchase of investments	(9,192)	(1,971)
	<u>(50,975)</u>	<u>17,664</u>
Net increase in cash	517,798	27,917
Cash at beginning of year	<u>613,161</u>	<u>585,244</u>
Cash at end of year	<u>\$1,130,959</u>	<u>\$613,161</u>
Cash represented by:		
Cash	\$1,023,415	\$507,387
Cash - interest earned on funds on deposit	7,544	5,774
Deposit with Kawartha Credit Union	100,000	100,000
	<u>\$1,130,959</u>	<u>\$613,161</u>

See accompanying notes to financial statements.

Kingston Economic Development Corporation

Notes to Financial Statements

Year Ended December 31, 2014

1. Purpose of the Corporation

Kingston Economic Development Corporation (the "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

The financial statements have been prepared by management in accordance with Canadian accounting standards for not-for-profit organizations and include the following significant accounting policies:

(a) Investments

Investments in term deposits are recorded at cost plus accrued interest which approximates market value.

(b) Inventory

Inventory represents resale materials at the Visitor Information Centre. Inventory is valued at the lower of cost and 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) 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, provided that the amounts 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, when the consideration is fixed or determinable and when collection is reasonably assured.

Revenue from partners and other corporate investors towards various events and meetings hosted by the Corporation are recognized when there is persuasive evidence of an arrangement for funding, the price is fixed or determinable and collection of the relevant receivable is probable.

Kingston Economic Development Corporation
Notes to Financial Statements (continued)
Year Ended December 31, 2014

2. Significant Accounting Policies (continued)

(d) Amortization

Capital assets are recorded at cost and amortization is provided using the straight-line method over the estimated useful lives of the assets as follows:

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

(e) 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.

(f) 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.

(g) 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.

(h) Impairment of Funds Advanced for Economic Development Initiatives

The funds on deposit with Kawartha Credit Union and funds invested with the PARTEQ Angel Network 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.

Kingston Economic Development Corporation
Notes to Financial Statements (continued)
Year Ended December 31, 2014

2. Significant Accounting Policies (continued)

(i) Use of Estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations 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.

Significant estimates in these financial statements include the estimated net recoverability of the funds advanced related to various economic development initiatives. Management has made its best estimate for any impairment to the carrying values.

3. Investments

Investments are comprised of a one year open term investment with a chartered bank, maturing March 25, 2015, 1.70% per annum interest payable if held to maturity.

4. Prepaid Expenses and Refundable Deposits

	<u>2014</u>	<u>2013</u>
Innovation Park office rent	\$ 16,850	\$ 8,333
Trade show registration	3,588	5,531
Travel costs	14,135	631
Publication costs	-	1,681
Advertising and marketing	7,391	2,486
Memberships	1,490	5,356
Sponsorship	-	6,520
Professional development	-	1,479
Licenses & leases	18,645	-
Events and meetings	<u>-</u>	<u>1,766</u>
	<u>\$62,099</u>	<u>\$33,783</u>

Kingston Economic Development Corporation
Notes to Financial Statements (continued)
Year Ended December 31, 2014

5. Board Restricted Funds

(a) Board restricted funds are comprised of:

	<u>2014</u>	<u>2013</u>
First Capital Business Loan Fund	\$100,000	\$100,000
PARTEQ Angel Network Fund	<u>20,000</u>	<u>20,000</u>
	<u>\$120,000</u>	<u>\$120,000</u>

First Capital Business Loan Fund

This fund was established with a cash deposit of \$100,000 to an interest bearing account with Kawartha Credit Union. The purpose of the fund was to provide a guarantee for loans advanced by Kawartha Credit Union under a lending program for new and emerging small business. It can be withdrawn with written notice of termination.

The cash deposit has accumulated interest earnings of \$7,544 at December 31, 2014 (2013 - \$5,774).

PARTEQ Angel Network Fund

The Corporation holds 20,000 participation units in the PARTEQ Angel Network ("the 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, 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. The underlying investments are in SPARQ Systems Inc. and Switchable Solutions at \$10,000 each. The result of these investments is that the Corporation has shareholder rights in both of these companies which translates into less than 1% share in each company.

Kingston Economic Development Corporation

Notes to Financial Statements (continued)

Year Ended December 31, 2014

5. Board Restricted Funds (continued)

- (b) The Corporation has provided funding for various future expenditures under other board restricted funds. These expenditures have been approved by the Board of Directors up to the following amounts:

	<u>Board Approved</u>	<u>Opening Balance</u>	<u>Actual Transfer in Year</u>	<u>Expenses in Year</u>	<u>Ending Balance</u>
Strategic Planning Position	\$ 70,000	\$17,876	\$ -	\$ 17,876	\$ -
Security - KEDCO Office	7,000	7,000	(7,000)	-	-
Ticketing Software	10,000	10,000	-	10,000	-
Recruitment of Director of Business Development	60,000	-	50,550	50,550	-
Business Development Grindspace Project	15,000	-	15,000	15,000	-
Finance Transition	20,000	-	-	-	-
Rogers K-Rock Centre Suite	14,500	-	14,500	8,989	5,511
Corporate Restructure	50,000	-	43,277	43,277	-
LPS Aviation Project	15,000	-	15,000	3,054	11,946
	<u>\$261,500</u>	<u>\$34,876</u>	<u>\$131,327</u>	<u>\$148,746</u>	<u>\$17,457</u>

During the year, the board approved the net aggregate transfer of \$131,327 (2013 - \$71,896) 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, 2014

6. Capital Assets

	2014			2013
	Cost	Accumulated Amortization	Net	Net
Computer software	\$ 37,974	\$ 23,648	\$ 14,326	\$ -
Computer hardware	151,552	148,603	2,949	6,743
Furniture and equipment	106,449	100,064	6,385	8,892
Display units	48,861	48,521	340	680
Signage	112,792	94,255	18,537	22,507
Voicemail system	34,444	33,518	926	1,851
Leasehold improvements - Innovation Park	175,193	95,850	79,343	96,543
CRM System	<u>36,377</u>	<u>12,872</u>	<u>23,505</u>	<u>21,546</u>
	<u>\$703,642</u>	<u>\$557,331</u>	<u>\$146,311</u>	<u>\$158,762</u>

Cost and accumulated amortization in 2013 were \$661,856 and \$503,094 respectively.

7. Accounts Payable and Accrued Liabilities

Included in accounts payable and accrued liabilities is the following government remittance owing:

	<u>2014</u>	<u>2013</u>
Workers' Compensation	\$ <u>-</u>	\$ <u>412</u>

8. Deferred Revenue

	<u>2014</u>	<u>2013</u>
Provincial Grants – Business Development	\$ 62,872	\$ -
Prepaid customer invoices	<u>9,973</u>	<u>-</u>
	<u>\$ 72,845</u>	<u>\$ -</u>

Kingston Economic Development Corporation
Notes to Financial Statements (continued)
Year Ended December 31, 2014

9. Deferred Contributions Related to Capital Assets

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

	<u>2014</u>	<u>2013</u>
Balance at beginning of year	\$ 96,545	\$ 115,778
Less amounts amortized to revenue – existing	-	(2,034)
Less amounts amortized to revenue - Innovation Park	<u>(17,199)</u>	<u>(17,199)</u>
Balance at end of year	<u>\$ 79,346</u>	<u>\$ 96,545</u>

10. Deferred Lease Inducements

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

	<u>2014</u>	<u>2013</u>
Balance at beginning of year	\$ 64,063	\$ 51,563
Add straight-line rent expense for the year	112,500	112,500
Less rents paid during the year	<u>(111,741)</u>	<u>(100,000)</u>
Balance at end of year	<u>\$ 64,822</u>	<u>\$ 64,063</u>

11. Investment in Capital Assets

	<u>2014</u>	<u>2013</u>
Capital assets	\$146,311	\$ 158,762
Less deferred contributions to related capital assets	<u>(79,346)</u>	<u>(96,545)</u>
	<u>\$ 66,965</u>	<u>\$ 62,217</u>

12. Bank Credit Facility

The Corporation has a short-term line of credit facility of \$100,000 (2013 - \$100,000) of which none had been drawn as at December 31, 2014. The line of credit bears interest at the lender's prime rate and is secured by a general security agreement.

13. 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 written terms of the lease, the Corporation can terminate the lease with six months written notice and the repayment of \$87,500 related to leasehold improvements performed by the landlord on behalf of the Corporation.

Kingston Economic Development Corporation

Notes to Financial Statements (continued)

Year Ended December 31, 2014

13. Commitments and Contingencies (continued)

- (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 \$55,439 (2013 - \$53,508).
- (c) In June 2014, the Corporation committed to a service level agreement with the City of Kingston for accounting and reporting services. The annual charge for these services for the period June 1, 2014 to December 31, 2014 amounted to \$15,264. Annual contracted amounts for 2015 and 2016 are \$30,000 per year.
- (d) The Corporation is committed to a three year lease with the City of Kingston for the Visitor Information Centre. The lease expires on Dec 31, 2016. The Corporation paid rent of \$37,099 (2013 - \$38,687).

14. 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. Because OMERS is a multi-employer pension plan, the Corporation does not recognize any share of the pension plan deficit of \$8.6 billion (at December 31, 2013) based on the fair market value of the plan's assets, as this is a joint responsibility of all Ontario municipalities and their employees.

The amount contributed to OMERS for 2014 was \$122,783 (2013 - \$110,245) and is included as an expense in the statement of operations.

15. Fair Value of Financial Instruments

Financial instruments are initially recognized at fair value and then subsequently at amortized cost with gains or losses recognized in the statement of operations in the period in which the gain or loss occurs. The carrying amounts for cash, accounts receivable and accounts payable approximate their fair market values because of the short-term nature of these instruments.

It is management's opinion that the Corporation is not exposed to significant interest rate, liquidity or credit risks arising from its financial instruments.

Kingston Economic Development Corporation

Notes to Financial Statements (continued)

Year Ended December 31, 2014

16. Related Party Transactions

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

Funds amounting to \$509,414 (2013 - \$Nil) are payable to the City of Kingston at year-end.

The City provided revenues of \$2,654,673 (2013 - \$2,589,925).

The Corporation paid the City for information systems and technology services, rent for the Visitor Information Centre and accounting services as described in note 13(b), (c) and (d).

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