

**INSTITUTE FOR COMPETITIVENESS &
PROSPERITY**

Annual Report 2009-2010
For the Year Ended April 30, 2010

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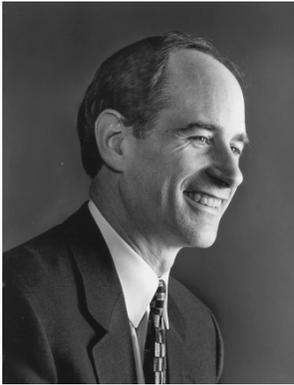
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Message from the Chair



I am pleased to present the Annual Report for 2009-2010 of the Institute for Competitiveness & Prosperity. It provides an overview of our ninth year.

The Institute's prime purpose is to establish and maintain the Task Force on Competitiveness, Productivity and Economic Progress which was announced in Ontario's 2001 Speech from the Throne. Our mandate was broadened to include commercialization and innovation in the Budget Speech of May, 2004.

In our first nine years the Task Force and the Institute have played increasingly important roles in the discussion and debate on issues of competitiveness and prosperity in Ontario and also in Canada. We have introduced the concept of a prosperity gap with a group of North American peer jurisdictions. We have estimated the impact of various labour supply and productivity elements through our "waterfall" calculations. And we have introduced the AIMS (attitudes, investments, motivations, and structures) framework to guide the assessment of Ontario's capacity for innovation and upgrading. Through our communications approaches we have established ourselves as credible experts on key economic issues.

In this latest year, we continued to increase our influence on prosperity-related public policy than in any previous year. We were very pleased that the provincial government here in Ontario and in British Columbia announced a harmonized sales tax and solid reductions in corporate income tax rates in recent budgets - actions that we have advocated for several years now. These actions reduce tax rates on new investment and end the disparity between taxation of investments in manufacturing and services. Our advice was sought out before the latest provincial and federal budgets.

We extended our research on management capabilities from manufacturing to retail and are among the world's leaders in assessing the impact of management on productivity.

In the coming year, we expect governments will face challenging times in tackling deficits with smart spending reductions and tax policies. We will contribute to their deliberations. The federal and provincial governments appear to be re-thinking their innovation policies as it is clear that current approaches are not delivering results. We will ensure that our work this year is informed by our framework for innovation - pressure and support. And we will continue to carry out research in areas of poverty and inequality.

We continue to strengthen our efforts at communicating our findings and recommendations with Ontarians to ensure we are having a significant impact in increasing Ontario's competitiveness, productivity, and capacity for innovation.

Roger L. Martin, Chairman

The Institute for Competitiveness and Prosperity

In her April 19, 2001 Speech from the Throne, the Honourable Hilary M. Weston, Lieutenant Governor of the Province of Ontario stated:

... Economic strength and quality of life are inseparable. Only a strong economy provides the means to support important services such as accessible health care and quality education.

... Responsible choices are required to keep the economy growing, and to determine spending priorities among competing demands that in total would far exceed the growth in revenue.

... Growth - growth in the economy, growth in jobs - remains your government's top priority.

... A new task force will measure and monitor Ontario's productivity, competitiveness and economic progress compared to other provinces and the U.S. states.

... The independent task force, led by Roger Martin, Dean of the Joseph L. Rotman School of Management and one of Canada's leading experts on competitiveness, will report to the public on a regular basis.

On October 17, 2001 the Premier announced the names of the members of the task force. Since that time, some members have resigned; in 2010, four new members accepted the invitation by Roger Martin to join the Task Force (See Page 9).

In the period between the Throne Speech and the announcement of the names of the members of the Task Force, the government approved the establishment of the Institute for Competitiveness and Prosperity whose principal purpose is to establish and maintain the Task Force.

In the Budget Speech of May, 2004, the Government set out the challenge of commercialization for Ontario and set out a role for the Task Force:

A major challenge is to improve on the commercialization of ideas derived from R&D performed in Ontario. Building on the province's strong scientific research base, the government will expand the focus of its innovation programs to enhance commercialization in Ontario's public research institutions. New funding will help these institutions gain better access to private capital. The Ontario Government will work with the federal government to maximize Ontario's participation in the venture capital initiatives announced in the 2004 federal Budget. In addition the Task Force on Competitiveness, Productivity, and Economic Progress will shift its next phase of research to include commercialization issues.

Minister Cordiano expanded on this in a speech on June 24, 2004,

...we're preparing Ontario to lead in both knowledge and innovation. The... government knows that information, invention, and innovation are the new pillars of economic strength and success that create more wealth, increase our prosperity, and achieve a standard of living that is second to none.

The Institute has incorporated commercialization issues in its mission and plans.

Administration and Governance

The Institute was incorporated on August 28, 2001 as a not for profit corporation with Roger L. Martin as Chairman of the Board of Directors (See Page 9).

Vision

Through the provision of support to Ontario's Task Force on Competitiveness, Productivity and Economic Progress, the Institute measures and monitors Ontario's competitiveness compared to other provinces and the U.S. states and is respected for its regular reports to the public.

As a result, governments, firms, organizations and individuals in Ontario have access to a policy framework for increased competitiveness and prosperity that is second to none.

Mission

1. To establish and maintain a Task Force to:

- (a) measure, analyze and report on the competitiveness, productivity and economic progress of the Province of Ontario in comparison to other jurisdictions;
- (b) assess the impact of research and development and commercial innovation in Ontario on the province's competitiveness;
- (c) make such recommendations for action on the part of governments, businesses and others as the Task Force may consider advisable;
- (d) confer and consult with the public, interested parties and experts regarding the methods for measuring, analyzing, reporting upon or making recommendations in respect of the competitiveness, productivity and economic progress of the Province of Ontario;
- (e) encourage, educate and build awareness of competitiveness, productivity and economic progress indicators for the Province of Ontario; and
- (f) conduct such other activities which are consistent with the foregoing.

2. To conduct activities and carry out such other complementary purposes which are consistent with the establishment and maintenance of the Task Force.

Core Businesses

The incorporation papers of the Institute provide the framework for identifying four core businesses which are the focus of this business plan:

1. Secretariat Function:

To establish and maintain a Task Force on competitiveness, productivity, and economic progress.

2. Economic Policy Research Function:

To create a framework to assess Ontario's competitiveness, productivity and economic progress and to develop indicators to measure Ontario's competitiveness, productivity and economic progress compared with the other provinces and the US states.

3. Consultation and Communications Function:

To consult, raise awareness and educate the public and a broad range of stakeholders in all regions of the province on competitiveness issues in general and the work of the Task Force in particular.

4. Administration Function:

To maintain an office and a range of services in support of the functions of the Institute.

Accomplishments and Commitments

The Institute met or exceeded all of the key commitments identified in the Business Plan for 2009-2010:

- Published Report on Canada 2009, *Opportunity in the turmoil*, April 2009
- Published *Time for a “Made in Ontario” Working Income Tax Benefit* with John Stapleton, September 2009
- Published Annual Report 8, *Navigating through the recovery*, November 2009
- Published Working Paper 13, *Management matters in retail*, April 2010

Performance Measures

Core Business	2009-2010 Commitments	Results
Establish and maintain a Task Force	Finalize implementation of any changes in mandate, membership or processes following the Task Force review.	Four new members added to Task Force.

Core Business	2009-2010 Commitments	Results
Economic Policy and Research	<p>Assess management practices across the retail industry in Canada and compare it to the available world dataset (in collaboration with Prof. Nick Bloom)</p> <p>Assess impact of trade with emerging economies on Canada's and Ontario's prosperity and make public policy recommendations</p> <p>Continue reviewing components of waterfall for analytical improvement opportunities.</p>	<p>Working Paper 13, <i>Management matters in retail</i>, published April 2010</p> <p>Findings incorporated in 8th Annual Report Ontario and Report on Canada 2010. Subsequently, Working Paper 14, <i>Trade, innovation, and prosperity</i>, published September 2010</p> <p>Ongoing</p>
Consultation and Communications	<p>Ongoing improvement to Institute's new Web site.</p> <p>Publish Eighth Annual Report.</p> <p>Publish at least one working paper and two special reports.</p> <p>Conference on Canada's competitiveness and prosperity (release of 2009 Report on Canada)</p>	<p>Website heavily revised; Twitter, RSS feeds added</p> <p>Annual Report 8, <i>Navigating through the recovery</i>, published November 2009</p> <p>Working Paper 13, <i>Management matters in retail</i>, published April 2010, <i>Time for a "Made in Ontario" Working Income Tax Benefit</i> with John Stapleton, published September 2009</p> <p>June 2010</p>
Administration	<p>Business plan approved by Board by end of October 2009.</p>	<p>Approved</p>

The Institute for Competitiveness & Prosperity, Board of Directors:

Name	Affiliation
Professor Roger L. Martin, <i>Chairman of the Board</i>	University of Toronto
Dr. Chris Riddle, <i>Member</i>	BioDiscovery Toronto; Consultant on Science & Technology, Innovation and Competitiveness
Martha Tory, <i>Treasurer</i>	Ernst & Young
Michael Akkawi, <i>Member</i>	Torys
Suzanne Spragge, <i>Member</i>	University of Toronto

Members of the Task Force on Competiveness, Productivity and Economic Progress:

Name	Affiliation
Professor Roger L. Martin (Chairman)	Dean of the Joseph L. Rotman School of Management at the University of Toronto
John Armstrong	Partner, Heidrick & Struggles
James L. Balsillie	Chairman and Co-Chief Executive Officer of Research in Motion Limited
Timothy D. Dattels	Director of Newbridge Capital, LLC, the Asian investment vehicle for Texas Pacific Group
Lisa de Wilde	Chief Executive Officer of TVOntario
David Folk	Managing General Partner of Jefferson Partners

Suzanne Fortier	President of Natural Sciences and Engineering Research Council of Canada (NSERC)
Gordon Homer	President of Gordon J. Homer Advisory Services
Tom Jenkins	Executive Chairman and Chief Strategy Officer of Open Text Corporation
David Johnston	President of the University of Waterloo
David Keddie	President of National Compressed Air in Lively, Ontario
Jacques Lamarre O.C.	Strategic Advisor, Heenan Blaikie
Jacques Ménard O.C.	Chairman of BMO Nesbitt Burns
Mark Mullins	Executive Director of the Fraser Institute
Timothy H. Penner	President of Procter & Gamble Inc.
Daniel Trefler	Research Associate at the Institute for Policy Analysis, University of Toronto, and Canadian Pacific Fellow at the Canadian Institute for Advanced Research

Institute Staff

Executive Director

James Milway
416 920.1921 x222
J.Milway@competeprosper.ca

Researchers

Tamer Azer
Katherine Chan
Anam Kidwai
Aaron Meyer
Adrienne Ross
Ying (Sunny) Sun

Kim Ryan (part-time Office Manager)

General Inquiries:

416 920.1921 x224

Questions or comments about the Institute for Competitiveness & Prosperity's business plan are welcomed. Visit www.CompeteProsper.ca or call the offices as listed above.

Sponsoring Ministry

- October 2003 – present: Ontario Ministry of Economic Development and Trade
- April 2002 – October 2003: Ontario Ministry of Enterprise, Opportunity and Innovation
- September 2001 – April 2002: Ontario Ministry of Economic Development and Trade

Financial Statements and Auditors' Report

See inserted statements.

**INSTITUTE FOR COMPETITIVENESS
AND PROSPERITY**

FINANCIAL STATEMENTS

APRIL 30, 2010

AUDITORS' REPORT

To the Members,
Institute for Competitiveness and Prosperity

We have audited the statement of financial position of Institute for Competitiveness and Prosperity as at April 30, 2010 and the statements of operations and unrestricted net assets and cash flows for the year then ended. These financial statements are the responsibility of the Institute's management. 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 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 our opinion, these financial statements present fairly, in all material respects, the financial position of the Institute as at April 30, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Comperthwaite Mehta

Chartered Accountants
Licensed Public Accountants

October 6, 2010
Toronto, Ontario

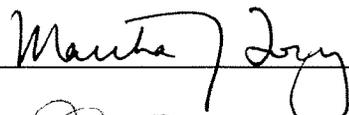
INSTITUTE FOR COMPETITIVENESS AND PROSPERITY

STATEMENT OF FINANCIAL POSITION

AS AT APRIL 30, 2010

	2010	2009
ASSETS		
Current assets		
Cash	\$ 60,721	\$ 173,787
Accounts receivable	13,896	2,425
Contribution receivable (note 5)	109,917	249,917
Prepaid expenses	<u>9,402</u>	<u>19,803</u>
	193,936	445,932
Property and equipment (note 6)	<u>4,305</u>	<u>8,690</u>
	<u>\$ 198,241</u>	<u>\$ 454,622</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable and accrued liabilities	\$ 18,988	\$ 59,698
Deferred contributions (note 5)	<u>174,948</u>	<u>386,234</u>
	193,936	445,932
Deferred capital contributions (note 7)	<u>4,305</u>	<u>8,690</u>
	<u>198,241</u>	<u>454,622</u>
Net assets		
Unrestricted	<u>nil</u>	<u>nil</u>
	<u>\$ 198,241</u>	<u>\$ 454,622</u>

Approved on behalf of the Board:


_____, Director


_____, Director

see accompanying notes

INSTITUTE FOR COMPETITIVENESS AND PROSPERITY

STATEMENT OF OPERATIONS AND UNRESTRICTED NET ASSETS

FOR THE YEAR ENDED APRIL 30, 2010

	2010	2009
REVENUE		
Ministry funding (note 8)	\$ 1,116,253	\$ 999,258
Contract research and other fees (note 10)	159,967	225,095
Interest	<u>25</u>	<u>2,587</u>
	<u>1,276,245</u>	<u>1,226,940</u>
EXPENSES		
Personnel	857,475	762,243
Other services	150,921	95,385
Communication supplies and services	110,015	227,422
Occupancy costs	84,346	43,940
Supplies (note 6)	30,392	52,424
Consulting fees	20,528	8,600
Task force and other meetings	18,948	34,044
Training and development	<u>3,620</u>	<u>2,882</u>
	<u>1,276,245</u>	<u>1,226,940</u>
EXCESS OF REVENUE OVER EXPENSES FOR THE YEAR	nil	nil
Unrestricted net assets, beginning of year	<u>nil</u>	<u>nil</u>
UNRESTRICTED NET ASSETS, END OF YEAR	<u>\$ nil</u>	<u>\$ nil</u>

see accompanying notes

INSTITUTE FOR COMPETITIVENESS AND PROSPERITY

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED APRIL 30, 2010

	2010	2009
OPERATING ACTIVITIES		
Cash received from operations:		
Excess of revenue over expenses for the year	\$ nil	\$ nil
Add back (deduct) non-cash items-		
Amortization of capital assets	6,110	9,581
Amortization of capital grant	(6,110)	(9,581)
Net change in working capital items (see below)	<u>(113,066)</u>	<u>(33,448)</u>
Net cash used for operations	(113,066)	(33,448)
INVESTING ACTIVITIES		
Purchase of property and equipment	(1,725)	(4,301)
FINANCING ACTIVITIES		
Capital grant received	<u>1,725</u>	<u>4,301</u>
NET CASH DECREASE IN THE YEAR	(113,066)	(33,448)
Cash, beginning of year	<u>173,787</u>	<u>207,235</u>
CASH, END OF YEAR	<u>\$ 60,721</u>	<u>\$ 173,787</u>
Net change in working capital items:		
Decrease (increase) in amounts receivable	\$ 128,529	\$ (152,102)
Decrease (increase) in prepaid expenses	10,401	(12,480)
Increase (decrease) in accounts payable and accrued liabilities	(40,710)	25,694
Increase (decrease) in deferred contributions	<u>(211,286)</u>	<u>105,440</u>
	<u>\$ (113,066)</u>	<u>\$ (33,448)</u>

see accompanying notes

INSTITUTE FOR COMPETITIVENESS AND PROSPERITY

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2010

1. THE ORGANIZATION

The Institute for Competitiveness and Prosperity (the Institute) is a not-for-profit organization incorporated in the Province of Ontario without share capital.

Through the provision of support to Ontario's Task Force on Competitiveness, Productivity and Economic Progress, the Institute measures and monitors Ontario's competitiveness compared to other Canadian provinces and selected American states.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Institute are in accordance with Canadian generally accepted accounting principles applied on a basis consistent with that of the preceding year. Outlined below are those policies considered particularly significant:

Financial instruments

The Institute classifies its financial instruments into one of the following categories based on the purpose for which the asset was acquired. The Institute's accounting policy for each category is as follows:

Held-for-trading - This category comprises cash and interest bearing savings accounts. These investments are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations.

Other financial assets and liabilities - Other financial assets and liabilities are carried at cost, which approximates their fair value due to their short-term nature.

Revenue Recognition

The Institute follows the deferral method of revenue recognition. Its principal sources of revenue and recognition of these revenues for financial statement purposes are as follows:

- i) Government contributions related to current expenditures are reflected in the accounts as the Ontario Ministry of Economic Development and Trade (the "Ministry") funding in the current year. Contributions received in the year for expenses to be incurred in the following fiscal year are recorded as deferred contributions. Contributions related to the purchase of capital assets are recorded as capital contributions in the same period the related assets are charged to operations.
- iii) Contract research and other fees and related expenses are recognized in the period the services are performed and the costs incurred.
- iii) Investment income is recognized as earned. Increases and decreases in market value of investments held-for-trading are recognized as investment income (losses) in the period in which they occur.

Property and Equipment

Property and equipment is recorded at cost. Amortization is provided annually at rates calculated to write-off the assets over their estimated useful lives, currently 3 years on a straight line basis.

INSTITUTE FOR COMPETITIVENESS AND PROSPERITY

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2010

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of Estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amount of assets, liabilities, revenues and expenses. These estimates are reviewed periodically, and, as adjustments become necessary, they are reported in the period in which they become known.

3. FINANCIAL INSTRUMENTS

The Institute's financial instruments consist of cash, accounts receivable and accounts payable and accrued liabilities. It is management's opinion that the Institute is not exposed to significant interest, currency or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying values.

4. MANAGEMENT OF CAPITAL

In managing capital, the Institute focuses on liquid resources available for operations. The Institute's objective is to have sufficient liquid resources to continue operating despite adverse events with financial consequences and to provide it with the flexibility to take advantage of opportunities that will advance its purposes. The need for sufficient liquid resources is considered in the preparation of an annual budget and in the monitoring of cash flows and actual operating results compared to the budget. As at April 30, 2010, the Institute has met its objective of having sufficient liquid resources to meet its current obligations.

5. CONTRIBUTIONS RECEIVABLE AND DEFERRED CONTRIBUTIONS

Contributions receivable from the Ministry as at April 30, 2010 is for funding for the period April 1 2010 to April 30, 2010 and an additional amount from a prior year that had not been received at April 30, 2010 (funding receivable as at April 30, 2009 was for the period January 1, 2009 to April 30, 2009 that had not been received at April 30, 2009).

Deferred contributions includes contributions received and receivable from the Ministry and other sources that are available to cover operating expenses of future periods.

6. PROPERTY AND EQUIPMENT

Property and equipment, recorded at cost, is as follows:

	Cost	Accumulated Amortization	2010 Net	2009 Net
Computer equipment	\$ 60,241	\$ (56,176)	\$ 4,065	\$ 5,543
Office equipment and furniture	72,248	(72,008)	240	3,147
Computer software	<u>4,840</u>	<u>(4,840)</u>	<u>nil</u>	<u>nil</u>
	<u>\$ 137,329</u>	<u>\$ (133,024)</u>	<u>\$ 4,305</u>	<u>\$ 8,690</u>

Supplies includes a charge for amortization of furniture and equipment of \$6,110 for the year ended April 30, 2010 (a charge of \$9,581 for the year ended April 30, 2009).

INSTITUTE FOR COMPETITIVENESS AND PROSPERITY

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2010

7. DEFERRED CAPITAL CONTRIBUTION

The deferred capital contribution represents the unamortized portion of Ministry funds used for purchase of property and equipment.

Continuity of the deferred capital contributions for the period is as follows:

	2010	2009
Deferred capital grant, beginning of year	<u>\$ 8,690</u>	<u>\$ 13,970</u>
Add Ministry funding received for property and equipment	1,725	4,301
Less capital grant recognized in year (note 8)	<u>(6,110)</u>	<u>(9,581)</u>
	<u>(4,385)</u>	<u>(5,280)</u>
Deferred capital grant, end of year	<u>\$ 4,305</u>	<u>\$ 8,690</u>

8. MINISTRY FUNDING

The Institute has entered into a funding agreement with the Ministry through March 31, 2012. Any excess of contributions received over eligible expenses at the end of the funding period is repayable to the Ministry.

Funding from the Ministry received in the year is recognized in these financial statements as follows:

	2010	2009
Ministry funding recognized as revenue in the year:		
Non-capital portion	\$ 1,110,143	\$ 989,677
Capital portion (note 7)	<u>6,110</u>	<u>9,581</u>
Total Ministry funding recognized as revenue in the year	<u>1,116,253</u>	<u>999,258</u>
Increase (decrease) in Ministry funding deferred in the year:		
Deferred contributions related to Ministry funding	(111,868)	6,022
Deferred capital contributions (note 7)	<u>(4,385)</u>	<u>(5,280)</u>
Total increase (decrease) in Ministry funding deferred	<u>(116,253)</u>	<u>742</u>
Current year Ministry contributions to fund equipment purchases and operations	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>

INSTITUTE FOR COMPETITIVENESS AND PROSPERITY

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2010

9. LEASE COMMITMENT

The Institute rents office space under a lease agreement to December 14, 2012. Base rent over the term of the lease is as follows.

2011	\$	37,969
2012		37,969
2013		<u>26,895</u>
	\$	<u>102,833</u>

10. RELATED PARTY

The Institute is related to the Martin Prosperity Institute, a department of the Rotman School of Management of the University of Toronto, in that both organizations share the same Executive Director and administrative staff and the Chairman of the Board of the Institute is the Dean of the Rotman School of Management.

Amounts payable or receivable from transactions in the normal course of operations with the Martin Prosperity Institute are non-interest bearing, payable on demand and unsecured. No amounts were due from or payable to the Martin Prosperity Institute at April 30, 2010 and April 30, 2009.

The Institute periodically enters into contracts with the Martin Prosperity Institute to provide research services. During 2010 contracts for services of \$125,418 were billed. Contracts for services totaling \$217,882 were billed in the year ended April 30, 2009. The research services were billed to the Martin Prosperity Institute at Institute direct cost in both years.

11. INCOME TAX STATUS

The Institute is exempt from income tax in Canada as a not-for-profit organization under Section 149(1)(L) of the Income Tax Act (Canada).