

INSTITUTE FOR COMPETITIVENESS & PROSPERITY

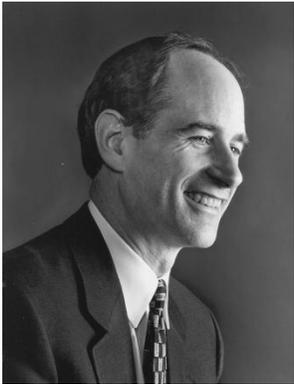
Annual Report 2011-2012
For the year ended April 30, 2012

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Annual Report 2011-2012

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Message from the Chair



I am pleased to present the 2011-12 Business Plan of the Institute for Competitiveness & Prosperity.

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

Background

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

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.

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

Establishment of the Task Force

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; earlier in 2010, three new members accepted the invitation by Roger Martin to join the Task Force. (See Appendix A for a list of current Task Force members and their brief biographies.)

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 8).

The objects of the corporation are the same as the Mission of the Institute as set out above (see page 3).

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 2011-2012:

- Published Report on Canada 2011, *Canada's innovation imperative*, June 2011
- Published Annual Report 10, *Prospects for Ontario's prosperity*, November 2011
- Published Working Paper 15, *Small business, entrepreneurship, and innovation*, February 2012
- Published *Improving productivity in Canada's food processing sector through greater scale* with the George Morris Centre, February 2012

Performance Measures

Core Business	2011-12 Commitments	Results
Establish and maintain a Task Force	Hold four Task Force meetings Collect data on public interest in the Task Force and its members through website metrics and media coverage	Task Force meetings held in June, September, December, and March Website metrics and media coverage presented to the Task Force at each meeting

Core Business	2011-12 Commitments	Results
Economic Policy and Research	<p>Assess impact of small and medium enterprises on Ontario's and Canada's entrepreneurship, innovation, and prosperity and make public policy recommendations</p> <p>Update previous poverty and inequality analysis research</p> <p>Continue building research and analysis on innovation to inform our competitiveness research</p>	<p>Working Paper 15, <i>Small business, entrepreneurship, and innovation</i>, published in February 2012</p> <p>Incorporated updated poverty research in Annual Report 10, <i>Prospects for Ontario's Prosperity</i>, published November 2011</p> <p>Positive impact on public policy, especially at provincial level</p>
Consultation and Communications	<p>Publish Tenth Annual Report</p> <p>Publish at least one working paper</p> <p>Conference on Canada's competitiveness and prosperity (release of 2011 Report on Canada)</p>	<p>Annual Report 10, <i>Prospects for Ontario's Prosperity</i>, published November 2011</p> <p>Working Paper 15, <i>Small business, entrepreneurship, and innovation</i>, published in February 2012</p> <p>June 2011</p>
Administration	Business plan approved by Board by end of October 2011	Approved

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>	Consultant on Innovation and Competitiveness & Not-for-Profit Corporate Management
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 Competitiveness, 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	Managing Partner of The Capital Markets Company (Capco)
James L. Balsillie	Chairman and Co-Chief Executive Officer of Research in Motion Limited
Timothy D. Dattels	Director of TPG Capital,
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 Keddie	President of National Compressed Air
Jacques Ménard,	O.C. Chairman of BMO Nesbitt Burns
Mark Mullins	Veras Inc.
Timothy H. Penner	
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

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Melissa Pogue
Rebecca Sun

General Inquiries

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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 2011 - Present: Ontario Ministry of Economic Development and Innovation
- October 2003 - October 2011: 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, 2012 AND APRIL 30, 2011

INDEPENDENT AUDITOR'S REPORT

To the Members,
Institute for Competitiveness and Prosperity

Report on the Financial Statements

We have audited the accompanying financial statements of Institute for Competitiveness and Prosperity which comprise the statement of financial position as at April 30, 2012, April 30, 2011 and May 1, 2010 and the statements of changes in net assets, operations and cash flows for the years ended April 30, 2012 and April 30, 2011, 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.

Auditor's 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 auditor's judgment, 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Institute for Competitiveness and Prosperity as at April 30, 2012, April 30, 2011 and May 1, 2010, and its financial performance and its cash flows for the years ended April 30, 2012 and April 30, 2011 in accordance with Canadian accounting standards for not-for-profit organizations.

Conperthwaite Mehta

Chartered Accountants
Licensed Public Accountants

October 22, 2012
Toronto, Ontario

INSTITUTE FOR COMPETITIVENESS AND PROSPERITY

STATEMENT OF FINANCIAL POSITION

AS AT APRIL 30, 2012, APRIL 30, 2011 AND MAY 1, 2010

	2012	2011	2010
ASSETS			
Current assets			
Cash	\$ 214,664	\$ 247,459	\$ 60,721
Accounts receivable	488	24,521	113
Sales tax recoverable	56,371	42,207	13,783
Government funding receivable			109,917
Prepaid expenses	<u>10,480</u>	<u>26,481</u>	<u>9,402</u>
	282,003	340,668	193,936
Property and equipment (note 4)	<u>nil</u>	<u>6,694</u>	<u>4,305</u>
	<u>\$ 282,003</u>	<u>\$ 347,362</u>	<u>\$ 198,241</u>
LIABILITIES AND NET ASSETS			
Current liabilities			
Accounts payable and accrued liabilities	\$ 20,374	\$ 13,889	\$ 18,988
Amounts payable to governments	nil	nil	nil
Deferred contributions (note 5)	<u>261,629</u>	<u>326,779</u>	<u>174,948</u>
	282,003	340,668	193,936
Deferred capital contributions (note 6)	<u>nil</u>	<u>6,694</u>	<u>4,305</u>
	<u>282,003</u>	<u>347,362</u>	<u>198,241</u>
Net assets			
Unrestricted	<u>nil</u>	<u>nil</u>	<u>nil</u>
	<u>\$ 282,003</u>	<u>\$ 347,362</u>	<u>\$ 198,241</u>

Approved on behalf of the Board:

_____, Director

_____, Director

see accompanying notes

INSTITUTE FOR COMPETITIVENESS AND PROSPERITY

STATEMENT OF OPERATIONS AND CHANGES IN UNRESTRICTED NET ASSETS

FOR THE YEARS ENDED APRIL 30, 2012 AND APRIL 30, 2011

	2012	2011
REVENUE		
Government funding (note 7)	\$ 1,071,844	\$ 1,012,531
Contract research and other fees (note 9)	<u>47,811</u>	<u>121,670</u>
	<u>1,119,655</u>	<u>1,134,201</u>
EXPENSES		
Personnel	725,851	693,219
Communication supplies and services	182,115	196,451
Occupancy costs	96,761	93,577
Other services	46,166	96,873
Consulting fees	31,916	11,487
Task force and other meetings	17,568	24,166
Supplies (note 4)	16,328	16,512
Training and development	<u>2,950</u>	<u>1,916</u>
	<u>1,119,655</u>	<u>1,134,201</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 YEARS ENDED APRIL 30, 2012 AND APRIL 30, 2011

	2012	2011
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	6,694	3,749
Amortization of capital contributions	(6,694)	(3,749)
Net change in working capital items (see below)	<u>(32,795)</u>	<u>186,738</u>
Net cash generated from (used for) operations	(32,795)	186,738
INVESTING ACTIVITIES		
Purchase of property and equipment	nil	(6,138)
FINANCING ACTIVITIES		
Capital contributions received	<u> </u>	<u>6,138</u>
NET CASH INCREASE (DECREASE) IN THE YEAR	(32,795)	186,738
Cash, beginning of year	<u>247,459</u>	<u>60,721</u>
CASH, END OF YEAR	<u>\$ 214,664</u>	<u>\$ 247,459</u>

Net change in non-cash working capital items:

Decrease (increase) in current assets-		
Accounts receivable	\$ 9,869	\$ 57,084
Prepaid expenses	16,001	(17,078)
Increase (decrease) in current liabilities-		
Accounts payable and accrued liabilities	6,485	(5,099)
Deferred contributions	<u>(65,150)</u>	<u>151,831</u>
	<u>\$ (32,795)</u>	<u>\$ 186,738</u>

see accompanying notes

INSTITUTE FOR COMPETITIVENESS AND PROSPERITY

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2012 AND APRIL 30, 2011

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. 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).

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

Management is responsible for preparation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations. Outlined below are those policies considered particularly significant:

Investments

The Institute carries equities, money market funds and fixed income securities at quoted market value. Realized and unrealized gains and losses are recognized as investment income when they arise. Related transaction costs are expensed as incurred.

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) Contributions related to current expenditures are reflected in the accounts as revenue 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, including interest, dividends and realized and unrealized investment gains and losses, is recognized in the period earned.

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 three years on a straight line basis.

3. RISK MANAGEMENT

It is management's opinion that the Institute is not exposed to significant interest or credit risks.

INSTITUTE FOR COMPETITIVENESS AND PROSPERITY

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2012 AND APRIL 30, 2011

4. PROPERTY AND EQUIPMENT

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

	Cost	Accumulated Amortization	2012 Net	2011 Net
Office equipment and furniture	\$ 78,385	\$ (78,385)	\$ nil	\$ 6,378
Computer equipment	60,241	(60,241)	nil	316
Computer software	<u>4,840</u>	<u>(4,840)</u>	<u>nil</u>	<u>nil</u>
	<u>\$ 143,466</u>	<u>\$ (143,466)</u>	<u>\$ nil</u>	<u>\$ 6,694</u>

Supplies includes a charge for amortization of office equipment of \$6,694 for the year ended April 30, 2012 (a charge of \$3,749 for the year ended April 30, 2011).

5. DEFERRED CONTRIBUTIONS

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

6. DEFERRED CAPITAL CONTRIBUTIONS

Deferred capital contributions represents the unamortized portion of funds used for purchase of office equipment and furnishings.

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

	2012	2011
Deferred capital contributions, beginning of year	<u>\$ 6,694</u>	<u>\$ 4,305</u>
Add funding received for equipment and furnishings	nil	6,138
Less capital contributions recognized in year (note 7)	<u>(6,694)</u>	<u>(3,749)</u>
	<u>(6,694)</u>	<u>(2,389)</u>
Deferred capital contributions, end of year	<u>\$ nil</u>	<u>\$ 6,694</u>

INSTITUTE FOR COMPETITIVENESS AND PROSPERITY

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2012 AND APRIL 30, 2011

7. GOVERNMENT FUNDING

The Institute has entered into a funding agreement with the Ontario Ministry of Economic Development and Innovation from April 1, 2012 through March 31, 2015. Funding to March 31, 2012 was received from the Ontario Ministry of Economic Development and Trade. Any excess of contributions received over eligible expenses at the end of the funding period is refundable.

Funding from Ontario government ministries is recognized in these financial statements as follows:

	2012	2011
Funding recognized as revenue in the year:		
Non-capital portion	\$ 1,065,150	\$ 1,008,782
Capital portion (note 6)	<u>6,694</u>	<u>3,749</u>
Total funding recognized as revenue in the year	<u>1,071,844</u>	<u>1,012,531</u>
Increase (decrease) in funding deferred in the year:		
Deferred contributions related to current funding	(65,150)	151,831
Deferred capital contributions (note 6)	<u>(6,694)</u>	<u>2,389</u>
Total increase (decrease) in deferred funding	<u>(71,844)</u>	<u>154,220</u>
Current year Ontario government contributions to fund equipment purchases and operations	<u>\$ 1,000,000</u>	<u>\$ 1,166,751</u>

8. LEASE COMMITMENT

The Institute rents office space under a lease agreement to December 14, 2012. Base rent over the remaining term of the lease is \$26,895.

9. 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, 2012, April 30, 2011 and May 1, 2010.

The Institute periodically enters into contracts with the Martin Prosperity Institute to provide research services. The research services are billed to the Martin Prosperity Institute at Institute direct cost. No contracts for services were billed in 2012 or 2011.

INSTITUTE FOR COMPETITIVENESS AND PROSPERITY

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2012 AND APRIL 30, 2011

10. ADOPTION OF ACCOUNTING STANDARDS FOR NOT-FOR-PROFIT ORGANIZATIONS

Effective May 1, 2010, the Institute elected to adopt the Canadian accounting standards for not-for-profit organizations. These are the first financial statements prepared in accordance with this new framework which have been applied retrospectively.

Management reviewed the exemptions provided on transition to the Canadian accounting standards for not-for-profit organizations and has elected to designate all investments to be subsequently measured at fair value, which is consistent with the accounting policy in place at the time of the transition. The adoption of Canadian accounting standards for not-for-profit organizations had no impact on the previously reported assets, liabilities and net assets of the Institute, and accordingly, there has been no restatement of previously reported amounts as at the date of the transition, being May 1, 2010. The presentation and disclosures in the financial statements reflect the requirements under the new accounting framework.