

Institute for Competitiveness & Prosperity

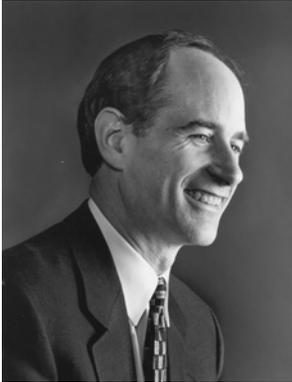
Annual Report 2004 – 05
For the Year Ended April 30, 2005

Institute for Competitiveness & Prosperity

Annual Report 2004-2005

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Message from the Chair



I am pleased to present the Annual Report for 2004-05 of the Institute for Competitiveness & Prosperity. It provides an overview of our fourth 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.

In our latest year we continued to strengthen the role we are playing in spurring discussion and debate on issues of competitiveness and prosperity in Ontario and also in Canada. We published research findings on the market structures underlying Ontario's competitiveness and the motivations inherent in our tax system. With research findings we have put forward a comprehensive view of the key economic challenges facing Ontario within our AIMS (Attitudes-Investments-Motivations-Structures) framework. We also set out a framework for assessing innovation and commercialization policy in Ontario. We continued to enhance our information on Ontario's and Canada's clusters of traded industries.

We summarized our work in the Third Annual Report published for the Task Force and proposed a set of success measures to track Ontario's progress in building our competitive capabilities and close the prosperity gap with our peer states. We also broadened our Ontario work to identify challenges and opportunities for Canada's competitiveness. We published and presented these findings at the World Economic Forum in Davos, Switzerland.

During the year we extended our funding agreement with the Ontario Ministry of Economic Development and Trade for another three years. We appreciate the confidence the Ministry and the Government have shown in the Institute and we look forward to our continued relationship.

As we begin our fifth year, we look forward to deepening our understanding of Ontario's competitiveness and prosperity and helping shape related public policy.

Roger L. Martin
Chairman of the Board

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.

... 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 (see page 11).

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 maintain the Task Force.

Administration and Governance

The Institute was incorporated in Ontario 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 as 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 U.S. states.

3. Consultation and Communications Functions: 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.

To publish interim, special and annual reports on behalf of the Task Force.

4. Administration Function: To maintain an office and to provide 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 2004-05 which was approved by the Board on October 13, 2004.

Deliverables to April 2005 (Fiscal Year 2004-05):

- Published Third Annual Report, *Realizing our prosperity potential*, November 2004;
- Published Working Paper 5, *Strengthening structures: Upgrading specialized support and competitive pressure*, July 2004;
- Published Working Paper 6, *Reinventing innovation and commercialization in Ontario*, October 2004;
- Published Working Paper 7, titled *Taxing smarter for prosperity*, March 2005;
- Canadian Report on Canada's prosperity published in January '05: presented at World Economic Forum in Davos, Switzerland and at "Heroes of Innovation" event in Toronto, sponsored by Microsoft Canada;
- Collected information on 41 clusters of traded industries for each of Canada's city regions, published on the Institute website.

The Global Competitiveness Report

The Institute for Competitiveness and Prosperity, in partnership with the University of Toronto's Rotman School of Management, is the Canadian partner for the World Economic Forum's Global Competitiveness Report. The Global Competitiveness Report, which has been published annually since 1979, is a worldwide research project completed in conjunction with the World Economic Forum. An important part of this annual research report is the Executive Opinion Survey. Working with partner institutes around the world the World Economic Forum surveys senior executives from a cross-

section of businesses in 75 countries. Results of the Executive Opinion Survey provide much richer country-specific information than is available through 'hard' data sources and are key components of the competitiveness indices developed by the Forum.

The Institute conducted the Canadian surveys for the 2004-05 report and publicized the results after they were released in October 2004.

Core Business	2004-05 Commitments	Results
Maintain a Task Force	<p>Revise membership.</p> <p>Hold Four Task Force Meetings.</p> <p>Monitor levels of public interest in the Task Force and its members through website metrics and media coverage.</p>	<p>Task force membership continued.</p> <p>Task Force meetings held in July, September, December, and April.</p> <p>Website metrics and media coverage was presented to the Task Force at each meeting.</p>
Economic Policy Research	<p>Map Ontario's research and development and patent performance, and present findings to Task Force.</p> <p>Identify innovation and commercialization indicators and present findings to Task Force.</p>	<p>Ontario's market structure assessed and published in Working Paper 5.</p> <p>Ontario's research and development investments vs. peer states was presented to the Task Force and published in Working Paper 6.</p> <p>Patent performance by cluster vs. peer states was presented to the Task Force and published in Working Paper 6.</p> <p>Developed a framework to assess public policies related to commercialization and innovation presented to the Task Force and published in Working Paper 6.</p> <p>Additional: Assessed Ontario's and Canada's taxation policies,</p>

Core Business	2004-05 Commitments	Results
		and presented the findings to the Task Force and published them in Working Paper 7.
Consultation and Communications	<p>Continuous improvement on the website.</p> <p>Get the approval from the Board on the approach to stakeholder consultations and implement it.</p> <p>Publish the Third Annual Report.</p> <p>Publish working papers on Structures and Innovation/Commercialization.</p> <p>Make presentations and consult with at least 50 groups.</p>	<p>Contracted external website support; city-specific cluster information added.</p> <p>Engaged external support to enhance communication with stakeholders.</p> <p>Published Third Annual Report November 2004.</p> <p>Published three working papers: <i>Strengthening Structures: Upgrading specialized support and competitive pressure</i> (July '04); <i>Reinventing innovation and commercialization in Ontario</i> (Oct '04); <i>Taxing smarter for prosperity</i> (March '05).</p> <p>Gave presentation or engaged in consultation with 54 groups.</p>
Administration	<p>Make changes, if any, to the Institute's incorporation agreement by the end of October 2004.</p> <p>Get the Board's approval of the Business Plan by the end of October 2004.</p>	<p>Finalized agreement with MEDT in December '04.</p> <p>Business Plan approved by the Board on October 13, 2004.</p>

Members of the Board of Directors

Roger L. Martin Chairman of the Board	University of Toronto
Martha Tory Treasurer	Ernst & Young
Michael Akkawi Member	Torys
Suzanne Spragge Member	University of Toronto
Chris Riddle Member	Consultant on Science & Technology, Innovation and Competitiveness; former Executive Director of the Institute

Members of the Task Force on Competitiveness, Productivity & Economic Progress

Roger L. Martin (Chairman)	Dean of the Joseph L. Rotman School of Management at the University of Toronto
James L. Balsillie	Chairman and Co-Chief Executive Officer of Research in Motion Limited
Timothy D. Dattels	Managing Director of Newbridge Capital, LLC, the Asian investment vehicle for Texas Pacific Group
Lisa de Wilde	
David Folk	Managing General Partner of Jefferson Partners
Suzanne Fortier	Vice-Principal (Academic) at Queen's University in Kingston, Ontario
Gordon Homer	
David Johnston	President of the University of Waterloo
David Keddie	President of National Compressed Air in Lively, Ontario

Mark Mullins	Director of Ontario Policy Studies, Fraser Institute
William Orován	Professor and Chair of the Department of Surgery at McMaster University
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

Mr. James Milway, Ms. Claudelle Poole	Executive Director Researcher & Office Manager
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Contact Information

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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, 2005

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, 2005 and the statements of operations and 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, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Cowperthwaite Mehta

Chartered Accountants

June 20, 2005
Toronto, Ontario

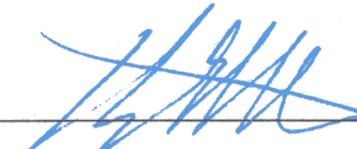
INSTITUTE FOR COMPETITIVENESS AND PROSPERITY

STATEMENT OF FINANCIAL POSITION

AS AT APRIL 30, 2005

	2005	2004
ASSETS		
Current assets		
Cash	\$ 120,509	\$ 150,222
Accounts receivable	45,650	66,671
Prepaid expenses	<u>7,524</u>	<u>7,456</u>
	173,683	224,349
Property and equipment (note 4)	<u>59,122</u>	<u>109,474</u>
	<u>\$ 232,805</u>	<u>\$ 333,823</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 22,462	\$ 22,150
Deferred operating grant (note 5)	<u>151,221</u>	<u>202,199</u>
	173,683	224,349
Deferred capital grant (note 6)	<u>59,122</u>	<u>109,474</u>
	<u>232,805</u>	<u>333,823</u>
Net assets		
Invested in property and equipment	nil	nil
Unrestricted	<u>nil</u>	<u>nil</u>
	nil	nil
	<u>\$ 232,805</u>	<u>\$ 333,823</u>

Approved on behalf of the Board:


_____, Director


_____, Director

see accompanying notes

INSTITUTE FOR COMPETITIVENESS AND PROSPERITY

STATEMENT OF OPERATIONS AND NET ASSETS

FOR THE YEAR ENDED APRIL 30, 2005

	2005	2004
REVENUE		
Government funding (note 7)	\$ 1,101,330	\$ 1,129,538
Contract research and other fees	45,800	4,000
Interest	<u>134</u>	<u>2,226</u>
	<u>1,147,264</u>	<u>1,135,764</u>
EXPENSES		
Personnel	560,735	480,958
Other services (note 4)	288,478	389,815
Communication supplies and services	204,938	153,624
Supplies (note 4)	30,810	49,779
Occupancy costs	33,952	33,832
Task force and other meetings	22,789	23,715
Consulting fees	4,532	2,389
Training and development	<u>1,030</u>	<u>1,652</u>
	<u>1,147,264</u>	<u>1,135,764</u>
EXCESS OF REVENUE OVER EXPENSES FOR THE YEAR	nil	nil
Net assets, beginning of year	<u>nil</u>	<u>nil</u>
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, 2005

	2005	2004
OPERATIONS		
Cash received for operations:		
Government funding	\$ 1,000,000	\$ 1,000,000
Contract research and other	<u>45,934</u>	<u>4,226</u>
	<u>1,045,934</u>	<u>1,004,226</u>
Cash used for operations:		
Personnel	(554,460)	(478,998)
Consulting fees	(262,625)	(336,606)
Communication supplies and services	(224,610)	(264,458)
Occupancy and other	<u>(33,952)</u>	<u>(33,832)</u>
	<u>(1,075,647)</u>	<u>(1,113,894)</u>
NET CASH USED IN THE YEAR	(29,713)	(109,668)
Cash, beginning of year	<u>150,222</u>	<u>259,890</u>
CASH, END OF YEAR	<u>\$ 120,509</u>	<u>\$ 150,222</u>

see accompanying notes

INSTITUTE FOR COMPETITIVENESS AND PROSPERITY

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2005

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. Outlined below are those policies considered particularly significant:

Revenue Recognition

The Institute follows the deferral method of revenue recognition. Under the deferral method, grants received in the year for expenses to be incurred in the following year are recorded as deferred revenue.

Government assistance related to current expenditures is reflected in the accounts as a revenue item in the current year. Assistance related to the purchase of property and equipment is recorded as revenue in the same period the related property and equipment is charged to operations.

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 as follows:

Office equipment and furniture	- 3 years straight line basis
Computer equipment	- 3 years straight line basis
Computer software	- 3 years straight line basis
Software licence agreement	- 5 years straight line basis

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. Specifically, significant assumptions have been made in arriving at the calculation of capital and operating grants recognized in the year and amortization of property and equipment expensed in the year. 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.

INSTITUTE FOR COMPETITIVENESS AND PROSPERITY

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2005

4. PROPERTY AND EQUIPMENT

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

	Cost	Accumulated Amortization	2005 Net	2004 Net
Office equipment and furniture	\$ 56,250	\$ (56,250)	\$ nil	\$ 9,375
Computer equipment	39,072	(39,072)	nil	7,548
Computer software	<u>4,840</u>	<u>(4,033)</u>	<u>807</u>	<u>2,420</u>
	<u>\$ 100,162</u>	<u>\$ (99,355)</u>	807	19,343
Software licence agreement, net			<u>58,315</u>	<u>90,131</u>
			<u>\$ 59,122</u>	<u>\$ 109,474</u>

Supplies includes a charge for amortization of furniture and equipment of \$18,536 and other services includes a charge for amortization of the software licence agreement of \$31,816.

5. DEFERRED OPERATING GRANT

The deferred operating grant represents funds received from the Ontario Ministry of Economic Development and Trade (the "Ministry") that are available to cover operating expenses of future periods.

6. DEFERRED CAPITAL GRANT

The deferred capital grant represents the unamortized portion of Ministry funds used for acquisition of the long-term software licence agreement and for purchase of property and equipment.

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

	2005	2004
Deferred capital grant, beginning of year	\$ 109,474	\$ 174,677
Less capital grant recognized in year (note 7)	<u>(50,352)</u>	<u>(65,203)</u>
Deferred capital grant, end of year	<u>\$ 59,122</u>	<u>\$ 109,474</u>

INSTITUTE FOR COMPETITIVENESS AND PROSPERITY

NOTES TO THE FINANCIAL STATEMENTS

APRIL 30, 2005

7. GOVERNMENT FUNDING

The Institute has entered into a funding agreement with the Ministry through April 30, 2004. Any excess of grants 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:

	2005	2004
Government funding recognized as revenue in the year:		
Non-capital portion	\$ 1,050,978	\$ 1,064,335
Capital portion	<u>50,352</u>	<u>65,203</u>
Total government funding recognized as revenue in the year	<u>1,101,330</u>	<u>1,129,538</u>
Decrease in government funding deferred in the year:		
Deferred operating grant	(50,978)	(64,335)
Deferred capital grant (note 6)	<u>(50,352)</u>	<u>(65,203)</u>
Total decrease in government funding deferred	<u>(101,330)</u>	<u>(129,538)</u>
Cash received from government funding for property and equipment and operations in the year	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>

8. LEASE COMMITMENTS

The Institute rents office space under a lease agreement to April 30, 2007. Lease payments over the term of the lease, including the Institute's estimated share of property tax and utilities, are as follows:

2006	\$ 33,900
2007	<u>33,900</u>
	<u>\$ 67,800</u>

9. 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).