

RAFIQ DOSANI, B.Comm. CFE CA
CHARTERED ACCOUNTANT

90 Risebrough Avenue
Toronto, Ontario M2M 2E3
Telephone: (416) 221 - 4095
Fax: (416) 221 - 4160
E-mail: dosani23@sympatico.ca

August 10, 2007

Ms. Henny Varga, Chair
Kingsway Business Improvement Area
2912 Bloor Street West.
Toronto, ON M8X 2Y8

Dear Ms. Varga:

**MANAGEMENT LETTER
YEAR ENDED DECEMBER 31, 2006**

The audit of the financial statements of the Kingsway Business Improvement Area (BIA) for the year ended December 31, 2006 has recently been completed. The primary purpose of the audit was to express an opinion on the financial position of the BIA as at that date and on the results of its operations for the year then ended.

Overall, the controls for an organization of this size were adequate and the accounting records were well maintained. Given the test nature of my audit, you will appreciate that reliance must be placed on adequate methods of internal control as the Board's principal safeguard against irregularities which a test examination may not disclose. This letter provides my comments and recommendations on matters arising from the audit for your consideration.

CASH

Observation:

It is the Board's policy to invest in short-term investments funds not immediately required for the BIA activities. It was noted that a significantly large amount of funds (approximately \$200,000) was maintained in the current account earning no interest. As a result, the BIA lost interest revenue of approximately \$6,000.

Recommendation:

- 1. In order to increase revenue for the BIA activities the Treasurer should prepare a cash flow statement and all excess funds not immediately required should be invested in short-term investments or Guaranteed Investments Certificates**

Management Response:

Agreed with the recommendation. The BIA will be investing all excess funds not immediately required in short-term investments.

-2-

EMPLOYER-EMPLOYEE RELATIONSHIP**Observation:**

The BIA has retained an Executive Director to assist in the general administration of BIA activities. The remuneration is paid without any statutory deductions.

According to Canada Revenue Agency (CRA) guidelines an employer-employee relationship exists when there is "a verbal or written agreement in which an employee agrees to work on a full-time or part-time basis for an employer for a specified or indeterminate period of time, in return for salary or wages. The employer has the right to decide where, when, and how the work will be done. In this type of relationship, a contract of services exists." The CRA guidelines also provide other criteria to be used in analysing the terms and conditions of employment.

Where an employer-employee relationship exists, the employer must withhold income tax, Canada Pension Plan (CPP) contributions and Employment Insurance (EI) premiums on amounts paid to employees and report the employees' income and deductions on the appropriate return. Failure to do so could result in penalties and interest charges.

In my view, the current arrangement with the Executive Director could be interpreted as an employer-employee relationship.

Recommendation:

2. The Board review its current arrangement with the Executive Director, with a view to ensuring that, where an employer-employee relationship exists, its obligations under the Canada Customs Revenue Agency regulations are met.

Management Response:

Agreed with the audit recommendation. Effective July 2007, the Executive Director is paid net of statutory deductions and all deductions are remitted monthly to the Revenue Canada Agency.

Yours truly,



Rafiq Dosani