

Auditors' Report

To the Chief Agent of the Canadian Reform Conservative Alliance

We have audited the Political Party Financial Transactions Return of the Canadian Reform Conservative Alliance for the year ended December 31, 2001. This return is the responsibility of the Organization's management. Our responsibility is to express an opinion on this return 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 return is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the return. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall return presentation.

In our opinion, this return presents fairly, in all material respects, the financial transactions of the Organization for the year ended December 31, 2001 and is based on financial records of the Organization which are in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta
July 23, 2002


Chartered Accountants

Grant Thornton LLP
Chartered Accountants
Management Consultants
Canadian Member Firm of
Grant Thornton International

Grant Thornton 

Canadian Alliance Fund
Financial Statements
December 31, 2001

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Auditors' Report

To the Board of Directors and Members
of Canadian Alliance Fund

We have audited the statement of financial position of Canadian Alliance Fund as at December 31, 2001 and the statements of operations and changes in fund balances and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on this financial statement 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 statement. 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 Fund as at December 31, 2001 and the results of its operations, changes in fund balances and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Alberta
March 6, 2002



Chartered Accountants

Canadian Alliance Fund

Statement of Financial Position

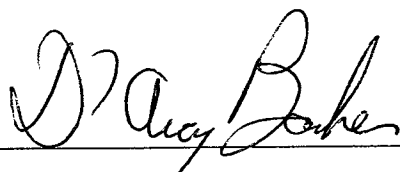
December 31, 2001

	Unrestricted Fund	Restricted Fund	Total 2001	Total 2000
Assets				
Current				
Cash and cash equivalents	\$ 833,796	\$ 35,000	\$ 868,796	\$ 2,165,512
Receivables	25,745	-	25,745	535,543
Elections Canada receivable	-	-	-	2,167,520
Inventory	46,882	-	46,882	62,559
Prepaid expenses	91,194	-	91,194	49,675
	997,617	35,000	1,032,617	4,980,809
Capital assets (Note 4)	130,674	-	130,674	180,981
	<u>\$ 1,128,291</u>	<u>\$ 35,000</u>	<u>\$ 1,163,291</u>	<u>\$ 5,161,790</u>
Liabilities				
Current				
Bank indebtedness (Note 5)	\$ 2,300,000	\$ -	\$ 2,300,000	\$ 4,500,000
Payables and accruals	230,347	-	230,347	1,620,181
Due to constituency associations and campaigns	628,863	-	628,863	264,077
Deferred revenues (Note 6)	145,713	-	145,713	-
	3,304,923	-	3,304,923	6,384,258
Loans from constituency associations (Note 7)	117,904	-	117,904	-
	3,422,827	-	3,422,827	6,384,258
Fund Balances	<u>(2,294,536)</u>	<u>35,000</u>	<u>(2,259,536)</u>	<u>(1,222,468)</u>
	<u>\$ 1,128,291</u>	<u>\$ 35,000</u>	<u>\$ 1,163,291</u>	<u>\$ 5,161,790</u>

Commitments and Contingencies (Notes 8 & 9)

On Behalf of the Board of Directors


Director


Director

See accompanying notes to the financial statements.

Canadian Alliance Fund

Statement of Operations and Changes in Fund Balances

Year Ended December 31, 2001

	Unrestricted Fund	Restricted Fund	Total 2001	Total 2000
Revenues				
Fundraising	\$ 3,953,579	\$ 92,587	\$ 4,046,166	\$ 19,529,516
Leadership election fees	30,000	-	30,000	372,479
Elections Canada reimbursement	4,783	-	4,783	2,167,520
Convention fees (Note 7)	-	-	-	225,767
Sales of literature and merchandise	38,427	-	38,427	626,775
Interest income, seminar fees and legal settlements	<u>143,076</u>	<u>-</u>	<u>143,076</u>	<u>44,918</u>
	<u>4,169,865</u>	<u>92,587</u>	<u>4,262,452</u>	<u>22,966,975</u>
Operating expenses				
Communications and policy development	230,393	-	230,393	486,854
Convention (Note 7)	-	-	-	201,682
Depreciation	53,484	-	53,484	56,606
Fundraising and membership	1,611,110	-	1,611,110	2,376,736
Interest and bank charges	337,548	-	337,548	279,270
Organizational support	933,500	-	933,500	1,294,921
Cost of literature and merchandise	29,709	-	29,709	469,844
Political expenses				
Election readiness, prewrit advertising and projects	982,383	-	982,383	4,346,250
Leadership election and referendum (Note 8b)	4,227	-	4,227	1,425,995
Federal election expenses	-	-	-	9,655,148
Distributions to constituencies and campaigns				
	<u>1,117,166</u>	<u>-</u>	<u>1,117,166</u>	<u>4,218,617</u>
	<u>5,299,520</u>	<u>-</u>	<u>5,299,520</u>	<u>24,811,923</u>
(Deficiency) excess of revenue over expenses	(1,129,655)	92,587	(1,037,068)	(1,844,948)
Transfer to unrestricted fund (Note 9)	57,587	(57,587)	-	-
Fund balances,				
Beginning of year	(1,222,468)	-	(1,222,468)	622,480
End of year	\$ <u>(2,294,536)</u>	\$ <u>35,000</u>	\$ <u>(2,259,536)</u>	\$ <u>(1,222,468)</u>

See accompanying notes to the financial statements.

Canadian Alliance Fund

Statement of Cash Flows

Year Ended December 31, 2001

	Unrestricted Fund	Restricted Fund	Total 2001	Total 2000
Increase (decrease) in cash and cash equivalents				
Cash flows from operating activities				
Increase (decrease) in fund balances	\$ (1,129,655)	\$ 92,587	\$ (1,037,068)	\$ (1,844,948)
Depreciation	<u>53,484</u>	<u>-</u>	<u>53,484</u>	<u>56,606</u>
	(1,076,171)	92,587	(983,584)	(1,788,342)
Change in non-cash operating working capital (Note 10)	<u>1,772,141</u>	<u>-</u>	<u>1,772,141</u>	<u>(1,731,067)</u>
	<u>695,970</u>	<u>92,587</u>	<u>788,557</u>	<u>(3,519,409)</u>
Cash flows from investing activities				
Purchase of capital assets	<u>(3,177)</u>	<u>-</u>	<u>(3,177)</u>	<u>(70,685)</u>
Cash flows from financing activities				
(Repayment of) proceeds from bank indebtedness	(2,200,000)	-	(2,200,000)	4,500,000
Loans from constituency associations	<u>117,904</u>	<u>-</u>	<u>117,904</u>	<u>-</u>
	<u>(2,082,096)</u>	<u>-</u>	<u>(2,082,096)</u>	<u>4,500,000</u>
Net increase (decrease) in cash and cash equivalents	(1,389,303)	92,587	(1,296,716)	909,906
Interfund transfers	57,587	(57,587)	-	-
Cash and cash equivalents, Beginning of year	<u>2,165,512</u>	<u>-</u>	<u>2,165,512</u>	<u>1,255,606</u>
End of year	<u>\$ 833,796</u>	<u>\$ 35,000</u>	<u>\$ 868,796</u>	<u>\$ 2,165,512</u>

See accompanying notes to the financial statements.

Canadian Alliance Fund

Notes to the Financial Statements

December 31, 2001

1. Purpose of the Fund

a) Organization's Purpose

The purpose of the Canadian Alliance Fund is to be the Chief Agent of the Canadian Reform Conservative Alliance pursuant to the Canada Elections Act. As agent of a registered political party, the Canadian Alliance Fund is responsible for all financial and business transactions of the Party. The Fund operates on a four-year business cycle in correlation with the year of a federal election. The last general federal election was in the year 2000.

b) Intended Community Service

The Canadian Reform Conservative Alliance is a federal political party. Its objective is to promote and implement a legislative program that will improve the lives of Canadians.

c) Legal Status

The Canadian Alliance Fund is a non-profit Fund incorporated under Part II of the Canada Corporations Act. It is not subject to income taxes.

2. Basis of presentation

These financial statements include only the assets, liabilities, revenue and expenditures relating to the Canadian Reform Conservative Alliance and do not include the assets, liabilities, revenue and expenditures of the Canadian Reform Conservative Alliance constituency associations or candidates.

3. Summary of significant accounting policies

Method of accounting

Canadian Alliance Fund follows the restricted fund method of accounting for contributions.

Canadian Alliance Fund

Notes to the Financial Statements

December 31, 2001

3. Summary of significant accounting policies (Continued)

Fund Accounting

Canadian Alliance Fund has two funds from which the activities for all programs are administered.

The Unrestricted Fund accounts for the Funds program delivery and administrative activities. This fund reports unrestricted resources.

The Restricted Fund reports restricted resources designated for television advertising and by-elections.

Revenue Recognition

Revenues are recognized as revenue of the Fund when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

Contributed Services

Volunteers provide human resources to assist the Fund in carrying out its activities. Because of the difficulty in determining their fair value, volunteer services are not recognized in the financial statements.

Inventory

Inventory comprised of promotional material and Party literature, is recorded at cost with cost being determined on a first-in, first-out basis. Inventory is held for sale to constituency associations or for public distribution without charge.

Capital assets and depreciation

Capital assets are recorded at cost. Depreciation is provided for on the following basis:

Computer equipment	- 30%, declining balance
Office equipment	- 20%, declining balance
Leasehold improvements	- 5 years, straight-line

Canadian Alliance Fund

Notes to the Financial Statements

December 31, 2001

3. Summary of significant accounting policies (Continued)

Financial instruments

The Fund has estimated the fair value of its financial instruments, which includes cash and cash equivalents, receivables, bank indebtedness, payables and accruals, distributions due to constituency associations, distributions due to leadership campaigns, and deferred revenues. The Fund has used valuation methodologies and market information available as at year-end and has determined that the carrying amounts of such financial instruments approximate fair value in all cases.

Use of estimates

The preparation of the financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the period. Actual results could differ from and affect the results reported in these financial statements.

Cash and cash equivalents

Cash and cash equivalents consists of cash on hand and deposits with banks, net of overdrafts, and highly liquid temporary money market instruments with original maturities of three months or less. Bank borrowings are considered to be financing activities.

4. Capital assets

			<u>2001</u>	<u>2000</u>
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Net book Value</u>
Computer equipment	\$ 430,783	\$ 331,854	\$ 98,929	\$ 138,150
Office equipment	243,618	216,072	27,546	34,432
Leasehold improvements	<u>284,438</u>	<u>280,239</u>	<u>4,199</u>	<u>8,399</u>
	<u>\$ 958,839</u>	<u>\$ 828,165</u>	<u>\$ 130,674</u>	<u>\$ 180,981</u>

Canadian Alliance Fund

Notes to the Financial Statements

December 31, 2001

5. Bank indebtedness

Bank indebtedness consists of a loan from a banking syndicate, which was advanced for the purpose of financing the 2000 federal election campaign. The loan is due on October 21, 2002 and therefore has been classified as a current liability. The Fund also has a revolving credit facility of \$1,000,000 available to finance seasonal fluctuations in revenue. Security for the bank indebtedness is provided by a general security agreement

6. Deferred revenue

Deferred revenue consists of delegate fees received in the current year for the 2002 national convention and ticket sales for other events to occur in 2002. Related expenses paid in the current year are accrued as prepaids.

7. Loans from constituency associations

The loans from constituency associations bear interest at 4%, are unsecured, and are repayable on December 31, 2003.

8. Commitments

a) Leases

The Fund leases office facilities under an agreement, which expires January 31, 2003. The minimum rental payments due over the next two years (including estimated operating costs) are approximately \$222,000 per year.

The Fund has entered into various equipment leases, which require minimum rental payments of approximately \$60,000 per year with various expiration dates.

b) Leadership election

At the year-end, the Canadian Alliance was in the process of electing a new leader for the Party. The leadership election was initiated by the Party's national council on October 11, 2001, with the first ballot result to be announced on March 20, 2002. As at December 31, 2001, the Fund had entered into supplier contracts of approximately \$260,000 for election services to be supplied in 2002.

Canadian Alliance Fund

Notes to the Financial Statements

December 31, 2001

9. Transfer to unrestricted fund

During the year, the Fund received \$57,857 from constituency associations to assist with the funding of the previous year's television advertising campaign. These funds were transferred from the restricted fund to the unrestricted fund in order to recover television advertising expenses paid for by the unrestricted fund during the 2000 federal election campaign.

10. Change in non-cash operating working capital

	Unrestricted Fund	Restricted Fund	Total 2001	Total 2000
Cash and cash equivalents derived from (applied to) changes in:				
Receivables	\$ 509,798	\$ -	\$ 509,798	\$ (433,501)
Elections Canada receivable	2,167,520	-	2,167,520	(2,167,520)
Inventory	15,677	-	15,677	31,085
Prepaid expenses	(41,519)	-	(41,519)	38,543
Payables and accruals	(1,389,834)	-	(1,389,834)	1,197,832
Distributions due to constituency associations and campaigns	364,786	-	364,786	(216,885)
Deferred revenues	<u>145,713</u>	<u>-</u>	<u>145,713</u>	<u>(180,621)</u>
	<u>\$ 1,772,141</u>	<u>\$ -</u>	<u>\$ 1,772,141</u>	<u>\$ (1,731,067)</u>

11. Comparative figures

Certain comparative figures have been restated to conform with the current year's financial statement presentation.