

The Liberal Party of Canada
Combined Financial Statements
December 31, 2006

June 28, 2007

**AUDITORS' REPORT
ON FINANCIAL TRANSACTIONS RETURN**

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To the Chief Electoral Officer, Elections Canada

At the request of the Federal Liberal Agency of Canada, we have audited its Financial Transactions Return prepared in accordance with Section 424(2)(a), (b), (c), (f)(i) and (ii), (g), (h)(i) and (h)(ii), (i), (j) and (k) of the Canada Elections Act (the "Act") for the year ended December 31, 2006. This financial information is the responsibility of the management of the Federal Liberal Agency of Canada. Our responsibility, in accordance with Section 426(1) of the Act, is to express an opinion on this financial information based on our audit.

Except as explained in the following paragraph, 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 information is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial information. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial information.

In common with many not-for-profit organizations, the Liberal Party of Canada, through the Federal Liberal Agency of Canada, derives contributions the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts received by the Agency and we were not able to determine whether any adjustments might be required to the amount of contributions reported.

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of the contributions referred to in the preceding paragraph, this financial information presents fairly, in all material respects, the contributions received and financial information required to be reported under the Act for the year ended December 31, 2006 in accordance with the provisions of Sections 424(2)(a), (b), (c), (f)(i) and (ii), (g), (h)(i) and (h)(ii), (i), (j) and (k) of the Act.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

le 28 juin 2007

Rapport des vérificateurs sur le relevé des opérations financières

Au Directeur général des élections, Élections Canada

À la demande de l'Agence libérale fédérale du Canada, nous avons vérifié le relevé des opérations financières préparé conformément aux alinéas et sous-alinéas 424(2)(a), (b), (c), (f)(i) and (ii), (g), (h)(i) and (h)(ii), (i), (j) and (k) du paragraphe 424(2) de la Loi électorale du Canada (la « loi ») pour l'exercice terminé le 31 décembre 2006. La responsabilité de cette information financière incombe à la direction de l'Agence libérale fédérale du Canada. Notre responsabilité, conformément au paragraphe 426(1) de la loi, consiste à exprimer une opinion sur cette information financière en nous fondant sur notre vérification.

À l'exception de ce qui est mentionné dans le paragraphe suivant, notre vérification a été effectuée conformément aux normes de vérification généralement reconnues du Canada. Ces normes exigent que la vérification soit planifiée et exécutée de manière à fournir l'assurance raisonnable que l'information financière est exempte d'inexactitudes importantes. La vérification comprend le contrôle par sondages des éléments probants à l'appui des montants et des autres éléments d'information fournis dans l'information financière. Elle comprend également l'évaluation des principes comptables suivis et des estimations importantes faites par la direction, ainsi qu'une appréciation de la présentation d'ensemble de l'information financière.

Comme c'est le cas dans de nombreux organismes sans but lucratif, le Parti libéral du Canada, par l'entremise de l'Agence libérale fédérale du Canada, tire des contributions dont il n'est pas possible de vérifier l'intégralité de façon satisfaisante. Par conséquent, notre vérification de ces produits s'est limitée aux sommes reçues par l'Agence et nous n'avons pu déterminer si des redressements auraient dû être apportés au montant des contributions présentées.

À notre avis, à l'exception de l'effet des redressements que nous aurions pu juger nécessaires si nous avions été en mesure de vérifier l'intégralité des contributions mentionnées au paragraphe précédent, cette information financière donne, à tous les égards importants, une image fidèle des contributions reçues et de l'information financière devant être présentée en vertu de la loi pour l'exercice terminé le 31 décembre 2006 conformément aux alinéas et sous-alinéas 424(2)(a), (b), (c), (f)(i) and (ii), (g), (h)(i) and (h)(ii), (i), (j) and (k) du paragraphe 424(2) de la loi.

PricewaterhouseCoopers s.r.l./s.e.n.c.r.l.

Comptables agréés, experts-comptables autorisé

June 28, 2007

Auditors' Report

To the Board of Directors of The Federal Liberal Agency of Canada, Chief Agent for the Liberal Party of Canada

We have audited the combined statement of financial position of **Liberal Party of Canada** as at December 31, 2006 and the combined statements of operations, changes in net assets (liabilities) and cash flows for the year then ended. These combined financial statements are the responsibility of the Party's management. Our responsibility is to express an opinion on these combined financial statements based on our audit.

Except as explained in the following paragraph, 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 common with organizations of this type, the Party derives revenue from contributions, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of revenues from contributions is limited to the amounts recorded in the records of the Party and we were not able to determine whether any adjustments might be necessary to contributions, excess of revenue for the year, assets and net assets.

In our opinion, except for the effects of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of contributions referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the combined financial position of the Party as at December 31, 2006 and the results of its operations, changes in net assets and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants, Licensed Public Accountants

The Liberal Party of Canada
Combined Statement of Financial Position
As at December 31, 2006

	2006 \$	2005 \$
Assets		
Current assets		
Cash and cash equivalents	6,751,107	—
Accounts receivable	4,322,640	10,504,950
Prepaid expenses	20,383	1,854,880
	<u>11,094,130</u>	<u>12,359,930</u>
Capital assets (note 3)	<u>550,992</u>	<u>595,690</u>
	<u>11,645,122</u>	<u>12,955,520</u>
Liabilities		
Current liabilities		
Bank indebtedness	—	1,041,538
Demand bank loans (note 4)	2,287,274	6,416,110
Accounts payable and accrued liabilities	4,758,169	4,421,144
Deferred revenue	58,966	574,402
Obligation under capital leases (note 5)	15,914	15,022
Deferred lease inducement	4,785	19,140
	<u>7,125,108</u>	<u>12,487,356</u>
Obligation under capital leases (note 5)	<u>15,751</u>	<u>22,828</u>
Deferred lease inducement	<u>—</u>	<u>4,785</u>
	<u>7,140,859</u>	<u>12,514,969</u>
Net assets		
Unrestricted	3,953,271	(155,139)
Invested in capital assets	<u>550,992</u>	<u>595,690</u>
	<u>4,504,263</u>	<u>440,551</u>
	<u>11,645,122</u>	<u>12,955,520</u>

Commitments (note 5)

Signed on Behalf of the Agency

Michael Robison Director

K. L. L. Bokal Director

The Liberal Party of Canada

Combined Statement of Operations

For the year ended December 31, 2006

	2006 \$	2005 \$
Revenue		
Contributions	11,261,293	9,121,716
Government allowance	8,572,966	9,087,556
Conventions and annual general meetings	6,229,457	1,337,618
Election rebates	7,819,515	6,511,941
Membership fees	581,233	185,908
Payments from Constituency associations	137,607	572,185
Other	800,507	118,432
	<u>35,402,578</u>	<u>26,935,356</u>
Expense (note 6)		
Administrative and programme	7,477,607	8,945,593
Convention and annual general meetings' expenses	4,563,325	1,486,389
Payments to leadership candidates	6,889,960	—
Fundraising expenses	1,454,904	2,211,565
Pre-election and election expenses	10,336,454	11,675,862
Interest – net	616,616	243,068
	<u>31,338,866</u>	<u>24,562,477</u>
Excess of revenue over expenses for the year	<u>4,063,712</u>	<u>2,372,879</u>

The Liberal Party of Canada
Combined Statement of Changes in Net Assets
For the year ended December 31, 2006

	Unrestricted \$	Invested in capital assets \$	2006 \$	2005 \$
Balance – Beginning of year	(155,139)	595,690	440,551	(1,932,328)
Excess of revenue over expense for the year	4,257,072	(193,360)	4,063,712	2,372,879
Investment in capital assets, net	(148,662)	148,662	–	–
Balance – End of year	3,953,271	550,992	4,504,263	440,551

The Liberal Party of Canada

Combined Statement of Cash Flows

For the year ended December 31, 2006

	2006 \$	2005 \$
Cash flows from (used in)		
Operating activities		
Excess of revenue over expenses for the year	4,063,712	2,372,879
Items not affecting cash:		
Amortization of capital assets	193,360	215,048
Amortization of deferred lease inducement	(19,140)	(19,140)
Net change in non-cash working capital items	<u>7,838,396</u>	<u>4,586,622</u>
	<u>12,076,328</u>	<u>7,155,409</u>
Investing activity		
Purchase of capital assets	<u>(148,662)</u>	<u>(138,058)</u>
Financing activities		
Demand bank loan advances (repayment), net	(4,128,836)	(9,078,337)
Repayment of capital leases	<u>(6,185)</u>	<u>(21,838)</u>
	<u>(4,135,021)</u>	<u>(9,100,175)</u>
Net change in cash for the year	7,792,645	(2,082,824)
Cash and cash equivalents (bank indebtedness) – beginning of year	<u>(1,041,538)</u>	<u>1,041,286</u>
Cash and cash equivalents (bank indebtedness) – end of year	<u>6,751,107</u>	<u>(1,041,538)</u>

The Liberal Party of Canada

Combined Notes to the Financial Statements

December 31, 2006

1 Significant accounting policies

Basis of presentation

The Liberal Party of Canada (the 'Party') is a federation composed of the Federal Liberal Agency of Canada which includes the activities of the National Office and provincial and territorial associations.

As required under amendments to the Elections Canada Act effective for the year ended December 31, 2004, these financial statements of the Party combine the financial position and results of federal operations of:

- the Federal Liberal Agency of Canada
- Nova Scotia Liberal Party
- New Brunswick Liberal Association
- Liberal Party of Canada (Quebec)
- Liberal Party of Canada (Ontario)
- Liberal Party in Manitoba
- Saskatchewan Liberal Association
- Liberal Party of Canada in Alberta
- Liberal Party of Canada in British Columbia
- Judy LaMarsh Fund
- Aboriginal Election Endowment Fund
- all related clubs and commissions

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

The Liberal Party of Canada

Combined Notes to the Financial Statements

December 31, 2006

Cash and cash equivalents

Cash and cash equivalents consist of liquid investments with terms to maturity at the date of acquisition of 90 days or less and are recorded at cost, which approximates fair value.

Revenue recognition

The Party follows the deferral method of accounting for revenue. Restricted contributions are deferred and recognized as revenue in the year in which the related expense is incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection assured.

The government allowance is calculated based on the number of votes the Party received in the general election at an approved rate per valid vote. The allocation is recognized when received or receivable if the amount can be reasonably estimated and collection is reasonably assured.

Contributions and participant fees for conventions and annual general meetings are recognized as revenue when received by the Party.

Membership revenues are recognized when they are received.

Operating payments from Constituencies are recognized when received or receivable if the collection of the amount can be reasonably assured.

Election rebates are recognized in the year of the election expenditure, when the amount is determinable and collection assured. The Party's claim for elections rebates is based upon management's interpretation of the applicable regulations in the Elections Canada Act. These amounts are subject to review and acceptance by Elections Canada prior to collection.

Contributed materials and services, except volunteer labour, are recorded at fair value. Except where required by the Canada Elections Act, the value of volunteer labour is not recorded in the financial statements.

Capital assets

Capital assets are recorded at cost and are depreciated, over their estimated service lives, on a straight-line basis as follows:

Buildings	20 years
Print shop equipment	5 years
Furniture and fixtures	5 years
Computer equipment	3 years
Leasehold improvements	5 years

The Liberal Party of Canada

Combined Notes to the Financial Statements

December 31, 2006

Deferred lease inducement

The value of the lease inducement which consists of leasehold improvements are deferred and amortized over the term of the lease.

2 Financial instruments

Financial instruments recognized in the balance sheet consist of cash and cash equivalents, bank indebtedness, accounts receivable, accounts payable and accrued liabilities and demand bank loans. It is management's opinion that the Party is not exposed to significant credit risks arising from these financial instruments. Management also believes the carrying value of these instruments approximates their fair values due to their short term to maturity.

3 Capital assets

	2006		2005	
	Cost \$	Accumulated amortization \$	Net \$	Net \$
Building	189,255	30,577	158,678	164,946
Print shop equipment	282,244	222,081	60,163	58,742
Furniture and fixtures	762,299	639,868	122,431	149,697
Computer equipment	1,149,129	1,004,579	144,550	179,546
Leasehold improvements	460,434	395,264	65,170	42,759
	2,843,361	2,292,369	550,992	595,690

4 Demand bank loans

The Party has loans outstanding with various chartered banks at interest rates varying from the bank's prime to prime plus two percent. The loans are collateralized with a general security agreement against assets of the Federal Liberal Agency of Canada and specific associations. In April 2007, \$2,000,000 was converted to a term loan repayable over 36 months.

The Liberal Party of Canada

Combined Notes to the Financial Statements

December 31, 2006

5 Lease obligations and commitments

The Party occupies leased premises in various locations and has incurred both capital and operating lease commitments for furniture and equipment. Future minimum lease payments for both capital and operating leases due over the next five years are as follows:

	Capital Leases \$	Operating Leases \$
2007	17,885	502,400
2008	15,066	522,400
2009	1,650	491,200
2010	-	156,500
2011	-	27,100
Future minimum lease payments	34,601	
Less: future interest payments	2,936	
Total lease obligation	31,665	
Less: amount due within one year	15,914	
	15,751	

6 Expenses

	2006 \$	2005 \$
Advertising – Radio	617,851	676,398
Advertising – TV	5,057,316	2,274,966
Advertising – Other	141,700	74,241
Bank charges and interest	628,560	440,954
Amortization	193,360	215,048
Fundraising activities	654,834	2,181,704
Office expenses	3,606,105	3,326,256
Polling	566,544	975,319
Professional services	2,087,703	3,488,587
Research	70,640	125,125
Salaries and benefits	4,811,329	4,711,277
Travel and hospitality	1,546,097	4,167,695
Transfers	6,871,211	137,160
Other	4,485,616	1,767,747
	31,338,866	24,562,477

The Liberal Party of Canada

Combined Notes to the Financial Statements

December 31, 2006

7 Contingency

During the year, persons wishing to be contestants for the leadership of the Party were each required to pay a \$50,000 deposit to the Party. In December 2006, the National Executive of the Party agreed to reimburse the deposit to each of the eleven candidates (\$550,000 in aggregate) subject to Elections Canada approval. Elections Canada did not approve the reimbursement. One of the leadership candidates has filed an application with the Federal Court to challenge the decision of Elections Canada. The Agency has now been named as a respondent in that application. The outcome of the Court proceeding may be that the Party will be required to reimburse the deposits to candidates.