

Grant Thornton LLP
Chartered Accountants
Management Consultants

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, 2002 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, 2002 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.

Grant Thornton LLP

Calgary, Alberta
March 14, 2003

Chartered Accountants

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Canadian Alliance Fund **Statement of Financial Position**

December 31, 2002

	Unrestricted Fund	Restricted Fund	Total 2002	Total 2001
Assets				
Current				
Cash and cash equivalents	\$ 678,726	\$ -	\$ 678,726	\$ 868,796
Receivables	41,036	-	41,036	25,745
Inventory	16,436	-	16,436	46,882
Prepaid expenses	<u>78,179</u>	<u>-</u>	<u>78,179</u>	<u>91,194</u>
	814,377	-	814,377	1,032,617
Capital assets (Note 4)	<u>144,327</u>	<u>-</u>	<u>144,327</u>	<u>130,674</u>
	<u>\$ 958,704</u>	<u>\$ -</u>	<u>\$ 958,704</u>	<u>\$ 1,163,291</u>
Liabilities				
Current				
Bank indebtedness (Note 5)	\$ -	\$ -	\$ -	\$ 2,300,000
Payables and accruals	128,506	-	128,506	230,347
Due to constituency associations and campaigns	570,536	-	570,536	628,863
Deferred revenues (Note 6)	35,555	-	35,555	145,713
Loans from constituency associations (Note 7)	<u>1,869,837</u>	<u>-</u>	<u>1,869,837</u>	<u>-</u>
	2,604,434	-	2,604,434	3,304,923
Loans from constituency associations (Note 7)	<u>-</u>	<u>-</u>	<u>-</u>	<u>117,904</u>
	2,604,434	-	2,604,434	3,422,827
Fund Balances	<u>(1,645,730)</u>	<u>-</u>	<u>(1,645,730)</u>	<u>(2,259,536)</u>
	<u>\$ 958,704</u>	<u>\$ -</u>	<u>\$ 958,704</u>	<u>\$ 1,163,291</u>

Commitments and contingencies (Notes 8 & 10)

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, 2002

	Unrestricted Fund	Restricted Fund	Total 2002	Total 2001
Revenues				
Fundraising	\$ 7,297,215	\$ -	\$ 7,297,215	\$ 4,046,166
Leadership election fees	56,530	-	56,530	30,000
Elections Canada reimbursement	-	-	-	4,783
Convention fees	354,498	-	354,498	-
Sales of literature and merchandise	32,705	-	32,705	38,427
Interest income, seminar fees and legal settlements	<u>35,264</u>	<u>-</u>	<u>35,264</u>	<u>143,076</u>
	<u>7,776,212</u>	<u>-</u>	<u>7,776,212</u>	<u>4,262,452</u>
Operating expenses				
Communications and policy development	183,939	-	183,939	230,393
Convention	311,772	-	311,772	-
Depreciation	34,800	-	34,800	53,484
Fundraising and membership	1,447,248	-	1,447,248	1,611,110
Interest and bank charges	160,681	-	160,681	337,548
Organizational support	1,079,272	-	1,079,272	933,500
Cost of literature and merchandise	48,250	-	48,250	29,709
Political expenses				
Election readiness, prewrit advertising and projects	800,682	-	800,682	982,383
Leadership election and referendum	563,160	-	563,160	4,227
Distributions to constituencies and campaigns	<u>2,532,602</u>	<u>-</u>	<u>2,532,602</u>	<u>1,117,166</u>
	<u>7,162,406</u>	<u>-</u>	<u>7,162,406</u>	<u>5,299,520</u>
Excess (deficiency) of revenue over expenses	613,806	-	613,806	(1,037,068)
Transfer to unrestricted fund (Note 9)	35,000	(35,000)	-	-
Fund balances,				
Beginning of year	(2,294,536)	35,000	(2,259,536)	(1,222,468)
End of year	\$ <u>(1,645,730)</u>	\$ <u>-</u>	\$ <u>(1,645,730)</u>	\$ <u>(2,259,536)</u>

See accompanying notes to the financial statements.

Canadian Alliance Fund Statement of Cash Flows

Year Ended December 31, 2002

Increase (decrease) in cash and cash equivalents

	Unrestricted Fund	Restricted Fund	Total 2002	Total 2001
Cash flows from operating activities				
Increase (decrease) in fund balances	\$ 613,806	\$ -	\$ 613,806	\$ (1,037,068)
Depreciation	<u>34,800</u>	<u>-</u>	<u>34,800</u>	<u>53,484</u>
	648,606	-	648,606	(983,584)
Change in non-cash operating working capital (Note 11)	<u>(242,156)</u>	<u>-</u>	<u>(242,156)</u>	<u>1,772,141</u>
	<u>406,450</u>	<u>-</u>	<u>406,450</u>	<u>788,557</u>
Cash flows from investing activities				
Purchase of capital assets	<u>(48,453)</u>	<u>-</u>	<u>(48,453)</u>	<u>(3,177)</u>
Cash flows from financing activities				
Repayment of bank indebtedness	(2,300,000)	-	(2,300,000)	(2,200,000)
Loans from constituency associations	<u>1,751,933</u>	<u>-</u>	<u>1,751,933</u>	<u>117,904</u>
	<u>(548,067)</u>	<u>-</u>	<u>(548,067)</u>	<u>(2,082,096)</u>
Net decrease in cash and cash equivalents	(190,070)	-	(190,070)	(1,296,716)
Interfund transfers	35,000	(35,000)	-	-
Cash and cash equivalents,				
Beginning of year	<u>833,796</u>	<u>35,000</u>	<u>868,796</u>	<u>2,165,512</u>
End of year	<u>\$ 678,726</u>	<u>\$ -</u>	<u>\$ 678,726</u>	<u>\$ 868,796</u>

See accompanying notes to the financial statements.

Canadian Alliance Fund

Notes to the Financial Statements

December 31, 2002

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, 2002

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, 2002

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 and distributions due to leadership campaigns. 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. Unless otherwise noted, it is management's opinion that the Fund is not exposed to significant interest, currency, or credit risks arising from these financial instruments.

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>2002</u>	<u>2001</u>
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Net Book Value</u>
Computer equipment	\$ 459,723	\$ 355,854	\$ 103,869	\$ 98,929
Office equipment	263,131	223,272	39,859	27,546
Leasehold improvements	<u>284,438</u>	<u>283,839</u>	<u>599</u>	<u>4,199</u>
	\$ <u>1,007,292</u>	\$ <u>862,965</u>	\$ <u>144,327</u>	\$ <u>130,674</u>

Canadian Alliance Fund

Notes to the Financial Statements

December 31, 2002

5. Bank indebtedness

Bank indebtedness consisted of a loan from a banking syndicate, which was advanced for the purpose of financing the 2000 federal election campaign. The loan was repaid during the year.

Subsequent to year end, the Fund negotiated an operating line of credit to a maximum of \$250,000.

6. Deferred revenue

Deferred revenue consists of computer access fees received from the constituency associations in the current year for access in 2003 to the new computer system (see Note 8).

7. Loans from constituency associations

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

8. Commitments

Leases

The Fund leases office facilities under an agreement for Calgary and Ottawa, which expires January 31, 2008 and July 31, 2006, respectively. The minimum rental payments due over the next five years (including estimated operating costs) are approximately as follows:

2003	-	\$	265,890
2004	-	\$	263,734
2005	-	\$	263,734
2006	-	\$	238,216
2007	-	\$	202,490

The Fund has entered into various equipment leases, which require minimum rental payments of approximately \$66,000 (2001 - \$60,000) per year with various expiration dates.

Canadian Alliance Fund

Notes to the Financial Statements

December 31, 2002

8. Commitments (Continued)

Computer system

The Fund entered into an agreement to install a new information management system in 2003. The commitment payments over the next five years are as follows:

2003	-	\$	160,000
2004	-	\$	60,000
2005	-	\$	10,000
2006	-	\$	10,000
2007	-	\$	10,000

9. Transfer to unrestricted fund

During the prior year, the Fund received \$35,000 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. Contingencies

The Fund is involved in certain claims and lawsuits for which the outcome is not readily determinable at this time. As such, an accrual has not been estimated for the potential costs of settlement or litigation, if any. The Fund does not believe that the outcome will significantly impair its operations or have a material adverse impact on its financial position.

Canadian Alliance Fund Notes to the Financial Statements

December 31, 2002

11. Supplemental cash flow information

Change in non-cash operating working capital

	Unrestricted Fund	Restricted Fund	Total 2002	Total 2001
Cash and cash equivalents derived from (applied to) changes in:				
Receivables	\$ (15,291)	\$ -	\$ (15,291)	\$ 509,798
Elections Canada receivable	-	-	-	2,167,520
Inventory	30,446	-	30,446	15,677
Prepaid expenses	13,015	-	13,015	(41,519)
Payables and accruals	(101,841)	-	(101,841)	(1,389,834)
Distributions due to constituency associations and campaigns	(58,327)	-	(58,327)	364,786
Deferred revenues	(110,158)	-	(110,158)	145,713
	\$ (242,156)	\$ -	\$ (242,156)	\$ 1,772,141
Interest paid	\$ 87,219	\$ -	\$ 87,219	\$ 280,194