



TO: Chief Electoral Officer

FROM Mr. Irving Gerstein
Chair

DATE: June 03, 2004

RE: Political Party Trust Fund Return for Jan 1, 2003 to Dec 6, 2003

Please note that PC Canada Fund does not have any Trust Funds for the above noted period, consequently the Political Party Trust Fund Return has not been completed.

Irving Gerstein
Chief Agent
PC Canada Fund

Financial Statements of

**PROGRESSIVE CONSERVATIVE PARTY
OF CANADA**

December 6, 2003

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Auditors' Report

Directors of PC Canada Fund
Progressive Conservative Party of Canada

We have audited the balance sheet of the Progressive Conservative Party of Canada (the Party) as at December 6, 2003 and the statements of revenue and expenses and of changes in net assets for the period January 1, 2003 to December 6, 2003. These financial statements are the responsibility of the Party's management. Our responsibility is to express an opinion on these 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 these 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 statements' presentation.

In common with many not-for-profit organizations, the Party derives a substantial portion of its revenue from contributions, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of revenue from this source was limited to accounting for the amounts recorded in the books of the Party and we were not able to determine whether any adjustment might be necessary to contributions revenue, excess of revenue over expenses, assets or net assets.

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, these financial statements present fairly, in all material respects, the financial position of the Party as at December 6, 2003 and the results of its operations and its cash flows for the period January 1, 2003 to December 6, 2003 in accordance with Canadian generally accepted accounting principles.

Deloitte + Touche LLP

Chartered Accountants

April 9, 2004

PROGRESSIVE CONSERVATIVE PARTY OF CANADA
Financial Statements
December 6, 2003

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PROGRESSIVE CONSERVATIVE PARTY OF CANADA

Balance Sheet

as at December 6, 2003

	<u>December 6, 2003</u>	<u>December 31, 2002</u>
ASSETS		
Cash	\$ 184,850	\$ 742,556
Short-term investments (Note 3)	738,540	-
Accounts receivable	278,053	-
Prepaid expenses	49,601	72,912
	<u>1,251,044</u>	<u>815,468</u>
CAPITAL ASSETS (Note 4)	<u>78,644</u>	<u>107,416</u>
	<u>\$ 1,329,688</u>	<u>\$ 922,884</u>
LIABILITIES		
Accounts payable and accrued liabilities	\$ 1,069,704	\$ 821,187
Due to constituencies and provincial associations	244,608	148,931
Deferred membership revenue	148,826	-
Current portion of lease obligation (Note 5)	32,174	25,246
Current portion of long-term debt (Note 6)	625,000	342,502
	<u>2,120,312</u>	<u>1,337,866</u>
LEASE OBLIGATION (Note 5)	<u>57,649</u>	<u>87,553</u>
LONG-TERM DEBT (Note 6)	<u>3,766,861</u>	<u>4,366,861</u>
	<u>5,944,822</u>	<u>5,792,280</u>
NET ASSETS		
Unrestricted (deficiency)	(4,603,955)	(4,864,013)
Invested in capital assets (deficiency)	(11,179)	(5,383)
	<u>(4,615,134)</u>	<u>(4,869,396)</u>
	<u>\$ 1,329,688</u>	<u>\$ 922,884</u>



Director



Director

PROGRESSIVE CONSERVATIVE PARTY OF CANADA

Statement of Revenue and Expenses

for the period from January 1, 2003 to December 6, 2003

	2003 <u>(48.5 Weeks)</u>	2002 <u>(52 Weeks)</u>
Revenue		
Contributions		
Corporate	\$ 150,008	\$ 505,870
Direct mail	755,070	1,001,932
Constituency	334,381	499,412
Leaders' Circle	107,180	287,015
Fundraising events - Net (Note 7)	635,478	496,445
Other income	2,194,617	1,136,112
Leadership candidates	1,265,581	-
	<u>5,442,315</u>	<u>3,926,786</u>
Expenses		
Salaries and benefits	1,018,846	884,167
Direct mail and other fundraising	262,680	289,616
Travel and living	263,470	238,663
Outside services	316,712	513,182
Meetings	987,114	554,747
Occupancy	86,101	89,094
Communications	186,677	123,030
Furniture and equipment	59,966	37,473
Miscellaneous	153,603	186,943
Office supplies	33,693	14,234
Audit and legal	611,718	33,833
Polling	24,610	22,323
Advertising and promotion	57,770	17,182
Computer services	37,940	12,883
Amortization	28,772	15,345
	<u>4,129,672</u>	<u>3,032,715</u>
Excess of revenue over expenses before the following:	1,312,643	894,071
Allocation of contributions to constituency, candidates and other party organizations	1,058,381	423,111
EXCESS OF REVENUE OVER EXPENSES	\$ 254,262	\$ 470,960

PROGRESSIVE CONSERVATIVE PARTY OF CANADA

Statement of Changes in Net Assets

for the period from January 1, 2003 to December 6, 2003

	<u>Unrestricted</u>	<u>Invested in Capital Assets</u>	<u>Total 2003 (48.5 Weeks)</u>	<u>2002 (52 Weeks)</u>
DEFICIENCY, BEGINNING OF PERIOD	\$ (4,864,013)	\$ (5,383)	\$ (4,869,396)	\$ (5,340,356)
Excess of revenue over expenses (expenses over revenue)	283,034	(28,772)	254,262	470,960
Principal payments on capital lease	(22,976)	22,976	-	-
DEFICIENCY, END OF PERIOD	\$ (4,603,955)	\$ (11,179)	\$ (4,615,134)	\$ (4,869,396)

PROGRESSIVE CONSERVATIVE PARTY OF CANADA

Notes to the Financial Statements

for the period from January 1, 2003 to December 6, 2003

1. ACTIVITIES OF THE PARTY

The Progressive Conservative Party of Canada is a Registered Political Party as defined by the Canada Elections Act. It has appointed PC Canada Fund (the "Fund") to act as its Chief Agent in connection with the receipt of contributions and payment of Party expenses and all other financial transactions of the Party as required by the Canada Elections Act. The Party is exempt from income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles and include the following significant accounting policies:

Revenue recognition

The Fund follows the deferral method of accounting. Restricted contributions are recognized as revenue in the period the related expenses are incurred.

Contributions are recognized in the year the tax receipt is issued.

Membership revenue is recognized in the period to which membership relates.

All other revenue is recognized when received or receivable, if the amount can be reasonably estimated or collection is reasonably assured.

Short-term investments

Short-term investments are recorded at cost, plus accrued interest, which approximates market value.

Capital assets

Capital assets are recorded at cost. Amortization is calculated using the straight-line method over the estimated useful lives of the assets as follows:

Computer equipment	3 years
Furniture and equipment	5 years
Leased equipment	4 years

PROGRESSIVE CONSERVATIVE PARTY OF CANADA

Notes to the Financial Statements

for the period from January 1, 2003 to December 6, 2003

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement uncertainty

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 date of the financial statements and the reported amounts of revenue and expense during the reporting period. Actual results could differ from these estimates.

3. SHORT-TERM INVESTMENTS

Short-term investments consist of a guaranteed investment certificate in the amount of \$729,642 plus accrued interest of \$8,898 maturing June 2, 2004 and earning interest at prime minus 2.4%. Carrying value approximates market value.

4. CAPITAL ASSETS

	2003		2002
	Cost	Accumulated Amortization	Net Book Value
Computer equipment	\$ 92,996	\$ 92,996	\$ -
Furniture and equipment	15,084	15,084	-
Leased equipment	122,761	44,117	78,644
	\$ 230,841	\$ 152,197	\$ 78,644
			\$ 107,416

PROGRESSIVE CONSERVATIVE PARTY OF CANADA

Notes to the Financial Statements

for the period from January 1, 2003 to December 6, 2003

5. LEASE OBLIGATION

The Party has entered into a number of lease agreements for computer equipment and software. The future minimum lease payments under capital leases expiring July 2006 are as follows:

2003	\$	3,553
2004		42,635
2005		42,635
2006		23,393
		<u>112,216</u>
Amount representing interest		<u>(22,393)</u>
	\$	<u>89,823</u>
Balance of lease obligation		
Current	\$	32,174
Long-term		57,649
	\$	<u>89,823</u>

6. LONG-TERM DEBT

Bank loan

The bank loan is interest free and is to be repaid in accordance with the following table.

	<u>Current</u>	<u>Long-term</u>	<u>Total</u>
2003	\$ 25,000	\$ -	\$ 25,000
2004	600,000	-	600,000
2005	-	800,000	800,000
2006	-	800,000	800,000
2007	-	800,000	800,000
After 2007	-	1,366,861	1,366,861
	<u>\$ 625,000</u>	<u>\$ 3,766,861</u>	<u>\$ 4,391,861</u>

PROGRESSIVE CONSERVATIVE PARTY OF CANADA

Notes to the Financial Statements

for the period from January 1, 2003 to December 6, 2003

7. FUNDRAISING REVENUE - NET

Fundraising revenue included revenues of \$921,550 (2002 - \$731,553) and expenses of \$286,072 (2002 - \$235,108).

8. COMMITMENTS

The Party is committed under the terms of operating lease contracts and other agreements with various expiration dates for the rental of premises and equipment and the purchase of goods and services. Annual payment related to these commitments will be as follows:

2003 (3.5 weeks)	\$ 9,237
2004	110,848
2005	40,458
2006	16,080
2007	4,110
	<hr/>
	\$ 180,733

9. FINANCIAL INSTRUMENTS

Fair value

The fair value of accounts receivable, prepaid expenses, accounts payable and accrued liabilities, and due to constituencies are comparable to their carrying value.

The fair value of the long-term debt and lease obligation has not been determined because such information is not easily obtainable and would not provide additional information at this time.

10. STATEMENT OF CASH FLOWS

A statement of cash flows has not been prepared as information relating to cash flows is otherwise adequately disclosed.

PROGRESSIVE CONSERVATIVE PARTY OF CANADA

Notes to the Financial Statements

for the period from January 1, 2003 to December 6, 2003

11. CONTINGENT LIABILITIES

The Party 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 potential costs of settlement, if any. The Party does not believe that the outcome will significantly impair its operations or have a material adverse impact on its financial position.

12. SUBSEQUENT EVENT

Effective December 6, 2003, the Progressive Conservative Party of Canada ceased to exist. Effective December 7, 2003, all assets, liabilities and net assets of the Progressive Conservative Party of Canada were transferred to the Conservative Party of Canada.

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Auditors' Report on Financial Transactions Return

To the Chief Electoral Officer, Elections Canada

At the request of the Progressive Conservative Party of Canada, we have audited its Financial Transactions Return prepared in accordance with Sections 424(2)(a), (b), (c), (c.1), (d), (e), (f)(i) and (ii), (h), (i), (j) and (k) of the Canada Elections Act (the "Act") for the period from January 1, 2003 to December 6, 2003. This financial information is the responsibility of the management of the Progressive Conservative Party 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 Progressive Conservative Party of Canada, derives a substantial portion of its revenue from contributions, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of revenue from this source was limited to accounting for the amounts recorded in the books of the Party and we were not able to determine whether any adjustment might be necessary 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 Transactions Return presents fairly, in all material respects, the financial information required to be reported under the Act for the period from January 1, 2003 to December 6, 2003 in accordance with the provisions of Sections 424(2)(a), (b), (c), (c.1), (d), (e), (f) (i) and (ii), (h), (i), (j) and (k) of the Act.

Deloitte & Touche LLP

Chartered Accountants

June 3, 2004