

**Canadian Alliance Fund**  
**Financial Statements**  
December 6, 2003

Grant Thornton 

## Contents

	<u>Page</u>
Auditors' Report	1
Statement of Financial Position	2
Statement of Operations and Changes in Fund Balances	3
Statement of Cash Flows	4
Notes to the Financial Statements	5-10

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 6, 2003 and the statements of operations and changes in fund balances and cash flows for the period then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements 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 6, 2003 and the results of its operations, changes in fund balances and cash flows for the period then ended in accordance with Canadian generally accepted accounting principles.

*Grant Thornton LLP*

Calgary, Alberta  
March 12, 2004

Chartered Accountants

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# Canadian Alliance Fund

## Statement of Financial Position

	December 6, 2003	December 31, 2002
<b>Assets</b>		
Current		
Cash and cash equivalents	\$ 4,418,605	\$ 678,726
Receivables	145,085	41,036
Inventory	25,704	16,436
Prepaid expenses	<u>41,566</u>	<u>78,179</u>
	4,630,960	814,377
Property and equipment (Note 4)	<u>301,660</u>	<u>144,327</u>
	<u>\$ 4,932,620</u>	<u>\$ 958,704</u>
<b>Liabilities</b>		
Current		
Bank indebtedness (Note 5)	\$ 4,000,000	\$ -
Payables and accruals	792,553	128,506
Due to constituency associations and campaigns	470,485	570,536
Deferred revenues (Note 6)	267,085	35,555
Loans from constituency associations (Note 7)	<u>1,902,271</u>	<u>1,869,837</u>
	7,432,394	2,604,434
<b>Fund Balances</b>	<u>(2,499,774)</u>	<u>(1,645,730)</u>
	<u>\$ 4,932,620</u>	<u>\$ 958,704</u>

Commitments and contingencies (Notes 8 and 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

	Period Ended December 6, 2003	Year Ended December 31, 2002
<b>Revenues</b>		
Fundraising	\$ 6,476,355	\$ 7,297,215
Leadership election fees	-	56,530
Convention fees	8,590	354,498
Sales of literature and merchandise	76,455	32,705
Interest income, seminar fees and legal settlements	<u>27,885</u>	<u>35,264</u>
	<u>6,589,285</u>	<u>7,776,212</u>
<b>Operating expenses</b>		
Amortization	80,908	34,800
Communications and policy development	122,698	183,939
Convention	95,628	311,772
Fundraising and membership	1,856,625	1,447,248
Interest and bank charges	215,366	160,681
Organizational support	1,248,828	1,079,272
Cost of literature and merchandise	60,794	48,250
<b>Political expenses</b>		
Election readiness, prewrit advertising and projects	1,785,318	800,682
Leadership election and referendum	133,439	563,160
Federal Election Expense	51,223	-
<b>Distributions to constituencies and campaigns</b>		
	<u>1,792,502</u>	<u>2,532,602</u>
	<u>7,443,329</u>	<u>7,162,406</u>
<b>(Deficiency) excess of expenses over revenue</b>	<b>(854,044)</b>	<b>613,806</b>
<b>Fund balances,</b>		
<b>Beginning of period</b>	<u>(1,645,730)</u>	<u>(2,259,536)</u>
<b>End of period</b>	<u>\$ (2,499,774)</u>	<u>\$ (1,645,730)</u>

See accompanying notes to the financial statements.

## Canadian Alliance Fund Statement of Cash Flows

	Period Ended December 6, 2003	Year Ended December 31, 2002
<b>Increase (decrease) in cash and cash equivalents</b>		
<b>Cash flows from operating activities</b>		
Increase (decrease) in fund balances	\$ (854,044)	\$ 613,806
Amortization	<u>80,908</u>	<u>34,800</u>
	(773,136)	648,606
Change in non-cash operating working capital (Note 11)	<u>718,822</u>	<u>(242,156)</u>
	<u>(54,314)</u>	<u>406,450</u>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	<u>(238,241)</u>	<u>(48,453)</u>
<b>Cash flows from financing activities</b>		
Proceeds from bank indebtedness	4,000,000	-
Repayment of bank indebtedness	-	(2,300,000)
Loans from constituency associations	<u>32,434</u>	<u>1,751,933</u>
	<u>4,032,434</u>	<u>(548,067)</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>3,739,879</b>	<b>(190,070)</b>
<b>Cash and cash equivalents,</b>		
Beginning of period	<u>678,726</u>	<u>868,796</u>
End of period	<u>\$ 4,418,605</u>	<u>\$ 678,726</u>

See accompanying notes to the financial statements.

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# Canadian Alliance Fund

## Notes to the Financial Statements

December 6, 2003

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### 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.

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### 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.

These financial statements are for the period from January 1, 2003 to December 6, 2003, resulting from the ratification vote held on December 6, 2003 as mentioned in Note 10.

Until 2002, the Fund undertook transactions through a restricted fund for television advertising and by-elections. There were no transactions during 2003 and the only transaction in 2002 was the transfer of cash of \$35,000 to the unrestricted fund and as a result no separate disclosure of this restricted fund has been presented in these financial statements.

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# Canadian Alliance Fund

## Notes to the Financial Statements

December 6, 2003

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### 3. Summary of significant accounting policies

#### Method of accounting

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

#### 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 valued at the lower of cost and net realizable value. Inventory is held for sale to constituency associations or for public distribution without charge.

#### Property and equipment

Property and equipment are recorded at cost. Amortization is provided for on the following basis:

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



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# Canadian Alliance Fund

## Notes to the Financial Statements

December 6, 2003

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### 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, due to constituency associations, campaigns, and loans from constituency associations. 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.

#### Interest rate risk

The Fund's exposure to interest rate risk relates to its non-revolving demand instalment loan.

#### 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.

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### 4. Property and equipment

	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>2003 Net Book Value</u>	<u>2002 Net Book Value</u>
Computer equipment	\$ 684,415	\$ 425,554	\$ 258,861	\$ 103,869
Office equipment	276,680	233,881	42,799	39,859
Leasehold improvements	<u>284,438</u>	<u>284,438</u>	<u>-</u>	<u>599</u>
	<u>\$ 1,245,533</u>	<u>\$ 943,873</u>	<u>\$ 301,660</u>	<u>\$ 144,327</u>

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# Canadian Alliance Fund

## Notes to the Financial Statements

December 6, 2003

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### 5. Bank indebtedness

Bank indebtedness consists of a loan from a Canadian chartered bank in the amount of \$4,000,000, which was advanced for the purpose of bridging the financing of the 2004 Allowance granted under Bill C-24. This is a non-revolving demand instalment loan and unless demanded, it is due at the time the funds are received from the Government of Canada regarding the Allowance granted under Bill C-24. Notwithstanding this, the loan shall be repaid at latest by March 1, 2004. The loan was repaid January 9, 2004. This loan is secured under a general security agreement covering all assets of the Fund.

The Fund also has an operating line of credit to a maximum of \$250,000.

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### 6. Deferred revenue

Prior year, deferred revenue consisted of computer access fees received from the constituency associations in the prior year for access in 2003 to the new computer system (see Note 8).

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### 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.

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### 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:

2004	-	\$	264,020
2005	-	\$	268,128
2006	-	\$	243,500
2007	-	\$	207,870
2008	-	\$	17,323

The Fund has entered into various equipment leases, which require minimum rental payments of approximately \$80,000 (2002 - \$66,000) per year with various expiration dates.

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# Canadian Alliance Fund

## Notes to the Financial Statements

December 6, 2003

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### 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:

2004	-	\$	60,000
2005	-	\$	10,000
2006	-	\$	10,000
2007	-	\$	10,000
2008	-	\$	10,000

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### 9. 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.

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### 10. Subsequent event

Due to a ratification vote that occurred on December 6, 2003, the Fund merged with the Progressive Conservative Party to form the new Conservative Party of Canada effective December 7, 2003.

Due to the merger, the Fund's inventory was written off subsequent to the period end as it was determined that the inventory had no further value.

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## Canadian Alliance Fund

### Notes to the Financial Statements

December 6, 2003

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#### 11. Supplemental cash flow information

##### Change in non-cash operating working capital

	Period Ended December 6, <u>2003</u>	Year Ended December 31, <u>2002</u>
Cash and cash equivalents derived from (applied to) changes in:		
Receivables	\$ (104,049)	\$ (15,291)
Inventory	(9,268)	30,446
Prepaid expenses	36,613	13,015
Payables and accruals	664,047	(101,841)
Distributions due to constituency associations and campaigns	(100,051)	(58,327)
Deferred revenues	<u>231,530</u>	<u>(110,158)</u>
	\$ <u>718,822</u>	\$ <u>(242,156)</u>
 Interest paid	 \$ <u>71,366</u>	 \$ <u>87,219</u>