

The Liberal Party of Canada
Consolidated Financial Statements
December 31, 2005

June 28, 2006

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 consolidated statement of financial position of **The Federal Liberal Agency of Canada** as at December 31, 2005 and the consolidated statements of operations, changes in net assets (liabilities) and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Party's management. Our responsibility is to express an opinion on these consolidated 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 and incurs election expenses, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, our verification of revenues from contributions and election expenses 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, election expenses, excess of revenue (expense) for the year, assets and net liabilities.

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 and election expenses referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the consolidated financial position of the Party as at December 31, 2005 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.

PricewaterhouseCoopers LLP

Chartered Accountants

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and the other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

The Liberal Party of Canada
Consolidated Statement of Financial Position
As at December 31, 2005

	2005 \$	2004 \$
Assets		
Current assets		
Cash and cash equivalents	—	1,041,286
Accounts receivable	9,863,718	13,067,062
Due from related parties	641,232	475,094
Prepaid expenses	1,854,880	149,608
	<u>12,359,930</u>	<u>14,733,050</u>
Capital assets (note 4)	595,690	672,680
	<u>12,955,520</u>	<u>15,405,730</u>
Liabilities		
Current liabilities		
Bank indebtedness	1,041,538	—
Demand bank loans (note 3)	6,416,110	15,494,447
Accounts payable and accrued liabilities	4,147,742	1,305,588
Deferred revenue	574,402	—
Due to related parties	273,402	435,270
Obligation under capital leases (note 5)	15,022	12,708
Deferred lease inducement	19,140	19,140
	<u>12,487,356</u>	<u>17,267,153</u>
Obligation under capital leases (note 5)	22,828	46,980
Deferred lease inducement	4,785	23,925
	<u>12,514,969</u>	<u>17,338,058</u>
Net assets (liabilities)		
Unrestricted	(155,139)	(2,605,008)
Invested in capital assets	595,690	672,680
	<u>440,551</u>	<u>(1,932,328)</u>
	<u>12,955,520</u>	<u>15,405,730</u>

Signed on Behalf of the Board

Director

Director

The Liberal Party of Canada

Consolidated Statement of Operations

For the year ended December 31, 2005

	2005 \$	2004 \$
Revenue		
Contributions	9,121,716	6,085,121
Government allowance	9,087,556	9,141,408
Conventions and annual general meetings	1,337,618	481,104
Election rebates	6,511,941	14,058,964
Membership fees	185,908	839,499
Payments from Constituency associations	572,185	807,762
Other	118,432	70,381
	<u>26,935,356</u>	<u>31,484,239</u>
Expense (note 6)		
Administrative and programme	8,945,593	7,884,338
Convention and annual general meetings' expenses	1,486,389	544,292
Fundraising expenses	2,211,565	1,430,261
Pre-election and election expenses	11,675,862	24,401,961
Interest – net	243,068	202,329
	<u>24,562,477</u>	<u>34,463,181</u>
Excess of revenue (expenses) for the year	<u>2,372,879</u>	<u>(2,978,942)</u>

The Liberal Party of Canada

Consolidated Statement of Net Assets

For the year ended December 31, 2005

	Unrestricted \$	Invested in capital assets \$	2005 \$	2004 \$
Balance – Beginning of year	(2,605,008)	672,680	(1,932,328)	1,046,614
Excess of revenue (expense) for the year	2,587,927	(215,048)	2,372,879	(2,978,942)
Investment in capital assets	(138,058)	138,058	—	—
Balance – End of year	(155,139)	595,690	440,551	(1,932,328)

The Liberal Party of Canada

Consolidated Statement of Cash Flows

For the year ended December 31, 2005

	2005 \$	2004 \$
Cash flows from (used in)		
Operating activities		
Excess of revenue (expenses) for the year	2,372,879	(2,978,942)
Items not affecting cash:		
Depreciation	215,048	227,652
Amortization of deferred lease inducement	(19,140)	(52,635)
Net change in non-cash working capital items	4,586,622	(16,325,445)
	<u>7,155,409</u>	<u>(19,129,370)</u>
Investing activity		
Purchase of capital assets	<u>(138,058)</u>	<u>(234,750)</u>
Financing activities		
Demand bank loan advances (repayment), net	(9,078,337)	14,706,131
Repayment of capital leases	<u>(21,838)</u>	<u>(24,120)</u>
	<u>(9,100,175)</u>	<u>14,682,011</u>
Net change in cash for the year	<u>(2,082,824)</u>	<u>(4,682,109)</u>
Cash and cash equivalents – beginning of year	<u>1,041,286</u>	<u>5,723,395</u>
Cash and cash equivalents (bank indebtedness) – end of year	<u>(1,041,538)</u>	<u>1,041,286</u>

The Liberal Party of Canada

Consolidated Notes to the Financial Statements

For the year ended December 31, 2005

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 and provincial and territorial associations.

As required under amendments to the Elections Canada Act effective for the year ended December 31, 2005, these financial statements of the Party consolidate 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

All transactions of the provincial associations that relate to a provincial jurisdiction have been excluded from the results. The Liberal Party of Newfoundland and Labrador and the Liberal Party of Prince Edward Island are substantially dedicated to provincial activities and have no federal expenses and therefore been excluded from these financial statements.

Under the Elections Canada Act, local constituency associations (the "Constituencies") are registered separately with Elections Canada and must file separate financial statements with Elections Canada. Accordingly, these financial statements exclude the operations of the Constituencies. The Yukon Liberal Association, Northwest Territories Liberal Association and Nunavut Liberal Association are registered with Elections Canada as constituency associations and are therefore also not consolidated in these financial statements.

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

Consolidated Notes to the Financial Statements

For the year ended December 31, 2005

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

Contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably 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

Consolidated Notes to the Financial Statements

For the year ended December 31, 2005

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, bank indebtedness, accounts receivable, accounts payable 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.

3 Demand bank loans

The Party has loans outstanding with various chartered banks at interest rates ranging from the banks' prime to prime plus two per cent. The loans are collateralized with a general security agreement against assets of the Agency and specific Associations.

4 Capital assets

	2005		2004	
	Cost \$	Accumulated depreciation \$	Net \$	Net \$
Building	188,205	23,259	164,946	171,709
Print shop equipment	249,470	190,728	58,742	82,411
Furniture and fixtures	791,386	641,689	149,697	169,754
Computer equipment	1,125,647	946,101	179,546	168,465
Leasehold improvements	457,330	414,571	42,759	80,341
	2,812,038	2,216,348	595,690	672,680

The Liberal Party of Canada

Consolidated Notes to the Financial Statements

For the year ended December 31, 2005

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 \$
2006	17,888	332,300
2007	15,678	213,700
2008	8,346	124,300
2009	1,650	87,000
2010	—	41,700
Future minimum lease payments	43,652	
Less: future interest payments	(5,802)	
Total lease obligation	37,850	
Less: amount due within one year	(15,022)	
	22,828	

6 Expenses

	2005 \$	2004 \$
Advertising – Radio	676,398	1,486,327
Advertising – TV	2,274,966	7,798,913
Advertising – Other	74,241	2,153,881
Bank charges and interest	440,954	312,496
Depreciation and amortization	215,048	225,282
Donations and contributions	—	29,760
Fundraising activities	2,181,704	1,465,934
Office expenses	3,326,256	5,113,618
Polling	975,319	1,203,789
Professional services	3,488,587	2,301,941
Research	125,125	821,398
Salaries and benefits	4,711,277	5,099,949
Travel and hospitality	4,167,695	4,086,021
Transfers	137,160	714,382
Other	1,767,747	1,649,490
	24,562,477	34,463,181

June 30, 2006

**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), (h), (i), (j) and (k) of the Canada Elections Act (the "Act") for the year ended December 31, 2005. 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 of satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts receipted 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, 2005 in accordance with the provisions of Sections 424(2)(a), (b), (c), (f)(i) and (ii), (h), (i), (j) and (k) of the Act.

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