

Canadian Grain Commission Revolving Fund

Financial Statements

March 31, 2006

(in thousands of dollars)

May 19, 2006

Auditors' Report

To the Chief Commissioner and Commissioners of the Canadian Grain Commission Revolving Fund

We have audited the statement of financial position of the **Canadian Grain Commission Revolving Fund** as at March 31, 2006 and the statements of operations, change in excess of financial assets over liabilities, accumulated surplus and cash flows for the year then ended. These financial statements are the responsibility of the Revolving 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 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 our opinion, these financial statements present fairly, in all material respects, the financial position of the Revolving Fund as at March 31, 2006 and the results of its operations and its change in excess of financial assets over liabilities and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Canadian Grain Commission Revolving Fund

Statement of Financial Position

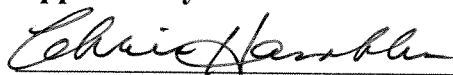
As at March 31, 2006

(in thousands of dollars)

	2006 \$	2005 \$
Assets		
Financial assets		
Accumulated net charge against the Fund's authority (note 8)	8,296	12,165
Accounts receivable (note 3)	5,008	5,382
	13,304	17,547
Liabilities		
Accounts payable and accrued liabilities	1,120	1,241
Salaries payable	1,290	2,770
Vacation and overtime payable	2,639	2,041
Deferred revenue (note 5)	76	312
Employee severance benefits (note 6)	5,610	4,982
	10,735	11,346
Excess of financial assets over liabilities	2,569	6,201
Non-financial assets (note 2)		
Other assets	123	155
Tangible capital assets (note 4)	5,309	5,713
	5,432	5,868
	8,001	12,069
Equity of Canada		
Contributed capital	4,941	4,941
Accumulated surplus	3,060	7,128
	8,001	12,069

The accompanying notes form an integral part of these financial statements.

Approved by

 Deputy Head

 Senior Finance Officer

Canadian Grain Commission Revolving Fund

Statement of Change in Excess of Financial Assets over Liabilities For the year ended March 31, 2006

(in thousands of dollars)

	2006 \$ Budget (Unaudited)	2006 \$ Actual	2005 \$ Actual
Net loss for the year	(6,002)	(4,068)	(5,514)
Acquisition of tangible capital assets	(1,771)	(1,771)	(2,969)
Amortization of tangible capital assets	2,523	2,174	1,857
Gain on sale of tangible capital assets	-	(3)	(7)
Proceeds on sale of tangible capital assets	-	4	7
	752	404	(1,112)
Acquisition of other assets	-	(123)	(155)
Use of other assets	-	155	237
	-	32	82
Decrease in excess of financial assets over liabilities	(5,250)	(3,632)	(6,544)
Excess of financial assets over liabilities - Beginning of year	6,201	6,201	12,745
Excess of financial assets over liabilities - End of year	951	2,569	6,201

The accompanying notes form an integral part of these financial statements.

Canadian Grain Commission Revolving Fund

Statement of Accumulated Surplus

For the year ended March 31, 2006

(in thousands of dollars)

	2006	2005
	\$	\$
Accumulated surplus - Beginning of year	7,128	12,642
Net loss for the year	4,068	5,514
Accumulated surplus - End of year	<u>3,060</u>	<u>7,128</u>

The accompanying notes form an integral part of these financial statements.

Canadian Grain Commission Revolving Fund

Statement of Cash Flows

For the year ended March 31, 2006

(in thousands of dollars)

	2006 \$	2005 \$
Financial resources provided by (used in)		
Operating transactions		
Net loss for the year	(4,068)	(5,514)
Non-cash items included in annual deficit		
Amortization (note 4)	2,174	1,857
Provision for employee termination benefits	842	654
Gain on disposal of tangible capital assets	(3)	(7)
	<hr/>	<hr/>
	(1,055)	(3,010)
Changes in non-cash working capital		
Accounts receivable	374	(481)
Other assets	32	76
Liabilities	(1,453)	1,762
	<hr/>	<hr/>
Net financial resources used by operating transactions	(2,102)	(1,653)
Capital transactions		
Acquisition of tangible capital assets	(1,771)	(2,969)
Proceeds from disposal of tangible capital assets	4	7
	<hr/>	<hr/>
Net financial resources used by capital transactions	(1,767)	(2,962)
Net financial resources used and change in the accumulated net charge against the Fund's authority during the year		
	(3,869)	(4,615)
Accumulated net charge against the Fund's authority - Beginning of year		
	<hr/>	<hr/>
	12,165	16,780
Accumulated net charge against the Fund's authority - End of year		
	<hr/>	<hr/>
	8,296	12,165

The accompanying notes form an integral part of these financial statements.

Canadian Grain Commission Revolving Fund

Notes to Financial Statements

March 31, 2006

(in thousands of dollars)

1 Authority and objectives

The Canadian Grain Commission (CGC) derives its authority from the Canada Grain Act. The CGC's mandate as set out in the Act is to, in the interest of producers, establish and maintain standards of quality for Canadian grain and regulate grain handling in Canada, to ensure a dependable commodity for domestic and export markets.

In May 2005, Parliament passed Bill C-40, an act to amend the Canada Grain Act and Canada Transport Act, which requires an independent and comprehensive review of the CGC and of the provisions and operations of the Grain Act. The recommendations are to be presented to the Parliament on August 1, 2006.

2 Significant accounting policies

The financial statements have been prepared in accordance with accounting standards issued by the Treasury Board of Canada Secretariat which are consistent with Canadian generally accepted accounting principles for the public sector.

The significant accounting policies are as follows:

Revenue and expense recognition

Revenue is recognized in the accounting period in which it is earned through the provision of goods or services, or when an event giving rise to a claim has taken place. Revenues that have been received but not yet earned are presented as deferred revenues. Deferred revenue is primarily related to licensing fees received which cover a 12 month period.

Unless otherwise disclosed, expenses are recorded in the period they are incurred.

Parliamentary appropriation

The ongoing Parliamentary appropriation received for the Appointments by the Governor in Council of Assistant Commissioners and Grain Research Laboratory expenditures has been recorded as revenue of the Canadian Grain Commission Revolving Fund (the Revolving Fund).

Parliamentary appropriations relating to employee severance entitlements earned prior to April 1, 1995 are recorded as an account receivable from the Treasury Board when paid by the CGC.

Accumulated net charge against the Fund's authority

The accumulated net charge against the Fund's authority (ANCAFA) represents the amount of the Fund's non-lapsing authority that has been used since inception of the Fund.

Canadian Grain Commission Revolving Fund

Notes to Financial Statements

March 31, 2006

(in thousands of dollars)

Accounts receivable

Accounts receivable are stated at amounts expected to be ultimately realized. Allowances are established for all accounts for which interest or principal payments are 90 days past due.

Non-financial assets

Non-financial assets and tangible capital are accounted for as assets by the CGC to be used to provide services in future periods. These assets do not normally provide resources to discharge the liabilities of the CGC unless they are sold.

Tangible capital assets

Certain assets previously under the custody of the Department of Agriculture and Agri-Food Canada were assumed by the Revolving Fund on April 1, 1995. The assumed assets were considered to be contributed capital and recorded at the Crown's estimated net book value. Assets acquired subsequent to April 1, 1995 are recorded at cost. Proceeds from the disposal of capital assets are retained by the Revolving Fund.

All tangible capital assets and leasehold improvements with a cost equal to or greater than \$10,000 are capitalized at their acquisition cost.

Assets are amortized on a straight-line basis over their estimated useful lives, commencing in the month after acquisition, as follows:

Scientific equipment	5 years
Office equipment and furniture	5 years
Operational equipment	5 - 10 years
Computer equipment and software	3 years
Leasehold improvements	5 years

Vacation pay

Vacation pay and compensatory leave are expensed as the benefits accrue to employees under their respective terms of employment and are recorded in the accounts at year end based on employee records.

Employee severance benefits

Severance benefits accrue to employees over their years of service with the Government of Canada as stipulated in their collective agreements. The CGC provides for the severance entitlements earned by employees subsequent to March 31, 1995. No accrual has been made in these financial statements for severance entitlements earned by employees up to March 31, 1995. They represent an obligation of the CGC that will be funded by the Treasury Board.

Canadian Grain Commission Revolving Fund

Notes to Financial Statements

March 31, 2006

(in thousands of dollars)

Pension plan

Employees of the CGC are covered by the Public Service Superannuation Act and the Supplementary Retirement Benefits Act. The Government of Canada's portion of the pension cost is included in the employee benefit charge assessed against the Revolving Fund. The actual payment of the pension is made from the Public Service Superannuation and Supplementary Retirement Benefits Accounts. Current legislation does not require the CGC to make contributions for any actuarial deficiencies of the Public Service Superannuation account.

Interest on drawdown

Interest is charged to the Revolving Fund at a rate set by the Treasury Board. Interest charges are calculated monthly on the balance of the accumulated net charge against the Fund's authority. The Treasury Board does not pay interest when a surplus arises that result in no drawdown against the authority.

Measurement uncertainty

The preparation of these 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 and disclosures of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenue and expenses during the periods covered by the financial statements. The principle financial statement components subject to measurement uncertainty include salaries payable related to unsettled labour contracts, the useful life of tangible capital assets and the liability for employee severance benefits. Actual results could differ from those estimated. Management's estimates are reviewed periodically and, as adjustments become necessary, they are recorded in the financial statements in the year they become known.

3 Accounts receivable

	2006 \$	2005 \$
Receivables from related parties (note 11)	507	804
Outside parties	5,161	4,701
	<hr/>	<hr/>
Less: Allowance for doubtful accounts	5,668 (660)	5,505 (123)
	<hr/>	<hr/>
	5,008	5,382
	<hr/>	<hr/>

Canadian Grain Commission Revolving Fund

Notes to Financial Statements

March 31, 2006

(in thousands of dollars)

4 Tangible capital assets

	Cost				Accumulated amortization			Net book value		
	Opening balance \$	Acquisitions \$	Disposals \$	Closing balance \$	Opening balance \$	Amortization \$	Decrease \$	Closing balance \$	2006 \$	2005 \$
Scientific equipment	7,045	1,604	83	8,566	4,651	1,163	83	5,731	2,835	2,394
Office equipment and furniture	981	6	17	970	926	50	16	960	10	55
Operational equipment	647	20	12	655	426	62	12	476	179	221
Computer equipment and software	7,655	384	143	7,896	6,018	750	143	6,625	1,271	1,637
Leasehold improvements	4,780	55	-	4,835	3,374	447	-	3,821	1,014	1,406
	21,108	2,069	255	22,922	15,395	2,472	254	17,613	5,309	5,713

During the year, tangible capital assets with a historical cost of \$298,000 and an accumulated amortization balance of \$298,000 were transferred to the CGC from a related party. Management has determined that these tangible capital assets continue to be utilized and are currently in service.

Canadian Grain Commission Revolving Fund

Notes to Financial Statements

March 31, 2006

(in thousands of dollars)

5 Deferred revenue

	2006	2005
	\$	\$
Appropriation revenue carry forward (note 7)	-	219
Deferred license revenue	74	74
Other deferred revenue	2	19
	<hr/>	<hr/>
	76	312
	<hr/>	<hr/>

6 Employee severance benefits

The CGC provides severance benefits to its employees based on eligibility, years of service and final salary. These benefits are funded through a monthly salary accrual. The CGC uses an estimated rate of 2.25% to calculate the liability for employee severance benefits. The severance benefits earned by employees prior to April 1, 1995 are funded by the Treasury Board Secretariat.

	2006	2005
	\$	\$
Employee severance benefits - beginning of year	4,982	4,556
Expense for the year	842	654
Benefits paid during the year	(214)	(228)
	<hr/>	<hr/>
Employee severance benefits - end of year	5,610	4,982
	<hr/>	<hr/>

7 Parliamentary appropriations

The CGC is funded by a combination of an ongoing appropriation, special appropriation, authority to re-spend fees collected and a revolving line of credit of \$2,000,000. The Revolving Fund line of credit has been frozen since fiscal year 2003-2004. The CGC has developed and is pursuing sustainable long-term options to address the evolving needs of the grain industry in a financially stable manner.

Items recognized in the statement of operations and the statement of financial position in one year may be funded through parliamentary appropriations in prior, current or future years. Accordingly the CGC has different net results of operations for the year on a government funding basis than on an accrual accounting basis. The differences are reconciled in the following tables.

A non-specific expenditure reduction of \$6,413,600 was made to the 2005-2006 budget, which is reflected in Other expenditures. The budget total for Other expenditures was \$1,201,861, exclusive of this budget expenditure reduction.

Net cost of operations equals total revenue less special and parliamentary appropriation revenue less total expenses.

Canadian Grain Commission Revolving Fund

Notes to Financial Statements

March 31, 2006

(in thousands of dollars)

Reconciliation of net cost of operations to current year appropriations used

	2006 \$	2005 \$
Net cost of operations	31,373	27,343
Items affecting net cost of operations but not affecting appropriations		
Unused appropriations carry-forward	(219)	219
Termination benefit reimbursement	519	244
Frozen allotment - advertising	-	12
Collective agreement settlement	-	(119)
Accumulated surplus utilized	(4,068)	(5,514)
	<hr/>	<hr/>
Current year appropriation funds used	27,605	22,185

Appropriation provided

	2006 \$	2005 \$
Special appropriation and other	22,312	16,336
Parliamentary appropriation	5,293	5,849
	<hr/>	<hr/>
Current year appropriation funds provided	27,605	22,185

Reconciliation of appropriation revenue

	2006 \$	2005 \$
Special appropriation revenue	21,000	15,000
Governor General warrants	1,312	-
Supplementary estimates	-	891
Unused appropriation carry-forward	219	-
Termination benefit reimbursement	(519)	(244)
Internal audit	-	69
Revolving Fund surplus	-	(127)
Collective agreement settlement	-	391
	<hr/>	<hr/>
Parliamentary appropriation	22,012	15,980
	5,293	5,849
	<hr/>	<hr/>
Total appropriation revenue	27,305	21,829

The Federal Government's funding arrangements with the CGC provided for a \$21,000,000 special appropriation to allow the CGC to continue delivery of its mandate.

Canadian Grain Commission Revolving Fund

Notes to Financial Statements

March 31, 2006

(in thousands of dollars)

Appointments

The costs associated with the appointments by the Governor in Council of the Assistant Commissioners are covered by Parliamentary appropriation. These amounts are included in the financial statements and are summarized as follows:

	2006	2005
	\$	\$
Salaries and employee benefits	747	669
Travel and relocation	86	61
Rent	36	29
Repairs, supplies and miscellaneous	17	11
Professional and special services	23	22
Communications	37	38
Employee severance benefits	12	4
Postage and freight	4	4
	<hr/>	<hr/>
Appointments parliamentary appropriation revenue	962	838
	<hr/>	<hr/>

Grain Research Laboratory

A portion of the costs incurred by the Revolving Fund for the Grain Research Laboratory were covered by Parliamentary appropriation. These amounts are included in the financial statements and are summarized as follows:

	2006	2005
	\$	\$
Salaries and employee benefits	3,010	3,436
Travel and relocation	141	138
Rent	617	585
Repairs, supplies and miscellaneous	330	559
Professional and special services	101	132
Communications	55	92
Employee severance benefits	50	32
Postage and freight	27	37
	<hr/>	<hr/>
Grain Research Laboratory parliamentary appropriation revenue	4,331	5,011
Appointments parliamentary appropriation revenue	962	838
	<hr/>	<hr/>
Total parliamentary appropriation revenue	5,293	5,849
	<hr/>	<hr/>

The Parliamentary appropriation for fiscal year 2004 - 2005 was \$6,068,000. The amount of \$219,000 (within the allowable 5% carry forward) was accessed through the 2005 - 2006 supplementary process.

Canadian Grain Commission Revolving Fund

Notes to Financial Statements

March 31, 2006

(in thousands of dollars)

8 Accumulated net charge against the Revolving Fund's authority

Accumulated net charge against the Revolving Fund's authority is comprised of the following amounts:

	2006	2005
	\$	\$
Allowance for employee termination benefits	5,610	4,982
Change in working capital	(48)	678
Resources available for operational purposes	2,734	6,505
	<hr/>	<hr/>
Total accumulated net charge against the Fund's authority	8,296	12,165
	<hr/>	<hr/>

9 Lease commitments

Operating leases for office accommodation have been primarily entered into with Public Works and Government Services Canada. Three major leases expire at the end of fiscal year 2006 - 2007. Future minimum lease payments over the next five years are as follows:

	\$
2007	3,466
2008	342
2009	142
2010	142
2011 and thereafter	138
	<hr/>
	4,230
	<hr/>

10 Contingent liabilities

Claims have been made against the CGC in the normal course of operations. Management believes that these claims are without merit. The outcome of these actions is not presently determinable and, accordingly, no provision for these claims has been made in these financial statements.

Employees are permitted to accumulate unused sick leave. However, such leave entitlements do not vest and may only be used in the event of illness. The amount of accumulated sick leave entitlements that will become payable in future years cannot reasonably be determined. Accordingly, no amount has been accrued in these financial statements. Payments of sick leave benefits are included in current operations as incurred.

Canadian Grain Commission Revolving Fund

Notes to Financial Statements

March 31, 2006

(in thousands of dollars)

11 Related party transactions

The CGC is related in terms of common ownership to all Government of Canada departments, agencies and Crown corporations. The CGC enters into transactions with these entities at arms length in the normal course of business and on normal trade terms. In addition, the CGC received services from other government departments.

Services provided by other government departments

During the year, the CGC paid rent and certain professional services to other government departments or agencies. Employer's health insurance plan contributions and employee benefit plans were also provided by and paid to other government departments. Significant services have been recognized in the CGC statement of operations as follows:

	2006 \$	2005 \$
Employer's contribution to employee benefit plans	11,251	10,523
Rent	3,585	3,577
Professional and special services		
Audit and accounting services	421	310
Consulting services	122	83
Legal services	150	125
Translation services	121	151
	<hr/>	<hr/>
	15,650	14,769
	<hr/>	<hr/>

Included in accounts payable and receivable at year end are the following amounts with related parties:

	2006 \$	2005 \$
Accounts receivable	507	804
Accounts payable	440	924

In fiscal 2006, contributions in kind were provided to Automated Quality Testing Program at a fair value of \$5,215 (2005 - \$29,302) for financial services, employee salaries, employee benefits, amortization of existing tangible capital assets, overhead and rental charges.

12 Financial instruments

The Revolving Fund's financial instruments consist of accounts receivable and accounts payable and accrued liabilities. The carrying values of these financial instruments approximate their fair value because of their short terms to maturity. Unless otherwise noted, it is management's opinion that the Revolving Fund is not exposed to significant interest, currency or credit risk arising from these financial instruments.

Canadian Grain Commission Revolving Fund

Notes to Financial Statements

March 31, 2006

(in thousands of dollars)

13 Insurance

In accordance with the Government's policy of self-insurance, the CGC does not carry its own insurance.

14 Income taxes

The CGC is not subject to income taxes.

15 Comparative information

Certain comparative figures have been restated to conform to the current year's presentation.