



Safety, Respect and Dignity for All

Annual Report 2001 - 2002

**CORCAN ANNUAL REPORT
2001-2002**

**MAKING SAFE REINTEGRATION WORK
by
DELIVERING RESULTS TO CANADIANS**

1992-2002

Our Tenth Anniversary



***Making Safe Reintegration Work
Pour une réinsertion sociale réussie***

1 of 29



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MESSAGE FROM THE CHIEF EXECUTIVE OFFICER



As we mark CORCAN's 10th anniversary, it is important to remember that the Correctional Service was one of the first federal organizations to create a Special Operating Agency (SOA) in 1992. Not only that, but CORCAN remains the only SOA operating under a Revolving Fund with a key social policy mandate.

The past ten years have taught us many lessons as we weathered the growing pains of a new and innovative organization. Yet, as we look back over the past ten years, it seems we have just begun our journey as a living organization.

During the decade, we have developed a robust governance, crafted and continually refined our corporate strategies, and mastered our business planning and execution skills while continuing to deliver better results for Canadians.

In all accounts, the past year was a very good year, as you will see in this Annual Report.

Let us never forget that first and foremost, CORCAN exists to support the Correctional Service of Canada in its mission to safely reintegrate offenders back into Canadian society. Everything we do in CORCAN is in collaboration with and support of this fundamental mission.

That is why, everyday, we employ offenders in a meaningful and challenging work environment while they are in federal custody, and then help them find employment following release.

CORCAN is not a tax-funded make-work training program. It is a serious correctional business involving real people, real work and real jobs producing marketable goods and services, and real community involvement. Our people do it well, quietly, everyday, from coast to coast and the results outlined in this Annual Report speak for their passion, commitment to Canadians, and focus on results.

Over the past ten years we have built a strong foundation for the future: we have created a powerful yet clear guiding light on how CORCAN fits into the Service; we have nurtured a strong set of organizational values appropriate to an SOA, and we have delivered concrete results through strategies, focus and moral commitment.

Our future is bright, but it is not without considerable challenges.

- At the broader philosophical level, we can anticipate far-reaching policy debates on the very fundamentals of what constitutes good corrections. This will demand on-going and clear-





sighted commitment to delivering concrete measurable results to which Canadians can relate.

- We must continually entrench gains we have made in our organizational effectiveness while continuing to expand our contributions to the broader CSC and Government agendas.
- We must nourish our human capital with diversity in order to gracefully acknowledge our past legacy.

And we must do all this and more in order to continually reinvent CORCAN as a living renaissance organization with an effective barrier against the forces of bureaucracy.

Many strategic initiatives we have introduced over the past are aimed at preserving and reinforcing our future capabilities and building organizational resilience to face new challenges. For example,

- our work on our Value Proposition to key stakeholders (See Appendix "A") clarifies who we are as an organization to our employees, customers, our parent organization, and other stakeholders;
- our regular case-studies on effective leadership practices ensure that the organization is continually nurtured with knowledge transfer and seamless continuity;
- our unequivocal commitment to Modern Comptrollership ensures that we never revert to the old command and control infrastructure in the name of eliminating risks;
- our Innovation Fund provides a way for entrepreneurial scout bees in CORCAN to experiment to achieve even-better results.

Together, these initiatives are the shape of our renewed corporate personality today.

Finally, I am grateful for the support CORCAN has received from the Correctional Service, our Advisory Board, our customers and the good centres.

I am particularly thankful to those hard working warriors in CORCAN -- the results documented in this Annual Report are the fruits of their labour and theirs alone.

To them, my final word is: Never stop the Transformation. Good enough never is. Do more. And, yes you can.

Sudin
May 2002





HOW HAVE WE DONE? THE RESULTS

CORCAN entered this, its tenth year as a Special Operating Agency, with four key corporate priorities on which we were committed to deliver results:

- Forging ahead with CSC's reintegration agenda
- Enhancing our client focus
- Continuing to refine our governance structures with a particular emphasis on fiscal responsibility and strategic Human Resources Management as well as delivering on our societal and environmental stewardship obligations
- Delivering a balanced budget

Corporate Priority One REINTEGRATION

What we promised

Ensure a structured assessment for identifying offenders' employment deficiencies when they first arrive at an institution.

Develop a program evaluation framework.

What we delivered

We introduced two standardized assessment tools: the Career Ability Placement Survey (CAP) and the Career Occupational Preference Survey (COP) both of which are industry standard and used world-wide by human resources specialists.

A comprehensive framework has been developed to evaluate the Employment and Employability Training program. It is centered on a logic model: a visual conceptualization of the program's guiding theory which describes various activities, outputs, and impacts, as well as intermediate and long-term objectives. The model establishes an explicit and causal association between activities and outcomes. Five broad areas are probed:





- Program rationale,
- Service delivery,
- Impacts and effects,
- Costs, cost avoidance and efficiency and the following key questions posed:
 - Given the population it targets, its resources and activities, are the EEPs objectives realistic and attainable?
 - Are the services provided in an optimal way?
 - How well is the program meeting its goals and objectives?
 - What does the program cost and what barriers are there to achieving the intended outcomes?

Employ 4000 inmates in institutions.

Exceeding our goal by 25 %, we employed more than 5100 offenders, of which 96% successfully completed their assigned work.

Open 12 employment service centres in community to help conditionally-released offenders to find the first job following release from incarceration.

We exceeded our goal significantly: providing our presence in 25 employment centres across the country; 5 in Atlantic, 8 in Québec, 2 in Ontario, 4 in Prairies, 6 in BC.

Worksites provide released offenders with access to a wide range of services, including evaluating work attitudes, habits and motivation to developing action plans, job counselling, interview skills training, resume preparation, and post-placement follow-up and support. A database of employers willing to employ parolees is continually updated and expanded.

Place 350 conditionally-released offenders in private sector jobs, 200 in full-time education, and serve 750 parolees.

Again we exceeded our goal. By year-end we had placed over 1,100 offenders in real jobs and helped another 500 enrol in full-time education.

In total we had served over 1,930 clients.





CORPORATE PRIORITY TWO CLIENT - FOCUS

What we Promised

Develop a customer service improvement program.

Conduct annual survey of CSC managers

What we delivered

A comprehensive strategy, entitled "**A Roadmap to Recovery**" was implemented. It focuses on four elements: the customer, the people (sales, production and installation), the product and the process.

A customer service training video entitled "**Staple Yourself to an Order**" was developed and viewed by CORCAN employees.

Instituting on-going training is central to the program and includes a toolkit for sales representatives and a code of conduct and guidelines for installers.

The Roadmap also includes extensive profiles of our four key customer departments together with our corporate strategies to reach each department.

Interviews with senior CSC managers in each region were conducted by an independent firm with the goal of assessing our client's satisfaction with our program delivery of employment training. In some regions the results have improved, while in others results have somewhat deteriorated from the previous year. This humility has helped the management team to step back and reflect on our strategies and actions at the local level.





CORPORATE PRIORITY THREE GOOD GOVERNANCE

What we Promised

- Fiscal Management
Review and update Policy Manual.

Embed the practices associated with Modern Comptrollership throughout the organization.

Ensure compliance with GAAP.

- Human Resource Management
Promote ethics and value, and recruit based on merit.

- Performance review and feedback.

- Investment in training.

- Communication.

What we Delivered

We revised a number of key policy areas, including B2B alliances, inmate incentive pay and financial controls, and in each case delivered strengthened policy that takes into account emerging operational realities. In addition, all issues raised in the external audit of last year have been addressed.

The Comptroller and Regional Business Managers are now working as a team providing the "church" function that is a central pillar of modern comptrollership.

Underway under the leadership of the new Comptroller.

We developed and communicated widely to all employees and potential employees a value proposition which outlines the benefits of working in a Special Operating Agency environment like CORCAN. (see Appendix A) In essence it also outlines what we are not.

100% completion.

We have invested \$25,000 in employee training. We have 100% participation in learning accounts in NHQ.

We conducted our annual employee survey using an independent third party. Employee satisfaction and levels of understanding of our mission vary significantly region to region requiring differing action plans across the





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Health & Safety.

country.

Qualitative data were also collected by means of focus groups conducted by the CEO with front-line employees in each region.

No major incidents.

CORPORATE PRIORITY FOUR ELIMINATE DEFICIT

Balance operating budget.

Exceeded plan (see attached financial statements).

Some health indicators:

- **Operating Surplus:** \$8.3 million
- **Draw from line of credit at year end:** zero
- **Growth in revenues:** 18% over last year
- **Reduction in Operating Costs:** 18% reduction over last year
- **Inventory at year-end:** no change prior to conservative allowance for obsolescence
- **Receivables at year-end:** decreased as a percentage of revenues from 15.6% to 15.0%.





HOW DID WE CONTRIBUTE TO THE BROADER PUBLIC AGENDA?

Societal Stewardship

- By placing over 1,100 offenders in jobs in the community, CORCAN 's employment training program saved the nation's social welfare rolls millions of dollars and it is cumulative.
- As part of "Operation Giving Back", CORCAN has entered into partnerships with the Homelessness Secretariat, the John Howard Society, Habitat for Humanity Canada and related non-governmental organizations to employ offenders in the community to build housing for low-income and homeless Canadians.
- CORCAN worked with a number of other government departments like Indian and Northern Affairs to address a variety of social policy areas relevant to our mission e.g. aboriginal economic development.
- In communities across the country, offenders working for CORCAN delivered a variety of community services, including parks cleanup, log clearing from waterways, firefighting, soup kitchens and donating surplus produce to shelters.
- CORCAN trainees provide a trained work force for small business e.g. roofers, movers, equipment operators.

Environmental Stewardship

- In partnership with the private sector, CORCAN recycled discarded mattresses, office furniture and other wastes. This results in significant reductions in landfill each year.
- In all its manufacturing and agribusiness operations, CORCAN maximized its use of environmentally friendly materials, including paints, glues in all its manufacturing processes (e.g. using powder coating instead of liquid paint for metal components and water-based lacquers instead of solvent-based);
- In our manufacturing line we used optimising software to minimise furniture panel waste;
- Recycling initiatives included redesigning our furniture packaging to reduce cardboard waste and cost, and recovering all packaging on major orders after installation
- As part of our re-use program we have launched a refinishing and reupholstery program to re-use our workstation screens and ergo chairs.
- Waste disposal processes employed in CORCAN agribusiness operations are geared to minimize environmental risk and impact; for example:





- CORCAN accepted fruit, vegetable and waxed cardboard from Safeway stores in Winnipeg for recycling and composting purposes
 - Accepted sawdust from a local pallet manufacturer for use as bedding for cattle
 - recycled sawdust from other operations was used as cattle bedding
 - used waxed cardboard as a fuel source in an outdoor boiler to heat two buildings used by CORCAN
 - constructed fibre mounds of post peelings and sawdust created in many feedlot pens to reduce the requirement for straw and decrease the costs associated with manure management.
- CORCAN entered into agreements with Ducks Unlimited to manage several parcels of land as upland dense nesting areas for ducks to provide a safer environment for duckling rearing.
 - CORCAN developed an engineered wetland to complement our lagoon system. It will operate as a secondary treatment for effluent collected in the lagoon. Specific plant species are going to be planted in this wetland that are well suited for this process. The objective is to provide further treatment of run-off from the composting operations.

The Public Policy Agenda

The Speech from the Throne

- Creating Opportunities
- Skills + Learning
- Connecting Canadians
- Sharing Opportunities

Budget 2002

- Strategic Investment
- Skills + Learning + Research
- Strategic Infrastructure & Environment

How what we Do Fits in

Employability training in prison to 5000 + inmates.

Assist parolees in job placement in 25 communities.

Help Aboriginal people to set up business e.g. Aboriginalmall.com.

Employ Youth at Risk e.g. Hartman Building Renovation.

Schoolnet - provide refurbished computers for schools.

E-learning @ CORCAN employment centres.





Aboriginal file

GOL - Towards a paperless office e.g. electronic annual report, business plan.

Collaboration with Indian and Northern Affairs Economic Development to employ aboriginal offenders to build housing for aboriginal communities.
Providing furniture for G8.

Environment

Sustainable Development Strategy for farm operation.
Mattress recycling.

Communities

Affordable rental housing partnership with municipalities.

Safer reintegration of offenders.

Giving back to community initiatives.
Food for soup kitchens.
Cleaning highways, parks.
Building residence for families visiting prison.

Creating & sharing Opportunities Globally

Production of pilgrim bags for World Youth Day
Donate surplus goods to other countries.

Financial Management

A balanced revolving fund budget and frugal financial management are the cornerstone of the new Governance of CORCAN.





HOW OTHERS SEE US

Our Customers

I was extremely happy. We were looking for 400 workstations and our requirements were very tight in terms of time frame. I'm not sure that anyone else could have reacted that quickly. Both prior to the move and after we'd established ourselves, CORCAN was extremely attentive to the kinds of things that we wanted to do.

Canada Customs and Revenue Agency

We wish to commend the efforts of CORCAN construction in co-ordinating the inmate labour supplied to us. We are very satisfied with the efforts of CORCAN to identify and supply workers who are interested in the trade as this is providing benefit to our company as well as to the inmate who will be getting experience in the construction industry which can be used to improve their future job prospects.

Plumbing and Heating Project Springhill Institution

... (CORCAN) was always willing to sit down and provide us with options or solutions to the various problems we had found. And for us that was a major difference in working with them for this process.

Canada Customs and Revenue Agency

Our communication has always been good between Spielo and CORCAN ... CORCAN has always gone beyond their job to provide good service to us.

Purchasing Agent, Spielo International

After CORCAN found out what we needed and what we wanted there were no more problems ... CORCAN fixed the problem...

HRDC

The repeat order is the best indicator that (CORCAN) understands what we need and what our business is...

HRDC

If you say you are going to deliver on time, do it. There is nothing worse than to not deliver on your commitments. It's also important that there are no surprises-- if there is a problem tell us right away and move to fix it.

PWGSC





The Media

Building Futures as Well as Buildings.... Today inmates from Collins Bay Penitentiary are working beside licensed masons, electricians, carpenters and plumbers to construct the new five bay 5,000 square foot Frontenac Regional Garage.

Kingston Construction News, September 2001

Gone are the days of guards watching over the shoulders of shackled prisoners as CORCAN employees work freely on job sites and have the same responsibilities as employees of private sector companies. Recognised as one of CSC's most important rehabilitation programs CORCAN employs about 4,000 offenders each year...

Niagara Construction News, December 2001

Pour La Visite du Pape à Toronto: les sacs du pèlerin fabriqués dans trois "pénitenciers" québécois. Une trentaine de détenus mettront la main à la pâte pour fabriquer les sacs du pèlerin qui seront distribués à Toronto en juillet à l'occasion de la Journée mondiale de la jeunesse, événement d'envergure internationale auquel doit participer le Pape Jean Paul II

Journal de Québec, le 10 janvier 2002

We're used to watching fictional prisoners on T.V. and movies fighting, escaping, killing and dealing drugs. The truth thankfully is a lot more mundane. National Post photographer visited several correctional institutions (and) looked at how offenders earn money and learn new skills in a variety of day jobs on the inside in preparation for a new life on the outside."

The National Post, May 22, 2001

It's A Criminal Waste. Few things infuriate us more than blatant government waste of our money, unless it's blatant government coddling of criminals. That's why the stories uncovered about a controversial government-sponsored agency called CORCAN are such an outrage - they involve both, the government program employs prison inmates in everything from manufacturing to construction to farming, ostensibly to prepare them for life on the outside. But some of them have been raking in up to \$700 a week - better than Ontario's average wage. Solicitor General Lawrence MacAulay initially insisted the \$700 "incentive" payouts involved just "one case" at "one institution. CORCAN, by the way, was targeted in several past Auditor General's Reports for dipping \$32 million into a \$45-million line of credit. Now it boasts revenue of \$60 million (it gets a \$16 million subsidy from Corrections Canada). MacAulay owes us - and crime victims everywhere - an explanation and an apology.

The Toronto Sun, April 22, 2002





In response to an article in your Section "Bits & Pieces" regarding prisoners as telemarketers, I am of the notion that the writer who submitted this article does not have a clue or an idea of what he is talking about or what is going on in this institution. There is no telemarketing being done in this institution but market research surveys which is an entirely different field of industry. The writer failed to indicate that not all inmates who apply to become market researchers are automatically hired just so they have work while in prison. The initial screening alone is hard to pass and then they have to undergo two-week classroom training followed by another week of on-the-job training before they actually start their live calls. Computer literacy is also a big factor. Fourth, the pressure on productivity is high since there are deadlines to meet in order to complete a project. Likewise, calls are constantly monitored by the supervisors for quality of the survey and the length of the survey. It takes a lot of emotionally (sic) control to complete. Likewise, in it's (sic) one year of operation there has never been an incident of complaints from any respondent on the manner by which the call is made. This program provides inmates another skill to develop and to fall back to when they have difficulty of finding jobs on the street upon their release rather than being jobless and relying on the government for social welfare. Inclusion (sic), I would suggest that before any article is printed, the editor should conduct his own investigation to check the veracity of such article and not just including it in his newsletter for the purpose of reporting something. Closing down such a program would be depriving inmates a means of learning new skills which will be useful for them upon their release. Respectfully yours, Anonymous,

From *Behind the Bars, Letters to Willie*, the web site of Reform M.P and Justice Critic, Randy White

http://www.behindthebars.ca/letters/letters_3.htm

Our Offenders

CORCAN is a valuable program that has been very good to me. CORCAN gives you the tools to use, it's just a matter of whether or not you want to use them. The instructors are excellent working with us.

Inmate Quick, CORCAN construction

(CORCAN) improves our self-esteem. It's encouraging, and I think that when I do it, I'm not going backwards. It's like I'm doing it for myself as well. I'm happy to hear of the results at the end of the line.

Patrick - a CORCAN trainee who helped produce the furniture for a Government customer





.. a thank you is definitely in order for all of us women here at the Burnaby Correctional Centre for Women. There are many things the women can accomplish now that they have access to a computer. Thank you from the bottom of our hearts.

Inmate Rodney, Inmate Committee

For what it is worth I feel better not only as an individual, but also as a CORCAN trainee knowing that those who employ me also care about my well-being. Being in prison has made me believe over the years that the only person I could count on was myself.... Something I have come to realize is thanks to the two of you that my previous belief of not trusting in those who are there to help me is wrong. Once again thank you for everything.

Inmate Hayes

I feel I have learned a lot in the short time I was under your wing. I now have a great interest in the trade and would like to continue in it once I hit the street. I would like to thank you for opening my eyes to a new trade and possible career for myself.

Inmate Yaskow

Our Partners

Inmates at Bowden Institution recently made a unique connection with Zaporozhye Ukraine, inmates working in the CORCAN special projects department ... noticed that most of the obsolete items in first aid kits were in perfect condition and destined for landfill... and wanting to find a way to put the items to good use ... they contacted the Mennonite Central Committee. A big thank you goes to inmates whose thoughtfulness made this project possible.

Bar None, A Newsletter of Community Justice Ministries March 2002

Recently the Saskatchewan Environment and Resource Management Departments was the recipient of a welcome donation of forty picnic tables made by inmates at the federal penitentiary at Prince Albert. I understand the work was performed by aboriginal offenders who volunteered their time and energy. I commend this initiative of providing offenders with the dignity and self-esteem that comes from work and the sense of pride that comes from giving back to communities. We need more of this kind of common sense approach to rehabilitation. My congratulation on placing employment at the centre of your approach to federal corrections.

A letter to the Honourable Lawrence MacAulay from the Saskatchewan Department of the Environment





CORCAN Balance Sheet As at March 31

(in thousands of dollars)

	2002	2001
ASSETS		
Current		
Accounts receivable (note 3)	\$9,892	\$8,876
Inventories (note 4)	12,202	13,129
Other	12	27
	<u>22,106</u>	<u>22,032</u>
Capital assets (note 5)	9,339	10,026
Deferred charges (net of amortization)	228	408
	<u>\$31,673</u>	<u>\$32,466</u>
LIABILITIES		
Current		
Accounts payable (note 6)	\$22,112	\$20,711
Deferred revenue	641	107
Current portion of obligation under capital lease (note 7)	36	42
	<u>22,789</u>	<u>20,860</u>
Long term		
Employee future benefits (note 13)	2,430	2,666
Obligations under capital lease (note 7)	178	213
	<u>25,397</u>	<u>23,739</u>
<i>Commitments and Contingencies (notes 8 and 11)</i>		
EQUITY OF CANADA		
Contributed capital (note 12)	30,542	10,086
Accumulated Net Charge Against the Fund's Authority (note 12)	(10,581)	20,598
Accumulated deficit	(13,685)	(21,957)
	<u>6,276</u>	<u>8,727</u>
	<u>\$31,673</u>	<u>\$32,466</u>

See accompanying notes to financial statements





CORCAN
Statement of Operations
For the year ended March 31

(in thousands of dollars)

	2002	2001
Revenues (note 9)	\$66,133	\$56,900
Cost of goods sold (note 9)	70,678	63,603
Gross margin	(4,545)	(6,703)
Other revenues		
Training and correctional fees	20,696	20,958
Miscellaneous	5,267	114
	25,963	21,072
Expenses		
Operating	6,154	5,462
Selling and marketing	2,941	3,431
Administrative	4,028	4,802
Interest	159	1,991
Other	(136)	434
	13,146	16,120
Net income (loss) for the year	\$8,272	(\$1,751)

See accompanying notes to financial statements





CORCAN Statement of Accumulated Deficit As at March 31

(in thousands of dollars)

	2002	2001
Balance, beginning of year	(21,957)	(20,206)
Net Income(Loss) for the year	8,272	(1,751)
Balance, end of year	<u>(\$13,685)</u>	<u>(\$21,957)</u>

See accompanying notes to financial statements

CORCAN Statement of Cash Flows As at March 31

(in thousands of dollars)

	2002	2001
Operating activities		
Net Income/(Loss) for the year	\$8,272	(\$1,751)
Employee termination benefits payments	(183)	(350)
Adjustments for non-cash items:		
Provision for termination benefits	(53)	279
Amortization	2,413	2,852
Amortization of deferrred charges	209	211
(Gain)loss on disposal of capital assets	367	(50)
Treasury Board Write-off of the Accumulated Net Charge Against the Fund's Authority (note 12)	20,456	---
Other	0	117
	<u>31,481</u>	<u>1,308</u>





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Changes in non-cash working capital		
Accounts receivable	(1,016)	12,350
Inventories	927	2,896
Other	15	(9)
Accounts payable	1,401	8,901
Deferred revenue	534	80
Cash provided by operating activities	33,342	25,526
Investing activities		
Capital assets acquisitions	(2,093)	(1,367)
Deferred charges	(29)	22
Cash used in investing activities	(2,122)	(1,345)
Financing activities		
Decrease of obligations under capital lease	(41)	213
Cash provided by financing activities	(41)	213
Adjustments to accumulated deficit balance, beginning of year	0	(894)
Net increase in Accumulated Net Charge Against the Fund's Authority	31,179	23,500
Accumulated Net Charge Against the Fund's Authority, beginning of year	(20,598)	(44,098)
Accumulated Net Charge Against the Fund's Authority, end of year	\$10,581	(\$20,598)

See accompanying notes to financial statements





CORCAN Revolving Fund

NOTES TO THE FINANCIAL STATEMENTS (in thousands of dollars)

March 31, 2002

1. AUTHORITY AND PURPOSE

CORCAN Revolving Fund is an agency within Correctional Service Canada financed by way of a Revolving Fund. The CORCAN Revolving Fund (the "Fund") was established under *Appropriation Act No. 4, 1991-92*, which authorized the operation of the Fund effective April 1, 1992 in the current and subsequent fiscal years in accordance with terms and conditions prescribed by Treasury Board. CORCAN Revolving Fund's purpose is to aid in the safe reintegration of offenders into Canadian society by providing employment and training opportunities to offenders incarcerated in federal penitentiaries and, for brief periods of time, after they are released into the community. The Fund has a continuing non lapsing authority from Parliament to make payments out of the Consolidated Revenue Fund for working capital, capital acquisitions and temporary financing of accumulated operating deficits, the total of which is not to exceed \$5,000 at any time. An amount of \$15,218 representing net assets assumed by the Fund was charged to this authority when the Fund became operative on April 1, 1992.

2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Since a precise determination of many assets and liabilities is dependent upon future events, the preparation of financial statements for a period necessarily involves the use of estimates and approximations which have been made with careful judgement. These financial statements present the assets, liabilities and results of operations of the Fund and have been prepared with reasonable limits of materiality and within the framework of the accounting policies summarized below.

Recognition of revenue and expense

Except as noted below, revenues are recognized when goods are sold or services rendered.





For multi-year construction contracts in excess of \$100, the percentage of completion method of accounting is used. Degree of completion is determined by comparing direct costs incurred to date to the total direct costs anticipated for the entire contract. The effect of changes to the total estimated income for each contract is recognized in the period in which the determination is made and losses, if any, are recognized fully when anticipated. Profits on construction contracts of up to \$100 are recognized when the contract has been substantially completed.

Expenses are recorded in the period they are incurred.

Inventories

Inventories are valued at the lower of cost and net realizable value.

Capital assets

Capital assets are recorded at cost and are amortized from the month following the month of acquisition on a straight line basis over their estimated useful lives as follows:

Plant and equipment	10 years
Office furniture and equipment	10 years
Computer equipment	3 years
Vehicle fleet	5 years
Dairy herd	3 years

Deferred charges

Deferred charges, consisting of manufacturing R & D costs and development costs of computerized financial systems, are amortized on a straight-line basis. Periods of amortization are based on the future economic benefit of these costs.

Pension plan

Employees of CORCAN Revolving Fund 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 benefits assessed against the Fund. The actual payment of the pension is made from the Public Service Superannuation and Supplementary Retirement Benefits accounts. Pension plan expense is recognized when it is earned.

Employee future benefits





Employees of CORCAN Revolving Fund are entitled to specified termination benefits based on salary levels in effect at the time of termination as provided for under collective agreements and conditions of employment. Employee termination benefits earned by employees of CORCAN Revolving Fund prior to April 1, 1992 are considered a liability of the Treasury Board and, accordingly, have not been recorded in the accounts. The financial statements of CORCAN revolving fund include the termination benefits earned by the employees of CORCAN since the inception of the Fund. The employee future benefits are recognized when they are earned.

Sick leave

Employees are permitted to accumulate unused sick leave. However, such leave entitlements may only be used in the event of an illness. As per current Government practice, unused sick leave upon employee termination is not payable to the employee. Accordingly, no amount has been accrued in these financial statements.

Warranty provision

Potential warranty costs associated with products sold by CORCAN are recorded when the products are sold.

Financial instruments

The fair value of the financial instruments approximates costs unless otherwise specified. The Fund's financial instruments consist of accounts receivable, accounts payable, accrued liabilities and long term debt. It is management's opinion that the Fund is not exposed to significant interest, currency or credit risks arising from those instruments.

3 ACCOUNTS RECEIVABLE

	2002	2001
Government of Canada	\$7,558	\$5,113
Outside parties	3,296	4,206
Less: Allowance for doubtful accounts	(962)	(443)
	<u>\$9,892</u>	<u>\$8,876</u>

4 INVENTORIES

	2002	2001
Raw materials	\$4,975	\$4,897
Work in progress	354	275
Finished goods	5,129	4,601
Livestock	2,831	3,613
	<u>13,289</u>	<u>13,386</u>
Provision for obsolete inventory	(1,087)	(257)
	<u>\$12,202</u>	<u>\$13,129</u>





5 CAPITAL ASSETS AND ACCUMULATED AMORTIZATION

Capital assets consist of the following

	2002		2001	
	Cost	Accumulated amortization	Cost	Accumulated amortization
Plant and equipment	\$24,499	\$17,214	\$23,914	\$15,980
Office furniture and equipment	1,296	767	1,315	781
Computer equipment	1,460	1,315	3,001	2,668
Vehicle fleet	879	582	629	516
Dairy herd	1,112	269	1,089	261
Plant and equipment under capital lease	284	44	301	17
	<u>29,530</u>	<u>20,191</u>	<u>30,249</u>	<u>20,223</u>
Accumulated amortization	(20,191)		(20,223)	
Net book value	<u>\$9,339</u>		<u>\$10,026</u>	

6 ACCOUNTS PAYABLE

	2002	2001
Government of Canada	\$12,098	\$12,168
Outside parties	<u>10,014</u>	<u>8,543</u>
	<u>\$22,112</u>	<u>\$20,711</u>

7 OBLIGATIONS UNDER CAPITAL LEASE

The future minimum lease payments for obligations under capital lease are:

2003	57
2004	56
2005	53
2006	45
2007	19
Subsequent years	<u>58</u>
	288
Financing charges	<u>74</u>
	214
Current portion	<u>36</u>
Long term portion	<u>178</u>





The leases are for varying periods extending to March 2010 and have varying interest rates ranging from 8.9% to 13.2%.

8 COMMITMENTS

CORCAN Revolving Fund is committed under the terms of various lease agreements. The lease commitments includes an amount of \$400K in 2003 relating to the Kingston warehouse. This lease expired in September 2001 and management is currently negotiating a new lease for the upcoming year. Management's best estimate for the new lease has been established at \$400K for 2002-2003.

The minimum annual payments over the next five years are as follows:

	2003	2004	2005	2006	2007	Total
Commitments	\$429	29	29	0	0	\$487

9 REVENUES AND COST OF GOODS SOLD

Year ending March 31, 2002

	Revenues	Cost of goods sold	Gross Margin
Agribusiness and Forestry	\$11,026	\$13,731	(\$2,705)
Services	5,163	5,427	(264)
Textile	3,342	3,963	(621)
Manufacturing	26,679	28,562	(1,883)
Construction	19,923	18,995	928
Total	\$66,133	\$70,678	(\$4,545)

Year ending March 31, 2001

	Revenues	Cost of goods sold	Gross Margin
Agribusiness and Forestry	\$11,133	\$14,435	(\$3,302)
Services	4,753	5,051	(298)
Textile	4,379	4,686	(307)
Manufacturing	20,992	25,360	(4,368)
Construction	15,643	14,071	1,572
Total	\$56,900	\$63,603	(\$6,703)





10 OTHER INCOME STATEMENT ITEMS

Included in the expenses are the following items:

	2002	2001
Amortization of capital assets (including assets under capital lease)	\$2,413	\$2,852
Deferred development costs amortization	209	211
Interest on capital lease obligations	26	20

11 CONTINGENCIES

In the normal course of operations, CORCAN becomes involved in various claims and legal proceedings. While the final outcome with respect to claims and legal proceedings pending at March 31, 2002 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on CORCAN's financial position or results of operations. A provision for these expenses has been established according to the best estimates of management.

12 CONTRIBUTED CAPITAL

In 2001/02, Treasury Board and CORCAN revolving fund negotiated a new revolving fund level to reduce CORCAN's Accumulated Net Charge against the Fund's Authority from \$45 million to \$5 million. As part of the agreement, Treasury Board wrote off \$20.456 million of CORCAN's Accumulated Net Charge against the Fund's Authority balance and therefore increased CORCAN's Contributed Capital.

	2002	2001
Opening balance, April 1	10,086	10,086
Treasury Board Write off of the Accumulated Net Charge against the Fund's Authority	20,456	
	<hr/>	
Closing Balance, March 31	<u>30,542</u>	<u>10,086</u>





13 Employee Future Benefits

a) Termination Benefits

Termination benefits earned by employees prior to the creation of CORCAN on April 1, 1992 are considered a liability of the Treasury Board and are therefore not recorded in the accounts. As at March 31, 2002, the Treasury Board liability for benefits earned by CORCAN's employees prior to April 1, 1992 is \$2,094. The Treasury Board will fund the payout of these benefits for a period of up to fifteen years from the establishment date of CORCAN. CORCAN will therefore become liable for these benefits within the next five years. The liability for benefits earned after April 1, 1992 is recorded in the accounts as the benefits accrue to the employees. As at March 31, 2002, CORCAN's liability is \$2,430.

There were no expenses related to Employee Termination Benefits in 2001-2002.

b) Pension Plan

During the year CORCAN has expensed \$3,740 for the employee's Public Service Superannuation Act.





AUDITORS' REPORT

To the Advisory Board of
CORCAN

We have audited the balance sheet of **CORCAN** as at March 31, 2002 and the statements of operations, accumulated deficit and changes in cash flows for the year then ended. These financial statements are the responsibility of **CORCAN**'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, the financial statements present fairly, in all material respects, the financial position of **CORCAN** as at March 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Ottawa, Canada,
May 31, 2002.

Ernst + Young LLP

Chartered Accountants

 **ERNST & YOUNG**





Appendix "A": CORCAN's Value Proposition to Key Stakeholders

