



Correctional Service
Canada

Service correctionnel
Canada

CORCAN



Annual Report

2004–2005

Canada 

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CORCAN's Operational Environment

CORCAN is a Special Operating Agency (SOA) within the Correctional Service Canada (CSC). The operational environment in which CORCAN conducts its business is shaped by 4 principal drivers. The legislative framework and the Mission of CSC influence all aspects of the work done by CORCAN. Everything CORCAN does must be in compliance. CORCAN's mandate, established by Treasury Board in 1992 when CORCAN was designated an SOA, and its strategic direction more specifically shape how we do business and help define the results we expect to deliver to Canadians.

Corrections and Conditional Release Act

The purpose of the Correctional Service Canada, as set out in the *Corrections and Conditional Release Act*, is to contribute to the maintenance of a just, peaceful and safe society by:

- carrying out sentences imposed by courts through the safe and humane custody and supervision of offenders with sentences of two years or more; and
- assisting in the rehabilitation of offenders and their reintegration into the community as law-abiding citizens through the provision of programs in penitentiaries and in the community.

CSC Mission Statement

The Correctional Service Canada (CSC), as part of the criminal justice system and respecting the rule of law, contributes to the protection of society by actively encouraging and assisting offenders to become law-abiding citizens, while exercising reasonable, safe, secure and humane control.

CORCAN Mandate

CORCAN's mandate is to aid in the safe reintegration of offenders into Canadian society by providing employment and employability skills training to offenders incarcerated in federal penitentiaries and, for brief periods of time, after they are released into the community.

CORCAN Strategic Vision

Contributing to safer communities through innovative and effective client-oriented partnerships that assist offenders in more successful reintegration.



MESSAGE FROM THE CHIEF EXECUTIVE OFFICER

I am pleased to submit the 2004/2005 CORCAN Annual Report outlining the considerable accomplishments of the dedicated staff at our five regions, 36 operational sites and 34 community employment centres across Canada.

In many ways 2004/05 was a pivotal year in the evolution of CORCAN. Delivering CORCAN's unique dual mandate, that of aiding in the safe reintegration of offenders into society through the operation of viable businesses in federal institutions, has been both challenging and rewarding. The departure of six management team members over the past two years put tremendous pressure on the organization. These positions have now been staffed and the new team demonstrated their competence throughout 2004/05, delivering solid results in both the employment and employability and business areas for which we are accountable.

In 2004/2005, for the first time, CORCAN's business results were strong enough to enable a \$2 million investment in additional employment/employability programs. We expect this investment to significantly enhance the employment readiness of offenders at release and their subsequent ability to both find and retain suitable employment in the community.

CORCAN has introduced a strategic vision and plan in 2005/2006 that will assist the management team continue to build on and improve our contributions to the safe reintegration of offenders into Canadian society.

Stabilizing demand for CORCAN products and services over the full 12 months of the year remains a critical challenge for CORCAN. The signing of a five year Memorandum of Understanding (MOU) with the Department of National Defence for the refurbishment of heavy logistics vehicles wheeled was a major first step in addressing this challenge. Increasingly, we will be working toward developing this type of long-term supply relationship with other key customers to enable our operational sites to focus on assisting offenders improve their employment skills without concern about where the next order will come from.

CORCAN has the remarkable opportunity to make a real difference in the lives of the offenders we work with and in the public safety of the citizens we serve. We are proud of the results highlighted in this report and are confident that we can increasingly make important contributions to the achievement of the Mission of the CSC and contribution to the public safety agenda of the Government of Canada.



Corinne Hagerman

HIGHLIGHTS

Offender Employment & Employability

- Employability skills program developed with Conference Board of Canada – piloted at nine institutions
- 2.3 million hours of employment training provided in CORCAN shops to 3,967 inmates
- Offenders earned 5,855 third party vocational certificates
- MOU signed with Nova Scotia Community College in conjunction with the Prior Learning Assessment Centre in Halifax to deliver a Skills and Learning Portfolio Program for Offenders
- 1,143 offenders found employment in the community after release with the assistance of community employment centres

Business Initiatives

- Negotiation of multi-year Memorandum of Understanding (MOU) with DND to repair heavy military vehicles
- Re-confirmation of the existing MOU with DND to repair van and ambulance bodies
- Major supply agreements negotiated for the redevelopment of CFB Shilo and CFB Halifax
- Environmental Farm Plan developed at Westmorland agribusiness operation in conjunction with federal, provincial and municipal colleagues
- Significant capital replacement initiative implemented to ensure equipment is safe, environmentally sound, and capable of meeting demand

Financial

- \$53.5 million in revenues generated through operations, \$900 thousand over target
- Operating surplus of \$3.6 million to be reinvested in operations to fund:
 - Capital acquisitions
 - Replenishment of inventory
 - Expansion of employment and employability programs
- Successful conversion to the ORACLE financial system completed on April 1, 2005



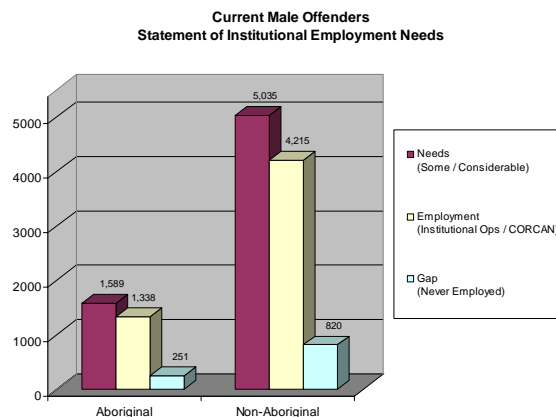
CORCAN OFFENDER WORKFORCE

Employability Skills Program

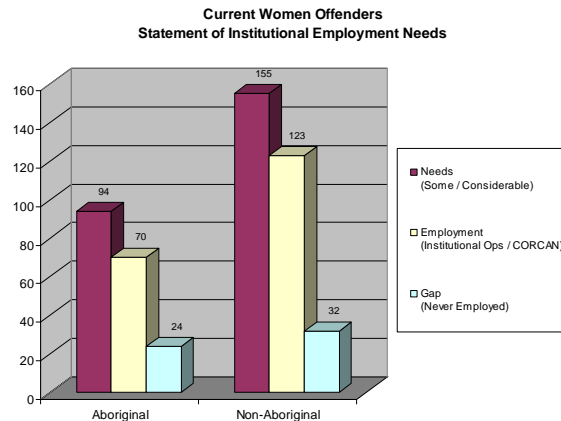
Experience has shown, and research has confirmed, that work has a positive impact on reducing recidivism. Offenders who find and retain suitable employment are significantly less likely to re-offend. CORCAN has therefore been increasingly focussing its efforts on improving the job readiness of offenders on release. In 2004/05 an additional tool to assist CORCAN's efforts in this important area was introduced. In partnership with the Conference Board of Canada, CORCAN offered pilot Employability Skills programs at nine institutions (seven facilities for men and two for women). Offenders who completed the programs successfully received a Skills Solutions Certificate from the Conference Board that is recognized by community employers. Research conducted as part of the pilot process showed offenders improved in all skill areas including attitudes and beliefs about work, communication skills and problem-solving. Research also confirmed that participating offenders were able to transfer classroom knowledge to their work sites. The Employability Skills Program has proven to be a valuable tool in our reintegration efforts and will be expanded in 2005/06 to all institutions across Canada.

Institutional Employment & Training

Another tool CORCAN uses to prepare offenders for employment on release to the community is the provision of appropriate work assignments, either in CORCAN or institutional operations. Offenders' employment needs are assessed at intake. Of the 11,980 male offenders incarcerated as at April 10, 2005, 55% (1,589 Aboriginal; 5,035 non-Aboriginal) were assessed as having some or considerable employment needs. CORCAN's challenge is to ensure that through work assignments, skill development and employment experience is provided to these offenders. In 2004/05 this opportunity was provided to 84% of offenders (1,338 Aboriginal; 4,215 non-Aboriginal). The challenge remains to "fill the employment gap" by offering skill development and employment learning and experience opportunity to the remaining 16% (251 Aboriginal; 820 non-Aboriginal).



A similar challenge exists for women offenders. As at April 10, 2005 there were 356 women offenders (101 Aboriginal; 255 non-Aboriginals) incarcerated in federal facilities. The employment need level is slightly higher in women offenders. Seventy per cent (94 Aboriginal; 155 non-Aboriginal) were identified with some or considerable employment needs. Employment needs were addressed for 78% (70 Aboriginal; 123 non-Aboriginal) of these women through work assignments leaving a gap of 22% (24 Aboriginal; 32 non-Aboriginal) which must be filled.



- Cumulatively, in 2004/05, employment training opportunities were provided to 3,847 men and 80 women offenders in CORCAN shops.
- Through the various institutional work assignments, training opportunities were provided to 12,387 men and 445 women offenders. It should be noted that an offender may have had more than one assignment with CORCAN and Institutional operations.

Research findings indicate that an offender should stay in a work assignment for 90 days to maximize skills development. In 2004/05 CORCAN began tracking the amount of time each offender stayed in a work assignment. Forty-nine per cent of male offenders and 38% of women offenders reached the 90-day mark. Efforts in the future must be focussed motivating offenders to stay in a work assignment for a longer period and improving correctional planning to ensure disruption is minimized.

Vocational Certification

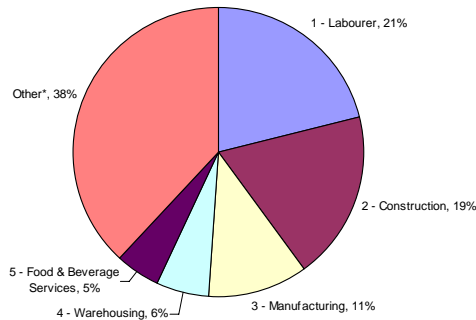
- In 2004/05 CORCAN continued to emphasize the importance of short-term, third party vocational certificate programs as a tool to assist in job readiness. New programs were introduced across the country with the result that 5,494 certificates were earned by male offenders for vocational program completion (1,368 by aboriginal offenders and 4,126 by non-aboriginals). A further 361 certificates were earned by women offenders (113 by aboriginal offenders and 248 by non-aboriginals). A wide range of certification programs was made available in 2004/05 including Basic Food Safe, WHMIS, Industrial Cleaning, Forklift Operation, First Aid, Traffic Control Person, Sewing Machine Operator, Carpentry, Computer Skills, Bricklayer, Welding, Chainsaw Safety and Employability Skills Training. Positive feedback from

community employment centres confirms the importance of vocational certificates as a tool in assisting offenders find employment in the community. CORCAN will continue its efforts to expand vocational certification opportunities.

Community Employment

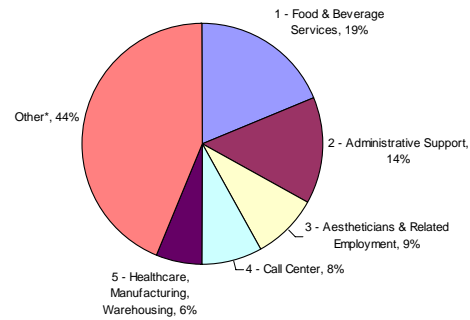
- CORCAN operated 34 community employment centres across Canada under the Effective Corrections Initiative. Through these centres, 1,080 men and 63 women offenders were assisted in finding employment in fields such as Construction, Food & Beverage Services, Janitorial Services, Trucking, Tourism, Manufacturing and Call Centres. In addition, 3,311 offenders received a total of 15,869 services through these community employment locations. A range of employment services were offered including career counselling, internet job search, resume and letter preparation and mock interview sessions.

Top 5 Full-time Offender Job Placements - National
Male Offenders



Total 1,080

Top 5 Full-time Offender Job Placements - National
Female Offenders



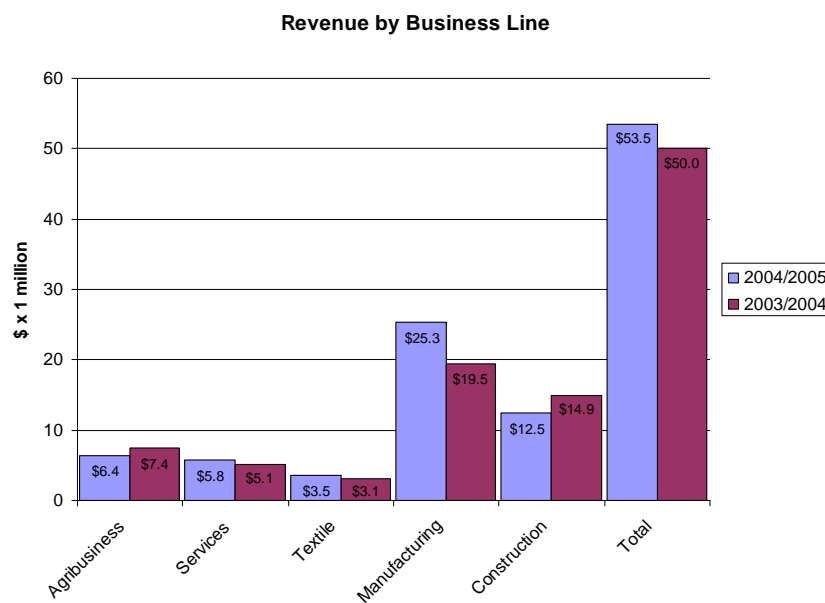
Total 63

- An evaluation of the CORCAN Community Employment Centres was completed in March 2005. The evaluation concluded that these centres are providing important services to meet offenders' employment needs and contribute to their community reintegration. The capacity of these centres to provide access to employment resources and community-based partnerships within a supportive and non-threatening environment was noted as an area of strength by the evaluation team. The potential cost-savings associated with employment centres was also considered an asset given that employed offenders are more likely to remain in the community for longer periods of time than offenders who are unemployed.
- In 2004/05 CORCAN also began to track the overall employment rates of offenders in the community. This data will assist in the development of more effective community employment strategies in the future. Of the male offenders under supervision in the community 64% are currently employed; 36% are unemployed. Many of the unemployed still have an unaddressed

employment need. The situation for women offenders is less positive. Of the women offenders under supervision in the community 49% are employed; 51% unemployed. Addressing the community employment challenge will be critical in our 2005/06 and future business planning.

CORCAN BUSINESS LINES

CORCAN maintained facilities in each of its traditional five business lines, manufacturing, textiles, services, construction and agribusiness. Overall, revenues from operations increased by 7% from \$50 million in 2003/04 to \$53.5 in 2004/05. Manufacturing and construction again accounted for more than 50% of business volume. Efforts to expand services and textile lines yielded small gains while agribusiness sales decreased overall.



Agribusiness operations in 2004/05 continued to present challenges related to growing operating losses, the impact of regulatory authorities and changing CSC menu profiles. The six CORCAN farm operations, however, provided concrete training opportunities for 18% of male offenders, particularly in meat cutting where there are growing opportunities for employment in the community. CORCAN dairy herds across the country continued to win awards for high production yields, a testament to the careful breeding programs that have been maintained. CORCAN's major customer for Agribusiness products continues to be CSC. Expansion of our product selection, to ensure the products CORCAN can supply meet the changing needs of the offender population, will be a challenge. CORCAN must also continue to explore niche markets. The production of catnip and compost have both started to yield interesting results that will be further pursued. A comprehensive review of CORCAN agribusiness operations, enterprise by enterprise, will be critical in assessing options to reduce operating losses while adding to our ability to provide meaningful training to offenders. Work started, in conjunction with other federal and provincial authorities, on the development of an Environmental Farm Plan for

the Agribusiness operation at Westmoreland Institution in Dorchester, New Brunswick. Lessons learned at Westmoreland will be incorporated as appropriate at other farm sites across the country.

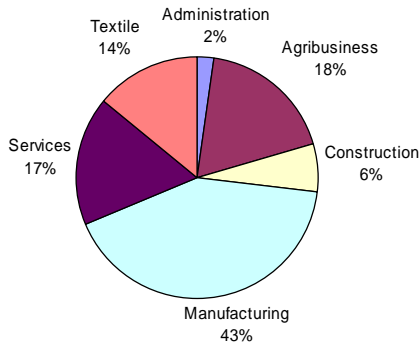
Service related businesses were identified as a key growth area based on the high employment demand for trained service workers in the community. Manufacturing operations at Archambault Institution, in Laval, Quebec, were closed to provide space for the expansion of the successful laundry operation at Leclerc Institution, also in Laval. An agreement with CSC was finalized to significantly increase sales of file folders. Both these initiatives should yield high inmate training hours and positive margins in 2005/06. An agreement with Computers for Schools was negotiated to establish a computer refurbishing operation at Grand Valley Institution, in Kitchener, Ontario, providing marketable skills to female offenders. Construction of a building to house this facility will be completed in 2005/06. A similar operation focussed on meeting the needs of aboriginal offenders is under discussion with Industry Canada for introduction in an institution in the Prairie region. CORCAN continues to face the challenge of finding other new and innovative service businesses that will yield similar, positive results. Currently, 17% of male and 17% of women offenders are gaining employment skills and training in the service area.

Textile sales consisted primarily of clothing and bedding products to our parent department, CSC. Manufacture of T-shirts for the new correctional officer uniform issue contributed to growth in this business line. Efforts to expand textile sales to other customers started to generate positive results, most notably in the sale of bedding to DND. A decision to focus on sales of custom textile and webbing products, largely to private sector markets in the Pacific region, also started to yield positive results with the introduction of products such as kayak covers and construction safety harnesses. Continuing to find new, non-traditional markets and products should assist in ensuring steady growth in this business line that is required to maintain current offender employment of 14% of male and 49% of women offenders.

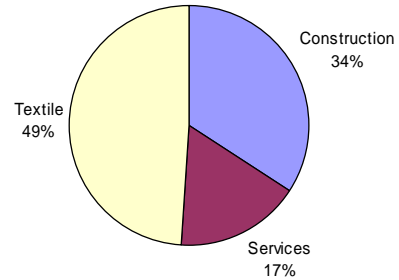
Manufacturing operations continued to generate the highest revenue and employment numbers of any of CORCAN's business lines (43% of male offender employment/training). Sales of traditional CORCAN products were supplemented by sales of several major custom products including kiosks for HRSDC, troop kit lockers and weapons racks for DND and custom furniture for CFB Shilo and CFB Halifax projects. A major accomplishment was the signing of a multi-year MOU with DND to repair heavy military vehicles, the largest order received in CORCAN's history. This work will be a welcome complement to the van body and ambulance repair program CORCAN is currently completing for DND. The launch of E-space, a new, in-house office system product line rounded out the major manufacturing initiatives in 2004/05.

Construction activities continued to generate positive margins in spite of lower volumes and offered employment/training for 6% of male and 34% of women offenders. The majority of our construction work was completed for CSC within institutional walls. Repointing of the stone walls at Dorchester Institution (Dorchester, New Brunswick) offered excellent training opportunities for offenders in the high demand area of masonry. Several community-based projects were completed providing valuable training opportunities for offenders on work release. A revised organisational plan was developed to ensure CORCAN has the resource infrastructure in place to satisfactorily manage all construction projects offered. A Consulting and Audit Canada review of procurement practices was completed during the year, and recommendations have been implemented.

**Jobs by Business Line - Male Offenders
CORCAN 2004/2005**



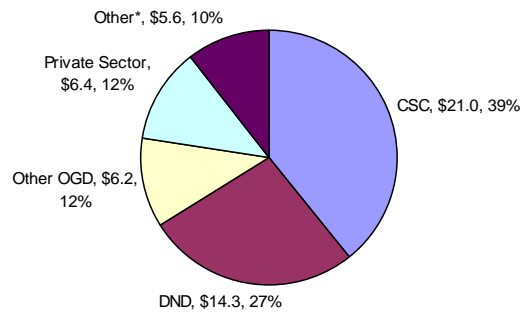
**Jobs by Business Line - Women Offenders
CORCAN 2004/2005**



Although CORCAN's prime focus in the past has been on providing offenders the opportunity to develop employability skills, we are increasingly combining this training with hard skill development opportunities in high employment demand areas. Wood manufacturing, construction, meat cutting and services are all areas where there is an existing shortage of qualified workers in the community. Emphasis will be placed in the coming year on increasing the number of employment training opportunities for men and women offenders that are directly related to these demand areas.

CORCAN CUSTOMERS

**Sales Revenue by Major Customer 2004/2005
(\$ x 1 million)**



* Provincial, Municipal, Education, Health Care, Not for Profit

As part of a re-focussed sales strategy, CORCAN began to move to a relationship approach from the more traditional transaction based approach. This has served us well in the past in meeting the unique needs of CSC, still our largest customer at 39% of revenue, and provided solid returns



in 2004/05. By offering custom solutions to our customers' needs, CORCAN was able to take advantage of its strengths and grow the business with a number of key federal accounts including DND, RCMP and HRSDC. CORCAN successfully completed major projects for DND at both CFB Shilo and CFB Halifax and worked closely with DND on the delivery of custom solutions to their needs in a variety of areas. Collectively the federal government, excluding CSC, accounted for an additional 39% of revenue. Additional effort was placed on searching for partners from the private sector. Although growth in this area was modest (12% of revenue), additional focus will be given to the development of private sector alliances in the future. CORCAN offers reliable and motivated workers to companies that are increasingly facing challenges in attracting and retaining employees. Sales to non-federal government and not-for-profit customers remained fairly constant at 10%. Work will begin in 2005/06 to assess the potential in these markets and to develop improved strategies for reaching those CORCAN believes offer the best potential return.

CORCAN EMPLOYEES

CORCAN has a professional cadre of experienced tradespeople responsible for motivating, assessing, mentoring and supporting the development of employment skills in the offenders they work with on a daily basis. Their contribution to the safety of Canadians and reintegration objectives of CSC is invaluable and often not acknowledged. CORCAN is committed to investing in the development of its staff through the provision of staff training. In addition, CORCAN coordinated training for non-CORCAN staff, who also work with offenders.

In 2004/05 a total of 2,509 training courses were delivered. Training subjects covered Motivating Offenders in the Workplace, Communicating About Offenders and Employment/Employability Awareness. Training in other key areas such as language, financial management and systems was also offered.

CORCAN developed a customized training program for Operations Managers that will be delivered in 2005/06. Development work started on customized training solutions for CORCAN production supervisors and instructors. This work will be completed in 2005/06 for immediate implementation.



CORCAN COMMUNITY CONTRIBUTION



In 2004/2005, CORCAN staff and offenders worked in collaboration with various non-profit and community organizations. CORCAN provided volunteer time, labour and products to assist these organizations make meaningful contributions to the well-being of their communities. At the same time, offenders gained productive training experience and learned how important it is to work with community partners on issues that benefit Canadian society.

Habitat for Humanity continued to be a major partner. Offenders contributed over 600 hours of time at Mission Institution producing two playhouses that were raffled to raise funds for a future Habitat build. Raw materials were supplied by RONA Home Centre. In addition, kitchen cabinets were manufactured for 3 Habitat builds in Ontario, Prairie and Atlantic regions. Offender volunteers also worked at the Habitat Restore in Saskatoon gaining valuable work experience that helped them subsequently find community employment.

Three offenders at Joliette Institution were keen to learn new skills and contribute by manufacturing felt hats which will be issued in 2005/06 to raise the spirits of children at the Children's Hospital of Eastern Ontario. CORCAN worked with a variety of community partners to move the Happy Hats for Kids initiative forward.



Offenders in Quebec continued to work in partnership with Goodfellow inc. to produce components for the Trans Canada Trail. In addition offenders assisted various other community organizations, making triangular bandages for the Canadian Ski Patrol and smocks for various day cares and schools in Quebec. Scrap cardboard and paper was also donated to schools and daycares.



ANNEX A – AUDITED FINANCIAL STATEMENTS 2004/2005



Financial Statements

CORCAN Revolving Fund

March 31, 2005

AUDITORS' REPORT

To the Commissioner of Correctional Services Canada

We have audited the statement of financial position of **CORCAN Revolving Fund** as at March 31, 2005 and the statements of operations, net assets and cash flows for the year then ended. These financial statements have been prepared to comply with Section 6.4 of the Treasury Board of Canada's policy on special revenue spending authorities. These financial statements are the responsibility of **CORCAN's Revolving Fund** 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 **CORCAN Revolving Fund** as at March 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with the basis of accounting as described in note 2 to the financial statements.

These financial statements, which have not been, and were not intended to be, prepared in accordance with Canadian generally accepted accounting principles, are solely for the information and use of the management of the Revolving Fund and the Treasury Board. The financial statements are not intended to be and should not be used by anyone other than the specified users or for any other purpose.

Ottawa, Canada,
May 27, 2005.

Ernst + Young LLP

Chartered Accountants

CORCAN Revolving Fund

STATEMENT OF FINANCIAL POSITION

[in thousands of dollars]

As at March 31

	2005	2004
	\$	\$
		<i>[Restated – note 3]</i>
ASSETS		
Current		
Accounts receivable <i>[note 5]</i>	5,795	8,176
Inventories <i>[note 6]</i>	7,412	8,639
Other	4	34
	13,211	16,849
Capital assets <i>[note 7]</i>	7,718	5,924
	20,929	22,773
LIABILITIES		
Current		
Accounts payable <i>[note 8]</i>	4,716	7,125
Vacation pay and salary accrual	4,375	1,675
Current portion of obligations under capital lease	—	18
	9,091	8,818
Long-term		
Employee termination benefits <i>[note 9]</i>	3,339	2,773
Obligations under capital lease	—	24
	12,430	11,615
Commitments and contingencies <i>[notes 10 and 13]</i>		
Net assets <i>[note 11]</i>	8,499	11,158
	20,929	22,773

The accompanying notes are an integral part of the financial statements

CORCAN Revolving Fund

**STATEMENT OF OPERATIONS AND NET ASSETS
(LIABILITIES)**

[in thousands of dollars]

Year ended March 31

	2005	2004
	\$	\$
		<i>[Restated – note 3]</i>
Revenues <i>[note 12]</i>	53,527	49,984
Cost of goods sold <i>[note 12]</i>	62,443	57,078
Gross margin	(8,916)	(7,094)
OTHER REVENUES		
Training and correctional fees <i>[note 4]</i>	23,631	21,824
Miscellaneous	445	560
	24,076	22,384
EXPENSES		
National/regional headquarters	8,012	9,058
Employment and employability programs	1,802	2,236
Selling and marketing	1,783	1,716
	11,597	13,010
Net results	3,563	2,280
Net assets, beginning of year as originally presented	12,071	8,142
Restatement: Change in accounting policy – fixed assets <i>[note 3]</i>	(913)	(913)
Restated net assets, beginning of year	11,158	7,229
Net financial resources used (provided) and change in the ANCAFA account during the year	(6,222)	1,649
Net assets, end of year <i>[note 11]</i>	8,499	11,158

The accompanying notes are an integral part of the financial statements

CORCAN Revolving Fund

STATEMENT OF CASH FLOWS

[in thousands of dollars]

Year ended March 31

	2005	2004
	\$	\$
OPERATING ACTIVITIES		
Net results	3,563	2,280
Adjustments for non-cash items:		
Provision for termination benefits	879	478
Amortization	1,141	1,407
Other	(137)	(25)
	5,446	4,140
Changes in non-cash working capital:		
Accounts receivable	2,381	(654)
Inventories	1,227	1,508
Other	30	(16)
Employee termination benefits	(313)	(331)
Accounts payable	(2,409)	(4,969)
Current portion of capital lease	(18)	—
Vacation pay and salary accrual	2,700	294
Net financial resources provided (used) by operating activities	9,044	(28)
INVESTING ACTIVITIES		
Capital asset acquisitions	(2,904)	(1,795)
Proceeds on disposal of capital assets	106	190
Net financial resources used by investing activities	(2,798)	(1,605)
FINANCING ACTIVITIES		
Capital lease obligations	(24)	(16)
Net financial resources used by financing activities	(24)	(16)
Net financial resources provided (used) and change in accumulated net charge against the Fund's authority	6,222	(1,649)
Accumulated net charge against the Fund's authority, beginning of year	7,082	8,731
Accumulated net charge against the Fund's authority, end of year	13,304	7,082

The accompanying notes are an integral part of the financial statements

CORCAN Revolving Fund

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

1. AUTHORITY AND PURPOSE

CORCAN Revolving Fund is a special operating agency within Correctional Service Canada financed by way of a Revolving Fund. The CORCAN Revolving Fund ["CORCAN" or "the Fund"] was established under Appropriation Act No. 4, 1991-92, which authorized the operation of the Fund effective April 1, 1992 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 \$5,000,000 at any time. An amount of \$15,218,000 representing net assets assumed by the Fund was charged to this authority when the Fund became operative on April 1, 1992. The Fund is a non-taxable entity.

2. SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with the reporting requirements for revolving funds as prescribed by Treasury Board. Preparation requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from these estimates. The basis of accounting used in these financial statements differs from Canadian generally accepted accounting principles as follows: [1] The obligation for employee termination benefits is based on management's estimate of the liability and not an actuarial valuation and [2] The liability for employee termination benefits earned prior to the creation of the Fund will not to be recorded until 2008, the fifteenth anniversary of the Fund [see note 9].

The significant accounting policies are as follows:

Recognition of revenue and expense

Except as noted below, the Fund recognizes revenue when persuasive evidence of a final agreement exists, delivery has occurred and services have been rendered, the selling price is fixed or determinable and collectibility is reasonably assured.

For multi-year construction contracts in excess of \$100,000, 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 \$100,000 are recognized when the contract has been substantially completed.

CORCAN Revolving Fund

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

Expenses are recorded in the period they are incurred.

Inventories

Raw materials are valued at their standard cost. Finished Goods and Work in Process inventories are valued at the lower of cost and net realizable value. The Fund makes provisions for excess and obsolete inventory on a site by site basis.

Capital assets

Equipment, tools and vehicles with an initial cost of \$10,000 or greater are recorded at cost and are amortized on a straight line basis over their estimated useful lives commencing on the month after they are put in service, as follows:

Equipment	10 years
Office furniture and equipment	10 years
Vehicle fleet	5 years
Computer equipment	3 years

The Fund reviews its long-lived assets for impairment when events or changes in circumstances indicate the carrying amount of an asset may not be recoverable in accordance with Canadian Institute of Chartered Accountants [CICA] handbook section 3063.

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 paid.

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 of the Fund. 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.

CORCAN Revolving Fund

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

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 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. CHANGE IN ACCOUNTING POLICY

In fiscal 2005, the Fund changed its accounting policy with respect to capitalization of livestock. Livestock has previously been capitalized because the total value of the herd exceeded the Fund's capitalization threshold of \$10,000. This approach was changed in the current year to account for each animal on an individual basis. This resulted in the write-off of all previously capitalized livestock in accordance with the Fund's capitalization threshold as no individual animals cost more than \$10,000. This change was accounted for retroactively in accordance with Canadian GAAP. The change had no material impact on reported results and is reflected as a \$913,000 charge against net assets as at April 1, 2003.

CORCAN Revolving Fund

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

4. RELATED PARTY TRANSACTIONS

CORCAN Revolving Fund entered into the following transactions with the Correctional Service Canada ["CSC"], its parent organization:

	2005	2004
	\$	\$
	<i>[in thousands of dollars]</i>	
Trade revenues	8,471	8,967
Training, correctional and other fees	23,631	21,824
	32,102	30,791

As at March 31, 2005, CORCAN Revolving Fund has \$2,065,000 [2004 - \$1,054,000] receivable from CSC.

Correctional Service Canada has provided and is to continue to provide CORCAN Revolving Fund with the use of existing infrastructure including buildings, shops and farms as well as maintenance of said facilities and human resource services, free of charge.

5. ACCOUNTS RECEIVABLE

	2005	2004
	\$	\$
	<i>[in thousands of dollars]</i>	
Government of Canada	3,371	5,520
Outside parties	2,838	3,299
	6,209	8,819
Allowance for doubtful accounts	(414)	(643)
	5,795	8,176

CORCAN Revolving Fund

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

6. INVENTORIES

Inventories consist of the following:

	2005	2004
	\$	\$
	<i>[in thousands of dollars]</i>	
Raw materials	3,940	3,850
Work-in-progress	4	183
Finished goods	3,076	4,004
Agribusiness inventory	1,129	1,440
	8,149	9,477
Provision for obsolete inventory	(737)	(838)
	7,412	8,639

7. CAPITAL ASSETS AND ACCUMULATED AMORTIZATION

Capital assets consist of the following:

	2005		2004	
	Cost	Accumulated	Cost	Accumulated
	\$	\$	\$	\$
	<i>[in thousands of dollars]</i>			
Equipment	23,893	16,689	21,545	15,958
Vehicle fleet	1,045	611	937	601
Other	269	189	523	522
	25,207	17,489	23,005	17,081
Accumulated amortization	(17,489)		(17,081)	
Net book value	7,718		5,924	

The amortization expense for the year was \$1,141,000 [2004 - 1,407,000].

CORCAN Revolving Fund

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

8. ACCOUNTS PAYABLE

	2005	2004
	\$	\$
	<i>[in thousands of dollars]</i>	
Government of Canada	783	1,088
Outside parties	3,933	6,037
	4,716	7,125

9. EMPLOYEE FUTURE BENEFITS

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 of the Fund. As at March 31, 2005, the Treasury Board liability for benefits earned by CORCAN employees prior to April 1, 1992 is \$1,453,000 [2004 - \$1,362,000]. The Treasury Board will fund the payout of these benefits for a period of up to 15 years from the establishment date of CORCAN. CORCAN will therefore become liable for these benefits starting in fiscal 2008.

The liability for benefits earned after April 1, 1992 is recorded in the accounts as the Employee Termination Benefits. As at March 31, 2005, CORCAN's liability is \$3,339,000 [2004 - \$2,773,000].

CORCAN expensed \$879,000 [2004 - \$478,000] related to Employee Termination Benefits in 2004-2005.

Pension plan

During the year CORCAN has expensed \$3,016,000 [2004 - \$2,783,000] for contributions to the Public Service Pension Plan.

10. COMMITMENTS

CORCAN Revolving Fund is committed under the terms of various lease agreements. The lease commitments include an amount of \$600,000 relating to the Kingston warehouse. This lease was renewed in 2003 and expires September 30, 2006.

CORCAN Revolving Fund

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

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

	\$
	<i>[in thousands of dollars]</i>
2006	552
2007	336
2008	124
2009	110
2010	7
	<hr/> 1,129

11. NET ASSETS

The net assets, consist of the following:

	2005	2004
	\$	\$
	<i>[in thousands of dollars]</i>	
Contributed capital	30,542	30,542
Accumulated Net Charge Against the Fund's Authority	(13,304)	(7,082)
Accumulated deficit	(8,739)	(12,302)
Net assets, end of year	<hr/> 8,499	<hr/> 11,158

12. REVENUES AND COST OF GOODS SOLD

Year ended March 31, 2005

	Revenues	Cost of Goods Sold	Gross Margin
	\$	\$	\$
	<i>[in thousands of dollars]</i>		
Agribusiness and forestry	6,448	9,779	(3,331)
Services	5,773	5,515	258
Textile	3,472	4,952	(1,480)
Manufacturing	25,273	29,706	(4,433)
Construction	12,561	12,491	70
	<hr/> 53,527	<hr/> 62,443	<hr/> (8,916)

CORCAN Revolving Fund

NOTES TO FINANCIAL STATEMENTS

March 31, 2005

Year ended March 31, 2004

	Revenues \$	Cost of Goods Sold \$	Gross Margin \$
	<i>[in thousands of dollars]</i>		
Agribusiness and forestry	7,370	10,315	(2,945)
Services	5,126	4,647	479
Textile	3,145	4,338	(1,193)
Manufacturing	19,477	24,059	(4,582)
Construction	14,866	13,719	1,147
	49,984	57,078	(7,094)

13. CONTINGENCIES

In the normal course of operations, CORCAN Revolving Fund becomes involved in various claims and legal proceedings. While the final outcome with respect to claims and legal proceedings pending at March 31, 2005 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Fund's financial position or results of operations. A provision for these expenses has been established according to the best estimates of management.

14. COMPARATIVE NUMBERS

The comparative numbers have been reclassified to conform to the current year presentation.