



Correctional Service
Canada

Service correctionnel
Canada

CORCAN ANNUAL REPORT

2005-2006

Canada



CONTENTS

Message from the CEO	4
What is CORCAN?	5
Where is CORCAN?	7
Who is CORCAN?	13
What does CORCAN do?	14
CORCAN Partners	15
CORCAN Advisory Board	17
2005–2006 Results	
Employment and Employability	21
Business	26
Financial Statements	31



MESSAGE FROM THE CEO

The events of 2005–2006 confirmed yet again the CORCAN challenge. With an unusually diversified product line, geographically dispersed locations and a mandate to deliver training to offenders, fulfilling the changing demands of our customers can be a demanding task. Maintaining the correct balance between the delivery of quality products and services, and the delivery of quality offender training requires the very best of our staff and offender workforce. CORCAN is fortunate to have a strong team of dedicated and talented staff who meet that challenge daily.

Following the financial success of 2004–2005, the 2005–2006 focus fell firmly on Employment and Employability, the core of our mandate. Numerous projects and activities were initiated to enhance this process, including the entrenchment of the National Employability Skills Program within the Correctional Services program strategy, the piloting of several new vocational certification programs, and the enhancement of services offered in our Community Employment Centres to better match the needs of offenders.

Maintaining solid performance on the commercial and financial side of CORCAN's operations was also a key priority. A number of initiatives were implemented that reflect favourably on the past year and will be an important contribution to CORCAN's future success. Included in these initiatives was the revision of a Commissioner's Directive with Correctional Service of Canada (CSC) that will lead to increased sales to our parent department. A series of Memoranda of Understanding with the Department of National Defence will ensure long-term vehicle refurbishment projects at a number of sites, for example the heavy vehicle life extension project, which employs close to one hundred offenders at five sites across the country.

CORCAN is poised to take advantage of the important work accomplished during the year by continuing to make a significant and positive contribution to offender reintegration and delivering strong financial results in 2006–2007.

Corinne Hagerman
Chief Executive Officer

WHAT IS CORCAN?

CORCAN is a Special Operating Agency (SOA) within the Correctional Service of Canada (CSC) that has the mandate of contributing to the successful reintegration of offenders. By providing employment training and experience and employability skills to offenders in federal correctional institutions and employment services in the community, CORCAN helps offenders find employment and successfully reintegrate into the community, thus reducing the risk of a second offence.

CORCAN also provides opportunities to observe offenders in a “real-world” work environment and to assess how well other programs, like anger management and substance abuse, are working.

Offenders can be employed and trained in agribusiness, construction, manufacturing, textile production and a range of services. CORCAN products/services are primarily sold to federal government departments with lesser volumes sold to other levels of government, educational and health care facilities and non-profit organizations.

The operational environment in which CORCAN conducts its business is shaped by four principal drivers. The CSC legislative framework and mission influence all aspects of the work done by CORCAN. Everything CORCAN does must be in compliance. CORCAN’s mandate, established by the 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.

*“I made a big mistake,
and I want to be a better
person when I get out ...
my CORCAN work
means I won’t end up
back in prison.”*
—**Shawn**, Joyceville
Penitentiary inmate





CSC mission statement

The 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 in becoming 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

CORCAN's strategic vision is to contribute to safer communities through innovative and effective client-oriented partnerships that assist offenders in successful reintegration.

Corrections and Conditional Release Act

The purpose of the Correctional Service of 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:

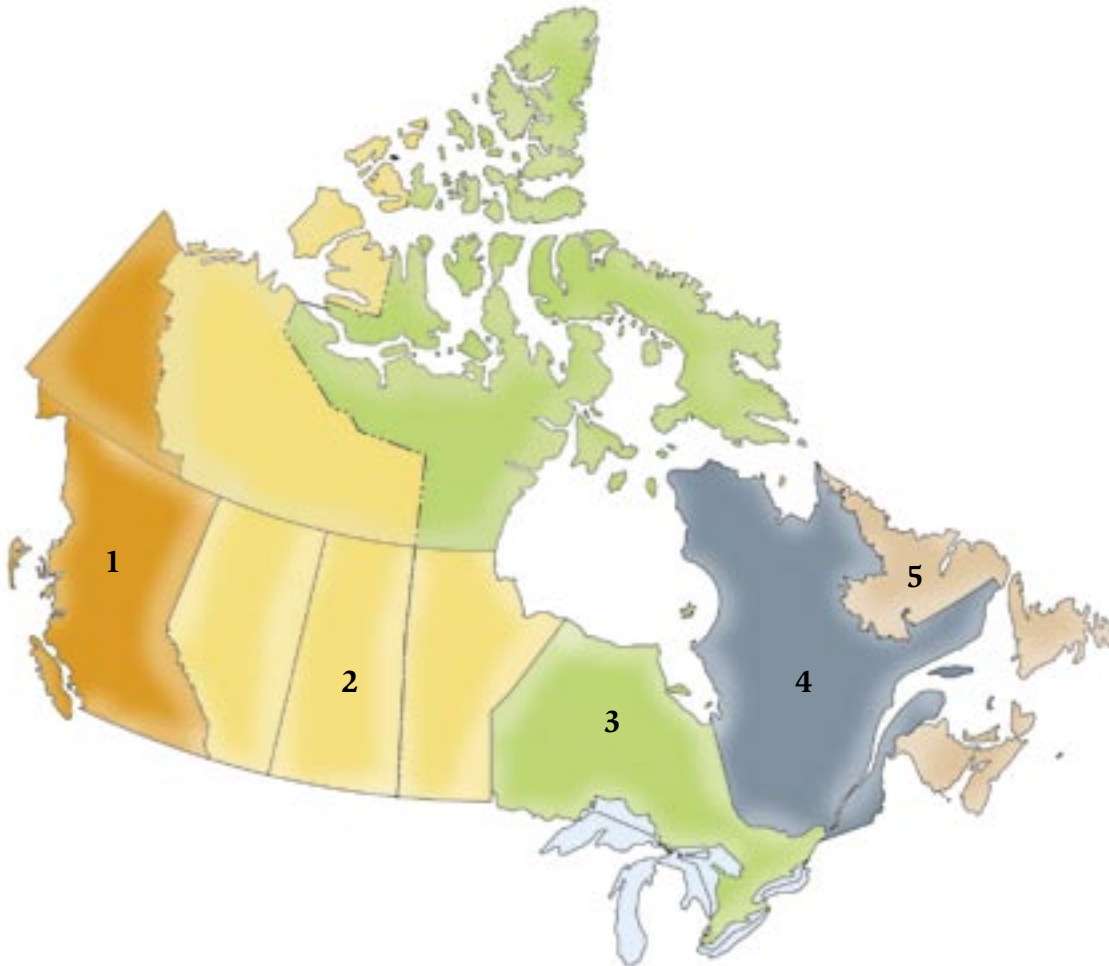
- carrying out sentences imposed by courts through the safe and humane custody and supervision of offenders with sentences of two years or more; and
- assisting in the rehabilitation of offenders and their reintegration into the community as law-abiding citizens through the provision of programs in penitentiaries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

WHERE IS CORCAN?

CORCAN operates in 36 sites across Canada (many ISO-certified). Our shops provide a realistic work environment where products and services meet private sector norms and standards. Research indicates that a realistic work experience more effectively prepares an offender for employment in the community and successful reintegration.

CORCAN also offers employment services to recently released offenders in 41 communities across Canada. Employment counselling, assistance with resume writing and interview preparation, and use of the internet, fax and phone are among the range of services offenders can access.

There are 6 employment centres located in the Pacific region (1), 4 in the Prairie region (2), 7 in the Ontario region (3), 21 in the Quebec region (4) and 4 in the Atlantic region (5).



1 – PACIFIC REGION

INSTITUTION	LOCATION	OPERATIONS
Ferndale	Mission, BC	Textile shop, mixed agricultural, community services
Kent	Agassiz, BC	Textile shop, vehicle refurbishment
Mission	Mission, BC	Metal and wood shops
Mountain	Agassiz, BC	Wood and upholstery shops
William Head	Victoria, BC	Sawmill, miscellaneous fabrication

2 – PRAIRIE REGION

INSTITUTION	LOCATION	OPERATIONS
Bowden	Innisfail, AB	Metal, wood and upholstery shops
Bowden Farm	Innisfail, AB	Mixed agricultural, catnip
Drumheller	Drumheller, AB	Metal shop, mattress fabrication, vehicle refurbishment
Edmonton	Edmonton, AB	Industrial metal
Edmonton Institution for Women	Edmonton, AB	Graphics shop
Riverbend	Prince Albert, SK	Mixed agricultural
Rockwood	Winnipeg, MB	Mixed agricultural
Saskatchewan Penitentiary	Prince Albert, SK	Wood and textile shops
Stony Mountain	Winnipeg, MB	Wood and metal shops

3 – ONTARIO REGION

INSTITUTION	LOCATION	OPERATIONS
Bath	Bath, ON	Cabinet and wood shops
Collins Bay	Kingston, ON	Vehicle refurbishment
Fenbrook	Gravenhurst, ON	Miscellaneous fabrication (private sector model)
Frontenac	Kingston, ON	Mixed agricultural
Kingston	Kingston, ON	Upholstery and canvas repair
Joyceville	Kingston, ON	Industrial metal shop
Pittsburgh	Kingston, ON	Mixed agricultural, mattress fabrication, vehicle refurbishment
Warkworth	Campbellford, ON	Metal and wood shops, vehicle refurbishment

4 – QUEBEC REGION

INSTITUTION	LOCATION	OPERATIONS
Archambault	Ste-Anne-des-Plaines, QC	Laundry, miscellaneous leather fabrication
Centre de tri	Laval, QC	Laundry sorting and distribution
Construction	Laval, QC	Renovations and new construction
Cowansville	Cowansville, QC	Wood, metal and upholstery shops, vehicle refurbishment
Donnacona	Donnacona, QC	Textile and metal shops, vehicle refurbishment
Drummond	Drummondville, QC	Textile shop
Joliette	Joliette, QC	Textile shop
La Macaza	La Macaza, QC	File folder fabrication, miscellaneous printing and forms distribution
Leclerc	Laval, QC	Metal shop, office seating fabrication, laundry
Port-Cartier	Port-Cartier, QC	Textile shop

5 – ATLANTIC REGION

INSTITUTION	LOCATION	OPERATIONS
Atlantic Institution	Renous, NB	Mattress, textile, miscellaneous fabrication
Community Industries	Moncton, NB	Cabinet and wood shops
Construction	Amherst, NS	Renovations and new construction
Dorchester	Dorchester, NB	Wood, metal and upholstery shops
Springhill	Springhill, NS	Wood shop, vehicle refurbishment
Westmorland Farm	Dorchester, NB	Mixed agricultural



WHO IS CORCAN?

CORCAN employs approximately 350 people across the country, most directly involved with the training of offenders in CORCAN shops or with helping offenders obtain employment in CORCAN community employment centres. They serve as role models and instructors who have a powerful impact on offender behaviour by showing offenders the value of working hard and producing quality products and services for our customers. Support staff includes people who work in finance, sales, product design/development and general program administration.

Each year, approximately 4,000 offenders receive training. On any given day, approximately 15% of the total offender population is working and learning in CORCAN shops. Since the majority of offenders have no work experience and a low level of skill when they begin working with CORCAN, it is rewarding to see the level of pride and commitment that these offenders begin to take in their work and their accomplishments.



"I manage my time better now, and I know much better what employers are looking for. I also know the kinds of things I should include in my resume."



"I stop and think now—in everything I do. I organize my time better. You don't realize what you have learned until you use it in your workplace. Most people have the skills but don't think about using them. It's a helpful program and I would recommend it to anyone."



"The program helped me by improving my employability skills. There was stuff about employability skills that I never knew before. I found the skills useful in my job and they are also useful in everyday life ... I learned quite a bit from it."

Personal management skills:

how to show positive attitudes and behave appropriately; how to be responsible, adaptable, manage emotions, learn continuously and work safely.

Teamwork skills: how to work with others and participate in projects and tasks.



WHAT DOES CORCAN DO?

Working in CORCAN teaches offenders a variety of hard and soft skills that will assist them in finding and retaining employment after release. The National Employability Skills Program, certified by the Conference Board of Canada, utilizes both classroom and shop floor training to teach offenders the fundamental personal management and teamwork skills that Canadian employers are looking for in prospective employees.

CORCAN instructors are also instrumental in teaching on-the-job skills. Knowledge and safe use of tools and machinery, measurement techniques, interpretation of patterns, drawings and specifications, and project management are just a few of the things that offenders have the opportunity to learn and practice.

In addition, where feasible, other certified training is offered. CORCAN works with external organizations that are recognized in the community for their expertise and certification standards. WHMIS, workplace safety, and forklift operation are a few examples of the type of training that can be incorporated into CORCAN operations.

CORCAN PARTNERS

CORCAN requires stable, ongoing markets to fulfill its training mandate. Working with partners allows CORCAN to utilize excess capacity and maximize the delivery of training to offenders. Examples of initiatives that benefit both the community and CORCAN include:

- Working with Habitat for Humanity affiliates across the country to produce various components like kitchen cabinets and stairs for Habitat homes and to produce items such as playhouses for Habitat fundraising initiatives.
- Arranging for offenders to participate in forest fire fighting, and parks, river and flood damage clean-up.
- Refurbishing discarded computers as part of Industry Canada's Computers for Schools program.



"I strongly believe in the CORCAN philosophy. Inmates are productive while serving their sentences, and the training and discipline they experience here give them a better chance to be productive members of society when they get out. CORCAN is an excellent return on investment."

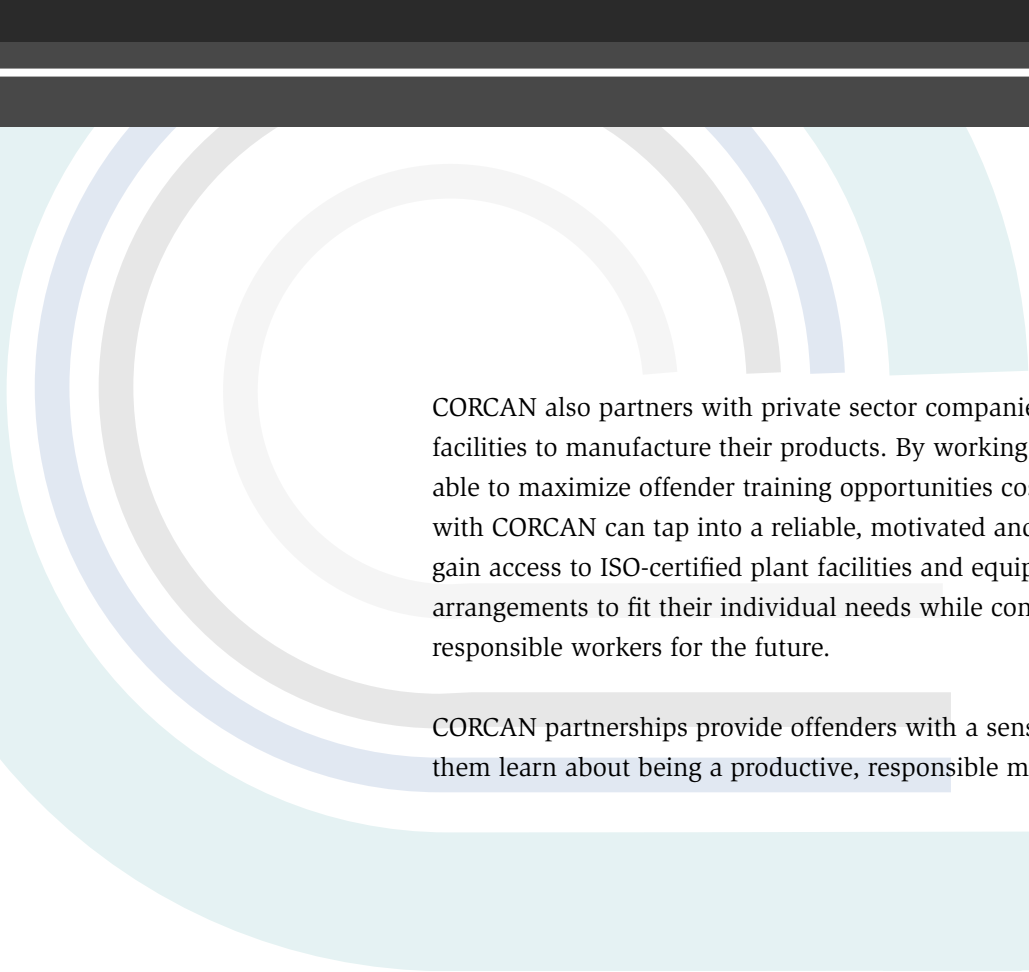
—Rob Clarke, Owner of Orosz Outdoors, a CORCAN corporate partner

Mr. Wrought Iron, Calgary, AB

A CORCAN partner since 1996, Mr. Wrought Iron works with offenders in Alberta's Drumheller institution. In the initial stage of the partnership, CORCAN participants produced components such as metal tubing and brackets. Today, as the partnership continues to expand and flourish, CORCAN workers routinely deliver quality finished products to Mr. Wrought Iron—on time and on budget. Says a Mr. Wrought Iron spokesperson: "It has become a win-win situation."

CORCAN Partnerships

- Small-engine repair
- Shower-door assembly and packaging
- Storage tank systems
- Custom cattle feeding
- Abattoir services
- Laminating and machining
- Custom canvas product manufacturing
- Security bars/grills
- Architectural millwork
- Powder coat painting services
- Packaging



CORCAN also partners with private sector companies and provides the labour and/or plant facilities to manufacture their products. By working with the private sector, CORCAN is able to maximize offender training opportunities cost-effectively. Companies that partner with CORCAN can tap into a reliable, motivated and increasingly skilled pool of labour, gain access to ISO-certified plant facilities and equipment and negotiate flexible working arrangements to fit their individual needs while contributing to the development of skilled, responsible workers for the future.

CORCAN partnerships provide offenders with a sense of pride and self-esteem and help them learn about being a productive, responsible member of the community.

“I’ve been employing women on work release from Edmonton Institution for Women in my electronics business since 1997 and I’ve never had any incidents or problems.”

“For me, hiring offenders is just one of my responsibilities as a business person in this country. It’s up to us as employers to give these folks a chance to show they can become productive, law-abiding citizens once they leave prison ... Who else can do it?”

“Having offenders working in my plant is no problem for my other employees. They treat them just like anybody else and everybody gets along just fine. In fact, I think it adds a special sense of caring and trust to the workplace.”

—Larry Kelly, President, Trinity Electronics, Edmonton, Alberta

CORCAN ADVISORY BOARD

Third-party examination and endorsement of what we do at CORCAN is a powerful way to gain understanding and support in the community. When citizens understand better what we do at CSC, we are making it easier for offenders to successfully reintegrate into society and the labour force.

The Minister of Public Safety and Emergency Preparedness appoints an Advisory Board for CORCAN comprised of prominent citizens from a variety of sectors. This could include representatives from all levels of government, business, labour, and non-profit organizations. In addition to providing strategic and operational advice, the Board's role is to assist CORCAN in building a positive public image and to represent CORCAN on behalf of labour and business organizations.

Current members of the CORCAN Advisory Board are:

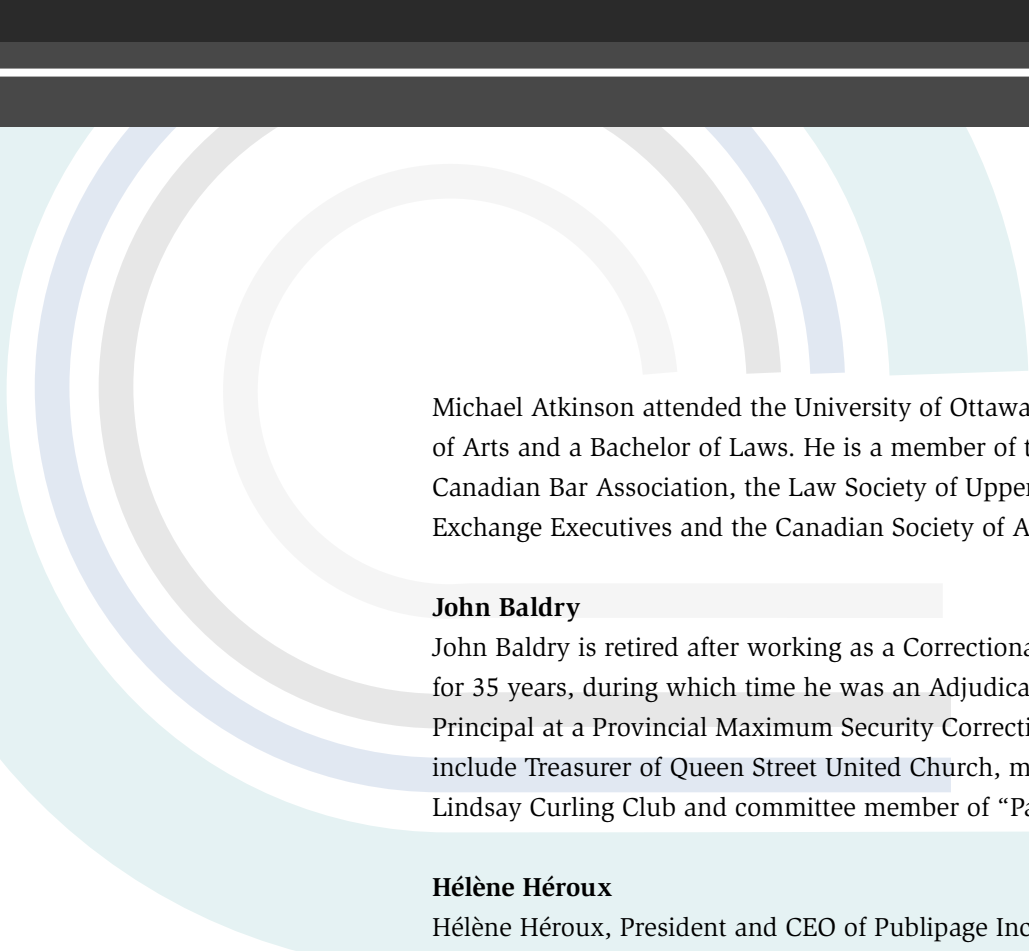
Dr. Owen Anderson, Ph.D.

Dr. Owen Anderson, of Hawthorne Consulting Corporation in Alberta, is an international management consultant and business advisor. He earned a Ph.D. from the University of Alberta and has written three books. He is visiting faculty at Simon Fraser University where he is on the Teaching Honour Roll in the Faculty of Business Administration.

Dr. Owen Anderson has served as Special Advisor to the Premier of Alberta, Advisor to federal Cabinet Ministers in Ottawa, and held executive positions in both business and government. He is a former partner in BDO Dunwoody. He is also a Director of International Hi Tech Industries Inc. and Chairman Emeritus of PACE.

Michael Atkinson

Michael Atkinson has been President of the Canadian Construction Association (CCA) since March 1993. He has emerged as a leading specialist in the area of standard construction practices in Canada and is highly regarded for his knowledge of the Canadian construction industry. His twenty years of experience has also included every aspect of senior government relations, procurement and industry promotion regarding construction in Canada.



Michael Atkinson attended the University of Ottawa where he obtained both a Bachelor of Arts and a Bachelor of Laws. He is a member of the Construction Law section of the Canadian Bar Association, the Law Society of Upper Canada, the International Builders' Exchange Executives and the Canadian Society of Association Executives.

John Baldry

John Baldry is retired after working as a Correctional Educator in the province of Ontario for 35 years, during which time he was an Adjudicate, Juvenile Offenders and served as Principal at a Provincial Maximum Security Correctional Centre. His current responsibilities include Treasurer of Queen Street United Church, member of the Board of Directors of the Lindsay Curling Club and committee member of "Pathways to Health."

Hélène Héroux

Hélène Héroux, President and CEO of Publipage Inc. obtained a Baccalaureate in Business Administration. In 1991, Mrs. Héroux launched her own business ventures with her partner, Mr. Gaetan Frigon. Numerous successful concepts were marketed until 1996.

Hélène Héroux co-founded Publipage Inc., a Certified Marketing Representative (CMR), representing all Yellow Pages publishers in North America. In 1998, she took over as President and CEO of Publipage and has successfully built the company into Canada's second-largest CMR.

Stephen Jones

Stephen Jones is President and Chief Operating Officer of The People Bank, Herzing Services Inc. and also Executive Vice President of Herzing Institutes of Canada. He is a founding member of ACSESS (Association of Canadian Search, Employment and Staffing Services) and currently sits on its Board of Directors. He graduated from the University of Western Ontario with a Bachelor of Administrative and Commercial Studies.

Kelly Lendsay

Kelly Lendsay is President of the Aboriginal Human Resources Council of Canada and is recognized as one of Canada's foremost innovators of stratagems for achieving Aboriginal economic parity with the rest of Canada. He is known particularly as the seminal architect of Aboriginal diversity in corporate Canada. He is a proud Canadian of Métis, Cree and European ancestry. Kelly Lendsay earned his Bachelor of Science in Kinesiology and Physiology in 1981. In 1996, he became the first Director of Aboriginal Business Programs at the University of Saskatchewan. Kelly Lendsay is a Director with the Canadian Apprenticeship Forum, the Alliance of Sector Councils and INROADS Saskatchewan.

John Schmal

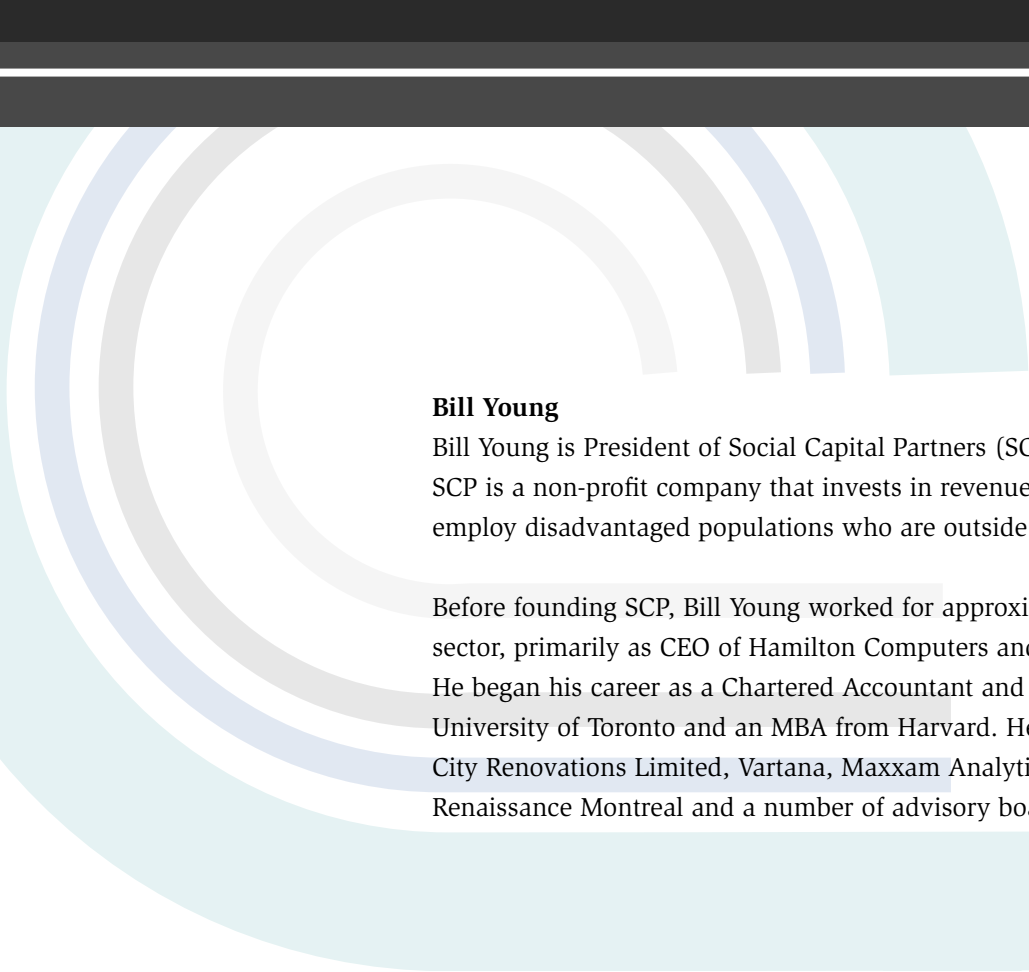
John Schmal has served on the Calgary City Council for 18 years and was President of the Federation of Canadian Municipalities (FCM) in 2003. He was a member of the Calgary Police Commission for 6 years and in the interest of safer communities, John Schmal participated in many national crime prevention initiatives. For several years, he was Co-Chair of the FCM/CSC/NPB Joint Committee, to promote the safe return of offenders into Canada's communities.

Alvin Wasserman

Alvin Wasserman is President of the largest full-service advertising agency in British Columbia. He has worked on all major account types, including retail, packaged goods, travel, communications, entertainment, union, public sector and social marketing.

Alvin Wasserman has won dozens of recognized advertising awards and has served as the Canadian judge at The Lions Advertising Awards in Cannes. Community volunteer work includes memberships on the boards of The Jewish Federation of Greater Vancouver and the JCC Executive Committee.

Alvin Wasserman holds an Honours BA in English from Concordia University and an MA in Literature from McMaster University.



Bill Young

Bill Young is President of Social Capital Partners (SCP), a company he founded in 2001. SCP is a non-profit company that invests in revenue-generating social enterprises that employ disadvantaged populations who are outside the economic mainstream in Canada.

Before founding SCP, Bill Young worked for approximately twenty years in the private sector, primarily as CEO of Hamilton Computers and Optel Communications Corp. He began his career as a Chartered Accountant and holds an Honours BA from the University of Toronto and an MBA from Harvard. He currently sits on the boards of Inner City Renovations Limited, Vartana, Maxxam Analytics Inc., the Bay Area Health Trust, Renaissance Montreal and a number of advisory boards.

2005–2006 RESULTS: EMPLOYMENT AND EMPLOYABILITY

Results at a glance

- 3,988 male offenders (557 Aboriginal) worked a total of 2.347 million hours in CORCAN shops—an increase of 3% over 2004–2005
- 569 female offenders (152 Aboriginal) were employed by CORCAN or in other CSC work assignments—an increase of 8% over 2004–2005
- offenders stayed at one work assignment an average of 107 days (research indicates that a minimum of 90 days is required to maximize skill development)
- offenders earned 7,651 third party vocational certificates
- 1,610 offenders found employment with the assistance of a CORCAN Community Employment Centre, an increase of 40% over 2004–2005.

Institutional employment and training

In 2005–2006, the focus remained on ensuring that employment training opportunities were provided to those inmates assessed at intake as having some or considerable need of employment. Despite our efforts, 889 (17%) non-Aboriginal male offenders still had an employment gap at the end of the year—a result similar to 2004–2005. An improvement was made with Aboriginal male offenders, however. The employment gap there was reduced from 16% to 14.5%.

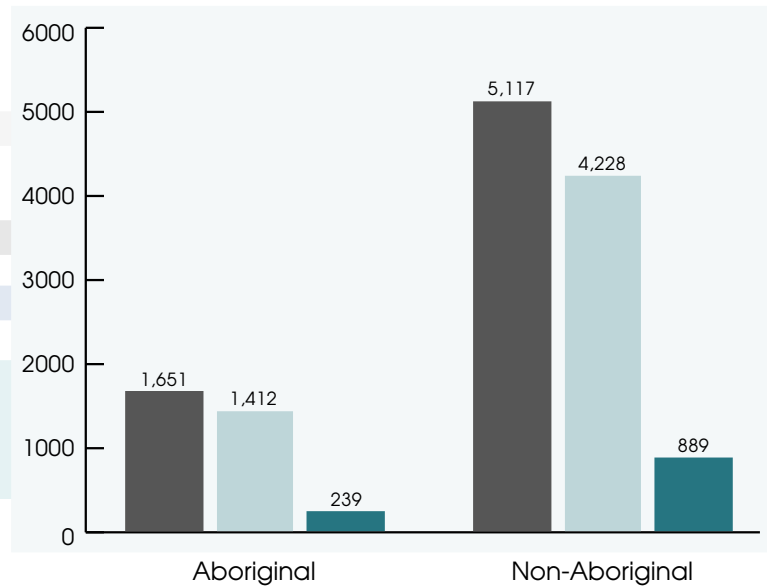
The gap for non-Aboriginal female offenders decreased from 21% to 16%. However, the gap for Aboriginal women increased slightly from 26% to 28%. This is an area where continuing attention will need to be focused to eliminate the possibility that offenders have employment needs upon release that are not being met.

A version of the National Employability Skills Program designed specifically for women was launched this year as a pilot at the Joliette Institution. Intended to teach a variety of basic skills such as communication, using numbers, problem solving, being responsible and working safely, as well as how to work as part of a team, the program had a number of positive results, including:

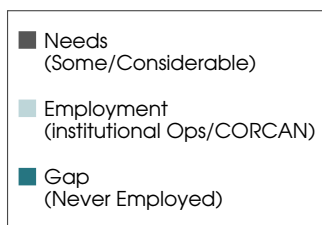
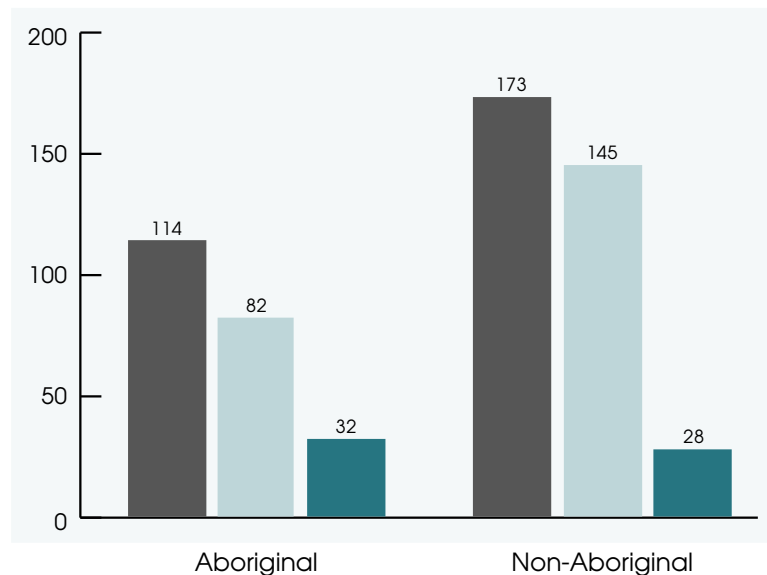
- Motivated future employability planning
- Empowerment (skills practice and application)
- Greater sense of autonomy
- Greater efforts made to establish resource links
- Taking ownership of job performance
- Greater engagement of work supervisors
- Added stability on work sites

Offenders used Graduation Day to apply the skills they had learned in the program and they were pleased to have the Program Director, the Conference Board of Canada and correctional staff present at the ceremony to allow them to share their employability goals.

**Current Male Offenders
Statement of Institutional Employment Needs**



**Current Female Offenders
Statement of Institutional Employment Needs**



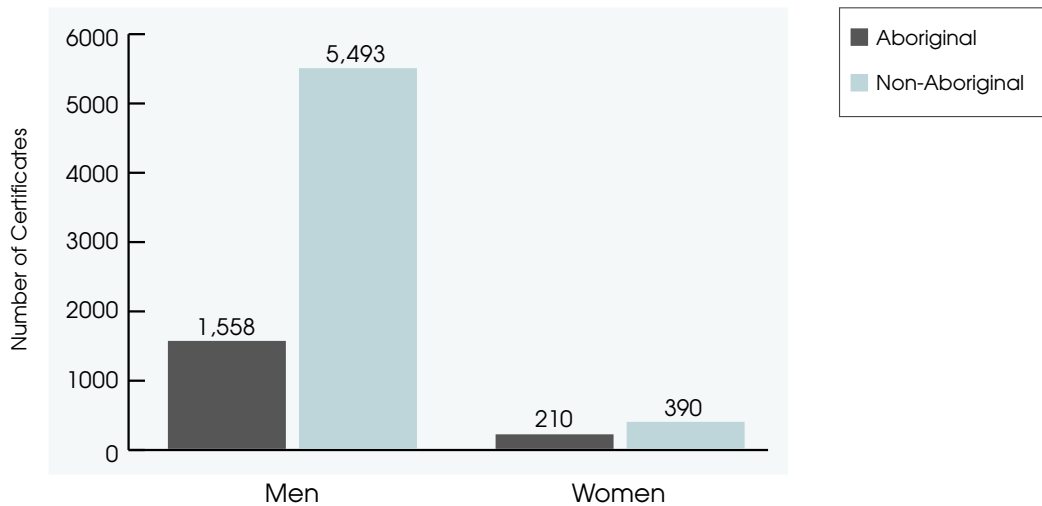
Vocational certification

Considerable advances in third party vocational certification were made in 2005–2006. The National Employability Skills Program, certified by the Conference Board of Canada, was introduced at several sites. In addition, innovative pre-apprenticeship programs were offered in construction framing in the Prairie region in conjunction with a private sector employer and community college. Results were so positive that additional resources will be focused on expanding similar opportunities in the future in employment sectors experiencing acute labour shortages, including construction, mining, and oil and gas extraction.

Male offenders earned 7,051 certificates—an increase of 28.4%. Results for female offenders were even more impressive: 600 certificates were issued—a gain of 66%.

Partners Clark Builders and CORCAN organized a 12-week construction framing skills program. More than 20 offenders, who were nearing the end of their time served, were provided with an instructional, hands-on learning opportunity. The instruction followed a NAIT-approved course plan for construction framing skills, combining both classroom and practical skills training. The course included professional instruction, hands-on experience, safety training, and NAIT certification. Successful completion of the program resulted in potential employment opportunities with Clark Builders at a number of sites.

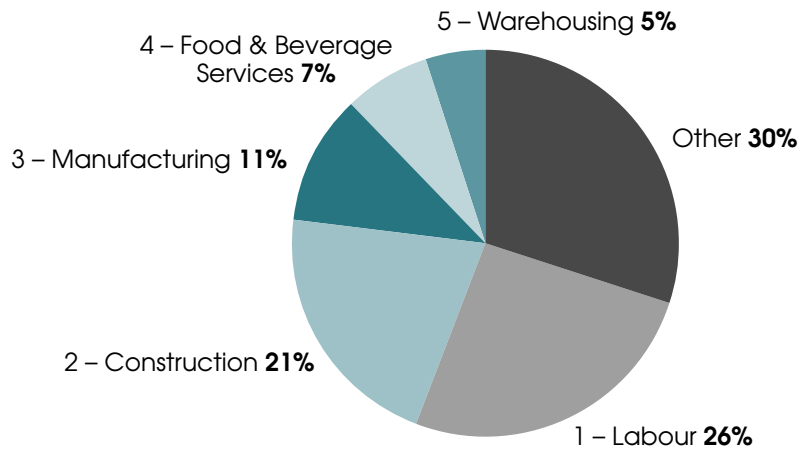
Vocational Certificates Earned 2005–2006



Community employment

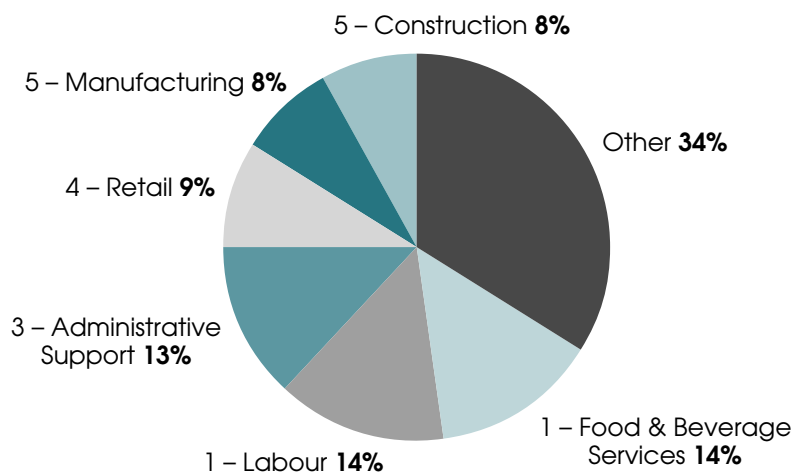
CORCAN's investment in an additional seven community employment centres in 2005–2006 started to yield results. 1,610 offenders (1,518 men and 92 women) were assisted in finding employment in the community compared to 1,143 offenders in 2004–2005. The graph below details the employment sectors where offenders were most successful in finding work.

National Top Five Full-Time Job Placements for Male Offenders



Total: 5,195

National Top Five Full-Time Job Placements for Female Offenders



Total: **135**

Although it is important to track those offenders who are successful at finding a job, it is equally important to track those who are successful at retaining their employment. This has been difficult to do because of privacy limitations. We have therefore used successful reintegration (remaining in the community without a problem) as a proxy for retention because we know the correlation between employment and reintegration is high. A database of 4,265 offenders has been developed to date. Of these, 82% remain in the community. Just over half of these have successfully reached warrant expiry; the remaining 28% remain in the community under supervision. Given the increasing number of offenders on statutory release (fully half of the offenders in the database) this result is very positive.

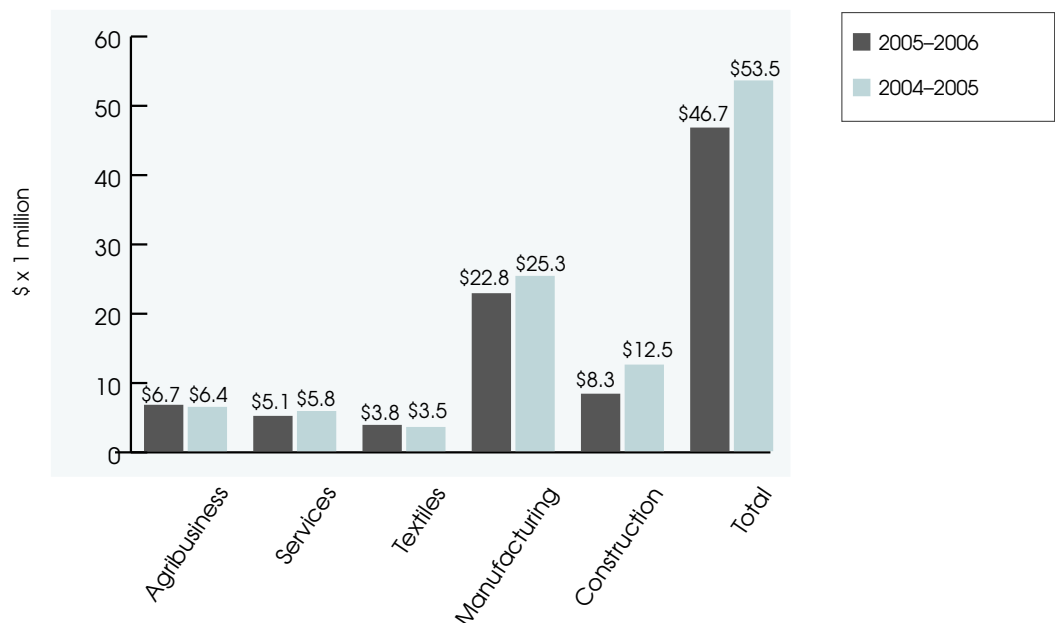
2005-2006 RESULTS: BUSINESS

Results at a glance

Business highlights:

- \$47 million in revenue generated through operations
- Awarded a \$5-million contract with Public Safety and Emergency Preparedness Canada (PSEPC) to supply workstations; over \$2 million delivered in 2005-2006 (balance for delivery in 2006-2007)
- Initial refurbished vehicles delivered to the Department of National Defence (DND), as start of a \$12-million, 3-year HLVW life extension program underway at five CORCAN locations
- Agreement signed with Safeway to compost 6,000 tonnes of organic waste annually at Bowden Institution
- A detailed review of agribusiness operations was undertaken in response to regulatory and commercial concerns, which resulted in the closure of the Rockwood dairy

Revenue by Business Line



Agribusiness recorded a 5% year over year increase in revenue. The closure of the Rockwood dairy operation and lower CSC institutional requirements were offset by increases in other sales categories. Margins, though, were severely impacted by regulatory and market conditions, with the business line loss increasing to \$3.4 million. The implementation of recommendations generated from the agribusiness study undertaken and the impact of new ventures initiated in the year are expected to increase revenues and decrease operating losses in future years.

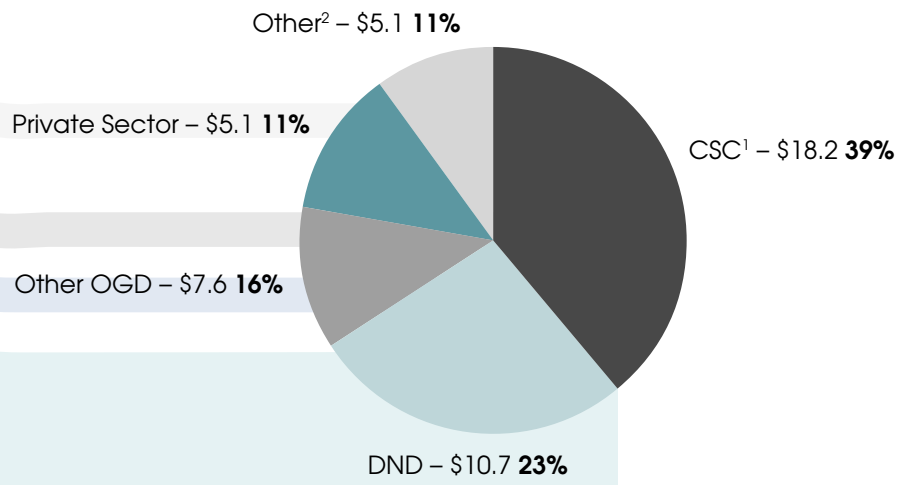
Service activities, primarily laundry and printing/file folder operations in the Quebec region, experienced a reduction in revenue of 11%. This was in part due to the delay in opening laundry operations at Archambault and the loss of printing business at La Macaza. This reduction in revenue was offset by cost savings realized through the reorganization of operations and rationalization of services offered.

Textile revenues were up slightly over the previous year due to the development of new markets. CSC demand was virtually unchanged. Textile costs, primarily raw materials and salaries, continued to increase without the ability to raise prices accordingly, resulting in an increased operating loss of \$1.3 million. Rationalization of shops, including the conversion of the Saskatchewan Penitentiary textile shop to a private sector partnership, is expected to result in slight revenue increases, and an improvement in net margin.

Manufacturing revenues fell about 10% year over year. Delays in the full start-up of the HLVW project and limited new project work were major contributors. Production of workstations for the PSEPC order allowed us to employ offenders and absorb overhead, limiting the net impact of the reduced volume. Significant increases in certain raw material costs could not be immediately recovered through pricing changes, and this also negatively affected margin. Revenues and margins are expected to improve significantly in the new year as full HLVW volumes are reached, new products are introduced, and price increases take effect.

A 33% drop in construction volume is of concern. This loss of revenue resulted in an inability to cover fixed costs, and in a net loss for the business line. Changes in the types of projects undertaken by CORCAN in future will result in changes to cost infrastructure that will ultimately improve margin and maintain offender labour requirements, in spite of lower revenue growth.

Sales Revenue by Major Customer 2005–2006
 (\$ x 1 million)



¹ Includes Construction Projects invoiced to PWGSC for CSC.

² Provincial, Municipal, Education, Health Care, Non-Profit

Correctional Service of Canada revenues of \$18.2 million included sales of institutional construction, agricultural products, clothing, file folders, cell furniture, and other furniture requirements. This represents a reduction of about 13% over 2004–2005 which is a direct result of a decrease in large construction projects. The introduction of an internal CSC purchasing policy (CD350) and a series of national standing offers between CSC and CORCAN are expected to assist in increasing the volume and range of goods and services provided to CSC in the new year.

Sales to DND totalled \$10.7 million. Key components included the multi-purpose van body (LSVW) and heavy vehicle (HLVW) life extension programs, metal beds and mattresses, metal locker and storage products, custom medical and dental millwork, dormitory and office furniture, and miscellaneous items such as biathlon targets. A new metal bed was designed that resulted in significant new sales, including increased demand for mattresses. Total revenues were down, however, from the previous year due, in part, to the late start-up of the HLVW project, and a reduction in major project work. A detailed sales strategy has been developed and will be implemented in the new year to solidify existing markets and expand into new products and services with DND. This is expected to yield increased revenues and margins in current and future years.

Sales to other federal government departments grew strongly in the year, to \$7.6 million, primarily in furniture and other manufactured products. The 20% increase over the previous year was primarily related to receipt of a \$5-million order for office workstations, seating, and related products for the new Public Safety and Emergency Preparedness office in Ottawa. We continue to work with Skills Development Canada on the development of a kiosk for use in their centres across Canada, and with Canada Revenue Agency on a variety of office projects. New business was generated with Environment Canada, Parks Canada, and the Department of Justice, and these departments are expected to provide increased opportunities for revenue growth.

Sales in other governmental and non-profit segments decreased slightly to \$5.1 million. The key element of this total is the laundry and sorting operation in Quebec which services a group of hospitals and health care facilities in the province. The educational market has been strong, but more and more difficult to penetrate due to product and price concerns. Other markets in this category are small, with limited growth potential. A review of this market segment is planned to determine the viability of each component, and the resources required to adequately serve each.

The private sector market dropped 20% to \$5.1 million during the year. Existing alliances with partners such as Mr. Wrought Iron and ZCL Industries continued to provide work for our sites. Although CORCAN can provide a range of business and social benefits to a potential partner, shop capability and security concerns often prove too difficult to resolve. Efforts are continuing to refine our approach to the private sector market to increase the number of mutually beneficial private sector partnerships.



Financial Statements

CORCAN Revolving Fund

March 31, 2006

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, 2006 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, 2006 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 25, 2006.

Ernst + Young LLP

Chartered Accountants

CORCAN Revolving Fund

STATEMENT OF FINANCIAL POSITION

[in thousands of dollars]

As at March 31

	2006	2005
	\$	\$
ASSETS		
Current		
Accounts receivable <i>[note 4]</i>	4,753	5,795
Inventories <i>[note 5]</i>	9,861	7,412
Other	2	4
	<u>14,616</u>	<u>13,211</u>
Capital assets <i>[note 6]</i>	8,571	7,718
	<u>23,187</u>	<u>20,929</u>
LIABILITIES		
Current		
Accounts payable <i>[note 7]</i>	8,091	4,716
Vacation pay and salary accrual	2,306	4,375
	<u>10,397</u>	<u>9,091</u>
Long-term		
Employee termination benefits <i>[note 8]</i>	3,602	3,339
Commitments and contingencies <i>[notes 9 and 12]</i>		
	<u>9,188</u>	<u>8,499</u>
Net assets <i>[note 10]</i>	<u>23,187</u>	<u>20,929</u>

The accompanying notes are an integral part of the financial statements

CORCAN Revolving Fund

STATEMENT OF OPERATIONS AND NET ASSETS

[in thousands of dollars]

Year ended March 31

	2006	2005
	\$	\$
Revenues [note 11]	46,727	53,527
Cost of goods sold [note 11]	56,740	62,443
Gross margin	(10,013)	(8,916)
OTHER REVENUES		
Training and correctional fees [note 3]	22,598	23,631
Miscellaneous	581	445
	23,179	24,076
EXPENSES		
National/regional headquarters	9,008	8,012
Employment and employability programs	3,105	1,802
Selling and marketing	1,961	1,783
	14,074	11,597
Net results	(908)	3,563
Net assets, beginning of year	8,499	11,158
Net financial resources used (provided) and change in the ANCAFA account during the year	1,597	(6,222)
Net assets, end of year [note 10]	9,188	8,499

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

	2006	2005
	\$	\$
OPERATING ACTIVITIES		
Net results	(908)	3,563
Adjustments for non-cash items:		
Provision for termination benefits	638	879
Amortization	1,298	1,141
Loss on disposal of capital assets	64	—
Other	16	(137)
	1,108	5,446
Changes in non-cash working capital:		
Accounts receivable	1,042	2,381
Inventories	(2,449)	1,227
Other	2	30
Employee termination benefits	(375)	(313)
Accounts payable	3,375	(2,409)
Current portion of capital lease	—	(18)
Vacation pay and salary accrual	(2,069)	2,700
Net financial resources provided by operating activities	634	9,044
INVESTING ACTIVITIES		
Capital asset acquisitions	(2,265)	(2,904)
Proceeds on disposal of capital assets	34	106
Net financial resources used by investing activities	(2,231)	(2,798)
FINANCING ACTIVITIES		
Capital lease obligations	—	(24)
Net financial resources used by financing activities	—	(24)
Net financial resources provided (used) and change in accumulated net charge against the Fund's authority	(1,597)	6,222
Accumulated net charge against the Fund's authority, beginning of year	13,304	7,082
Accumulated net charge against the Fund's authority, end of year	11,707	13,304

The accompanying notes are an integral part of the financial statements

CORCAN Revolving Fund

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

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 8].

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.

Expenses are recorded in the period they are incurred.

CORCAN Revolving Fund

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

Inventories

Raw materials, 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

Capital assets 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

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, 2006

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 employee termination benefits. It is management's opinion that the Fund is not exposed to significant interest, currency or credit risks arising from those instruments.

3. RELATED PARTY TRANSACTIONS

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

	2006	2005
	\$	\$
	<i>[in thousands of dollars]</i>	
Trade revenues	12,470	8,471
Training, correctional and other fees	22,598	23,631
	35,068	32,102

As at March 31, 2006, CORCAN Revolving Fund has \$262,000 [2005 - \$2,065,000] 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.

CORCAN Revolving Fund

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

4. ACCOUNTS RECEIVABLE

	2006	2005
	\$	\$
	<i>[in thousands of dollars]</i>	
Government of Canada	2,120	3,371
Outside parties	2,911	2,838
	5,031	6,209
Allowance for doubtful accounts	(278)	(414)
	4,753	5,795

5. INVENTORIES

Inventories consist of the following:

	2006	2005
	\$	\$
	<i>[in thousands of dollars]</i>	
Raw materials	4,399	3,940
Work-in-progress	545	4
Finished goods	4,099	3,076
Agribusiness inventory	1,322	1,129
	10,365	8,149
Provision for obsolete inventory	(504)	(737)
	9,861	7,412

CORCAN Revolving Fund

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

6. CAPITAL ASSETS AND ACCUMULATED AMORTIZATION

Capital assets consist of the following:

	2006		2005	
	Cost \$	Accumulated Amortization \$	Cost \$	Accumulated Amortization \$
	<i>[in thousands of dollars]</i>			
Equipment	25,591	17,738	23,893	16,689
Vehicle fleet	1,375	667	1,045	611
Other	158	148	269	189
	27,124	18,553	25,207	17,489
Accumulated amortization	(18,553)		(17,489)	
Net book value	8,571		7,718	

The amortization expense for the year was \$1,298,000 [2005 – 1,141,000].

7. ACCOUNTS PAYABLE

	2006 \$	2005 \$
	<i>[in thousands of dollars]</i>	
Government of Canada	1,298	783
Outside parties	6,793	3,933
	8,091	4,716

8. 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, 2006, the Treasury Board liability for benefits earned by CORCAN employees prior to April 1, 1992 is \$1,335,000 [2005 - \$1,453,000]. 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.

CORCAN Revolving Fund

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

The liability for benefits earned after April 1, 1992 is recorded in the accounts as the Employee Termination Benefits. As at March 31, 2006, CORCAN's liability is \$3,602,000 [2005 - \$3,339,000].

CORCAN expensed \$638,000 [2005 - \$879,000] related to Employee Termination Benefits in 2005-2006.

Pension plan

During the year CORCAN has expensed \$3,680,000 [2005 - \$3,016,000] for contributions to the Public Service Pension Plan.

9. COMMITMENTS

CORCAN Revolving Fund is committed under the terms of various lease agreements. The lease commitments include an amount of \$200,000 relating to the Kingston warehouse. This lease was renewed in 2003 and expires September 30, 2006.

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

	\$
	<i>[in thousands of dollars]</i>
2007	341
2008	121
2009	27
2010	16
2011	4
	<hr/> 509

10. NET ASSETS

The net assets consist of the following:

	2006	2005
	\$	\$
	<i>[in thousands of dollars]</i>	
Contributed capital	30,542	30,542
Accumulated net charge against the Fund's authority	(11,707)	(13,304)
Accumulated deficit	(9,647)	(8,739)
Net assets, end of year	9,188	8,499

CORCAN Revolving Fund

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

11. REVENUES AND COST OF GOODS SOLD

Year ended March 31, 2006

	Revenues	Cost of Goods Sold	Gross Margin
	\$	\$	\$
			<i>[in thousands of dollars]</i>
Agribusiness and forestry	6,674	10,140	(3,466)
Services	5,123	4,728	395
Textile	3,836	5,180	(1,344)
Manufacturing	22,750	27,755	(5,005)
Construction	8,344	8,937	(593)
	46,727	56,740	(10,013)

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
	53,527	62,443	(8,916)

12. 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, 2006 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.