

COMMONWEALTH *of* LEARNING

Consolidated Financial Statements

June 30, 2005

September 23, 2005

Auditors' Report

To the Board of Governors of The Commonwealth of Learning

We have audited the consolidated balance sheet of **The Commonwealth of Learning** as at June 30, 2005 and the consolidated statements of revenues and expenditures, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Agency as at June 30, 2005 and the consolidated results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

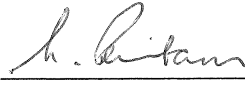
COMMONWEALTH of LEARNING

Consolidated Balance Sheet As At June 30, 2005

	2005	2004
Assets		
Current assets		
Cash and cash equivalents (Note 5)	\$ 4,760,177	\$ 3,673,696
Term deposit (Note 5)	250,000	250,000
Short-term investments	--	2,650,000
Accounts receivable	328,326	339,018
Prepaid expenses and deposits	<u>97,433</u>	<u>662,523</u>
	5,435,936	7,575,237
Restricted cash (Note 6)	1,500,000	--
Property and equipment (Note 7)	<u>727,862</u>	<u>351,130</u>
	<u>\$ 7,663,798</u>	<u>\$ 7,926,367</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 988,837	\$ 1,076,650
Deferred revenue (Note 8)	378,757	501,800
Deferred lease inducements (Note 9)	520,113	--
Current portion of obligations under capital leases (Note 10)	<u>11,928</u>	<u>9,826</u>
	1,899,635	1,588,276
Obligations under capital leases (Note 10)	<u>1,826</u>	<u>13,754</u>
	1,901,461	1,602,030
Net Assets		
Net assets invested in property and equipment	368,203	327,550
Net assets internally restricted (Note 6)	1,500,000	--
Net assets internally restricted for special projects (Note 11)	--	278,914
Unrestricted net assets	<u>3,894,134</u>	<u>5,717,873</u>
	<u>5,762,337</u>	<u>6,324,337</u>
	<u>\$ 7,663,798</u>	<u>\$ 7,926,367</u>

Commitments and contingency (Notes 11 and 14)

Approved by the Board
of Governors


Governor


Governor

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**Consolidated Statement of Changes in Net Assets
For the Year Ended June 30, 2005**

Net Assets	July 1, 2004	Deficiency of expenditure over revenues	Restricted cash	Net investment in property and equipment	June 30, 2005
Invested in property and equipment	\$ 327,550	\$ (110,146)	\$ --	\$ 150,799	\$ 368,203
Restricted for special projects	278,914	(278,914)	--	--	--
Internally restricted	--	--	1,500,000	--	1,500,000
Unrestricted	<u>5,717,873</u>	<u>(172,940)</u>	<u>(1,500,000)</u>	<u>(150,799)</u>	<u>3,894,134</u>
	<u>\$ 6,324,337</u>	<u>\$ (562,000)</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 5,762,337</u>

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Consolidated Statement of Revenues and Expenditures For the Year Ended June 30, 2005

	2005	2004
Revenues		
Member governments (Schedule)	\$ 8,315,524	\$ 6,738,453
Contracts	1,120,840	2,220,874
Special projects	174,248	64,801
Programme grants	340,999	402,195
Interest	<u>158,888</u>	<u>155,273</u>
	10,110,499	9,581,596
Foreign exchange (loss) gain	<u>(315,738)</u>	<u>182,344</u>
	<u>9,794,761</u>	<u>9,763,940</u>
Expenditures		
Programmes and projects	7,473,620	6,100,655
Contract services	1,196,289	2,229,744
Organisational management	1,091,069	1,109,296
Special projects	177,640	172,168
Governance	231,189	298,575
Project development	40,713	45,873
Amortisation	<u>143,398</u>	<u>93,713</u>
	<u>10,353,918</u>	<u>10,050,024</u>
Excess of expenditures over revenues before other item	(559,157)	(286,084)
Other item		
Loss on disposal of property and equipment	<u>(2,843)</u>	<u>(1,807)</u>
Excess of expenditures over revenues	<u>\$ (562,000)</u>	<u>\$ (287,891)</u>

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Consolidated Statement of Cash Flows For the Year Ended June 30, 2005

	2005	2004
Cash flows from operating activities		
Cash received from member governments funding	\$ 8,327,524	\$ 6,671,453
Cash received from special project funding	32,326	219,066
Cash received from contracts	1,286,618	2,332,275
Interest received from cash and cash equivalents	158,888	146,788
Cash received from other sources	--	578,873
Cash paid for operating activities	<u>(9,718,076)</u>	<u>(10,428,465)</u>
	<u>87,280</u>	<u>(480,010)</u>
Cash flows from investing activities		
Proceeds from short-term investments	5,450,000	11,074,884
Purchase of short-term investments	(2,800,000)	(9,824,884)
Restricted cash	(1,500,000)	--
Purchase of property and equipment	<u>(150,799)</u>	<u>(217,247)</u>
	<u>999,201</u>	<u>1,032,753</u>
Increase in cash and cash equivalents	1,086,481	552,743
Cash and cash equivalents, beginning of year	<u>3,673,696</u>	<u>3,120,953</u>
Cash and cash equivalents, end of year	<u>\$ 4,760,177</u>	<u>\$ 3,673,696</u>
Represented by:		
Cash	\$ 1,938,399	\$ 2,541,161
Cash equivalents	<u>2,731,778</u>	<u>1,132,535</u>
	<u>\$ 4,760,177</u>	<u>\$ 3,673,696</u>

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Notes to Consolidated Financial Statements June 30, 2005

1. Formation of the Agency

The Commonwealth of Learning "the Agency" is an International Agency established under a Memorandum of Understanding as agreed by Commonwealth Governments on September 1, 1988, and subsequently amended on October 31, 1995.

An agreement between the Agency and the Government of Canada dated November 14, 1988, established the privileges of the Agency in locating its headquarters in Vancouver. Under the terms of this agreement, the Agency has immunity from every form of legal process, is exempt from all direct taxes, custom duties and import and export restrictions and its non-Canadian employees are exempt from income tax on salaries paid to them by the Agency.

On July 1, 1993, the Agency qualified as a registered charity, as defined by the Income Tax Act, Canada.

2. Operations

The Agency receives substantially all of its revenue on the basis of voluntary pledged contributions from Commonwealth member governments. These consolidated financial statements have been prepared on the basis that the Agency will continue to receive this funding from member governments. Accordingly, these consolidated financial statements do not include any adjustments to assets or liabilities that might result should the Agency not receive sufficient levels of funding.

3. Significant accounting policies

Basis of presentation

These consolidated financial statements are prepared in accordance with generally accepted accounting principles in Canada.

Basis of consolidation

The consolidated financial statements include the accounts of the Agency and its controlled organisations, COL International and the Commonwealth Educational Media Centre for Asia.

Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit with banks and highly liquid short-term interest-bearing securities with maturities at their purchase date of three months or less.

Property and equipment

Amortisation is based on the estimated useful life of the assets and is calculated on a straight-line basis at the following annual rates:

Furniture and fixtures	10%
Computer equipment and software	20%
Audio-visual and communication equipment	10%
Equipment under capital lease	Term of lease
Leasehold improvements	Term of lease

3. Significant accounting policies Cont'd

Revenue recognition

The Agency follows the deferral method for recognising contributions. Unrestricted contributions are recognised as revenue in the period to which they relate, when the amount can be reasonably estimated and collection is reasonably assured. Externally restricted contributions are deferred and recognised as revenue in the period in which the related expenses are incurred.

Revenue resulting from the supply of contracted services is recognised using the percentage of completion method as the related costs are incurred.

In-kind contributions from member governments received in the form of goods and services are recognised as revenue when a fair value can be reasonably determined.

Translation of foreign currencies

Transactions denominated in foreign currencies are translated into Canadian dollars at the exchange rate prevailing at the transaction dates. Foreign currency denominated monetary assets and liabilities are translated at the period-end exchange rate. Gains and losses arising from foreign currency transactions are recognised in the statement of revenues and expenditures.

The Agency translates the accounts of its integrated foreign operations using the temporal method whereby monetary assets and liabilities are translated at the exchange rate prevailing at the balance sheet date and non-monetary assets and liabilities are translated at their historical exchange rates. Revenues and expenses are translated at the average exchange rate for the year. Foreign currency translation gains and losses are included in the statement of revenues and expenditures in the year in which they arise.

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the periods reported. Actual results could differ from those estimates.

4. Controlled organisations

COL International

COL International, a controlled organisation, was established on January 26, 1999, as an executing agency to work with international financial institutions, governments and companies in the implementation of a broad spectrum of education and learning ventures.

4. Controlled organisations Cont'd

COL International is incorporated under the Canada Corporations Act and operates as a not-for-profit corporation. Membership in COL International is restricted to the Agency and the Agency appoints all the Directors of COL International.

Commonwealth Educational Media Centre for Asia

The Commonwealth Educational Media Centre for Asia "CEMCA" was established by the Agency to facilitate programmes to promote cooperation and collaboration between educational and media organisations in the use of electronic media for distance education. CEMCA was accorded full international agency status by the Government of India on August 31, 1998. CEMCA is exempt from all direct taxes in India.

CEMCA is governed by an Advisory Council "the Council" of which the Agency has the ability to nominate the majority of its members. The Council functions as the advisory body to the Agency on CEMCA affairs and has the responsibility for broad policy formulation and for monitoring and evaluating CEMCA's operations. The ultimate authority for the direction and control of the operations of CEMCA vests with the Agency who gives due and proper consideration to the views of the Council.

COL International and CEMCA have been consolidated in these financial statements.

5. Cash and cash equivalents

The Agency estimates that \$197,000 (2004 - \$1,500,000) of unrestricted contributions relating to approved projects initiated during the current and previous years was unspent at June 30, 2005. Cash of this amount is allocated to be utilised within the next fiscal period to complete these projects.

The Agency has deposited cash of \$250,000 as collateral for certain banking arrangements.

6. Restricted cash

In accordance with the Cash Reserve Policy, the Agency has restricted cash of \$1,500,000 in the form of an interest bearing guaranteed investment renewable at fixed intervals not exceeding one year. The Agency will maintain a restricted cash reserve of no less than 20% of the revenues expected to be generated each year from the annual receipt of Member Governments funding. The cash reserve is intended to cover unforeseen significant variations from budgeted revenues and expenditures.

7. Property and equipment

			2005	2004
	Cost	Accumulated Amortisation	Net	Net
Furniture and fixtures	\$ 227,654	\$ 77,597	\$ 150,057	\$ 124,090
Computer equipment and software	366,535	181,443	185,092	167,386
Audio-visual and communication equipment	109,635	81,134	28,501	33,973
Equipment under capital lease	45,575	34,205	11,370	20,478
Leasehold improvements	<u>389,576</u>	<u>36,734</u>	<u>352,842</u>	<u>5,203</u>
	<u>\$1,138,975</u>	<u>\$ 411,113</u>	<u>\$ 727,862</u>	<u>\$ 351,130</u>

8. Deferred revenue

	2004	Funds Received	Revenue Recognised	2005
Contract Services, Special Projects and Grants				
Global Distance Education Network	\$ 192,525	\$ 32,326	\$ (174,248)	\$ 50,603
Telecentres	50,000	--	--	50,000
Youth International Internship Programme	32,017	181,503	(210,740)	2,780
Global Knowledge Partnership	6,754	--	(6,754)	--
World Health Organisation/UNAIDS	45,910	285,994	(251,569)	80,335
United Nations High Commission for Refugees	24,775	198,730	(163,154)	60,351
Pan-Commonwealth Forum - CIDA	80,000	--	(80,000)	--
International Committee of the Red Cross	660	--	(660)	--
Secondary Education by Distance Education	69,159	49,487	(118,646)	--
International Federation of the Red Cross	--	65,433	(34,923)	30,510
Pacific Regional Project - TVET	--	91,270	(91,270)	--
Asian Development Bank	--	22,533	(19,201)	3,332
Commonwealth Secretariat	--	56,461	(11,315)	45,146
British Council	<u>--</u>	<u>55,700</u>	<u>--</u>	<u>55,700</u>
	<u>\$ 501,800</u>	<u>\$1,039,437</u>	<u>\$(1,162,480)</u>	<u>\$ 378,757</u>

9. Deferred lease inducements

The Agency received lease inducements of \$574,386, in the form of leasehold improvements and early occupancy benefits, upon commitment to leasing the current office premises. The amount is amortised on a straight-line basis over the term of the lease.

10. Obligations under capital leases

The Agency has entered into two lease agreements for office equipment. The first agreement expires in July 2006 and the second expires in February 2007. The estimated repayments under the terms of the leases are as follows:

	2005	2004
2005	\$ --	\$ 11,928
2006	11,928	11,928
2007	<u>2,842</u>	<u>2,842</u>
	14,770	26,698
Less: Amount representing interest at 8.88% and 12.00% per annum	<u>1,016</u>	<u>3,118</u>
Balance of obligation	<u>\$ 13,754</u>	<u>\$ 23,580</u>

11. Net assets internally restricted for special projects

Net assets restricted for special projects of \$Nil (2004 - \$278,914) are subject to restrictions stipulating that the resources be utilised in specified programmes that the Agency is committed to undertaking.

Net assets restricted for special projects comprise the following:

	2004	Expenditures	Transfer of resources	2005
Distance Education Scholarship Programme	\$ 23,141	\$ (33)	\$ (23,108)	\$ --
Fellowship Programme Brunei	14,815	--	(14,815)	--
Literacy Training Programme	<u>240,958</u>	<u>(3,359)</u>	<u>(237,599)</u>	<u>--</u>
	<u>\$ 278,914</u>	<u>\$ (3,392)</u>	<u>\$ (275,522)</u>	<u>\$ --</u>

12. Salaries, benefits and allowances

The Agency's Headquarters Agreement with the Government of Canada stipulates that employees of the Agency who are Canadian citizens residing in or ordinarily resident in Canada shall be exempt from federal income taxation deductions on the salaries and emoluments paid to them by the Agency. The Agency has set up an internal levy corresponding to the income taxes that would otherwise be withheld from the above-noted employees' remuneration. The proceeds from the levy can be used to defray the expenses of the Agency and do not have to be remitted to the Canadian government as income tax withholdings. A similar agreement was reached with the Province of British Columbia for exemption from provincial income taxation. An amount of \$507,465 (2004 - \$343,099) arising from these internal levies has been offset against salaries.

13. Financial instruments

Credit risk exposure

The Agency's exposure to credit risk is as indicated by the carrying amount of its accounts receivable.

Interest rate risk exposure

All of the Agency's financial instruments are non-interest bearing except for cash and cash equivalents and short-term investments that earn interest at market rates.

Fair values

The fair values of the short-term investments, accounts receivable, and accounts payable and accrued liabilities approximate their carrying values given the short term to maturity of these instruments.

Management estimates that the fair values of the amounts owing under the capital leases are not substantially different from their carrying values.

Foreign exchange risk exposure

The Agency realises revenue, incurs expenditures and holds financial instruments denominated in various currencies including UK pounds, US dollars and India rupees. The Agency is exposed to the risk of loss depending on the relative movement of these currencies against the Canadian dollar. At June 30, 2005, the approximate net assets denominated in UK pounds are £ 1,131,210 (2004 - £ 673,614), in US dollars are \$ 1,088,951 (2004 - \$ 1,407,208) and in India rupees are Rs 1,137,972 (2004 - Rs 822,186).

14. Commitment and contingency

The Agency is committed to lease payments for the office premises as follows:

2006	329,802
2007	329,802
2008	329,802
2009	329,802
2010	334,917
2011	342,076
2012	342,076
2013	342,076
2014	342,076
2015	<u>199,545</u>
	<u>\$ 3,221,974</u>

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Member Governments Funding For the Year Ended June 30, 2005

Schedule

	2005	2004
Australia	\$ --	\$ 405,034
Bahamas	58,747	135,482
Bangladesh	11,689	--
Barbados	39,990	--
Botswana	--	35,210
Canada	2,300,000	2,200,000
Guyana	11,274	12,357
India	555,532	573,864
Kenya	33,108	--
Jamaica	--	11,943
Malaysia	101,057	52,290
Mauritius	100,000	50,000
Namibia	61,278	65,839
New Zealand	322,408	320,484
Nigeria	1,911,300	--
Saint Lucia	22,725	--
Samoa	60,805	67,000
Sierra Leone	--	47,864
South Africa	250,000	201,000
Swaziland	63,000	49,720
Tanzania	38,518	46,876
Tonga	--	17,630
Trinidad & Tobago	84,126	87,918
Tuvalu	--	6,642
Uganda	12,970	--
United Kingdom	<u>2,276,997</u>	<u>2,351,300</u>
	<u>\$ 8,315,524</u>	<u>\$ 6,738,453</u>