

COMMONWEALTH *of* LEARNING

Consolidated Financial Statements

June 30, 2007

November 8, 2007

Auditors' Report

To the Board of Governors of Commonwealth of Learning

We have audited the consolidated balance sheet of **Commonwealth of Learning** as at June 30, 2007 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, 2007 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


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Consolidated Balance Sheet As at June 30, 2007

	2007	2006
Assets		
Current assets		
Cash and cash equivalents	\$ 3,722,028	\$ 5,345,000
Temporary investments (Note 5)	2,062,000	--
Term deposit (Note 6)	252,200	250,000
Accounts receivable	238,202	73,276
Pledges receivable	104,037	--
Prepaid expenses and deposits	<u>63,304</u>	<u>144,819</u>
	6,441,771	5,813,095
Restricted cash (Note 7)	1,619,800	1,500,000
Property and equipment (Note 8)	<u>630,506</u>	<u>694,724</u>
	<u>\$ 8,692,077</u>	<u>\$ 8,007,819</u>
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	\$ 798,201	\$ 803,623
Deferred revenue (Note 9)	453,764	889,090
Current portion of obligations under capital leases (Note 11)	<u>12,460</u>	<u>15,348</u>
	1,264,425	1,708,061
Deferred lease inducements (Note 10)	411,566	465,839
Obligations under capital leases (Note 11)	<u>36,301</u>	<u>44,974</u>
	<u>1,712,292</u>	<u>2,218,874</u>
Net Assets		
Net assets invested in property and equipment	308,031	324,592
Net assets internally restricted (Note 7)	1,619,800	1,500,000
Unrestricted net assets	<u>5,051,954</u>	<u>3,964,353</u>
	<u>6,979,785</u>	<u>5,788,945</u>
	<u>\$ 8,692,077</u>	<u>\$ 8,007,819</u>

Commitment (Note 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, 2007

Net Assets	June 30, 2006	Excess (deficiency) of revenues over expenditures	Net investment in property and equipment	June 30, 2007
Invested in property and equipment	\$ 324,592	\$ (107,847)	\$ 91,286	\$ 308,031
Internally restricted	1,500,000	119,800	--	1,619,800
Unrestricted	<u>3,964,353</u>	<u>1,178,887</u>	<u>(91,286)</u>	<u>5,051,954</u>
	<u>\$ 5,788,945</u>	<u>\$ 1,190,840</u>	<u>\$ --</u>	<u>\$ 6,979,785</u>

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Consolidated Statement of Revenues and Expenditures For the Year Ended June 30, 2007

	2007	2006
Revenues		
Member governments (Schedule)	\$ 7,832,554	\$ 6,614,351
Grants and special projects	1,405,915	659,217
Contract services for eLearning - international organisations	548,371	509,228
Interest	<u>274,501</u>	<u>241,275</u>
	10,061,341	8,024,071
Foreign exchange gain (loss)	<u>150,965</u>	<u>(269,188)</u>
	<u>10,212,306</u>	<u>7,754,883</u>
Expenditures		
Programmes, grants and special projects	6,898,283	5,503,996
Contract services for eLearning - international organisations	660,014	655,719
Organisational management	1,079,671	1,125,153
Governance	219,732	207,162
Project and business development	19,823	87,061
Amortisation	<u>133,177</u>	<u>153,390</u>
	<u>9,010,700</u>	<u>7,732,481</u>
Excess of revenues over expenditures before other item	1,201,606	22,402
Other item		
(Loss) gain on disposal of property and equipment	<u>(10,766)</u>	<u>4,206</u>
Excess of revenues over expenditures	<u>\$ 1,190,840</u>	<u>\$ 26,608</u>

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Consolidated Statement of Cash Flows For the Year Ended June 30, 2007

	2007	2006
Cash flows from operating activities		
Cash received from member governments	\$ 7,728,517	\$ 6,669,351
Cash received from grants, contract services and special projects	1,390,721	1,849,634
Interest received from cash and cash equivalents	190,459	241,210
Cash paid for operating activities	<u>(8,741,383)</u>	<u>(8,105,894)</u>
	<u>568,314</u>	<u>654,301</u>
Cash flows from investing and financing activities		
Proceeds from temporary investments	4,100,000	2,900,000
Purchase of temporary investments	(6,200,000)	(2,900,000)
Purchase of property and equipment	(79,725)	(132,803)
Repayment of capital lease obligation	(11,561)	(6,572)
Finance capital lease	<u>- -</u>	<u>69,897</u>
	<u>(2,191,286)</u>	<u>(69,478)</u>
(Decrease) increase in cash and cash equivalents	(1,622,972)	584,823
Cash and cash equivalents, beginning of year	<u>5,345,000</u>	<u>4,760,177</u>
Cash and cash equivalents, end of year	<u>\$ 3,722,028</u>	<u>\$ 5,345,000</u>
Represented by:		
Cash	\$ 2,724,312	\$ 1,592,697
Cash equivalents	<u>997,716</u>	<u>3,752,303</u>
	<u>\$ 3,722,028</u>	<u>\$ 5,345,000</u>

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Member Governments Funding For the Year Ended June 30, 2007

Schedule

	2007	2006
Bahamas	\$ 28,446	\$ 55,671
Bangladesh	31,486	10,659
Barbados	32,753	40,000
Belize	30,000	--
Botswana	70,000	35,000
Cameroon	23,835	19,400
Canada	2,600,000	2,600,000
Cyprus	12,238	17,046
Fiji	53,100	--
Gambia	1,851	--
Ghana	31,500	31,500
Guyana	11,293	10,556
India	620,522	635,496
Jamaica	31,500	25,481
Kenya	35,347	38,951
Kiribati	36,772	36,545
Lesotho	59,237	53,100
Malaysia	47,192	--
Maldives	10,000	--
Mauritius	50,000	50,000
Mozambique	53,408	--
Namibia	28,405	29,440
New Zealand	529,166	297,332
Nigeria	497,031	--
Pakistan	35,000	32,000
Saint Kitts & Nevis	31,500	31,500
Saint Lucia	21,093	21,417
Samoa	55,810	55,470
South Africa	250,000	250,000
Sri Lanka	30,000	--
Swaziland	31,500	--
Tanzania	31,252	33,663
Tonga	35,180	35,190
Trinidad & Tobago	71,046	74,954
Tuvalu	28,973	--
Uganda	5,638	14,830
United Kingdom	2,188,680	2,079,150
Zambia	91,800	--
	<u>\$ 7,832,554</u>	<u>\$ 6,614,351</u>

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Notes to Consolidated Financial Statements June 30, 2007

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 is committed to assisting Commonwealth member governments develop and share open learning and distance education knowledge, resources and technologies. The Agency is helping developing nations improve access to quality education and training.

The Agency receives substantially all of its revenue on the basis of voluntary pledged contributions from Commonwealth 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 and consolidation

These consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles include the accounts of the Agency and its controlled organisations, COL International and the Commonwealth Educational Media Centre for Asia (“CEMCA”). All material inter-agency transactions and balances have been eliminated on consolidation.

Cash and cash equivalents

For purposes of determining cash flows, 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.

3. Significant accounting policies Cont'd**Property and equipment**

Property and equipment are recorded at cost less accumulated amortization. The Agency provides for amortisation 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

When a property and equipment item no longer has any long-term service potential to the Agency, the excess of its net carrying amount over the estimated residual value is recognized as an expense in the statement of revenues and expenditures.

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.

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

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.

5. Temporary investments

Temporary investments consist of Prime-linked cashable guaranteed investment certificates which are accounted for at the lower of cost plus accrued interest and their estimated market value. At June 30, 2007, the temporary investments earned interest at rates ranging from 4.00% to 4.25% per annum and had an estimated market value of \$2,062,000 (2006 - \$Nil).

6. Term deposit

The Agency has deposited cash with a Canadian chartered bank as collateral for certain banking arrangements.

7. Restricted cash

In accordance with its Cash Reserve Policy, the Agency has set aside cash of \$1,600,000 (2006 - \$1,500,000) in the form of an interest bearing guaranteed investment renewable at fixed intervals not exceeding one year. At June 30, 2007, accrued interest aggregated \$19,800 (2006 - \$Nil). The Agency maintains 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.

8. Property and equipment

	Cost	Accumulated Amortisation	2007 Net	2006 Net
Furniture and fixtures	\$ 236,430	\$ 116,527	\$ 119,903	\$ 139,106
Computer equipment and software	392,763	224,224	168,539	159,667
Audio-visual and communication equipment	109,635	92,078	17,557	23,029
Equipment under capital lease	67,089	21,718	45,371	56,933
Leasehold improvements	<u>389,576</u>	<u>110,440</u>	<u>279,136</u>	<u>315,989</u>
	<u>\$1,195,493</u>	<u>\$ 564,987</u>	<u>\$ 630,506</u>	<u>\$ 694,724</u>

9. Deferred revenue

	2006	Funds Received (Returned)	Revenue Recognised	2007
Grants and special projects				
World Bank - GDE Network	\$ 24,705	\$ --	\$ (18,134)	\$ 6,571
Telecentres	50,000	--	--	50,000
Department for Foreign Affairs - Canada	36,171	62,679	(98,850)	--
Hewlett Foundation	436,108	283,421	(514,444)	205,085
Commonwealth Secretariat	39,984	--	(30,710)	9,274
International Development and Research Corp.	65,100	(23,886)	(41,214)	--
World Bank - NEPAD	29,368	52,661	(79,074)	2,955
World Bank – eLearning	3,756	154,583	(146,643)	11,696
Open University of Hong Kong	1,664	--	(1,664)	--
Athabasca University	8,000	--	(8,000)	--
Materials Development Fund	50,546	8,158	--	58,704
World Bank – ICT Survey	--	120,814	(120,751)	63
Contract services for eLearning				
International Labour Organisation	6,566	72,149	(38,935)	39,780
World Health Organisation/UNAIDS	71,457	67,410	(138,867)	--
United Nations High Commission for Refugees	38,197	130,958	(140,005)	29,150
International Federation of the Red Cross	27,468	75,437	(64,405)	38,500
Reading for the Workplace	--	15,000	(13,014)	1,986
	<u>\$ 889,090</u>	<u>\$1,019,384</u>	<u>\$(1,454,710)</u>	<u>\$ 453,764</u>

10. Deferred lease inducements

	Cost	Accumulated Amortisation	2007 Net	2006 Net
Tenant improvements	\$ 382,000	\$ 108,285	\$ 273,715	\$ 309,810
Early occupancy benefit	<u>192,386</u>	<u>54,535</u>	<u>137,851</u>	<u>156,029</u>
	<u>\$ 574,386</u>	<u>\$ 162,820</u>	<u>\$ 411,566</u>	<u>\$ 465,839</u>

11. Obligation under capital lease

The Agency has entered into a lease agreement for office equipment. The agreement expires in October 2010. The estimated repayments under the terms of the leases are as follows:

	2007	2006
2007	\$ - -	\$ 15,348
2008	15,348	15,348
2009	15,348	15,348
2010	15,348	15,348
2011	<u>8,506</u>	<u>8,505</u>
	54,550	69,897
Less: Amount representing interest at 7.50% per annum	<u>5,789</u>	<u>9,575</u>
Balance of obligation	<u>\$ 48,761</u>	<u>\$ 60,322</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. During the year ended June 30, 2007, \$509,480 (2006 - \$509,386) arising from these internal levies has been offset against salaries.

13. Financial instruments**Credit risk exposures**

The Agency's exposures to credit risk are as indicated by the carrying amount of its cash and cash equivalents, temporary investments, term deposit, accounts receivable, pledges receivable, and restricted cash.

Interest rate risk exposures

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

Fair values

The fair values of the cash and cash equivalents, temporary investments, term deposit, 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 amount owing under the capital lease is not materially different from its carrying value.

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, 2007, the approximate net assets denominated in UK pounds are £ 707,966 (2006 - £ 1,609,858), in US dollars are \$ 1,548,728 (2006 - \$ 1,163,205) and in India rupees are Rs 4,130,865 (2006 - Rs 2,179,231).

14. Commitment

The Agency is committed to lease office premises through 2015 as follows:

2008	\$	353,446
2009		355,208
2010		345,431
2011		342,076
2012		342,076
2013		342,076
2014		342,076
2015		<u>199,545</u>
		<u>\$ 2,621,934</u>

15. Comparative figures

Certain comparative figures have been reclassified to conform with the financial statement presentation adopted in the current year.