

Consolidated financial statements of

Commonwealth of Learning

June 30, 2008

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, 2008 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 financial position of the Agency as at June 30, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The financial statements as at June 30, 2007 for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated November 8, 2007.

Deloitte + Touche LLP

Chartered Accountants
October 3, 2008

Commonwealth of Learning

June 30, 2008

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Consolidated statement of revenues and expenditures year ended June 30, 2008

	2008	2007
	\$	\$
Revenues		
Member governments (Schedule)	7,924,696	7,832,554
Grants and special projects	1,031,786	1,405,915
Contract services	712,047	548,371
Interest	306,010	274,501
	9,974,539	10,061,341
Expenditures		
Programmes, grants and special projects	6,275,707	6,898,283
Organisational management	1,077,923	1,079,671
Contract services	775,915	660,014
Amortisation	137,422	133,177
Governance	117,926	219,732
Foreign exchange loss (gain)	71,900	(150,965)
Project and business development	-	19,823
	8,456,793	8,859,735
Excess of revenues over expenditures before other item	1,517,746	1,201,606
Other item		
Loss on disposal of property and equipment	(11,149)	(10,766)
Excess of revenues over expenditures	1,506,597	1,190,840

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 Consolidated statement of changes in net assets
 year ended June 30, 2008

	Invested in property and equipment	Internally restricted	Unrestricted	2008 Total	2007 Total
	\$	\$	\$	\$	\$
Balance, beginning of year	308,031	1,619,800	5,051,954	6,979,785	5,788,945
Excess (deficiency) of revenues over expenditures	(112,475)	(3,850)	1,622,922	1,506,597	1,190,840
Net investment in property and equipment	60,809	-	(60,809)	-	-
	256,365	1,615,950	6,614,067	8,486,382	6,979,785

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Consolidated balance sheet as at June 30, 2008

	2008	2007
	\$	\$
Assets		
Current assets		
Cash and cash equivalents	5,444,761	3,722,028
Temporary investments (Note 6)	1,511,890	2,062,000
Term deposit (Note 7)	251,800	252,200
Accounts receivable	71,526	238,202
Pledges receivable	66,063	104,037
Prepaid expenses	571,773	35,309
	7,917,813	6,413,776
Deposits	27,995	27,995
Restricted cash (Note 8)	1,615,950	1,619,800
Property and equipment (Note 9)	530,286	630,506
	10,092,044	8,692,077
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	801,963	798,201
Deferred revenue (Note 10)	405,133	453,764
Current portion of obligations under capital leases (Note 11)	13,426	12,460
Deferred contribution	4,972	-
	1,225,494	1,264,425
Deferred lease inducements (Note 12)	357,293	411,566
Obligations under capital leases (Note 11)	22,875	36,301
	1,605,662	1,712,292
Net assets		
Net assets invested in property and equipment	256,365	308,031
Net assets internally restricted (Note 8)	1,615,950	1,619,800
Unrestricted net assets	6,614,067	5,051,954
	8,486,382	6,979,785
	10,092,044	8,692,077

Commitment (Note 15)

Approved by the Board of Governors





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Consolidated statement of cash flows year ended June 30, 2008

	2008	2007
	\$	\$
Operating activities		
Cash received from member governments	7,967,642	7,728,517
Cash received from grants, contract services and special projects	1,810,775	1,390,721
Interest received from cash and cash equivalents	360,040	190,459
Cash paid for operating activities	(8,842,456)	(8,741,383)
	1,296,001	568,314
Investing activities		
Proceeds from temporary investments	4,900,000	4,100,000
Purchase of temporary investments	(4,400,000)	(6,200,000)
Purchase of property and equipment	(60,809)	(79,725)
	439,191	(2,179,725)
Financing activity		
Repayment of capital lease obligations	(12,459)	(11,561)
Increase (decrease) in cash and cash equivalents	1,722,733	(1,622,972)
Cash and cash equivalents, beginning of year	3,722,028	5,345,000
Cash and cash equivalents, end of year	5,444,761	3,722,028
Represented by		
Cash	4,000,814	2,724,312
Cash equivalents	1,443,947	997,716
	5,444,761	3,722,028

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Notes to the consolidated financial statements

June 30, 2008

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

These financial statements are prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies:

(a) *Basis of presentation and consolidation*

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

(b) *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.

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Notes to the consolidated financial statements

June 30, 2008

3. Significant accounting policies (continued)

(c) *Property and equipment*

Property and equipment are recorded at cost less accumulated amortisation. The Agency provides for amortisation over the estimated useful life of the asset 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

The Agency reviews property and equipment for impairment whenever changes in circumstances indicate that the carrying amount of an asset may not be recoverable from the undiscounted future cash flows of the asset's use and eventual disposition. The amount of the impairment, if any, is determined as the excess of the carrying value of the asset over its fair value. No impairment losses have been identified by the Agency for the year ended June 30, 2008.

(d) *Revenue recognition*

The Agency follows the deferral method for recognizing contributions from member governments and grants and special projects. 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.

(e) *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 realizing 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.

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Notes to the consolidated financial statements

June 30, 2008

3. Significant accounting policies (continued)

(f) *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. The most significant estimates included in these financial statements include the collectability of accounts and pledges receivable and the amount of accrued liabilities and deferred revenue.

(g) *Future accounting changes*

In December 2006, the Canadian Institute of Chartered Accountants ("CICA") issued Handbook Section 3862, *Financial Instruments - Disclosures*; Section 3863, *Financial Instruments - Presentation*; and Section 1535, *Capital Disclosures*. All three sections will be applicable to the Agency's financial statements fiscal year beginning July 1, 2008. Section 3862 on financial instruments disclosures requires the disclosure of information about: (a) the significance of financial instruments for the entity's financial position and performance and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and how the entity manages those risks. Section 3863 on the presentation of financial instruments is unchanged from the presentation requirements included in Section 3861, *Financial Instruments - Disclosures and Presentation*. Section 1535 on capital disclosures requires the disclosure of information about an entity's objectives, policies and processes for managing capital.

The Agency is currently evaluating the impact of the adoption of these new sections on its financial statements.

4. Change in accounting policy

On July 1, 2007, the Agency adopted the CICA Handbook Section 3855, *Financial Instruments - Recognition and Measurement* and Section 3861, *Financial Instruments - Disclosure and Presentation*. Financial assets subject to the new standards are classified as held-for-trading, available-for-sale, held-to-maturity or loans and receivables. Financial liabilities subject to the new standard are classified as held-for-trading or other liabilities.

Financial assets and liabilities classified as held-for-trading are carried at fair value, with unrealised gain and losses recognised in the consolidated statement of revenues and expenditures. Financial assets classified as available-for-sale are also carried at fair value, with unrealised gains and losses being recognised in the consolidated statement of changes in net assets. Financial assets classified as held-to-maturity, or as loans and receivables, and financial liabilities classified as other are carried at amortised cost with gain and losses recognised in the consolidated statement of revenues and expenditures in the period the asset/liability is derecognised.

The Agency has classified its financial assets which includes cash and cash equivalents, temporary investments, term deposits, and restricted cash as held-for-trading. The Agency's other financial instruments subject to the new standards consist of accounts receivable and pledges receivable, which are classified as loans and receivables, and accounts payable which are classified as other liabilities.

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Notes to the consolidated financial statements

June 30, 2008

4. Change in accounting policy (continued)

These recommendations have been applied retrospectively, without restatement of prior periods and, as a result, financial instruments are recorded at cost at June 30, 2007 and at fair value at June 30, 2008. The change in accounting policy resulted in no gain or loss on investments.

The Agency does not use hedges or derivatives.

5. Controlled organisations

(a) *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.

The Organisation is inactive and the application for surrender of their charter was made on July 7, 2008 following a decision by the Board of Governors of the Agency.

(b) *Commonwealth Educational Media Centre for Asia ("CEMCA")*

CEMCA was established by the Agency to facilitate programs 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.

6. Temporary investments

Temporary investments consist of prime-linked cashable guaranteed investment certificates. Temporary investments are classified as held-for-trading and are carried at market value with unrealised gains and losses included in the consolidated statement of revenues and expenditures.

7. Term deposit

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

The term deposit is classified as held-for-trading and carried at market value with unrealised gains and losses included in the consolidated statement of revenues and expenditures.

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Notes to the consolidated financial statements

June 30, 2008

8. Restricted cash

In accordance with its Cash Reserve Policy, the Agency has set aside cash of \$1,600,000 (2007 - \$1,600,000) in the form of an interest bearing guaranteed investment renewable at fixed intervals not exceeding one year. At June 30, 2008 accrued interest amounted to \$15,950 (2007 - \$19,800). 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.

Restricted cash is classified as held-for-trading and carried at market value with unrealised gains and losses included in the consolidated statement of revenues and expenses.

9. Property and equipment

			2008	2007
	Cost	Accumulated amortisation	Net book value	Net book value
	\$	\$	\$	\$
Furniture and fixtures	231,393	123,077	108,316	119,903
Computer equipment and software	400,913	265,697	135,216	168,539
Audio-visual and communication equipment	48,041	36,482	11,559	17,557
Equipment under capital lease	67,089	34,177	32,912	45,371
Leasehold improvements	389,576	147,293	242,283	279,136
	1,137,012	606,726	530,286	630,506

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Notes to the consolidated financial statements

June 30, 2008

10. Deferred revenue

	2007	Funds received	Revenue recognized	2008
	\$	\$	\$	\$
Grants and special projects				
World Bank	9,520	9,856	(19,376)	-
Memorial University	50,000	-	-	50,000
Hewlett Foundation	205,085	95,913	(210,973)	90,025
Commonwealth Secretariat	9,274	515,206	(502,588)	21,892
Athabasca University	-	12,000	-	12,000
Forum for Agricultural Research in Africa	-	16,272	-	16,272
Australian Agency for International Development	-	48,385	-	48,385
UNESCO	-	8,136	-	8,136
Materials Development Fund	58,773	30,548	(15,929)	73,392
Contract services for eLearning				
International Labour Organization	39,780	47,297	(69,338)	17,739
International Federation of the Red Cross	40,486	52,217	(84,392)	8,311
United Nations - Office of Internal Oversight	-	115,615	(65,840)	49,775
United Nations High Commission for Refugees	29,150	41,754	(70,904)	-
World Bank	11,696	113,374	(115,864)	9,206
	453,764	1,106,573	(1,155,204)	405,133

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:

	2008	2007
	\$	\$
2008	-	15,348
2009	15,348	15,348
2010	15,348	15,348
2011	8,506	8,506
	39,202	54,550
Less: Amount representing interest at 7.5% per annum	2,901	5,789
	36,301	48,761
Current portion	13,426	12,460
	22,875	36,301

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Notes to the consolidated financial statements

June 30, 2008

12. Deferred lease inducements

	2008			2007
	Cost	Accumulated amortisation	Net book value	Net book value
	\$	\$	\$	\$
Tenant improvements	382,000	144,380	237,620	273,715
Early occupancy benefit	192,386	72,713	119,673	137,851
	574,386	217,093	357,293	411,566

13. Salaries, benefits and allowances

The Agency's Headquarters Agreement with the Government of Canada stipulates that employees of the Agency who are not Canadian citizens and are 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, 2008, \$529,087 (2007 - \$509,480) arising from these internal levies has been offset against salaries.

14. Financial instruments

(a) 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.

(b) 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.

(c) Fair values

The Agency's financial instruments include cash and cash equivalents, temporary investments, term deposit, accounts receivable, pledges receivable, restricted cash, and accounts payable and accrued liabilities the fair value of which approximate their carrying values given their immediate or short-term to maturity.

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Notes to the consolidated financial statements

June 30, 2008

14. Financial instruments (continued)

(d) 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, 2008, the approximate net assets denominated in UK pounds are £910,952 (2007 - £707,966), in US dollars are \$2,498,052 (2007 - \$1,548,728) and in Indian rupees are Rs5,743,883 (2007 - Rs4,130,865).

15. Commitment

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

	\$
2009	347,442
2010	353,660
2011	362,362
2012	353,910
2013	342,076
2014	342,076
2015	199,545
	<hr/> 2,301,071

16. Comparative figures

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

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Member Governments Funding year ended June 30, 2008

Schedule

	2008	2007
	\$	\$
Antigua and Barbuda	5,127	-
Bahamas	75,339	28,446
Bangladesh	30,473	31,486
Barbados	46,138	32,753
Belize	29,256	30,000
Botswana	43,884	70,000
Cameroon	-	23,835
Canada	2,600,000	2,600,000
Cyprus	18,699	12,238
Fiji	-	53,100
Gambia	9,881	1,851
Ghana	60,660	31,500
Grenada	4,996	-
Guyana	14,529	11,293
India	1,026,502	620,522
Jamaica	45,135	31,500
Kenya	47,638	35,347
Kiribati	35,045	36,772
Lesotho	41,909	59,237
Malaysia	48,960	47,192
Maldives	4,997	10,000
Mauritius	60,000	50,000
Mozambique	48,355	53,408
Namibia	29,013	28,405
New Zealand	594,000	529,166
Nigeria	-	497,031
Pakistan	33,810	35,000
Papua New Guinea	88,822	-
Saint Kitts and Nevis	30,361	31,500
Saint Lucia	18,398	21,093
Saint Vincent and the Grenadines	20,434	-
Samoa	58,512	55,810
Seychelles	15,030	-
Solomon Islands	5,063	-
South Africa	250,000	250,000
Sri Lanka	29,979	30,000
Swaziland	29,256	31,500
Tanzania	27,798	31,252
Tonga	33,841	35,180
Trinidad and Tobago	76,897	71,046
Tuvalu	30,060	28,973
Uganda	20,969	5,638
United Kingdom	2,173,930	2,188,680
Zambia	61,000	91,800
	7,924,696	7,832,554