

Financial Statements of

**FORUM OF FEDERATIONS/
FORUM DES FÉDÉRATIONS**

March 31, 2010

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Auditors' Report

To the Directors of
Forum of Federations/Forum des Fédérations

We have audited the statement of financial position of the Forum of Federations/Forum des Fédérations (the "Forum") as at March 31, 2010 and the statements of changes in net assets, revenue and expenses and cash flows for the year then ended. These financial statements are the responsibility of the Forum'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 financial statements present fairly, in all material respects, the financial position of the Forum as at March 31, 2010 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the Canada Corporations Act, we report that, in our opinion, these principles have been applied on a basis consistent with that of the preceding year.

Chartered Accountants
Licensed Public Accountants

June 7, 2010

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FORUM OF FEDERATIONS/FORUM DES FÉDÉRATIONS

Statement of Financial Position

as at March 31, 2010

| | <u>2010</u> | <u>2009</u> |
|--|---------------------|----------------------|
| CURRENT ASSETS | | |
| Cash | \$ 1,338,967 | \$ 1,239,570 |
| Accounts receivable (Note 4) | 305,328 | 329,472 |
| Investments (Note 5) | 945,966 | 616,778 |
| Investments - restricted (Note 5) | 2,800,000 | 3,400,000 |
| Prepaid expenses | 31,200 | 14,599 |
| Program and travel advances | 266,348 | 38,641 |
| | 5,687,809 | 5,639,060 |
| CAPITAL ASSETS (Note 6) | 111,540 | 150,830 |
| INVESTMENTS - RESTRICTED (Note 5) | 1,789,429 | 4,774,363 |
| | \$ 7,588,778 | \$ 10,564,253 |
| CURRENT LIABILITIES | | |
| Accounts payable and accrued liabilities | \$ 832,627 | \$ 625,733 |
| Deferred contributions (Note 7) | 997,299 | 701,564 |
| Deferred contributions - Long-Term Fund (Note 9) | 2,800,000 | 3,400,000 |
| | 4,629,926 | 4,727,297 |
| DEFERRED CONTRIBUTIONS FOR CAPITAL ASSETS (Note 8) | 33,425 | 41,896 |
| DEFERRED CONTRIBUTIONS - LONG-TERM FUND (Note 9) | 1,789,429 | 4,774,363 |
| | 6,452,780 | 9,543,556 |
| CONTINGENT LIABILITY (Note 10) | | |
| NET ASSETS | | |
| Invested in capital assets | 78,115 | 108,934 |
| Unrestricted | 1,057,883 | 911,763 |
| | 1,135,998 | 1,020,697 |
| | \$ 7,588,778 | \$ 10,564,253 |

APPROVED ON BEHALF OF THE BOARD

_____ Chair

_____ Treasurer

FORUM OF FEDERATIONS/FORUM DES FÉDÉRATIONS

Statement of Changes in Net Assets

year ended March 31, 2010

| | <u>Invested in Capital Assets</u> | <u>Unrestricted</u> | <u>2010</u> | <u>2009</u> |
|---|---------------------------------------|---------------------|--------------|--------------|
| BALANCE, BEGINNING OF YEAR | \$ 108,934 | \$ 911,763 | \$ 1,020,697 | \$ 851,501 |
| Excess (deficiency) of revenue over expenses | (41,419) | 156,720 | 115,301 | 169,196 |
| Acquisition of capital assets | 10,600 | (10,600) | - | - |
| BALANCE, END OF YEAR | \$ 78,115 | \$ 1,057,883 | \$ 1,135,998 | \$ 1,020,697 |

FORUM OF FEDERATIONS/FORUM DES FÉDÉRATIONS

Statement of Revenue and Expenses

year ended March 31, 2010

| | <u>2010</u> | <u>2009</u> |
|---|-------------------|-------------------|
| Revenue | | |
| Department of Foreign Affairs and International Trade | | |
| Long-Term Fund | \$ 3,699,210 | \$ 3,932,049 |
| Projects | 1,522,504 | 408,659 |
| Canadian contribution | 50,790 | 63,010 |
| Other foreign country contributions | 368,433 | 334,399 |
| Canadian International Development Agency (CIDA) | - | 383,280 |
| Federal Republic of Germany | 467,482 | - |
| Government of Norway Project | - | 2,547 |
| Government of Switzerland Project | 737,620 | 440,293 |
| German Technical Cooperation | - | 193,085 |
| Government of the United Kingdom Project | 346,234 | - |
| Other projects | 28,300 | 61,123 |
| Interest | 4,382 | 9,160 |
| Other income | 57,572 | 25,246 |
| Foreign exchange gain (loss) | (157,474) | 79,920 |
| | 7,125,053 | 5,932,771 |
| Expenses | | |
| Advertising and promotion | 11,486 | 1,328 |
| Consultants | 59,569 | 133,074 |
| Grants and honorariums | 40,620 | 40,000 |
| Leased equipment | 5,796 | 5,432 |
| Memberships and subscriptions | 922 | - |
| Office and general | 86,598 | 53,590 |
| Printing and publications | 1,420 | 1,587 |
| Professional fees | 69,241 | 38,488 |
| Projects (Schedule) | 5,837,602 | 4,618,750 |
| Rent | 207,442 | 185,785 |
| Salaries and benefits | 532,268 | 535,229 |
| Telephone and internet | 24,520 | 20,474 |
| Translation services | 672 | - |
| Travel | 90,177 | 53,570 |
| | 6,968,333 | 5,687,307 |
| Excess of revenue over expenses before the undernoted | 156,720 | 245,464 |
| Amortization of deferred contributions for capital assets | 8,471 | 10,637 |
| Amortization of capital assets | (49,890) | (86,905) |
| EXCESS OF REVENUE OVER EXPENSES | \$ 115,301 | \$ 169,196 |

FORUM OF FEDERATIONS/FORUM DES FÉDÉRATIONS

Statement of Cash Flows

year ended March 31, 2010

| | <u>2010</u> | <u>2009</u> |
|---|---------------------|---------------------|
| CASH PROVIDED BY (USED FOR): | | |
| OPERATING | | |
| Excess of revenue over expenses | \$ 115,301 | \$ 169,196 |
| Items not affecting cash | | |
| Amortization of deferred contributions for capital assets | (8,471) | (10,637) |
| Amortization of capital assets | 49,890 | 86,905 |
| | <u>156,720</u> | 245,464 |
| Changes in non-cash operating working capital items | | |
| Accounts receivable | 24,144 | 118,641 |
| Prepaid expenses | (16,601) | 10,228 |
| Program and travel advances | (227,707) | (34,267) |
| Accounts payable and accrued liabilities | 206,894 | (372,715) |
| | <u>143,450</u> | (32,649) |
| INVESTING | | |
| Investment withdrawals | 3,255,746 | 3,345,055 |
| Acquisition of capital assets | (10,600) | (53,326) |
| | <u>3,245,146</u> | 3,291,729 |
| FINANCING | | |
| Deferred contributions | (3,289,199) | (3,705,511) |
| NET CASH INFLOW (OUTFLOW) | 99,397 | (446,431) |
| CASH, BEGINNING OF YEAR | 1,239,570 | 1,686,001 |
| CASH, END OF YEAR | <u>\$ 1,338,967</u> | <u>\$ 1,239,570</u> |

FORUM OF FEDERATIONS/FORUM DES FÉDÉRATIONS

Notes to the Financial Statements

year ended March 31, 2010

1. NATURE OF OPERATIONS

The Forum of Federations/Forum des Fédérations (Forum) was incorporated without share capital by Letters Patent under the provisions of the Canada Corporations Act on August 25, 1998. The Forum offers to policy-makers and practitioners of federalism an arena in which to exchange information and compare experiences in managing federal systems.

The Forum is a registered charity and as such is not subject to income taxes.

The Forum is economically dependent on the Department of Foreign Affairs and International Trade (DFAIT) for its future revenue. The current funding agreement with DFAIT expires on March 31, 2011 (Note 9). If the funding agreement with DFAIT is not renewed, the Forum would no longer be viable in its current form.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles (GAAP) and include the following significant accounting policies:

Change in accounting policy

In September 2008, the Canadian Institute of Chartered Accountants (CICA) issued amendments to several of the existing sections in the 4400 series - *Financial Statements by Not-For-Profit Organizations* which were effected for fiscal years beginning on or after January 1, 2009. Accordingly, the Forum adopted the amended standards for its fiscal year beginning April 1, 2009. The amendments include: a) additional guidance in the applicability of Section 1100, *Generally Accepted Accounting Principles*; b) removal of the requirement to report separately net assets invested in capital assets; c) requirement to disclose revenues and expenses in accordance with EIC 123, *Reporting Revenue Gross as a Principal Versus Net as an Agent*; d) requirement to include a statement of cash flows in accordance with Section 1540, *Cash Flow Statements*; e) requirement to apply Section 1751, *Interim Financial Statements*, when preparing interim financial statements in accordance with GAAP; f) requirement for not-for-profit organizations that recognize capital assets to depreciate and assess these capital assets for impairment in the same manner as other entities reporting on a GAAP basis; g) requirement to disclose related party transactions in accordance with Section 3840, *Related Party Transactions*; and h) new disclosure requirements regarding the allocation of fundraising and general support costs.

The CICA also issued amendments to Section 1000, *Financial Statement Concepts* to clarify the criteria for recognizing an asset.

The new standards do not have a significant impact for the Forum.

FORUM OF FEDERATIONS/FORUM DES FÉDÉRATIONS

Notes to the Financial Statements

year ended March 31, 2010

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

All financial assets are required to be classified as held-for-trading, held-to-maturity, loans and receivables, or as available-for-sale. All financial liabilities are required to be classified as held-for-trading, or as other liabilities.

The classification depends on the purpose for which the financial instruments were acquired or issued, their characteristics and the Forum's designation of said instruments and is determined at the time of initial recognition. Settlement date accounting is used and transaction costs related to investments are expensed as incurred. Interest is calculated using the effective interest rate method.

Classifications made by the Forum are as follow:

| | |
|--|-----------------------|
| Cash and cash equivalents | Held-for-trading |
| Investments and investments - restricted | Held-to-maturity |
| Accounts receivable | Loans and receivables |
| Accounts payable and accrued liabilities | Other liabilities |

Held-for-trading

These financial assets are measured at fair value at the balance sheet date. Fair value fluctuations including interest earned, interest accrued, gains and losses realized on disposal and unrealized gains and losses are included in investment revenue.

Held-to-maturity

Held-to-maturity investments are carried at amortized cost using the effective interest rate method, less any impairment.

Loans and receivables

These financial assets are measured at amortized cost using the effective interest rate method, less any impairment.

Other liabilities

These financial liabilities are recorded at amortized cost using the effective interest rate method.

FORUM OF FEDERATIONS/FORUM DES FÉDÉRATIONS

Notes to the Financial Statements

year ended March 31, 2010

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital assets

Capital assets are recorded at cost. Amortization is computed on the declining-balance basis at the following rates:

| | |
|------------------------|------|
| Furniture and fixtures | 20% |
| Computer hardware | 30% |
| Computer software | 100% |
| Vehicles | 30% |

Leasehold improvements are amortized on the straight-line basis over the term of the respective lease plus one renewal period.

Revenue recognition

The Forum follows the deferral method of accounting for contributions.

Long-Term Fund revenues are funds received under the terms and conditions of an agreement. These funds are recognized as revenue when used for the purpose for which the funds were received.

Unrestricted contributions and grants are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Funds received designated for an activity or project by the funder are recognized as revenue when used for the purpose for which the funds were received.

Deferred contributions for capital assets

Restricted contributions for the purchase of capital assets that are amortized, are deferred and recognized as revenue on the same basis as the amortization expense related to the acquired capital assets. Restricted contributions for the purchase of capital assets that are not amortized (such as land) are recognized as a direct increase in net assets.

Program advances

Advances made to fund program expenses, which have not yet been incurred, are reported as an asset.

FORUM OF FEDERATIONS/FORUM DES FÉDÉRATIONS

Notes to the Financial Statements

year ended March 31, 2010

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates

The preparation of financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Significant areas requiring the use of management's estimates include the collectible amounts of receivables, the amount of program advances, the amount of accrued liabilities, the assessment of contingent liabilities and the useful lives of capital assets.

3. CAPITAL DISCLOSURES

The Forum defines its capital as its deferred contributions and its net assets. The Forum's main objective with respect to capital management is to maintain a sufficient level of capital, thereby ensuring the continuity of the Forum and the ongoing fulfillment of its mission. The Forum has restrictions against its deferred contributions from DFAIT, as described in Note 9. The Forum is not aware of any noncompliance with the restrictions against this agreement.

4. ACCOUNTS RECEIVABLE

| | <u>2010</u> | <u>2009</u> |
|-------------------------------------|-------------------|-------------------|
| Restricted contributions receivable | \$ 204,887 | \$ 168,534 |
| Canada Revenue Agency (GST) | 27,610 | 62,382 |
| Other | 72,831 | 98,556 |
| | <u>\$ 305,328</u> | <u>\$ 329,472</u> |

5. INVESTMENTS

Investment risk

Investment in financial instruments renders the Forum subject to investment risks. These include the risks arising from changes in interest rates and risks arising from the failure of a party to a financial instrument to discharge an obligation when it is due.

FORUM OF FEDERATIONS/FORUM DES FÉDÉRATIONS
Notes to the Financial Statements
year ended March 31, 2010

5. INVESTMENTS (Continued)

Investment risk (Continued)

The investment practices of the Forum are designed to avoid undue risk of loss and impairment of assets, and to provide a reasonable expectation of fair return given the nature of the investments. The Forum does not use derivatives to reduce its exposure to interest and rate risk.

Concentration of risk

Concentrations of risk exist when a significant proportion of the portfolio is invested in securities with similar characteristics and/or subject to similar economic, political or other conditions. The Forum believes that the concentrations described below do not represent excessive risk.

| | 2010 | | |
|-------------------------------------|---------------------------|-----------------------|----------------------|
| | <u>Amortized Cost</u> | <u>Fair Value</u> | <u>% of Cost</u> |
| Canadian bonds | \$ 4,976,768 | \$ 5,036,686 | 89.9 |
| Term deposit | 558,627 | 558,627 | 10.1 |
| Total investments | 5,535,395 | \$ 5,595,313 | 100.0 |
| Less current unrestricted portion | 945,966 | | |
| Less current restricted portion | <u>2,800,000</u> | | |
| Long-term restricted portion | \$ 1,789,429 | | |
| | | | |
| | 2009 | | |
| | <u>Amortized Cost</u> | <u>Fair Value</u> | <u>% of Cost</u> |
| Canadian bonds | \$ 8,413,168 | \$ 8,403,606 | 95.7 |
| Term deposit | 377,700 | 377,700 | 4.3 |
| Cash | 273 | 273 | 0.0 |
| Total investments | 8,791,141 | \$ 8,781,579 | 100.0 |
| Less current unrestricted portion | 616,778 | | |
| Less current restricted portion | <u>3,400,000</u> | | |
| Long-term restricted portion | \$ 4,774,363 | | |

FORUM OF FEDERATIONS/FORUM DES FÉDÉRATIONS

Notes to the Financial Statements

year ended March 31, 2010

5. INVESTMENTS (Continued)

Determination of fair values

Bonds are debt obligations of governments and corporate bodies paying interest at rates appropriate to the market at the date of their purchase. The fair value of the bonds are based upon published market quotations. They mature at face value on a staggered basis over the next two (2) years. Effective interest rates to maturity for these securities range from 2.98% to 3.76% (2009 - 2.98% to 3.76%).

Presentation

Investments are classified as current based on management's intention to use these amounts over the upcoming year to finance current operations. The restricted investments represent those investments which have been restricted due to the terms of the Long-Term Fund (Note 9).

6. CAPITAL ASSETS

| | 2010 | | | 2009 |
|------------------------|-------------------|-----------------------------|-------------------|-------------------|
| | Cost | Accumulated Amortization | Net Book Value | Net Book Value |
| Furniture and fixtures | \$ 66,124 | \$ 6,472 | \$ 59,652 | \$ 74,216 |
| Computer hardware | 48,899 | 22,051 | 26,848 | 36,260 |
| Computer software | 26,860 | 24,450 | 2,410 | 11,135 |
| Vehicles | 23,386 | 9,472 | 13,914 | 19,878 |
| Leasehold improvements | 56,844 | 48,128 | 8,716 | 9,341 |
| | \$ 222,113 | \$ 110,573 | \$ 111,540 | \$ 150,830 |

7. DEFERRED CONTRIBUTIONS

| | 2010 | 2009 |
|---|-------------------|-------------------|
| Balance, beginning of year | \$ 701,564 | \$ 736,757 |
| Restricted contributions received during the year | 3,729,955 | 1,484,328 |
| Less amounts recognized as revenue in the year | (3,470,573) | (1,488,987) |
| Increase (decrease) in restricted contributions receivable | 36,353 | (30,534) |
| Balance, end of year | \$ 997,299 | \$ 701,564 |

FORUM OF FEDERATIONS/FORUM DES FÉDÉRATIONS

Notes to the Financial Statements

year ended March 31, 2010

8. DEFERRED CONTRIBUTIONS FOR CAPITAL ASSETS

Deferred contributions for capital assets represent restricted contributions with which capital assets were acquired.

| | <u>2010</u> | <u>2009</u> |
|--|------------------|------------------|
| Balance, beginning of year | \$ 41,896 | \$ 52,533 |
| Less amounts recognized as revenue in the year | <u>(8,471)</u> | <u>(10,637)</u> |
| Balance, end of year | <u>\$ 33,425</u> | <u>\$ 41,896</u> |

9. LONG-TERM FUND

The Long-Term Fund was created in 2001 from a \$10,000,000 grant from DFAIT. The Long-Term Fund is comprised of the principal amount of the grant and accumulated investment income less investment management fees and transfers to the General Fund. The purpose of the Long-Term Fund is to assist the Forum to achieve a more secure source of revenue by providing additional support for its programs and activities. On March 31, 2005, the Forum and DFAIT renewed the long-term funding for an additional \$20,000,000. Draw-downs from the Long-Term Fund are based on an agreed upon schedule covering a six-year period. Starting with fiscal 2007, the fund withdrawals recognized as revenue in the year include a component for interest. Interest recognized as revenue this year totals \$350,000 (2009 - \$595,059). As at March 31, 2010, the Long-Term Fund contains accumulated interest income of \$282,272 (2009 - \$467,206).

| | <u>2010</u> | <u>2009</u> |
|--|---------------------|---------------------|
| Balance, beginning of year | \$ 8,174,363 | \$ 11,844,681 |
| Investment income | 165,066 | 324,741 |
| Fund withdrawals recognized as revenue in the year | <u>(3,750,000)</u> | <u>(3,995,059)</u> |
| Balance, end of year | 4,589,429 | 8,174,363 |
| Less current portion | <u>2,800,000</u> | <u>3,400,000</u> |
| Long-term portion | <u>\$ 1,789,429</u> | <u>\$ 4,774,363</u> |

As the Forum expects to renew its funding agreement with DFAIT, the remaining balance of \$1,789,429 has been classified as long-term as at March 31, 2010.

FORUM OF FEDERATIONS/FORUM DES FÉDÉRATIONS

Notes to the Financial Statements

year ended March 31, 2010

10. CONTINGENT LIABILITY

Pursuant to a contribution agreement with CIDA, there is a requirement for the Forum to contribute to the program, a certain percentage of the CIDA combined program annual budget in the last year of the agreement. The interpretation of this requirement is currently under review by the funder and the Forum and has not been resolved. Accordingly, no provision has been recorded in these financial statements for this contingent liability.

11. COMMITMENTS

The Forum is committed under an operating lease for an office facility that expires June 30, 2011. Annual payments are \$209,425.

12. PENSION CONTRIBUTIONS

The Forum contributes to a defined contribution pension plan for employees. The employer's contributions for the year were \$122,013 (2009 - \$117,464).

13. ECONOMIC DEPENDENCE

During the year, 74% (2009 - 74%) of the Forum's revenue was from DFAIT.

14. RELATED PARTY TRANSACTIONS

Related party transactions with directors during the year at exchange amounts were as follows:

| | <u>2010</u> | <u>2009</u> |
|------------|---------------------------------|---------------------------------|
| | Consulting/ Honarium Fees | Consulting/ Honarium Fees |
| A. Koller | \$ 30,000 | \$ 40,000 |
| V. Kelkar | 10,000 | - |
| J. Poirier | 7,500 | 1,250 |
| V. Ruiz | 2,000 | 850 |
| W. Linder | 1,000 | - |
| D. Cameron | - | 4,920 |
| | <u>\$ 50,500</u> | <u>\$ 47,020</u> |

FORUM OF FEDERATIONS/FORUM DES FÉDÉRATIONS
Notes to the Financial Statements
year ended March 31, 2010

14. RELATED PARTY TRANSACTIONS (Continued)

The following balances are due as a result of the above services and are included in accounts payable and accrued liabilities:

| | <u>2010</u> | <u>2009</u> |
|------------|------------------|-----------------|
| A. Koller | \$ 10,000 | \$ 7,121 |
| V. Kelkar | 10,000 | - |
| J. Poirier | 7,500 | 1,250 |
| V. Ruiz | 2,000 | 750 |
| W. Linder | 1,000 | - |
| | <u>\$ 30,500</u> | <u>\$ 9,121</u> |

15. COMPARATIVE FIGURES

Certain of the prior year's comparative figures have been reclassified to conform to the current year's presentation.

FORUM OF FEDERATIONS/FORUM DES FÉDÉRATIONS**Project Expenses**

year ended March 31, 2010

| | <u>2010</u> | <u>2009</u> |
|------------------------------------|---------------------|---------------------|
| Consultants | \$ 968,085 | \$ 443,116 |
| Distribution costs of publications | 65,001 | 140,598 |
| Grants and honorariums | 350,632 | 215,996 |
| Meeting facilities and hospitality | 184,252 | 75,028 |
| Memberships and subscriptions | 3,736 | 4,158 |
| Office | 258,080 | 123,935 |
| Printing and publications | 169,903 | 205,785 |
| Professional fees | 48,317 | 7,529 |
| Promotions | 5,130 | 1,426 |
| Rent | 121,696 | 30,691 |
| Salaries and benefits | 1,841,135 | 1,838,096 |
| Support services | 278,218 | 264,737 |
| Telecommunications | 90,907 | 85,616 |
| Translation services | 137,049 | 137,181 |
| Travel | 1,315,461 | 1,044,858 |
| | <u>\$ 5,837,602</u> | <u>\$ 4,618,750</u> |