

Financial Statements of

**FORUM OF FEDERATIONS/
FORUM DES FÉDÉRATIONS**

March 31, 2006



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Auditors' Report

To the Directors of
Forum of Federations/Forum des Fédérations

We have audited the financial position of the Forum of Federations/Forum des Fédérations as at March 31, 2006 and the statements of changes in net assets, the statement of revenues and expenses and the statement of cash flows for the year then ended. These financial statements are the responsibility of the Organization'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 Organization as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Deloitte & Touche LLP

Chartered Accountants

May 5, 2006

FORUM OF FEDERATIONS/FORUM DES FÉDÉRATIONS
Financial Statements
March 31, 2006

	<u>PAGE</u>
Statement of Financial Position	1
Statement of Changes in Net Assets	2
Statement of Revenue and Expenses	3
Statement of Cash Flows	4
Notes to the Financial Statements	5 - 10
Schedule of Project Expenses	11

FORUM OF FEDERATIONS/FORUM DES FÉDÉRATIONS

Statement of Financial Position

as at March 31, 2006

	<u>2006</u>	<u>2005</u>
CURRENT ASSETS		
Cash	\$ 648,655	\$ 339,619
Investments (Note 4)	1,762,249	723,810
Investments - restricted (Note 4)	4,000,000	1,879,173
Accounts receivable (Note 3)	418,776	20,086,543
Prepaid expenses	23,943	40,563
	6,853,623	23,069,708
CAPITAL ASSETS (Note 5)	173,351	222,687
INVESTMENTS - RESTRICTED (Note 4)	13,857,214	-
	\$ 20,884,188	\$ 23,292,395
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 445,928	\$ 366,962
Deferred contributions (Note 6)	1,714,048	459,794
Deferred contributions - Long-Term Fund (Note 8)	4,000,000	4,600,000
	6,159,976	5,426,756
DEFERRED CONTRIBUTIONS FOR CAPITAL ASSETS (Note 7)	82,711	103,867
DEFERRED CONTRIBUTIONS - LONG-TERM FUND (Note 8)	13,857,214	17,279,173
	20,099,901	22,809,796
CONTINGENT LIABILITY (Note 9)		
NET ASSETS		
Invested in capital assets	90,640	118,820
Unrestricted	693,647	363,779
	784,287	482,599
	\$ 20,884,188	\$ 23,292,395

APPROVED ON BEHALF OF THE BOARD

_____ Chair

_____ Treasurer

FORUM OF FEDERATIONS/FORUM DES FÉDÉRATIONS

Statement of Changes in Net Assets

year ended March 31, 2006

	Invested in Capital Assets	Unrestricted	<u>2006</u>	<u>2005</u>
BALANCE, BEGINNING OF YEAR	\$ 118,820	\$ 363,779	\$ 482,599	\$ 447,539
Excess (deficiency) of revenue over expenses	(33,419)	335,107	301,688	35,060
Investment in capital assets	5,239	(5,239)	-	-
BALANCE, END OF YEAR	\$ 90,640	\$ 693,647	\$ 784,287	\$ 482,599

FORUM OF FEDERATIONS/FORUM DES FÉDÉRATIONS

Statement of Revenue and Expenses

year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
Revenue		
Department of Foreign Affairs and International Trade		
Long-Term Fund	\$ 3,232,235	\$ 4,102,815
Projects	171,401	80,000
Canadian contribution	55,665	-
National Democratic Institute	633,678	-
Other foreign country contributions	177,140	-
Canadian International Development Agency (CIDA)	117,223	329,067
Government of Switzerland Project	81,800	158,940
Other projects	33,280	35,010
Interest	8,728	1,073
Other income	6,768	34,096
	<u>4,517,918</u>	<u>4,741,001</u>
Expenses		
Advertising and promotion	9,641	11,437
Consultants	117,807	118,128
Foreign exchange loss	15,666	-
Leased equipment	5,478	4,945
Meetings and facilities	311	78
Office and general	105,844	77,027
Printing and publications	2,863	431
Professional fees	26,803	23,637
Projects (Schedule)	3,082,620	3,342,256
Rent	186,784	198,816
Salaries and benefits	504,688	791,755
Telephone and internet	18,838	14,039
Travel	105,468	40,251
	<u>4,182,811</u>	<u>4,622,800</u>
Excess of revenue over expenses before the undernoted	335,107	118,201
Amortization of deferred contributions for capital assets	21,156	26,650
Amortization of capital assets	(54,575)	(109,791)
EXCESS OF REVENUE OVER EXPENSES	\$ 301,688	\$ 35,060

FORUM OF FEDERATIONS/FORUM DES FÉDÉRATIONS

Statement of Cash Flows

year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
CASH PROVIDED BY (USED FOR):		
OPERATING		
Excess of revenue over expenses	\$ 301,688	\$ 35,060
Items not affecting cash		
Amortization of contributions related to capital assets	(21,156)	(26,650)
Amortization of capital assets	54,575	109,791
	<u>335,107</u>	118,201
Change in non-cash operating working capital items		
Accounts receivable	19,667,767	(19,889,360)
Prepaid expenses	16,620	9,381
Accounts payable and accrued liabilities	78,966	(6,835)
	<u>20,098,460</u>	(19,768,613)
INVESTING AND FINANCING		
Purchase of investments	(20,000,000)	-
Proceeds on sale of investments	2,983,520	4,022,755
Acquisition of capital assets	(5,239)	(32,699)
Deferred contributions	(2,767,705)	15,586,449
	<u>(19,789,424)</u>	19,576,505
NET CASH INFLOW (OUTFLOW)	309,036	(192,108)
CASH, BEGINNING OF YEAR	339,619	531,727
CASH, END OF YEAR	<u>\$ 648,655</u>	<u>\$ 339,619</u>

FORUM OF FEDERATIONS/FORUM DES FÉDÉRATIONS

Notes to the Financial Statements

year ended March 31, 2006

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.

2. SIGNIFICANT ACCOUNTING POLICIES

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

Investments

Investments are recorded at amortized cost plus accrued interest. Investments are written down when there has been a loss in value that is other than temporary.

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%

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. 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.

FORUM OF FEDERATIONS/FORUM DES FÉDÉRATIONS

Notes to the Financial Statements

year ended March 31, 2006

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 direct increase in net assets.

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 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 accrued liabilities, the amount of contingent liabilities and useful lives of capital assets.

3. ACCOUNTS RECEIVABLE

	<u>2006</u>	<u>2005</u>
DFAIT Long-Term Fund (Note 8)	\$ -	\$ 20,000,000
Restricted contributions receivable	273,974	12,351
Other	113,610	33,518
Canada Revenue Agency (GST)	31,192	40,674
	<u>\$ 418,776</u>	<u>\$ 20,086,543</u>

4. 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, 2006

4. 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 foreign currency 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.

	<u>2006</u>			<u>2005</u>		
	<u>Cost</u>	<u>Market</u>	<u>% of Cost</u>	<u>Cost</u>	<u>Market</u>	<u>% of Cost</u>
Fixed income						
Canadian	\$ 17,111,494	\$ 16,684,358	87.2	\$ 2,588,444	\$ 2,588,444	99.4
Cash	1,264,376	1,264,376	6.4	14,539	14,539	0.6
Foreign	1,243,593	1,196,893	6.4	-	-	-
Total investments	<u>19,619,463</u>	<u>\$19,145,627</u>	<u>100.0</u>	2,602,983	<u>\$2,602,983</u>	<u>100.0</u>
Less current unrestricted portion	1,762,249			723,810		
Less current restricted portion	<u>4,000,000</u>			<u>1,879,173</u>		
Long-term restricted portion	<u>\$ 13,857,214</u>			<u>\$ -</u>		

Determination of market values

Cash and short-term deposits are valued at cost which approximates market value.

Bonds are debt obligations of governments and corporate bodies paying interest at rates appropriate to the market at the date of their purchase. Bonds are recorded at prices based upon published market quotations. They mature at face value on a staggered basis over the next 5 years. Effective interest rates to maturity for these securities range from 2.253% to 10.750%.

FORUM OF FEDERATIONS/FORUM DES FÉDÉRATIONS

Notes to the Financial Statements

year ended March 31, 2006

4. INVESTMENTS (Continued)

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 8).

5. CAPITAL ASSETS

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture and fixtures	\$ 346,383	\$ 226,485	\$ 119,898	\$ 148,682
Computer hardware	204,257	156,447	47,810	64,675
Computer software	49,490	48,835	655	2,815
Leasehold improvements	248,414	243,426	4,988	6,515
	\$ 848,544	\$ 675,193	\$ 173,351	\$ 222,687

6. DEFERRED CONTRIBUTIONS

	2006	2005
Balance, beginning of year	\$ 459,794	\$ 857,816
Less amounts recognized as revenue in the year	(1,037,382)	(729,822)
Excess funds transferred from Long-Term Fund	1,312,100	-
Amounts transferred to accounts payable	(20,052)	-
Restricted contributions received during the year	737,965	394,551
Increase (decrease) in restricted contributions receivable	261,623	(62,751)
Balance, end of year	\$ 1,714,048	\$ 459,794

7. DEFERRED CONTRIBUTIONS FOR CAPITAL ASSETS

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

	2006	2005
Balance, beginning of year	\$ 103,867	\$ 130,517
Less amounts recognized as revenue in the year	(21,156)	(26,650)
Balance, end of year	\$ 82,711	\$ 103,867

FORUM OF FEDERATIONS/FORUM DES FÉDÉRATIONS

Notes to the Financial Statements

year ended March 31, 2006

8. LONG-TERM FUND

The Long-Term Fund was created in 2001 from a \$10,000,000 grant from the Department of Foreign Affairs and International Trade (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. The difference between the amount eligible to be drawn-down during the year and the amount recognized as revenue during the year is transferred to the current deferred contributions at year-end, as these contributions are available for use by the Forum in the following years.

	<u>2006</u>	<u>2005</u>
Balance, beginning of year	\$ 21,879,173	\$ 5,894,702
Investment income (loss)	626,534	(29,397)
Investment management fees	(48,493)	(10,132)
Excess funds transferred to short-term deferred contributions	(1,312,100)	-
Fund withdrawals recognized as revenue in the year	(3,287,900)	(3,976,000)
Grant renewal	-	20,000,000
Balance, end of year	17,857,214	21,879,173
Less current portion	4,000,000	4,600,000
Long-term portion	<u>\$ 13,857,214</u>	<u>\$ 17,279,173</u>

9. CONTINGENT LIABILITY

Pursuant to a contribution agreement with CIDA, there is a requirement for the Forum to contribute 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.

10. COMMITMENTS

The Forum is committed under an operating lease for an office facility that expires June 30, 2006. The rental payments for 2007 total \$44,972.

FORUM OF FEDERATIONS/FORUM DES FÉDÉRATIONS

Notes to the Financial Statements

year ended March 31, 2006

11. PENSION CONTRIBUTIONS

The Forum contributes to a defined contribution pension plan for employees. The employer's contributions for the year were \$77,669 (2005 - \$96,250).

12. ECONOMIC DEPENDANCE

During the year, 77% (2005 - 88%) of the Forum's revenue was from DFAIT.

13. RELATED PARTY TRANSACTIONS

Related party transactions with directors during the year ended March 31, 2006 at exchange amounts were as follows:

	Consulting/ Honarium Fees
B. Rae / Goodmans	\$ 60,061
A. Kohler	36,000
D. Cameron	25,595
R. Watts	7,347
	<hr/>
	\$ 129,003

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

	<u>2006</u>	<u>2005</u>
B. Rae / Goodmans	\$ 22,197	\$ 11,358

14. FINANCIAL INSTRUMENTS

The carrying value of accounts receivable and accounts payable and accrued liabilities approximates their fair value due to the short-term nature of their maturity. The fair value of investments is disclosed in Note 4.

15. COMPARATIVE FIGURES

Certain figures of the previous year have been reclassified in order to conform with the current year's presentation.

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

year ended March 31, 2006

	<u>2006</u>	<u>2005</u>
Consultants	\$ 242,324	\$ 300,318
Distribution costs of publications	83,624	82,904
Grants and honorariums	320,333	251,920
Meeting facilities and hospitality	32,083	50,098
Memberships and subscriptions	7,469	5,813
Office	17,266	86,865
Printing and publications	106,873	86,595
Promotions	44,013	242
Salaries and benefits	1,185,889	1,050,880
Support services	341,758	386,365
Telecommunications	45,843	75,279
Translation services	62,114	95,244
Travel	593,031	869,733
	\$ 3,082,620	\$ 3,342,256