

Financial Statements of

**FORUM OF FEDERATIONS/
FORUM DES FÉDÉRATIONS**

March 31, 2008

Deloitte

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Auditors' Report

To the Directors of
Forum of Federations/Forum des Federations

We have audited the statement of financial position of the Forum of Federations/Forum des Federations (the "Forum") as at March 31, 2008 and the statements of changes in net assets, revenues 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, 2008 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, except for the changes in accounting for financial instruments as explained in Note 2 to the financial statements, these principles have been applied on a basis consistent with that of the preceding year.

Deloitte & Touche LLP

Chartered Accountants
Licensed Public Accountants

June 6, 2008

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Financial Statements
March 31, 2008

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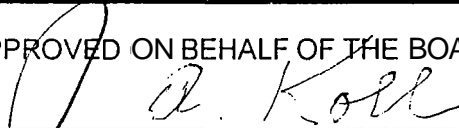
FORUM OF FEDERATIONS / FORUM DES FEDERATIONS

Statement of Financial Position

as at March 31, 2008

	<u>2008</u>	<u>2007</u> (Restated - Note 15)
CURRENT ASSETS		
Cash	\$ 1,686,001	\$ 1,257,639
Accounts receivable (Note 3)	448,113	333,036
Investments (Note 4)	309,577	730,901
Investments - restricted (Note 4)	3,400,000	3,600,000
Prepaid expenses	24,827	37,866
Program advances	4,374	73,372
	5,872,892	6,032,814
CAPITAL ASSETS (Note 5)	184,409	204,404
INVESTMENTS - RESTRICTED (Note 4)	8,426,619	11,818,421
	\$ 14,483,920	\$ 18,055,639
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 998,448	\$ 679,946
Deferred contributions (Note 6)	754,819	861,092
Deferred contributions - Long-Term Fund (Note 8)	3,400,000	3,600,000
	5,153,267	5,141,038
DEFERRED CONTRIBUTIONS FOR CAPITAL ASSETS (Note 7)	52,533	65,901
DEFERRED CONTRIBUTIONS - LONG-TERM FUND (Note 8)	8,426,619	11,818,421
	13,632,419	17,025,360
CONTINGENT LIABILITY (Note 9)		
NET ASSETS		
Invested in capital assets	131,876	138,503
Unrestricted	719,625	891,776
	851,501	1,030,279
	\$ 14,483,920	\$ 18,055,639

APPROVED ON BEHALF OF THE BOARD

 Chair

 Treasurer

FORUM OF FEDERATIONS/FORUM DES FEDERATIONS

Statement of Changes in Net Assets

year ended March 31, 2008

	<u>Invested in Capital Assets</u>	<u>Unrestricted</u>	<u>2008</u>	<u>2007</u> <u>(Restated - Note 15)</u>
BALANCE, BEGINNING OF YEAR	\$ 138,503	\$ 891,776	\$ 1,030,279	\$ 677,287
Excess (deficiency) of revenue over expenses	(69,227)	(109,551)	(178,778)	352,992
Acquisition of capital assets	62,600	(62,600)		
BALANCE, END OF YEAR	\$ 131,876	\$ 719,625	\$ 851,501	\$ 1,030,279

FORUM OF FEDERATIONS/FORUM DES FEDERATIONS

Statement of Revenue and Expenses

year ended March 31, 2008

	<u>2008</u>	<u>2007</u>
Revenue		
Department of Foreign Affairs and International Trade		
Long-Term Fund	\$ 4,048,605	\$ 4,289,022
Projects	315,216	357,534
Canadian contribution	51,395	57,645
Other foreign country contributions	301,993	283,158
Canadian International Development Agency (CIDA)	1,317,197	367,794
Indian and Northern Affairs Canada (INAC)	38,009	
Government of Norway Project	251,001	73,221
Government of Switzerland Project	131,156	84,405
Government of the United Kingdom Project	111,049	-
Government of India Project	15,078	214,058
Other projects	62,025	65,351
Interest	23,457	23,966
Other income	28,753	43,367
Foreign exchange gain (loss)	(15,122)	1,025
	6,679,812	5,860,546
Expenses		
Advertising and promotion	410	2,491
Consultants	148,819	149,097
Grants and Honorariums	40,000	36,000
Leased equipment	5,124	4,727
Meetings and facilities	2,338	-
Office and general	91,567	134,140
Printing and publications	684	686
Professional fees	46,901	65,132
Projects (Schedule)	5,749,281	4,471,277
Rent	185,783	186,333
Salaries and benefits	404,828	387,642
Telephone and internet	25,270	20,946
Travel	88,358	15,085
	6,789,363	5,473,556
Excess (deficiency) of revenue over expenses before the undernoted	(109,551)	386,990
Amortization of deferred contributions for capital assets	13,368	16,810
Amortization of capital assets	(82,595)	(50,808)
EXCESS (DEFICIENCY) OF REVENUE OVEREXPENSES	\$ (178,778)	\$ 352,992

FORUM OF FEDERATIONS/FORUM DES FEDERATIONS

Statement of Cash Flows

year ended March 31, 2008

	<u>2008</u>	<u>2007</u>
CASH PROVIDED BY (USED FOR):		
OPERATING		
Excess (deficiency) of revenue over expenses	\$ (178,778)	\$ 352,992
Items not affecting cash		
Amortization of contributions related to capital assets	(13,368)	(16,810)
Amortization of capital assets	82,595	50,808
	(109,551)	386,990
Change in non-cash operating working capital items		
Accounts receivable	(115,077)	85,740
Prepaid expenses	13,039	(13,923)
Program advances	68,998	(73,372)
Accounts payable and accrued liabilities	318,502	234,018
	175,911	619,453
INVESTING AND FINANCING		
Investment withdrawals	4,013,126	3,470,141
Acquisition of capital assets	(62,600)	(81,661)
Deferred contributions	(3,698,075)	(3,398,749)
	252,451	(10,469)
NET CASH INFLOW	428,362	608,984
CASH, BEGINNING OF YEAR	1,257,639	648,655
CASH, END OF YEAR	\$ 1,686,001	\$ 1,257,639

FORUM OF FEDERATIONSIFORUM DES FEDERATIONS

Notes to the Financial Statements

year ended March 31.2008

1. NATURE OF OPERATIONS

The Forum of Federations/Forum des Federations (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:

Financial instruments

Effective April 1, 2007, the Forum adopted the following recommendations of the Canadian institute of Chartered Accountants (CICA) Handbook: Section 3855, *Financial Instruments - Recognition and Measurement*; Section 3865, *Hedges*; Section 3861, *Financial Instruments - Disclosure and Presentation*; and amendments to Section 4400, *Financial Statement Presentation by Not-For-Profit Organizations*. These new Handbook Sections provide comprehensive requirements for the recognition, measurement and disclosure of financial instruments. The amendments to Handbook Section 4400 require certain gains and losses to be recognized initially as direct entries to the Statement of Changes in Net Assets for the period.

The new Handbook Section 3855 provides comprehensive requirements for the recognition and measurement of financial instruments. Financial instruments are initially recognized at fair value with subsequent measurement depending on their classification, as described below. These new policies were adopted on a retrospective basis with changes in fair value related to the prior fiscal year presented as an adjustment to the opening net asset balance. In accordance with the provisions of this new standard, the Forum reflected the following adjustment as of April 1, 2007: an increase of \$59,914 to investments and to deferred contributions due to changing to the effective interest rate method from the straight-line method of amortizing premiums and discounts.

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Notes to the Financial Statements
year ended March 31,2008

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

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

Classification:

Cash and cash equivalents	Held-for-trading
Investments	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.

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Notes to the Financial Statements

year ended March 31, 2008

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%

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.

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.

FORUM OF FEDERATIONS/FORUM DES FEDERATIONS

Notes to the Financial Statements

Year ended March 31, 2008

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of estimates (Continued)

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.

Future accounting changes

In December 2006, the CICA issued Section 3862, *Financial Instruments - Disclosures*; Section 3863, *Financial Instruments - Presentation*; and Section 1535, *Capital Disclosures*. All three Sections will be applicable to financial statements relating to fiscal years beginning on or after October 1, 2007. Accordingly, the Forum will adopt the new standards for its fiscal year beginning on April 1, 2008. Section 3862 on financial instruments disclosure 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. Section 1535 on capital disclosures requires the disclosure of information about the entity's objectives, policies and processes for managing capital.

The Forum is currently evaluating the impact of the adoption of these new standards on its financial statements. The Forum does not expect that the adoption of these new Sections will have a material impact on its financial statements.

3. ACCOUNTS RECEIVABLE

	<u>2008</u>	<u>2007</u>
Restricted contributions receivable	\$ 199,068	\$ 263,019
Country contributions receivable	51,335	-
Canada Revenue Agency (GST)	78,839	41,561
Other	118,811	28,456
	<u>\$ 448,113</u>	<u>\$ 333,036</u>

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Notes to the Financial Statements

year ended March 31, 2008

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.

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.

	2008			2007		
	Amortized Cost (Note 2)	Fair Value	% of Cost	Amortized cost (Restated - Note 15)	Fair Value	% of cost
Fixed income						
Canadian	\$ 11,555,247	\$ 11,498,276	95.2	\$ 14,916,795	\$ 14,745,252	92.2
Foreign	580,924	568,943	4.8	891,760	865,993	5.7
Cash	25	25	0.0	340,767	340,767	2.1
Total investments	12,136,196	\$ 12,067,244	100.0	16,149,322	\$ 15,952,012	100.0
Less current unrestricted portion	309,577			730,901		
Less current restricted portion	3,400,000			3,600,000		
Long-term restricted portion	\$ 8,426,619			\$ 11,818,421		

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Notes to the Financial Statements
year ended March 31.2008

4. 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 3 years. Effective interest rates to maturity for these securities range from 2.95% to 10.75% (2007 - 2.73% to 10.25%).

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

	2008			2007
	cost	Accumulated Amortization	Net Book Value	Net Book Value
Furniture and fixtures	\$ 362,401	\$ 273,895	\$ 88,506	\$ 106,265
Computer hardware	246,732	196,853	49,879	66,855
Computer software	85,067	82,609	2,458	27,825
Leasehold improvements	298,806	255,240	43,566	3,459
	\$ 993,006	\$ 808,597	\$ 184,409	\$ 204,404

6. DEFERRED CONTRIBUTIONS

	2008	2007
		(Restated - Note 15)
Balance, beginning of year	\$ 861,092	\$ 401,948
Less amounts recognized as revenue in the year	(2,240,731)	(1,162,363)
Restricted contributions received during the year	2,198,408	1,610,172
Increase (decrease) in restricted contributions receivable	(63,950)	11,335
Balance, end of year	\$ 754,819	\$ 861,092

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Notes to the Financial Statements

year ended March 31, 2008

7. DEFERRED CONTRIBUTIONS FOR CAPITAL ASSETS

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

	<u>2008</u>	<u>2007</u>
Balance, beginning of year	\$ 65,901	\$ 82,711
Less amounts recognized as revenue in the year	<u>(13,368)</u>	<u>(16,810)</u>
Balance, end of year	<u>\$ 52,533</u>	<u>\$ 65,901</u>

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. 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 \$500,000 (2007 - \$346,667).

	<u>2008</u>	<u>2007</u>
		(Restated - Note 15)
Balance, beginning of year (restated - Note 15)	\$15,418,421	\$19,276,314
Investment income	448,284	491,311
Change in accounting policy (Note 2)	59,914	-
Investment management fees	-	(2,537)
Fund withdrawals recognized as revenue in the year	<u>(4,100,000)</u>	<u>(4,346,667)</u>
Balance, end of year	11,826,619	15,418,421
Less current portion	<u>3,400,000</u>	<u>3,600,000</u>
Long-term portion	<u>\$ 8,426,619</u>	<u>\$11,818,421</u>

FORUM OF FEDERATIONS/FORUM DES FEDERATIONS

Notes to the Financial Statements

year ended March 31, 2008

9. 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.

10. COMMITMENTS

The Forum is committed under an operating lease for an office facility that expires June 30, 2009. Annual payments are \$186,000.

11. PENSION CONTRIBUTIONS

The Forum contributes to a defined contribution pension plan for employees. The employer's contributions for the year were \$110,121 (2007 - \$108,317).

12. ECONOMIC DEPENDANCE

During the year, 66% (2007 - 80%) of the Forum's revenue was from DFAIT.

13. ADMINISTRATION OF A PROJECT

The Forum collaborates with partner governments in the organization of international conferences on Federalism. The fourth Conference was hosted by the Government of India in November 2007. In order to prevent last minute disruption of international participants to the conference, the Forum agreed to facilitate payment to the travel agency based in Canada on behalf of the Indian Government. As such, the Forum accepted the responsibility of collecting funds from the Indian Government and issuing cheques to the travel agent for approved expenses. The receipts and disbursements for this arrangement are not recognized as revenue and expenses of the Forum. During 2008, the Forum disbursed \$636,211 and received \$531,300. The Forum's accounts receivable balance includes \$104,911 outstanding from the Indian Government for the Conference. The Indian Government has committed, in writing, to clearing this receivable balance.

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Notes to the Financial Statements
year ended March 31,2008

14. RELATED PARTY TRANSACTIONS

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

	<u>2008</u>	<u>2007</u>
	Consulting/ Honorarium <u>Fees</u>	Consulting/ Honorarium <u>Fees</u>
A. Kohler	\$ 40,000	\$ 36,000
D. Cameron	47,135	29,937
V. Ruiz	16,200	3,900
R. Wilkins	10,045	7,000
R. Watts	-	7,500
S. Lakshmi	-	5,807
	<u>\$ 113,380</u>	<u>\$ 90,144</u>

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

	<u>2008</u>	<u>2007</u>
R. Wilkins	\$ 10,045	\$ 7,000
A. Kohler	5,422	-
V. Ruiz	4,696	750
S. Lakshmi	-	5,807
D. Cameron	-	200
	<u>\$ 20.163</u>	<u>\$ 13.757</u>

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Notes to the Financial Statements

year ended March 31, 2008

15. PRIOR PERIOD ADJUSTMENT

During the year, the Forum became aware of misinterpretations that had occurred relating to the long-term funding agreement with DFAIT. As a result, the Forum has restated the March 31, 2007 statements as follows:

- \$1,072,433 reclassification from current investments to long-term investments - restricted;
- \$1,312,100 decrease in the opening balance of current deferred contributions and an equal increase to the opening balance of the deferred contributions - Long-Term Fund;
- \$346,667 decrease in the deferred contributions - Long-Term Fund and an equal increase to the current deferred contributions; and
- \$107,000 decrease to the opening balance of the unrestricted net assets and an equal increase to the opening balance of the deferred contributions - Long-Term Fund.

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

year ended March 31, 2008

	<u>2008</u>	<u>2007</u>
Consultants	\$ 692,592	\$ 476,592
Distribution costs of publications	140,026	87,730
Grants and honorariums	130,662	118,830
Meeting facilities and hospitality	102,422	72,799
Memberships and subscriptions	3,728	3,961
Office	99,151	99,059
Printing and publications	242,719	109,344
Promotions	6,251	70,752
Salaries and benefits	1,822,433	1,559,308
Support services	766,437	639,328
Telecommunications	92,098	50,823
Translation services	143,599	155,263
Travel	1,507,163	1,027,488
	<u>\$ 5,749,281</u>	<u>\$ 4,471,277</u>