

Financial Statements of

**CENTRE FOR AFFORDABLE
WATER AND SANITATION
TECHNOLOGY**

(a registered charitable organization, operating as CAWST)

Years ended December 31, 2008 and 2007

AUDITORS' REPORT

To the Board of Directors
Centre for Affordable Water and Sanitation Technology

We have audited the statement of financial position of the Centre for Affordable Water and Sanitation Technology (the "Centre") as at December 31, 2008 and the statements of earnings, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Centre's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, 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 common with many charitable organizations, the Centre derives part of its revenue from the public in the form of donations, the completeness of which is not susceptible of satisfactory audit verification. Accordingly our verification of these revenues was limited to the amounts recorded in the records of the Centre and we were not able to determine whether any adjustments might be necessary to donation revenue, excess of revenue over expenses, assets and net asset balances.

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of donation revenue referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Centre as at December 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.

Chartered Accountants

Calgary, Canada
April 21, 2009

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Statement of Financial Position

December 31, 2008, with comparative figures for 2007

	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 955,083	\$ 66,614
Term deposits (notes 9 and 10)	50,716	983,410
Accounts receivable	120,698	39,934
Prepaid expenses	5,616	6,113
	<u>1,132,113</u>	<u>1,096,071</u>
Property and equipment (note 5)	67,636	100,203
	<u>\$ 1,199,749</u>	<u>\$ 1,196,274</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 66,803	\$ 41,216
Deferred revenue (notes 9 and 10)	212,450	367,410
	<u>279,253</u>	<u>408,626</u>
Deferred contributions related to property and equipment (note 7)	5,681	8,678
Net assets:		
Invested in property and equipment	61,955	91,525
Accumulated operating surplus	852,860	687,445
	<u>914,815</u>	<u>778,970</u>
Commitments (note 11)		
	<u>\$ 1,199,749</u>	<u>\$ 1,196,274</u>

See accompanying notes to financial statements.

Approved on behalf of the Board:

_____ Director

_____ Director

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Statement of Earnings

Year ended December 31, 2008, with comparative figures for 2007

	2008	2007
Revenues:		
Donations (notes 4, 7 and 8)	\$ 1,717,922	\$ 1,524,067
Training courses	68,430	30,018
Project consulting	67,199	12,346
Interest income	20,506	35,119
	1,874,057	1,601,550
Expenses:		
Salary and benefits	1,023,049	899,582
Travel	178,864	124,838
Office and administration	134,913	129,688
Consulting	119,442	60,456
Meals and entertainment	72,523	43,602
Rent and utilities	62,111	54,866
Materials and lab supplies	41,377	36,122
Insurance	25,261	19,718
Water expertise training centre expenses	16,895	—
Professional fees	16,370	12,146
Training and conferences	4,325	1,441
Loss on sale of marketable securities (note 4)	651	1,603
Loss on disposal of equipment	—	812
Depreciation	37,431	39,390
	1,733,212	1,424,264
Excess of revenues over expenses	\$ 140,845	\$ 177,286

See accompanying notes to financial statements.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Statements of Changes in Net Assets

Years ended December 31, 2008 and 2007

	Invested in property and equipment	Unrestricted	Total	
			2008	2007
Balance, beginning of year	\$ 91,525	\$ 687,445	\$ 778,970	\$ 601,684
Excess (deficiency) of revenues over expenses	(34,434)	175,279	140,845	177,286
Calgary Foundation (note 6)	–	(5,000)	(5,000)	–
Investment in property and equipment	4,864	(4,864)	–	–
Balance, end of year	\$ 61,955	\$ 852,860	\$ 914,815	\$ 778,970

See accompanying notes to financial statements.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Statements of Cash Flows

Years ended December 31, 2008 and 2007

	2008	2007
Operating activities:		
Excess of revenues over expenses	\$ 140,845	\$ 177,286
Items not affecting cash flows:		
Depreciation	37,431	39,390
Amortization of deferred contributions	(2,997)	(2,997)
Marketable securities donated	(112,106)	(553,877)
Proceeds on sale of marketable securities	111,455	552,274
Loss on sale of marketable securities	651	1,603
Loss on disposal of property and equipment	-	812
Deferred revenue	-	(250,000)
Net change in non-cash working capital balances:		
Receivable	(80,764)	25,470
Prepaid expenses	497	3,716
Accounts payable and accrued liabilities	25,587	(5,179)
Deferred revenue	(154,960)	(4,006)
	(34,361)	(15,508)
Investing and financing activities:		
Redemption of term deposit	932,694	46,590
Purchase of equipment	(4,864)	(53,969)
Calgary Foundation	(5,000)	-
	922,830	(7,379)
Net increase (decrease) in cash during the year	888,469	(22,887)
Cash, beginning of year	66,614	89,501
Cash, end of year	\$ 955,083	\$ 66,614

See accompanying notes to financial statements.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements

Years ended December 31, 2008 and 2007

1. Purpose of the organization:

The Centre for Affordable Water and Sanitation Technology (“CAWST” or “the Centre”) was formed to provide technical training and support in water sanitation services for those who serve the poor in developing countries. The Centre was incorporated on October 2, 2001 under the Alberta Societies Act as a not-for-profit organization. The Centre is a not-for-profit organization under Section 149(1) of the Income Tax Act and accordingly, is not subject to income tax. Effective January 1, 2002 the Centre was awarded charitable status for income tax purposes.

2. Significant accounting policies:

Management has prepared the Centre’s financial statements in accordance with accounting principles generally accepted in Canada, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the valuation allowance for accounts receivable and the useful life of property and equipment for depreciation purposes and evaluation of their net recoverable amount. Consequently, actual results could differ from these estimates. In management’s opinion, the financial statements have been properly prepared within the framework of the significant accounting policies summarized below.

(a) Basis of accounting:

The Centre maintains its accounts using the accrual basis of accounting. Under this method, all revenue is recorded when earned and collection is reasonably assured and expenses are recorded when incurred.

(b) Fund accounting:

The Centre currently has only one fund, the Operating Fund, which is unrestricted and accounts for the Centre’s program delivery and administrative activities.

(c) Cash and cash equivalents:

Cash and cash equivalents includes cash on deposit and short-term investments and term deposits with original maturities of less than three months.

(d) Term deposits:

Term deposits are recorded at cost and include amounts having original maturity dates greater than three months and less than one year.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 2

Years ended December 31, 2008 and 2007

2. Significant accounting policies (continued):

(e) Marketable securities:

Periodically, the Centre receives donations of securities of publicly traded companies. The fair value of these securities will be determined by the closing market price on the day the securities were received and when the securities are unencumbered with respect to any action by Centre.

The fair value attributed to these securities shall be used for purposes of revenue recognition and the value for the initial recognition of the asset on the balance sheet.

It is the intention of the Centre that upon the receipt of such securities that they will be designated as "held for sale" and are to be sold as quickly as possible in an orderly fashion.

After the initial revenue recognition, the securities will be re-measured at their fair value ("marked to market") without any deduction for transaction costs that may be incurred on their future sale. To the extent the fair value changes from the initial fair value recognition, such difference, either positive or negative, shall be recorded as income or as an expense in the income statement with the carrying value of the securities adjusted accordingly on the balance sheet.

(f) Property and equipment:

Property and equipment is recorded at cost. Donated property and equipment is recognized at fair market value when fair market value at date of contribution can be reasonably estimated. Depreciation is recorded using the straight-line method over the following estimated useful lives:

Equipment	5 years
Computer hardware and software	3 years
Office furniture	10 years
Leasehold improvements	Term of lease – 5 years

(g) Revenue recognition:

The Centre follows the deferral method of accounting for contributions, which include donations and project consulting. Revenue is recognized when collection is reasonably assured. Externally restricted contributions related to general operations are recognized as revenue of the Operating Fund in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue in the year received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 3

Years ended December 31, 2008 and 2007

2. Significant accounting policies (continued):

(h) Donated materials and services:

Donations in kind are recorded in the financial statements at fair market value when fair market value can be reasonably estimated. Volunteers contribute substantial donated time and services to assist the Centre in carrying out activities. Because of the difficulty of determining fair market value of these donated services, they are not recorded in these financial statements.

Revenue associated with capital-in-kind asset donations is recognized as donations revenue in amounts that equal the annual depreciation of the capital in-kind asset contribution.

(i) Foreign currency translation:

Monetary assets and liabilities in foreign currencies are translated to Canadian dollars at rates of exchange in effect at the end of the period. Other assets and liabilities, revenues and expenses are translated at rates of exchange in effect at the respective transaction dates. The resulting exchange gains and losses are included in earnings.

(j) Financial instruments:

All financial instruments must be initially recognized at fair value on the balance sheet date. The Centre has classified each financial instrument into the following categories; held for trading financial assets and liabilities, loans or receivables, held to maturity investments, available for sale financial assets, and other financial liabilities. Subsequent measurement of the financial instruments is based on their classification. Unrealized gains and losses on held for trading financial instruments are recognized in earnings. Gains and losses on available for sale financial assets are recognized in changes in net assets and transferred to earnings when the asset is derecognized. The other categories of financial instruments are recognized at amortized costs using the effective interest rate method.

Upon adoption of the new standards, the Centre has classified cash, term deposits and marketable securities as held for trading, accounts receivable as loans and receivables, and accounts payable as other liabilities.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 4

Years ended December 31, 2008 and 2007

2. Significant accounting policies (continued):

(k) Capital disclosures:

As of January 1, 2008, the Company adopted the new Canadian accounting standards relating to capital disclosures. This standard requires entities to disclose their objectives, policies and processes for managing capital. In addition, disclosures are to include whether entities have complied with externally imposed requirements. The Company complied with any additional financial statement disclosure requirements resulting from this new standard.

(l) Future accounting pronouncements:

Financial Statement Presentation by Not-for-Profit Organizations:

Recent amendments to Section 4400, Financial Statement Presentation by Not-for-Profit Organizations, will modify the requirement with respect to various elements of financial statement presentation. These amendments include:

- (i) Reporting certain revenues at their gross amounts in the statement of revenue and expenses.
- (ii) When a not-for-profit organization classifies its expenses by function and allocates some of its fundraising and general support costs to another function, disclosing the policy adopted for expenses and amounts allocated from each of these two functions to other functions.
- (iii) The elimination of the requirement to treat net assets invested in property and equipment as a separate component of net assets.

The new standard applies to financial statements relating to the fiscal years beginning on or after January 1, 2009. This standard will impact the CAWST's disclosure provided but will not affect the CAWST's results or financial position.

3. Financial instruments:

(a) Fair value of financial assets and financial liabilities:

Financial instruments include cash, term deposits, accounts receivable and accounts payable and accrued liabilities and approximate their carrying value because of the short term nature of these instruments.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 5

Years ended December 31, 2008 and 2007

3. Financial instruments (continued):

(b) Foreign currency risk:

The Centre is exposed to foreign currency fluctuations as it holds cash denominated in various foreign currencies. A 1% change in foreign exchange rates would impact the cash held in foreign currencies by \$153.

(c) CAWST has exposure to the following risks from its use of financial instruments:

(i) Credit risk:

CAWST's exposure to credit risk is on cash and cash equivalents, term deposits, accounts receivable and the endowment fund.

Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Cash consists of cash bank balances; the term deposit represents a short-term investment with a Canadian bank. Credit risk for accounts receivable and the fund investment is the risk that the obligation will fail to be discharged causing CAWST to incur a financial loss. Credit risk is minimized by ensuring that term deposits are limited to amounts covered by insurance limits, that credit is only extended to those entities that management believes has the financial capacity to pay obligations due to CAWST, and the fund investments are diversified across different classes of assets and are such investments are managed by professional managers.

At December 31, 2008, 58% of the Centre's accounts receivable is owing from one entity, the amount owing has not been collected subsequent to the year end.

(ii) Liquidity risk:

Liquidity is the risk that CAWST will encounter difficulty in raising donations to meet commitments associated with financial instruments. Management controls liquidity risk through cash flow projections used to forecast funding requirements for its financial instruments.

(iii) Market risk:

Current and future investments in the endowment fund are subject to market risk due to changes in the value of investments in the fund. Fluctuations in general market interest rates have an impact on investments returns in the term deposits and fixed income investments in the endowment fund.

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Notes to Financial Statements, page 6

Years ended December 31, 2008 and 2007

3. Financial instruments (continued):

(d) CAWST has exposure to the following risks from its use of financial instruments (continued):

(iii) Market risk (continued):

Some of the contracts CAWST enters into to deliver programs in foreign countries may be denominated in a foreign currency, primarily the U.S. dollar. Subject to fluctuations in the exchange rates between the Canadian dollar and these currencies could result in changes in the cash and accounts receivable.

4. Marketable securities:

During the year marketable securities were donated to CAWST with a value of \$112,106 (2007 - \$553,877). Of this amount \$112,106 (2007 - \$453,877) was recorded in donations revenue. The balance of \$nil (2007 - \$100,000) was designated by the donors to cover future expenditures.

During the year, marketable securities were sold for total proceeds of \$111,455 (2007 - \$552,274) resulting in a net loss on disposal of \$651 (2007 - \$1,603).

At the end of 2008, there were no marketable securities.

5. Property and equipment:

2008	Cost	Accumulated depreciation	Net book value
Computer hardware and software	\$ 116,283	\$ 96,381	\$ 19,902
Office furniture	26,211	11,731	14,480
Equipment	18,290	9,006	9,284
Leasehold improvements	34,243	10,273	23,970
	\$ 195,027	\$ 127,391	\$ 67,636
2007			
Computer hardware and software	\$ 111,419	\$ 72,019	\$ 39,400
Office furniture	26,211	9,110	17,101
Equipment	18,290	5,407	12,883
Leasehold improvements	34,243	3,424	30,819
	\$ 190,163	\$ 89,960	\$ 100,203

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Years ended December 31, 2008 and 2007

6. Centre for Affordable Water and Sanitation Technology Fund:

CAWST participates in a pooled endowment investment fund established on April 9, 2008, pursuant to a resolution of CAWST's Board of Directors. The fund is administered by the Calgary Foundation with all capital contributions to the endowment fund to be held in perpetuity by the Calgary Foundation. As at December 31, 2008, the endowment fund totaled \$4,070, being the initial donation of \$5,000 less a decline in market value of \$930 to December 31, 2008.

7. Deferred contributions related to property and equipment:

During 2004, the Centre received donated office furniture and computer hardware. The fair market value of \$19,000 for these items was determined by a third party appraisal company or the donor. Depreciation on this property and equipment in 2008 of \$2,997 (2007 - \$2,997) is included in the total depreciation of \$37,431 (2007 - \$39,390) for the year.

Deferred contributions related to property and equipment included the unamortized portion of externally restricted contributions received for the purchase of property and equipment. The amortization of deferred contributions is recorded as donations revenue in the statement of operations.

	2008	2007
Balance, beginning of year	\$ 8,678	\$ 11,675
Amounts amortized to donation revenue	(2,997)	(2,997)
Balance, end of year	\$ 5,681	\$ 8,678

8. Related party transactions:

(a) During the years ended December 31, 2008 and 2007, the Centre's Chief Executive Officer donated all time and services relating to this full time position. During 2008 and 2007 the spouse of the Centre's Chief Executive Officer worked for the Centre as its interim Director of Research Learning. He donated all time and services relating to this full time position.

Commencing in 2007 the Chief Executive Officer and interim Director of Research Learning have decided that they will not ask for reimbursement of their out-of-pocket travel and entertainment expenses incurred on behalf of CAWST until further notice. No such notice was given during the year.

At December 31, 2008 and 2007 there were no amounts owing to either of these individuals.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 8

Years ended December 31, 2008 and 2007

8. Related party transactions (continued):

- (b) During the year ended December 31, 2008, the Centre received cash donations of \$125,273 (2007 - \$2,000) and donated marketable securities of \$86,596 (2007 - \$193,965) from certain Directors, the Chief Executive Officer and interim Director of Research Learning. These donations are accounted for in accordance with the Centre's policy for recorded contributions.

9. Externally restricted deposit:

The term deposits includes \$nil (2007 - \$350,000) of cash which is externally restricted to pay for future operating expenses. The \$350,000 is included in deferred revenue in 2007.

10. Deferred revenue:

Deferred revenue is comprised of amounts that have been donated and the use of such funds is restricted by the donor. The restricted funds may be used by CAWST to cover expenditures in a future year or years, for use in a specific country or countries, for a specific project or projects or any combination of these uses.

At the end of the year deferred revenue was comprised of the following amounts:

	2008	2007
Donated term deposits	\$ -	\$ 350,000
Other	212,450	17,410
	<u>\$ 212,450</u>	<u>\$ 367,410</u>

11. Commitments:

- (a) During 2007, the Centre renewed its lease for the rental of premises for a five year period commencing June 1, 2007. Under the lease the annualized rent is subject to adjustments for operating costs. The annual rental expense is \$52,900 and expires May 31, 2012.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 9

Years ended December 31, 2008 and 2007

11. Commitments (continued):

- (b) On October 9, 2008, CAWST signed a multi-year agreement with the Canadian International Development Agency ("CIDA") toward the implementation of a program entitled "Water for Community Health" in Zambia, India and Haiti in the amount of Canadian \$1,427,851. Under the terms of the agreement CIDA will contribute 75% of the cost incurred by CAWST. CAWST's 25% will amount to \$475,950. During the year, CAWST received \$171,752, of which \$59,300 has been recognized as donation revenue and \$112,452 remains in deferred revenue.
- (c) Under the terms of a two-year agreement with the United Nations Human Settlements Programme ("UN-HABITAT") signed February 13, 2006, CAWST will help build country level capacity on household water treatment systems in three countries of the Mekong Region of Southeast Asia. Under the terms of the agreement, UN-HABITAT will provide CAWST with funds up to a maximum of U.S.\$76,000 (Canadian \$91,566), with CAWST providing an equal amount for the funding over the life of the project. During 2008 costs of \$60,939 (2007 - \$45,200) were incurred on the project and CAWST has accrued U.S. \$56,945 (Canadian \$70,006) in accounts receivables related to the project recorded as project consulting revenue.

12. Capital management:

CAWST's objectives, policies and processes for managing capital include maximizing interest earned on donation cash proceeds. All cash donations are deposited in the general account and excess funds in term deposits. CAWST does not have any externally imposed capital requirements.

13. Revenue and expenses:

- (a) During 2007 CAWST introduced an employee benefits program, the cost of which is shared equally between CAWST and employees. The CAWST contribution in 2008 was \$13,200 (2007 - \$4,600) and is included in salary and benefits expense.
- (b) At the end of 2008 and 2007 there was no allowance for doubtful receivables.