



Financial Statements of

**CENTRE FOR AFFORDABLE
WATER AND SANITATION
TECHNOLOGY**

(a registered charitable organization, operating as CAWST)

Year ended December 31, 2009



KPMG LLP
Chartered Accountants
2700 205 - 5th Avenue SW
Calgary AB T2P 4B9

Telephone (403) 691-8000
Fax (403) 691-8008
Internet www.kpmg.ca

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, 2009 and the statements of operations, 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, 2009 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
April 22, 2010

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Statement of Financial Position

December 31, 2009, with comparative figures for 2008

| | 2009 | 2008 |
|---|--------------|--------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 625,797 | \$ 955,083 |
| Term deposits | 570,740 | 50,716 |
| Marketable securities (note 4) | 7,205 | - |
| Accounts receivable | 90,331 | 120,698 |
| Prepaid expenses | 5,585 | 5,616 |
| | 1,299,658 | 1,132,113 |
| Property and equipment (note 5) | 46,452 | 67,636 |
| | \$ 1,346,110 | \$ 1,199,749 |
| Liabilities and Net Assets | | |
| Current liabilities: | | |
| Accounts payable and accrued liabilities | \$ 64,964 | \$ 66,803 |
| Deferred contributions (note 9) | 150,000 | 212,450 |
| | 214,964 | 279,253 |
| Deferred contributions related to property and equipment (note 7) | 2,840 | 5,681 |
| Net assets | 1,128,306 | 914,815 |
| Commitments (note 10) | | |
| | \$ 1,346,110 | \$ 1,199,749 |

See accompanying notes to financial statements.

Approved on behalf of the Board:

| | |
|--|----------|
|  <hr style="width: 80%; margin: 0 auto;"/> | Director |
|  <hr style="width: 80%; margin: 0 auto;"/> | Director |

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Statement of Operations

Year ended December 31, 2009, with comparative figures for 2008

| | 2009 | 2008 |
|---|-------------------|-------------------|
| Revenues: | | |
| Donations (notes 4, 7 and 8) | \$ 1,616,626 | \$ 1,658,622 |
| CIDA grant | 443,684 | 59,300 |
| Project consulting | 106,036 | 67,199 |
| Training courses | 26,314 | 68,430 |
| Interest income | 702 | 20,506 |
| | 2,193,362 | 1,874,057 |
| Expenses: | | |
| Salary and benefits | 1,099,923 | 1,023,049 |
| Water expertise and training centres | 274,838 | 16,895 |
| Travel | 176,988 | 178,864 |
| Office and administration | 146,392 | 134,913 |
| Consulting | 92,410 | 119,442 |
| Rent and utilities | 62,069 | 62,111 |
| Materials and laboratory supplies | 29,757 | 41,377 |
| Meals and entertainment | 27,527 | 72,523 |
| Insurance | 26,719 | 25,261 |
| Professional fees | 13,488 | 16,370 |
| Training and conferences | 4,179 | 4,325 |
| Loss (gain) on sale of marketable securities (note 4) | (2,320) | 651 |
| Depreciation | 27,901 | 37,431 |
| | 1,979,871 | 1,733,212 |
| Excess of revenues over expenses | \$ 213,491 | \$ 140,845 |

See accompanying notes to financial statements.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Statements of Changes in Net Assets

Years ended December 31, 2009 and 2008

| | 2009 | 2008 |
|----------------------------------|--------------|------------|
| Balance, beginning of year | \$ 914,815 | \$ 778,970 |
| Excess of revenues over expenses | 213,491 | 140,845 |
| Calgary Foundation (note 6) | — | (5,000) |
| Balance, end of year | \$ 1,128,306 | \$ 914,815 |

See accompanying notes to financial statements.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Statements of Cash Flows

Year ended December 31, 2009, with comparative figures for 2008

| | 2009 | 2008 |
|--|------------|------------|
| Operating activities: | | |
| Excess of revenues over expenses | \$ 213,491 | \$ 140,845 |
| Items not affecting cash flows: | | |
| Depreciation | 27,901 | 37,431 |
| Amortization of deferred contributions | (2,841) | (2,997) |
| Marketable securities donated | (686,033) | (112,106) |
| Proceeds on sale of marketable securities | 681,148 | 111,455 |
| (Gain) loss on sale of marketable securities | (2,320) | 651 |
| Net change in non-cash working capital balances: | | |
| Accounts receivable | 30,367 | (80,764) |
| Prepaid expenses | 31 | 497 |
| Accounts payable and accrued liabilities | (1,839) | 25,587 |
| Deferred contributions | (62,450) | (154,960) |
| | 197,455 | (34,361) |
| Investing activities: | | |
| Purchase of term deposits | (600,024) | - |
| Redemption of term deposits | 80,000 | 932,694 |
| Purchase of equipment | (6,717) | (4,864) |
| Calgary Foundation (note 6) | - | (5,000) |
| | (526,741) | 922,830 |
| Increase (decrease) in cash and cash equivalents during the year | (329,286) | 888,469 |
| Cash and cash equivalents, beginning of year | 955,083 | 66,614 |
| Cash and cash equivalents, end of year | \$ 625,797 | \$ 955,083 |

See accompanying notes to financial statements.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements

Year ended December 31, 2009, with comparative figures for 2008

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

Year ended December 31, 2009, with comparative figures for 2008

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 is the value of the donations recognized at the time of the receipt 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 estimated lives of the assets as follows:

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

(g) Revenue recognition:

The Centre follows the deferral method of accounting for contributions, which include donations, grants 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

Year ended December 31, 2009, with comparative figures for 2008

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 are 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 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

Year ended December 31, 2009, with comparative figures for 2008

2. Significant accounting policies (continued):

(k) Comparative figures:

Certain comparative figures have been reclassified to conform to the presentation in the current year.

(l) Change in accounting policy:

Effective January 1, 2009, CAWST adopted the Canadian Institute of Chartered Accountants ("CICA") amendments to the 4400 Sections of the CICA handbook. These amendments eliminate the requirement to show net assets invested in property and equipment as a separate component of net assets, clarify the requirement for revenue and expenses to be presented on a gross basis when the not-for-profit organization is acting as a principal and require a statement of cash flow. Adoption of these recommendations has restated the 2008 net assets to eliminate the separately disclosed investment in property and equipment.

3. Financial instruments:

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

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

(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 less than \$100.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 5

Year ended December 31, 2009, with comparative figures for 2008

3. Financial instruments (continued):

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

(i) Credit risk:

The Centre's exposure to credit risk is on accounts receivable.

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 the Centre 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 the Centre, and the fund investments are diversified across different classes of assets and are such investments are managed by professional managers.

At December 31, 2009, 78% of the Centre's accounts receivable was owed by two entities, and of the total amount owing 44% has not been collected subsequent to the year end.

(ii) Liquidity risk:

Liquidity is the risk that the Centre 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.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 6

Year ended December 31, 2009, with comparative figures for 2008

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 the Centre 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 the Centre with a value of \$686,033 (2008 - \$112,106). This amount of \$686,033 (2008 - \$112,106) was recorded in donations revenue. There were no funds designated by donors to cover future expenditures.

During the year, marketable securities were sold for total proceeds of \$681,148 (2008 - \$111,455) resulting in a net gain on disposal of \$2,081 (2008 - a loss of \$651).

At the end of 2009 the donated marketable securities not sold were written up to their fair market value of \$7,205, resulting in a gain since acquisition of \$239. At the end of 2008 there were no marketable securities held by CAWST prior to disposition.

5. Property and equipment:

| 2009 | Cost | Accumulated depreciation | Net book value |
|--------------------------------|-------------------|-----------------------------|-------------------|
| Computer hardware and software | \$ 123,000 | \$ 111,123 | \$ 11,877 |
| Office furniture | 26,211 | 14,352 | 11,859 |
| Equipment | 18,290 | 12,600 | 5,690 |
| Leasehold improvements | 34,243 | 17,217 | 17,026 |
| | \$ 201,744 | \$ 155,292 | \$ 46,452 |
| <hr/> | | | |
| 2008 | | | |
| 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 |

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 7

Year ended December 31, 2009, with comparative figures for 2008

6. Calgary Foundation Pooled Endowment Fund Held in Perpetuity:

On April 9, 2008, pursuant to a resolution of CAWST's Board of Directors, CAWST established a pooled endowment investment fund ("the Fund"). The Fund is administered by the Calgary Foundation with all capital contributions to the Fund to be held in perpetuity by the Calgary Foundation. The purpose of the Fund is to provide income to CAWST by way of pooled income generated by the Calgary Foundation. The capital contribution to the Fund has not been recorded in CAWST's financial statements. As at December 31, 2009, the Fund totaled \$4,642 (2008 - \$4,070), with initial value of \$5,000 less the decline in market value to December 31, 2009. During 2009, CAWST received \$197 (2008 - \$nil) included in interest income.

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. Depreciation on this property and equipment in 2009 of \$2,841 (2008 - \$2,997) is included in the total depreciation of \$ 27,901 (2008 - \$37,431) 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.

| | 2009 | 2008 |
|---------------------------------------|----------|----------|
| Balance, beginning of year | \$ 5,681 | \$ 8,678 |
| Amounts amortized to donation revenue | (2,841) | (2,997) |
| Balance, end of year | \$ 2,840 | \$ 5,681 |

8. Related party transactions:

- (a) During the years ended December 31, 2009 and 2008, the Centre's Chief Executive Officer donated all time and services relating to this full time position. During 2009 and 2008 the spouse of the Centre's Chief Executive Officer worked for the Centre as its Interim Director, Research Learnings. He donated all time and services relating to this full time position.
- (b) During the year ended December 31, 2009, the Centre received cash donations of \$47,385 (2008 - \$125,273), donated marketable securities of \$292,889 (2008 - \$86,596) and in kind donations of \$9,117 (2008 - \$nil) from certain directors in the amount of \$249,002 (2008 - \$86,596) and from the Chief Executive Officer and Director, Research Learnings in the amount of \$100,389 (2008 - \$125,273). These donations are accounted for in accordance with the Centre's policy for recorded contributions.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 8

Year ended December 31, 2009, with comparative figures for 2008

9. Deferred contributions:

Deferred contributions 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 the Centre 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 contributions was comprised of the following amounts:

| | 2009 | 2008 |
|--|-------------------|-------------------|
| Canadian International Development Agency ("CIDA") | \$ - | \$ 112,452 |
| Canadian Corporations | 150,000 | 99,998 |
| | <u>\$ 150,000</u> | <u>\$ 212,450</u> |

10. 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.
- (b) On October 9, 2008, CAWST signed a multi-year agreement with CIDA toward the implementation of a program entitled "Water for Community Health" in Zambia, India and Haiti with a total Direct Program cost of \$1,699,823. Under the terms of the agreement CIDA will contribute 75% of the cost incurred by CAWST which amount to \$1,274,867. CAWST's 25% contribution will amount to \$424,956. In addition, CIDA will contribute \$152,984 to CAWST, which is 12% of the \$1,274,867, as a reimbursement of administrative overhead.

CAWST had a balance of \$112,452 in deferred contributions at the start of 2009, which was the difference between funds advanced from CIDA and expenditures incurred in 2008. During 2009, CIDA advanced CAWST \$289,974 (2008 - \$171,752) for a total of \$461,726. CAWST recognized program expenditure of \$459,506 (2008 - \$59,300) in 2009 for program implementation consistent with costs incurred to date, reducing the balance of deferred contributions to \$nil and accrued revenue of \$41,258 included in accounts receivable at December 31, 2009.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 9

Year ended December 31, 2009, with comparative figures for 2008

10. Commitments (continued):

- (c) Under the terms of a two-year agreement with the United Nations Human Settlements Programme ("UN-HABITAT") signed February 13, 2006, CAWST helped 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 provided CAWST with funds up to a maximum of U.S.\$76,000 (Canadian \$91,566), with CAWST providing an equal amount of funding over the life of the project. In 2006 funding received by CAWST from UN-HABITAT was U.S.\$19,055 (Canadian \$21,416), during 2008 CAWST completed the project and accrued U.S. \$56,945 (Canadian - \$70,006) and during 2009 funds received was U.S.\$38,110 (Canadian \$50,062). The final installment outstanding is U.S.\$19,057 (Canadian \$19,945) which remains in accounts receivable. As at December 31, 2009, CAWST had no further commitment under this agreement.
- (d) Under the terms of a one-year water expertise and training centre agreement in Nepal commencing on April 1, 2009, the Centre has committed \$68,585. As at December 31, 2009, the Centre has advanced \$49,557 under this agreement, with \$49,557 included in water expertise and training centre expenses during the year.

11. Capital management:

The Centre'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. The Centre does not have any externally imposed capital requirements.

12. Revenue and expenses:

- (a) During 2007 the Centre introduced an employee medical benefits program. The cost of the program has employee contributions matched by CAWST up to 100% of employee contributions. The Centre contribution in 2009 was \$16,846 (2008 - \$13,200) and is included in salary and benefits expense.
- (b) At the end of 2009 and 2008 there was no allowance for doubtful receivables.