



Financial Statements of

**CENTRE FOR AFFORDABLE
WATER AND SANITATION
TECHNOLOGY**

(a registered charitable organization, operating as CAWST)

Year ended December 31, 2011

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Centre for Affordable Water and Sanitation Technology, which comprise the statement of financial position as at December 31, 2011 and the statements of operations, changes in net assets and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 comply with ethical requirements and plan and perform an audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

In common with many charitable organizations, the Centre for Affordable Water and Sanitation Technology 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 Centre for Affordable Water and Sanitation Technology and we were not able to determine whether any adjustments might be necessary to donation revenue, excess (deficiency) of revenue over expenses, assets and net assets.



Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Centre for Affordable Water and Sanitation Technology as at December 31, 2011, and its results of operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

April 19, 2012
Calgary, Canada

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

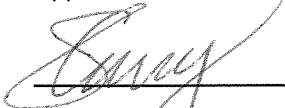
Statement of Financial Position

December 31, 2011, with comparative figures for 2010

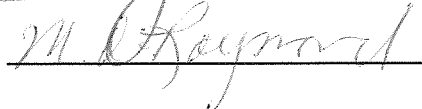
	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	\$ 978,573	\$ 773,616
Term deposits	373,330	570,000
Accounts receivable	11,860	54,423
Prepaid expenses	13,599	9,062
	<u>1,377,362</u>	<u>1,407,101</u>
Property and equipment (note 4)	26,195	30,965
	<u>\$ 1,403,557</u>	<u>\$ 1,438,066</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 90,056	\$ 113,582
Deferred contributions (note 7)	538,826	132,145
	<u>628,882</u>	<u>245,727</u>
Net assets	774,675	1,192,339
Commitments (note 9)		
	<u>\$ 1,403,557</u>	<u>\$ 1,438,066</u>

See accompanying notes to financial statements.

Approved on behalf of the Board:



Director



Director

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Statement of Operations

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Revenues:		
Donations (notes 5 and 8)	\$ 1,579,760	\$ 1,627,781
CIDA grant	438,035	539,764
Training courses	50,630	39,356
Project consulting	25,666	102,961
Interest income	5,770	3,522
	<u>2,099,861</u>	<u>2,313,384</u>
Expenses:		
Salary and benefits	1,311,827	1,237,574
Water expertise and training centers	373,185	307,172
Consulting	278,186	153,252
Travel	186,827	173,282
Office and administration	164,308	141,351
Rent and utilities	73,671	58,291
Professional fees	33,600	33,600
Insurance	33,152	32,559
Materials and laboratory supplies	30,386	70,908
Training and conferences	9,484	7,394
Meals and entertainment	1,248	10,486
Loss on sale of marketable securities (note 5)	2,958	1,842
Depreciation	18,693	21,640
	<u>2,517,525</u>	<u>2,249,351</u>
Excess (deficiency) of revenues over expenses	<u>\$ (417,664)</u>	<u>\$ 64,033</u>

See accompanying notes to financial statements.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Statement of Changes in Net Assets

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Balance, beginning of year	\$ 1,192,339	\$ 1,128,306
Excess (deficiency) of revenues over expenses	(417,664)	64,033
Balance, end of year	\$ 774,675	\$ 1,192,339

See accompanying notes to financial statements.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Statement of Cash Flows

Year ended December 31, 2011, with comparative figures for 2010

	2011	2010
Operating activities:		
Excess (deficiency) of revenues over expenses	\$ (417,664)	\$ 64,033
Proceeds on sale of marketable securities	350,944	509,723
Items not affecting cash flows:		
Depreciation	18,693	21,640
Marketable securities donated	(353,902)	(511,565)
Loss on sale of marketable securities	2,958	1,842
Amortization of deferred contributions	-	(2,840)
	(398,971)	82,833
Net change in non-cash working capital balances:		
Accounts receivable	42,563	35,908
Prepaid expenses	(4,537)	(3,477)
Accounts payable and accrued liabilities	(23,526)	48,618
Deferred contributions	406,681	(17,855)
	22,210	146,027
Investing activities:		
Redemption of term deposits	500,000	941,003
Purchase of term deposits	(303,330)	(940,263)
Purchase of equipment	(13,923)	(6,153)
Sale of marketable securities	-	7,205
	182,747	1,792
Increase in cash and cash equivalents	204,957	147,819
Cash and cash equivalents, beginning of year	773,616	625,797
Cash and cash equivalents, end of year	\$ 978,573	\$ 773,616
Supplemental cashflow information:		
Interest received	\$ 5,770	\$ 3,522

See accompanying notes to financial statements.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements

Year ended December 31, 2011, with comparative figures for 2010

1. Purpose of the organization:

The Centre for Affordable Water and Sanitation Technology ("CAWST") was formed to provide technical training and support in water sanitation services for those who serve the poor in developing countries. CAWST was incorporated on October 2, 2001 under the Alberta Societies Act as a not-for-profit organization. CAWST 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 CAWST was awarded charitable status for income tax purposes.

2. Significant accounting policies:

Management has prepared CAWST'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:

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

(b) Cash and cash equivalents:

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

(c) 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, 2011, with comparative figures for 2010

2. Significant accounting policies (continued):

(d) Marketable securities:

Periodically, CAWST 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 CAWST.

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 CAWST 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.

(e) 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
Leasehold improvements	Term of lease - 5 years
Equipment	5 years

(f) Revenue recognition:

CAWST 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, 2011, with comparative figures for 2010

2. Significant accounting policies (continued):

(g) 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 CAWST 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.

(h) 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.

(i) Financial instruments:

All financial instruments are initially recognized at fair value on the balance sheet date. CAWST 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.

CAWST has classified cash and cash equivalents, term deposits and marketable securities as held for trading, accounts receivable as loans and receivables, and accounts payable and accrued liabilities as other liabilities.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 4

Year ended December 31, 2011, with comparative figures for 2010

2. Significant accounting policies (continued):

(j) Pending accounting pronouncements:

In December 2010, the Accounting Standards Board ("AcSB") released the accounting standards impacting the future financial reporting framework for not-for-profit organizations. The AcSB proposes that not-for-profit organizations select one of the two following alternatives for financial reporting:

- (i) Accounting Standards for Not-for-Profit Organizations along with Accounting Standards for Private Enterprises, or
- (ii) International Financial Reporting Standards.

These available standards are applicable to fiscal years beginning on or after January 1, 2012. CAWST has determined that it will adopt Accounting Standards for Not-for-Profit Organizations along with Accounting Standards for Private Enterprises for the fiscal year beginning January 1, 2012. The impact of the adoption of those standards is not known or reasonably estimable at this time.

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:

CAWST 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 \$846.

(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 accounts receivable.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 5

Year ended December 31, 2011, with comparative figures for 2010

3. Financial instruments (continued):

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

(i) Credit risk (continued):

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 chartered bank. Credit risk for accounts receivable 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.

At December 31, 2011, 35% (2010 - 71%) of CAWST's accounts receivable was owed by one entity (2010 - one entity).

(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 are subject to market risk due to changes in the value. Fluctuations in general market interest rates have an impact on investments returns in the term deposits.

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.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 6

Year ended December 31, 2011, with comparative figures for 2010

4. Property and equipment:

	Cost	Accumulated depreciation	2011 Net book value	2010 Net book value
Computer hardware and software	\$ 134,963	\$ 126,099	\$ 8,864	\$ 9,394
Office furniture	26,211	19,594	6,617	9,238
Leasehold improvements	42,356	31,642	10,714	10,237
Equipment	18,290	18,290	–	2,096
	\$ 221,820	\$ 195,625	\$ 26,195	\$ 30,965

5. Marketable securities:

During the year, marketable securities were donated to CAWST with a value of \$353,902 (2010 - \$511,565). This amount of \$353,902 (2010 - \$511,565) 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 \$350,944 (2010 - \$509,723) resulting in a net loss on disposal of \$2,958 (2010 - \$1,842).

At the end of 2011, there were no marketable securities held by CAWST.

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, 2011, the Fund totaled \$4,419 (2010 - \$4,730), with initial value of \$5,000 less the decline in market value to December 31, 2011. During 2011, CAWST received \$244 (2010 - \$235) included in interest income.

7. Deferred contributions:

Deferred contributions are 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.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

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Year ended December 31, 2011, with comparative figures for 2010

7. Deferred contributions (continued):

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

	2011	2010
2011 Canadian International Development Agency ("CIDA") agreement (note 10(a))	\$ 538,826	\$ -
2008 Canadian International Development Agency ("CIDA") agreement (note 10(b))	-	132,145
	<u>\$ 538,826</u>	<u>\$ 132,145</u>

8. Related party transactions:

- (a) During the year ended December 31, 2010 and until September 30, 2011, CAWST's Chief Executive Officer donated all time and services relating to this full time position. The Founding Chief Executive Officer retired on September 30, 2011. As of October 1, 2011, a new Chief Executive Officer was hired on a salaried basis.
- (b) During the year ended December 31, 2011, CAWST received cash donations of \$117,778 (2010 - \$32,749), donated marketable securities of \$81,950 (2010 - \$157,763) and in kind donations of \$nil (2010 - \$5,988) from related parties. These transactions were from certain directors in the amount of \$153,493 (2010 - \$93,165), from the former Chief Executive Officer in the amount of \$45,985 (2010 - \$103,335), and from the current Chief Executive Officer in the amount of \$250 (2010 - \$nil). These donations are accounted for in accordance with CAWST's policies.

9. Commitments:

- (a) On December 1, 2011, CAWST signed a multi-year agreement with CIDA toward the implementation of a program entitled "Water, Sanitation & Hygiene for Health" in Afghanistan, Cambodia, Cameroon, Ethiopia, Haiti, Laos, Nepal and Zambia with a total Direct Program/Project Cost of \$6,856,411. Under the terms of the agreement CIDA will contribute 75% of the cost incurred by CAWST which amounts to \$5,142,308. CAWST's 25% contribution will amount to \$1,714,103. In addition, CIDA will contribute \$617,077 to CAWST, which is 12% of the \$5,142,308, as a reimbursement of overhead cost.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 8

Year ended December 31, 2011, with comparative figures for 2010

9. Commitments (continued):

(a) Continued:

During 2011 CIDA advanced CAWST \$591,759 for a total of \$591,759 program grants to December 31, 2011. CAWST recognized program expenditure of \$52,933 in 2011 for program implementation costs of \$52,933 to date. As at December 31, 2011, CAWST had a balance of \$538,826 in deferred contributions which was the difference between funds advanced from CIDA and expenditures incurred to date. The remaining commitment under the CIDA agreement is \$4,550,549.

- (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 amounts 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 \$1,274,851, as a reimbursement of administrative overhead.

CAWST had a balance of \$132,145 in deferred contributions at the start of 2011. During 2011, CIDA advanced CAWST \$252,957 (2010 - \$713,168) for a total of \$1,427,851 program grants to date. CAWST recognized program expenditures of \$385,102 (2010 - \$539,764) in 2011 for program implementation costs of \$1,427,851 to date. As at December 31, 2011, CAWST had a balance of \$nil (2010 - \$132,145) in deferred contributions which was the difference between funds advanced from CIDA and expenditures incurred to date. The remaining 2011 commitment under the CIDA agreement is \$nil.

The total cost of implementing the program was \$1,765,942. However, in compliance with the agreement CIDA's contribution, with the CAWST matching funds, was \$1,699,823. The excess of \$66,119 was funded by CAWST through operating revenue.

- (c) During 2011, CAWST expanded its premises under a renewed lease for the rental of premises for a three year period commencing July 1, 2011. Under the lease, the annualized rent is subject to adjustments for operating costs. The annual rental expense is \$81,345 and expires on June 30, 2014. Also, CAWST entered into sub-lease agreements with Prostar Cleaning and Restoration and Carrier Custom Crating for a portion of the expanded premises. Prostar Cleaning and Restoration rented 3,475 square feet from July 1, 2011 until September 30, 2011 for a total reduction in rental expense of \$10,618. Carrier Custom Crating rented 2,000 square feet from October 6, 2011 to September 30, 2012 for a total reduction in rental expense of \$24,148.
- (d) Under the terms of a one-year water expertise and training centre agreement in Nepal commencing on April 1, 2011, CAWST has committed \$68,585. As at December 31, 2011, the Centre has advanced \$42,305 under this agreement, with \$42,305 included in Water Expertise and Training Centre expenses during the year.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 9

Year ended December 31, 2011, with comparative figures for 2010

10. 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 annually budgets its spending and monitors its net assets, primarily cash reserves, on a month basis as a key capital management measure.

CAWST does not have any externally imposed capital requirements.

11. Revenue and expenses:

CAWST has an employee medical benefits program. The employee contributions are matched by CAWST up to 100% of employee contributions. CAWST contribution in 2011 was \$18,339 (2010 - \$20,846) and is included in salary and benefits expense.