

etc Group

action group on erosion, technology and concentration

Financial Statements

August 31, 2004

FROSTIAK & LESLIE

Chartered Accountants Inc.

Larry H. Frostiak, CA, CFP, TEP

Kenneth T. Leslie, CA

Myles L. Pouteau, CA, TEP



AUDITORS' REPORT

TO THE BOARD OF DIRECTORS OF **etc Group** action group on erosion, technology and concentration

We have audited the balance sheet of **etc Group**: action group on erosion, technology and concentration as at August 31, 2004 and the statements of operations and net assets and cash flows for the year then ended. These financial statements are the responsibility of **etc Group'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 common with many charitable not-for-profit organizations, **etc Group** derives its revenues and expenses from a variety of sources, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues and expenses, including contributed goods and services, was limited to the amounts recorded in the records of **etc Group** and we were not able to determine whether any adjustments might be necessary to these aforementioned accounts.

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 revenue and expenses referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of **etc Group** as at August 31, 2004 and the results of its operations and net assets and cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Winnipeg, Manitoba
November 19, 2004

A handwritten signature in cursive script that reads "Frostiak & Leslie".

Chartered Accountants Inc.

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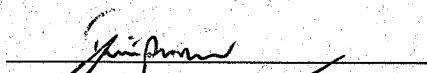
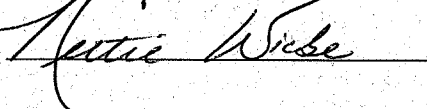
BALANCE SHEET

As at August 31, 2004, with comparative figures for 2003

	2004	2003
ASSETS		
Current assets		
Cash and investments (note 3)	\$ 607,652	\$ 706,896
Funding receivable (note 5)	118,454	185,571
Miscellaneous accounts receivable	17,325	17,902
Prepaid expenses	<u>1,460</u>	<u>4,041</u>
	744,891	914,410
Less: amount restricted	<u>(650,000)</u>	<u>(185,000)</u>
	94,891	729,410
Capital assets, net (note 6)	13,709	13,446
Restricted funds	650,000	185,000
	<u>\$ 758,600</u>	<u>\$ 927,856</u>
LIABILITIES AND NET ASSETS		
Current liabilities		
Accounts payable	\$ 9,566	\$ 52,594
Deferred revenue (note 7)	<u>22,861</u>	<u>137,917</u>
	<u>32,427</u>	<u>190,511</u>
Net assets		
Unrestricted net assets	62,464	538,899
Net assets invested in capital assets	13,709	13,446
Restricted net assets		
Six month operating reserve (note 2)	350,000	185,000
Building acquisition reserve (note 2)	<u>300,000</u>	<u>-</u>
	726,173	737,345
Commitment (note 11)		
	<u>\$ 758,600</u>	<u>\$ 927,856</u>

See accompanying notes to financial statements.

Approved on behalf of the Board:

 Director
 Director



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STATEMENT OF OPERATIONS

For the year ended August 31, 2004, with comparative figures for 2003

	2004	2003
Revenue		
CS Fund	\$ 177,645	\$ 205,000
CBDC	89,295	76,164
S. Goldman	11,554	31,000
CIDA	-	50,000
EFA	51,985	-
SwedBio Canada	290,645	272,453
HKH Foundation Grant	12,917	76,208
Rockefeller Foundation	-	122,203
Albert A List	27,730	33,583
JMG Foundation	-	84,165
Ford Foundation	71,464	50,000
Consulting Fees	12,000	461
Realized foreign exchange (loss)	(42,399)	(15,140)
Unrealized foreign exchange (loss) (note 4)	(14,778)	(67,694)
Other	7,079	2,852
Interest	2,625	1,974
Honorarium revenue	7,075	2,513
	<u>704,837</u>	<u>925,742</u>
Expenses		
Accounting	8,093	30,034
Amortization	5,424	15,918
Bank charges and interest	6,940	7,400
Books, printing, and distribution	22,767	28,580
Consulting Fees	23,643	29,531
Information and publications	-	44,622
Fiscal sponsorship	2,261	-
Insurance	3,939	3,468
Meetings	45,521	178,117
Office	7,751	17,296
Postage and courier	5,243	4,820
Professional Fees	5,182	9,895
Rent	32,871	31,112
Repairs and Maintenance	3,359	1,760
Research	-	1,434
Telephone	27,663	36,603
Travel	59,787	42,773
Wages and benefits	437,798	394,565
	<u>698,242</u>	<u>877,928</u>
Excess before the following	6,595	47,814
Relocation Expense (note 9)	17,767	-
Excess (deficit) of revenue over expenses	\$ (11,172)	\$ 47,814

See accompanying notes to financial statements.



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STATEMENT OF NET ASSETS

For the year ended August 31, 2004

	Unrestricted (note 2)	Invested in Capital Assets	Restricted (note 2)	2004
Net assets, beginning of year	\$ 538,899	\$ 13,446	\$ 185,000	\$ 737,345
Excess (deficit) of revenue over expenses	(11,172)	-	-	(11,172)
Appropriation - six month operating (note 2)	(165,000)	-	165,000	-
Appropriation - building acquisition (note 2)	(300,000)	-	300,000	-
Investment in capital assets (note 6)	(263)	263	-	-
Net assets, end of year	\$ 62,464	\$ 13,709	\$ 650,000	\$ 726,173

See accompanying notes to financial statements.



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STATEMENT OF CASH FLOWS

For the year ended August 31, 2004, with comparative figures for 2003

	2004	2003
Operating activities		
Net income (loss)	\$ (11,172)	\$ 47,814
Items not involving a current outlay of cash		
Amortization	<u>5,424</u>	<u>15,918</u>
	(5,748)	63,732
Net change in non-cash working capital balances		
Funding receivable	67,117	439,197
Accounts receivable	576	(44,320)
Prepaid expenses	2,581	-
Accounts payable	(43,027)	15,838
Deferred revenue	<u>(115,056)</u>	<u>(182,929)</u>
	<u>(93,557)</u>	<u>291,518</u>
Investing activities		
Purchases of capital assets	<u>(5,687)</u>	<u>(17,432)</u>
Increase (decrease) in cash	(99,244)	274,086
Cash and investments, beginning of year	706,896	432,810
Cash and investments, end of year (note 10)	<u>\$ 607,652</u>	<u>\$ 706,896</u>

See accompanying notes to financial statements.



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NOTES TO FINANCIAL STATEMENTS

August 31, 2004

1. GENERAL

etc Group: action group on erosion, technology, and concentration (formerly Rural Advancement Foundation International (Canada)), is a non-profit registered charitable organization incorporated without share capital under the Canada Corporations Act.

etc Group is dedicated to the conservation and sustainable advancement of cultural and ecological diversity and human rights. To this end, **etc Group** supports socially responsible developments of technologies useful to the poor and marginalized and it addresses international governance issues and corporate power.

2. SIGNIFICANT ACCOUNTING POLICIES

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

a) Accounting estimates and assumptions

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reported period. These estimates are reviewed periodically, and as adjustments become necessary, they are reported in unrestricted net assets in the period in which they become known.

b) Cash and investments

Cash and investments consists of petty cash, cash deposited in chartered banks, foreign currency translated at the exchange rate as at August 31, 2004, and investments held in money market funds, short term notes, and guaranteed investment certificates stated in Canadian dollars as at August 31, 2004.

c) Funding receivable

Funding receivable is valued at the outstanding amount pursuant to current executed funding agreements as at August 31, 2004.

d) Capital assets

Capital assets are stated at cost. Capital assets are amortized using the straight line method at the following annual rates:

Furniture and fixtures	- 33.3%
Computer equipment	- 33.3%



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NOTES TO FINANCIAL STATEMENTS

August 31, 2004

e) Unrestricted net assets

Unrestricted net assets represents the accumulated surplus from operations not restricted by the Board of Directors.

f) Restricted funds

Pursuant to Board authorization, these funds have been appropriated and restricted to absorb working capital deficiencies and a building fund should sources of funding not be readily available; as follows:

	<u>2004</u>	<u>2003</u>
Six month operating reserve	\$ 350,000	\$ 185,000
Building acquisition reserve	<u>300,000</u>	<u>-</u>
	<u>\$ 650,000</u>	<u>\$ 185,000</u>

g) Revenue recognition

Revenue recognition policy is the deferral method of accounting wherein revenue contributions are matched to expenses in the period in which the expenses are incurred. Revenue received in advance of incurring expenses are deferred.

h) Foreign exchange translation

Funds are converted to Canadian dollars using the exchange rate effective as at the balance sheet date. The exchange rate applied to convert transactions throughout the year is the estimated average exchange rate between the foreign currency and Canadian dollar.

i) Economic relationship

A major portion of **etc Group's** revenue is derived from donations and funding grants. As a result, any reduction in funding may affect **etc Group's** ability to continue future operations.

j) Income taxes

etc Group is a not-for-profit charitable organization registered under section 149.1 of the Canadian Income Tax Act; and as such, is exempt from income taxes and is able to issue donation receipts for income tax purposes.



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NOTES TO FINANCIAL STATEMENTS

August 31, 2004

3. INVESTMENTS

Investments are held in money market mutual funds, short term notes and guaranteed investment certificates reported at fair market value, exchanged at the rate of exchange on the balance sheet date. Fair market value is equal to cost plus accrued interest to date.

For cash, cash in trust, short term investments, accounts receivable and accounts payable, the carrying amounts of these financial instruments approximates their fair value due to their short term maturity or capacity of prompt liquidation. Unless otherwise noted, it is management's opinion that **etc Group** is not exposed to significant interest, currency or credit risks arising from these financial instruments.

4. UNREALIZED FOREIGN EXCHANGE GAIN (LOSS)

An unrealized foreign exchange gain (loss) is created on the conversion of US dollar amounts held in cash and short term investments to Canadian dollars using the exchange rate as at the balance sheet date for financial statement presentation purposes only. These gains or losses are unrealized; and may or may not be realized depending on the fluctuations of the US dollar exchange to the Canadian dollar when the funds are actually exchanged.

5. FUNDING RECEIVABLE

	<u>2004</u>	<u>2003</u>
Friends of etc Group Inc.	\$ 95,445	\$ 150,000
CBDC	<u>23,009</u>	<u>35,571</u>
	<u>\$ 118,454</u>	<u>\$ 185,571</u>

Friends of etc Group Inc. is a charitable organization registered in USA with 501c(3) status. This organization administers the receipt of donations from USA supporters on behalf of **etc Group**. Funding receivable are provided pursuant to contracts for specified research, education, and advisory work.



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NOTES TO FINANCIAL STATEMENTS

August 31, 2004

6. CAPITAL ASSETS

	2004		2003	
	<u>Cost</u>	<u>Accumulated Amortization</u>	<u>Cost</u>	<u>Accumulated Amortization</u>
Furniture and fixtures	\$ 18,773	\$ 18,363	\$ 18,773	\$ 17,973
Computer equipment	<u>117,657</u>	<u>104,358</u>	<u>111,970</u>	<u>99,324</u>
	<u>\$ 136,430</u>	<u>\$ 122,721</u>	<u>\$ 130,743</u>	<u>\$ 117,297</u>
Net book value	<u>\$ 13,709</u>		<u>\$ 13,446</u>	

7. DEFERRED REVENUE

	<u>2004</u>	<u>2003</u>
The Greenville Foundation	\$ -	\$ 25,000
Ford Foundation	22,861	-
CS Fund	-	100,000
HKH Foundation	-	12,917
	<u>\$ 22,861</u>	<u>\$ 137,917</u>

8. ADMINISTRATION COSTS ALLOCATED TO PROJECTS

Administrative costs, including salaries and benefits, are allocated to projects on the basis of estimates prepared by the organization's management to the best of their knowledge. Contributed goods and services provided by volunteers are not valued for financial statement purposes because the fair market value is not readily estimable by management.

9. RELOCATION EXPENSE

During the year, etc Group closed its Winnipeg, Manitoba office and moved to Ottawa, Ontario, Canada.



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NOTES TO FINANCIAL STATEMENTS

August 31, 2004

10. STATEMENT OF CASH FLOWS

Interest paid in the year, affecting cash flow is \$6,940 for 2004 (\$7,400 - 2003), and interest received during the year is \$2,625 for 2004 (\$1,974 - 2003).

Cash is comprised of:

	<u>2004</u>	<u>2003</u>
Cash	\$ 310,260	\$ 274,128
Investments	<u>297,392</u>	<u>432,768</u>
	<u>\$ 607,652</u>	<u>\$ 706,896</u>

11. COMMITMENT

etc Group has entered into a 21 month office lease for 700 sq.ft. @ Suite 200, 1 Nicholas Street commencing July 31, 2004. Minimum annual net rent is \$19,644 per year plus GST, plus operating costs specifically identified in a commercial lease agreement executed July 1, 2004

Future minimum lease payments:

2005	\$ 19,644 plus GST
2006	\$ 11,459 plus GST
2007	-
2008	-
2009	-

12. PRIOR YEAR'S COMPARATIVE FIGURES

The prior year's comparative figures have been reclassified to conform with the current year's presentation.