

Financial Statements of

**CENTRE FOR AFFORDABLE
WATER AND SANITATION
TECHNOLOGY**

(a registered charitable organization, operating as CAWST)

Years ended December 31, 2012 and 2011



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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 statements of financial position as at December 31, 2012, December 31, 2011 and January 1, 2011 and the statements of operations, changes in net assets and cash flows for the years ended December 31, 2012 and December 31, 2011, 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 accounting standards for not-for-profit organizations, 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the 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 in our audits 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 revenues over expenses, current assets and net assets. This caused us to qualify our audit opinion on the financial statements as at and for the years ended December 31, 2012 and December 31, 2011.

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, 2012, December 31, 2011 and January 1, 2011, and its results of operations and its cash flows for the years ended December 31, 2012 and December 31, 2011 in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Accountants

June 13, 2013
Calgary, Canada

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Statements of Financial Position

December 31, 2012, December 31, 2011 and January 1, 2011

	December 31, 2012	December 31, 2011	January 1, 2011
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,238,618	\$ 978,573	\$ 773,616
Term deposits	376,690	373,330	570,000
Accounts receivable	7,376	6,388	50,523
Government sales tax receivable	5,352	5,472	3,900
Prepaid expenses	21,581	13,599	9,062
	<u>1,649,617</u>	<u>1,377,362</u>	<u>1,407,101</u>
Property and equipment (note 4)	65,096	26,195	30,965
	<u>\$1,714,713</u>	<u>\$ 1,403,557</u>	<u>\$ 1,438,066</u>

Liabilities and Net Assets


Current liabilities:			
Accounts payable and accrued liabilities	\$ 96,882	\$ 75,635	\$ 103,133
Government payroll tax payable	11,513	14,421	10,449
Deferred contributions (note 7)	814,114	538,826	132,145
	<u>922,509</u>	<u>628,882</u>	<u>245,727</u>
Net assets	792,204	774,675	1,192,339
Commitments (note 9)			
	<u>\$ 1,714,713</u>	<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

Statements of Operations

Years ended December 31, 2012 and 2011

	2012	2011
Revenues:		
Donations (notes 5 and 8)	\$ 2,033,847	\$ 1,579,760
CIDA grant	1,458,988	438,035
Training courses	57,112	50,630
Project consulting	2,741	25,666
Interest income	4,199	5,770
	3,556,887	2,099,861
Expenses:		
Salary and benefits	1,612,814	1,311,827
Water expertise and training centers	1,093,473	373,185
Consulting	255,413	278,186
Travel	236,906	186,827
Office and administration	131,163	164,308
Rent and utilities	93,276	73,671
Insurance	36,647	33,152
Professional fees	33,600	33,600
Materials and laboratory supplies	21,316	30,386
Training and conferences	2,686	9,484
Meals and entertainment	1,108	1,248
Loss on sale of marketable securities (note 5)	4,723	2,958
Depreciation	16,233	18,693
	3,539,358	2,517,525
Excess (deficiency) of revenues over expenses	\$ 17,529	\$ (417,664)

See accompanying notes to financial statements.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Statements of Changes in Net Assets

Years ended December 31, 2012 and 2011

	2012	2011
Balance, beginning of year	\$ 774,675	\$ 1,192,339
Excess (deficiency) of revenues over expenses	17,529	(417,664)
Balance, end of year	\$ 792,204	\$ 774,675

See accompanying notes to financial statements.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Statements of Cash Flows

Years ended December 31, 2012 and 2011

	2012	2011
Cash provided by (used in):		
Operating activities:		
Excess (deficiency) of revenues over expenses	\$ 17,529	\$ (417,664)
Proceeds on sale of marketable securities	898,526	350,944
Items not affecting cash flows:		
Depreciation	16,233	18,693
Marketable securities donated	(903,249)	(353,902)
Loss on sale of marketable securities	4,723	2,958
	33,762	(398,971)
Net change in non-cash working capital balances:		
Accounts receivable	(988)	44,135
Government sales tax receivable	120	(1,572)
Prepaid expenses	(7,982)	(4,537)
Accounts payable and accrued liabilities	21,247	(27,498)
Government payroll tax payable	(2,908)	3,972
Deferred contributions	275,288	406,681
	318,539	22,210
Investing activities:		
Purchase of property and equipment	(55,134)	(13,923)
Purchase of term deposits	(376,690)	(303,330)
Redemption of term deposits	373,330	500,000
	(58,494)	182,747
Increase in cash and cash equivalents	260,045	204,957
Cash and cash equivalents, beginning of year	978,573	773,616
Cash and cash equivalents, end of year	\$ 1,238,618	\$ 978,573

See accompanying notes to financial statements.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements

Years ended December 31, 2012 and 2011

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.

On January 1, 2012, CAWST adopted the Canadian Accounting Standards for Not-for-Profit Organizations in Part III of the CICA Handbook. These are the first financial statements prepared in accordance with Not-for-Profit Standards. In accordance with the transitional provisions, CAWST adopted the changes retrospectively, subject to certain exemptions allowed under these standards. The transition date is January 1, 2011 and all comparative information provided has been presented by applying Not-for-Profit Standards. There are no transitional adjustments to net assets as at January 1, 2011 or excess (deficiency) of revenues over expenses for the year ended December 31, 2011 as a result of transition to Not-For-Profit Standards.

2. Significant accounting policies:

Management has prepared CAWST’s financial statements in accordance with Canadian Accounting Standards for Not-for-Profit Organizations, 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.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 2

Years ended December 31, 2012 and 2011

2. Significant accounting policies (continued):

(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.

(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.

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 statement of operations 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

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 3

Years ended December 31, 2012 and 2011

2. Significant accounting policies (continued):

(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.

(g) Donated materials and services:

Donations in kind are recorded in the financial statements at fair market value when the 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:

Financial instruments are recorded at fair value on initial recognition. Freestanding derivative instruments that are not in a qualifying hedging relationship and equity instruments that are quoted in an active market are subsequently measured at fair value. All other financial instruments are subsequently recorded at cost or amortized cost, unless management has elected to carry the instruments at fair value. CAWST has not elected to carry any such financial instruments at fair value.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 4

Years ended December 31, 2012 and 2011

2. Significant accounting policies (continued):

(i) Financial instruments (continued):

Financial assets are assessed for impairment on an annual basis at the end of the fiscal year if there are indicators of impairment. If there is an indicator of impairment, CAWST determines if there is a significant adverse change in the expected amount or timing of future cash flows from the financial asset. If there is a significant adverse change in the expected cash flows, the carrying value of the financial asset is reduced to the highest of the present value of the expected cash flows, the amount that could be realized from selling the financial asset or the amount CAWST expects to realize by exercising its right to any collateral. If events and circumstances reverse in a future period, an impairment loss will be reversed to the extent of the improvement, not exceeding the initial carrying value.

3. Financial instruments:

(a) 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 approximately \$111.

(b) Credit risk:

CAWST'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 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 and that credit is only extended to those entities that management believes has the financial capacity to pay obligations due to CAWST.

(c) 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 and through maintaining financial reserves.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 5

Years ended December 31, 2012 and 2011

4. Property and equipment:

December 31, 2012	Cost	Accumulated depreciation	Net book value
Computer hardware and software	\$ 190,097	\$ 134,676	\$ 55,421
Office furniture	26,211	22,215	3,996
Leasehold improvements	42,356	36,677	5,679
Equipment	18,290	18,290	–
	\$ 276,954	\$ 211,858	\$ 65,096

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

January 1, 2011	Cost	Accumulated depreciation	Net book value
Computer hardware and software	\$ 129,153	\$ 119,759	\$ 9,394
Office furniture	26,211	16,973	9,238
Leasehold improvements	34,243	24,006	10,237
Equipment	18,290	16,194	2,096
	\$ 207,897	\$ 176,932	\$ 30,965

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 6

Years ended December 31, 2012 and 2011

5. Marketable securities:

During the year, marketable securities were donated to CAWST with a value of \$903,249 (2011 - \$353,902). During the year, marketable securities of \$703,249 (2011 - \$353,902) was recorded in donations revenue. There were \$200,000 (2011 - \$nil) of marketable securities designated by donors to cover future expenditures which are included in deferred contributions as at December 31, 2012.

During the year, marketable securities were sold for total proceeds of \$898,526 (2011 - \$350,944) resulting in a net loss on disposal of \$4,723 (2011 - \$2,958).

At the end of 2012, 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, 2012, the Fund totaled \$4,605 (December 31, 2011 - \$4,419; January 1, 2011 - \$4,730), with initial value of \$5,000 less the decline in market value to December 31, 2012. During 2012, CAWST received \$209 (2011 - \$244) 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.

As at December 31, 2012, the deferred contribution balance change is as follows:

	December 31, 2012	December 31, 2011	January 1, 2011
Beginning of year	\$ 538,826	\$ 132,145	\$ 150,000
Add amounts received related to future years	1,945,112	844,637	573,104
Less amounts recognized as revenue in the year	1,669,824	437,956	590,959
	<u>\$ 814,114</u>	<u>\$ 538,826</u>	<u>\$ 132,145</u>

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 7

Years ended December 31, 2012 and 2011

7. Deferred contributions (continued):

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

	December 31, 2012	December 31, 2011	January 1, 2011
2011 Canadian International Development Agency ("CIDA") agreement (note 9(a))	\$ 478,417	\$ 538,826	\$ –
Individuals (note 5)	200,000	–	–
Corporations (note 9(b))	135,697	–	–
2008 Canadian International Development Agency ("CIDA") agreement	–	–	132,145
	\$ 814,114	\$ 538,826	\$ 132,145

8. Related party transactions:

- (a) During the year ended December 31, 2012, CAWST received cash donations of \$93,769 (2011 - \$117,778) and donated marketable securities of \$41,416 (2011 - \$81,950) from related parties. These transactions were from certain directors in the amount of \$135,185 (2011 - \$153,493), from the former Chief Executive Officer in the amount of \$15,000 (2011 - \$45,985) and from the current Chief Executive Officer in the amount of \$nil (2011 - \$250). These donations are accounted for in accordance with CAWST's policies.
- (b) From January 1, 2011 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.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 8

Years ended December 31, 2012 and 2011

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 Cost of Canadian \$6,856,411. Under the terms of the agreement CIDA will contribute 75% of the cost incurred by CAWST which amounts to a maximum of \$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.

During 2012, CIDA advanced CAWST a total of \$1,398,579 (2011 - \$591,759). CAWST recognized revenue of \$1,458,988 (2011 - \$52,933) for CIDA's 75% portion of direct program costs and the 12% of reimbursable overhead costs to a total of \$1,518,852 to date. As at December 31, 2012, CAWST had a balance of \$478,417 (2011 - \$538,826) in deferred contributions which was the difference between funds advanced from CIDA and revenues recognized to date. The remaining CIDA commitment to be advanced to CAWST under the agreement is \$3,769,047.

- (b) During 2012, CAWST signed new grant agreements with:

- (i) The CISCO Foundation:

CAWST received a grant for its Virtual WET Centre of \$75,000 (2011 - \$nil). CAWST recognized \$23,188 (2011 - \$nil) for related program expenditures. As at December 31, 2012, CAWST had a balance of \$51,812 (2011 - \$nil) in deferred contributions which was the difference between funds advanced from the foundation and expenditures incurred to date.

- (ii) The Reed Elsevier Foundation:

CAWST received a research grant for winning first prize in the Reed Elsevier Environmental Challenge of \$49,185 (USD\$50,000) (2011 - \$nil) for related expenditures. CAWST will be working with the University of Illinois at Urbana-Champaign (UIUC) and the Environment and Public Health Organization (ENPHO) to complete the research. As at December 31, 2012, CAWST had a balance of \$29,185 (2011 - \$nil) in deferred contributions which was the difference between funds advanced from the foundation and expenditures incurred to date.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 9

Years ended December 31, 2012 and 2011

9. Commitments (continued):

(b) During 2012, CAWST signed new grant agreements with (continued):

(iii) The International Development Research Centre (IDRC):

CAWST and its partners Mount Royal University (Calgary), EDES (Peru), and ENPHO (Nepal) received a grant entitled "Evaluating effectiveness of education and training in water and sanitation" for \$60,000 (2011 - \$nil) for related expenditures. During 2012, CAWST received a total of \$35,700 (2011 - \$nil). CAWST recognized \$14,000 for program expenditures. As at December 31, 2012, CAWST had a balance of \$21,700 (2011 - \$nil) in deferred contributions which was the difference between funds advanced from IDRC and expenditures incurred to date. The remaining commitment under the grant is \$24,300.

(iv) The Suncor Energy Foundation:

CAWST received a grant for its Virtual WET Centre of \$25,000 (2011 - \$nil) for related program expenditures. As program expenditures will commence in 2013, CAWST had a balance of \$25,000 (2011 - \$nil) in deferred contributions.

(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 Carrier Custom Crating for 2,000 square feet beginning October 6, 2011 to September 30, 2012 for a reduction in annual rental expense of \$24,873.

10. Revenue and expenses:

CAWST has an employee medical benefits program. The employees pay 50% of the premiums and CAWST pays the remainder. CAWST's portion of the premiums in 2012 was \$20,771 (2011 - \$18,339) and is included in salary and benefits expense.