

Financial Statements of

**CENTRE FOR AFFORDABLE
WATER AND SANITATION
TECHNOLOGY**

(a registered charitable organization, operating as CAWST)

Year ended December 31, 2013



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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 statement of financial position as at December 31, 2013, 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 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 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 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 is sufficient and appropriate to provide a basis for our qualified audit opinion.



Basis for Qualified Opinion

In common with many not-for-profit organizations, the Centre for Affordable Water and Sanitation Technology derives part of its revenue from donations, the completeness of which is not susceptible of satisfactory audit verification. Accordingly, verification of these revenues was limited to the amounts recorded in the records of Centre for Affordable Water and Sanitation Technology. Therefore, we were not able to determine whether, as at and for the years ended December 31, 2013 and December 31, 2012, any adjustments might be necessary to donation revenues and excess of revenues over expenses reported in the statements of operations, excess of revenues over expenses reported in the statements of cash flows and current assets and net assets reported in the statements of financial position. This caused us to qualify our audit opinion on the financial statements as at and for the year ended December 31, 2012.

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, 2013, and its results of operations and its cash flows for the year then ended in accordance with Canadian accounting standards for not-for-profit organizations.

KPMG LLP

Chartered Accountants

June 12, 2014
Calgary, Canada

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Statement of Financial Position

December 31, 2013, with comparative information for 2012

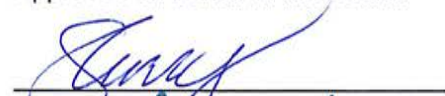
	2013	2012
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,294,013	\$ 1,238,618
Term deposits (note 4)	6,757,457	376,690
Accounts receivable	37,666	7,376
Government sales tax receivable	5,732	5,352
Prepaid expenses	100,497	21,581
	<u>9,195,365</u>	<u>1,649,617</u>
Term deposits (note 4)	1,000,000	-
Property and equipment (note 5)	37,196	65,096
	<u>\$ 10,232,561</u>	<u>\$ 1,714,713</u>

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 155,153	\$ 96,882
Government payroll tax payable	14,393	11,513
Deferred contributions (note 8)	2,853,848	814,114
	<u>3,023,394</u>	<u>922,509</u>
Deferred contributions (note 8)	6,022,243	-
	<u>9,045,637</u>	<u>922,509</u>
Net assets	1,186,924	792,204
Commitments (note 10)		
	<u>\$ 10,232,561</u>	<u>\$ 1,714,713</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, 2013, with comparative information for 2012

	2013	2012
Revenues:		
Donations (notes 6 and 9)	\$ 2,431,864	\$ 2,033,847
DFATD grant	1,467,201	1,458,988
Interest income	41,945	4,199
Training courses	19,295	57,112
Project consulting	—	2,741
	3,960,305	3,556,887
Expenses:		
Salary and benefits (note 11)	1,712,438	1,612,814
Water expertise and training centers	814,397	1,093,473
Travel	280,668	236,906
Consulting	260,199	255,413
Office and administration	178,847	131,163
Rent and utilities	140,597	93,276
Loss on sale of marketable securities (note 6)	42,430	4,723
Professional fees	36,000	33,600
Insurance	34,663	36,647
Materials and laboratory supplies	29,392	21,316
Training and conferences	4,205	2,686
Meals and entertainment	1,142	1,108
Depreciation	30,607	16,233
	3,565,585	3,539,358
Excess of revenues over expenses	\$ 394,720	\$ 17,529

See accompanying notes to financial statements.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Statement of Changes in Net Assets

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Balance, beginning of year	\$ 792,204	\$ 774,675
Excess of revenues over expenses	394,720	17,529
Balance, end of year	\$ 1,186,924	\$ 792,204

See accompanying notes to financial statements.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Statement of Cash Flows

Year ended December 31, 2013, with comparative information for 2012

	2013	2012
Cash provided by (used in):		
Operating activities:		
Excess of revenues over expenses	\$ 394,720	\$ 17,529
Proceeds on sale of marketable securities	8,755,903	898,526
Items not affecting cash flows:		
Depreciation	30,607	16,233
Marketable securities donated	(8,798,333)	(903,249)
Loss on sale of marketable securities	42,430	4,723
	<u>425,327</u>	<u>33,762</u>
Net change in non-cash working capital balances:		
Accounts receivable	(30,290)	(988)
Government sales tax receivable	(380)	120
Prepaid expenses	(78,916)	(7,982)
Accounts payable and accrued liabilities	58,271	21,247
Government payroll tax payable	2,880	(2,908)
Deferred contributions	8,061,977	275,288
	<u>8,438,869</u>	<u>318,539</u>
Investing activities:		
Purchase of property and equipment	(2,708)	(55,134)
Purchase of term deposits	(9,780,766)	(376,690)
Redemption of term deposits	2,400,000	373,330
	<u>(7,383,474)</u>	<u>(58,494)</u>
Increase in cash and cash equivalents	1,055,395	260,045
Cash and cash equivalents, beginning of year	1,238,618	978,573
Cash and cash equivalents, end of year	<u>\$ 2,294,013</u>	<u>\$ 1,238,618</u>

See accompanying notes to financial statements.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements

Year ended December 31, 2013, with comparative information for 2012

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 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.

(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 if classified as current and having original maturities dates greater than one year if classified as long term.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 2

Year ended December 31, 2013, with comparative information for 2012

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.

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

(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, 2013, with comparative information for 2012

2. Significant accounting policies (continued):

(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.

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.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 4

Year ended December 31, 2013, with comparative information for 2012

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 \$100.

(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 have 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.

4. Term deposits:

Current term deposits mature between January 14, 2014 and December 17, 2014 and bear interest at rates ranging from 1.25% to 1.45%.

Term deposits classified as long term mature between January 14, 2015 and June 18, 2015 and bear interest at rates ranging from 1.65% to 1.75%.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 5

Year ended December 31, 2013, with comparative information for 2012

5. Property and equipment:

			2013	2012
	Cost	Accumulated depreciation	Net book value	Net book value
Computer hardware and software	\$ 192,805	\$ 155,609	\$ 37,196	\$ 55,421
Office furniture	26,211	26,211	–	3,996
Leasehold improvements	42,356	42,356	–	5,679
Equipment	18,290	18,290	–	–
	\$ 279,662	\$ 242,466	\$ 37,196	\$ 65,096

6. Marketable securities:

During the year, marketable securities were donated to CAWST with a value of \$8,798,333 (2012 - \$903,249). During the year, marketable securities of \$776,090 (2012 - \$703,249) was recorded in donations revenue. There were \$8,022,243 (2012 - \$200,000) of marketable securities designated by donors to cover future expenditures which are included in deferred contributions as at December 31, 2013.

During the year, marketable securities were sold for total proceeds of \$8,755,903 (2012 - \$898,526) resulting in a net loss on disposal of \$42,430 (2012 - \$4,723).

At the end of 2013, there were no marketable securities held by CAWST.

7. 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, 2013, the Fund totaled \$5,197 (2012 - \$4,605), with initial value of \$5,000 plus the change in market value to December 31, 2013. During 2013, CAWST received \$218 (2012 - \$209) included in interest income.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 6

Year ended December 31, 2013, with comparative information for 2012

8. 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, 2013, the deferred contribution balance change is as follows:

	2013	2012
Beginning of year	\$ 814,114	\$ 538,826
Add amounts received related to future years	10,206,245	1,945,112
Less amounts recognized as revenue in the year	2,144,268	1,669,824
	\$ 8,876,091	\$ 814,114

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

	2013	2012
Current:		
2011 Department of Foreign Affairs Trade and Development ("DFATD") agreement (note 10(a))	\$ 627,824	\$ 478,417
Individuals (note 6)	2,010,001	200,000
Corporations	216,023	135,697
	2,853,848	814,114
Restricted for future years:		
Individuals (note 6)	6,022,243	-
	\$8,876,091	\$ 814,114

Deferred contributions from Corporations are comprised of the following:

(a) The Reed Elsevier Foundation (the "Foundation"):

In 2012, CAWST received a research grant for winning first prize in the Reed Elsevier Environmental Challenge of \$49,185 (USD\$50,000) 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, 2013, CAWST had a balance of \$16,023 (2012 - \$29,185) 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 7

Year ended December 31, 2013, with comparative information for 2012

8. Deferred contributions (continued):

(b) The CISCO Foundation:

In 2012, CAWST received a grant for its Virtual WET Centre of \$75,000. During 2013, CAWST recognized \$51,812 (2012 - \$23,188) for related program expenditures. As at December 31, 2013, CAWST had a balance of \$nil (2012 - \$51,812) in deferred contributions.

(c) The International Development Research Centre ("IDRC"):

In 2012, 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 for related expenditures. During 2013, CAWST received a total of \$nil (2012 - \$35,700) and recognized \$21,700 (2012 - \$14,000) for program expenditures. As at December 31, 2013, CAWST had a balance of \$nil (2012 - \$21,700) in deferred contributions which was the difference between funds advanced from IDRC and expenditures incurred to date.

(d) The Suncor Energy Foundation:

(i) In 2013, CAWST received a grant for its Virtual WET Centre of \$150,000 (2012 - \$25,000) for related program expenditures. As at December 31, 2013, CAWST had a balance of \$150,000 (2012 - \$25,000) in deferred contributions.

(ii) In 2013, CAWST received a grant for its Wavemakers program of \$296,697 (2012 - \$267,976) for related program expenditures. As at December 31, 2013, CAWST had a balance of \$nil (2012 - \$8,000) in deferred contributions.

(e) RBC Foundation:

In 2013, CAWST received a grant for its Wavemakers program of \$50,000 (2012 - \$nil) for related program expenditures. As at December 31, 2013, CAWST had a balance of \$50,000 (2012 - \$nil) in deferred contributions.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 8

Year ended December 31, 2013, with comparative information for 2012

9. Related party transactions:

In September 2013, a new Chair was elected to the Board and, during 2013, the new Chair of the Board donated shares in the amount of \$8,525,243 (2012 - \$739,678, not considered a related party transaction).

During the year, CAWST received cash donations of \$68,222 (2012 - \$93,769) and donated marketable securities of \$64,365 (2012 - \$41,416) from directors.

During the year, CAWST received cash donations of \$500 (2012 - \$nil) from the Chief Executive Officer.

These donations are accounted for in accordance with CAWST's policies.

10. Commitments:

(a) On December 1, 2011, CAWST signed a multi-year agreement with Canadian International Development Agency (now DFATD) 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 DFATD 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, DFATD will contribute \$617,077 to CAWST, which is 12% of the \$5,142,308, as a reimbursement of overhead cost.

During 2013, DFATD advanced CAWST a total of \$1,616,608 (2012 - \$1,398,579). CAWST recognized revenue of \$1,467,201 (2012 - \$1,458,988) for DFATD's 75% portion of direct program costs and the 12% of reimbursable overhead costs to a total of \$1,467,201 for the year. As at December 31, 2013, CAWST had a balance of \$627,824 (2012 - \$478,417) in deferred contributions which was the difference between funds advanced from DFATD and revenues recognized to date. The remaining DFATD commitment to be advanced to CAWST under the agreement is \$2,152,439.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 9

Year ended December 31, 2013, with comparative information for 2012

10. Commitments (continued):

- (b) 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 \$110,190 and expires on June 30, 2014. During 2013, CAWST signed a partial Surrender and Lease Amending Agreement, effective January 31, 2014, reducing the rentable area. CAWST entered into a sub-lease agreement for the reduced rentable area beginning December 1, 2013 to June 29, 2014 for a reduction in rental expense of \$31,716.

CAWST also signed a new lease agreement for different premises for a period of four years and eight months, less one day, commencing on November 1, 2013 and expiring June 29, 2018. Under the agreement, the annualized rent is fixed and includes utilities. The annual rental expense is \$192,000.

The minimum lease payments over the next five years are as follows:

2014	\$ 192,000
2015	192,000
2016	192,000
2017	192,000
2018	96,000
	<hr/>
	\$ 864,000

11. Salary and benefits:

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 2013 was \$22,477 (2012 - \$20,711) and is included in the salary and benefits expense.