

Financial Statements of

**CENTRE FOR AFFORDABLE
WATER AND SANITATION
TECHNOLOGY**

(a registered charitable organization, operating as CAWST)

Year ended December 31, 2014



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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, 2014, 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, 2014 and December 31, 2013, 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, 2014.

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, 2014, 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 11, 2015
Calgary, Canada

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Statement of Financial Position

December 31, 2014, with comparative information for 2013

	2014	2013
Assets		
Current assets:		
Cash and cash equivalents	\$ 427,020	\$ 2,294,013
Term deposits (note 4)	3,267,000	6,757,457
Accounts receivable	115,920	37,666
Government sales tax receivable	7,016	5,732
Prepaid expenses	30,324	100,497
	3,847,280	9,195,365
Term deposits (note 4)	7,800,000	1,000,000
Property and equipment (note 5)	95,471	37,196
	\$ 11,742,751	\$ 10,232,561

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 265,252	\$ 155,153
Government payroll tax payable	24,757	14,393
Deferred contributions (note 8)	3,786,986	2,853,848
	4,076,995	3,023,394
Deferred contributions (note 8)	6,144,643	6,022,243
	10,221,638	9,045,637
Net assets	1,521,113	1,186,924
Commitments (note 10)		
	\$ 11,742,751	\$ 10,232,561

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, 2014, with comparative information for 2013

	2014	2013
Revenues:		
Donations (notes 6 and 9)	\$ 3,175,712	\$ 2,431,864
DFATD grant	1,739,610	1,467,201
Interest income	136,189	41,945
Training courses	7,096	19,295
Project consulting	21,649	—
	5,080,256	3,960,305
Expenses:		
Salary and benefits (note 11)	2,451,972	1,712,438
Water expertise and training centers	1,043,771	814,397
Travel	302,422	280,668
Consulting	349,543	260,199
Office and administration	267,967	178,847
Rent and utilities	200,525	140,597
(Gain) loss on sale of marketable securities (note 6)	(15,574)	42,430
Professional fees	36,000	36,000
Insurance	41,678	34,663
Materials and laboratory supplies	21,312	29,392
Training and conferences	7,471	4,205
Meals and entertainment	1,101	1,142
Depreciation	37,879	30,607
	4,746,067	3,565,585
Excess of revenues over expenses	\$ 334,189	\$ 394,720

See accompanying notes to financial statements.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Statement of Changes in Net Assets

Year ended December 31, 2014, with comparative information for 2013

	2014	2013
Balance, beginning of year	\$ 1,186,924	\$ 792,204
Excess of revenues over expenses	334,189	394,720
Balance, end of year	\$ 1,521,113	\$ 1,186,924

See accompanying notes to financial statements.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Statement of Cash Flows

Year ended December 31, 2014, with comparative information for 2013

	2014	2013
Cash provided by (used in):		
Operating activities:		
Excess of revenues over expenses	\$ 334,189	\$ 394,720
Proceeds on sale of marketable securities	3,282,082	8,755,903
Items not affecting cash flows:		
Depreciation	37,879	30,607
Marketable securities donated	(3,266,508)	(8,798,333)
(Gain) Loss on sale of marketable securities	(15,574)	42,430
	<u>372,068</u>	<u>425,327</u>
Net change in non-cash working capital balances:		
Accounts receivable	(78,254)	(30,290)
Government sales tax receivable	(1,284)	(380)
Prepaid expenses	70,173	(78,916)
Accounts payable and accrued liabilities	110,099	58,271
Government payroll tax payable	10,364	2,880
Deferred contributions	1,055,538	8,061,977
	<u>1,538,704</u>	<u>8,438,869</u>
Investing activities:		
Purchase of property and equipment	(96,154)	(2,708)
Purchase of term deposits	(12,071,888)	(9,780,766)
Redemption of term deposits	8,762,345	2,400,000
	<u>(3,405,697)</u>	<u>(7,383,474)</u>
Increase in cash and cash equivalents	(1,866,993)	1,055,395
Cash and cash equivalents, beginning of year	2,294,013	1,238,618
Cash and cash equivalents, end of year	<u>\$ 427,020</u>	<u>\$ 2,294,013</u>

See accompanying notes to financial statements.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements

Year ended December 31, 2014, with comparative information for 2013

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.

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Notes to Financial Statements, page 2

Year ended December 31, 2014, with comparative information for 2013

2. Significant accounting policies (continued):

(d) Marketable securities:

Periodically, CAWST receives donations of securities of publicly traded companies. The fair value of these securities is determined by the closing market price on the day the securities were received and when the securities are freely tradeable by CAWST.

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, is 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

The Company records a write-down when a capital asset no longer has a long-term service potential to the Company and the net carrying value exceeds the residual value.

(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 are recognized as revenue 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.

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Notes to Financial Statements, page 3

Year ended December 31, 2014, with comparative information for 2013

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.

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Notes to Financial Statements, page 4

Year ended December 31, 2014, with comparative information for 2013

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 deposits represent short-term investments with a Canadian financial institution. 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 cash and term deposits are limited to amounts covered by insurance limits and are placed with reputable Canadian Chartered banks. 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, 2015 and December 17, 2015 and bear interest at rates ranging from 1.35% to 1.65%.

Term deposits classified as long term mature between January 14, 2016 and June 18, 2016 and bear interest at rates ranging from 1.55% to 1.70%.

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Notes to Financial Statements, page 5

Year ended December 31, 2014, with comparative information for 2013

5. Property and equipment:

			2014	2013
	Cost	Accumulated depreciation	Net book value	Net book value
Computer hardware and software	\$ 231,262	\$ 184,814	\$ 46,448	\$ 37,196
Office furniture	53,704	28,960	24,744	–
Leasehold improvements	72,559	48,280	24,279	–
Equipment	18,290	18,290	–	–
	\$ 375,815	\$ 280,344	\$ 95,471	\$ 37,196

6. Marketable securities:

During the year, marketable securities were donated to CAWST with a value of \$3,266,508 (2013 - \$8,798,333). During the year, marketable securities of \$144,108 (2013 - \$776,090) was recorded in donations revenue. There were \$6,144,643 (2013 - \$6,022,243) of marketable securities designated by donors to cover future expenditures which are included in deferred contributions as at December 31, 2014.

During the year, marketable securities were sold for total proceeds of \$3,282,082 (2013 - \$8,755,903) resulting in a net gain on disposal of \$15,574 (2013 – loss of \$42,430).

At the end of 2014, 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, 2014, the Fund totaled \$5,529 (2013 - \$5,197), with initial value of \$5,000 plus the change in market value to December 31, 2014. During 2014, CAWST received \$218 (2013 - \$218) included in interest income.

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Notes to Financial Statements, page 6

Year ended December 31, 2014, with comparative information for 2013

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 certain 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, 2014, the deferred contribution balance change is as follows:

	2014	2013
Beginning of year	\$ 8,876,091	\$ 814,114
Add amounts received related to future years	4,797,119	10,206,245
Less amounts recognized as revenue in the year	3,741,581	2,144,268
	\$ 9,931,629	\$ 8,876,091

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

	2014	2013
Current:		
2011 Department of Foreign Affairs Trade and Development ("DFATD") agreement (note 10(a))	\$ 104,617	\$ 627,824
Individuals	3,510,000	2,010,001
Corporations	172,369	216,023
	3,786,986	2,853,848
Restricted for future years:		
Individuals (note 6)	6,144,643	6,022,243
	\$ 9,931,629	\$ 8,876,091

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, 2014, CAWST had a balance of \$2,989 (2013 - \$16,023) in deferred contributions which was the difference between funds advanced from the Foundation and expenditures incurred to date.

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Notes to Financial Statements, page 7

Year ended December 31, 2014, with comparative information for 2013

8. Deferred contributions (continued):

(b) The CISCO Foundation:

In 2014, CAWST received a grant for its Virtual WET Centre of \$164,325 (USD \$150,000). During 2014, CAWST recognized \$102,624 for related program expenditures. As at December 31, 2014, CAWST had a balance of \$61,701 in deferred contributions.

(c) The Suncor Energy Foundation:

(i) In 2014, CAWST received a payment for its Virtual WET Centre grant of \$100,000 (2013 - \$150,000) for related program expenditures. As at December 31, 2014, CAWST had a balance of \$83,377 (2013 - \$150,000) in deferred contributions.

(ii) In 2014, CAWST received a grant for its Wavemakers program of \$150,000 (2013 - \$296,697) for related program expenditures. As at December 31, 2014, CAWST had a balance of \$Nil (2013 - \$ Nil) in deferred contributions

(d) RBC Foundation:

In 2013, CAWST received a grant for its Wavemakers program of \$50,000 for related program expenditures. As at December 31, 2014, CAWST had a balance of \$Nil (2013 - \$50,000) in deferred contributions.

9. Related party transactions:

The Chair of the Board donated shares in the amount of \$3,122,400 (2013 - \$8,525,243) and donated cash of \$7,000 (2013-\$ Nil).

During the year, CAWST received cash donations of \$54,133 (2013 - \$68,222) and donated marketable securities of \$42,015 (2013 - \$64,365) from other directors.

During the year, CAWST received cash donations of \$1,000 (2013 - \$500) 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 Department of Foreign Affairs, Trade and Development "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

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 8

Year ended December 31, 2014, with comparative information for 2013

10. Commitments (continued):

program cost of \$6,856,411. Under the terms of the agreement DFATD contributes 75% of the cost incurred by CAWST to a maximum of \$5,142,308. CAWST's 25% contribution amounts to \$1,714,103. In addition, DFATD contributes \$617,077 to CAWST, which is 12% of the \$5,142,308, as a reimbursement of overhead cost.

During 2014, DFATD advanced CAWST a total of \$1,216,404 (2013 - \$1,616,608). CAWST recognized revenue of \$1,739,610 (2013 - \$1,467,201) for DFATD's 75% portion of direct program costs and the 12% of reimbursable overhead costs to a total of \$182,948 (2013 - \$161,024) for the year. As at December 31, 2014, CAWST had a balance of \$104,617 (2013 - \$627,824) 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 \$936,037.

- (b) CAWST signed a lease agreement for a period of four years and eight months, less one day, commencing on November 1, 2013 and expiring June 30, 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 four years are as follows:

2015	192,000
2016	192,000
2017	192,000
2018	96,000
	<hr/>
	\$ 672,000

- (c) During 2014, CAWST signed a two-year Water Expertise Training Center agreement with Pure Water For the World in Honduras in Honduras commencing on January 01, 2014 and ending on December 31, 2015. CAWST has committed \$200,000. As December 31, 2014, the Centre has advanced \$25,880 and accrued expenses \$43,104 under this agreement, with included in Water Expertise and Training Centre expenses during the year.

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Notes to Financial Statements, page 9

Year ended December 31, 2014, with comparative information for 2013

11. Salary and benefits:

CAWST has an employee medical benefits program. The cost of the premiums is shared by the employees and by CAWST. CAWST's portion of the premiums in 2014 was \$27,861 (2013 - \$22,477) and is included in the salary and benefits expense.

CAWST has implemented a Group Saving Plan whereby CAWST provides a match based on the employee's contribution into the plan. CAWST contribution to the plan in 2014 was \$22,336 (2013- \$ Nil) and is included in the salary and benefits expense.