

Financial Statements of

**CENTRE FOR AFFORDABLE
WATER AND SANITATION
TECHNOLOGY**

(a registered charitable organization, operating as CAWST)

Year ended December 31, 2017



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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, 2017, 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 audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Centre for Affordable Water and Sanitation Technology as at December 31, 2017, 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 Professional Accountants

April 26, 2018
Calgary, Canada

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Statement of Financial Position

December 31, 2017, with comparative information for 2016


	2017	2016
Assets		
Current assets:		
Cash and cash equivalents (note 5)	\$ 1,006,538	\$ 1,179,982
Term deposits (note 3)	14,464,474	13,635,575
Accounts receivable	172,712	84,835
Government sales tax receivable	5,662	7,288
Prepaid expenses	79,977	27,669
	<u>15,729,363</u>	<u>14,935,349</u>
Term deposits (note 3)	-	-
Property and equipment (note 4)	133,702	186,949
	<u>\$ 15,863,065</u>	<u>\$ 15,122,298</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 234,783	\$ 176,721
Deferred contributions (note 5 and 7)	5,993,288	4,046,616
	<u>6,228,071</u>	<u>4,223,337</u>
Deferred contributions (note 5 and 7)	7,010,324	8,997,621
Deferred capital contributions (note 8)	77,092	119,142
	<u>13,315,487</u>	<u>13,340,100</u>
Net assets	2,547,578	1,782,198
Commitments (note 10)		
Subsequent events (note 12)		
	<u>\$ 15,863,065</u>	<u>\$ 15,122,298</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, 2017, with comparative information for 2016

	2017	2016
Revenues:		
Donations (notes 5 and 7)	\$ 4,438,055	\$ 3,812,942
Grant Revenue (note 7)	720,109	696,587
Interest income (note 6)	151,411	143,787
Amortization of deferred capital contributions	42,050	7,009
Training courses	32,459	54,527
Project consulting	72,119	27,140
	5,456,203	4,741,992
Expenses:		
Salary and benefits (note 11)	2,976,520	2,860,664
Water Expertise and Training Centers	454,843	369,367
Consulting	249,489	408,303
Travel	322,891	293,768
Office and administration	334,779	282,442
Rent and utilities	172,914	191,958
Loss on sale of marketable securities (note 5)	27,810	46,490
Insurance	41,235	44,704
Professional fees	39,905	38,150
Training and conferences	19,644	24,387
Materials and laboratory supplies	11,183	2,484
Meals and entertainment	1,592	1,990
Unrealized foreign exchange gain	(44,596)	(24,903)
Depreciation	82,614	45,139
	4,690,823	4,584,943
Excess of revenues over expenses	\$ 765,380	\$ 157,049

See accompanying notes to financial statements.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Statement of Changes in Net Assets

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Balance, beginning of year	\$ 1,782,198	\$ 1,625,149
Excess of revenues over expenses	765,380	157,049
Balance, end of year	\$ 2,547,578	\$ 1,782,198

See accompanying notes to financial statements.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Statement of Cash Flows

Year ended December 31, 2017, with comparative information for 2016

	2017	2016
Cash provided by (used in):		
Operating activities:		
Excess of revenues over expenses	\$ 765,380	\$ 157,049
Proceeds on sale of marketable securities	2,882,377	4,355,815
Items not affecting cash flows:		
Depreciation	82,614	45,139
Amortization of deferred capital contributions	(42,050)	(7,009)
Marketable securities donated	(2,910,187)	(4,402,305)
Loss on sale of marketable securities	27,810	46,490
Unrealized foreign exchange gain	(44,596)	(24,903)
	<u>761,348</u>	<u>170,276</u>
Net change in non-cash working capital balances:		
Accounts receivable	(87,877)	(958)
Government sales tax receivable	1,626	2,222
Prepaid expenses	(52,308)	11,888
Accounts payable and accrued liabilities	58,062	9,546
Government payroll tax payable	-	(23,439)
Deferred contributions	(40,625)	2,768,020
Deferred capital contributions received	-	126,151
	<u>640,226</u>	<u>3,063,706</u>
Investing activities:		
Purchase of property and equipment	(29,367)	(126,151)
Purchase of term deposits	(19,403,246)	(13,505,655)
Redemption of term deposits	18,574,347	10,367,780
	<u>(858,266)</u>	<u>(3,264,026)</u>
Decrease in cash and cash equivalents	(218,040)	(200,320)
Foreign exchange gain on cash held in foreign currencies	44,596	24,903
Cash and cash equivalents, beginning of year	1,179,982	1,355,399
Cash and cash equivalents, end of year	<u>\$ 1,006,538</u>	<u>\$ 1,179,982</u>

See accompanying notes to financial statements.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements

Year ended December 31, 2017, with comparative information for 2016

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 registered charity 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:

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations ("ASNFPO") and include the following significant accounting policies:

(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 maturities dates greater than one year if classified as long term.

(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 tradable 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.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

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Year ended December 31, 2017, with comparative information for 2016

2. Significant accounting policies (continued):

(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

CAWST reviews for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be reasonable and exceeds its fair value.

(f) Revenue recognition:

CAWST follows the deferral method of accounting for contributions, which include donations and grants. Revenue is recognized when collection is reasonably assured. Externally restricted contributions are deferred and 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.

Project consulting revenue is recognized when the related service is provided.

(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 the statement of operations.

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Notes to Financial Statements, page 3

Year ended December 31, 2017, with comparative information for 2016

2. Significant accounting policies (continued):

(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.

Credit risk:

CAWST's exposure to credit risk is on cash and cash equivalents, term deposits and 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 and cash equivalents consists of cash and bank balances; the term deposits represent 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.

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Notes to Financial Statements, page 4

Year ended December 31, 2017, with comparative information for 2016

2. Significant accounting policies (continued):

(i) Financial instruments (continued):

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.

Interest rate risk:

CAWST's exposure to interest rate risk is limited to fluctuations in the interest rate related to their investments in term deposits.

(j) 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 \$2,330.

(k) Use of estimates

The preparation of financial statements in conformity with ASNFPO requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. The most significant of these estimates are related to the recoverable amount of the accounts receivable, the amortization period for and potential impairment of capital assets, accrued liabilities and potential contingencies. Actual results could differ significantly from the estimates. Management reviews these estimates on a periodic basis and, if required, makes adjustments prospectively.

3. Term deposits:

Current term deposits mature between January 3, 2018 and October 30, 2018 and bear interest at rates ranging from 0.95% to 1.7%.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 5

Year ended December 31, 2017, with comparative information for 2016

4. Property and equipment:

			2017	2016
	Cost	Accumulated depreciation	Net book value	Net book value
Computer hardware and software	\$ 400,144	\$ 298,707	\$ 101,437	\$ 128,221
Office furniture	77,733	57,039	20,694	24,016
Leasehold improvements	117,091	105,520	11,571	34,712
	\$ 594,968	\$ 461,266	\$ 133,702	\$ 186,949

5. Marketable securities:

During the year, marketable securities were donated to CAWST with a value of \$2,890,414 (2016 - \$4,402,305). During the year, marketable securities of \$110,445 (2016 - \$607,111) were recorded in donations revenue. There were \$2,799,742 (2016 - \$3,795,194) of marketable securities designated by donors to cover future expenditures which are included in deferred contributions as at December 31, 2017.

During the year, marketable securities were sold for total proceeds of \$2,862,604 (2016 - \$4,355,815) resulting in a net loss on disposal of \$27,810 (2016 - loss of \$46,490).

At the end of 2017, there were \$nil (2016 - \$2,019) of marketable securities held by CAWST which is included in cash and cash equivalents.

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, 2017, the Fund totaled \$6,306 (2016 - \$5,949), with initial value of \$5,000 plus the change in market value to December 31, 2017. During 2017, CAWST received \$248 (2016 - \$230) included in interest income.

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Year ended December 31, 2017, with comparative information for 2016

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 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.

For the year ended December 31, the deferred contribution balance change is as follows:

	2017	2016
Beginning of year	\$13,044,237	\$ 10,276,217
Add amounts received related to future years	4,322,682	5,884,764
Less amounts recognized as revenue in the year	(4,363,307)	(3,116,744)
	\$13,003,612	\$ 13,044,237

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

	2017	2016
Current:		
Individuals	\$ 5,164,249	\$ 4,018,320
Organizations	829,039	28,296
	5,993,288	4,046,616
Long term:		
Individuals	7,010,324	8,997,621
	\$13,003,612	\$ 13,044,237

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Year ended December 31, 2017, with comparative information for 2016

7. Deferred contributions (continued):

Deferred contributions from organizations are comprised of the following:

	Beginning	Received during the Year	Recognized During the Year	Ending	Program
United Nations Association-Canada	\$14,760	-	\$14,760	-	Wavemakers
Government of Canada	-	\$461,949	\$340,216	\$121,733	WET Centre
Humanitarian Innovation Fund	-	\$36,043	\$36,043	-	Virtual WET Centre
TD Foundation	-	\$5,450	\$5,450	-	Wavemakers
RBC Foundation	-	\$50,000	\$15,297	\$34,703	Wavemakers
Edmonton Community Foundation	\$13,536	-	\$13,536	-	Wavemakers
Bow River Basin	-	\$5,000	\$5,000	-	Wavemakers
SEI-SuSana	-	\$124,445	\$124,445	-	Sanitation Market Study
Procter & Gamble	-	\$67,309	-	\$67,309	Household Water Treatment in Latin America
WorleyParsons	-	\$15,000	\$15,000	-	Columbia
The Calgary Foundation	-	\$10,000	\$10,000	-	Wavemakers
Anonymous	-	\$571,995	\$104,169	\$467,826	Non-Networked Sanitation
Anonymous	-	\$108,435	\$36,193	\$72,242	Latrine Implementation
D. Keith MacDonald Foundation	-	\$50,000	-	\$50,000	WET Centre
Action Contre La Faim	-	\$15,226	-	\$15,226	Handwashing in Emergencies
	\$28,296	\$1,520,852	\$720,109	\$829,039	

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Year ended December 31, 2017, with comparative information for 2016

8. Deferred capital contributions:

Deferred capital contributions represent restricted contributions received and designated to be used for capital purposes. Contributions received for property and equipment are deferred and amortized over the useful life of the related asset and are composed of the following:

	2017	2016
Balance, beginning of year	\$ 119,142	\$ –
Contributions provided by funders	–	126,151
Amortization of deferred capital contributions	(42,050)	(7,009)
Balance, end of year	\$ 77,092	\$ 119,142

9. Related party transactions:

During the year, the Chair of the Board donated shares in the amount of \$2,799,742 (2016 - \$3,795,194) and donated cash of \$nil (2016 - \$1,593,700).

During the year, CAWST received cash donations of \$80,250 (2016 - \$101,067) and donated marketable securities of \$10,212 (2016 - \$5,050) from other directors.

During the year, CAWST received cash donations of \$1,400 (2016 - \$1,100) from the Chief Executive Officer.

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

10. Commitments:

- (a) On November 22, 2016, CAWST signed a multi-year agreement with the Department of Foreign Affairs, Trade and Development "DFATD" toward the reconstruction and resilience of WASH Services through Capacity Building in Nepal with a total direct program cost of \$1,448,234. Under the terms of the agreement DFATD will contribute 100% of the cost incurred by CAWST to a maximum of \$1,622,022 which includes a reimbursement of overhead costs of \$173,788 to CAWST and is 12% of the \$1,448,234 as a reimbursement of overhead cost. CAWST entered into an agreement dated February 27, 2017 and terminating August 31, 2020 with a local partner to support the implementation of the reconstruction and resilience of WASH services in Nepal in the amount of \$668,620.

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Year ended December 31, 2017, with comparative information for 2016

10. Commitments (continued):

During 2017, DFATD advanced CAWST a total of \$464,035 (2016 - \$nil) of which, \$461,949 relates to 2017 and \$2,086 to amounts recognized and receivable as at December 31, 2016. CAWST recognized revenue of \$340,216 (2016 - \$2,086) for expenses incurred. As at December 31, 2017, CAWST had a balance of \$121,733 in deferred contributions which was the difference between funds advanced from DFATD and revenues recognized to date. As at December 31, 2017, CAWST advanced \$162,671 to the local partner in support of the project.

- (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 29, 2018. Under the agreement, the annualized rent is fixed and includes utilities. The annual rental expense is \$192,000.

The minimum lease payments are as follows:

2018	\$	96,000
Thereafter		—
	\$	96,000

- (c) As at December 31, 2017, CAWST entered into an agreement with an organization in Kenya to provide funding to the Water Expertise and Training Center for approved expenditures and upon completion of reporting requirements. The commitment for the future years with respect to the Water Expertise and Training Center is \$75,000.

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 2017 was \$46,645 (2016 - \$38,307) 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's contribution to the plan in 2017 was \$50,370 (2016 - \$52,304) and is included in the salary and benefits expense.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 10

Year ended December 31, 2017, with comparative information for 2016

12. Subsequent events:

Subsequent to yearend, CAWST renewed agreements with local partners in Cambodia, Ethiopia, and Zambia to provide funding to Water Expertise and Training Centers for approved expenditures and upon completion of reporting requirements. The commitments with respect to the Water Expertise and Training Centers is \$426,770.

13. Comparative information:

Certain comparative information has been reclassified to be consistent with current year presentation.