

Financial Statements of

**CENTRE FOR AFFORDABLE
WATER AND SANITATION
TECHNOLOGY**

(a registered charitable organization, operating as CAWST)

Year ended December 31, 2016



KPMG LLP
205 5th Avenue SW
Suite 3100
Calgary AB
T2P 4B9
Canada
Telephone (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

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, 2016, 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, 2016, 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 27, 2017
Calgary, Canada

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Statement of Financial Position

December 31, 2016, with comparative information for 2015

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,179,982	\$ 1,355,399
Term deposits (note 4)	13,635,575	6,786,275
Accounts receivable	84,835	83,877
Government sales tax receivable	7,288	9,510
Prepaid expenses	27,669	39,557
	14,935,349	8,274,618
Term deposits (note 4)	-	3,711,425
Property and equipment (note 5)	186,949	105,937
	\$ 15,122,298	\$ 12,091,980

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 176,721	\$ 167,175
Government payroll tax payable	-	23,439
Deferred contributions (note 8)	4,046,616	4,349,144
	4,223,337	4,539,758
Deferred contributions (note 8)	8,997,621	5,927,073
Deferred capital contributions (note 9)	119,142	-
	13,340,100	10,466,831
Net assets	1,782,198	1,625,149
Commitments (note 12)		
	\$ 15,122,298	\$ 12,091,980

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, 2016, with comparative information for 2015

	2016	2015
Revenues:		
Donations (notes 6 and 8)	\$ 3,819,951	\$ 3,598,096
Grant revenue (note 11)	696,587	1,265,028
Interest income	143,787	166,504
Training courses	54,527	19,141
Project consulting	27,140	5,047
	4,741,992	5,053,816
Expenses:		
Salary and benefits (note 13)	2,860,664	2,653,795
Water expertise and training centers	369,367	851,669
Consulting	408,303	537,080
Travel	293,768	318,937
Office and administration	257,539	203,029
Rent and utilities	191,958	193,699
Loss on sale of marketable securities (note 6)	46,490	21,803
Insurance	44,704	43,052
Professional fees	38,150	38,150
Training and conferences	24,387	19,957
Materials and laboratory supplies	2,484	14,076
Meals and entertainment	1,990	1,364
Depreciation	45,139	53,169
	4,584,943	4,949,780
Excess of revenues over expenses	\$ 157,049	\$ 104,036

See accompanying notes to financial statements.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Statement of Changes in Net Assets

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Balance, beginning of year	\$ 1,625,149	\$ 1,521,113
Excess of revenues over expenses	157,049	104,036
Balance, end of year	\$ 1,782,198	\$1,625,149

See accompanying notes to financial statements.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Statement of Cash Flows

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating activities:		
Excess of revenues over expenses	\$ 157,049	\$ 104,036
Proceeds on sale of marketable securities	4,355,815	3,231,743
Items not affecting cash flows:		
Depreciation	45,139	53,169
Amortization of deferred capital contributions	(7,009)	-
Marketable securities donated	(4,402,305)	(3,253,546)
Loss on sale of marketable securities	46,490	21,803
	<u>195,179</u>	<u>157,205</u>
Net change in non-cash working capital balances:		
Accounts receivable	(958)	32,263
Government sales tax receivable	2,222	(2,494)
Prepaid expenses	11,888	(9,233)
Accounts payable and accrued liabilities	9,546	(96,780)
Government payroll tax payable	(23,439)	(2,835)
Deferred contributions	2,768,020	344,588
Deferred capital contributions received	126,151	-
	<u>3,088,609</u>	<u>422,714</u>
Investing activities:		
Purchase of property and equipment	(126,151)	(63,635)
Purchase of term deposits	(13,505,655)	(3,763,545)
Redemption of term deposits	10,367,780	4,332,845
	<u>(3,264,026)</u>	<u>505,665</u>
Increase (decrease) in cash and cash equivalents	(175,417)	928,379
Cash and cash equivalents, beginning of year	1,355,399	427,020
Cash and cash equivalents, end of year	<u>\$ 1,179,982</u>	<u>\$ 1,355,399</u>

See accompanying notes to financial statements.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements

Year ended December 31, 2016, with comparative information for 2015

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:

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 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, 2016, with comparative information for 2015

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

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, grants and project consulting. 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.

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Notes to Financial Statements, page 3

Year ended December 31, 2016, with comparative information for 2015

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 the statement of operations.

(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

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Year ended December 31, 2016, with comparative information for 2015

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 \$1,200.

(b) Credit risk:

CAWST's exposure to credit risk is on cash, 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 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.

(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.

(d) 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.

4. Term deposits:

Current term deposits mature between January 17, 2017 and December 12, 2017 and bear interest at rates ranging from 0.75% to 1.7%.

Term deposits classified as long term mature on January 17, 2019 and bear interest at a rate of 1.1%.

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Notes to Financial Statements, page 5

Year ended December 31, 2016, with comparative information for 2015

5. Property and equipment:

			2016	2015
	Cost	Accumulated depreciation	Net book value	Net book value
Computer hardware and software	\$ 370,777	\$ 242,556	\$ 128,221	\$ 24,392
Office furniture	77,732	53,716	24,016	27,340
Leasehold improvements	117,091	82,379	34,712	54,205
	\$ 565,600	\$ 378,651	\$ 186,949	\$ 105,937

6. Marketable securities:

During the year, marketable securities were donated to CAWST with a value of \$4,402,305 (2015 - \$3,253,546). During the year, marketable securities of \$607,111 (2015 - \$117,884) was recorded in donations revenue. There were \$3,795,194 (2015 - \$5,927,073) of marketable securities designated by donors to cover future expenditures which are included in deferred contributions as at December 31, 2016.

During the year, marketable securities were sold for total proceeds of \$4,355,813 (2015 - \$3,231,743) resulting in a net loss on disposal of \$46,490 (2015 - loss of \$21,803).

At the end of 2016, there were \$2,019 (2015 - \$nil) of marketable securities held by CAWST which is included in cash and cash equivalents.

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, 2016, the Fund totaled \$5,949 (2015 - \$5,782), with initial value of \$5,000 plus the change in market value to December 31, 2016. During 2016, CAWST received \$230 (2015 - \$233) included in interest income.

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Year ended December 31, 2016, with comparative information for 2015

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.

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

	2016	2015
Beginning of year	\$ 10,276,217	\$ 9,931,629
Add amounts received related to future years	5,884,764	4,352,665
Less amounts recognized as revenue in the year	(3,116,744)	(4,008,077)
	<u>\$13,044,237</u>	<u>\$10,276,217</u>

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

	2016	2015
Current:		
Individuals	\$4,021,320	\$4,127,017
Organizations	28,296	222,127
	<u>4,046,616</u>	<u>4,349,144</u>
Long term:		
Individuals	8,997,621	5,927,073
	<u>\$13,044,237</u>	<u>\$10,276,217</u>

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Year ended December 31, 2016, with comparative information for 2015

8. Deferred contributions (continued):

Deferred contributions from organizations are comprised of the following:

	Beginning	Received during the year	Recognized in revenue	Ending	Purpose
United Nations Association - Canada	\$ -	\$ 15,000	\$ 240	\$ 14,760	Wavemakers Program
RBC Foundation	-	50,000	50,000	-	Wavemakers Program
CISCO	-	199,395	199,395	-	Virtual WET Centre
Alberta Real Estate Foundation	-	13,500	13,500	-	Environmental Education in Alberta
Teri Taylor - Tunski Fund	4,800	-	4,800	-	Wavemakers Program
Edmonton Community Foundation	-	22,600	9,064	13,536	Wavemakers Program
The Calgary Foundation	23,387	-	23,387	-	Wavemakers Program
Gates Foundation - National Institute for Urban Affairs	193,940	200,175	394,115	-	Urban Sanitation Capacity Platform
	\$ 222,127	\$ 500,670	\$ 694,501	\$ 28,296	

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 8

Year ended December 31, 2016, with comparative information for 2015

9. 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:

	2016	2015
Balance, beginning of year	\$ —	—
Contributions provided by funders	126,151	—
Amortization of deferred capital contributions	(7,009)	—
Balance, end of year	\$ 119,142	\$ —

10. Related party transactions:

During the year, the Chair of the Board donated shares in the amount of \$3,795,194 (2015 - \$3,135,663) and donated cash of \$1,593,700 (2015 - \$nil).

During the year, CAWST received cash donations of \$101,067 (2015 - \$34,080) and donated marketable securities of \$5,050 (2015 - \$42,184) from other directors.

During the year, CAWST received cash donations of \$1,100 (2015 - \$1,000) from the Chief Executive Officer.

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

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 9

Year ended December 31, 2016, with comparative information for 2015

11. Grant revenue

	2016	2015
United Nations Association – Canada	\$ 240	\$ –
RBC Foundation	50,000	–
CISCO	199,395	61,700
IRDC	–	24,300
Alberta Real Estate Foundation	13,500	–
Teri Taylor - Tunski Fund	4,800	10,000
Edmonton Community Foundation	9,064	–
The Calgary Foundation	23,387	26,613
Gates Foundation – National Institute for Urban Affairs	394,115	5,244
Nepal Earthquake	–	10,151
DFATD (previously CIDA)	2,086	1,040,654
REED Elsevie	–	2,989
Suncor Energy Foundation	–	83,377
	\$ 696,587	\$ 1,265,028

12. 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 \$173,788 to CAWST and is 12% of the \$1,448,234, as a reimbursement of overhead cost.

During 2016, DFATD advanced CAWST a total of \$ nil (2015 – 936,035) and CAWST recognized revenue of \$2,086 (2015 - \$1,040,652) for expenses incurred. As at December 31, 2016, CAWST had a balance of \$nil (2015 – nil) in deferred contributions which was the difference between funds advanced from DFATD and revenues recognized to date. In 2016, the recognized revenue was recorded as a receivable in the balance sheet from DFATD.

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Notes to Financial Statements, page 10

Year ended December 31, 2016, with comparative information for 2015

12. Commitments (continued):

- (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 two years are as follows:

2017	\$ 192,000
2018	96,000
	<hr/>
	\$ 288,000

- (c) During 2014, CAWST signed a two-year Water Expertise Training Center agreement with Pure Water for the World in Honduras commencing on January 1, 2014 and ending on December 31, 2015. CAWST committed \$200,000. For the year ended December 31, 2016, CAWST has advanced \$64,699 (2015 - \$82,890) and accrued expenses of \$nil (2015 - \$111,852) under this agreement, which has been included in Water Expertise and Training Centre expenses during the year.

13. 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 2016 was \$38,307 (2015 - \$32,883) 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 2016 was \$52,304 (2015- \$51,971) and is included in the salary and benefits expense.

14. Comparative information:

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