



Financial Statements of

**CENTRE FOR AFFORDABLE
WATER AND SANITATION
TECHNOLOGY**

(a registered charitable organization, operating as CAWST)

Years ended December 31, 2007 and 2006



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AUDITORS' REPORT

To the Board of Directors
Centre for Affordable Water and Sanitation Technology

We have audited the statement of financial position of the Centre for Affordable Water and Sanitation Technology (the "Centre") as at December 31, 2007 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the Centre's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as explained in the following paragraph, we conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In common with many charitable organizations, the Centre derives part of its revenue from the public in the form of donations, the completeness of which is not susceptible of satisfactory audit verification. Accordingly our verification of these revenues was limited to the amounts recorded in the records of the Centre and we were not able to determine whether any adjustments might be necessary to donation revenue, excess of revenue over expenses, assets and net asset balances.

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we been able to satisfy ourselves concerning the completeness of donation revenue referred to in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Centre as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Calgary, Canada
January 25, 2008

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Statement of Financial Position

December 31, 2007, with comparative figures for 2006

	2007	2006
Assets		
Current assets:		
Cash (note 8)	\$ 66,614	\$ 89,501
Term deposits (note 9)	983,410	1,030,000
Accounts receivable	39,934	65,404
Prepaid expenses	6,113	9,829
	1,096,071	1,194,734
Property and equipment (note 6)	100,203	86,436
	\$ 1,196,274	\$ 1,281,170

Liabilities and Net Assets

Current liabilities:		
Accounts payable and accrued liabilities	\$ 41,216	\$ 46,395
Deferred revenue (notes 8 and 9)	367,410	371,416
	408,626	417,811
Deferred contributions related to property and equipment (note 7)	8,678	11,675
Deferred revenue (note 8)	-	250,000
Net assets:		
Invested in property and equipment	91,525	74,761
Accumulated operating surplus	687,445	526,923
	778,970	601,684
Commitments (note 11)		
	\$ 1,196,274	\$ 1,281,170

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, 2007, with comparative figures for 2006

	2007	2006
Revenues:		
Donations (notes 5 and 7)	\$ 1,524,067	\$ 939,214
Project consulting	12,346	54,033
Training courses	30,018	54,812
Interest income	35,119	24,198
	1,601,550	1,072,051
Expenses:		
Salary and benefits	899,582	617,894
Office and administration	129,688	90,605
Travel	124,838	112,590
Consulting	60,456	66,311
Rent and utilities	54,866	49,697
Meals and entertainment	43,602	49,686
Materials and lab supplies	36,122	37,007
Insurance	19,718	22,815
Audit	12,146	16,127
Loss on sale of marketable securities	1,603	206
Training and conferences	1,441	12,461
Loss on disposal of equipment	812	1,856
Depreciation	39,390	27,859
	1,424,264	1,104,908
Excess (deficiency) of revenues over expenses	\$ 177,286	\$ (32,857)

See accompanying notes to financial statements.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Statements of Changes in Net Assets

Years ended December 31, 2007 and 2006

	Invested in capital assets	Unrestricted	Total	
			2007	2006
Balance, beginning of year	\$ 74,761	\$ 526,923	\$ 601,684	\$ 634,541
Excess (deficiency) of revenues over expenses	(37,205)	214,491	177,286	(32,857)
Investment in property and equipment	53,969	(53,969)	-	-
Balance, end of year	\$ 91,525	\$ 687,445	\$ 778,970	\$ 601,684

See accompanying notes to financial statements.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Statements of Cash Flows

Years ended December 31, 2007 and 2006

	2007	2006
Operating activities:		
Excess (deficiency) of revenues over expenses	\$ 177,286	\$ (32,857)
Items not affecting cash flows:		
Depreciation	39,390	27,859
Amortization of deferred contributions	(2,997)	(2,996)
Loss on disposal of property and equipment	812	1,856
Marketable securities donated	(553,878)	(925,210)
Loss on sale of marketable securities	1,603	206
Deferred revenue	(250,000)	250,000
Proceeds on sale of marketable securities	552,274	1,024,059
Net change in non-cash working capital balances:		
Receivable	25,470	(32,527)
Prepaid expenses	3,716	(857)
Accounts payable and accrued liabilities	(5,179)	(12,644)
Deferred revenue	(4,006)	254,755
	(15,509)	551,644
Investing and financing activities:		
Purchase of equipment	(53,969)	(48,135)
Proceeds on disposal of equipment	-	325
Redemption of term deposit	46,590	-
Purchase of term deposit	-	(778,740)
	(7,379)	(826,550)
Net decrease in cash during the year	(22,888)	(274,906)
Cash, beginning of year	89,501	364,407
Cash, end of year	\$ 66,613	\$ 89,501

See accompanying notes to financial statements.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements

Years ended December 31, 2007 and 2006

1. Purpose of the organization:

The Centre for Affordable Water and Sanitation Technology ("CAWST" or "the Centre") was formed to provide technical training and support in water sanitation services for those who serve the poor in developing countries. The Centre was incorporated on October 2, 2001 under the Alberta Societies Act as a not-for-profit organization. The Centre 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 the Centre was awarded charitable status for income tax purposes.

2. Significant accounting policies:

Management has prepared the Centre's financial statements in accordance with accounting principles generally accepted in Canada, 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. 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:

The Centre 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.

(b) Fund accounting:

The Centre currently has only one fund, the Operating Fund, which is unrestricted and accounts for the Centre's program delivery and administrative activities.

(c) Cash:

Cash includes cash on deposit and short-term investments and term deposits with original maturities of less than three months.

(d) Term deposits:

Term deposits are recorded at cost and include amounts having original maturity dates of three months and less than one year.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 2

Years ended December 31, 2007 and 2006

2. Significant accounting policies (continued):

(e) Marketable securities:

Periodically, the Centre 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 Centre.

The fair value attributed to these securities shall be used for purposes of revenue recognition and the value for the initial recognition of the asset on the balance sheet.

It is the intention of the Centre that upon the receipt of such securities that they will be designated as "held for sale" and are to be sold as quickly as possible in an orderly fashion.

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 income statement with the carrying value of the securities adjusted accordingly on the balance sheet.

(f) 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 following estimated useful lives:

Equipment	5 years
Computer hardware and software	3 years
Office furniture	10 years
Leasehold improvements	Term of lease – 5 years

(g) Revenue recognition:

The Centre follows the deferral method of accounting for contributions, which include donations 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

Years ended December 31, 2007 and 2006

2. Significant accounting policies (continued):

(h) Donated materials and services:

Donations in kind are recorded in the financial statements at fair market value when fair market value can be reasonably estimated. Volunteers contribute substantial donated time and services to assist the Centre 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.

(i) 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.

(j) Comparative figures:

Certain information provided in the prior year has been reclassified to conform to the current year's presentation.

3. Financial instruments:

(a) Fair value of financial assets and financial liabilities:

Financial instruments include cash, term deposits, investments held for sale, accounts receivable and accounts payable and accrued liabilities and approximate their carrying value because of the short term nature of these instruments.

(b) Foreign currency risk:

The Centre is exposed to foreign currency fluctuations as it holds cash denominated in various foreign currencies.

(c) At December 31, 2007, 53% of the Centre's accounts receivable is owing from one entity; the amount owing was collected subsequent to the year end.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 4

Years ended December 31, 2007 and 2006

4. Change in accounting policies:

Effective January 1, 2007 the Centre adopted the following new accounting standards issued by the Canadian Institute of Chartered Accountants ("CICA"); "Financial Instruments – Recognition and Measurement", "Comprehensive Income", "Hedges" and "Financial Instruments – disclosure and Presentation". These new standards have been adopted prospectively. Adoption of these standards did not impact January 1, 2007 opening balances.

(i) Financial instruments:

All financial instruments must be initially recognized at fair value on the balance sheet date. The Centre has classified each financial instrument into the following categories; held for trading financial assets and liabilities, loans or receivables, held to maturity investments, available for sale financial assets, and other financial liabilities. Subsequent measurement of the financial instruments is based on their classification. Unrealized gains and losses on held for trading financial instruments are recognized in earnings. Gains and losses on available for sale financial assets are recognized in other comprehensive income and transferred to earnings when the asset is derecognized. The other categories of financial instruments are recognized at amortized costs using the effective interest rate method.

Upon adoption of the new standards, the Centre has classified cash, term deposits and marketable securities as held for trading, accounts receivable as loans and receivables, and accounts payable as other liabilities.

(ii) Comprehensive income:

Comprehensive income consists of net earnings and other comprehensive income ("OCI"). OCI comprises the change in the fair value of the effective portion of the derivatives used as hedging items in a cash flow hedge and the change in fair value of any available for sale financial instruments. Amounts included in the OCI are shown net of tax. Accumulated other comprehensive income is new equity category comprised of the cumulative amounts of OCI.

The Company had no "other comprehensive income or loss" transactions during the year ended December 31, 2007 and no opening or closing balances for accumulated other comprehensive income or loss.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 5

Years ended December 31, 2007 and 2006

5. Marketable securities:

During the year marketable securities were donated to CAWST with a value of \$553,878 (2006 - \$925,210). Of this amount \$453,878 (2006 - \$325,210) was recorded in donations revenue. The balance of \$100,000 (2005 - \$600,000) was designated by the donors to cover 2008 expenditures and as such the \$100,000 was treated as deferred revenue.

During the year, marketable securities were sold for total proceeds of \$552,274 (2006 - \$1,024,059) resulting in a net loss on disposal of \$1,603 (2006 - \$206).

At the end of 2007 and 2006 there were no marketable securities.

6. Property and equipment:

December 31, 2007	Cost	Accumulated depreciation	Net book value
Computer hardware and software	\$ 111,419	\$ 72,019	\$ 39,400
Office furniture	26,211	9,110	17,101
Equipment	18,290	5,407	12,883
Leasehold improvements	34,243	3,424	30,819
	\$ 190,163	\$ 89,960	\$ 100,203
December 31, 2006			
Computer hardware and software	\$ 96,903	\$ 46,730	\$ 50,173
Office furniture	26,211	6,489	19,722
Equipment	18,290	1,749	16,541
	\$ 141,404	\$ 54,968	\$ 86,436

7. Deferred contributions related to property and equipment:

During 2004, the Centre received donated office furniture and computer hardware. The fair market value of \$19,000 for these items was determined by a third party appraisal company or the donor. Depreciation on this property and equipment in 2007 of \$2,997 (2006 - \$2,996) is included in the total depreciation of \$39,390 (2006 - \$27,859) for the year.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 6

Years ended December 31, 2007 and 2006

7. Deferred contributions related to property and equipment (continued):

Deferred contributions related to property and equipment included the unamortized portion of externally restricted contributions received for the purchase of property and equipment. The amortization of deferred contributions is recorded as donations revenue in the statement of operations.

	2007	2006
Balance, beginning of year	\$ 11,675	\$ 14,671
Amounts amortized to donation revenue	(2,997)	(2,996)
Balance, end of year	\$ 8,678	\$ 11,675

8. Related party transactions:

- (a) During the years ended December 31, 2007 and 2006, the Centre's Chief Executive Officer donated all time and services relating to this full time position. During 2007 and 2006 the husband of the Centre's Chief Executive Officer worked for the Centre as its full time Director, Research. He donated all time and services relating to this full time position.

Commencing in 2007 the Chief Executive Officer and the Director, Research have decided that they will not ask for reimbursement of their out-of-pocket travel and entertainment expenses incurred on behalf of CAWST until further notice by them. No such notice was given during the year.

At December 31, 2007 and 2006 there were no amounts owing to either of these individuals.

- (b) During the year the Director, Research and Development donated marketable securities that had a value of \$109,384 (2006 - \$120,778) at the time of his donation.
- (c) During the year there were no donations from the Centre's Chief Executive Officer and the Director, Research and Development, excluding the donated marketable securities noted above (2006 - \$11,381).
- (d) During the year ended December 31, 2007 the Centre received cash and marketable securities donations of \$193,965 (2006 - \$212,013) from certain Directors, including the donation of \$109,384 (2006 - \$132,159) noted above from the Chief Executive Officer and Director, Research and Development. Of the donation from the Chief Executive Officer and the Director, Research and Development, \$100,000 has been designated for use of 2008 and as such is included in the current portion of deferred revenue. These donations are accounted for in accordance with the Centre's policy for recorded contributions.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 7

Years ended December 31, 2007 and 2006

9. Externally restricted cash:

The term deposits includes \$350,000 (2006 - \$600,000) of cash which is externally restricted to pay for future operating expenses. The \$350,000 is included in deferred revenue.

10. Deferred revenue:

Deferred revenue is 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.

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

	2007	2006
Donated term deposits	\$ 350,000	\$ 600,000
Other	17,410	21,416
	367,410	621,416
Less current portion	367,410	371,416
	\$ —	\$ 250,000

11. Commitments:

- During the year, the Centre renewed its lease for the rental of premises for a five year period commencing June 1, 2007. Under the lease the annualized rent is subject to adjustments for operating costs. The annual rental expense is \$51,240 and expires May 31, 2012.
- During the year, work under an agreement signed November 10, 2005 with the Canadian International Development Agency ("CICA") was completed. At the end of the year there was an amount of \$21,000 owing from CIDA.
- Under the terms of a two-year agreement with the United Nations Human Settlements Programme ("UN-HABITAT") signed February 13, 2006, CAWST will help build country level capacity on household water treatment systems in three countries of the Mekong Region of Southeast Asia. Under the terms of the agreement, UN-HABITAT will provide CAWST with funds up to a maximum of U.S.\$76,000 (Canadian \$91,566), with CAWST providing an equal amount for the funding over the life of the project. In 2006 funding received by CAWST from UN-HABITAT was U.S.\$19,055 (Canadian \$21,416). No additional funding was received in 2007. During 2007 costs of \$45,200 were incurred on the project.

CENTRE FOR AFFORDABLE WATER AND SANITATION TECHNOLOGY

Notes to Financial Statements, page 8

Years ended December 31, 2007 and 2006

12. Revenue and expenses:

- (a) During 2006 costs of approximately \$6,700 were incurred to deal with a medical emergency of an employee doing work in a foreign country. While insurance is in place to address such emergencies, the insurer was unable at the time to determine with certainty the amount of the reimbursement that CAWST may have been entitled to receive. Given this uncertainty, CAWST did not record any recovery in its 2006 financial results. During 2007, \$6,400 was received with respect to this outstanding claim and this recovery is reflected as a reduction of insurance expense for the year.
- (b) During the year CAWST introduced an employee benefits program the cost of which is shared equally between CAWST and employees. The CAWST cost in 2007 was \$4,600.
- (c) At the end of 2007 and 2006 there was no allowance for doubtful receivables.