

**WATER FIRST INTERNATIONAL
(A Washington Nonprofit Corporation)**

**Financial Statements for the
Years Ended December 31, 2011 and 2010
and Independent Auditors' Report**

WATER FIRST INTERNATIONAL
Table of Contents
For the Years Ended December 31, 2011 and 2010

Independent Auditors' Report.....	1
Financial Statements:	
Statements of Financial Position.....	2
Statements of Activities	3
Statement of Functional Expenses - 2011.....	4
Statement of Functional Expenses - 2010.....	5
Statements of Cash Flows.....	6
Notes to Financial Statements.....	7

WATSON & McDONELL, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Water First International
Seattle, Washington

We have audited the accompanying statements of financial position of Water First International (a Washington nonprofit corporation) as of December 31, 2011 and 2010, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about 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. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Water First International as of December 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Watson & McDowell, PLLC

July 13, 2012

WATER FIRST INTERNATIONAL
Statements of Financial Position
December 31, 2011 and 2010

ASSETS		2011	2010
Current assets:			
Cash and cash equivalents		\$ 730,795	\$ 696,691
Grants and contributions receivable		20,000	15,000
Prepaid rent		2,650	
Total current assets		753,445	711,691
Other assets:			
Office furniture and equipment		12,734	12,734
Less: accumulated depreciation		(10,792)	(9,461)
		1,942	3,273
		\$ 755,387	\$ 714,964

LIABILITIES AND NET ASSETS

Current liabilities:			
Accrued expenses		\$ 33,790	\$ 20,492
Payroll payable		9,466	6,107
Grants payable		617,832	586,399
Total current liabilities		661,088	612,998
Net assets:			
Unrestricted net assets		94,299	101,966
		94,299	101,966
		\$ 755,387	\$ 714,964

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL
Statements of Activities

For the Years Ended December 31, 2011 and 2010

	2011		2010	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
Support and revenue:				
Special events revenue, less \$502,204 and \$492,210 of contributions included below, respectively	\$ 76,275	\$ 76,275	\$ 94,750	\$ 94,750
Less: costs of direct benefits to donors	(97,835)	(97,835)	(104,367)	(104,367)
Net special events expense	(21,560)	(21,560)	(9,617)	(9,617)
Contributions	971,563	971,563	897,130	897,130
Grants	\$41,000	\$111,758	136,550	136,550
Other income	2,852	2,852	4,673	4,673
Interest income	93	93	1,002	1,002
Net assets released from restrictions	111,758	(111,758)	25,000	\$ (25,000)
Total support and revenue	<u>1,105,706</u>	<u>1,105,706</u>	<u>1,054,738</u>	<u>1,029,738</u>
Expenses:				
Program services	932,674	932,674	897,468	897,468
Management and general	30,058	30,058	34,406	34,406
Fundraising	150,641	150,641	143,629	143,629
Total expenses	<u>1,113,373</u>	<u>1,113,373</u>	<u>1,075,503</u>	<u>1,075,503</u>
Change in net assets	(7,667)	-	(20,765)	(25,000)
Net assets, beginning of year	101,966	-	122,731	25,000
Net assets, end of year	<u>\$ 94,299</u>	<u>\$ 94,299</u>	<u>\$ 101,966</u>	<u>\$ -</u>
			<u>\$ 101,966</u>	<u>\$ 101,966</u>

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL
Statement of Functional Expenses
For the Year Ended December 31, 2011

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 180,140	\$ 14,112	\$ 76,740	\$ 270,992
Employee benefits	8,677	942	4,571	14,190
Payroll taxes	15,311	837	7,251	23,399
Grants for water systems	607,468			607,468
Professional fees	24,091	10,125	4,185	38,401
Project monitoring site visits	48,521			48,521
Travel	11,175	26	2,930	14,131
Rent	17,586	878	4,936	23,400
Printing and copying	8,486		14,360	22,846
Office and supplies	3,228	346	11,060	14,634
Postage	447	194	9,537	10,178
Fees and licenses	450	153	10,654	11,257
Communications	3,722	102	2,627	6,451
Insurance		1,293	810	2,103
Depreciation	885	69	377	1,331
Other	2,487	981	603	4,071
	<u>\$ 932,674</u>	<u>\$ 30,058</u>	<u>\$ 150,641</u>	<u>\$ 1,113,373</u>
Total				

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL
Statement of Functional Expenses
For the Year Ended December 31, 2010

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 192,465	\$ 13,905	\$ 70,467	\$ 276,837
Employee benefits	7,999	717	4,214	12,930
Payroll taxes	16,317	1,209	6,409	23,935
Grants for water systems	605,451			605,451
Professional fees	6,588	10,535	5,880	23,003
Project monitoring and travel	32,125			32,125
Travel			2,416	2,416
Rent	16,506	1,073	4,437	22,016
Printing and copying	10,549	4,080	20,790	35,419
Office and supplies	3,330	493	6,924	10,747
Postage	717	389	8,079	9,185
Fees and licenses	469	65	10,257	10,791
Communications	2,946	107	1,981	5,034
Insurance		1,255	825	2,080
Depreciation	529	38	193	760
Other	1,477	540	757	2,774
	<u>\$ 897,468</u>	<u>\$ 34,406</u>	<u>\$ 143,629</u>	<u>\$ 1,075,503</u>
Total	<u>\$ 897,468</u>	<u>\$ 34,406</u>	<u>\$ 143,629</u>	<u>\$ 1,075,503</u>

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL
 Statements of Cash Flows
 For the Years Ended December 31, 2011 and 2010

	<u>2011</u>	<u>2010</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (7,667)	\$ (45,765)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,331	760
Decrease (increase) in operating assets:		
Accounts receivable		8,190
Pledges receivable	(5,000)	10,000
Prepaid rent	(2,650)	
Increase (decrease) in operating liabilities:		
Accrued expenses	13,298	11,501
Payroll payable	3,359	572
Grants payable	<u>31,433</u>	<u>128,308</u>
Net cash provided by (used in) operating activities	<u>34,104</u>	<u>113,566</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of office furniture and equipment		<u>(2,515)</u>
Net increase (decrease) in cash and cash equivalents	34,104	111,051
Cash and cash equivalents, beginning of year	<u>696,691</u>	<u>585,640</u>
Cash and cash equivalents, end of year	<u>\$ 730,795</u>	<u>\$ 696,691</u>

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Years Ended December 31, 2011 and 2010

NOTE 1 - NATURE OF THE ORGANIZATION

Water First International (the Organization) is a nonprofit corporation formed in 2005 to provide grants to non-governmental organizations (NGOs) based in developing countries in order to support the implementation of projects that include provision of drinking water, hygiene education, and sanitary latrines. The Organization works with the NGOs in some of the poorest communities in the world to support sustainable, community-managed solutions to water supply and sanitation problems. During 2011, the Organization and the local NGOs completed 150 water systems in three countries, benefiting over 16,000 people. 148 small-scale water systems were completed in urban slums area of Dhaka and Chittagong, Bangladesh (11,308 beneficiaries). In Ethiopia, the large Kelecho Gerbi project serving 4,085 people was completed in June and construction began on the Tute Kunche project. One project serving 700 people was completed in Honduras and progress was made on a second project serving 6 villages and 1 rural town with a combined population of 2,700. From 2005 through 2011, the Organization has completed 527 water systems benefiting 64,000 people.

The Organization's goal is to maximize cost-effectiveness by leveraging local resources. In the urban slums of Dhaka and Chittagong, Bangladesh, for example, beneficiaries pay 100 percent of the capital costs of their projects through two-year loans. The loans are repaid to the local non-governmental organization, who is the recipient of Water First's grants. Repaid loan funds are revolved and used for additional water and sanitation projects and create a sustainable source of funds for Water First's Bangladesh partner. In Honduras and Ethiopia, beneficiaries contribute labor and local materials, which are valued at up to 25 percent of the total project cost.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial statement presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. The Organization had no temporarily or permanently restricted net assets at December 31, 2011 or 2010.

Fixed assets and depreciation

Furniture and equipment are recorded at cost. Acquisitions of property and equipment in excess of \$500 are capitalized. Depreciation is calculated using the straight-line method over the estimated useful lives of 3-5 years.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Years Ended December 31, 2011 and 2010

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Functional expenses

The costs of providing various programs, administrative services and fundraising have been allocated and summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Restricted and unrestricted revenue and support

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the restriction. When a restriction expires, restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Federal income tax

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Association qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation under Section 509(a)(1). The Organization's income tax filings are subject to examination by various taxing authorities. The Organization's open examination periods are 2008 and thereafter.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 3 - GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable consist of unconditional promises to give. Conditional grants and contributions are recognized only when the conditions on which they depend are substantially met and the pledge becomes unconditional. Total grants and contributions receivable were \$20,000 and \$15,000 at December 31, 2011 and 2010, respectively.

Management deems all grants and contributions to be collectible. Grants and contributions receivable at December 31, 2011 are expected to be realized within one year.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Years Ended December 31, 2011 and 2010

NOTE 4 - CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with maturities of three months or less to be cash equivalents. The Organization maintains cash balances in money market funds and at high credit quality financial institutions. The cash balances at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash balances.

Cash and cash equivalents consisted of the following at December 31:

	2011	2010
Cash in bank	\$ 314,925	\$ 448,718
Money market funds	415,870	247,973
	\$ 730,795	\$ 696,691

NOTE 5 - GRANTS PAYABLE

The Organization entered into grant agreements with NGOs in Bangladesh, Ethiopia, Honduras and India totaling \$607,468 and \$605,451 during 2011 and 2010, respectively. Grant payments of \$576,035 and \$477,143, were made during 2011 and 2010, respectively. Grants payable at December 31, 2011, are scheduled to be paid within one year.

NOTE 6 - IN-KIND CONTRIBUTIONS

Contributed services are recognized at fair value if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair value when received. No in-kind contributions were recognized in 2011 or 2010.

The Organization receives over 600 hours of donated services from unpaid volunteers who assist in fund-raising, office support and special projects. These donated services are not reflected in the financial statements since these services do not meet the criteria for recognition under generally accepted accounting principles.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Years Ended December 31, 2011 and 2010

NOTE 7 - RETIREMENT PLAN

All paid employees are eligible for the SIMPLE IRA retirement plan. Under this plan, employees choose an amount to be deducted from their paycheck and deposited into an IRA account of their choice. The Organization will match the employee's deduction dollar for dollar, up to three percent of an employee's annual salary. Employer contributions were \$6,890 and \$6,930 during the years ended December 31, 2011 and 2010, respectively.

NOTE 8 - OPERATING LEASE

Water First International entered into a lease agreement for office space in Seattle, Washington. During 2011, the lease was renewed for three years ending June 30, 2014. Future minimum lease payments are as follows for the years ending December 31:

2012	\$	29,530
2013		30,366
2014		<u>16,812</u>
	\$	<u>76,708</u>

NOTE 9 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through July 13, 2012, which is the date the financial statements were available to be issued, and have determined that there are no material subsequent events that require recognition or additional disclosure.