

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

**Financial Statements for the
Year Ended December 31, 2007
(With Comparative Totals for 2006)
and Independent Auditors' Report**

WATER FIRST INTERNATIONAL
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For the Year Ended December 31, 2007
(With Comparative Totals for 2006)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Water First International
Seattle, Washington

We have audited the accompanying statement of financial position of Water First International (a Washington nonprofit corporation) as of December 31, 2007, and the related statements of activity and changes in net assets (deficit), functional expenses and cash flows for the year 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 audit. The prior year summarized comparative information has been derived from the Organization's 2006 financial statements, and, in our report dated May 22, 2007, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit 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 audit provides 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, 2007, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Watson & McDonell, PLLC

July 7, 2008

WATER FIRST INTERNATIONAL
Statement of Financial Position
December 31, 2007
(With Comparative Totals for 2006)

ASSETS

	2007	2006
Current assets:		
Cash and cash equivalents	\$ 455,386	\$ 278,430
Accounts receivable	3,705	
Pledges receivable	51,000	8,500
Total current assets	510,091	286,930
Noncurrent assets:		
Pledges receivable	53,000	
Office furniture and equipment	9,113	4,266
Less: accumulated depreciation	(5,162)	(2,206)
	56,951	2,060
	\$ 567,042	\$ 288,990

LIABILITIES AND NET ASSETS (DEFICIT)

Current liabilities:		
Accrued expenses	\$ 22,469	\$ 12,014
Payroll payable	17,685	
Current portion of grants payable	283,613	285,305
Total current liabilities	323,767	297,319
Grants payable, net of current portion	18,260	100,646
Total liabilities	342,027	397,965
Net assets (deficit):		
Unrestricted net assets (deficit)	(1,601)	(172,869)
Temporarily restricted net assets	226,616	63,894
	225,015	(108,975)
	\$ 567,042	\$ 288,990

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL
Statement of Activities and Changes in Net Assets (Deficit)
Year Ended December 31, 2007
(With Comparative Totals for 2006)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2007</u>	<u>Total 2006</u>
Support and revenue:				
Contributions	\$ 697,820	\$ 104,000	\$ 801,820	\$ 383,404
Grants	50,384	122,616	173,000	80,000
Other income	26,688		26,688	10,817
Investment income	5,678		5,678	7,524
Net assets released from restrictions	<u>63,894</u>	<u>(63,894)</u>		
Total support and revenue	<u>844,464</u>	<u>162,722</u>	<u>1,007,186</u>	<u>481,745</u>
Expenses:				
Program services	449,492		449,492	595,241
Support services				
Management and general	32,368		32,368	40,402
Fundraising	<u>191,336</u>		<u>191,336</u>	<u>118,126</u>
Total expenses	<u>673,196</u>		<u>673,196</u>	<u>753,769</u>
Change in net assets (deficit)	171,268	162,722	333,990	(272,024)
Net assets (deficit), beginning of year	<u>(172,869)</u>	<u>63,894</u>	<u>(108,975)</u>	<u>163,049</u>
Net assets (deficit), end of year	<u>\$ (1,601)</u>	<u>\$ 226,616</u>	<u>\$ 225,015</u>	<u>\$ (108,975)</u>

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL
Statement of Functional Expenses
For the Year Ended December 31, 2007
(With Comparative Totals for 2006)

	Program Services	Management and General	Fundraising	Total 2007	Total 2006
Salaries and wages	\$ 101,853	\$ 10,867	\$ 72,719	\$ 185,439	\$ 131,020
Employee benefits	3,089	445	3,072	6,606	3,350
Payroll taxes	8,874	1,399	6,311	16,584	11,704
Professional fees & special events	34,870	10,211	86,131	131,212	122,452
Depreciation	2,335	158	463	2,956	1,423
License, fees and taxes	240	211	6,779	7,230	4,612
Office and supplies	3,916	1,033	2,069	7,018	6,070
Postage	1,970	129	1,631	3,730	3,692
Printing and copying	21,938	30	5,958	27,926	15,049
Rent	16,146	3,775	5,295	25,216	-
Insurance		1,981		1,981	2,008
Telecommunications	3,246	1,366	689	5,301	2,915
Travel and transportation	74,937			74,937	36,941
Grants for water systems	175,599			175,599	408,809
Other	479	763	219	1,461	3,724
Total	\$ 449,492	\$ 32,368	\$ 191,336	\$ 673,196	\$ 753,769

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL
Statement of Cash Flows
Year Ended December 31, 2007
(With Comparative Totals for 2006)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets (deficit)	\$ 333,990	\$ (272,024)
Adjustments to reconcile change in net assets (deficit) to cash provided (used) by operating activities:		
Depreciation	2,956	1,423
Decrease (increase) in operating assets:		
Accounts receivable	(3,705)	
Pledges receivable	(95,500)	(8,250)
Increase (decrease) in operating liabilities:		
Accrued expenses	10,455	9,268
Payroll payable	17,685	
Grants payable	(84,078)	257,989
	181,803	(11,594)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of office furniture and equipment	(4,847)	
Net increase (decrease) in cash and cash equivalents	176,956	(11,594)
Cash and cash equivalents, beginning of year	278,430	290,024
Cash and cash equivalents, end of year	\$ 455,386	\$ 278,430

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Year Ended December 31, 2007
(With Comparative Totals for 2006)

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 2007, the Organization and the local NGOs completed 84 water systems in four countries, benefiting over 13,000 people.

Water First's goal is to maximize cost-effectiveness by leveraging local resources. In the urban slums of Dhaka, 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 Water First's India program, which serves subsistence fishing communities in rural West Bengal, beneficiaries pay 40 percent of the capital costs of their projects. 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 permanently restricted net assets at December 31, 2007 and 2006.

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 economic useful life of the asset, ranging from three to five years.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Year Ended December 31, 2007
(With Comparative Totals for 2006)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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.

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 functional expenses.

Donated services

The Organization receives a significant amount of donated services from unpaid volunteers who assist in fund-raising, office support and special projects. No amounts have been recognized in the statement of activity because there is no reliable basis for reasonably determining an appropriate amount, and they do not meet the criteria for recognition under Statement of Financial Accounting Standards No. 116, *Accounting for Contributions Received and Contributions Made*.

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 for the advance ruling period as an organization that is not a private foundation under Section 509(a)(1). The advance ruling period ends December 31, 2009.

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.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Year Ended December 31, 2007
(With Comparative Totals for 2006)

NOTE 3 - CASH AND CASH EQUIVALENTS

For the purpose of the statement of cash flows, the Organization considers all highly liquid debt instruments, including money markets, purchased with maturities of three months or less to be cash equivalents. The Organization maintains cash balances at several high credit quality financial institutions. The balances at times may exceed the federally insured limits of \$100,000.

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

	2007	2006
Cash in bank	\$ 220,702	\$ 138,984
Short-term money market investments	234,684	139,446
	\$ 455,386	\$ 278,430

NOTE 4 - PLEDGES RECEIVABLE

Pledges receivable consist of unconditional promises to give. Conditional pledges are recognized only when the conditions on which they depend are substantially met and the pledge becomes unconditional. Management deems all pledges to be collectible.

Pledges receivable are expected to be realized as follows for the years ending December 31:

2008	\$	51,000
2009		26,000
2010		26,000
2011		1,000
	\$	104,000

NOTE 6 - 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. Water First will match the employee's deduction dollar for dollar, up to three percent of an employee's annual salary. Employer contributions were \$5,406 and \$3,350 during the years ended December 31, 2007 and 2006, respectively.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Year Ended December 31, 2007
(With Comparative Totals for 2006)

NOTE 5 - GRANTS PAYABLE

The Organization has entered into five grant agreements with non-governmental organizations in four countries: Bangladesh, Ethiopia, Honduras and India.

Grants payable are scheduled to be paid as follows for the years ending December 31:

2008	\$ 283,613
2009	<u>18,260</u>
	<u>\$ 301,873</u>

The Organization made grant payments of \$259,676 and \$150,820 in four countries in 2007 and 2006, respectively. The Organization entered into new grant agreements in two countries totaling \$169,697 during the year ended December 31, 2007.

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31:

	<u>2007</u>	<u>2006</u>
Time restrictions	\$ 104,000	\$ 8,500
Restricted for water projects	<u>122,616</u>	<u>55,394</u>
	<u>\$ 226,616</u>	<u>\$ 63,894</u>

NOTE 8 - OPERATING LEASE

Water First International entered into a lease agreement for office space in Seattle, Washington, beginning February 1, 2007. The lease runs through January 31, 2009. Future minimum lease payments are as follows for the years ending December 31:

2008	\$ 22,338
2009	<u>1,868</u>
	<u>\$ 24,206</u>