

WATER FIRST INTERNATIONAL  
(A Washington Nonprofit Corporation)

Financial Statements for the  
Years Ended December 31, 2008 and 2007  
and Independent Auditors' Report

WATER FIRST INTERNATIONAL  
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For the Years Ended December 31, 2008 and 2007

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## 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, 2008 and 2007, 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, 2008 and 2007, 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.

As discussed in Note 3 to the financial statements, the Organization determined certain restrictions on temporarily restricted net assets had expired at the beginning and ending of 2007 and has reclassified certain unrestricted net assets previously reported as temporarily restricted net assets.

*Watson & McDonell, PLLC*

March 19, 2009

WATER FIRST INTERNATIONAL  
Statements of Financial Position  
December 31, 2008 and 2007

ASSETS	<u>2008</u>	<u>2007</u>
Current assets:		
Cash and cash equivalents	\$ 631,575	\$ 455,386
Accounts receivable	2,008	3,705
Pledges receivable, current	<u>56,000</u>	<u>51,000</u>
Total current assets	<u>689,583</u>	<u>510,091</u>
Other assets:		
Pledges receivable, net of current portion	28,000	53,000
Office furniture and equipment	9,113	9,113
Less: accumulated depreciation	<u>(7,044)</u>	<u>(5,162)</u>
	<u>30,069</u>	<u>56,951</u>
	<u>\$ 719,652</u>	<u>\$ 567,042</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accrued expenses	\$ 26,084	\$ 16,668
Payroll payable	12,119	23,486
Grants payable, current	<u>525,280</u>	<u>283,613</u>
Total current liabilities	563,483	323,767
Grants payable, net of current portion	<u>                    </u>	<u>18,260</u>
Total liabilities	<u>563,483</u>	<u>342,027</u>
Net assets (restated, see Note 3):		
Unrestricted net assets	72,169	96,015
Temporarily restricted net assets	<u>84,000</u>	<u>129,000</u>
	<u>156,169</u>	<u>225,015</u>
	<u>\$ 719,652</u>	<u>\$ 567,042</u>

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL  
Statements of Activities  
For the Years Ended December 31, 2008 and 2007

	2008			2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue:						
Special events revenue	\$ 531,210	\$ 25,000	\$ 556,210	\$ 447,744		\$ 447,744
Less: direct expenses	(90,528)		(90,528)	(77,201)		(77,201)
Net special events revenue	440,682	25,000	465,682	370,543		370,543
Contributions	291,123	6,000	297,123	253,381	\$ 104,000	357,381
Grants	157,100		157,100	148,000	25,000	173,000
In-kind contributions	79,781		79,781			
Other income	5,164		5,164			
Investment income	8,601		8,601	5,678		5,678
Net assets released from restrictions	76,000	(76,000)		22,351	(22,351)	
Total support and revenue	<u>1,058,451</u>	<u>(45,000)</u>	<u>1,013,451</u>	<u>799,953</u>	<u>106,649</u>	<u>906,602</u>
Expenses:						
Program services	938,546		938,546	432,989		432,989
Management and general	27,684		27,684	32,368		32,368
Fundraising	116,067		116,067	107,255		107,255
Total expenses	<u>1,082,297</u>		<u>1,082,297</u>	<u>572,612</u>		<u>572,612</u>
Change in net assets	(23,846)	(45,000)	(68,846)	227,341	106,649	333,990
Net assets (deficit), beginning of year	96,015	129,000	225,015	(172,869)	63,894	(108,975)
Prior period adjustment, see Note 3				41,543	(41,543)	
Net assets, end of year	<u>\$ 72,169</u>	<u>\$ 84,000</u>	<u>\$ 156,169</u>	<u>\$ 96,015</u>	<u>\$ 129,000</u>	<u>\$ 225,015</u>

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL  
Statement of Functional Expenses  
For the Year Ended December 31, 2008

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 139,811	\$ 12,684	\$ 64,477	\$ 216,972
Employee benefits	7,356	671	3,954	11,981
Payroll taxes	11,145	1,152	5,204	17,501
Grants for water systems	536,868			536,868
Professional fees	64,852	9,814	4,025	78,691
In-kind advertising	77,000			77,000
Project monitoring site visits	39,750			39,750
Rent	16,896	972	4,548	22,416
Printing and copying	25,860		8,168	34,028
Office and supplies	6,703	316	6,605	13,624
Postage	4,117	130	3,330	7,577
Fees and licenses	1,102	80	12,107	13,289
Communications	3,199		1,725	4,924
Insurance	707	1,173	440	2,320
Outreach events	1,294			1,294
Depreciation	1,213	110	559	1,882
Other	673	582	925	2,180
	<u>\$ 938,546</u>	<u>\$ 27,684</u>	<u>\$ 116,067</u>	<u>\$ 1,082,297</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, 2007

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 101,853	\$ 10,867	\$ 72,719	\$ 185,439
Employee benefits	3,089	445	3,072	6,606
Payroll taxes	8,874	1,399	6,311	16,584
Grants for water systems	175,599			175,599
Professional fees	41,750	10,211	2,050	54,011
Project monitoring site visits	45,204			45,204
Rent	16,146	3,775	5,295	25,216
Printing and copying	21,938	30	5,958	27,926
Office and supplies	3,916	1,033	2,069	7,018
Postage	1,970	129	1,631	3,730
Fees and licenses	240	211	6,779	7,230
Communications	3,246	1,366	689	5,301
Insurance		1,981		1,981
Depreciation	2,335	158	463	2,956
Other	6,829	763	219	7,811
	<u>432,989</u>	<u>32,368</u>	<u>107,255</u>	<u>572,612</u>
Total	<u>\$ 432,989</u>	<u>\$ 32,368</u>	<u>\$ 107,255</u>	<u>\$ 572,612</u>

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL  
 Statements of Cash Flows  
 For the Years Ended December 31, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (68,846)	\$ 333,990
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	1,882	2,956
Decrease (increase) in operating assets:		
Accounts receivable	1,697	(3,705)
Pledges receivable	20,000	(95,500)
Increase (decrease) in operating liabilities:		
Accrued expenses	9,416	10,455
Payroll payable	(11,367)	17,685
Grants payable	<u>223,407</u>	<u>(84,078)</u>
Net cash provided by operating activities	<u>176,189</u>	<u>181,803</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of office furniture and equipment		<u>(4,847)</u>
Net increase in cash and cash equivalents	176,189	176,956
Cash and cash equivalents, beginning of year	<u>455,386</u>	<u>278,430</u>
Cash and cash equivalents, end of year	<u>\$ 631,575</u>	<u>\$ 455,386</u>

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL  
Notes to Financial Statements  
For the Years Ended December 31, 2008 and 2007

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 2008, the Organization and the local NGOs completed 53 water systems in three countries, benefiting over 6,000 people. The Organization has completed 115 water systems benefiting nearly 20,000 people since inception. In addition, the Organization initiated a project in Ethiopia that will benefit over 4,000 people upon completion in 2009.

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, 2008 or 2007.

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 the assets.

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.

WATER FIRST INTERNATIONAL  
Notes to Financial Statements  
For the Years Ended December 31, 2008 and 2007

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.

Advertising costs

The Organization uses advertising to educate the public about the world water crisis. Advertising costs are expensed as incurred and were contributed in-kind during 2008. Advertising expense for the year ended December 31, 2008, was \$77,000. The Organization incurred no advertising expense during 2007.

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.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the presentation in the current year financial statements. These reclassifications had no impact on total assets, liabilities, net assets or change in net assets, other than as described in Note 3.

WATER FIRST INTERNATIONAL  
Notes to Financial Statements  
For the Years Ended December 31, 2008 and 2007

NOTE 3 - PRIOR PERIOD ADJUSTMENT

During the 2008, the Organization performed additional analysis and identified and reclassified \$41,543 of unrestricted net assets that had been previously reported as temporarily restricted net assets. This correction had no effect on total net assets at December 31, 2008 or 2007, or on the total change in net assets for the years then ended. However, the effect of the correction on the change in unrestricted net assets was an increase of \$14,058 and \$56,073 for the years ended December 31, 2008 and 2007, respectively, with a corresponding decrease in temporarily restricted net assets.

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's money market funds are temporarily insured up to \$190,512 through April 30, 2009, with potential extension through September 18, 2009.

Cash and cash equivalents consist of the following at December 31, 2008 and 2007, respectively:

Cash in bank	\$ 178,695	\$ 220,702
Money market funds	<u>452,880</u>	<u>234,684</u>
	<u>\$ 631,575</u>	<u>\$ 455,386</u>

NOTE 5 - 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. Total pledges receivable were \$84,000 and \$104,000 at December 31, 2008 and 2007, respectively. A significant portion of pledges receivable were due from two contributors and one contributor at December 31, 2008 and 2007, respectively. Management deems all pledges to be collectible. Pledges receivable are expected to be realized as follows:

Due in one year	\$ 56,000
Due in one to five years	<u>28,000</u>
	<u>\$ 84,000</u>

WATER FIRST INTERNATIONAL  
Notes to Financial Statements  
For the Years Ended December 31, 2008 and 2007

NOTE 6 - GRANTS PAYABLE

The Organization has entered into six grant agreements with non-governmental organizations in four countries: Bangladesh, Ethiopia, Honduras and India. Grants payable at December 31, 2008 are scheduled to be paid within one year.

The Organization made grant payments of \$313,481 and \$259,676 in four countries during 2008 and 2007, respectively. The Organization entered into new grant agreements in four countries totaling \$536,868 and \$175,599 during 2008 and 2007, respectively.

NOTE 7 - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2008</u>	<u>2007</u>
Time restrictions	\$ 84,000	\$ 104,000
Restricted for water projects		<u>25,000</u>
	<u>\$ 84,000</u>	<u>\$ 129,000</u>

NOTE 8 - 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. The amounts reflected in the accompanying statement of activities as in-kind contributions are offset by like amounts included in the statement of functional expenses.

The Organization received contributed advertising services and consulting services during 2008 with fair values on the dates of donation of \$77,000 and \$2,781, respectively.

In addition, the Organization receives a significant amount 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, 2008 and 2007

NOTE 9 - 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 \$6,281 and \$5,406 during the years ended December 31, 2008 and 2007, respectively.

NOTE 10 - OPERATING LEASE

Water First International entered into a lease agreement for office space in Seattle, Washington, beginning February 1, 2007. The lease was to run through January 31, 2009. Subsequent to year-end, the lease was renewed for two years ending January 31, 2011. Future minimum lease payments are as follows for the years ending December 31:

2009	\$ 21,558
2010	21,480
2011	<u>1,790</u>
	<u>\$ 44,828</u>