

WATER FIRST INTERNATIONAL
(A Washington Nonprofit Corporation)

Financial Statements for the
Years Ended December 31, 2009 and 2008
and Independent Auditors' Report

WATER FIRST INTERNATIONAL
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For the Years Ended December 31, 2009 and 2008

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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, 2009 and 2008, 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, 2009 and 2008, 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 & McDonnell, PLLC

May 17, 2010

WATER FIRST INTERNATIONAL
 Statements of Financial Position
 December 31, 2009 and 2008

ASSETS		2009	2008
Current assets:			
Cash and cash equivalents	\$	585,640	\$ 631,575
Accounts receivable		8,190	2,008
Pledges receivable, current portion		25,000	56,000
Total current assets		618,830	689,583
Other assets:			
Pledges receivable, net of current portion			28,000
Office furniture and equipment		10,219	9,113
Less: accumulated depreciation		(8,701)	(7,044)
		1,518	30,069
	\$	620,348	\$ 719,652
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accrued expenses	\$	8,436	\$ 26,084
Payroll payable		6,090	12,119
Grants payable		458,091	525,280
Total current liabilities		472,617	563,483
Net assets:			
Unrestricted net assets		122,731	72,169
Temporarily restricted net assets		25,000	84,000
		147,731	156,169
	\$	620,348	\$ 719,652

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL
Statements of Activities
For the Years Ended December 31, 2009 and 2008

	2009			2008		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue:						
Special events revenue, less \$502,204 and \$492,210 of contributions included below, respectively	\$ 85,800		\$ 85,800	\$ 39,000	\$ 25,000	\$ 64,000
Less: costs of direct benefits to donors	(93,093)		(93,093)	(90,528)		(90,528)
Net special events revenue	(7,293)		(7,293)	(51,528)	25,000	(26,528)
Contributions	797,888		797,888	783,333	6,000	789,333
Grants	127,000		127,000	157,100		157,100
In-kind contributions				79,781		79,781
Other income	2,045		2,045	5,164		5,164
Interest income	2,020		2,020	8,601		8,601
Net assets released from restrictions	59,000	\$ (59,000)		76,000	(76,000)	
Total support and revenue	<u>980,660</u>	<u>(59,000)</u>	<u>921,660</u>	<u>1,058,451</u>	<u>(45,000)</u>	<u>1,013,451</u>
Expenses:						
Program services	770,051		770,051	938,546		938,546
Management and general	29,798		29,798	27,684		27,684
Fundraising	130,249		130,249	116,067		116,067
Total expenses	<u>930,098</u>		<u>930,098</u>	<u>1,082,297</u>		<u>1,082,297</u>
Change in net assets	50,562	(59,000)	(8,438)	(23,846)	(45,000)	(68,846)
Net assets, beginning 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>
Net assets, end of year	<u>\$ 122,731</u>	<u>\$ 25,000</u>	<u>\$ 147,731</u>	<u>\$ 72,169</u>	<u>\$ 84,000</u>	<u>\$ 156,169</u>

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL
Statement of Functional Expenses
For the Year Ended December 31, 2009

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 142,011	\$ 13,633	\$ 69,085	\$ 224,729
Employee benefits	8,139	731	4,301	13,171
Payroll taxes	11,274	2,657	5,417	19,348
Grants for water systems	463,963			463,963
Professional fees	66,008	9,200	4,955	80,163
Project monitoring site visits	45,018			45,018
Rent	16,328	943	4,391	21,662
Printing and copying	8,045		12,743	20,788
Office and supplies	2,676	666	3,897	7,239
Postage	1,787	136	5,602	7,525
Fees and licenses	477	17	11,947	12,441
Communications	2,630	68	1,798	4,496
Insurance		938	1,301	2,239
Depreciation	1,047	101	509	1,657
Other	648	708	4,303	5,659
	<u>\$ 770,051</u>	<u>\$ 29,798</u>	<u>\$ 130,249</u>	<u>\$ 930,098</u>
Total	<u>\$ 770,051</u>	<u>\$ 29,798</u>	<u>\$ 130,249</u>	<u>\$ 930,098</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> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 938,546</u>	<u>\$ 27,684</u>	<u>\$ 116,067</u>	<u>\$ 1,082,297</u>

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL
 Statements of Cash Flows
 For the Years Ended December 31, 2009 and 2008

	<u>2009</u>	<u>2008</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (8,438)	\$ (68,846)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,657	1,882
Decrease (increase) in operating assets:		
Accounts receivable	(6,182)	1,697
Pledges receivable	59,000	20,000
Increase (decrease) in operating liabilities:		
Accrued expenses	(17,648)	9,416
Payroll payable	(6,029)	(11,367)
Grants payable	<u>(67,189)</u>	<u>223,407</u>
Net cash provided by (used in) operating activities	<u>(44,829)</u>	<u>176,189</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of office furniture and equipment	<u>(1,106)</u>	
Net increase (decrease) in cash and cash equivalents	(45,935)	176,189
Cash and cash equivalents, beginning of year	<u>631,575</u>	<u>455,386</u>
Cash and cash equivalents, end of year	<u>\$ 585,640</u>	<u>\$ 631,575</u>

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Years Ended December 31, 2009 and 2008

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 2009, the Organization and the local NGOs completed 109 water systems in two countries, benefiting over 10,000 people. In Ethiopia, one large project serving 4,200 people was near completion at the end of the year and considerable progress was made on several projects serving almost 1,000 people in Honduras. The Organization has completed 274 water systems benefiting 36,000 people since inception.

Water First'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 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, 2009 or 2008.

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 activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Years Ended December 31, 2009 and 2008

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.

Temporarily restricted net assets at December 31, 2009 and 2008, consisted of pledges receivable (as described in Note 4), which by their nature are restricted by time until realized.

Advertising costs

The Organization uses advertising to educate the public about the world water crisis. Advertising costs are expensed as incurred. The Organization incurred no advertising expense during 2009. Advertising contributed in-kind to the Organization during 2008 was valued at \$77,000.

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 2006 through 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 previously reported amounts have been reclassified to conform to the current year presentation. Net assets and changes in net assets are unchanged due to these reclassifications.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Years Ended December 31, 2009 and 2008

NOTE 3 - 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:

	2009	2008
Cash in bank	\$ 437,682	\$ 184,376
Money market funds	147,958	447,199
	\$ 585,640	\$ 631,575

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. Total pledges receivable were \$25,000 and \$84,000 at December 31, 2009 and 2008, respectively. Management deems all pledges to be collectible. Pledges receivable at December 31, 2009 are expected to be realized within one year.

NOTE 5 - GRANTS PAYABLE

The Organization entered into grant agreements with NGOs in Bangladesh, Ethiopia, Honduras and India totaling \$463,963 and \$536,868 during 2009 and 2008, respectively. Grant payments of \$531,152 and \$313,481, were made during 2009 and 2008, respectively. Grants payable at December 31, 2009, are scheduled to be paid within one year.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Years Ended December 31, 2009 and 2008

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. 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 \$1,294, respectively. No in-kind contributions were recognized in 2009.

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.

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. Water First will match the employee's deduction dollar for dollar, up to three percent of an employee's annual salary. Employer contributions were \$6,671 and \$6,281 during the years ended December 31, 2009 and 2008, respectively.

NOTE 8 - OPERATING LEASE

Water First International entered into a lease agreement for office space in Seattle, Washington. During 2009, the lease was renewed for two years ending January 31, 2011. Future minimum lease payments are as follows for the years ending December 31:

2010	\$ 21,480
2011	<u>1,790</u>
	<u>\$ 23,270</u>

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Years Ended December 31, 2009 and 2008

NOTE 9 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through May 17, 2010, 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 under FASB Accounting Standards Codification Topic 855, *Subsequent Events*.