

WATER FIRST INTERNATIONAL
(A Washington Nonprofit Corporation)

Financial Statements for the
Years Ended December 31, 2013 and 2012
and Independent Auditors' Report

WATER FIRST INTERNATIONAL
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For the Years Ended December 31, 2013 and 2012

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WATSON & McDONELL, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Water First International
Seattle, Washington

We have audited the accompanying financial statements of Water First International (a Washington nonprofit corporation), which comprise the statements of financial position as of December 31, 2013 and 2012, the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Watson & McDermott, PLLC

June 10, 2014

WATER FIRST INTERNATIONAL
 Statements of Financial Position
 December 31, 2013 and 2012

	ASSETS	
	2013	2012
Current assets:		
Cash and cash equivalents	\$ 1,212,624	\$ 851,757
Grants and contributions receivable	110,503	1,500
Accounts receivable	3,009	878
Prepaid rent	2,650	2,650
Total current assets	1,328,786	856,785
Other assets:		
Office furniture and equipment	5,621	12,734
Less: accumulated depreciation	(4,292)	(11,894)
	1,329	840
	\$ 1,330,115	\$ 857,625
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accrued expenses	\$ 17,469	\$ 10,497
Payroll payable	7,578	7,680
Deferred educational visit revenue	3,500	11,250
Grants payable	968,737	638,077
Total current liabilities	997,284	667,504
Net assets:		
Unrestricted net assets	312,831	159,681
Temporarily restricted net assets	20,000	30,440
	332,831	190,121
	\$ 1,330,115	\$ 857,625

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL
Statements of Activities
For the Years Ended December 31, 2013 and 2012

	2013			2012		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue:						
Special events revenue, less \$654,825 and \$681,602 of contributions included below, respectively	\$ 55,149		\$ 55,149	\$ 90,450		\$ 90,450
Less: costs of direct benefits to donors	<u>(106,451)</u>		<u>(106,451)</u>	<u>(126,350)</u>		<u>(126,350)</u>
Net special events expense	(51,302)		(51,302)	(35,900)		(35,900)
Contributions	1,021,128		1,021,128	959,696		959,696
Grants	339,567	\$ 275,000	614,567	200,531	\$ 114,085	314,616
Other income	1,137		1,137	2,676		2,676
Interest income	184		184	137		137
Net assets released from restrictions	<u>285,440</u>	<u>(285,440)</u>		<u>83,645</u>	<u>(83,645)</u>	
Total support and revenue	<u>1,596,154</u>	<u>(10,440)</u>	<u>1,585,714</u>	<u>1,210,785</u>	<u>30,440</u>	<u>1,241,225</u>
Expenses:						
Program services	1,268,165		1,268,165	962,267		962,267
Management and general	29,704		29,704	30,867		30,867
Fundraising	<u>145,135</u>		<u>145,135</u>	<u>152,269</u>		<u>152,269</u>
Total expenses	<u>1,443,004</u>		<u>1,443,004</u>	<u>1,145,403</u>		<u>1,145,403</u>
Change in net assets	153,150	(10,440)	142,710	65,382	30,440	95,822
Net assets, beginning of year	<u>159,681</u>	<u>30,440</u>	<u>190,121</u>	<u>94,299</u>		<u>94,299</u>
Net assets, end of year	<u>\$ 312,831</u>	<u>\$ 20,000</u>	<u>\$ 332,831</u>	<u>\$ 159,681</u>	<u>\$ 30,440</u>	<u>\$ 190,121</u>

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL
Statement of Functional Expenses
For the Year Ended December 31, 2013

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 155,556	\$ 12,012	\$ 72,807	\$ 240,375
Employee benefits	8,556	936	4,281	13,773
Payroll taxes	15,395	1,134	6,898	23,427
Grants for water systems	978,022			978,022
Professional fees	35,498	10,885	3,731	50,114
Project monitoring site visits	23,803			23,803
Travel	10,359		2,401	12,760
Rent	25,308	946	5,273	31,527
Printing and copying	6,388		14,748	21,136
Office and supplies	1,800	98	8,378	10,276
Postage	443	410	5,346	6,199
Fees and licenses	1,564	659	15,827	18,050
Communications	3,935	117	3,828	7,880
Insurance	407	1,521	408	2,336
Depreciation	568	44	266	878
Other	563	942	943	2,448
	<u>563</u>	<u>942</u>	<u>943</u>	<u>2,448</u>
Total	<u>\$ 1,268,165</u>	<u>\$ 29,704</u>	<u>\$ 145,135</u>	<u>\$ 1,443,004</u>

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL
Statement of Functional Expenses
For the Year Ended December 31, 2012

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 154,679	\$ 12,769	\$ 73,275	\$ 240,723
Employee benefits	9,473	1,064	5,037	15,574
Payroll taxes	14,806	1,116	6,329	22,251
Grants for water systems	656,164			656,164
Professional fees	52,345	11,244	6,077	69,666
Project monitoring and travel	19,454			19,454
Travel	12,747		3,843	16,590
Rent	23,971	914	5,094	29,979
Printing and copying	5,742		23,621	29,363
Office and supplies	1,808	284	7,182	9,274
Postage	2,681	176	5,463	8,320
Fees and licenses	1,346	171	11,523	13,040
Communications	3,639	905	2,431	6,975
Insurance		1,384	810	2,194
Depreciation	709	58	335	1,102
Other	2,703	782	1,249	4,734
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 962,267</u>	<u>\$ 30,867</u>	<u>\$ 152,269</u>	<u>\$ 1,145,403</u>

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL
 Statements of Cash Flows
 For the Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 142,710	\$ 95,822
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	878	1,102
Decrease (increase) in operating assets:		
Grants and contributions receivable	(2,131)	
Accounts receivable	(109,003)	17,622
Increase (decrease) in operating liabilities:		
Accrued expenses	6,972	(23,293)
Payroll payable	(102)	(1,786)
Deferred educational visit revenue	(7,750)	11,250
Grants payable	<u>330,660</u>	<u>20,245</u>
Net cash provided by operating activities	<u>362,234</u>	<u>120,962</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of equipment	<u>(1,367)</u>	
Net cash used for investing activities	<u>(1,367)</u>	
Net increase in cash and cash equivalents	360,867	120,962
Cash and cash equivalents, beginning of year	<u>851,757</u>	<u>730,795</u>
Cash and cash equivalents, end of year	<u>\$ 1,212,624</u>	<u>\$ 851,757</u>

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Years Ended December 31, 2013 and 2012

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.

In 2013, the Organization completed 228 projects serving 24,185 people. Every project incorporates water, toilets, hygiene education, and community development. In Ethiopia, 2,143 people in Gonbisa Kussaye, a rural farming community in Oromia, now have access to piped water and toilets as a result of the Organization's support. In Bangladesh, 223 water systems serving 20,503 people in urban slum settlements in Dhaka and Chittagong were completed. 789 people living in the rural Lempira communities of San Jose, San Simon, Canfura, and San Antonio, Honduras, have piped water and toilets at every individual household. Additionally, our local partner has established a micro-loan program enabling them to implement projects with full or partial loans. In India, 250 people in the Sundarbans of West Bengal were served through the construction of a new well funded by the revolving micro-loan program. As of December 2013, the Water First community contributed over \$9 million to support 964 water projects, benefiting 106,290 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. As mentioned above, the Organization's Honduras partner now has the capacity to provide assistance on a loan basis, further leveraging local resources.

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. At December 31, 2013 and 2012, temporarily restricted net assets consisted of contributions restricted for specific water projects. The Organization had no permanently restricted net assets at December 31, 2013 and 2012.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Years Ended December 31, 2013 and 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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. Management has deemed all grants and contributions to be collectible. Grants and contributions receivable at December 31, 2013 are expected to be realized within one year.

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 three to five years.

Deferred revenue

Deferred revenue consisted of funds received for educational trips that occur in the subsequent year.

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 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 2010 and thereafter.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Years Ended December 31, 2013 and 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Federal income tax, continued

The Organization follows the provisions of uncertain tax positions as addressed in FASB Codification Subtopic 740-10, *Income Taxes*. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

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 - CASH AND CASH EQUIVALENTS

Cash and cash equivalents

For the purpose of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

At times, cash deposits, including amounts held in reserves, exceed the federally insured limits of the financial institution and expose the Organization to credit risk. At December 31, 2013, the Organization's deposits were \$967,666 over the federally insured limits. The Organization has not experienced any losses in such accounts. The Organization believes it is not exposed to any significant credit risk on cash and cash equivalents.

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

	<u>2013</u>	<u>2012</u>
Cash in bank	\$ 902,874	\$ 703,752
Money market funds	<u>309,750</u>	<u>148,005</u>
	<u>\$ 1,212,624</u>	<u>\$ 851,757</u>

NOTE 4 - GRANTS PAYABLE

The Organization entered into grant agreements with NGOs in Bangladesh, Ethiopia, Honduras and India totaling \$978,022 and \$656,164 during 2013 and 2012, respectively. Grant payments of \$647,362 and \$635,919, were made during 2013 and 2012, respectively. Grants payable at December 31, 2013 and 2012, are scheduled to be paid within one year.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Years Ended December 31, 2013 and 2012

NOTE 5 - 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 2013 or 2012.

The Organization receives over 600 hours of donated services from unpaid volunteers who assist in fundraising, 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 6 - CONCENTRATIONS

Grants from one grantor comprised 19 percent of grants and contributions receivable at December 31, 2013.

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 \$6,321 and \$6,574 during the years ended December 31, 2013 and 2012, 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 \$16,812.

NOTE 9 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through June 10, 2014, which is the date the financial statements were available to be issued, and has determined that there are no material subsequent events that require recognition or additional disclosure.