

WATER FIRST INTERNATIONAL
(A Washington Nonprofit Corporation)

Financial Statements for the
Years Ended December 31, 2014 and 2013
and Independent Auditors' Report

WATER FIRST INTERNATIONAL
Table of Contents
For the Years Ended December 31, 2014 and 2013

Independent Auditors' Report.....	1
Financial Statements:	
Statements of Financial Position.....	3
Statements of Activities	4
Statement of Functional Expenses - 2014.....	5
Statement of Functional Expenses - 2013.....	6
Statements of Cash Flows.....	7
Notes to Financial Statements.....	8

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, 2014 and 2013, 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, 2014 and 2013, 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 = McDowell, PLLC

June 15, 2015

WATER FIRST INTERNATIONAL
 Statements of Financial Position
 December 31, 2014 and 2013

	ASSETS	
	2014	2013
Current assets:		
Cash and cash equivalents	\$ 1,173,574	\$ 1,212,624
Grants and contributions receivable	67,979	110,503
Accounts receivable		3,009
Prepaid rent	2,650	2,650
Total current assets	1,244,203	1,328,786
Other assets:		
Office furniture and equipment	5,621	5,621
Less: accumulated depreciation	(4,748)	(4,292)
	873	1,329
	\$ 1,245,076	\$ 1,330,115
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accrued expenses	\$ 12,856	\$ 17,469
Payroll payable	8,888	7,578
Deferred educational visit revenue	1,000	3,500
Grants payable	1,095,624	968,737
Total current liabilities	1,118,368	997,284
Net assets:		
Unrestricted net assets	126,708	312,831
Temporarily restricted net assets		20,000
	126,708	332,831
	\$ 1,245,076	\$ 1,330,115

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL
Statements of Activities
For the Years Ended December 31, 2014 and 2013

	2014			2013		
	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	\$ 81,650		\$ 81,650	\$ 55,149		\$ 55,149
Less: costs of direct benefits to donors	<u>(150,522)</u>		<u>(150,522)</u>	<u>(106,451)</u>		<u>(106,451)</u>
Net special events expense	(68,872)		(68,872)	(51,302)		(51,302)
Contributions	1,506,429		1,506,429	1,021,128		1,021,128
Grants	65,668	\$ 189,161	254,829	339,567	\$ 275,000	614,567
Other income	53		53	1,137		1,137
Interest income	130		130	184		184
Net assets released from restrictions	<u>209,161</u>	<u>(209,161)</u>		<u>285,440</u>	<u>(285,440)</u>	
Total support and revenue	<u>1,712,569</u>	<u>(20,000)</u>	<u>1,692,569</u>	<u>1,596,154</u>	<u>(10,440)</u>	<u>1,585,714</u>
Expenses:						
Program services	1,676,046		1,676,046	1,268,165		1,268,165
Management and general	46,049		46,049	29,704		29,704
Fundraising	<u>176,597</u>		<u>176,597</u>	<u>145,135</u>		<u>145,135</u>
Total expenses	<u>1,898,692</u>		<u>1,898,692</u>	<u>1,443,004</u>		<u>1,443,004</u>
Change in net assets	(186,123)	(20,000)	(206,123)	153,150	(10,440)	142,710
Net assets, beginning 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>
Net assets, end of year	<u>\$ 126,708</u>	<u>\$ -</u>	<u>\$ 126,708</u>	<u>\$ 312,831</u>	<u>\$ 20,000</u>	<u>\$ 332,831</u>

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL
Statement of Functional Expenses
For the Year Ended December 31, 2014

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 175,332	\$ 20,898	\$ 78,722	\$ 274,952
Employee benefits	9,607	1,589	4,783	15,979
Payroll taxes	18,060	2,050	7,561	27,671
Grants for water systems	1,318,523			1,318,523
Professional fees	49,506	13,994	8,312	71,812
Project monitoring site visits	36,922			36,922
Travel	16,603		6,436	23,039
Rent	30,686	873	4,664	36,223
Printing and copying	6,895	1,076	23,076	31,047
Office and supplies	4,362	1,597	10,069	16,028
Postage	999	684	4,948	6,631
Fees and licenses	1,828	934	24,488	27,250
Communications	4,757	78	2,039	6,874
Insurance	391	1,625	391	2,407
Depreciation	290	35	131	456
Other	1,285	616	977	2,878
	<u>1,285</u>	<u>616</u>	<u>977</u>	<u>2,878</u>
Total	<u>\$ 1,676,046</u>	<u>\$ 46,049</u>	<u>\$ 176,597</u>	<u>\$ 1,898,692</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 and travel	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
Statements of Cash Flows
For the Years Ended December 31, 2014 and 2013

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (206,123)	\$ 142,710
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	456	878
Decrease (increase) in operating assets:		
Grants and contributions receivable	3,009	(2,131)
Accounts receivable	42,524	(109,003)
Increase (decrease) in operating liabilities:		
Accrued expenses	(4,613)	6,972
Payroll payable	1,310	(102)
Deferred educational visit revenue	(2,500)	(7,750)
Grants payable	<u>126,887</u>	<u>330,660</u>
Net cash provided by (used in) operating activities	<u>(39,050)</u>	<u>362,234</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 (decrease) in cash and cash equivalents	(39,050)	360,867
Cash and cash equivalents, beginning of year	<u>1,212,624</u>	<u>851,757</u>
Cash and cash equivalents, end of year	<u>\$ 1,173,574</u>	<u>\$ 1,212,624</u>

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Years Ended December 31, 2014 and 2013

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 2014, the Organization completed 228 projects serving 16,922 people. Every project incorporates water, toilets, hygiene education, and community development. In Oromia, Ethiopia, the Organization began funding the Dawo Kara project, which will be completed in 2015 and will serve 3,750 people. In Bangladesh, 240 water systems serving 16,039 people in urban slum settlements in Dhaka, Chittagong, and Khulna were completed. In the rural Lempira communities of San Bartolo, Capuca, and Portillo el Paraiso, Honduras, 882 people have piped water and toilets at every individual household. Additionally, our local partner initiated five additional projects that will be completed in 2015. As of December 2014, the Water First community contributed over \$11 million to support 1,200 water projects, benefiting 123,265 people.

The Organization's goal is to maximize cost-effectiveness by leveraging local resources. In the urban slums of Dhaka, Chittagong, and Khulna, 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 and the local government contribute cash, labor, and local materials, which are valued at up to 25 percent of the total project cost. The Organization's Honduras partner now has the capacity to provide assistance for water system construction, expansion, and repair 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, 2014, there were no temporarily restricted net assets. At December 31, 2013, temporarily restricted net assets consisted of contributions restricted for specific water projects. The Organization had no permanently restricted net assets at December 31, 2014 and 2013.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Years Ended December 31, 2014 and 2013

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, 2014 and 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 2011 and thereafter.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Years Ended December 31, 2014 and 2013

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, 2014, the Organization's deposits were \$641,584 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>2014</u>	<u>2013</u>
Cash in bank	\$ 1,025,740	\$ 1,064,605
Money market funds	<u>148,034</u>	<u>148,019</u>
	<u>\$ 1,173,574</u>	<u>\$ 1,212,624</u>

NOTE 4 - GRANTS PAYABLE

The Organization entered into grant agreements with NGOs in Bangladesh, Ethiopia, Honduras and India totaling \$1,318,523 and \$978,022 during 2014 and 2013, respectively. Grant payments of \$1,191,636 and \$647,362, were made during 2014 and 2013, respectively. Grants payable at December 31, 2014 and 2013, are scheduled to be paid within one year.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Years Ended December 31, 2014 and 2013

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 2014 and 2013.

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 two grantors comprised 68 percent of grants and contributions receivable at December 31, 2014. 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 \$6,763 and \$6,321 during the years ended December 31, 2014 and 2013, respectively.

NOTE 8 - OPERATING LEASE

Water First International entered into a lease agreement for office space in Seattle, Washington. During 2014, the lease was renewed for five years ending June 30, 2019. Lease expense under this lease was \$30,549 and \$24,877 for the years ended December 31, 2014 and 2013, respectively.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Years Ended December 31, 2014 and 2013

NOTE 8 - OPERATING LEASE, CONTINUED

Future minimum lease payments under this lease are as follows:

2015	\$	35,400
2016		36,774
2017		38,148
2018		39,516
2019		<u>20,100</u>
		<u>\$ 169,938</u>

NOTE 9 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through June 15, 2015, 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.