

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

**Financial Statements for the  
Year Ended December 31, 2006  
and Independent Auditors' Report**

WATER FIRST INTERNATIONAL  
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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, 2006, 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.

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, 2006, 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*

May 22, 2007

WATER FIRST INTERNATIONAL  
Statement of Financial Position  
December 31, 2006

ASSETS

Current assets:

Cash and cash equivalents	\$ 278,430
Pledges receivable	<u>8,500</u>
	<u>286,930</u>

Noncurrent assets:

Office furniture and equipment	4,266
Less: accumulated depreciation	<u>(2,206)</u>
	<u>2,060</u>
	<u><u>\$ 288,990</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:

Accrued expenses	\$ 12,014
Grants payable	<u>285,305</u>
	<u>297,319</u>

Long term liabilities:

Grants payable	<u>100,646</u>
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Net assets:

Unrestricted net assets (deficit)	(172,869)
Temporarily restricted net assets	<u>63,894</u>
	<u>(108,975)</u>
	<u><u>\$ 288,990</u></u>

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL  
Statement of Activity and Changes in Net Assets (Deficit)  
For the Year Ended December 31, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and revenue:			
Contributions	\$ 374,904	\$ 8,500	\$ 383,404
Grants	26,149	53,851	80,000
Other Income	10,817		10,817
Investment income	7,524		7,524
Net assets released from restrictions	<u>48,457</u>	<u>(48,457)</u>	
Total support and revenue	<u>467,851</u>	<u>13,894</u>	<u>481,745</u>
Expenses:			
Program services	595,241		595,241
Support services:			
Administration	40,402		40,402
Fund-raising	<u>118,126</u>		<u>118,126</u>
Total expenses	<u>753,769</u>		<u>753,769</u>
Change in net assets (deficit)	(285,918)	13,894	(272,024)
Net assets, beginning of year	<u>113,049</u>	<u>50,000</u>	<u>163,049</u>
Net assets (deficit), end of year	<u>\$ (172,869)</u>	<u>\$ 63,894</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, 2006

	Program Services	Administration	Fund-raising	Total
Salaries and wages	\$ 82,455	14,124	\$ 34,441	\$ 131,020
Employee benefits	2,108	361	881	3,350
Payroll taxes	7,365	1,262	3,077	11,704
Professional fees	37,954	16,686	67,812	122,452
Depreciation	896	153	374	1,423
License, fees and taxes		4,612		4,612
Office and supplies	3,820	654	1,596	6,070
Postage	2,323	398	971	3,692
Printing and copying	9,471	1,622	3,956	15,049
Insurance	1,264	216	528	2,008
Telecommunications	1,835	314	766	2,915
Travel and transportation	36,941			36,941
Grants for water systems	408,809			408,809
Meetings			3,724	3,724
Total	\$ 595,241	\$ 40,402	\$ 118,126	\$ 753,769

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL  
Statement of Cash Flows  
For the Year Ended December 31, 2006

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets (deficit)	\$ (272,024)
Adjustments to reconcile change in net assets to cash provided (used) by operating activities:	
Depreciation	1,423
Decrease (increase) in operating assets:	
Grants receivable	(8,250)
Increase (decrease) in operating liabilities:	
Accrued expenses	9,268
Grants payable	<u>257,989</u>
Net cash provided (used) by operating activities	<u>(11,594)</u>
Net increase (decrease) in cash	(11,594)
Cash and cash equivalents, beginning of year	<u>290,024</u>
Cash and cash equivalents, end of year	<u>\$ 278,430</u>

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL  
Notes to Financial Statements  
For the Year Ended December 31, 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 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 and its local partners are working in some of the poorest communities in the world to support sustainable, community-managed solutions to water supply and sanitation problems. During 2006, the Organization completed 36 water systems in four countries, benefiting over 7,000 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 25 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, 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.

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.



WATER FIRST INTERNATIONAL  
Notes to Financial Statements  
For the Year Ended December 31, 2006

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Federal income tax

The Organization is exempt from federal income tax under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). 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.

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*.

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

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.

NOTE 4 - GRANTS PAYABLE

The Organization has entered into five grant agreements with non-governmental organizations in four countries: Bangladesh, Ethiopia, Honduras and India. Grants payable over more than one year are discounted at five percent.

WATER FIRST INTERNATIONAL  
Notes to Financial Statements  
For the Year Ended December 31, 2006

NOTE 4 - GRANTS PAYABLE, CONTINUED

Grants payable at December 31, 2006, are scheduled to be paid as follows:

In less than one year	\$ 285,305
In one to four years	106,548
Unamortized discount	<u>( 5,902)</u>
	<u>\$ 385,951</u>

NOTE 5 - CONDITIONAL PLEDGES

Conditional pledges are recognized only when the conditions on which they depend are substantially met and the pledge becomes unconditional. The Organization received two conditional pledges totaling \$76,500 as of December 31, 2006. One pledge is a matching grant in the amount of \$45,000 of which \$8,500 had been matched at December 31, 2006. The other pledge, in the amount of \$40,000, is conditional upon expenditure of a prior gift, which had not been completed at December 31, 2006. Since the conditions were not met at December 31, 2006, these pledges were not included in contribution revenue and pledges receivable at December 31, 2006.

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets of \$63,894 at December 31, 2006, consist of the following:

Time restrictions	\$ 8,500
Restricted for water projects	<u>55,394</u>
	<u>\$ 63,894</u>

NOTE 7 - CONCENTRATIONS

The Organization received approximately 51 percent of its support and revenue from its annual auction in 2006.

WATER FIRST INTERNATIONAL  
Notes to Financial Statements  
For the Year Ended December 31, 2006

NOTE 8 - SUBSEQUENT EVENT

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:

2007	\$	19,690
2008		22,338
2009		1,868