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
## ASSETS

Current assets:
- Cash and cash equivalents $278,430
- Pledges receivable 8,500

Noncurrent assets:
- Office furniture and equipment 4,266
- Less: accumulated depreciation (2,206)

## LIABILITIES AND NET ASSETS

Current liabilities:
- Accrued expenses $12,014
- Grants payable 285,305

Long term liabilities:
- Grants payable 100,646

Net assets:
- Unrestricted net assets (deficit) (172,869)
- Temporarily restricted net assets 63,894

$288,990

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

<table>
<thead>
<tr>
<th>Support and revenue:</th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contributions</td>
<td>$ 374,904</td>
<td>$ 8,500</td>
<td>$ 383,404</td>
</tr>
<tr>
<td>Grants</td>
<td>26,149</td>
<td>53,851</td>
<td>80,000</td>
</tr>
<tr>
<td>Other Income</td>
<td>10,817</td>
<td>10,817</td>
<td></td>
</tr>
<tr>
<td>Investment income</td>
<td>7,524</td>
<td>7,524</td>
<td></td>
</tr>
<tr>
<td>Net assets released from restrictions</td>
<td>48,457</td>
<td>(48,457)</td>
<td></td>
</tr>
<tr>
<td>Total support and revenue</td>
<td>467,851</td>
<td>13,894</td>
<td>481,745</td>
</tr>
</tbody>
</table>

Expenses:

| Program services                              | 595,241      | 595,241                |         |
| Support services:
| Administration                                | 40,402       | 40,402                 |         |
| Fund-raising                                  | 118,126      | 118,126                |         |
| Total expenses                                | 753,769      | 753,769                |         |

Change in net assets (deficit)                 | (285,918)    | 13,894                 | (272,024)|

Net assets, beginning of year                  | 113,049      | 50,000                 | 163,049 |

Net assets (deficit), end of year              | $(172,869)   | $ 63,894               | $(108,975) |

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

The accompanying notes should be read with these financial statements.
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 257,989
   Net cash provided (used) by operating activities (11,594)

Net increase (decrease) in cash (11,594)

Cash and cash equivalents, beginning of year 290,024

Cash and cash equivalents, end of year $ 278,430

The accompanying notes should be read with these financial statements.
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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 revoked 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.
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.
NOTE 4 - GRANTS PAYABLE, CONTINUED

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

<table>
<thead>
<tr>
<th>In less than one year</th>
<th>$ 285,305</th>
</tr>
</thead>
<tbody>
<tr>
<td>In one to four years</td>
<td>106,548</td>
</tr>
<tr>
<td>Unamortized discount</td>
<td>(5,902)</td>
</tr>
</tbody>
</table>

$ 385,951

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:

<table>
<thead>
<tr>
<th>Time restrictions</th>
<th>$ 8,500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restricted for water projects</td>
<td>55,394</td>
</tr>
</tbody>
</table>

$ 63,894

NOTE 7 - CONCENTRATIONS

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>$19,690</td>
</tr>
<tr>
<td>2008</td>
<td>$22,338</td>
</tr>
<tr>
<td>2009</td>
<td>$1,868</td>
</tr>
</tbody>
</table>