

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

**Financial Statements for the  
Years Ended December 31, 2010 and 2009  
and Independent Auditors' Report**

**WATER FIRST INTERNATIONAL**  
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**For the Years Ended December 31, 2010 and 2009**

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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 statements of financial position of Water First International (a Washington nonprofit corporation) as of December 31, 2010 and 2009, 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, 2010 and 2009, 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 16, 2011

WATER FIRST INTERNATIONAL  
 Statements of Financial Position  
 December 31, 2010 and 2009

ASSETS

	<u>2010</u>	<u>2009</u>
<b>Current assets:</b>		
Cash and cash equivalents	\$ 696,691	\$ 585,640
Accounts receivable		8,190
Pledges receivable	<u>15,000</u>	<u>25,000</u>
Total current assets	<u>711,691</u>	<u>618,830</u>
<b>Other assets:</b>		
Office furniture and equipment	12,734	10,219
Less: accumulated depreciation	<u>(9,461)</u>	<u>(8,701)</u>
	<u>3,273</u>	<u>1,518</u>
	<u>\$ 714,964</u>	<u>\$ 620,348</u>

LIABILITIES AND NET ASSETS

<b>Current liabilities:</b>		
Accrued expenses	\$ 19,937	\$ 8,436
Payroll payable	6,662	6,090
Grants payable	<u>586,399</u>	<u>458,091</u>
Total current liabilities	<u>612,998</u>	<u>472,617</u>
<b>Net assets:</b>		
Unrestricted net assets	101,966	122,731
Temporarily restricted net assets		<u>25,000</u>
	<u>101,966</u>	<u>147,731</u>
	<u>\$ 714,964</u>	<u>\$ 620,348</u>

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL  
 Statements of Activities  
 For the Years Ended December 31, 2010 and 2009

	2010			2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue:						
Special events revenue, less \$578,891 and \$502,204 of contributions included below, respectively	\$ 94,750		\$ 94,750	\$ 85,800		\$ 85,800
Less: costs of direct benefits to donors	(104,367)		(104,367)	(93,093)		(93,093)
Net special events	(9,617)		(9,617)	(7,293)		(7,293)
Contributions	897,130		897,130	797,888		797,888
Grants	136,550		136,550	127,000		127,000
Other income	4,673		4,673	2,045		2,045
Interest income	1,002		1,002	2,020		2,020
Net assets released from restrictions	25,000	\$ (25,000)		59,000	\$ (59,000)	
Total support and revenue	<u>1,054,738</u>	<u>(25,000)</u>	<u>1,029,738</u>	<u>980,660</u>	<u>(59,000)</u>	<u>921,660</u>
Expenses:						
Program services	897,468		897,468	770,051		770,051
Management and general	34,406		34,406	29,798		29,798
Fundraising	143,629		143,629	130,249		130,249
Total expenses	<u>1,075,503</u>		<u>1,075,503</u>	<u>930,098</u>		<u>930,098</u>
Change in net assets	(20,765)	(25,000)	(45,765)	50,562	(59,000)	(8,438)
Net assets, beginning 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>
Net assets, end of year	<u>\$ 101,966</u>	<u>\$ -</u>	<u>\$ 101,966</u>	<u>\$ 122,731</u>	<u>\$ 25,000</u>	<u>\$ 147,731</u>

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL  
Statement of Functional Expenses  
For the Year Ended December 31, 2010

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 192,465	\$ 13,905	\$ 70,467	\$ 276,837
Employee benefits	7,999	717	4,214	12,930
Payroll taxes	16,317	1,209	6,409	23,935
Grants for water systems	605,451			605,451
Professional fees	6,588	10,535	5,880	23,003
Project monitoring site visits	32,125			32,125
Travel			2,416	2,416
Rent	16,506	1,073	4,437	22,016
Printing and copying	10,549	4,080	20,790	35,419
Office and supplies	3,330	493	6,924	10,747
Postage	717	389	8,079	9,185
Fees and licenses	469	65	10,257	10,791
Communications	2,946	107	1,981	5,034
Insurance		1,255	825	2,080
Depreciation	529	38	193	760
Other	1,477	540	757	2,774
	<u>\$ 897,468</u>	<u>\$ 34,406</u>	<u>\$ 143,629</u>	<u>\$ 1,075,503</u>
Total				

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>          </u>	<u>          </u>	<u>          </u>	<u>          </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**  
**Statements of Cash Flows**  
**For the Years Ended December 31, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ (45,765)	\$ (8,438)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	760	1,657
Decrease (increase) in operating assets:		
Accounts receivable	8,190	(6,182)
Pledges receivable	10,000	59,000
Increase (decrease) in operating liabilities:		
Accrued expenses	11,501	(17,648)
Payroll payable	572	(6,029)
Grants payable	<u>128,308</u>	<u>(67,189)</u>
Net cash provided by (used in) operating activities	<u>113,566</u>	<u>(44,829)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of office furniture and equipment	<u>(2,515)</u>	<u>(1,106)</u>
Net increase (decrease) in cash and cash equivalents	111,051	(45,935)
Cash and cash equivalents, beginning of year	<u>585,640</u>	<u>631,575</u>
Cash and cash equivalents, end of year	<u>\$ 696,691</u>	<u>\$ 585,640</u>

The accompanying notes should be read with these financial statements.



**WATER FIRST INTERNATIONAL**  
Notes to Financial Statements  
For the Years Ended December 31, 2010 and 2009

**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 2010, the Organization and the local NGOs completed 104 water, sanitation and hygiene education projects in three countries, benefitting over 7,800 people. In Ethiopia, one large, multi-village project serving 4,050 people was near completion at the end of the year. Another large, multi-community project in Honduras serving nearly 3,000 people, in which the Organization's funding was used to leverage both local and national government funding, was initiated in 2010, and is expected to be completed in 2012. From inception through December 31, 2010, the Organization has completed a total of 382 water, toilet and hygiene education projects serving 48,649 people in Ethiopia, Bangladesh, Honduras and India.

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 the Organization's grants. Repaid loan funds are revolved and used for additional water and sanitation projects and create a sustainable source of funds for the Organization's Bangladesh partner. In the Organization'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, 2010 or 2009.

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 3-5 years.

WATER FIRST INTERNATIONAL  
Notes to Financial Statements  
For the Years Ended December 31, 2010 and 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 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, 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 2010 or 2009.

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 2007 through 2010.

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.

**WATER FIRST INTERNATIONAL**  
**Notes to Financial Statements**  
**For the Years Ended December 31, 2010 and 2009**

**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:

	2010	2009
Cash in bank	\$ 448,718	\$ 437,682
Money market funds	247,973	147,958
	\$ 696,691	\$ 585,640

**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 \$15,000 and \$25,000 at December 31, 2010 and 2009, respectively. Management deems all pledges to be collectible. Pledges receivable at December 31, 2010 and 2009, were realized during 2011 and 2010, respectively.

**NOTE 5 - GRANTS PAYABLE**

The Organization entered into grant agreements with NGOs in Bangladesh, Ethiopia, Honduras and India totaling \$605,451 and \$463,963 during 2010 and 2009, respectively. Grant payments of \$477,143 and \$531,152, were made during 2010 and 2009, respectively. Grants payable at December 31, 2010, are scheduled to be paid within one year.

WATER FIRST INTERNATIONAL  
Notes to Financial Statements  
For the Years Ended December 31, 2010 and 2009

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. No in-kind contributions were recognized in 2010 or 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. The Organization will match the employee's deduction dollar for dollar, up to three percent of an employee's annual salary. Employer contributions were \$6,930 and \$6,671 during the years ended December 31, 2010 and 2009, respectively.

NOTE 8 - OPERATING LEASE

The Organization entered into a lease agreement for office space in Seattle, Washington. During 2009, the lease was renewed for two years ending January 31, 2011. The office space is currently rented on a month-to-month basis. Future minimum lease payments for the year ending December 31, 2010, was \$1,790.

NOTE 9 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through May 16, 2011, 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.