

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

**Financial Statements for the
Years Ended December 31, 2012 and 2011
and Independent Auditors' Report**

WATER FIRST INTERNATIONAL
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For the Years Ended December 31, 2012 and 2011

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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, which comprise the statements of financial position as of December 31, 2012 and 2011, 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, 2012 and 2011, 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

August 19, 2013

WATER FIRST INTERNATIONAL
 Statements of Financial Position
 December 31, 2012 and 2011

ASSETS

	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 851,757	\$ 730,795
Grants and contributions receivable	2,378	20,000
Prepaid rent	<u>2,650</u>	<u>2,650</u>
Total current assets	<u>856,785</u>	<u>753,445</u>
Other assets:		
Office furniture and equipment	12,734	12,734
Less: accumulated depreciation	<u>(11,894)</u>	<u>(10,792)</u>
	<u>840</u>	<u>1,942</u>
	<u>\$ 857,625</u>	<u>\$ 755,387</u>

LIABILITIES AND NET ASSETS

Current liabilities:		
Accrued expenses	\$ 10,497	\$ 33,790
Payroll payable	7,680	9,466
Deferred educational visit revenue	11,250	
Grants payable	<u>638,077</u>	<u>617,832</u>
Total current liabilities	<u>667,504</u>	<u>661,088</u>
Net assets:		
Unrestricted net assets	159,681	94,299
Temporarily restricted net assets	<u>30,440</u>	<u> </u>
	<u>190,121</u>	<u>94,299</u>
	<u>\$ 857,625</u>	<u>\$ 755,387</u>

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL
 Statements of Activities
 For the Years Ended December 31, 2012 and 2011

	2012		2011	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
Support and revenue:				
Special events revenue, less \$681,602 and \$644,266 of contributions included below, respectively	\$ 90,450	\$ 90,450	\$ 76,275	\$ 76,275
Less: costs of direct benefits to donors	(126,350)	(126,350)	(97,835)	(97,835)
Net special events expense	(35,900)	(35,900)	(21,560)	(21,560)
Contributions	959,696	959,696	971,563	971,563
Grants	200,531	\$ 114,085	41,000	\$ 111,758
Other income	2,676	2,676	2,852	2,852
Interest income	137	137	93	93
Net assets released from restrictions	83,645	(83,645)	111,758	(111,758)
Total support and revenue	<u>1,210,785</u>	<u>1,241,225</u>	<u>1,105,706</u>	<u>1,105,706</u>
Expenses:				
Program services	962,267	962,267	932,674	932,674
Management and general	30,867	30,867	30,058	30,058
Fundraising	152,269	152,269	150,641	150,641
Total expenses	<u>1,145,403</u>	<u>1,145,403</u>	<u>1,113,373</u>	<u>1,113,373</u>
Change in net assets	65,382	30,440	(7,667)	(7,667)
Net assets, beginning of year	94,299	94,299	101,966	101,966
Net assets, end of year	<u>\$ 159,681</u>	<u>\$ 30,440</u>	<u>\$ 94,299</u>	<u>\$ 94,299</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 site visits	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
Statement of Functional Expenses
For the Year Ended December 31, 2011

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 180,140	\$ 14,112	\$ 76,740	\$ 270,992
Employee benefits	8,677	942	4,571	14,190
Payroll taxes	15,311	837	7,251	23,399
Grants for water systems	607,468			607,468
Professional fees	24,091	10,125	4,185	38,401
Project monitoring and travel	48,521			48,521
Travel	11,175	26	2,930	14,131
Rent	17,586	878	4,936	23,400
Printing and copying	8,486		14,360	22,846
Office and supplies	3,228	346	11,060	14,634
Postage	447	194	9,537	10,178
Fees and licenses	450	153	10,654	11,257
Communications	3,722	102	2,627	6,451
Insurance		1,293	810	2,103
Depreciation	885	69	377	1,331
Other	2,487	981	603	4,071
	<u>\$ 932,674</u>	<u>\$ 30,058</u>	<u>\$ 150,641</u>	<u>\$ 1,113,373</u>
Total				

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL
 Statements of Cash Flows
 For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 95,822	\$ (7,667)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	1,102	1,331
Decrease (increase) in operating assets:		
Accounts receivable		
Pledges receivable	17,622	(5,000)
Prepaid rent		(2,650)
Increase (decrease) in operating liabilities:		
Accrued expenses	(23,293)	13,298
Payroll payable	(1,786)	3,359
Deferred educational visit revenue	11,250	
Grants payable	<u>20,245</u>	<u>31,433</u>
Net cash provided by (used in) operating activities	<u>120,962</u>	<u>34,104</u>
Net increase (decrease) in cash and cash equivalents	120,962	34,104
Cash and cash equivalents, beginning of year	<u>730,795</u>	<u>696,691</u>
Cash and cash equivalents, end of year	<u>\$ 851,757</u>	<u>\$ 730,795</u>

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Years Ended December 31, 2012 and 2011

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 2012, the Organization and the local NGOs completed 209 water systems in three countries, benefiting over 17,400 people. In urban slum areas of Dhaka and Chittagong, Bangladesh, 207 small-scale water systems serving 14,395 people and 132 toilets serving 6,806 people were completed. In Ethiopia, the large Tutekunche project serving 2,316 people was completed. In Honduras, one project serving four communities in the Municipality of San Andres with a combined population of 789 people was started and progress continues on the large project in the Municipality of Valladolid serving six rural villages and one rural town with a combined population of 2,700. Both Honduras projects are expected to be completed in 2013. In India, repaid loan funds from previous water projects allowed our local partner organization to drill two new wells and install handpumps to serve two additional rural communities in the Sundarbans region of West Bengal. From 2005 through 2012, the Organization has completed 801 water systems benefitting 82,105 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.

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, 2012, temporarily restricted net assets consisted of contributions restricted for specific water projects. The Organization had no permanently restricted net assets at December 31, 2012 and no temporarily or permanently restricted net assets at December 31, 2011.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Years Ended December 31, 2012 and 2011

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, 2012 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

At December 31, 2012 deferred revenue consisted of funds received for an educational trip that occurred in 2013.

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.

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 2009 and thereafter.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Years Ended December 31, 2012 and 2011

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

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:

	<u>2012</u>	<u>2011</u>
Cash in bank	\$ 345,200	\$ 582,805
Money market funds	<u>506,557</u>	<u>147,990</u>
	<u>\$ 851,757</u>	<u>\$ 730,795</u>

NOTE 4 - GRANTS PAYABLE

The Organization entered into grant agreements with NGOs in Bangladesh, Ethiopia, Honduras and India totaling \$656,164 and \$607,468 during 2012 and 2011, respectively. Grant payments of \$635,919 and \$576,035, were made during 2012 and 2011, respectively. Grants payable at December 31, 2012, are scheduled to be paid within one year.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Years Ended December 31, 2012 and 2011

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 2012 or 2011.

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 - 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 \$6,574 and \$6,890 during the years ended December 31, 2012 and 2011, respectively.

NOTE 7 - 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 as follows for the years ending December 31:

2013	\$ 30,366
2014	<u>16,812</u>
	<u>\$ 47,178</u>

NOTE 8 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through August 19, 2013, 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.