

WATER FIRST INTERNATIONAL
(A Washington Nonprofit Corporation)

Financial Statements for the
Years Ended December 31, 2015 and 2014
and Independent Auditor's Report

WATER FIRST INTERNATIONAL
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For the Years Ended December 31, 2015 and 2014

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WATSON & McDONELL, PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S 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, 2015 and 2014, 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.

Auditor's 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 auditor's 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 auditor considers 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, 2015 and 2014, 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

July 6, 2016

WATER FIRST INTERNATIONAL
 Statements of Financial Position
 December 31, 2015 and 2014

ASSETS		2015	2014
Current assets:			
Cash and cash equivalents		\$ 2,041,420	\$ 1,173,574
Grants and contributions receivable		57,000	67,979
Prepaid rent		2,650	2,650
Total current assets		2,101,070	1,244,203
Other assets:			
Office furniture and equipment		5,621	5,621
Less: accumulated depreciation		(5,204)	(4,748)
		417	873
		\$ 2,101,487	\$ 1,245,076
LIABILITIES AND NET ASSETS			
Current liabilities:			
Accrued expenses		\$ 6,262	\$ 12,856
Payroll payable		9,589	8,888
Deferred educational visit revenue		14,900	1,000
Grants payable		1,641,144	1,095,624
Total current liabilities		1,671,895	1,118,368
Net assets:			
Unrestricted net assets		392,592	126,708
Temporarily restricted net assets		37,000	
		429,592	126,708
		\$ 2,101,487	\$ 1,245,076

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL
Statements of Activities
For the Years Ended December 31, 2015 and 2014

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue:						
Special events revenue, less \$1,873,747 and \$1,200,767 of contributions included below, respectively	\$ 83,731		\$ 83,731	\$ 81,650		\$ 81,650
Less: costs of direct benefits to donors	<u>(147,106)</u>		<u>(147,106)</u>	<u>(150,522)</u>		<u>(150,522)</u>
Net special events expense	(63,375)		(63,375)	(68,872)		(68,872)
Contributions	2,267,233		2,267,233	1,506,429		1,506,429
Grants	207,126	\$ 239,633	446,759	65,668	\$ 189,161	254,829
Other income, net	(2,905)		(2,905)	53		53
Interest income	52		52	130		130
Net assets released from restrictions	<u>202,633</u>	<u>(202,633)</u>		<u>209,161</u>	<u>(209,161)</u>	
Total support and revenue	<u>2,610,764</u>	<u>37,000</u>	<u>2,647,764</u>	<u>1,712,569</u>	<u>(20,000)</u>	<u>1,692,569</u>
Expenses:						
Program services	2,074,514		2,074,514	1,676,046		1,676,046
Management and general	47,109		47,109	46,049		46,049
Fundraising	<u>223,257</u>		<u>223,257</u>	<u>176,597</u>		<u>176,597</u>
Total expenses	<u>2,344,880</u>		<u>2,344,880</u>	<u>1,898,692</u>		<u>1,898,692</u>
Change in net assets	265,884	37,000	302,884	(186,123)	(20,000)	(206,123)
Net assets, beginning of year	<u>126,708</u>		<u>126,708</u>	<u>312,831</u>	<u>20,000</u>	<u>332,831</u>
Net assets, end of year	<u>\$ 392,592</u>	<u>\$ 37,000</u>	<u>\$ 429,592</u>	<u>\$ 126,708</u>	<u>\$ -</u>	<u>\$ 126,708</u>

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL
Statement of Functional Expenses
For the Year Ended December 31, 2015

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 172,426	\$ 23,281	\$ 100,459	\$ 296,166
Employee benefits	10,128	631	6,932	17,691
Payroll taxes	17,570	2,255	9,706	29,531
Grants for water systems	1,756,214			1,756,214
Professional fees	28,485	11,327	21,820	61,632
Project monitoring site visits	25,566			25,566
Travel	8,472		4,068	12,540
Rent	33,628	764	3,821	38,213
Printing and copying	10,594	2,547	26,982	40,123
Office and supplies	2,795	887	17,694	21,376
Postage	431	1,030	4,362	5,823
Fees and licenses	750	1,458	23,896	26,104
Communications	4,880	89	1,390	6,359
Insurance	416	1,625	417	2,458
Depreciation	332	36	88	456
Other	1,827	1,179	1,622	4,628
	<u>1,827</u>	<u>1,179</u>	<u>1,622</u>	<u>4,628</u>
Total	<u>\$ 2,074,514</u>	<u>\$ 47,109</u>	<u>\$ 223,257</u>	<u>\$ 2,344,880</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 and travel	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
 Statements of Cash Flows
 For the Years Ended December 31, 2015 and 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 302,884	\$ (206,123)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	456	456
Decrease (increase) in operating assets:		
Grants and contributions receivable		3,009
Accounts receivable	10,979	42,524
Increase (decrease) in operating liabilities:		
Accrued expenses	(6,594)	(4,613)
Payroll payable	701	1,310
Deferred educational visit revenue	13,900	(2,500)
Grants payable	545,520	126,887
Net cash provided by (used in) operating activities	867,846	(39,050)
Net increase (decrease) in cash and cash equivalents	867,846	(39,050)
Cash and cash equivalents, beginning of year	1,173,574	1,212,624
Cash and cash equivalents, end of year	\$ 2,041,420	\$ 1,173,574

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

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 2015, the Organization completed 357 projects serving 18,005 people. Every project incorporates access to water and toilets, hygiene education, and community development. In Oromia, Ethiopia, the Organization completed the funding of the Dawo Kara project, which will serve 3,750 people. The project was scheduled to be completed by December, but equipment procurement issues delayed actual completion until February 2016. The Organization also initiated funding of the Dima Jeliwan project in 2015, which is scheduled to be completed in 2017 and will serve 3,800 people. In Bangladesh, 350 water systems serving 15,991 people in urban slum settlements in Dhaka, Chittagong, and Khulna were completed. In the rural Lempira communities of Los Limones, Valladolid, San Pedrito, Corral Piedra, San Miguel, Jagua, and San Sebastian, Honduras, 2,014 people have piped water and toilets at every household. Additionally, the Organization's local Honduran partner initiated eight additional projects that will be completed in 2016. As of December 2015, the Water First community contributed over \$13 million to support 1,562 projects serving 141,270 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.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

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, 2015, temporarily restricted net assets consisted of contributions restricted for specific water projects. At December 31, 2014, there were no temporarily restricted net assets. The Organization had no permanently restricted net assets at December 31, 2015 and 2014.

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, 2015 and 2014 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.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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 follows the provisions of uncertain tax positions as addressed in FASB Accounting Standards 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, 2015, the Organization's deposits were \$1,520,203 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>2015</u>	<u>2014</u>
Cash in bank	\$ 1,895,535	\$ 1,025,540
Money market funds	<u>148,050</u>	<u>148,034</u>
	<u>\$ 2,041,420</u>	<u>\$ 1,173,574</u>

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

NOTE 4 - GRANTS PAYABLE

The Organization entered into grant agreements with NGOs in Bangladesh, Ethiopia, Honduras and India totaling \$1,756,214 and \$1,318,523 during 2015 and 2014, respectively. Grant payments of \$1,210,694 and \$1,191,636 were made during 2015 and 2014, respectively. Grants payable at December 31, 2015 and 2014, are scheduled to be paid within one year.

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 2015 and 2014.

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 receivable at December 31, 2015 consisted of grants from three grantors. In addition, 40 percent of grants and contributions revenue was from 3 donors. Grants from two grantors comprised 68 percent of grants and contributions receivable at December 31, 2014.

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 \$7,131 and \$6,763 during the years ended December 31, 2015 and 2014, respectively.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Years Ended December 31, 2015 and 2014

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 \$35,400 and \$30,549 for the years ended December 31, 2015 and 2014, respectively.

Future minimum lease payments under this lease are as follows:

2016	\$ 36,774
2017	38,148
2018	39,516
2019	<u>20,100</u>
	<u>\$ 134,538</u>

NOTE 9 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through July 6, 2016, 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.