

WATER FIRST INTERNATIONAL  
(A Washington Nonprofit Corporation)

Financial Statements for the  
Years Ended December 31, 2016 and 2015  
and Independent Auditor's Report

WATER FIRST INTERNATIONAL  
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For the Years Ended December 31, 2016 and 2015

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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, 2016 and 2015, 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, 2016 and 2015, 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 1, 2017

WATER FIRST INTERNATIONAL  
 Statements of Financial Position  
 December 31, 2016 and 2015

| ASSETS                              | <u>2016</u>         | <u>2015</u>         |
|-------------------------------------|---------------------|---------------------|
| Current assets:                     |                     |                     |
| Cash and cash equivalents           | \$ 1,869,239        | \$ 2,041,420        |
| Grants and contributions receivable | 283,585             | 57,000              |
| Prepaid rent                        | <u>3,122</u>        | <u>2,650</u>        |
| Total current assets                | <u>2,155,946</u>    | <u>2,101,070</u>    |
| Other assets:                       |                     |                     |
| Office furniture and equipment      | 5,621               | 5,621               |
| Less: accumulated depreciation      | <u>(5,621)</u>      | <u>(5,204)</u>      |
|                                     | <u>-</u>            | <u>417</u>          |
|                                     | <u>\$ 2,155,946</u> | <u>\$ 2,101,487</u> |
| LIABILITIES AND NET ASSETS          |                     |                     |
| Current liabilities:                |                     |                     |
| Accrued expenses                    | \$ 16,059           | \$ 6,262            |
| Payroll payable                     | 11,159              | 9,589               |
| Deferred educational visit revenue  | 12,700              | 14,900              |
| Grants payable                      | <u>1,725,973</u>    | <u>1,641,144</u>    |
| Total current liabilities           | <u>1,765,891</u>    | <u>1,671,895</u>    |
| Net assets:                         |                     |                     |
| Unrestricted net assets             | 86,532              | 392,592             |
| Temporarily restricted net assets   | <u>303,523</u>      | <u>37,000</u>       |
|                                     | <u>390,055</u>      | <u>429,592</u>      |
|                                     | <u>\$ 2,155,946</u> | <u>\$ 2,101,487</u> |

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL  
Statements of Activities  
For the Years Ended December 31, 2016 and 2015

|  | 2016             |                           |                   | 2015              |                           |                   |
|--|------------------|---------------------------|-------------------|-------------------|---------------------------|-------------------|
|  | Unrestricted     | Temporarily<br>Restricted | Total             | Unrestricted      | Temporarily<br>Restricted | Total             |
| Support and revenue:   |                  |                           |                   |                   |                           |                   |
| Special events revenue, less \$1,320,767<br>and \$1,873,747 of contributions<br>included below, respectively | \$ 67,445        |                           | \$ 67,445         | \$ 83,731         |                           | \$ 83,731         |
| Less: costs of direct benefits to donors   | (146,136)        |                           | (146,136)         | (147,106)         |                           | (147,106)         |
| Net special events expense   | (78,691)         |                           | (78,691)          | (63,375)          |                           | (63,375)          |
| Contributions  | 1,603,334        |                           | 1,603,334         | 2,267,233         |                           | 2,267,233         |
| Grants   | 219,451          | \$ 475,673                | 695,124           | 207,126           | \$ 239,633                | 446,759           |
| Other income, net  | (1,503)          |                           | (1,503)           | (2,905)           |                           | (2,905)           |
| Interest income  | 369              |                           | 369               | 52                |                           | 52                |
| Net assets released from restrictions  | 209,150          | (209,150)                 |                   | 202,633           | (202,633)                 |                   |
| Total support and revenue  | <u>1,952,110</u> | <u>266,523</u>            | <u>2,218,633</u>  | <u>2,610,764</u>  | <u>37,000</u>             | <u>2,647,764</u>  |
| Expenses:  |                  |                           |                   |                   |                           |                   |
| Program services   | 1,965,156        |                           | 1,965,156         | 2,074,514         |                           | 2,074,514         |
| Management and general   | 47,858           |                           | 47,858            | 47,109            |                           | 47,109            |
| Fundraising  | 245,156          |                           | 245,156           | 223,257           |                           | 223,257           |
| Total expenses   | <u>2,258,170</u> |                           | <u>2,258,170</u>  | <u>2,344,880</u>  |                           | <u>2,344,880</u>  |
| Change in net assets   | (306,060)        | 266,523                   | (39,537)          | 265,884           | 37,000                    | 302,884           |
| Net assets, beginning of year  | <u>392,592</u>   | <u>37,000</u>             | <u>429,592</u>    | <u>126,708</u>    |                           | <u>126,708</u>    |
| Net assets, end of year  | <u>\$ 86,532</u> | <u>\$ 303,523</u>         | <u>\$ 390,055</u> | <u>\$ 392,592</u> | <u>\$ 37,000</u>          | <u>\$ 429,592</u> |

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL  
Statement of Functional Expenses  
For the Year Ended December 31, 2016

|                                | <u>Program<br/>Services</u> | <u>Management<br/>and General</u> | <u>Fundraising</u> | <u>Total</u>        |
|--------------------------------|-----------------------------|-----------------------------------|--------------------|---------------------|
| Salaries and wages             | \$ 191,040                  | \$ 24,065                         | \$ 115,972         | \$ 331,077          |
| Employee benefits              | 11,179                      | 999                               | 7,589              | 19,767              |
| Payroll taxes                  | 19,512                      | 2,327                             | 11,347             | 33,186              |
| Grants for water systems       | 1,595,176                   |                                   |                    | 1,595,176           |
| Professional fees              | 17,673                      | 12,374                            | 6,162              | 36,209              |
| Project monitoring site visits | 74,187                      |                                   |                    | 74,187              |
| Travel                         | 2,013                       |                                   | 5,614              | 7,627               |
| Rent                           | 35,079                      | 805                               | 3,909              | 39,793              |
| Printing and copying           | 6,960                       | 85                                | 37,761             | 44,806              |
| Office and supplies            | 2,852                       | 1,000                             | 21,086             | 24,938              |
| Postage                        | 664                         | 2,330                             | 5,770              | 8,764               |
| Fees and licenses              | 829                         | 1,166                             | 25,076             | 27,071              |
| Communications                 | 4,053                       | 247                               | 3,124              | 7,424               |
| Insurance                      | 428                         | 1,625                             | 429                | 2,482               |
| Depreciation                   | 240                         | 31                                | 146                | 417                 |
| Other                          | 3,271                       | 804                               | 1,171              | 5,246               |
|                                | <u>3,271</u>                | <u>804</u>                        | <u>1,171</u>       | <u>5,246</u>        |
| Total                          | <u>\$ 1,965,156</u>         | <u>\$ 47,858</u>                  | <u>\$ 245,156</u>  | <u>\$ 2,258,170</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<br/>Services</u> | <u>Management<br/>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 and travel | 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  
Statements of Cash Flows  
For the Years Ended December 31, 2016 and 2015

|   | 2016         | 2015         |
|---|--------------|--------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |              |              |
| Change in net assets  | \$ (39,537)  | \$ 302,884   |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: |              |              |
| Depreciation  | 417          | 456          |
| Decrease (increase) in operating assets:  |              |              |
| Grants and contributions receivable   | (226,585)    | 10,979       |
| Prepaid rent  | (472)        |              |
| Increase (decrease) in operating liabilities:   |              |              |
| Accrued expenses  | 9,797        | (6,594)      |
| Payroll payable   | 1,570        | 701          |
| Deferred educational visit revenue  | (2,200)      | 13,900       |
| Grants payable  | 84,829       | 545,520      |
| Net cash provided by (used in) operating activities   | (172,181)    | 867,846      |
| Net increase (decrease) in cash and cash equivalents  | (172,181)    | 867,846      |
| Cash and cash equivalents, beginning of year  | 2,041,420    | 1,173,574    |
| Cash and cash equivalents, end of year  | \$ 1,869,239 | \$ 2,041,420 |

The accompanying notes should be read with these financial statements.

**WATER FIRST INTERNATIONAL**  
Notes to Financial Statements  
For the Years Ended December 31, 2016 and 2015

**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 2016, the Organization completed 375 projects serving 26,429 people. Every project incorporates access to water and toilets, hygiene education, and community development. In Oromia, Ethiopia, the Organization completed the Dawo Kara project, which serves 3,700 people. The Organization also continued progress on the Dima Jeliwan, which is scheduled to be completed in 2018 and will serve 3,800 people. In Bangladesh, 367 water systems serving 17,587 people in urban slum settlements in Dhaka, Chittagong, and Khulna were completed. In the rural Lempira communities of La Mina, Jurtao, El Aguacate, Guayabo, Broton, Zapote, and Santa Rosita, Honduras, 5,142 people gained access to piped water and toilets at every household. Additionally, the Organization's local Honduran partner continues work on a large rural town project serving 3,800 people and initiated eighteen additional projects that will be completed in 2017/2018. As of December 2016, the Water First community contributed over \$15 million to support 1,947 projects serving 167,699 people.

The Organization also devoted resources to research and select a new partner organization in Mozambique. They reviewed proposals from a number of organizations and conducted site visits throughout the country to evaluate the actual results of various NGO's projects. An organization in northern Mozambique was selected as a potential partner and an initial contract was signed to implement a pilot project serving the community of 19 de Outubro in the Quissanga district. The purpose of the project is to test a piped water network approach that could be replicated throughout the region.

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, 2016 and 2015

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, 2016 and 2015, temporarily restricted net assets consisted of contributions restricted for specific water projects. The Organization had no permanently restricted net assets at December 31, 2016 and 2015.

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, 2016 and 2015 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, 2016 and 2015

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, 2016, the Organization's deposits were \$1,334,045 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>2016</u>         | <u>2015</u>         |
| Cash in bank       | \$ 1,869,239        | \$ 1,893,370        |
| Money market funds | <u>-</u>            | <u>148,050</u>      |
|                    | <u>\$ 1,869,239</u> | <u>\$ 2,041,420</u> |

WATER FIRST INTERNATIONAL  
Notes to Financial Statements  
For the Years Ended December 31, 2016 and 2015

NOTE 4 - GRANTS PAYABLE

The Organization entered into grant agreements with NGOs in Bangladesh, Ethiopia, Honduras and Mozambique totaling \$1,595,176 and \$1,756,214 during 2016 and 2015, respectively. Grant payments of \$1,510,347 and \$1,210,694 were made during 2016 and 2015, respectively. Grants payable at December 31, 2016 and 2015, 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 2016 and 2015.

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 and contributions receivable at December 31, 2016 consisted of grants from three donors, and one donations from two donors comprised 25 percent of grants and contributions revenue. Grants and contributions receivable at December 31, 2015 consisted of grants from three grantors. In addition, 40 percent of grants and contributions revenue was from three donors for the year ended December 31, 2015.

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 \$8,767 and \$7,131 during the years ended December 31, 2016 and 2015, respectively.

WATER FIRST INTERNATIONAL  
Notes to Financial Statements  
For the Years Ended December 31, 2016 and 2015

NOTE 8 - OPERATING LEASE

Water First International rents office space in Seattle, Washington under a non-cancellable lease agreement ending June 30, 2019. Lease expense under this lease was \$39,793 and \$38,213 for the years ended December 31, 2016 and 2015, respectively.

Future minimum lease payments under this lease are as follows:

|      |                  |
|------|------------------|
| 2017 | \$ 38,148        |
| 2018 | 39,516           |
| 2019 | <u>20,100</u>    |
|      | <u>\$ 97,764</u> |

NOTE 9 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through August 1, 2017, 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.