

WATER FIRST INTERNATIONAL
(A Washington Nonprofit Corporation)

Financial Statements for the
Years Ended December 31, 2017 and 2016
and Independent Auditor's Report

WATER FIRST INTERNATIONAL
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For the Years Ended December 31, 2017 and 2016

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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, 2017 and 2016, 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, 2017 and 2016, 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 19, 2018

WATER FIRST INTERNATIONAL
 Statements of Financial Position
 December 31, 2017 and 2016

ASSETS	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 1,668,066	\$ 1,869,239
Grants and contributions receivable	171,055	283,585
Accounts receivable	2,974	
Prepaid rent	18,774	3,122
Total current assets	<u>1,860,869</u>	<u>2,155,946</u>
Other assets:		
Office furniture and equipment	5,621	5,621
Less: accumulated depreciation	<u>(5,621)</u>	<u>(5,621)</u>
	<u>-</u>	<u>-</u>
	<u>\$ 1,860,869</u>	<u>\$ 2,155,946</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accrued expenses	\$ 14,795	\$ 16,059
Payroll payable	10,939	11,159
Deferred educational visit revenue	22,750	12,700
Grants payable	<u>1,653,101</u>	<u>1,725,973</u>
Total current liabilities	<u>1,701,585</u>	<u>1,765,891</u>
Net assets:		
Unrestricted net assets	55,088	86,532
Temporarily restricted net assets	<u>104,196</u>	<u>303,523</u>
	<u>159,284</u>	<u>390,055</u>
	<u>\$ 1,860,869</u>	<u>\$ 2,155,946</u>

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL
Statements of Activities
For the Years Ended December 31, 2017 and 2016

	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Support and revenue:						
Special events revenue, less \$1,490,436 and \$1,320,767 of contributions included below, respectively	\$ 71,075		\$ 71,075	\$ 67,445		\$ 67,445
Less: costs of direct benefits to donors	<u>(151,995)</u>		<u>(151,995)</u>	<u>(146,136)</u>		<u>(146,136)</u>
Net special events expense	(80,920)		(80,920)	(78,691)		(78,691)
Contributions	1,929,915		1,929,915	1,603,334		1,603,334
Grants	205,513	\$ 304,432	509,945	219,451	\$ 475,673	695,124
Other income, net	21,213		21,213	(1,503)		(1,503)
Interest income	401		401	369		369
Net assets released from restrictions	<u>503,759</u>	<u>(503,759)</u>		<u>209,150</u>	<u>(209,150)</u>	
Total support and revenue	<u>2,579,881</u>	<u>(199,327)</u>	<u>2,380,554</u>	<u>1,952,110</u>	<u>266,523</u>	<u>2,218,633</u>
Expenses:						
Program services	2,266,360		2,266,360	1,965,156		1,965,156
Management and general	50,363		50,363	47,858		47,858
Fundraising	<u>294,602</u>		<u>294,602</u>	<u>245,156</u>		<u>245,156</u>
Total expenses	<u>2,611,325</u>		<u>2,611,325</u>	<u>2,258,170</u>		<u>2,258,170</u>
Change in net assets	(31,444)	(199,327)	(230,771)	(306,060)	266,523	(39,537)
Net assets, beginning 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>
Net assets, end of year	<u>\$ 55,088</u>	<u>\$ 104,196</u>	<u>\$ 159,284</u>	<u>\$ 86,532</u>	<u>\$ 303,523</u>	<u>\$ 390,055</u>

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL
Statement of Functional Expenses
For the Year Ended December 31, 2017

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 245,528	\$ 25,057	\$ 143,031	\$ 413,616
Employee benefits	12,056	1,543	8,121	21,720
Payroll taxes	21,611	2,135	12,425	36,171
Grants for water systems	1,809,209			1,809,209
Professional fees	44,691	12,211	19,352	76,254
Project monitoring site visits	52,656	5		52,661
Travel	15,780	91	6,625	22,496
Rent	37,425	849	4,193	42,467
Printing and copying	5,748	2,512	37,581	45,841
Office and supplies	6,921	720	21,576	29,217
Postage	29	1,738	5,805	7,572
Fees and licenses	799	1,195	31,293	33,287
Communications	6,446	135	2,390	8,971
Insurance	1,030	1,648	117	2,795
Other	6,431	524	2,093	9,048
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 2,266,360</u>	<u>\$ 50,363</u>	<u>\$ 294,602</u>	<u>\$ 2,611,325</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 Services</u>	<u>Management 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 and travel	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>\$ 1,965,156</u>	<u>\$ 47,858</u>	<u>\$ 245,156</u>	<u>\$ 2,258,170</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, 2017 and 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (230,771)	\$ (39,537)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	-	417
Decrease (increase) in operating assets:		
Grants and contributions receivable	112,530	(226,585)
Accounts receivable	(2,974)	
Prepaid rent	(15,652)	(472)
Increase (decrease) in operating liabilities:		
Accrued expenses	(1,264)	9,797
Payroll payable	(220)	1,570
Deferred educational visit revenue	10,050	(2,200)
Grants payable	<u>(72,872)</u>	<u>84,829</u>
Net cash provided by (used in) operating activities	<u>(201,173)</u>	<u>(172,181)</u>
Net increase (decrease) in cash and cash equivalents	(201,173)	(172,181)
Cash and cash equivalents, beginning of year	<u>1,869,239</u>	<u>2,041,420</u>
Cash and cash equivalents, end of year	<u>\$ 1,668,066</u>	<u>\$ 1,869,239</u>

The accompanying notes should be read with these financial statements.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

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 2017, the Organization completed 433 projects serving 20,278 people. Every project incorporates access to water and toilets, hygiene education, and community development. In Oromia, Ethiopia, the Organization continued progress on the Dima Jeliwan project, which is scheduled to be completed in 2018 and will serve 3,800 people. In Bangladesh, 426 water systems serving 17,782 people in urban slum settlements in Dhaka, Chittagong, and Khulna were completed. In the rural Lempira communities of El Nuco, Junigual, Solicor, San Francisco, Catulaca, Carrizal y Granadilla, and Cedrales, Honduras, 2,496 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 ten additional projects that will be completed in 2018 and 2019. The Organization initiated its first project in Mozambique, supporting the community of 19 de Outubro in an effort to provide 1,600 people with access to water, toilets, and hygiene education. As of December 2017, the Water First community contributed over \$18 million to support 2,280 projects serving 187,977 people in four countries.

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 Mozambique, 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 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, 2017 and 2016

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, 2017 and 2016, temporarily restricted net assets consisted of contributions restricted for specific water projects. The Organization had no permanently restricted net assets at December 31, 2017 or 2016.

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, 2017 and 2016 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, 2017 and 2016

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 Organization 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, 2017, the Organization's deposits were \$1,161,251 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.

NOTE 4 - GRANTS PAYABLE

The Organization entered into grant agreements with NGOs in Bangladesh, Ethiopia, Honduras and Mozambique totaling \$1,809,209 and \$1,595,176 during 2017 and 2016, respectively. Grant payments of \$1,882,033 and \$1,510,347 were made during 2017 and 2016, respectively. Grants payable at December 31, 2017 and 2016, are scheduled to be paid within one year.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

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 2017 and 2016.

The Organization receives over 800 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 from two donors comprised 69 percent of grants and contributions receivable at December 31, 2017, and donations from one donor comprised 11 percent of grants and contributions revenue in 2017. Grants and contributions receivable at December 31, 2016 consisted of grants from three grantors. In addition, 25 percent of grants and contributions revenue was from three donors in 2016.

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 \$9,218 and \$8,767 during the years ended December 31, 2017 and 2016, respectively.

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 \$42,467 and \$39,793 for the years ended December 31, 2017 and 2016, respectively.

WATER FIRST INTERNATIONAL
Notes to Financial Statements
For the Years Ended December 31, 2017 and 2016

NOTE 8 - OPERATING LEASE, CONTINUED

Future minimum lease payments under this lease are as follows:

2018	\$ 39,516
2019	<u>20,100</u>
	<u>\$ 59,616</u>

NOTE 9 - SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through July 19, 2018, 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.