



Beyond Accounting

WATER FOUNDATION

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2019 AND 2018



Beyond Accounting

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Water Foundation  
Sacramento, California

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the Water Foundation (a non-profit corporation), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of activities and changes in net assets, 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 the 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 the Water Foundation as of December 31, 2019 and 2018, and the changes in its net assets and its functional expenses and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*BFBA, LLP*

Sacramento, California  
May 13, 2020

WATER FOUNDATION

STATEMENTS OF FINANCIAL POSITION  
DECEMBER 31, 2019 AND 2018

ASSETS

	<u>2019</u>	<u>2018</u>
Current assets		
Cash and cash equivalents	\$ 10,329,515	\$ 11,047,967
Grants receivable	4,228,987	511,526
Prepaid expenses and other current assets	<u>66,689</u>	<u>18,969</u>
Total current assets	14,625,191	11,578,462
Property and equipment, net	315,055	375,516
Other noncurrent assets	<u>37,000</u>	<u>37,000</u>
Total assets	<u>\$ 14,977,246</u>	<u>\$ 11,990,978</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ 1,886,232	\$ 2,554,695
Accrued expenses	<u>298,985</u>	<u>234,066</u>
Total current liabilities	<u>2,185,217</u>	<u>2,788,761</u>
Net assets		
Without donor restrictions	6,688,042	2,921,692
With donor restrictions	<u>6,103,987</u>	<u>6,280,525</u>
Total net assets	<u>12,792,029</u>	<u>9,202,217</u>
Total liabilities and net assets	<u>\$ 14,977,246</u>	<u>\$ 11,990,978</u>

The accompanying notes are an integral part of these financial statements.

WATER FOUNDATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	2019	2018
Revenues		
Grant revenue	\$ 7,970,000	\$ 2,470,000
Other income	319,733	148,688
Subtotal	8,289,733	2,618,688
Net assets released from restrictions	6,247,023	9,491,004
Total revenues	14,536,756	12,109,692
Expenses		
Program services		
Healthy Watersheds	5,601,153	-
Healthy Communities	3,419,590	-
Transitioning Strategies	523,779	-
Resilient Water Supplies	-	4,479,458
Los Angeles	-	2,185,460
Emerging Strategies	-	1,095,060
Drinking Water	-	1,091,270
Ecosystems Restoration	-	805,427
Water Conservation & Efficiency	-	720,786
Total program services	9,544,522	10,377,461
Support services	1,225,883	1,153,113
Total expenses	10,770,405	11,530,574
Increase in net assets without donor restrictions	3,766,351	579,118
Net assets with donor restrictions		
Grant revenue	6,070,484	6,635,000
Net assets released from restrictions	(6,247,023)	(9,491,004)
Decrease in net assets with donor restrictions	(176,539)	(2,856,004)
Increase (decrease) in net assets	3,589,812	(2,276,886)
Net assets, beginning of year	9,202,217	11,479,103
Net assets, end of year	\$ 12,792,029	\$ 9,202,217

The accompanying notes are an integral part of these financial statements.

WATER FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2019

	Program Services				
	Healthy Watersheds	Healthy Communities	Transitioning Strategies	Support Services	Total
Grants and contracts	\$ 4,302,146	\$ 2,223,594	\$ 335,506	\$ -	\$ 6,861,246
Salaries and benefits	861,172	768,895	125,630	732,421	2,488,118
Facilities	196,306	183,612	30,199	208,354	618,471
Professional services	104,833	97,978	15,284	134,298	352,393
Travel and conferences	46,907	40,211	4,318	36,231	127,667
Depreciation	26,303	24,706	3,982	27,185	82,176
Event/meeting	11,388	18,326	1,294	8,808	39,816
Dues and subscriptions	10,602	9,909	1,654	11,323	33,488
Parking expense	8,978	8,389	1,366	9,519	28,252
Board expenses	-	-	-	26,715	26,715
Information technology	6,419	6,623	991	7,022	21,055
Meals and entertainment	7,256	7,566	654	3,965	19,441
Office supplies and expenses	5,245	5,012	795	5,689	16,741
Equipment and furniture	4,219	4,015	623	4,471	13,328
Convenings	-	12,109	-	-	12,109
Fees	3,459	3,320	549	3,737	11,065
Telephone service	2,388	2,282	357	2,522	7,549
Business insurance	2,229	1,838	383	2,279	6,729
Postage and shipping	649	605	93	665	2,012
Contributions	388	363	55	397	1,203
Printing	211	187	36	222	656
Repairs and maintenance	55	50	10	60	175
Total	\$ 5,601,153	\$ 3,419,590	\$ 523,779	\$ 1,225,883	\$ 10,770,405

WATER FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED DECEMBER 31, 2018

	Program Services							
	Resilient		Emerging	Drinking	Ecosystems	Water	Support	Total
	Water Supplies	Los Angeles	Strategies	Water	Restoration	Conservation & Efficiency	Services	
Grants and contracts	\$ 3,746,724	\$ 1,513,932	\$ 975,176	\$ 828,897	\$ 606,705	\$ 505,903	\$ -	\$ 8,177,337
Salaries and benefits	528,452	452,800	75,014	176,099	141,612	145,919	712,477	2,232,373
Facilities	73,349	81,697	14,510	32,276	22,687	25,660	148,926	399,105
Professional services	57,875	64,338	10,453	24,175	16,962	20,709	131,145	325,657
Travel and conferences	28,660	27,790	7,698	10,620	6,073	8,090	41,084	130,015
Depreciation	12,053	13,748	2,225	5,242	3,701	4,221	24,690	65,880
Event/meeting	6,129	6,218	6,145	3,903	1,725	2,758	11,816	38,694
Information technology	6,309	7,407	1,139	2,620	1,751	2,208	13,305	34,739
Loss on the sale of property and equipment	-	-	-	-	-	-	25,011	25,011
Office supplies and expenses	3,953	4,070	768	1,662	1,151	1,358	8,939	21,901
Meals and entertainment	7,181	3,861	403	1,555	559	882	4,369	18,810
Equipment and furniture	3,214	3,538	666	1,439	938	1,165	6,416	17,376
Dues and subscriptions	2,200	2,510	402	853	636	799	5,631	13,031
Board expenses	-	-	-	-	-	-	11,869	11,869
Telephone service	1,339	1,465	240	541	378	477	3,128	7,568
Business insurance	1,298	1,340	77	589	343	389	2,771	6,807
Postage and shipping	504	546	97	204	142	172	1,148	2,813
Printing	29	32	8	513	10	10	54	656
Repairs and maintenance	119	104	25	52	34	41	202	577
Fees	70	64	14	30	20	25	132	355
Total	<u>\$ 4,479,458</u>	<u>\$ 2,185,460</u>	<u>\$ 1,095,060</u>	<u>\$ 1,091,270</u>	<u>\$ 805,427</u>	<u>\$ 720,786</u>	<u>\$ 1,153,113</u>	<u>\$ 11,530,574</u>

WATER FOUNDATION  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

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	<u>2019</u>	<u>2018</u>
Cash flows from operating activities		
Increase (decrease) in net assets	\$ 3,589,812	\$ (2,276,886)
Reconciliation of net cash provided by operating activities		
Depreciation	82,176	65,880
Loss on the sale of property and equipment	-	25,011
Changes in operating assets and liabilities		
Grants receivable	(3,717,461)	3,528,474
Prepaid expenses and other current assets	(47,720)	22,465
Other noncurrent asset	-	(37,000)
Accounts payable	(668,463)	881,448
Accrued expenses	64,919	60,619
Net cash provided by (used in) operating activities	<u>(696,737)</u>	<u>2,270,011</u>
Cash flows from investing activities		
Purchases of property and equipment	<u>(21,715)</u>	<u>(198,034)</u>
Net cash used in investing activities	<u>(21,715)</u>	<u>(198,034)</u>
Net increase (decrease) in cash and cash equivalents	(718,452)	2,071,977
Cash and cash equivalents, beginning of year	<u>11,047,967</u>	<u>8,975,990</u>
Cash and cash equivalents, end of year	<u>\$ 10,329,515</u>	<u>\$ 11,047,967</u>



## WATER FOUNDATION

### NOTES TO THE FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018

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#### NOTE 1: BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### Organization and Operations

The Water Foundation (the Foundation) (a non-profit, public benefit corporation), is a nonprofit strategic philanthropy working to fundamentally transform how water is managed in the western United States. The Water Foundation launched as the California Water Foundation in 2011, operating as an initiative of the Resources Legacy Fund. On January 1, 2017, the Water Foundation transitioned to an independent, stand-alone foundation. The Foundation helps funders identify and act on opportunities to better manage water and to engage in thoughtful, strategic grantmaking to its not-for-profit partners to drive change. The Foundation complements these activities with creative coalition building and thoughtful engagement with high-level decision makers.

##### Basis of Accounting and Presentation

The Foundation's financial statements are prepared using the accrual basis of accounting and are presented in conformity with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 958, *Not-for-Profit Entities*. Revenues are recognized when earned rather than when received, and expenses are recognized when the obligation is incurred rather than when disbursed. In accordance with ASC Topic 958, the Foundation is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. As of December 31, 2019 and 2018, net assets with donor restrictions was \$6,103,987 and \$6,280,525, respectively.

##### Fair Value of Financial Instruments

The Foundation has financial instruments whereby the fair market value of the instruments could be different from that recorded on an historical basis in the accompanying statements of financial position. The carrying amounts of the Foundation's financial instruments generally approximate their fair values at December 31, 2019 and 2018.

##### Cash and Cash Equivalents

Cash and cash equivalents consist of highly liquid investments, which are readily convertible into cash and have original maturities of three months or less.

WATER FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

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NOTE 1: BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

Grants Receivable

Grants receivable consists of installment payments to be received in the upcoming year on grant awards and is recorded at its net realizable value. The Foundation uses the allowance method to determine uncollectible receivables. The allowance is based on prior years' experience and management's specific analysis of individual accounts. The Foundation charges off uncollectible receivables at the time a specific account is deemed to not be fully uncollectible. As of December 31, 2019 and 2018, no allowance for uncollectible accounts was deemed to be necessary.

Property and Equipment

Property and equipment are stated at cost. Expenditures for improvement and equipment costing over \$5,000 are capitalized. Donated equipment is stated at the estimated fair market value at the date of donation. Depreciation is computed on a straight-line basis over the lesser of the estimated useful lives of the assets (generally three to seven years) or over the lesser of the term of the lease or the estimated useful life of the asset for assets under capital lease. Leasehold improvements are depreciated over the lesser of the term of the lease or the estimated useful life of the improvements. Normal repairs and maintenance are expensed as incurred whereas significant improvements, which materially increase values or extend useful lives, are capitalized and depreciated over the remaining useful lives of the related assets. Any gain or loss on the sale or retirement of property and equipment is recognized in current operations.

Impairment of Long-Lived Assets and Assets to be Disposed of

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the assets. No impairment expense was recorded for the years ended December 31, 2019 and 2018.

Accrued Compensated Absences

In accordance with the Foundation's personnel policies, accumulated vacation leave is recognized and accrued at the end of the year. Accrued vacation pay as of December 31, 2019 and 2018, is \$119,236 and \$98,243, respectively, and is included in accrued expenses.

WATER FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

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NOTE 1: BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

Revenue Recognition

Revenues are principally derived from grants. Grant revenues are recorded as unrestricted or restricted revenues at the time the grants are awarded. Installment payments are received on some grants; however, the Foundation believes that the likelihood of not receiving these future installment payments due to the Foundation failing to meet the grant reporting requirements to be low. Revenue from exchange transactions is recognized in accordance with FASB ASC Topic 606, *Revenue from Contracts with Customers*, which provides a five-step model for recognizing revenue from contracts with customers.

In accordance with FASB ASC Topic 606, the Foundation recognizes revenue from exchange transactions when it transfers promised services to customers in an amount that reflects the consideration to which the Foundation expects to be entitled in exchange for those services. The consideration received is generally based on the stand-alone fee for the service provided.

Grant revenue and other revenues are recognized when earned. All funds collected in advance are recorded as deferred revenues until earned.

The Foundation adopted FASB ASC Topic 606 on a modified retrospective basis on January 1, 2019. Upon adoption, management concluded that its contracts with customers (exchange transactions) consist of a single performance obligation. Additionally, the Foundation made policy elections within the amended standards that are consistent with its previous accounting. The cumulative effect of applying the new guidance was not material to the financial statements as a whole and did not impact the beginning net assets as of January 1, 2019.

Income Taxes

The Foundation is exempt for income taxes under Internal Revenue Code (IRC) Section 501(c)(3) and state income tax under section 23701 of the California Revenue and Taxation Code. However, the Foundation is required to file federal and state information returns.

The Foundation's tax returns are subject to examination by federal and California jurisdictions. There are no examinations currently in progress.

Financial Restrictions and Availability

The Foundation is substantially supported by grant revenues. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the statement of financial position date. The Foundation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

WATER FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

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NOTE 1: BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

Financial Restrictions and Availability (Continued)

The Foundation has \$14,558,502 of financial assets available within one year of the statement of financial position date to meet cash needs for general expenditure consisting of cash of \$10,329,515 and grants receivable of \$4,228,987.

Program and Support Function Cost Allocation

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include depreciation, interest, office expenses, and salaries and benefits, which are allocated on the basis of estimates of time and effort.

Concentrations of Credit Risk

The Foundation maintains its cash in bank accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts, and management believes the Foundation is not exposed to any significant credit risk related to cash.

Subsequent Events

In preparing the accompanying financial statements, management has considered events that have occurred after December 31, 2019, through May 13, 2020, the date these financial statements were available for issuance. The COVID-19 outbreak in the United States has caused economic uncertainties that could negatively impact operations. The extent of the impact of COVID-19 on the Foundation's operational and financial performance will depend on a variety of developments and factors that cannot be currently predicted. As a result, the related financial impact and duration cannot be reasonably estimated at this time. Management is not aware of any other subsequent events requiring additional disclosure.

New Accounting Pronouncement

In February 2016, the FASB issued an accounting standard that changes the way that leases are defined and the accounting for leases. The new accounting standard will require all non-cancellable leases to be reported on the statement of financial position as a lease liability with a corresponding right of use asset. The new accounting standard is effective retrospectively for the Foundation for the year ending December 31, 2021. The Foundation's management is assessing the impact that the accounting standard will have on the statement of financial position when it is implemented. Early adoption is permitted.

WATER FOUNDATION  
 NOTES TO THE FINANCIAL STATEMENTS  
 DECEMBER 31, 2019 AND 2018

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NOTE 1: BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(CONTINUED)

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

During the year ended December 31, 2019, the Foundation made changes to its functional expense categories in conjunction with the adoption of a new strategic framework. The Foundation believes that the new framework will provide it the flexibility to make changes from year to year, depending on water field needs and available funding, and will allow the Foundation to develop a deeper understanding of how to organize its programmatic priorities as it matures as an organization. As a result of this new framework, the functional expense allocations for 2018 and 2019 were presented using different functional categories and are not directly comparable.

NOTE 2: PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2019 and 2018:

	2019	2018
Furniture and fixtures	\$ 491,458	469,743
Less: Accumulated depreciation	(176,403)	(94,227)
Property and equipment, net	\$ 315,055	375,516

Depreciation expense was \$82,176 and \$65,880 for the years ended December 31, 2019 and 2018, respectively.

NOTE 3: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at December 31, 2019 and 2018:

	2019	2018
Grants	\$ 6,103,987	\$ 6,280,525
Total	\$ 6,103,987	\$ 6,280,525

WATER FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

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NOTE 4: OPERATING LEASES

The Foundation leases its office space and some office equipment under newly executed non-cancelable operating lease agreements. These leases have been accounted for as operating leases and expire at various periods through 2024. Total rent expense for the years ended December 31, 2019 and 2018, on these leases was \$596,285 and \$377,968, respectively. It is included in program and supporting services in the accompanying statements of activities and changes in net assets. The future minimum payments under these leases as of December 31, 2019, are as follows:

<u>Year ending December 31,</u>	
2020	\$ 559,627
2021	573,785
2022	587,504
2023	472,936
2024	328,347

The Foundation subleases one of its office spaces under a non-cancelable operating sublease agreement. Total rent income for the years ended December 31, 2019 and 2018, on this sublease was \$152,259 and \$36,096, respectively, and is included within other income in the accompanying statements of activities and changes in net assets. The future minimum payments to be received under this sublease as of December 31, 2019, are as follows:

<u>Year ending December 31,</u>	
2020	\$ 152,043
2021	156,603
2022	40,026

NOTE 5: EMPLOYEE BENEFIT PLAN

The Foundation maintains a 403(b) defined contribution plan (the Plan) for its employees. All employees who are at least 21 years of age are eligible to participate, and may contribute a portion of their salary to the Plan and receive employer contributions, subject to Internal Revenue Service limitations. The Foundation makes safe harbor matching contributions of up to 5% of eligible gross salary for participants. The Foundation may also make additional discretionary contributions to the Plan, determined annually. For the years ended December 31, 2019 and 2018, the Foundation made total contributions to the Plan of \$138,976 and \$121,155, respectively.

WATER FOUNDATION  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018

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NOTE 6: FUNCTIONAL ALLOCATION OF EXPENSES

The Foundation allocates its expenses on a functional basis between its program and support services. Expenses that can be identified with a specific program and support service are allocated directly according to their natural classification. Any expenses that are common to several functions are allocated among the program and support services benefited. For the year ended December 31, 2019, these expenses were approximately 89% for program expenses and 11% for support service expenses. For the year ended December 31, 2018, these expenses were approximately 90% for program expenses and 10% for support service expenses.