

WATER FOUNDATION

DECEMBER 31, 2021 AND 2020

INDEPENDENT AUDITORS' REPORT AND
FINANCIAL STATEMENTS

Water Foundation

Independent Auditors' Report and Financial Statements

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A Century Strong

Independent Auditors' Report

THE BOARD OF DIRECTORS
WATER FOUNDATION
Sacramento, California

Opinion

We have audited the financial statements of the **WATER FOUNDATION (the Foundation)**, which comprise the statement of financial position as of December 31, 2021, the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Foundation as of December 31, 2021, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for one year from the date of this report.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

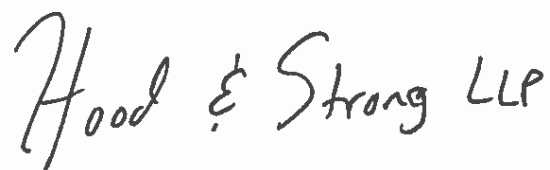
In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Foundation's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 26, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

A handwritten signature in black ink that reads "Hood & Strong LLP". The signature is written in a cursive, flowing style.

San Francisco, California
May 25, 2022

Water Foundation

Statement of Financial Position

<i>December 31, 2021 (with comparative totals for 2020)</i>	2021	2020
Assets		
Cash and cash equivalents	\$ 18,261,831	\$ 16,927,302
Grants receivable	5,318,096	2,111,961
Prepaid expenses and other assets	283,601	300,892
Fixed assets, net	168,382	246,477
Total assets	\$ 24,031,910	\$ 19,586,632
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 359,789	\$ 379,291
Accrued salaries and related expenses	405,464	306,296
Grants payable	3,026,775	2,516,429
Deferred rent	64,937	66,832
Total liabilities	3,856,965	3,268,848
Net Assets:		
Without donor restrictions:		
Board designated	2,075,000	2,000,000
Undesignated	8,804,808	8,493,877
Total without restrictions	10,879,808	10,493,877
With donor restrictions	9,295,137	5,823,907
Total net assets	20,174,945	16,317,784
Total liabilities and net assets	\$ 24,031,910	\$ 19,586,632

See accompanying notes to financial statements.

Water Foundation

Statement of Activities and Changes in Net Assets

Year Ended December 31, 2021 (with comparative totals for 2020)

	2021			2020 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenue and Support:				
Grants and contributions	\$ 5,697,523	\$ 8,951,824	\$ 14,649,347	\$ 14,821,000
Interest and dividends	30,171		30,171	29,317
Other income	6,201		6,201	7,569
Net assets release from restrictions	6,419,321	(6,419,321)	-	-
Total revenues	12,153,216	2,532,503	14,685,719	14,857,886
Expenses:				
Grant programs	10,540,156		10,540,156	10,256,188
Management and general	1,144,774		1,144,774	1,075,943
Development	82,355		82,355	
Total expenses	11,767,285	-	11,767,285	11,332,131
Change in Net Assets Before Other Changes	385,931	2,532,503	2,918,434	3,525,755
Other Change in Net Assets				
Transfer of net assets (Note 9)		938,727	938,727	
Total Change in Net Assets	385,931	3,471,230	3,857,161	
Net Assets, beginning of year	10,493,877	5,823,907	16,317,784	12,792,029
Net Assets, end of year	\$ 10,879,808	\$ 9,295,137	\$ 20,174,945	\$ 16,317,784

See accompanying notes to financial statements.

Water Foundation

Statement of Functional Expenses

Year Ended December 31, 2021 (with comparative totals for 2020)

	Grant Programs				Total Grant Programs	Management and General	Development	2021 Total	2020 Total
	Healthy Watersheds	Healthy Communities	Transitioning Strategies	Water Table					
Grants and contracts	\$ 3,845,328	\$ 2,847,293	\$ 389,990	\$ 424,176	\$ 7,506,787			\$ 7,506,787	\$ 7,487,717
Salaries and benefits	841,809	966,388	144,986	284,070	2,237,253	\$ 768,231	\$ 70,817	3,076,301	2,765,449
Facilities and utilities	119,946	153,215	16,783	21,687	311,631	133,965	4,632	450,228	451,900
Professional services	125,650	136,500	24,007	18,245	304,402	146,040	4,396	454,838	378,305
Depreciation	21,634	26,959	3,889	917	53,399	23,847	849	78,095	80,073
Dues and subscriptions	12,257	16,013	2,373	236	30,879	13,963	516	45,358	36,823
Information technology	12,905	17,129	2,513	487	33,034	14,380	492	47,906	36,755
Office expenses	14,541	18,768	2,701	3,760	39,770	20,590	512	60,872	50,839
Travel and conferences	7,221	1,779	460	112	9,572	1,474	47	11,093	19,740
Events and meetings	5,936	837	72	978	7,823	388	9	8,220	16,774
Business insurance	1,598	2,129	354	23	4,104	1,819	64	5,987	5,952
Fees	603	760	118	21	1,502	705	21	2,228	1,665
Board meeting expenses					-	19,372		19,372	139
Total	\$ 5,009,428	\$ 4,187,770	\$ 588,246	\$ 754,712	\$ 10,540,156	\$ 1,144,774	\$ 82,355	\$ 11,767,285	\$ 11,332,131

See accompanying notes to financial statements.

Water Foundation

Statement of Cash Flows

<i>Year Ended December 31, 2021 (with comparative totals for 2020)</i>	2021	2020
Cash Flows from Operating Activities:		
Change in net assets	\$ 3,857,161	\$ 3,525,755
Adjustment to reconcile change in net assets to net cash used by operating activities:		
In-kind contribution of artwork		(190,000)
Depreciation	78,095	80,073
Changes in operating assets and liabilities:		
Grants receivable	(3,206,135)	2,117,026
Prepaid expenses and other assets	17,291	(7,203)
Accounts payable and accrued expenses	(19,502)	5,895
Accrued salaries and related expenses	99,168	86,984
Grants payable	510,346	977,029
Deferred rent	(1,895)	13,723
Net cash provided by operating activities	1,334,529	6,609,282
Cash Flows from Investing Activities:		
Purchases of fixed assets		(11,495)
Net cash used by investing activities	-	(11,495)
Change in Cash and Cash Equivalents	1,334,529	6,597,787
Cash and Cash Equivalents, beginning of year	16,927,302	10,329,515
Cash and Cash Equivalents, end of year	\$ 18,261,831	\$ 16,927,302

See accompanying notes to financial statements.

Water Foundation

Notes to Financial Statements

Note 1 - Organization:

The Water Foundation (the Foundation) and its partners advance lasting solutions to secure safe, clean water for people, restore and sustain freshwater ecosystems, and build climate resilience. As a 501(c)(3) public foundation, the Foundation does this through direct grantmaking, field building, and campaign strategy development. The Foundation coordinates resources and strategy to help nonprofit and community-based organizations accelerate and scale their vital work in water justice, resilient rivers, equitable governance, sustainable groundwater, safe and affordable drinking water, and more. The Foundation mobilizes and supports major funders to invest more and have greater impact on U.S. water policy and systems. The Foundation accomplishes these goals primarily through the Healthy Communities Program, which advances solutions to secure safe drinking water and build climate resilience, both urban and rural, the Healthy Watersheds Program which advances groundwater, river, and forest solutions to protect and restore US watersheds, and the Water Table funder collaborative which provides a forum for funders to share knowledge on water issues, and align on strategy and fundraising.

Founded in 2011, and serving as an independent foundation since 2017, the Foundation has delivered over \$57 million in new funding to the field, through over 220 grantee partners.

Note 2 - Summary of Significant Accounting Policies:

a. Basis of Accounting and Presentation

The accompanying financial statements are presented on an accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Foundation reports information regarding its financial position and activities according to two classes of net assets.

Net Assets Without Donor Restrictions - the portion of net assets not subject to time or donor-imposed restrictions that may be expended for any purpose in performing the primary objective of the Foundation. Net assets without donor restrictions may be designated for use by management or the Board of Directors. As of December 31, 2021, the Foundation maintains an operating reserve of \$2,075,000.

Net Assets With Donor Restrictions - the portion of net assets whose use by the Foundation is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Foundation.

b. Cash and Cash Equivalents

Cash and cash equivalents consist of checking and money market accounts which are readily convertible into cash and have original maturities of three months or less.

Water Foundation

Notes to Financial Statements

c. Grants Receivable

Grants receivable consist primarily of commitments made by individuals and foundations. Long-term receivables are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using the market rate applicable in the year in which those promises were made. Grants receivable at year end are expected to be received as follows: \$3,659,096 in 2022 and \$1,659,000 in 2023.

The Foundation uses the allowance method to account for uncollectible receivables and contributions. The reserve against contributions receivable is based on historical experience and an evaluation of the outstanding receivables at yearend. There was no reserve against contributions receivable as of December 31, 2021.

d. Fixed assets

Fixed assets are stated at cost. Expenditures for improvements 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 life of the asset (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.

e. Revenue Recognition

Grants and contributions are recognized as support and revenues when they are received or unconditionally pledged. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying Statement of Activities and Changes in Net Assets as net assets released from restrictions. In-kind donations are recorded at the estimated fair value at the date of donation.

Certain contributions are reported as support without donor restrictions when the restriction is met in the same period as the contribution is received. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return, are not recognized until the conditions on which they depend have been met. Conditional contributions collected in advance of meeting the conditions are recorded as deferred revenue.

Water Foundation

Notes to Financial Statements

f. Grants

Grants are recorded when the unconditional promise to give is approved by management. Conditional grants are recognized as grant expense in the period in which the recipient meets the terms of the condition. Grant refunds are recorded as reductions of grant expenses at the time the grants are refunded to the Foundation.

Grants payable represent the present value of grants to be paid in the future. The discount on those amounts is computed using market interest rates applicable in the year in which the grant is approved. Amortization of the discount is included in grant expense. Grants payable of \$3,026,775 are expected to be paid in 2022.

g. Functional 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 or support service are allocated directly according to their natural classification. Expenses that are common to several functions are allocated among the program and support services benefited. Those expenses include salaries, benefits and taxes, occupancy costs, professional services, and depreciation. Salaries, benefits and taxes, as well as occupancy costs and depreciation are allocated based on staff tracking time spent in each program. Professional service expenses are allocated directly to a program or allocated based on staff time if the cost is shared by all programs.

h. Comparative Information

The financial statements include certain prior year summarized comparative information in total, but not disaggregated by net asset class. Such information does not include sufficient detail to constitute a presentation of financial statements in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Foundation's financial statements as of and for the year ended December 31, 2021 from which the summarized information was derived.

i. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

j. Income Taxes

The Foundation is exempt from 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.

Water Foundation

Notes to Financial Statements

As of December 31, 2021, management evaluated the Foundation's tax positions and concluded that the Foundation had maintained its tax-exempt status and had taken no uncertain tax positions that require adjustment to the financial statements. Therefore, no provision or liability for income taxes has been included in the financial statements.

k. Recent Accounting Pronouncements

Effective in the Future

In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Among other things, lessees will be required to recognize the following at the commencement date of all leases not classified as short term: 1) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and 2) a right-of-use asset, which represents the lessee's right to use, or control the use of, a specified asset for the lease term. This guidance is effective for nonpublic entities for fiscal years beginning after December 15, 2021 (i.e., January 1, 2022 for a calendar year entity) and for interim periods within fiscal years beginning after December 15, 2022. Early adoption is permitted. The Foundation is currently evaluating the impact of this guidance.

l. Subsequent Events

The Foundation evaluated subsequent events with respect to the financial statements for the year ended December 31, 2021 through May 25, 2022, the date the financial statements were available to be issued and has determined that no adjustments are necessary to the amounts reported in the accompanying financial statements nor have any subsequent events occurred, the nature of which would require disclosure, except as disclosed in Notes 6 and 9.

Note 3 - Fixed assets:

Property and equipment consisted of the following at December 31, 2021:

Furniture and fixtures	\$ 269,863
Leasehold improvements	176,140
Website development	33,209
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	479,212
Less: Accumulated depreciation	(310,830)
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Total	\$ 168,382

Depreciation and amortization expense was \$78,095 for the year ended December 31, 2021.

Water Foundation

Notes to Financial Statements

Note 4 - Net Assets With Donor Restrictions:

Net assets with donor restrictions consisted of the following as of December 31, 2021:

Purpose restrictions:	
Healthy Communities	\$ 598,000
Healthy Watersheds	2,724,850
Water Table	2,138,787
Transitioning Strategies	1,833,500
Time restriction	\$ 2,000,000
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Total	\$ 9,295,137

Net assets with donor restrictions were released from donor restrictions during the year ended December 31, 2021 as follows:

Purpose restrictions accomplished:	
Healthy Communities	\$ 2,095,236
Healthy Watersheds	2,993,609
Transitioning Strategies	1,330,476
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Total	\$ 6,419,321

Note 5 - Availability of Financial Assets and Liquidity:

The Foundation's financial assets available for general expenditures within one year of the statement of financial position date were as follows as of December 31, 2021:

Financial assets:	
Cash and cash equivalents	\$ 18,261,831
Grants receivable	5,318,096
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Total financial assets	23,579,927
Less amounts not available to be used within one year:	
Net assets with donor restrictions and long-term receivables	(9,295,140)
Net assets designated by the board	(2,075,000)
Add net assets with restrictions to be met in less than one year	7,136,501
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	(4,233,639)
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Financial assets available to meet general expenditures within one year	\$ 19,346,288

Water Foundation

Notes to Financial Statements

The Foundation manages its liquidity and cash flow requirements by investing its excess cash in money market accounts. Certain financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the date of the financial statements. The amount of net assets with restrictions to be met in less than one year is the Foundation's estimate that is subject to changes depending on need. The net assets designated as an operating reserve by the Board of Directors, which could be undesignated by the Board of Directors and made available for general operations as needed.

Note 6 - Commitments:

Operating Leases:

The Foundation leases its office space and some office equipment under non-cancelable operating lease agreements that expire in various periods through 2024.

The future minimum payments under these leases as of December 31, 2021, were as follows:

Years Ending December 31,	
2022	\$ 585,000
2023	471,000
2024	328,000
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	\$ 1,384,000

Total rent expense on these leases for the years ended December 31, 2021, was \$582,847.

The Foundation subleases one of its office spaces under a noncancelable operating sublease agreement. Total rent income for the year ended December 31, 2021, on this sublease was \$152,259, and is recorded as a direct offset to facilities and utilities expense in the Statement of Functional Expenses.

The future minimum payments to be received under this sublease as of December 31, 2022, were as follows:

Year Ending December 31,	
2022	\$ 157,952
2023	157,952
2024	118,464
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	\$ 434,368

Water Foundation

Notes to Financial Statements

Consulting Agreements:

The Foundation may pursue direct programmatic expenses when that is more efficacious than grantmaking. In these situations, the Foundation conducts research, contracts with consultants or takes other direct efforts in achieving its mission. These charges are recorded as an expense in the period in which services billed were provided. As of December 31, 2021, the estimated future payments on these contracts was approximately \$793,000. Subsequent to year end, the commitment was reduced by approximately \$173,000 through payments and cancelations of contracts.

Note 7 - 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 Code 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 year ended December 31, 2021, the Foundation made total contributions to the Plan of \$170,546.

Note 8 - Concentration of Credit Risk:

Financial instruments which potentially subject the Foundation to credit risk consist primarily of cash and cash equivalents and contributions receivable.

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.

Grants receivable consist primarily of unsecured amounts due from two foundations.

Contributions are received primarily from foundations. The Foundation received contributions from five contributors that approximated 88% of the Foundation's total contributions for 2021.

Water Foundation

Notes to Financial Statements

Note 9 - Fiscal Sponsorship:

In 2021, the Foundation accepted the Water Funders Initiative as a fiscally sponsored project, in anticipation of transferring the work to the Water Table collaborative in 2022. Upon execution of the fiscal sponsor agreement in 2021, \$938,727 of net assets were transferred into the Foundation as part of the fiscal sponsorship. During 2021, certain administrative functions for Water Funders Initiative related to financial activity and grantmaking were handled by the Foundation staff in its role as fiscal sponsor. The cost of operating activities for the year ended December 31, 2021, of \$743,637, is included in the financial statements of the Foundation. Subsequent to year end, the fiscal sponsorship agreement expired, and the assets and operation of the Water Funders Initiative were integrated into the Foundation as part of its Water Table program.

Note 10 - Pandemic and Changes in Operation

On March 11, 2020, the World Health Organization publicly characterized COVID-19 as a pandemic. States of emergency were declared in many federal, state, and local jurisdictions and shelter-in-place orders were instituted in many cities and states, including California, which impacted general business operations in most industries and sectors.

In light of the global pandemic, volatility has significantly increased across financial markets. This volatility has not affected the Foundation's operations, and the Foundation has been able to disburse grants and continue operations as planned. The Foundation is closely monitoring its resources, to ensure the Foundation's ability to meet its operating needs. At this time, the Foundation has not considered any specific reductions in current or future commitment plans.