

WATER FOUNDATION

DECEMBER 31, 2020

---

INDEPENDENT AUDITORS' REPORT

AND

FINANCIAL STATEMENTS

# Water Foundation

## Independent Auditors' Report and Financial Statements

---

**Independent Auditors' Report** 1 - 2

**Financial Statements**

Statement of Financial Position 3

Statement of Activities and Changes in Net Assets 4

Statement of Functional Expenses 5

Statement of Cash Flows 6

Notes to Financial Statements 7 - 14



A Century Strong

## **Independent Auditors' Report**

THE BOARD OF DIRECTORS  
WATER FOUNDATION  
Sacramento, California

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

We have audited the accompanying financial statements of the **WATER FOUNDATION (the Foundation)**, which comprise the statement of financial position as of December 31, 2020, 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.

### **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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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.

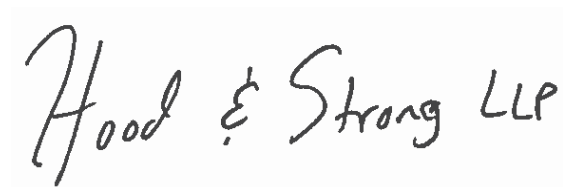
### **Opinion**

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, 2020, 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.

### **Other Matter**

#### *Report on Summarized Comparative Information*

The financial statements of Water Foundation as of and for the year ended December 31, 2019 were audited by other auditors whose report, dated May 13, 2020, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019 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 26, 2021

# Water Foundation

## Statement of Financial Position

<i>December 31, 2020 (with comparative totals for 2019)</i>	2020	2019
<b>Assets</b>		
Cash and cash equivalents	\$ 16,927,302	\$ 10,329,515
Grants receivable	2,111,961	4,228,987
Prepaid expenses and other assets	300,892	103,689
Fixed assets, net	246,477	315,055
<b>Total assets</b>	<b>\$ 19,586,632</b>	<b>\$ 14,977,246</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 379,291	\$ 373,396
Accrued salaries and related expenses	306,296	219,312
Grants payable	2,516,429	1,539,400
Deferred rent	66,832	53,109
<b>Total liabilities</b>	<b>3,268,848</b>	<b>2,185,217</b>
<b>Net Assets:</b>		
Without donor restrictions:		
Board designated	2,000,000	1,800,000
Undesignated	8,493,877	4,888,042
<b>Total without restrictions</b>	<b>10,493,877</b>	<b>6,688,042</b>
With donor restrictions	5,823,907	6,103,987
<b>Total net assets</b>	<b>16,317,784</b>	<b>12,792,029</b>
<b>Total liabilities and net assets</b>	<b>\$ 19,586,632</b>	<b>\$ 14,977,246</b>

See accompanying notes to financial statements.

## Water Foundation

### Statement of Activities and Changes in Net Assets

*Year Ended December 31, 2020 (with comparative totals for 2019)*

	2020			2019 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
<b>Revenue and Support:</b>				
Grants and contributions	\$ 7,896,000	\$ 6,925,000	\$ 14,821,000	\$ 14,040,484
Interest and dividends	29,317		29,317	45,462
Other income	7,569		7,569	122,012
Net assets release from restrictions	7,205,080	(7,205,080)	-	-
<b>Total revenues</b>	<b>15,137,966</b>	<b>(280,080)</b>	<b>14,857,886</b>	<b>14,207,958</b>
<b>Expenses:</b>				
Grant programs	10,256,188		10,256,188	9,392,263
Management and general	1,075,943		1,075,943	1,225,883
<b>Total expenses</b>	<b>11,332,131</b>	<b>-</b>	<b>11,332,131</b>	<b>10,618,146</b>
<b>Change in Net Assets</b>	<b>3,805,835</b>	<b>(280,080)</b>	<b>3,525,755</b>	<b>3,589,812</b>
<b>Net Assets, beginning of year</b>	<b>6,688,042</b>	<b>6,103,987</b>	<b>12,792,029</b>	<b>9,202,217</b>
<b>Net Assets, end of year</b>	<b>\$ 10,493,877</b>	<b>\$ 5,823,907</b>	<b>\$ 16,317,784</b>	<b>\$ 12,792,029</b>

See accompanying notes to financial statements.

## Water Foundation

### Statement of Functional Expenses

*Year Ended December 31, 2020 (with comparative totals for 2019)*

	Grant Programs			Total Grant Program	Management and General	2020 Total	2019 Total
	Healthy Watersheds	Healthy Communities	Transitioning Strategies				
Grants and contracts	\$ 4,092,422	\$ 2,590,755	\$ 804,540	\$ 7,487,717		\$ 7,487,717	\$ 6,862,449
Salaries and benefits	847,280	960,941	228,394	2,036,615	\$ 728,834	2,765,449	2,488,118
Facilities	124,403	154,699	37,047	316,149	135,751	451,900	473,761
Professional services	113,341	97,778	23,590	234,709	143,596	378,305	352,393
Depreciation	21,905	27,303	6,517	55,725	24,348	80,073	82,176
Dues and subscriptions	10,097	12,633	3,154	25,884	10,939	36,823	33,488
Information technology	9,961	12,752	3,079	25,792	10,963	36,755	21,055
Office expenses	13,936	17,216	4,188	35,340	15,499	50,839	61,164
Travel and conferences	6,981	8,717	1,154	16,852	2,888	19,740	127,667
Events and meetings	3,322	12,124	586	16,032	742	16,774	71,366
Business insurance	1,659	2,040	512	4,211	1,741	5,952	6,729
Fees	458	568	136	1,162	503	1,665	11,065
Board expenses				-	139	139	26,715
Total	\$ 5,245,765	\$ 3,897,526	\$ 1,112,897	\$ 10,256,188	\$ 1,075,943	\$ 11,332,131	\$ 10,618,146

See accompanying notes to financial statements.

# Water Foundation

## Statement of Cash Flows

<i>Year Ended December 31, 2020 (with comparative totals for 2019)</i>	2020	2019
<b>Cash Flows from Operating Activities:</b>		
Change in net assets	\$ 3,525,755	\$ 3,589,812
Adjustment to reconcile change in net assets to net cash used by operating activities:		
In-kind contribution of artwork	(190,000)	
Depreciation	80,073	82,176
Changes in operating assets and liabilities:		
Grants receivable	2,117,026	(3,717,461)
Prepaid expenses and other assets	(7,203)	(47,720)
Accounts payable and accrued expenses	5,895	324,857
Accrued salaries and related expenses	86,984	23,405
Grants payable	977,029	(981,112)
Deferred rent	13,723	29,304
Net cash provided (used) by operating activities	6,609,282	(696,739)
<b>Cash Flows from Investing Activities:</b>		
Purchases of fixed assets	(11,495)	(21,715)
Net cash used by investing activities	(11,495)	(21,715)
<b>Change in Cash and Cash Equivalents</b>	6,597,787	(718,454)
<b>Cash and Cash Equivalents, beginning of year</b>	10,329,515	11,047,969
<b>Cash and Cash Equivalents, end of year</b>	\$ 16,927,302	\$ 10,329,515

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 through the Healthy Communities Program, which advances solutions to secure safe drinking water and build climate resilience, both urban and rural, and the Healthy Watersheds Program advances groundwater, river, and forest solutions to protect and restore US watersheds.

Founded in 2011, and serving as an independent foundation since 2017, the Foundation has delivered over \$50 million in new funding to the field, through over 200 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, 2020, the Foundation maintains an operating reserve of \$2,000,000.

##### *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. All grants receivable are expected to be collected in 2021.

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, 2020.

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.

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 and Reclassifications

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, 2019 from which the summarized information was derived.

Certain reclassifications have been made to the 2019 financial statements in order to conform to the 2020 presentation. These reclassifications had no impact on net assets or changes in net assets.

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.

# Water Foundation

## Notes to Financial Statements

---

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.

The Foundation follows the guidance on accounting for uncertainty in income taxes according to Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 740. As of December 31, 2020, 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.

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, 2020 through May 26, 2021, 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.

# Water Foundation

## Notes to Financial Statements

---

**Note 3 - Fixed assets:**

Property and equipment consisted of the following at December 31, 2020:

Furniture and fixtures	\$	269,863
Leasehold improvements		176,140
Website development		33,209
		<hr/>
		479,212
Less: Accumulated depreciation		(232,735)
		<hr/>
Total	\$	246,477

Depreciation and amortization expense was \$80,073 for the year ended December 31, 2020.

**Note 4 - Grants Payable:**

Grants payable as of December 31, 2020, are scheduled to be disbursed as follows:

2021	\$	2,234,286
2022		282,143
		<hr/>
Total	\$	2,516,429

**Note 5 - Net Assets With Donor Restrictions:**

Net assets with donor restrictions as of December 31, 2020 consisted of the following:

Purpose restrictions:		
Healthy Communities	\$	2,361,982
Healthy Watersheds		3,146,925
Other		315,000
		<hr/>
Total	\$	5,823,907

# Water Foundation

## Notes to Financial Statements

Net assets with donor restrictions were released from donor restrictions during the year ended December 31, 2020 as follows:

Purpose restrictions accomplished:	
Healthy Communities	\$ 1,521,941
Healthy Watersheds	2,008,139
Time restrictions expired	3,675,000
<hr/>	
Total	\$ 7,205,080

### Note 6 - 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 are as follows:

Financial assets at year ended:	
Cash and cash equivalents	\$ 16,927,302
Grants receivable	2,111,961
<hr/>	
Total financial assets	19,039,263
<hr/>	
Less amounts not available to be used within one year:	
Net assets with donor restrictions	(5,823,907)
Net assets designated by the board	(2,000,000)
Add net assets with restrictions to be met in less than one year	5,100,000
<hr/>	
	(2,723,907)
<hr/>	
Financial assets available to meet general expenditures within one year	\$ 16,315,356

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. There are also 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.

# Water Foundation

## Notes to Financial Statements

---

### Note 7 - 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 in various periods through 2023.

The future minimum payments under these leases as of December 31, 2020, are as follows:

Year Ended December 31,	
2021	\$ 596,000
2022	590,000
2023	42,000
	<hr/>
	\$ 1,228,000

Total rent expense on these leases for the year ended December 31, 2020, was \$596,768.

The Foundation subleases one of its office spaces under a noncancelable operating sublease agreement. Total rent income for the year ended December 31, 2020, on this sublease was \$152,259, and is recorded as a direct offset to facilities expense in the Statement of Functional Expenses.

The future minimum payments to be received under this sublease as of December 31, 2021, are as follows:

Year Ended December 31,	
2021	\$ 152,000
2022	38,000
	<hr/>
	\$ 190,000

### Note 8 - 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, 2020, the Foundation made total contributions to the Plan of \$156,346.

# Water Foundation

## Notes to Financial Statements

---

### **Note 9 - 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.

All receivables consist primarily of unsecured amounts due from foundations. The credit risk associated with receivables is substantially mitigated by the large number of entities comprising the receivable balance, and 80% of the receivables are due from three foundations.

Contributions are received primarily from foundations. The Foundation received contributions from five contributors that approximated 69% of the Foundation's total contributions for 2020.

### **Note 10 - Pandemic and Changes in Operations:**

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 response to COVID-19, the Foundation made grants to support emergency relief, protecting families from water shutoffs during the pandemic. Grantmaking included supplemental rapid response grants to provide direct benefit to local communities within six months of award. Additionally, the Foundation was authorized by the Board of Directors to take additional measures to convert existing project support grants to general operating support and allow early renewal of grants slated for expiration in the latter part of 2020.

The need for access to clean water during the pandemic, and the interconnected social justice issues at the forefront in 2020, served to highlight the importance of the work of the Water Foundation and its partners. Water Foundation's funding in 2020 exceeded initial expectations; and the Foundation was able to move forward with grantmaking as planned. The Foundation is forecasting exceeding its income estimates for 2021 while making program investments at a similar rate to 2020.