

Hood & Strong

Advisory, Tax
and Assurance

Water Foundation

December 31, 2023

Independent Auditors' Report and
Financial Statements

Water Foundation

Independent Auditors' Report and Financial Statements

Independent Auditors' Report	1 - 3
Financial Statements	
Statement of Financial Position	4
Statement of Activities and Changes in Net Assets	5
Statement of Functional Expenses	6
Statement of Cash Flows	7
Notes to the Financial Statements	8 - 15

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, 2023, the related statements of activities and changes in net assets, functional expenses 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, 2023, and the changes in its net assets 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 Auditors' 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.

Auditors' 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 auditors' 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 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 15, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hood & Strong LLP

San Francisco, California
May 17, 2024

Water Foundation

Statement of Financial Position

<i>December 31, 2023 (with comparative totals for 2022)</i>	2023	2022
Assets		
Cash and cash equivalents	\$ 24,621,135	\$ 21,807,089
Grants receivable	6,110,500	8,229,000
Government and other receivables	392,558	4,101
Prepaid expenses and other assets	330,962	404,694
Operating right-of-use leased assets	274,355	697,460
Total assets	\$ 31,729,510	\$ 31,142,344
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 286,806	\$ 347,195
Accrued salaries and related expenses	525,825	443,327
Grants payable	1,312,320	165,957
Deferred revenue	1,833,110	
Line of Credit	393,124	
Operating lease liability	282,254	707,860
Total liabilities	4,633,439	1,664,339
Net Assets:		
Without donor restrictions:		
Board designated	2,900,000	2,300,000
Undesignated	11,047,542	8,514,546
Total without restrictions	13,947,542	10,814,546
With donor restrictions	13,148,529	18,663,459
Total net assets	27,096,071	29,478,005
Total liabilities and net assets	\$ 31,729,510	\$ 31,142,344

See accompanying notes to the financial statements.

Water Foundation

Statement of Activities and Changes in Net Assets

<i>Year Ended December 31, 2023 (with comparative totals for 2022)</i>				
	2023			2022 Total
	Without Donor Restrictions	With Donor Restrictions	Total	
Revenue and Support:				
Grants and contributions	\$ 4,719,818	\$ 13,615,000	\$ 18,334,818	\$ 25,725,183
Government contracts	637,220		637,220	-
Interest and dividends	339,689		339,689	57,709
Other income			-	56,915
Net assets released from donor restrictions	19,129,930	(19,129,930)	-	-
Total revenues	24,826,657	(5,514,930)	19,311,727	25,839,807
Expenses:				
Grant programs	20,408,221		20,408,221	15,318,940
Management and general	1,186,287		1,186,287	1,115,690
Development	99,153		99,153	102,117
Total expenses	21,693,661	-	21,693,661	16,536,747
Total Change in Net Assets	3,132,996	(5,514,930)	(2,381,934)	9,303,060
Net Assets, beginning of year	10,814,546	18,663,459	29,478,005	20,174,945
Net Assets, end of year	\$ 13,947,542	\$ 13,148,529	\$ 27,096,071	\$ 29,478,005

See accompanying notes to the financial statements.

Water Foundation

Statement of Functional Expenses

Year Ended December 31, 2023 (with comparative totals for 2022)

	Grant Programs							2023 Total	2022 Total
	States and Basins	National	Transitioning Strategies	Water Table	Total Grant Programs	Management and General	Development		
Grants and contracts	\$ 5,782,302	\$ 9,111,376	\$ 325,544	\$ 13,354	\$ 15,232,576			\$ 15,232,576	\$ 11,439,156
Salaries and benefits	1,700,977	547,272	75,005	799,881	3,123,135	\$ 794,992	\$ 79,422	3,997,549	3,682,054
Facilities and utilities	131,612	39,362	5,900	57,833	234,707	69,636	4,030	308,373	414,521
Professional services	429,148	206,301	23,642	730,298	1,389,389	183,170	10,895	1,583,454	624,965
Depreciation	19,381	5,734	846	8,440	34,401	9,980	580	44,961	70,857
Dues and subscriptions	10,448	3,434	510	5,073	19,465	5,674	338	25,477	35,697
Information technology	40,003	11,588	1,470	17,251	70,312	20,362	1,191	91,865	49,400
Office expenses	14,683	4,200	960	6,686	26,529	28,968	437	55,934	33,418
Travel and conferences	45,130	9,360	4,874	32,623	91,987	16,413	1,098	109,498	63,179
Events and meetings	40,079	6,652	34,704	73,116	154,551	11,120	640	166,311	79,052
Business insurance	3,363	911	188	1,527	5,989	2,486	125	8,600	7,499
Fees	14,638	4,048	568	5,926	25,180	6,808	397	32,385	13,417
Board meeting expenses					-	36,678		36,678	23,532
Total	\$ 8,231,764	\$ 9,950,238	\$ 474,211	\$ 1,752,008	\$ 20,408,221	\$ 1,186,287	\$ 99,153	\$ 21,693,661	\$ 16,536,747

See accompanying notes to the financial statements.

Water Foundation

Statement of Cash Flows

<i>Year Ended December 31, 2023 (with comparative totals for 2022)</i>	2023	2022
Cash Flows from Operating Activities:		
Change in net assets	\$ (2,381,934)	\$ 9,303,060
Adjustment to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	44,961	70,857
Loss on disposal of fixed assets	21,376	
Right-of-use asset amortization	423,105	506,627
Changes in operating assets and liabilities:		
Grants receivable	2,118,500	(2,915,005)
Government and other receivables	(388,457)	
Prepaid expenses and other assets	7,395	(23,568)
Accounts payable and accrued expenses	(60,389)	(12,594)
Accrued salaries and related expenses	82,498	37,863
Grants payable	1,146,363	(2,860,818)
Deferred rent		(64,937)
Deferred revenue	1,833,110	
Operating lease liability	(425,606)	(496,227)
Net cash provided by operating activities	2,420,922	3,545,258
Cash Flows from Financing Activities:		
Proceeds from line of credit	627,487	
Payments on line of credit	(234,363)	
Net cash provided by operating activities	393,124	-
Change in Cash and Cash Equivalents	2,814,046	3,545,258
Cash and Cash Equivalents, beginning of year	21,807,089	18,261,831
Cash and Cash Equivalents, end of year	\$ 24,621,135	\$ 21,807,089
Supplemental Disclosure of Noncash Activities:		
Cash paid during the year for operating leases	\$ 470,708	\$ 584,596
Right-of-use assets financed by lease liability		\$ 1,204,087

See accompanying notes to the financial statements.

Water Foundation

Notes to the 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, campaign strategy development and resource mobilization. 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 its goals through geographic programs that include state, regional, and local efforts to secure clean and affordable drinking water, build urban and rural climate resilience, and/or advance groundwater, river, and forest solutions that restore and protect watersheds; a federal program to help grow a strong movement for equitable and resilient national water policy and funding; the Water Table funder collaborative, which provides a forum for funders to share knowledge on water issues, align strategies, and mobilize additional resources for water to achieve greater collective impact.

Founded in 2011, and serving as an independent foundation since 2017, the Foundation has delivered over \$88 million in new funding to the field.

Note 2 - Summary of Significant Accounting Policies:

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, 2023, the Foundation maintains an operating reserve of \$2,900,000.

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.

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 the Financial Statements

Grants Receivable

Grants receivables 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: \$3,910,500 in 2024, \$1,700,000 in 2025, and \$500,000 in 2026.

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 year end. There was no reserve against contributions receivable as of December 31, 2023.

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.

Leases

Operating lease assets represent the Foundation's right to use an underlying asset during the lease term, and operating lease liabilities represent the Foundation's obligation to make payments arising from the lease. Operating leases are included in operating lease assets and operating lease liabilities on the Statement of Financial Position. The Foundation does not have any financing leases.

Operating lease assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. The discount rate used to derive the present value is based on the rate implicit in the lease, or, in the absence of a rate implicit in the lease, the Foundation's incremental borrowing rate. The Foundation accounts for lease and nonlease components as a single lease component. Renewal periods are included in calculating the right of use assets and liabilities when they are reasonably certain of exercise. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term.

Water Foundation

Notes to the Financial Statements

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.

A portion of the Foundations' revenue is derived from cost-reimbursable state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Foundation has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the Statement of Financial Position. The Foundation has been awarded cost-reimbursable grants totaling approximately \$19,000,000 that have not been fully recognized at December 31, 2023 because qualifying expenditures have not yet been incurred. As of December 31, 2023, the Foundation was advanced \$2,250,000 of which \$416,890 has been recognized as revenue as of December 31, 2023. The recognized amount is a component of state government funding.

The changes in the Foundation's deferred revenue derived from its cost-reimbursable grants for the year ended December 31, 2023, were as follows:

Deferred revenue, beginning of year	\$ -
Advance payments received	2,250,000
Revenue recognized	(416,890)
<hr/>	
Deferred revenue, end of year	\$ 1,833,110

Grant Award and Grants Payable

Grant expense is recorded when an 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.

Water Foundation

Notes to the Financial Statements

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 \$1,312,320 are expected to be paid in 2024.

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. As of December 31, 2023, the Foundation has awarded seven conditional grants for a total of \$4,291,078, for which future payments are contingent upon meeting specific milestones.

Allocation of 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 recorded directly to that function according to their natural classification. Expenses that are common to several functions are allocated among the program and support services benefited. Expenses that are common to all functions are allocated based on staff time estimates for each program or function.

Comparative Financial Statements 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, 2022, from which the summarized information was derived.

Certain reclassifications have been made to the 2022 financial statements to conform to 2023 presentation. These reclassifications had no impact on total net assets or the change in net assets.

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.

Income Taxes

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

Water Foundation

Notes to the Financial Statements

As of December 31, 2023, 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.

Subsequent Events

The Foundation evaluated subsequent events with respect to the financial statements for the year ended December 31, 2023 through May 17, 2024, 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 3 and 6.

Note 3 - Line of Credit:

On November 14, 2022, the Foundation entered into a revolving line of credit agreement with a bank for \$2,000,000 with interest of 7% per annum, plus 1% over a specified index. The line of credit is secured by inventory, chattel paper, accounts, equipment, and general intangibles. Accrued interest and principal are due at maturity, November 14, 2024. As of December 31, 2023, the outstanding balance on the line of credit was \$393,124. Subsequent to year-end, the Foundation utilized the line of credit for \$396,331 of programmatic expenses.

The Foundation was in compliance with financial and nonfinancial covenants required by the line of credit agreement at December 31, 2023.

Note 4 - Net Assets With Donor Restrictions:

Net assets with donor restrictions consisted of the following as of December 31, 2023:

Purpose restrictions:	
States and Basins	\$ 3,709,264
National	6,409,715
Water Table	2,004,550
Time restriction	1,025,000
	<hr/>
	\$ 13,148,529

Water Foundation

Notes to the Financial Statements

Net assets with donor restrictions were released from donor restrictions during the year ended December 31, 2023 as follows:

Purpose restrictions accomplished:	
States and Basins	\$ 5,196,474
National	9,914,228
Transitioning Strategies	456,996
Water Table	1,662,232
Time restriction	1,900,000
	<hr/>
	\$ 19,129,930

Note 5 - Availability of Financial Assets and Liquidity:

The Foundation's financial assets available for general expenditures within one year were as follows as of December 31, 2023:

Financial assets:	
Cash and cash equivalents	\$ 24,621,135
Grants receivable	6,110,500
Government and other receivables	392,558
	<hr/>
Total financial assets	31,124,193
	<hr/>
Less amounts not available to be used within one year:	
Net assets with donor restrictions	(13,148,529)
Net assets designated by the Board	(2,900,000)
Add net assets with restrictions to be met in less than one year	9,049,000
	<hr/>
	(6,999,529)
	<hr/>
Financial assets available to meet general expenditures within one year	\$ 24,124,664

The Foundation manages its liquidity and cash flow requirements by investing its excess cash in money market accounts and certificates of deposit. 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 could be undesignated by the Board of Directors and made available for general operations as needed.

Water Foundation

Notes to the Financial Statements

Note 6 - Commitments:

Operating Leases:

The Foundation leases its office space and office equipment under a non-cancelable operating lease agreement that expires in September 2024.

Maturities of the operating lease liabilities are as follows:

Year Ending December 31, 2024	\$ 291,864
<hr/>	
Total lease payments	291,864
Less discount to present value	(9,610)
<hr/>	
Present value of lease liabilities	\$ 282,254

The weighted average remaining lease term as of December 31, 2023, was approximately 0.75 years. The weighted average discount rate as of December 31, 2023, was 9%.

The Foundation subleases one of its office spaces under a noncancelable operating sublease agreement. Total rent income for the year ended December 31, 2023, on this sublease was \$166,140, 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, 2023, were as follows:

Year Ending December 31, 2024	\$ 118,464
<hr/>	
	\$ 118,464

Consulting Agreements:

The Foundation may incur 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, 2023, the estimated future payments on these contracts were approximately \$651,000. Subsequent to year end, the commitment was reduced by approximately \$151,000 through payments and cancelations of contracts.

Water Foundation

Notes to the Financial Statements

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, 2023, the Foundation made total contributions to the Plan of \$203,167.

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. Approximately \$4,736,000 was uninsured as of December 31, 2023. 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 at year end consisted primarily of unsecured amounts due from three foundations representing approximately 77% of the grants receivable balance.

Contributions are received primarily from foundations. The Foundation received contributions from two contributors that represented approximately 78% of the Foundation's total contributions for 2023.