



Beyond Accounting

WATER FOUNDATION

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

DECEMBER 31, 2018 AND 2017

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, 2018 and 2017, 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, 2018 and 2017, 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
April 17, 2019

WATER FOUNDATION

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2018 AND 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Current assets		
Cash and cash equivalents	\$ 11,047,967	\$ 8,975,990
Grants receivable	511,526	4,040,000
Prepaid expenses and other current assets	<u>18,969</u>	<u>41,434</u>
Total current assets	11,578,462	13,057,424
Property and equipment, net	375,516	268,373
Other noncurrent assets	<u>37,000</u>	<u>-</u>
Total assets	<u>\$ 11,990,978</u>	<u>\$ 13,325,797</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ 2,554,695	\$ 1,673,247
Accrued expenses	<u>234,066</u>	<u>173,447</u>
Total current liabilities	<u>2,788,761</u>	<u>1,846,694</u>
Net assets		
Without donor restrictions	2,921,692	2,342,574
With donor restrictions	<u>6,280,525</u>	<u>9,136,529</u>
Total net assets	<u>9,202,217</u>	<u>11,479,103</u>
Total liabilities and net assets	<u>\$ 11,990,978</u>	<u>\$ 13,325,797</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, 2018 AND 2017

	2018	2017
Revenues		
Grant revenue	\$ 2,470,000	\$ 2,006,090
Other income	148,688	30,257
Subtotal	2,618,688	2,036,347
Net assets released from restrictions	9,491,004	9,159,470
Total revenues	12,109,692	11,195,817
Expenses		
Program services		
Resilient Water Supplies	4,479,458	3,257,108
Los Angeles	2,185,460	1,569,313
Emerging Strategies	1,095,060	-
Drinking Water	1,091,270	1,547,005
Ecosystems Restoration	805,427	788,442
Water Conservation & Efficiency	720,786	751,532
Total program services	10,377,461	7,913,400
Support services	1,153,113	939,843
Total expenses	11,530,574	8,853,243
Increase in net assets without donor restrictions	579,118	2,342,574
Net assets with donor restrictions		
RLF transfer	-	7,936,119
Grant revenue	6,635,000	10,359,880
Net assets released from restrictions	(9,491,004)	(9,159,470)
Increase (decrease) in net assets with donor restrictions	(2,856,004)	9,136,529
Increase (decrease) in net assets	(2,276,886)	11,479,103
Net assets, beginning of year	11,479,103	-
Net assets, end of year	\$ 9,202,217	\$ 11,479,103

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

WATER FOUNDATION

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

	Program Services							
	Resilient Water Supplies	Los Angeles	Emerging Strategies	Drinking Water	Ecosystems Restoration	Water Conservation & Efficiency	Support Services	Total
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

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2017

	Program Services						Total
	Resilient Water Supplies	Los Angeles	Drinking Water	Ecosystems Restoration	Water Conservation & Efficiency	Support Services	
Grants and contracts	\$ 2,534,815	\$ 1,142,649	\$ 1,244,197	\$ 642,528	\$ 529,681	\$ -	\$ 6,093,870
Salaries and benefits	477,697	284,665	206,425	104,597	148,816	636,340	1,858,540
Professional services	76,523	44,458	30,100	14,518	26,372	98,400	290,371
Facilities	69,125	46,439	31,564	13,433	22,334	103,922	286,817
Travel and conferences	38,593	15,618	11,712	2,578	6,505	21,071	96,077
Information technology	12,146	7,390	5,095	2,346	4,078	17,023	48,078
Event/meeting	12,065	7,045	3,752	1,742	2,792	14,402	41,798
Depreciation	9,184	5,925	4,192	1,783	3,002	13,768	37,854
Equipment and furniture	8,092	5,366	3,102	1,441	2,765	11,339	32,105
Office supplies and expenses	7,568	4,271	2,807	1,560	2,443	11,207	29,856
Telephone service	2,831	1,761	1,181	539	964	3,869	11,145
Meals and entertainment	4,524	1,374	1,083	509	508	2,556	10,554
Dues and subscriptions	1,820	1,075	920	444	562	3,012	7,833
Business insurance	1,138	691	457	225	402	1,441	4,354
Postage and shipping	499	307	243	103	146	868	2,166
Printing	271	167	102	66	100	361	1,067
Repairs and maintenance	147	87	56	20	48	205	563
Fees	70	25	17	10	14	59	195
Total	<u>\$ 3,257,108</u>	<u>\$ 1,569,313</u>	<u>\$ 1,547,005</u>	<u>\$ 788,442</u>	<u>\$ 751,532</u>	<u>\$ 939,843</u>	<u>\$ 8,853,243</u>

WATER FOUNDATION

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities		
Increase (decrease) in net assets	\$ (2,276,886)	\$ 11,479,103
Reconciliation of net cash provided by operating activities		
Depreciation	65,880	37,854
Loss on the sale of property and equipment	25,011	-
Changes in operating assets and liabilities		
Grants receivable	3,528,474	(4,040,000)
Prepaid expenses and other current assets	22,465	(41,434)
Other noncurrent asset	(37,000)	-
Accounts payable	881,448	1,673,247
Accrued expenses	<u>60,619</u>	<u>173,447</u>
Net cash provided by operating activities	<u>2,270,011</u>	<u>9,282,217</u>
Cash flows from investing activities		
Purchases of property and equipment	<u>(198,034)</u>	<u>(306,227)</u>
Net cash used in investing activities	<u>(198,034)</u>	<u>(306,227)</u>
Net increase in cash and cash equivalents	2,071,977	8,975,990
Cash and cash equivalents, beginning of year	<u>8,975,990</u>	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ 11,047,967</u>	<u>\$ 8,975,990</u>

WATER FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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, 2018 and 2017, net assets with donor restrictions was \$6,280,525 and \$9,136,529, 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 statement of financial position. The carrying amounts of the Foundation's financial instruments generally approximate their fair values at December 31, 2018 and 2017.

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, 2018 AND 2017

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. The allowance for doubtful accounts was zero as of December 31, 2018 and 2017.

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.

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, 2018 and 2017, is \$98,243 and \$74,906, respectively, and is included in accrued expenses.

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.

WATER FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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

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 balance sheet date. The Foundation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

The Foundation has \$11,559,493 of financial assets available within one year of the balance sheet date to meet cash needs for general expenditure consisting of cash of \$11,047,967 and grants receivable of \$511,526.

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, 2018, through April 17, 2019, the date these financial statements were available for issuance. As of such date, management was not aware of any subsequent events requiring additional disclosure.

WATER FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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

New Accounting Pronouncements

In May 2014, the FASB issued an accounting standard that clarifies how revenue resulting from contracts with customers should be recognized, including from grant contracts. The new accounting standard is effective retrospectively for the Foundation for the year ending December 31, 2019, and is not expected to have a significant impact on the financial statements when it is implemented. Early adoption is permitted.

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, 2020. 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.

In August 2016, the FASB issued an accounting standard update that changes the financial statement reporting for not-for-profit entities. The accounting standard update has been implemented retrospectively for the Foundation for the year ending December 31, 2018. The main provisions of the accounting standard update are as follows:

- Present on the face of the statement of financial position amounts for two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) instead of the currently required three classes.
- Enhance footnote disclosures about designations and restrictions of net assets.
- Enhance footnote disclosures to provide qualitative information that communicates how a not-for-profit entity manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date.
- Enhance footnote disclosures to provide qualitative information, either on the face of the statement of financial position or in the footnotes that communicates the availability of a not-for-profit organization's financial assets at the statement of financial position date to meet cash needs for general expenditures within one year of the statement of financial position date.
- Enhance footnote disclosures about the method(s) used to allocate costs among program and support functions.

WATER FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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.

NOTE 2: PROPERTY AND EQUIPMENT

Property and equipment consists of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Furniture and fixtures	\$ 469,743	\$ 306,227
Less: Accumulated depreciation	<u>(94,227)</u>	<u>(37,854)</u>
Property and equipment, net	<u>\$ 375,516</u>	<u>\$ 268,373</u>

Depreciation expense was \$65,880 and \$37,854 for the years ended December 31, 2018 and 2017, respectively.

NOTE 3: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Grants	\$ 6,280,525	\$ 9,136,529
Total	<u>\$ 6,280,525</u>	<u>\$ 9,136,529</u>

WATER FOUNDATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017

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 2023. Total rent expense for the years ended December 31, 2018 and 2017, on these leases was \$377,968 and \$262,329, respectively, and 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, 2018, are as follows:

<u>Year ending December 31,</u>	
2019	\$ 544,531
2020	559,627
2021	573,785
2022	587,504
2023	472,936
Thereafter	328,347

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, 2018 and 2017, the Foundation made total contributions to the Plan of \$121,155 and \$64,636, respectively.

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, 2018, these expenses were approximately 90% for program expenses and 10% for support service expenses. For the year ended December 31, 2017, these expenses were approximately 89% for program expenses and 11% for support service expenses.