

**WATER EDUCATION
FOUNDATION**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITOR'S REPORT**

**YEARS ENDED
DECEMBER 31, 2018 AND 2017**

INDEPENDENT AUDITOR'S REPORT

**Board of Directors
Water Education Foundation
Sacramento, California**

We have audited the accompanying financial statements of Water Education Foundation (the Foundation), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, 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.

Auditor's 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 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 Water Education Foundation as of December 31, 2018 and 2017, 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.

Gilbert Associates, Inc.

GILBERT ASSOCIATES, INC.
Sacramento, California

March 6, 2019

WATER EDUCATION FOUNDATION

STATEMENTS OF FINANCIAL POSITION DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 200,230	\$ 263,645
Grants receivable	147,221	133,136
Product sales and other receivables	9,130	24,217
Inventories	56,338	68,725
Prepaid expenses and deposits	<u>23,784</u>	<u>17,259</u>
Total current assets	436,703	506,982
INVESTMENTS	1,181,480	1,161,874
PROPERTY AND EQUIPMENT, Net	<u>74,791</u>	<u>77,613</u>
TOTAL ASSETS	<u>\$ 1,692,974</u>	<u>\$ 1,746,469</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 38,020	\$ 40,007
Accrued liabilities	51,530	60,473
Deferred revenue	<u>5,576</u>	<u>5,920</u>
Total liabilities	<u>95,126</u>	<u>106,400</u>
NET ASSETS:		
Without donor restrictions:		
Undesignated	1,218,275	1,353,787
Board designated	<u>100,000</u>	<u>100,000</u>
Total without donor restrictions	1,318,275	1,453,787
With donor restrictions	<u>279,573</u>	<u>186,282</u>
Total net assets	<u>1,597,848</u>	<u>1,640,069</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,692,974</u>	<u>\$ 1,746,469</u>

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

WATER EDUCATION FOUNDATION

STATEMENTS OF ACTIVITIES YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
NET ASSETS WITHOUT DONOR RESTRICTIONS:		
REVENUES:		
Contributions	\$ 454,520	\$ 460,406
Grant revenue	314,749	322,090
Briefings income	216,859	412,861
Water tours	192,590	197,946
Product sales and subscriptions	87,635	66,710
Net assets released from restrictions	<u>186,282</u>	<u>205,814</u>
Total revenues	<u>1,452,635</u>	<u>1,665,827</u>
EXPENSES:		
Program services:		
Communications	649,777	700,991
Tours and briefings	418,907	494,885
School programs	<u>130,553</u>	<u>106,842</u>
Total program services	1,199,237	1,302,718
Supporting services:		
Management and general	182,381	185,761
Fund development	<u>126,137</u>	<u>129,652</u>
Total expenses	<u>1,507,755</u>	<u>1,618,131</u>
GAIN (LOSS) FROM OPERATIONS	(55,120)	47,696
Investment income (loss)	<u>(80,392)</u>	<u>138,801</u>
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>(135,512)</u>	<u>186,497</u>
NET ASSETS WITH DONOR RESTRICTIONS:		
Contributions restricted for the following year	238,573	186,282
Sponsorships and tuition contributions	41,000	
Net assets released from restrictions	<u>(186,282)</u>	<u>(205,814)</u>
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	<u>93,291</u>	<u>(19,532)</u>
INCREASE (DECREASE) IN NET ASSETS	(42,221)	166,965
NET ASSETS, Beginning of Year	<u>1,640,069</u>	<u>1,473,104</u>
NET ASSETS, End of Year	<u>\$ 1,597,848</u>	<u>\$ 1,640,069</u>

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

WATER EDUCATION FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2018

	<u>Program Services</u>			<u>Supporting Services</u>		<u>Total</u>
	<u>Communi- cations</u>	<u>Tours and Briefings</u>	<u>School Programs</u>	<u>Mgmt. and General</u>	<u>Fund Devel.</u>	
Salaries and payroll taxes	\$ 346,077	\$ 152,274	\$ 48,451	\$ 65,755	\$ 79,598	\$ 692,155
Travel, meals, and lodging	9,167	154,160	232	315	381	164,255
Employee benefits	62,309	27,416	8,723	11,839	14,331	124,618
Rent	58,633	25,798	8,209	11,140	13,486	117,266
Contract labor and professional services	22,100	116		77,378		99,594
Program supplies	17,191	7,808	45,726	1,278	1,554	73,557
Office supplies and equipment	36,108	15,888	5,055	6,861	8,305	72,217
Bad debt expense	36,489			179		36,668
Printing	21,306	2,962	942	1,279	1,548	28,037
Fees and subscriptions	8,292	10,323	870	1,181	1,430	22,096
Employee expenses	8,623	6,577	379	1,096	638	17,313
Promotional activities	2,185	1,719	9,357	415	581	14,257
Postage and delivery	5,688	2,911	661	896	1,085	11,241
Insurance	5,297	2,331	742	1,006	1,218	10,594
Telecommunications	4,937	2,172	691	938	1,136	9,874
Depreciation	3,678	1,619	515	699	846	7,357
Design fees	1,233	4,833				6,066
Photograph and slide show	464			126		590
Total	<u>\$ 649,777</u>	<u>\$ 418,907</u>	<u>\$ 130,553</u>	<u>\$ 182,381</u>	<u>\$ 126,137</u>	<u>\$ 1,507,755</u>

WATER EDUCATION FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED DECEMBER 31, 2017

	<u>Program Services</u>			<u>Supporting Services</u>		<u>Total</u>
	<u>Communi- cations</u>	<u>Tours and Briefings</u>	<u>School Programs</u>	<u>Mgmt. and General</u>	<u>Fund Devel.</u>	
Salaries and payroll taxes	\$ 357,708	\$ 157,391	\$ 50,079	\$ 67,964	\$ 82,273	\$ 715,415
Travel, meals, and lodging	47,257	215,504	2,213	3,003	3,636	271,613
Employee benefits	65,601	28,865	9,184	12,464	15,088	131,202
Rent	54,438	23,953	7,621	10,343	12,521	108,876
Contract labor and professional services	22,599	1,500		76,390		100,489
Program supplies	12,062	3,691	26,814			42,567
Office supplies and equipment	34,582	15,216	4,842	6,571	7,955	69,166
Bad debt expense		1,950				1,950
Printing	32,635	1,512	262	356	431	35,196
Fees and subscriptions	8,096	14,144	1,101	1,229	1,488	26,058
Employee expenses	9,329	13,889	894	2,971	883	27,966
Promotional activities	10,376	682	450	29		11,537
Postage and delivery	10,852	4,281	885	1,053	1,274	18,345
Insurance	5,750	2,530	805	1,092	1,323	11,500
Telecommunications	4,687	2,062	656	891	1,078	9,374
Depreciation	4,586	2,018	642	871	1,055	9,172
Design fees	20,028	4,261	394	534	647	25,864
Photograph and slide show	405	1,436				1,841
Total	<u>\$ 700,991</u>	<u>\$ 494,885</u>	<u>\$ 106,842</u>	<u>\$ 185,761</u>	<u>\$ 129,652</u>	<u>\$ 1,618,131</u>

WATER EDUCATION FOUNDATION

STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (decrease) in net assets	\$ (42,221)	\$ 166,965
Reconciliation to net cash provided by operating activities:		
Net realized and unrealized loss (gain) on investments	111,545	(105,805)
Depreciation	7,357	9,172
Changes in:		
Grants receivable	(14,085)	86,328
Product sales and other receivables	15,087	(7,418)
Inventories	12,387	(557)
Prepaid expenses and deposits	(6,525)	8,998
Accounts payable	(1,987)	(81,807)
Accrued liabilities	(8,943)	(11,880)
Deferred revenues	(344)	184
Net cash provided by operating activities	<u>72,271</u>	<u>64,180</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities	(335,270)	(32,995)
Proceeds from sale of investment securities	204,119	
Purchases of property and equipment	<u>(4,535)</u>	
Net cash used in investing activities	<u>(135,686)</u>	<u>(32,995)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from line of credit borrowings	50,000	
Repayments under line of credit	<u>(50,000)</u>	
Net cash provided by financing activities	<u> </u>	<u> </u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(63,415)	31,185
CASH AND CASH EQUIVALENTS, Beginning of Year	<u>263,645</u>	<u>232,460</u>
CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 200,230</u>	<u>\$ 263,645</u>

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

WATER EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Water Education Foundation (the Foundation) is a nonprofit corporation whose mission is to create a better understanding of water resources and foster public understanding and resolution of water resource issues through facilitation, education and outreach.

Basis of accounting and financial statement presentation – The financial statements are prepared on the accrual basis of accounting and in conformity with professional standards applicable to not-for-profit entities. The Foundation reports information regarding its financial position and activities according to two classes of net assets: net assets with donor restrictions and net assets without donor restrictions.

Recent accounting pronouncement – On August 18, 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, information about liquidity and available resources, and the type of information provided about expenses and investment return. The Foundation has adjusted presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Revenue recognition – Revenues from government grants are recognized when qualifying expenses are incurred. Grant funds, other than from private foundations, received but not earned are recorded as deferred revenue.

Contributions, including private foundation grants, are recognized in full when received or unconditionally promised, in accordance with professional standards. All contributions are considered available for unrestricted use unless specifically restricted by donors for future periods or specific purposes. Restricted grants from private sources and donor-restricted amounts are reported as increases in net assets with donor restrictions. Net assets with donor restrictions become unrestricted and are reported in the statements of activities as net assets released from restrictions when the time restrictions expire or the contributions are used for the restricted purpose. Donor restricted net assets whose restrictions are met in the same fiscal year are reported as an increase to net assets without donor restrictions.

Cash and cash equivalents – For financial statement purposes, the Foundation considers all investments with an initial maturity of three months or less to be cash equivalents, unless held for long-term purposes.

Grants receivable are stated at the amount management expects to collect from outstanding balances. Management has estimated an allowance for doubtful accounts based on historical performance. As of December 31, 2018 and 2017, the allowance for doubtful accounts was \$18,052 and \$0, respectively.

Inventories consist of various educational materials sold or distributed by the Foundation, including maps, guides, brochures, videos, and school programs. Inventory is recorded at the lower of cost or market, using the first-in, first-out method. Materials that have become obsolete are not included in the inventory balance.

Investments are stated at fair value.

WATER EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

Property and equipment is stated at cost. The Foundation capitalizes all expenditures for property and equipment with a cost of \$1,000 or more. Depreciation is computed using the straight-line method over estimated useful lives of individual assets ranging from 5 to 15 years.

Functional allocation of expenses – The costs of providing the program and supporting services have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among program and supporting services based on employees' time incurred and management's estimate of the usage of resources. The expenses that are allocated include salaries, wages, and professional services, which are allocated based on time and effort; payroll taxes and employee benefits, which are allocated based on salaries and wages; and rent, office supplies, fees and subscriptions, printing, employee expenses, postage, insurance, depreciation and telecommunications, which are allocated based on estimated usage.

Income taxes – The Foundation is publicly supported and exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation has applied the accounting principles related to accounting for uncertainty in income taxes and has determined there is no material impact on the financial statements. With some exceptions, the Foundation is no longer subject to U.S. federal and state income tax examinations by tax authorities for years prior to 2014.

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair value measurements – Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same – to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (that is, an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

In order to increase consistency and comparability in fair value measurements, a fair value hierarchy that prioritizes observable and unobservable inputs is used to measure fair value into three broad levels, as follows:

- | | |
|----------------|-----------------------------------------------------------------------------------------------------------------------------|
| Level 1 Inputs | Unadjusted quoted prices in active markets that are accessible at the measurement date for identical assets or liabilities. |
| Level 2 Inputs | Inputs other than quoted prices in active markets that are observable either directly or indirectly. |
| Level 3 Inputs | Unobservable inputs for the asset or liability. |

Subsequent events have been reviewed through March 6, 2019, the date the financial statements were issued. Management concluded that no material subsequent events have occurred since December 31, 2018, that require recognition or disclosure in the financial statements.

WATER EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

2. LIQUIDITY AND AVAILABILITY OF RESOURCES

The Foundation's financial assets available within one year of the statement of financial position date for general expenditure are as follows:

Cash and cash equivalents	\$ 200,230
Grants receivable	147,221
Product sales and other receivables	9,130
Investments	<u>1,181,480</u>
Total financial assets available within one year	1,538,061
Less:	
Amounts unavailable for general expenditures within one year, due to:	
Restricted by donors with purpose restrictions	(41,000)
Amounts unavailable to management without Board's approval:	
Board designated for William Gianelli Fund	<u>(100,000)</u>
Total financial assets available to management for general expenditure within one year	<u>\$ 1,397,061</u>

The Foundation maintains a policy of structuring its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

To help manage unanticipated liquidity needs, the Foundation has two committed lines of credit totaling \$250,000 which it could draw upon (see Note 7).

3. INVESTMENTS

Investments consist of the following:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 37,470	\$ 40,527
Mutual funds:		
Fixed income funds	491,743	443,862
Blend funds	356,571	358,627
Value funds	148,332	168,730
Growth funds	<u>147,364</u>	<u>150,128</u>
Total	<u>\$ 1,181,480</u>	<u>\$ 1,161,874</u>

The Foundation's investments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices in active markets for identical assets.

WATER EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	<u>2018</u>	<u>2017</u>
Furniture and equipment	\$ 32,732	\$ 94,774
Websites	113,588	113,588
Less accumulated depreciation	<u>(71,529)</u>	<u>(130,749)</u>
Property and equipment, net	<u>\$ 74,791</u>	<u>\$ 77,613</u>

5. NET ASSETS

Net assets with donor restrictions consist of unexpended grants and contributions restricted by donors as follows:

	<u>2018</u>	<u>2017</u>
2019 SAWPA Briefing Sponsorship	\$ 25,000	
Water Leaders Tuition	16,000	
General contributions restricted for the following year	<u>238,573</u>	<u>\$ 186,282</u>
Total	<u>\$ 279,573</u>	<u>\$ 186,282</u>

Board designated net assets consist of the William Gianelli Fund for Water Leaders Program established by the Board of Directors in 2003. Principal from the donation is invested with income to be used for the Water Leaders Class program.

At December 31, 2018 and 2017, Board designated net assets consisted of investments in mutual funds and securities of \$91,800 and \$88,864, respectively, and cash and cash equivalents of \$8,200 and \$11,136, respectively.

6. OPERATING LEASE OBLIGATIONS

The Foundation leases office space and equipment under long-term operating lease agreements. Future minimum lease payments under these agreements are as follows:

	<u>Office Space</u>	<u>Equipment</u>	<u>Total</u>
2019	\$ 117,266	\$ 46,673	\$ 163,939
2020	117,266	15,393	132,659
2021	<u>74,624</u>	<u> </u>	<u>74,624</u>
Total	<u>\$ 309,156</u>	<u>\$ 62,066</u>	<u>\$ 371,222</u>

WATER EDUCATION FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018 AND 2017

7. LINES OF CREDIT

The Foundation has a \$100,000 revolving line of credit with a bank. Bank advances on the credit line are payable on demand and carry an interest rate of 9.00% as of December 31, 2018. There was no balance owed at December 31, 2018 and 2017.

The Foundation has an additional line of credit agreement with a bank to borrow up to \$150,000. Bank advances on the credit line are payable on demand and carry an interest rate of 5.35% at December 31, 2018. There was no outstanding balance on this credit line as of December 31, 2018 and 2017.

The credit lines are secured by substantially all of the assets of the Foundation.

8. RETIREMENT PLAN

The Foundation maintains a retirement plan (the Plan), under Internal Revenue Code Section 403(b), that is available to all active employees. Employees may contribute a portion of their gross salary to the Plan (subject to Internal Revenue Code limitations). For employees who have completed at least one year of service, the Foundation contributes from 7.0% to 12.6% of their gross salary, based on years of service. Such contributions totaled \$52,897 for 2018 and \$61,905 for 2017. Employees' accounts are fully vested from their date of participation in the Plan.

9. CONCENTRATION OF CREDIT RISK

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