

**NATIONAL WATER RESEARCH INSTITUTE**

***Financial Statements***

*June 30, 2017*

*(With Independent Auditors' Report Thereon)*



An Independent CPA Firm

**NATIONAL WATER RESEARCH INSTITUTE**

**Financial Statements**

June 30, 2017

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3
Statement of Functional Expenses	4
Statements of Cash Flows	5
Notes to the Financial Statements	6



An Independent CPA Firm

Board of Directors  
National Water Research Institute  
Fountain Valley, California

## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of the National Water Research Institute (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017, and the related statements of activities, functional expenses, 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.

### ***Auditor's 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 positions of the National Water Research Institute as of June 30, 2017, 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.

**Gruber and Associates, Inc.**

*Gruber and Associates, Inc.*

Newport Beach, CA  
December 8, 2017

**NATIONAL WATER RESEARCH INSTITUTE**  
**Statements of Financial Position**  
June 30, 2017  
(with comparative totals as of June 30, 2016)

<u>Assets</u>	<u>Totals</u>	
	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 269,305	119,739
Investments	12,900	-
Accounts receivable	189,836	587,057
Pledges receivable (Note 5)	20,000	-
Prepaid expenses	15,733	8,103
Total current assets	507,774	714,899
Noncurrent assets:		
Pledge receivable, net of current (Note 5)	18,402	-
Property and equipment:		
Furniture and equipment	22,298	22,298
Less: accumulated depreciation	(19,818)	(18,273)
Total property and equipment, net	2,480	4,025
Total Noncurrent assets	20,882	4,025
Total assets	\$ 528,656	718,924
<b><u>Liabilities and Net Assets</u></b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 106,145	223,232
Deferred revenue	5,000	160,000
Total liabilities	111,145	383,232
Net assets:		
Unrestricted	358,109	335,692
Temporarily restricted (Note 3)	59,402	-
Total net assets	417,511	335,692
Total liabilities and net assets	\$ 528,656	718,924

See independent auditors' report and accompanying notes to financial statements

**NATIONAL WATER RESEARCH INSTITUTE**  
**Statements of Activities**  
For the Year Ended June 30, 2017  
(with comparative totals for the year ending June 30, 2016)

**UNRESTRICTED NET ASSETS**

	<b><u>Totals</u></b>	
	<b><u>2017</u></b>	<b><u>2016</u></b>
Support and revenue:		
Contributions	\$ 410,095	431,349
Research projects	773,003	1,195,779
Memberships	10,000	12,500
Conferences and panels	50,559	82,147
Donated facilities (Note 4)	18,000	18,000
Investment earnings (losses)	(7,805)	225
Other	351	228
	<u>1,254,203</u>	<u>1,740,228</u>
Total unrestricted support and revenues		
Net assets released from restrictions (Note 3)	<u>-</u>	<u>-</u>
Total support and revenue	<u>1,254,203</u>	<u>1,740,228</u>
Expenses:		
Program services	1,068,746	1,589,645
Management and general	<u>163,040</u>	<u>139,639</u>
Total expenses	<u>1,231,786</u>	<u>1,729,284</u>
Increase (decrease) in unrestricted net assets	22,417	10,944

**TEMPORARILY RESTRICTED NET ASSETS**

Support and revenue:		
Contributions	<u>59,402</u>	<u>-</u>
Total temporarily restricted support and revenues	59,402	-
Net assets released from restriction (Note 3)	<u>-</u>	<u>-</u>
Increase (decrease) in temporarily restricted net assets	<u>59,402</u>	<u>-</u>
Increase (decrease) in net assets	81,819	10,944
Net assets beginning of year	<u>335,692</u>	<u>324,748</u>
Net assets at end of year	<u>\$ 417,511</u>	<u>335,692</u>

See independent auditors' report and accompanying notes to financial statements.

**NATIONAL WATER RESEARCH INSTITUTE**  
**Statement of Functional Expenses**  
For the Year Ended June 30, 2017  
(with comparative totals for the year ending June 30, 2016)

	<b><u>Program Services</u></b>	<b><u>Management and General</u></b>	<b><u>Totals</u></b>	
			<b><u>2017</u></b>	<b><u>2016</u></b>
Conferences/research advisory	\$ 58,855	-	58,855	133,784
Salaries and benefits	291,992	100,644	392,636	492,665
Travel and training	125,720	568	126,288	287,306
Honorariums	161,192	-	161,192	303,728
Fellowship awards	45,000	-	45,000	40,000
Professional fees	207,622	16,773	224,395	145,894
Website and information technology	-	3,907	3,907	2,389
Postage/shipping	12,827	3,105	15,932	918
Other program costs	3,492	4,924	8,416	53,125
Other administrative costs	-	20,102	20,102	24,063
Telephone	-	3,829	3,829	4,530
Charitable contribution/membership	97,046	4,643	101,689	133,166
Donated facilities (Note 4)	15,000	3,000	18,000	18,000
Depreciation	-	1,545	1,545	1,546
Clarke prize	50,000	-	50,000	75,000
	<u>50,000</u>	<u>-</u>	<u>50,000</u>	<u>75,000</u>
Total Expenses	<u>\$ 1,068,746</u>	<u>163,040</u>	<u>1,231,786</u>	<u>1,729,284</u>

See independent auditors' report and accompanying notes to financial statements.

**NATIONAL WATER RESEARCH INSTITUTE**  
**Statement of Cash Flows**  
For the Year Ended June 30, 2017  
(with comparative totals for the year ending June 30, 2016)

	<b>Totals</b>	
	<b>2017</b>	<b>2016</b>
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 81,819	10,944
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	1,545	1,546
Donated investments	(21,000)	-
Unrealized (gain) loss on investments	8,100	
Decrease (increase) in accounts receivable	358,819	(384,541)
Decrease (increase) in prepaid expenses	(7,630)	1,678
(Decrease) increase in accounts payable and accrued liabilities	(117,087)	178,041
(Decrease) increase in deferred revenue	(155,000)	139,375
Net cash provided by (used for) operating activities	\$ 149,566	(52,957)
Cash flows from investing activities:		
Purchase of equipment	-	(1,356)
Net cash provided by (used for) investing activities	-	(1,356)
Increase (decrease) in cash and cash equivalents	149,566	(54,313)
Cash and cash equivalents at beginning of year	119,739	174,052
Cash and cash equivalents at end of year	\$ 269,305	119,739
 <u>Supplemental disclosures of noncash investing and capital related financing activities:</u>		
For the year ended June 30, 2017, there were no material non-cash investing or financing activities.		
 <u>Supplemental disclosure of cash flow information:</u>		
Cash paid for interest expense	\$ -	-
Cash paid for tax expense	\$ -	-

See independent auditors' report and accompanying notes to financial statements.

**NATIONAL WATER RESEARCH INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 1 - ORGANIZATION**

The significant accounting policies of the National Water Research Institute (the Organization) are presented to assist in the understanding of the Organization's financial statements. The financial statements and notes are representations of the Organization's management, who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

**Nature of Operations**

National Water Research Institute is a 501(c)(3) nonprofit organization and was formed under a Joint Powers Agreement in June of 1991. The Organization was created to provide financial support for the research, development and implementation of water projects for the purpose of developing and conserving water, improving the quality of water, preventing or remediating degradation of water quality and efficiently using water resources. The Organization is funded primarily from contributions and conference sponsorships for educating professionals in the area of water research.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The Organization's financial statements have been prepared on the accrual basis of accounting. Under this method of accounting, revenues are recognized when earned and expenses are recognized when incurred.

**Financial Statement Presentation**

In accordance with Financial Accounting Standards Board (FASB) *Accounting Standards Codification (ASC) 958 Not-for-Profit Entities*, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**Cash and Cash Equivalents**

The Organization considers all unrestricted short-term investments with an original maturity of three (3) months or less to be cash equivalents. Cash and cash equivalents consisted of deposits with financial institutions of \$269,305 at June 30, 2017. The balance is insured by the Federal Deposit Insurance Corporation up to \$500,000. Cash deposits may exceed federally insured limits at times during the year, however, at June 30, 2017 there were no cash balances exceeding the insurance limit.



**NATIONAL WATER RESEARCH INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Comparative Totals**

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2016 from which the summarized information was derived.

**Reclassifications**

For comparability purposes, certain amounts in the 2016 financial statements have been reclassified to conform to the 2017 classifications. These reclassifications have no effect on reported change in net assets.

**Furniture and Equipment**

Property and equipment are recorded at cost with depreciation provided using the straight-line method over the estimated useful lives of the assets which range from three to seven years. Total depreciation expense for the years ended June 30, 2017 was \$1,545. Repairs and maintenance to furniture and equipment are expensed as incurred. When furniture and equipment are retired or otherwise disposed of, the related costs and accumulated depreciation are eliminated from the accounts, and any gain or loss on such disposition is reflected in income. It is the Organization's policy to capitalize property and equipment over \$1,000.

**Impairment of Long-Lived Assets**

The Organization evaluates long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value.

**Restricted and Unrestricted Revenue and Support**

In accordance with ASC 958-605, all revenues, gains and other support are categorized as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All support received that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

**Use of Estimates**

The preparation of financial statements requires the Organization to make estimates and assumptions that affect the reported amounts of assets and disclosures of contingent assets and liabilities, and the reported revenue and expenses. Actual results may differ from those estimates.

See independent auditors' report

**NATIONAL WATER RESEARCH INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Accounts Receivable**

Accounts receivable consist of amounts due from funding sources. There is no allowance for doubtful accounts because the majority of the receivables are from government agencies and the Organization believes that all of its receivables are fully collectable.

**Membership Support**

Under the Joint Powers Agreement, each district that is a member contributes \$50,000 per year to fund the administrative operations of the Organization. Membership dues are also collected from members and are assessed based on the Organization's fiscal year. Dues are collected for the subsequent membership years are presented as deferred membership revenue.

**Fair Value of Financial Instruments**

Financial assets and liabilities are recorded at their fair market value in accordance with ASC 820, *Fair Value Measurements*. This standard defines fair value and establishes a hierarchy for reporting the reliability of input measurements used to assess fair value for all assets and liabilities. ASC 820 defines fair value as the selling price that would be received for an asset, or paid to transfer a liability, in the principal or most advantageous market on the measurement date. The hierarchy prioritizes fair value measurements based on the types of inputs used in the valuation technique. The inputs are categorized in the following levels:

- Level 1 – Observable inputs such as quoted prices in active markets for identical assets or liabilities.
- Level 2 – Directly or indirectly observable input for quoted and other than quoted prices for identical or similar assets and liabilities in active or non-active markets.
- Level 3 – Unobservable inputs not corroborated by market data therefore requiring the entity to use the best information available in the circumstances, including the entity's own data.

Certain financial instruments are carried at cost on the balance sheet which approximates fair value because of the short-term nature of these financial instruments and hence, are not categorized. These instruments include cash and cash equivalents, fees receivable, grants receivable, other receivables, prepaid expenses, other assets, accounts payable, accrued expenses and long-term debt.

The fair value of the Organization's investments represents donated stock and is based on the market value as of June 30, 2017. This input is based on prices paid for identical stock on the open market (Level 1 input). Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met in the reporting period in which the income and gains are recognized.

The fair value of contributed supplies, facilities and services has been measured on a nonrecurring basis using prices for similar assets in inactive markets (Level 2 input).

See independent auditors' report

**NATIONAL WATER RESEARCH INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Expense Allocation**

The costs of providing various programs and other activities has been summarized on a functional basis in the Statement of Activities and the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The Organization's principal program is to educate professionals in the area of water research.

**Income Tax Status**

The Organization is a tax-exempt organization under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701(d) and files all federal and state information returns required by law. The Organization's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending in years 2016, 2015, and 2013 are subject to examination by the IRS, generally for three years after they were filed.

**Accrued Vacation**

The executive director and employees of the Organization are entitled to paid vacation days. The Organization's management estimated the amount of compensation for future absences to be \$6,118 as of June 30, 2017 which was recorded on the statement of financial position as *accounts payable and accrued liabilities*.

**Pledges Receivable**

Contributions are recognized when the donor makes a promise to give to the organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified as unrestricted net assets. Unconditional promises to give that are expected to be collected within one year are recorded at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of future cash flows. The discounts on those amounts are recorded using risk-free interest rates applicable to those years in which the promises are received. Amortization of the discounts is included in contribution revenue.

**Concentration of Risk**

The Organization actively evaluates the credit worthiness of the institutions with which it invests.

Approximately 25% of accounts receivable was from one contributor as of June 30, 2017.

**NATIONAL WATER RESEARCH INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 3 - NET ASSETS RELEASED FROM RESTRICTIONS**

During the year ended June 30, 2017, \$0 of temporarily restricted net assets were released to unrestricted net assets as a result of the satisfaction of donor imposed restrictions. There were no permanently restricted net assets during the year ended June 30, 2017.

	<b><u>Temporarily Restricted Net Assets- Beginning of Year</u></b>	<b><u>Temporarily Restricted Revenues</u></b>	<b><u>Released From Restriction</u></b>	<b><u>Temporarily Restricted Net Assets- End of Year</u></b>
Restricted for:				
Scholarships-see Note 5	\$ -	<u>59,402</u>	(-)	<u>59,402</u>

**NOTE 4 - DONATED SERVICES, SUPPLIES AND FACILITIES**

Donations of services are recognized in the financial statements if the services received: (1) create or enhance nonfinancial assets or require specialized skills; (2) are provided by individuals possessing those skills; and (3) would typically need to be purchased if not provided by donation. Other volunteer services that do not meet these criteria are not recognized in the financial statements as there is no objective basis for deriving their value. For the years ended June 30, 2017, the Organization received \$18,000 in donated facilities, which is the estimated fair market value of what would have been paid.

**NOTE 5 - PLEDGE RECEIVABLE**

In May 2016, the Organization received a pledge for \$60,000 from the BioLargo company temporarily restricted for scholarships. The terms of the pledge require equal annual payments over three years. The first donation was received in December 2016 in the form of BioLargo stock. The next two payments will be paid over two years at approximately \$20,000 a year and will also be in the form of BioLargo stock. The Organization applied a present value discount rate of 4.25 percent per year based on the Wall Street Journal Prime Rate at the date of the pledge. Future pledge receivables to be collected for the years ending June 30 are as follows:

2018	\$ 20,000
2019	20,000
Total	<u>40,000</u>
Less present value discount	<u>(1,598)</u>
	<u>38,402</u>
Less current portion	<u>(20,000)</u>
Long-term portion	<u>\$ 18,402</u>

**NATIONAL WATER RESEARCH INSTITUTE**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2017**

**NOTE 6 - SUBSEQUENT EVENTS**

Management has evaluated subsequent events through December 8, 2017, the date the financial statements were available to be issued.