

**NATIONAL WATER
RESEARCH INSTITUTE**

Financial Statements

For the Year Ended June 30, 2019

18700 WARD STREET
FOUNTAIN VALLEY, CA 92708

Prepared By:

Tahim & Associates, a Professional Corporation

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
National Water Research Institute
18700 Ward Street
Fountain Valley, CA 92708

We have audited the accompanying financial statements of National Water Research Institute (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

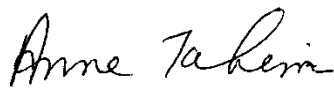
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider 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 National Water Research Institute as of June 30, 2019, 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.



Tahim and Associates,
A Professional Corporation
Anaheim, California

November 1, 2019

National Water Research Institute
Statement of Financial Position
June 30, 2019

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	28,717	
Investments		18,120	
Accounts receivable, net		212,486	
Pledges receivable		24,679	
Prepaid expenses		2,050	
Total Current Assets			\$ 286,052

PROPERTY AND EQUIPMENT

Furniture and equipment	\$	13,680	
Accumulated Depreciation		(13,680)	
Total Fixed Assets			-

TOTAL ASSETS

\$ 286,052

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts Payable	\$	172,606	
Accrued payroll liabilities		25,560	
Total Current Liabilities			\$ 198,166

Total Liabilities

198,166

NET ASSETS

Without donor restrictions	\$	210,248	
With donor restrictions		52,624	
Net Loss		(174,986)	
Total Net Assets			87,886

TOTAL LIABILITIES AND NET ASSETS

\$ 286,052

**National Water Research Institute
Statement of Activities
For the Year Ended June 30, 2019**

	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING SUPPORT AND REVENUE			
Contributions	\$ 102,156		102,156
Research projects and panels	675,619		675,619
Memberships	300,000		300,000
Conferences and registration	2,000		2,000
Donated facilities	18,000		18,000
Net assets released from restriction	-	-	-
Total Support and Revenue	<u>\$ 1,097,775</u>	<u>\$ -</u>	<u>\$ 1,097,775</u>
OPERATING EXPENSES			
Program services	\$ 1,075,868		\$ 1,075,868
Management and general	179,315		179,315.00
Total Expenses	<u>1,255,183</u>	<u>-</u>	<u>1,255,183</u>
OTHER INCOME AND LOSSES			
Investment earnings (losses)	(16,103)		(16,103)
Loss on the disposition of fixed assets	(1,959)		(1,959)
Others	484		484.00
Total Other Income and Losses	<u>(17,578)</u>	<u>-</u>	<u>(17,578)</u>
CHANGE IN NET ASSETS			
Net Loss From Operations	(174,986)	-	(174,986)
Change in Net Assets	<u>\$ (174,986)</u>	<u>\$ -</u>	<u>\$ (174,986)</u>
-			
NET ASSETS,			
Beginning of Year	\$ 210,248	\$ 52,624	\$ 262,872
NET ASSETS, END OF YEAR	<u>\$ 35,262</u>	<u>\$ 52,624</u>	<u>\$ 87,886</u>

**National Water Research Institute
Statement of Functional Expenses
For the Year Ended June 30, 2019**

	Program Services	Supporting Services	Total Expenses
		Management and General	
Salaries and benefits	\$ 402,424	\$ 101,683	\$ 504,107
Payroll taxes		22,800	22,800
Total Salaries and Related Expenses	<u>402,424</u>	<u>124,483</u>	<u>526,907</u>
Clarke Prize	\$ 50,000		\$ 50,000
Bank charges and other fees	-	1,304	1,304
Depreciation	-	504	504
Discount on present value		749	749
Due and subscriptions	-	1,455	1,455
Fellowship awards	40,000		40,000
Honorariums	146,755		146,755
Insurance	-	5,386	5,386
Legal and professional	102,373	18,436	120,809
Management expenses	44,321		44,321
Meals and entertainment	-	745	745
Membership dues	3,991		3,991
Rent and storage	15,000	4,148	19,148
Program expenses	82,971		82,971
Operating expenses and supplies		19,823	19,823
Telephone		2,282	2,282
Travel and meetings.	108,404		108,404
Water Festival Contribution	79,629		79,629
Total expenses by function	<u>\$ 1,075,868</u>	<u>\$ 179,315</u>	<u>\$ 1,255,183</u>

National Water Research Institute
Statement of Cash Flows
For the Year Ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss		\$	(174,986)
Depreciation and amortization			504
Net adjustment to unrealized losses on marketable securities			16,103
Changes in:			
	Accounts receivable		(3,810)
	Pledges receivable		(6,277)
	Prepaid expenses		4,135
	Accounts payable		114,997
	Accrued payroll liabilities		25,560
	Deferred Revenue		(100,000)
NET CASH USED IN OPERATING ACTIVITIES			<u>(123,774)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Disposition of property and equipment		\$	8,687
NET CASH PROVIDED BY INVESTING ACTIVITIES			<u>8,687</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		\$	(115,087)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR			143,804
CASH AND CASH EQUIVALENTS, END OF YEAR		<u>\$</u>	<u>28,717</u>

National Water Research Institute
Notes to Financial Statements
June 30, 2019

NOTE 1: DESCRIPTION OF THE COMPANY

National Water Research Institute (NWRI) / (the Organization) is a 501© (3) nonprofit organization and was formed under a Joint Powers Agreement in July 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

This summary of significant accounting policies of the Organization is presented to assist in understanding 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.

Basis of Accounting

The books and records of the Organization are maintained on an accrual basis of accounting for financial statements and tax reporting purposes, whereby revenue is recognized when earned, and expenses are recognized when incurred.

Effective January 1, 2018, NWRI adopted the requirements of the Financial Accounting Standards Board's Accounting Standards Update No. 2016-14-Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A footnote on liquidity has also been added (Note 8).

National Water Research Institute
Notes to Financial Statements
June 30, 2019

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Basis of Presentation and Revenue Recognition Principles

NWRI reports information regarding their financial position and activities in the following classes of net assets:

- *Net Assets Without Donor Restrictions* – represents all activity without donor-imposed restrictions as well as activity with donor-imposed restrictions, which expire within the same period.
- *Net Assets With Donor Restrictions* – relates to contributions of cash and other assets with donor stipulations that make clear the assets restriction, either due to a program nature or by passage of time.

Recognition of Income

Contributions are reported as an increase in net assets without donor restrictions, unless they contain a restriction by the donor for a specific program or time period, in which case they are reported in the net asset class with donor restrictions. When a 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 statement of activities as net assets released from restrictions. However, if a restriction is satisfied in the period the contribution has been made, it is recorded as net assets without donor restrictions.

Cash and Cash Equivalents

NWRI 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 \$28,717 at June 30, 2019.

Concentration of Credit Risk

NWRI currently maintains substantially all of its cash with a major financial institution. The Federal Deposit Insurance Corporation (“FDIC”) insures each depositor for up to \$250,000. At June 30, 2019, the Organization had no funds in excess of FDIC insured limits. The Organization has not experienced any losses in such account. Approximately 26% of accounts receivable was from one contributor as of June 30, 2019.

National Water Research Institute
Notes to Financial Statements
June 30, 2019

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Use of Estimates

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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.

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, 2019 was \$504. 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-Live 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.

National Water Research Institute
Notes to Financial Statements
June 30, 2019

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

New Accounting Pronouncement

FASB issued ASU No. 2014-9, *Revenue from Contracts with Customers*. The ASU, which becomes effective for the December 31, 2019 year, focuses on a principle based model. It highlights the identification of performance obligations of the contract, determining the price and allocating that price to the performance obligation so that revenue is recognized as each performance obligation is satisfied.

NWRI is in the process of evaluating the impact the standard will have on future financial statements.

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 that are collected for the subsequent membership years are presented as deferred membership revenue.

Expense Allocation

The costs of providing various programs and other activities have 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.

NOTE 3: 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 of 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

National Water Research Institute
Notes to Financial Statements
June 30, 2019

NOTE 3: FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

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.

Accounting standards have established a fair value hierarchy giving the highest priority to quoted market prices in active markets and the lowest priority to unobservable 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, pledges 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, 2019. This input is based on prices paid for identical stock on the open market (Level 1 input). Realized and unrealized gains and losses are recognized in the statement of activities. Investment income and gains restricted by a donor are reported as an increase in net assets without donor's restrictions 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).

Level 1 securities are valued at the closing price reported on the active market they are traded on. Level 2 item are valued using observable market inputs that are similar to those owned. This

National Water Research Institute
Notes to Financial Statements
June 30, 2019

NOTE 3: FAIR VALUE OF FINANCIAL INSTRUMENTS - Continued

method produces a fair value calculation that may not be indicative of net realizable value or reflective of future values. The use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different fair value measurements.

NOTE 4: 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 net assets without donor's restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor restricted contributions are reported as increases in Net Assets with Donor's Restrictions. 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.

In May 2016, the Organization received a pledge for \$60,000 from the BioLarge 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:

June 30, 2018 Total	\$18,402
Additions	7,026
Less present value discount	<u>(749)</u>
June 30, 2019 Total	\$24,679
Less current portion	<u>(24,679)</u>
Long-term portion	Zero

National Water Research Institute
Notes to Financial Statements
June 30, 2019

NOTE 5: DONATED SERVICES, SUPPLIES AND FACILITIES

Donations of services are recognized in the financial statements if the service 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.

Board members and other individuals volunteer their time and perform a variety of tasks that assist NWRI. These services have not been recorded in the financial statements, as they do not meet the criteria outlined above.

For the years ended June 30, 2019, the Organization received \$18,000 in donated facilities, which is the estimated fair market value of what would have been paid.

NOTE 6: ACCRUED VACATION

The executive director and employees of the Organization are entitled to paid vacation days. The Organization's management estimated the amount of the compensation for future absences to be \$25,560 as of June 30, 2019 which was recorded on the statement of financial position as *accrued payroll liabilities*.

NOTE 7: INCOME TAXES

No substantial part of the activities of this organization shall consist of the carrying on of propaganda, or otherwise attempting to influence legislation, nor shall this organization participate in or intervene in any political campaign (including publishing or distributing of statements) on behalf of or in opposition to any candidate for public office. Notwithstanding any other provision of these Articles, this organization shall not carry on any other activities not permitted to be carried on (a) by a organization exempt from Federal income tax under section 501 (c) (3) of the Internal Revenue Code of 1986 and California Revenue and Taxation Code Section 23701(d), or (b) by a organization contributions to which are deductible under section 170 (c) (2) of the Internal Revenue Code of 1986.

National Water Research Institute
Notes to Financial Statements
June 30, 2019

NOTE 7: INCOME TAXES - Continued

NWRI does not believe its financial statements include any material, uncertain tax positions. Tax filings for period ended June 30, 2015 and later are subject to examination by applicable taxing authorities.

NOTE 8: LIQUIDITY AND AVAILABILITY OF FINANCIAL RESOURCES

The following reflects NWRI financial assets at June 30, 2019, reduced by amounts that have donor-imposed restrictions within one year of the balance sheet date. NWRI maintains cash on hand to the available for its general expenditures, liabilities, and other obligation for on-going operations.

Cash and cash equivalents	\$ 28,717
Investments	18,120
Accounts receivable	212,486
Pledges receivable	<u>24,679</u>
Total financial assets	\$284,002
Less amounts not available to be use within one year:	
Contributions restricted – purpose restrictions	<u>(52,624)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$231,378</u>

NOTE 9: SUBSEQUENT EVENTS

Management has evaluated for potential recognition and disclosure events subsequent to the date of the statement of financial position through November 1, 2019, the date the financial statements were available to be issued. No events have occurred subsequent to the statement of financial position date through our evaluation date that would require adjustment to or disclosure in the financial statements.