

NATIONAL WATER RESEARCH INSTITUTE

Financial Statements

June 30, 2020

(With Independent Auditors' Report Thereon)



An Independent CPA Firm

NATIONAL WATER RESEARCH INSTITUTE

Financial Statements

June 30, 2020

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, 2020, 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, 2020, 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.

Emphasis of Matters

As described further in note one to the financial statements, during the year ended June 30, 2020, National Water Research Institute implemented Accounting Standards Update (ASU) 2018-08 *Not-for-Profit Entities* (Topic 958) – *Contributions Received and Made* and ASU 606 - *Contracts from Customers*. Our opinion is not modified with respect to this matter.

Gruber and Associates, Inc.

Gruber and Associates, Inc.

Newport Beach, CA
October 2, 2020

NATIONAL WATER RESEARCH INSTITUTE

Statements of Financial Position

June 30, 2020

| <u>Assets</u> | <u>Total</u> |
|--|-------------------|
| Current assets: | |
| Cash and cash equivalents | \$ 41,672 |
| Investments | 25,405 |
| Accounts receivable | 158,565 |
| Prepaid expenses | <u>1,511</u> |
| Total current assets | <u>227,153</u> |
| Noncurrent assets: | |
| Property and equipment: | |
| Furniture and equipment | 13,680 |
| Less: accumulated depreciation | <u>(13,680)</u> |
| Total property and equipment, net | <u>-</u> |
| Total Noncurrent assets | <u>-</u> |
| Total assets | <u>\$ 227,153</u> |
| <u>Liabilities and Net Assets</u> | |
| Current liabilities: | |
| Accounts payable and accrued liabilities | <u>\$ 68,525</u> |
| Total liabilities | <u>68,525</u> |
| Net assets: | |
| Without donor restrictions - undesignated | 146,724 |
| With donor restrictions | <u>11,904</u> |
| Total net assets | <u>158,628</u> |
| Total liabilities and net assets | <u>\$ 227,153</u> |

See independent auditors' report and accompanying notes to financial statements

NATIONAL WATER RESEARCH INSTITUTE

Statements of Activities

For the Year Ended June 30, 2020

| | <u>Without Donor Restrictions</u> | <u>With Donor Restrictions</u> | <u>Total</u> |
|---|---|--|------------------|
| Operating activities: | | | |
| Support and revenue: | | | |
| Contributions | \$ 39,500 | 4,000 | 43,500 |
| Research projects and panels | 660,552 | - | 660,552 |
| Memberships | 300,000 | - | 300,000 |
| Conferences | 1,050 | - | 1,050 |
| Donated facilities (Note 4) | 18,000 | - | 18,000 |
| Other | <u>1,081</u> | <u>-</u> | <u>1,081</u> |
| Subtotal support and revenues | 1,020,183 | 4,000 | 1,024,183 |
| Net assets released from restrictions (Note 3) | <u>44,720</u> | <u>(44,720)</u> | <u>-</u> |
| Total support and revenue | <u>1,064,903</u> | <u>(40,720)</u> | <u>1,024,183</u> |
| Expenses: | | | |
| Program services | 755,272 | - | 755,272 |
| Management and general | 159,575 | - | 159,575 |
| Fundraising | <u>28,227</u> | <u>-</u> | <u>28,227</u> |
| Total expenses | <u>943,074</u> | <u>-</u> | <u>943,074</u> |
| Change in net assets from operations | 121,829 | (40,720) | 81,109 |
| Non-operating activities: | | | |
| Investment earnings (losses) | <u>(10,367)</u> | <u>-</u> | <u>(10,367)</u> |
| Total non-operating activities | (10,367) | - | (10,367) |
| Change in net assets | 111,462 | (40,720) | 70,742 |
| Net assets beginning of year | <u>35,262</u> | <u>52,624</u> | <u>87,886</u> |
| Net assets at end of year | <u>\$ 146,724</u> | <u>11,904</u> | <u>158,628</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, 2020

| | Program Services | Supporting Services | | | Total |
|------------------------------------|-----------------------------|-----------------------------------|--------------------|-----------------|----------------|
| | | Management and General | Fundraising | Subtotal | |
| Conferences/research advisory | \$ 18,730 | - | - | - | 18,730 |
| Salaries and benefits | 340,832 | 129,966 | 28,227 | 158,193 | 499,025 |
| Travel and training | 66,292 | 79 | - | 79 | 66,371 |
| Honorariums | 169,359 | - | - | - | 169,359 |
| Fellowship awards | 35,000 | - | - | - | 35,000 |
| Professional fees | 21,590 | 8,374 | - | 8,374 | 29,964 |
| Website and information technology | - | 1,119 | - | 1,119 | 1,119 |
| Postage/shipping | 414 | 249 | - | 249 | 663 |
| Other program costs | 1,441 | 161 | - | 161 | 1,602 |
| Other administrative costs | 87 | 12,574 | - | 12,574 | 12,661 |
| Telephone | - | 1,938 | - | 1,938 | 1,938 |
| Charitable contribution/membership | 36,527 | 2,115 | - | 2,115 | 38,642 |
| Donated facilities (Note 4) | 15,000 | 3,000 | - | 3,000 | 18,000 |
| Clarke prize | 50,000 | - | - | - | 50,000 |
| Total Expenses | \$ 755,272 | 159,575 | 28,227 | 187,802 | 943,074 |

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

NATIONAL WATER RESEARCH INSTITUTE
Statement of Cash Flows
For the Year Ended June 30, 2020

| | Total |
|--|--------------|
| Cash flows from operating activities: | |
| Increase (decrease) in net assets | \$ 70,742 |
| Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities: | |
| Depreciation | - |
| Investment earnings (losses) | (7,285) |
| Decrease (increase) in accounts receivable | 78,600 |
| Decrease (increase) in prepaid expenses | 539 |
| (Decrease) increase in accounts payable and accrued liabilities | (129,641) |
| Net cash provided by (used for) operating activities | \$ 12,955 |
| Increase (decrease) in cash and cash equivalents | 12,955 |
| Cash and cash equivalents at beginning of year | 28,717 |
| Cash and cash equivalents at end of year | \$ 41,672 |
| <u>Supplemental disclosures of noncash investing and capital related financing activities:</u> | |
| For the year ended June 30, 2020, 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, 2020**

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

Financial Statement Presentation

The financial statements of the Organization have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America (GAAP). In accordance with Financial Accounting Standards Board (FASB) *Accounting Standards Update (ASU) 2016-14 Not for Profit Entities [Topic 958] – Presentation of Financial Statements of Not for Profit Entities*, the Organization is required to report information regarding its financial position and activities according to two classes of net assets:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organization. These net assets may be used at the discretion of the Organization's management and the board of directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

**NATIONAL WATER RESEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 \$41,672 at June 30, 2020. The balance is insured by the Federal Deposit Insurance Corporation up to \$250,000. Cash deposits may exceed federally insured limits at times during the year, however, at June 30, 2020 there were no cash balances exceeding the insurance limit.

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. Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions. Total depreciation expense for the years ended June 30, 2020 was \$0. 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 \$2,500.

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.

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.

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.

**NATIONAL WATER RESEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments

Investments are reported at cost, if purchased, or at fair value, if donated. Thereafter, investments are reported at their fair values in the statements of financial position, and changes in fair value are reported as investment return in the statements of activities. Purchases and sales of securities are reflected on a trade-date basis. Gains and losses on sales of securities are based on average cost and are recorded in the statements of activities in the period in which the securities are sold. Interest is recorded when earned. Dividends are accrued as of the ex-dividend date. The Organization's investments of \$25,405 as of June 30, 2020 consist of securities and were considered Level 1 investment as described below.

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, 2020. 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).

**NATIONAL WATER RESEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional 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 allocations between program and supporting services benefited are determined by management on an equitable basis. All allocations for program and supporting services are based on time and effort.

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 2019, 2018, and 2017 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 \$14,687 as of June 30, 2020 which was recorded on the statement of financial position as *accounts payable and accrued liabilities*.

Concentration of Risk

The Organization actively evaluates the credit worthiness of the institutions with which it invests. Approximately 17% of accounts receivable was from one contributor as of June 30, 2020.

Measure of Operations

The statement of activities reports all changes in net assets, including changes in net assets from operating and non-operating activities. Operating activities consist of those items attributable to the Organization's ongoing program services. Non-operating activities are limited to resources that generate return from investments and other activities considered to be of a more unusual or non-recurring nature.

New Accounting Pronouncements

In 2018, FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958) – *Contributions Received and Made*. The update clarifies and improves the scope and accounting guidance for contributions received and made. The Organization has adopted ASU 2018-08 in fiscal year June 30, 2020 and has adjusted the presentation of these statements accordingly in order to more consistently record revenue recognition from resource providers. In previous years, the Organization classified the majority of its research grant revenue received from government agencies as exchange transactions which was consistent with the new guidance of ASU 2018-08. The Organization has also elected to use the modified prospective basis in adopting the change, hence, no prior period adjustments were necessary.

See independent auditors' report

**NATIONAL WATER RESEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (continued)

In May 2014, Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenues from Contracts with Customers (ASC 606)*. The update provides a robust framework and clarification for addressing revenue recognition issues. The Organization has elected to apply the *modified retrospective method* during implementation only to contracts that have not been completed as of July 1, 2019 (initial adoption date) and has adjusted the presentation of these statements accordingly.

Contributions and Support Revenue Recognition

In accordance with ASC 958, unconditional contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Unconditional contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other unconditional donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. 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 statements of activities as net assets released from restrictions. Conditional contributions are recognized when the conditions on which they depend are substantially met.

In accordance with ASC 606, research project contract revenues are classified as exchange transactions and are recognized as performance obligations are satisfied based on the amount of the transaction price that is allocated to those performance obligations (i.e. based on progress billings on completed portions of contracts which are primarily less than a year). There were no provisions recorded for uncollectible accounts as the majority of research revenues were funded by government or quasi-government agencies. The Organization's cumulative catch-up adjustment to opening balance of retained earnings upon adoption of ASC 606 was \$0 due to the short-term nature of each contract. There was also no effect on revenues or expenses as a result of implementing ASC 606. The Organization determined that the transaction price with its grantors include fixed consideration as it relates to research data. The Organization also determined that the transfer of the research data rights is the date the data milestone stage is completed and turned over to the grantor and include only one bundled performance obligation, hence, there was no allocation of the transaction price considered necessary under ASC 606.

Pledges Receivable

Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Discount amortization is included in contribution revenue. Conditional promises to give are not included as support until the conditions are met.

**NATIONAL WATER RESEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 3 - NET ASSETS

Net assets with donor restriction were as follows for the year ended June 30, 2020:

| | |
|-------------------|------------------|
| Specific purpose: | |
| Fellowships | <u>\$ 11,904</u> |

Net assets released from donor restrictions during the fiscal year 2020 were as follows:

| | |
|-------------------------------|-----------------|
| Satisfaction of restrictions: | |
| Fellowships | <u>\$44,720</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, 2020, the Organization received \$18,000 in donated facilities from the Orange County Water District, which is the estimated fair market value of what would have been paid.

NOTE 5 - AVAILABILITY AND LIQUIDITY

The following represents the Organizations financial assets at June 30, 2020:

| | |
|-------------------------------|--------------|
| Financial assets at year end: | |
| Cash and cash equivalents | \$ 41,672 |
| Accounts receivables | 25,405 |
| Accounts receivables | 158,565 |
| Prepaid expenses | <u>1,511</u> |
| Subtotal | 227,153 |

Less amounts not available to be used within one year:

| | |
|---|------------------|
| Net assets with donor restrictions | 11,904 |
| Less net assets with purpose restrictions to be met within one year | <u>(11,904)</u> |
| Subtotal | <u>-</u> |

| | |
|---|------------------|
| Financial assets available to meet general expenses over the next twelve months | <u>\$227,153</u> |
|---|------------------|

**NATIONAL WATER RESEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

NOTE 5 - AVAILABILITY AND LIQUIDITY (continued)

The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$235,000). As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts and certificates of deposit.

NOTE 6 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 2, 2020, the date the financial statements were available to be issued.