

NATIONAL WATER RESEARCH INSTITUTE

Financial Statements

June 30, 2023

(With Independent Auditors' Report Thereon)

NATIONAL WATER RESEARCH INSTITUTE

Financial Statements

June 30, 2023

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Board of Directors
National Water Research Institute
Fountain Valley, California

INDEPENDENT AUDITORS' REPORT

Opinion

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, 2023**, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

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, 2023, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of National Water Research Institute and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about National Water Research Institute's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 National Water Research Institute's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about National Water Research Institute's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the National Water Research Institute's financial statements, and our report dated October 12, 2022, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year June 30, 2022, is consistent, in all material respects, the audited financial statements from which it has been derived.

Gruber and Lopez, Inc.

Gruber and Lopez, Inc.

Newport Beach, CA
October 11, 2023

NATIONAL WATER RESEARCH INSTITUTE
Statements of Financial Position
June 30, 2023
(with comparative totals as of June 30, 2022)

	Totals	
<u>Assets</u>	2023	2022
Current assets:		
Cash and cash equivalents	\$ 392,954	478,966
Investments	28,581	28,581
Accounts receivable	213,833	147,418
Contributions receivable	8,240	2,500
Prepaid expenses	2,788	1,905
Total current assets	646,396	659,370
Noncurrent assets:		
Property and equipment:		
Furniture and equipment	13,680	13,680
Less: accumulated depreciation	(13,680)	(13,680)
Total property and equipment, net	-	-
Total noncurrent assets	-	-
Total assets	\$ 646,396	659,370
<u>Liabilities and Net Assets</u>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 99,068	\$ 116,496
Unearned revenue - pass through payable	108,240	50,000
Total liabilities	207,308	166,496
Net assets (Note 3):		
Without donor restrictions - undesignated	439,088	492,874
With donor restrictions	-	-
Total net assets	439,088	492,874
Total liabilities and net assets	\$ 646,396	\$ 659,370

See independent auditors' report and accompanying notes to financial statements

NATIONAL WATER RESEARCH INSTITUTE
Statements of Activities
For the Year Ended June 30, 2023
(with comparative totals for the year ended June 30, 2022)

	Without Donor	With Donor	Totals	
	<u>Restrictions</u>	<u>Restrictions</u>	<u>2023</u>	<u>2022</u>
Operating activities:				
Support and revenue:				
Contributions - grants	\$ 50,932	-	50,932	94,693
Contributions - others	49,717	-	49,717	191,900
Research projects and panels (Note 6)	755,803	-	755,803	922,866
Memberships	300,000	-	300,000	250,000
Donated facilities (Note 4)	18,000	-	18,000	18,000
Other	6,340	-	6,340	1,598
Subtotal support and revenues	<u>1,180,792</u>	-	<u>1,180,792</u>	<u>1,479,057</u>
Net assets released from restrictions (Note 3)	-	-	-	-
Total support and revenue	<u>1,180,792</u>	-	<u>1,180,792</u>	<u>1,479,057</u>
Expenses:				
Program services	982,905	-	982,905	1,089,021
Management and general	211,501	-	211,501	198,597
Fundraising	40,172	-	40,172	6,252
Total expenses	<u>1,234,578</u>	-	<u>1,234,578</u>	<u>1,293,870</u>
Change in net assets from operations	(53,786)	-	(53,786)	185,187
Non-operating activities:				
Investment earnings	-	-	-	1,586
Total non-operating activities	-	-	-	1,586
Change in net assets	(53,786)	-	(53,786)	186,773
Net assets beginning of year	<u>492,874</u>	-	<u>492,874</u>	<u>306,101</u>
Net assets at end of year	<u>\$ 439,088</u>	-	<u>439,088</u>	<u>492,874</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, 2023
(with comparative totals for the year ended June 30, 2022)

	<u>Supporting Services</u>			<u>Totals</u>		
	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Subtotal</u>	<u>2023</u>	<u>2022</u>
Conferences/research advisory	\$ 24,306	-	-	-	24,306	5,506
Salaries and benefits	503,049	179,967	40,172	220,139	723,188	623,442
Travel and training	78,570	-	-	-	78,570	19,075
Honorariums	135,542	-	-	-	135,542	236,473
Fellowship awards	30,000	-	-	-	30,000	30,000
Professional fees	86,591	10,625	-	10,625	97,216	158,684
Website and information technology	-	-	-	-	-	746
Postage/shipping	166	114	-	114	280	300
Other program costs	6,963	-	-	-	6,963	884
Other administrative costs	-	14,855	-	14,855	14,855	10,361
Telephone	-	1,240	-	1,240	1,240	1,400
Charitable contribution/ membership	52,718	1,700	-	1,700	54,418	138,999
Donated facilities (Note 4)	15,000	3,000	-	3,000	18,000	18,000
Clarke prize	50,000	-	-	-	50,000	50,000
Total Expenses	<u>\$ 982,905</u>	<u>211,501</u>	<u>40,172</u>	<u>251,673</u>	<u>1,234,578</u>	<u>1,293,870</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, 2023
(with comparative totals for the year ended June 30, 2022)

	Totals	
	2023	2022
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ (53,786)	186,773
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Investment earnings (losses)	-	(1,588)
Decrease (increase) in accounts receivable	(72,155)	166,464
Decrease (increase) in prepaid expenses	(883)	3,113
(Decrease) increase in accounts payable and accrued liabilities	(17,428)	(13,662)
(Decrease) increase in unearned revenue	58,240	37,500
Net cash provided by (used for) operating activities	\$ (86,012)	378,600
Increase (decrease) in cash and cash equivalents	(86,012)	378,600
Cash and cash equivalents at beginning of year	478,966	100,366
Cash and cash equivalents at end of year	\$ 392,954	478,966
 <u>Supplemental disclosures of noncash investing and capital related financing activities:</u>		
For the year ended June 30, 2023, there were no material non-cash investing or financing activities.		
 <u>Supplemental disclosure of cash flow information:</u>		
Cash paid for interest expense	\$ -	-

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

**NATIONAL WATER RESEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

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, 2023**

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 \$392,954 at June 30, 2023. 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, at June 30, 2023 balances exceeding the insurance limit was \$169,861.

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, 2023 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 (i.e. contracts with customers). 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 support is recognized when due which is at the beginning of the Organization's fiscal year.

**NATIONAL WATER RESEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2023. 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).

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 \$28,581 as of June 30, 2023 consist of securities and were considered Level 1 investment as described above.

**NATIONAL WATER RESEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

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 2022, 2021, and 2020 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 \$34,699 as of June 30, 2023 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 23% of accounts receivable was from one contributor as of June 30, 2023. Approximately 16% of revenue support was from one contributor for the year ended June 30, 2023.

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.

Reclassifications

For comparability purposes, certain amounts in the 2022 financial statements have been reclassified to conform to the 2023 classifications. These reclassifications have no effect on reported change in net assets.

NATIONAL WATER RESEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 projects and panels 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 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*.

Contributions Receivable

Unconditional contributions receivable 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, 2023**

NOTE 3 - NET ASSETS

Net assets with donor restriction were as follows as of June 30, 2023:

Specific purpose:
None \$ -

Net assets released from donor restrictions during the fiscal year 2023 were as follows:

Satisfaction of restrictions:
None \$ -

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, 2023, the Organization received \$18,000 in donated facilities from the Orange County Water District for administration and operations, which is the estimated fair market value of what would have been paid. The donated facilities are month-to-month and hence not subject to ASU 2016-02- *Leases*.

NOTE 5 - AVAILABILITY AND LIQUIDITY

The following represents the Organizations financial assets at June 30, 2023:

Financial assets at year end:	
Cash and cash equivalents	\$392,954
Investments	28,581
Accounts receivables	213,833
Contributions receivable	<u>8,240</u>
Subtotal	643,608
Less amounts not available to be used within one year:	
Net assets with donor restrictions	-
Less net assets with purpose restrictions to be met within one year	<u>(-)</u>
Subtotal	<u>-</u>
Financial assets available to meet general expenses over the next twelve months	<u>\$643,608</u>

NATIONAL WATER RESEARCH INSTITUTE
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

NOTE 5 - AVAILABILITY AND LIQUIDITY (continued)

The Organization's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately \$300,000). As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts and certificates of deposit.

NOTE 6 - REVENUES FROM CONTRACTS WITH CUSTOMERS

The Organization's revenues from *research projects and panels* contracts (i.e. contracts with customers) are generated from service fees of which do not create an asset with an alternative use for the Organization.

Revenue derived from such service fees consists of fixed consideration as it relates to research data. As a result, revenue is recognized at a point in time, after the service is provided. In summary, revenue is disaggregated by timing of satisfaction of performance obligations. For the year ended June 30, 2023, \$755,803 of performance obligations were satisfied at a point in time.

NOTE 7 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 11, 2023, the date the financial statements were available to be issued.