

AQUATIC SCIENCE CENTER

FINANCIAL STATEMENTS

JUNE 30, 2011

AQUATIC SCIENCE CENTER

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Independent Auditors' Report

The Board of Trustees
Aquatic Science Center

We have audited the accompanying financial statements of the Aquatic Science Center ("ASC") of the business-type activities and major fund as of and for the year ended June 30, 2011, which collectively comprise ASC's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of ASC's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and major fund of ASC as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise ASC's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

RINA accountancy corporation

Certified Public Accountants

Oakland, California

December 7, 2011

AQUATIC SCIENCE CENTER

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2011

The following discussion and analysis of the financial performance of Aquatic Science Center provides an overview of ASC's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the financial statements identified in the accompanying table of contents.

FINANCIAL HIGHLIGHTS

- The year ended June 30, 2011 was ASC's fourth fiscal year.
- Revenue totaled \$959,828 for the current fiscal year which represents \$241,566 increase from prior year revenue of \$718,263.
- Expenses totaled \$959,319 for the current fiscal year which represents \$241,061 increase from prior year expenses of \$718,258.
- The total net assets were \$509 as of June 30, 2011.

OVERVIEW OF THE FINANCIAL STATEMENTS

Using the Accompanying Financial Statements:

The annual report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements*, and *notes to the basic financial statements*:

The basic financial statements include the following:

- The Statement of Net Assets provides *short-term and long-term* information about ASC's overall financial status.
- The Statement of Revenues, Expenses and Changes in Net Assets report the revenues and expenses of ASC for the fiscal year on an accrual basis of accounting and relate this to the increase in the net assets of ASC.
- The Statement of Cash Flows reports ASC's operating and financing cash flows and reconciles operating income to the net cash provided by operating and financing activities.

The notes to the financial statements provide additional information about the nature of ASC's activities and operations and its significant accounting policies, as well as, more detailed explanations about some of the information contained in the basic financial statements.

ASC operates as an enterprise fund, meaning that charges for services are expected to cover all expenses. Therefore, ASC presents *proprietary fund* statements.

Proprietary fund statements offer *short* and *long-term* financial information about activities. ASC operates in a manner similar to a private business.

Government Fund Reporting:

Figure A-1 summarizes the major features of government financial statements, including the portion of the government they cover and the types of information they contain. Because ASC is a proprietary fund, the financial statements adhere to the Proprietary Funds format.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2011

Figure A-1 - Major Features of Government - Wide and Fund Financial Statements.

	Government-Wide <u>Statements</u>	Fund Statements		
		<u>Governmental Funds</u>	<u>Proprietary Funds</u>	<u>Fiduciary Funds</u>
Scope	Entire ASC government (except fiduciary funds) and ASC's component units	The activities of ASC that are not proprietary or fiduciary	Activities ASC operates similar to private businesses	Instances in which ASC is the trustee or agent for someone else's resources
Required financial statements	<ul style="list-style-type: none"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Modified accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term debt included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2011

Reporting ASC as a Whole:

The accompanying financial statements include two statements which present financial data for ASC as a whole. One of the most important questions asked about ASC's finances is, "Is ASC, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about ASC as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report ASC's net assets and changes in them. You can think of ASC's net assets, the difference between assets and liabilities, as one way to measure ASC's financial health, or financial position. Over time, increases and decreases in ASC's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other factors, however, such as changes in client needs/agreements for services and changes in ASC's cost structure, to assess the overall health of ASC.

Because ASC is receiving funds in the form of grants and contracts from Federal and State agencies and San Francisco Estuary Institute, as ASC's administrator, is disbursing funds to accomplish that contractual work, there is a balance between program revenues and expenses, ASC's financial statements therefore will generally not reflect an accumulation of net assets as a measure of the organization's health. Each individual grant and contract should show that ASC is accomplishing the work proposed within the budgetary scope. The financial risk for ASC rests with its administrator, San Francisco Estuary Institute, which incorporates into its indirect cost rate the costs of administering ASC and accomplishing the objectives.

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, ASC's services are presented as Business-type activities. ASC charges a fee to customers to help it cover all of the cost of the services accounted for in the fund.

Reporting ASC's Proprietary Fund:

The accompanying financial statements provide detailed information on ASC's only fund – and thus ASC as a whole. ASC Board may establish other funds to help it control and manage money for particular purposes or to show that it is meeting administrative responsibilities for tracking certain grants or other money. ASC's one fund is a *proprietary fund*.

Proprietary funds – When an agency charges customer for the services it provides, whether to outside customers or to other units of the agency, these services are generally reported in proprietary funds. Required financial statements for proprietary funds include a Statement of Net Assets, and a Statement of Revenues, Expenses and Changes in Net Assets and a Statement of Cash Flows.

Business-Type Activities:

Revenues of ASC's operations totaled \$959,828.

Long-Term Debt:

At the end of the current fiscal year, ASC had no long-term debt outstanding.

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MANAGEMENT'S DISCUSSION AND ANALYSIS

YEAR ENDED JUNE 30, 2011

Future Financial Performance:

Management is not aware of any other commitments or conditions that may have a significant impact on the financial condition or operating results of ASC after the date of the financial statements presented.

Contacting ASC's Financial Management:

This financial report is designed to provide our customers and creditors with a general overview of ASC's finances and to show ASC's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Rainer Hoenicke, the Executive Director of San Francisco Estuary Institute, ASC's Administrator, 7770 Pardee Lane Oakland, CA 94621.

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STATEMENT OF NET ASSETS - JUNE 30, 2011

ASSETS

CURRENT ASSETS:

Cash	\$ 147,291
Accounts receivable	<u>168,689</u>

TOTAL ASSETS \$ 315,980

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 168,689
Customer deposits	145,778
Due to San Francisco Estuary Institute	<u>1,000</u>

TOTAL LIABILITIES 315,467

NET ASSETS:

Unrestricted	<u>513</u>
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TOTAL NET ASSETS 513

TOTAL LIABILITIES AND NET ASSETS \$ 315,980

See notes to financial statements.

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STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2011

REVENUES:	
Charges for services	\$ 959,293
Interest income	<u>535</u>
TOTAL OPERATING REVENUES	<u>959,828</u>
EXPENSES:	
Subcontractor	959,293
Other expense	<u>26</u>
TOTAL OPERATING EXPENSES	<u>959,319</u>
NET	<u>509</u>
OPERATING INCOME	509
NET ASSETS, beginning of year	<u>4</u>
NET ASSETS, end of year	<u><u>\$ 513</u></u>

See notes to financial statements.

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STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash received from government agencies	\$ 886,382
Cash payments to subcontractor for services	(790,604)
Interest received	535
Bank fees paid	(26)
	<hr/>

NET CASH PROVIDED IN OPERATING ACTIVITIES

 96,287

NET INCREASE IN CASH

 96,287

CASH AND CASH EQUIVALENTS, beginning of year

 51,004

CASH AND CASH EQUIVALENTS, end of year

 \$ 147,291

RECONCILIATION OF NET TO NET CASH USED IN OPERATING ACTIVITIES:

Change in net assets	\$ 509
Adjustments to reconcile change in net assets to cash used by operating activities:	
Increase in accounts receivable	(63,761)
Increase in accounts payable	63,761
Increase in customer deposits	95,778
	<hr/>

NET CASH PROVIDED IN OPERATING ACTIVITIES

 \$ 96,287

See notes to financial statements.

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NOTES TO BASIC FINANCIAL STATEMENTS - JUNE 30, 2010

Note 1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of activities:

Aquatic Science Center (ASC) was formed to assist with the efficient delivery of financial, scientific, monitoring, and information management support functions.

Members of ASC currently include the State Water Resources Control Board (State Water Board) and the Bay Area Clean Water Agencies (BACWA).

The Governing Board of Directors controls ASC. None of the member entities exercise specific control over budgeting and financing of ASC's activities beyond their representation on the board. Upon the concurrence of a majority of the Board, other public agencies may be added as parties to this Joint Powers Authority (JPA). The Board may from time to time appoint one or more advisory committees or establish advisory entities to assist in carrying out the objectives of ASC. Accounting services are to be provided by an independent certified public accountant or the Treasurer or Chief Financial Officer of any Signatory.

Formation of ASC:

ASC was formed by a Joint Powers Agreement originally dated July 1, 2007. The Agreement was made and entered into by and between the parties to the Joint Powers Agreement who are the State Water Resources Control Board (State Water Board) and the Bay Area Clean Water Agencies (BACWA).

The Governing Board of Directors (Board) for ASC, which at a minimum is composed of the following: Deputy Director of Division of Water Quality of State Water Resources Control Board, Executive Officer of San Francisco Bay Regional Water Quality Control Board, Executive Officer of Central Valley Regional Water Quality Control Board, Division Director of Water Division of U.S. Environmental Protection Agency, Region IX, and three directors appointed by BACWA. Upon the concurrence of a majority of the Board, other public agencies may be added as parties to this JPA.

Fund accounting:

The basic accounting and reporting entity is a "fund". A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts, recording resources, related liabilities, obligations, reserves and equities segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations.

ASC applies all applicable GASB pronouncements in accounting and reporting for its proprietary operations as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements.

All funds of ASC are enterprise funds and are considered business-type activities. Enterprise funds are used to account for operations (a) that are financed primarily through user charges, or (b) where the governing body has decided that the determination of net income is appropriate.

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NOTES TO BASIC FINANCIAL STATEMENTS - JUNE 30, 2010

Note 1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Measurement focus and basis of accounting:

The proprietary fund types are accounted for on an "income determination" or "cost of services" measurement focus. Accordingly, all assets and liabilities are included on the balance sheet, and the reported fund equity provides an indication of the historical net worth of the fund. Operating statements for proprietary fund types report increases (revenues) and decreases (expenses) in total historical net worth. Proprietary funds use the accrual basis of accounting, i.e., additions are recognized in the period earned and deductions are recognized in the period incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing goods and services related to the fund's ongoing operations. The principal operating revenue of ASC's enterprise funds is charges for services. Operating expenses include the salaries, benefits and, administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Cash equivalents:

Cash equivalents are defined as short-term, highly liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in interest rates, and have a maturity date of three months or less at the time of purchase.

Accounts receivable:

ASC uses the allowance method of accounting for bad debts. ASC's bad debt experience indicates, however, that any current allowance for bad debts would not be a material amount.

Subsequent events:

Management has evaluated subsequent events through December 7, 2011, the date which the financial statements were available for issue.

Note 2. NATURE OF ESTIMATES:

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

Note 3. CONCENTRATIONS:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of accounts receivable. Accounts receivable are due from government agencies, most of who operate in Northern California.

Revenue from contracts with two government agencies represents 72% of revenue for the year ended June 30, 2011. Accounts receivable from these government agencies represent 55% of total accounts receivable balance at June 30, 2011.

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NOTES TO BASIC FINANCIAL STATEMENTS - JUNE 30, 2010

Note 4. RELATED PARTY TRANSACTIONS:

San Francisco Estuary Institute, as ASC's administrator, advanced \$1,000 to ASC to fund operations. In addition, ASC paid its sole contractor San Francisco Estuary Institute \$959,293 during the year ended June 30, 2011.