

**AQUATIC SCIENCE CENTER  
RICHMOND, CALIFORNIA**

**BASIC FINANCIAL STATEMENTS  
AND  
SINGLE AUDIT REPORT**

**JUNE 30, 2013**

## TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-4
Basic Financial Statements:	
Statements of Net Position	Exhibit A 5
Statements of Revenues, Expenses, and Changes in Net Position	Exhibit B 6
Statements of Cash Flows	Exhibit C 7
Notes to Basic Financial Statements	8-11
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	12-13
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133	14-15
Schedule of Expenditures of Federal Awards	16
Notes to the Schedule of Expenditures of Federal Awards	17
Schedule of Findings and Questioned Costs	18-19
Status of Prior Year Findings and Recommendations	20-21

INDEPENDENT AUDITORS' REPORT

Board of Directors  
Aquatic Science Center  
Richmond, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Aquatic Science Center, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Aquatic Science Center's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these basic 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 basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic 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 basic financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Aquatic Science Center as of June 30, 2013, and the respective changes in financial position included as part of the basic financial statements, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The basic financial statements of Aquatic Science Center as of June 30, 2012, were audited by other auditors whose report dated June 28, 2013, expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 4 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 basic financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 28, 2014 on our consideration of the Aquatic Science Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Aquatic Science Center's internal control over financial reporting and compliance.

*R.J. Ricciardi, Inc.*

R.J. Ricciardi, Inc.  
Certified Public Accountants

San Rafael, California  
May 28, 2014

Aquatic Science Center  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013

The following discussion and analysis of the financial performance of Aquatic Science Center (ASC) provides an overview of ASC's financial activities for the fiscal year ended June 30, 2013. Please read it in conjunction with the financial statements identified in the accompanying table of contents.

- The year ended June 30, 2013 was ASC's sixth Fiscal year.
- Expenses total \$2,114,931 and \$1,782,972 for June 30, 2013 and 2012, respectively. The change of \$331,958 represents an increase of approximately 19%.
- Liabilities consisting of Contract Expenses Payable totaled \$417,840 and \$460,031 at June 30, 2013 and 2012, respectively.
- The total net position was \$721 and \$735 as of June 30, 2013 and 2012, respectively. The change of \$14 represents a 2% decrease.

### **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 Position provides asset and liability information about ASC's overall financial status. The difference between the ASC's assets and liabilities is the net position.
- The Statement of Revenues, Expenses and Changes in Net Position 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 position of ASC.
- The Statement of Cash Flows reports ASC's operating and financial 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.

### **Government Fund Reporting**

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.

Because ASC is a proprietary fund, the financial statements adhere to the Proprietary Funds format.

### **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 Position and the Statement of Revenues, Expenses and Changes in Net Position 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.

Aquatic Science Center  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2013

These two statements report ASC's net position and changes to net position. You can think of ASC's net position, 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 position 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, 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 position as a measure of ASC'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.

### **Reporting ASC's Proprietary Fund**

The accompanying financial statements provide detailed information on ASC's only fund - and thus ASC as a whole. ASC's 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.

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 Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows.

### **Business-Type Activities**

Revenues of ASC's operations totaled \$2,114,896 and \$1,782,972 at June 30, 2013 and 2012, respectively. Due to ASC's status as a local government, ASC is able to bypass the request for proposal process that non-profit agencies go through to earn grant funding from the various state and federal sources. As a result, ASC is experiencing significant revenue growth.

### **Long-Term Debt**

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

### **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 Jim Kelly, the Interim Executive Director of San Francisco Estuary Institute, ASC's Administrator, 4911 Central Avenue, Richmond, CA 94804.

Aquatic Science Center  
STATEMENTS OF NET POSITION  
 June 30, 2013  
 (With Comparative Totals for June 30, 2012)

Exhibit A

	2013	2012
<u>ASSETS</u>		
Cash	\$ 1,721	\$ 32,297
Accounts receivable	417,840	460,031
Total assets	\$ 419,561	\$ 492,328
<u>LIABILITIES</u>		
Contract expenses payable	\$ 417,840	\$ 460,031
Due to San Francisco Estuary Institute	1,000	1,000
Customer deposits	-	30,562
Total liabilities	\$ 418,840	\$ 491,593
<u>NET POSITION</u>		
Unrestricted	\$ 721	\$ 735
Total net position	\$ 721	\$ 735

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Year Ended June 30, 2013

(With Comparative Totals for the Year Ended June 30, 2012)

	<u>2013</u>	<u>2012</u>
Revenues:		
Contract revenue	\$ 2,038,833	\$ 1,782,972
Pass-through revenue	76,063	-
Interest income	<u>20</u>	<u>222</u>
Total revenues	<u>2,114,916</u>	<u>1,783,194</u>
Expenses:		
Subcontractor	2,038,833	1,782,972
Pass-through expenses	76,063	-
Other expenses	<u>34</u>	<u>-</u>
Total expenses	<u>2,114,930</u>	<u>1,782,972</u>
Change in net position	(14)	222
Net position, beginning of period	<u>735</u>	<u>513</u>
Net position, end of period	<u>\$ 721</u>	<u>\$ 735</u>

The accompanying notes are an integral part of these financial statements.

STATEMENTS OF CASH FLOWS

For the Year Ended June 30, 2013

(With Comparative Totals for the Year Ended June 30, 2012)

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities:		
Cash received from government agencies	\$ 1,996,642	\$ 1,700,729
Cash payments to subcontractor for services	(2,027,238)	(1,815,945)
Interest received	<u>20</u>	<u>222</u>
Net cash used in operating activities	<u>(30,576)</u>	<u>(114,994)</u>
Net increase in cash and cash equivalents	(30,576)	(114,994)
Cash at beginning of year	<u>32,297</u>	<u>147,291</u>
Cash at end of year	<u>\$ 1,721</u>	<u>\$ 32,297</u>
Reconciliation of change in net position to net cash used in operating activities:		
Change in net position	\$ (14)	\$ 222
Adjustments to reconcile change in net position to net cash provided used in operating activities:		
Changes in certain assets and liabilities:		
Accounts receivable	42,191	(291,342)
Accounts payable	(42,191)	291,342
Customer deposits	<u>(30,562)</u>	<u>(115,216)</u>
Net cash used in operating activities	<u>\$ (30,576)</u>	<u>\$ (114,994)</u>

The accompanying notes are an integral part of these financial statements.

Aquatic Science Center  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2013

NOTE 1 - GENERAL

A. 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 and the Bay Area Clean Water Agencies.

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 Power 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 a certified public accountant or the Treasurer or Chief Financial Officer of any Signatory.

B. 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: 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 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. 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.

Aquatic Science Center  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. 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 statement of net position, 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.

C. Cash Equivalents

ASC applies the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment to GASB Statement No. 3*, which requires governmental entities to provide proper disclosures on common deposit and investment risk related to credit risk, interest rate risk and foreign currency risk. In accordance with GASB Statement No. 40, ASC has made such disclosures.

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.

D. 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.

E. Net Position

The financial statements utilize a net position presentation. Net position is categorized as follows:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation and reduced by any debt outstanding against the acquisition, construction or improvement of those assets.

Restricted Net Position – This component of net position consists of limitations placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position – This component of net position consists of net position that does not meet the definition of *net investment in capital assets* or *restricted*.

Aquatic Science Center  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

F. 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.

G. Risk Management

ASC is exposed to risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which ASC has commercial insurance.

H. Contingencies

ASC participates in federal grants, the principal of which are from the U.S. Department of Environmental Protection Agency and the U.S. Department of the Interior. Disbursement of funds received under these grants requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed costs resulting from such an audit could become a liability of the General Fund or other applicable funds.

I. Concentrations

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

Revenue from contracts with two government agencies represents approximately 37% of revenue for the year ended June 30, 2013. Accounts receivable from these agencies represent approximately 24% of the total accounts receivable balance at June 30, 2013.

J. Subsequent Events

Management has evaluated subsequent events through May 28, 2014, the date which the financial statements were available to issue.

Aquatic Science Center  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2013

NOTE 3 - CASH

Cash balances as of June 30 are as follows:

	<u>2013</u>	<u>2012</u>
Wells Fargo Bank	<u>\$ 1,721</u>	<u>\$ 32,297</u>

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment; generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Custodial Credit Risk-Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. As of June 30, 2013, none of ASC's bank balance of \$1,721 was exposed to custodial credit risk because it was fully insured and collateralized with securities held by the pledging financial institution's trust department or agent.

NOTE 4 - RELATED PARTY TRANSACTIONS

San Francisco Estuary Institute (SFEI), as ASC's administrator, advanced \$1,000 to ASC to fund operations. In addition, ASC paid its sole contractor SFEI \$2,114,896 and \$1,782,972 during the years ended June 30, 2013 and 2012, respectively. As of June 30, 2013 and 2012, ASC owed SFEI \$418,840 and 461,031, respectively.

NOTE 5 - RECLASSIFICATIONS

Certain amounts in the June 30, 2012 financial statements have been reclassified to conform to the June 30, 2013 presentation. These reclassifications have no effect on the change in net position as previously reported.

INDEPENDENT AUDITORS' REPORT ON  
INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER  
MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE  
WITH GOVERNMENT AUDITING STANDARDS

Board of Directors  
Aquatic Science Center  
Richmond, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of Aquatic Science Center, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Aquatic Science Center's basic financial statements, and have issued our report thereon dated May 28, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Aquatic Science Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Aquatic Science Center's internal control. Accordingly, we do not express an opinion on the effectiveness of Aquatic Science Center's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Aquatic Science Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Aquatic Science Center's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Aquatic Science Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*R. J. Ricciardi, Inc.*

R.J. Ricciardi, Inc.  
Certified Public Accountants

San Rafael, California  
May 28, 2014

INDEPENDENT AUDITORS' REPORT ON  
COMPLIANCE FOR EACH MAJOR PROGRAM  
AND ON INTERNAL CONTROL OVER  
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Board of Directors  
Aquatic Science Center  
Richmond, California

Report on Compliance for Each Major Federal Program

We have audited Aquatic Science Center's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Aquatic Science Center's major federal programs for the year ended June 30, 2013. Aquatic Science Center's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Aquatic Science Center's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Aquatic Science Center's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Aquatic Science Center's compliance.

Basis for Qualified Opinion on Each Major Federal Programs (CFDA # 15.668, 66.461, & 66.463)

As described in the accompanying schedule of findings and questioned costs, Aquatic Science Center did not comply with requirements as described in finding number 13-01 for Reporting. Compliance with such requirements is necessary, in our opinion, for Aquatic Science Center to comply with the requirements applicable to that program.

Qualified Opinion on Each Major Federal Program (CFDA # 15.668, 66.461, & 66.463)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, Aquatic Science Center complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Other Matters

The results of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items #13-01. Our opinion on each major federal program is not modified with respect to these matters.

Aquatic Science Center's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Aquatic Science Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Aquatic Science Center is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Aquatic Science Center's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Aquatic Science Center's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

*A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and costs as item #13-01 to be significant deficiencies.

Aquatic Science Center's response to the internal control over compliance findings identified in our audit are described in the accompanying schedule of findings and costs. Aquatic Science Center's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*R.J. Ricciardi, Inc.*

R.J. Ricciardi, Inc.  
Certified Public Accountants

San Rafael, California  
May 28, 2014

Aquatic Science Center  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2013

<u>Grantor/Pass Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Federal Award Amount</u>	<u>Federal Expenditures</u>
<u>U.S. Department of the Interior:</u>				
Pass through the California Natural Resources Agency:				
Wetland Monitoring Toolkit (CIAP)	15.668	OCA10043	\$ 795,000	\$ 319,722
Pass through the San Francisco Bay Conservation and Development Commission:				
Head of Tide (HOT)	15.668	SFBC 11-16	118,316	<u>44,375</u>
Total U.S. Department of the Interior				<u>364,097</u>
<u>U.S. Department of Environmental Protection Agency:</u>				
Pass through the Bay Area Stormwater Management Agencies Association:				
San Francisco Bay Exposure Reduction Program	66.202	N/A	100,000	<u>20,009</u>
Subtotal pass through the Bay Area Stormwater Management Agencies Association				<u>20,009</u>
Direct awards:				
Performance Curves and Watershed Profiles	66.461	CD-00T54701-2	346,091	89,670
Tahoe WRAMP	66.461	CD-00T54401-2	345,000	109,044
TAT Phases 2 and 3	66.461	CD-00T54501-1	350,000	85,832
Science and Policy Development Support (WAPP)	66.461	CD-00T74001-1	159,078	<u>52,914</u>
Subtotal CFDA # 66.461				<u>337,460</u>
Direct awards:				
Delta Water Quality	66.463	CP-00T58601-2	211,760	<u>50,810</u>
Subtotal CFDA # 66.463				<u>50,810</u>
Total U.S. Department of Environmental Protection Agency				<u>408,279</u>
Total federal awards				<u>\$ 772,376</u>

Aquatic Science Center  
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
For the Year Ended June 30, 2013

NOTE 1 - BASIS OF PRESENTATION

The Schedule of Expenditures of Federal Awards includes the federal grant activity of Aquatic Science Center and is presented on the accrual basis. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. The amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree, in all material respects, to amounts reported within Aquatic Science Center's basic financial statements.

NOTE 2 - CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The CFDA number included in the accompanying Schedule of Expenditures of Federal Awards was determined based on the program name, review of the award contract, and the Office of Management and Budget's Catalog of Federal Domestic Assistance.

Aquatic Science Center  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 For the Year Ended June 30, 2013

**Section I – Summary of Auditors’ Results**

1. Type of auditors’ report issued: unmodified
2. Internal control over financial reporting:
  - A. Material weakness(es) identified? no
  - B. Significant deficiencies identified that were not considered to be material weakness(es)? none reported
  - C. Noncompliance material to financial statements noted? no
3. Internal control over major programs:
  - A. Material weakness(es) identified? no
  - B. Significant deficiencies identified that were not considered to be material weakness(es)? yes
  - C. Type of auditors’ report issued on compliance for major programs: qualified
  - D. Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? yes
4. Audited as Major Programs:

<u>CFDA Number</u>	<u>Program Name</u>	<u>Expenditures</u>
15.668	Wetland Monitoring Toolkit & Head of Tide	\$364,097
66.461	Regional Wetland Program Development Grants	337,460
66.463	Water Quality Cooperative Agreement	50,810

5. Dollar threshold used to distinguish between type A and type B programs: \$300,000
6. Auditee qualified as a low-risk auditee? no

**Section II – Financial Statement Findings**

There were no financial statement findings.

**Section III – Federal Award Findings and Questioned Costs**

<u>CFDA Number</u>	<u>Program Name</u>
15.668	Wetland Monitoring Toolkit & Head of Tide
66.461	Regional Wetland Program Development Grants
66.463	Water Quality Cooperative Agreement

**Finding #13-01: Audit Submission**

Criteria:

OMB Circular No. A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, states the single audit shall be submitted within the earlier of 30 days after receipt of the auditor’s report, or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

Aquatic Science Center  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
For the Year Ended June 30, 2013

**Finding #13-01: Audit Submission (concluded)**

Condition:

Aquatic Science Center did not submit the auditors' report within the deadline required by OMB Circular No. A-133.

Effect:

Aquatic Science Center was not in compliance with OMB Circular No. A-133.

Cause:

Aquatic Science Center was unable to meet this deadline due to delays in the previous audit for the year ended June 30, 2012.

Recommendation:

We recommend Aquatic Science Center complete their single audit and submit their audited financial statements within nine months after their year end or obtain an approved extension.

Corrective Action Plan:

Aquatic Science Center intends to have the audit for the year ended June 30, 2014 completed prior to March 31, 2015.

Aquatic Science Center  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
For the Year Ended June 30, 2013

**Finding #2012-1: Subrecipient Monitoring**

Federal Program:

Regional Wetland Program Development Grants, Water Quality Cooperative Agreement, Coastal Impact Assistance Program

Grant Identification Number:

CD-00T54701-2, CD-00T54401-2, CD-00T54501-1, CD-00T74001-1 08-047-250-2; CP-00T58601-2; OCA10043

Federal Agency:

U.S. Environmental Protection Agency, U.S. Department of the Interior

CFDA Number:

66.461, 66.463, 15.426

Finding Type:

Significant Deficiency and Noncompliance

Condition:

Aquatic Science Center did not monitor the activities of its subrecipient as necessary to ensure that its subrecipient complies with laws and regulations. As a result, Aquatic Science Center did not detect subrecipient non-compliance with federal requirements for Allowable Costs and Cash Management. The following subrecipient findings were determined:

Allowable Costs - The subrecipient used different indirect cost allocation rates and methodologies for its major programs, without adjusting for these reimbursements when applying the federal negotiated rate and did not consistently follow the terms of the negotiated rate, specifically when applying the Federal Negotiated rate the agreement calls for billing labor and benefits directly and then applying the negotiated rate to capture the indirect costs.

Cash Management - The subrecipient billed amounts on contracts prior to payment of expense. When Federal funds were received prior to making payments to subcontractors or for other expenses, San Francisco Estuary Institute did not calculate the interest earned on these unused funds. Additionally, there was no interest remitted, on a quarterly basis, to the Federal Agency.

The audit revealed that Aquatic Science Center does not have adequate policies and procedures to advise and monitor its subrecipient in accordance with federal requirements.

Aquatic Science Center  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
For the Year Ended June 30, 2013

**Finding #2012-1: Subrecipient Monitoring (concluded)**

Criteria:

Aquatic Science Center is required by the Office of Management and Budget (OMB) Circular A-133 Section .400(d), to advise subrecipients of requirements imposed on them by federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity, and to monitor the activities of subrecipients as necessary to ensure that federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements, and that performance goals are achieved. This includes review of all compliance requirements under OMB Circular A-133 Compliance Supplement.

Recommendations:

Aquatic Science Center should improve its policies and procedures to advise the subrecipient of compliance and contract requirements and ensure proper monitoring activities are performed and any deficiencies identified.

Aquatic Science Center should:

- Identify each compliance area under OMB Circular A-133 relevant to its contract.
- Continually review for any changes or updates that are required by the terms of contracts.
- Continually review for any changes or updates to laws and regulations that come from the federal and state agencies.
- Communicate to subrecipient these requirements.
- Monitor the compliance areas that are relevant to the subrecipient.
- Communicate any relevant findings or corrective actions deemed necessary to the subrecipient as needed.

Management Discussion and Corrective Action:

We agree with the recommendations. We will implement policies and procedures to ensure we monitor and communicate all relevant federal award information and applicable compliance requirements to subrecipient.

Questioned Costs:

\$ 0

Implementation Date:

April 30, 2014

Responsible Person:

Jim Kelly, Interim Executive Director

Phone Number:

(510) 746-7334

Status:

The corrective action plan was not implemented during the fiscal year ended June 30, 2013. We will review this finding again during the next audit year.