

**AQUATIC SCIENCE CENTER
RICHMOND, CALIFORNIA**

BASIC FINANCIAL STATEMENTS

JUNE 30, 2017

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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, 2017, 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 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2017, 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

We have previously audited Aquatic Science Center's 2016 basic financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 3, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2017 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
October 14, 2017

Aquatic Science Center
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2017

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, 2017. Please read it in conjunction with the financial statements identified in the accompanying table of contents.

- The year ended June 30, 2017 was ASC's ninth Fiscal year.
- Expenses total \$2,816,569 and \$2,325,687 for June 30, 2017 and 2016, respectively. The change of \$490,882 represents an increase of approximately 21%.
- Liabilities consisting of Contract Expenses Payable totaled \$702,887 and \$631,809 at June 30, 2017 and 2016, respectively.
- The total net position was \$724 and \$723 as of June 30, 2017 and 2016, respectively.

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 reports the revenues and expenses of ASC for the fiscal year on an accrual basis of accounting and relates 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, 2017

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 customers 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 \$2,816,570 and \$2,325,687 at June 30, 2017 and 2016, 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 Warner Chabot, the 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, 2017
 (With Comparative Totals for June 30, 2016)

	2017	2016
<u>ASSETS</u>		
Cash	\$ 1,724	\$ 1,723
Accounts receivable	702,887	631,809
Due from San Francisco Estuary Institute	558,670	783,256
Total assets	\$ 1,263,281	\$ 1,416,788
<u>LIABILITIES</u>		
Contract expenses payable	\$ 702,887	\$ 631,809
Due to San Francisco Estuary Institute	1,000	1,000
Unearned income	558,670	783,256
Total liabilities	\$ 1,262,557	\$ 1,416,065
<u>NET POSITION</u>		
Unrestricted	\$ 724	\$ 723
Total net position	\$ 724	\$ 723

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

Aquatic Science Center
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
 For the Year Ended June 30, 2017
 (With Comparative Totals for the Year Ended June 30, 2016)

	2017	2016
Revenues:		
Contract revenue	\$ 2,734,640	\$ 2,245,364
Pass-through revenue	81,929	80,323
Interest income	1	-
Total revenues	2,816,570	2,325,687
Expenses:		
Subcontractor	2,734,640	2,245,364
Pass-through expenses	81,929	80,323
Total expenses	2,816,569	2,325,687
Change in net position	1	-
Net position, beginning of period	723	723
Net position, end of period	\$ 724	\$ 723

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

Aquatic Science Center
STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 2017
(With Comparative Totals for the Year Ended June 30, 2016)

	2017	2016
Cash flows from operating activities:		
Cash received from government agencies	\$ 2,805,718	\$ 2,468,076
Cash payments to subcontractor for services	(2,805,718)	(2,468,076)
Interest received	1	-
Net cash used in operating activities	1	-
Net increase in cash and cash equivalents	1	-
Cash at beginning of year	1,723	1,723
Cash at end of year	\$ 1,724	\$ 1,723
Reconciliation of change in net position to net cash used in operating activities:		
Change in net position	\$ 1	\$ -
Adjustments to reconcile change in net position to net cash provided used in operating activities:		
Changes in certain assets and liabilities:		
Accounts receivable	(71,078)	(222,712)
Accounts payable	71,078	222,712
Net cash used in operating activities	\$ 1	\$ -

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

Aquatic Science Center
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

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. Other affiliations include members from Contra Costa County Flood Control District, University of San Francisco, Santa Clara Valley Water District, Environmental Defense Fund, The Nature Conservancy, Marin Audubon Society, Sacramento Regional County Sanitation District, and Sac Area Sewer District. 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 Governmental Accounting Standards Board (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.

Aquatic Science Center
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Fund Accounting (concluded)

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.

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.

Aquatic Science Center
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

E. Net Position (concluded)

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*.

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 24% of revenue for the year ended June 30, 2017. Accounts receivable from these agencies represent approximately 24% of the total accounts receivable balance at June 30, 2017.

J. Subsequent Events

Management has evaluated subsequent events through October 14, 2017, the date which the financial statements were available to issue.

K. Single Audit

The ASC did not require a Single Audit this year. The total federal awards for the year ended June 30, 2017 was \$597,425, which was below the Single Audit threshold.

Aquatic Science Center
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2017

NOTE 3 - CASH

Cash balances as of June 30 are as follows:

	<u>2017</u>	<u>2016</u>
Wells Fargo Bank	<u>\$ 1,724</u>	<u>\$ 1,723</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, 2017, none of ASC's bank balance of \$1,724 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, \$2,816,569 and \$2,325,687 during the years ended June 30, 2017 and 2016, respectively. As of June 30, 2017 and 2016, ASC owed SFEI \$703,887 and \$632,809, respectively.

As of June 30, 2017 and 2016, SFEI owed ASC \$558,670 and \$783,256, respectively, for ASC funds held at SFEI's financial institution.

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, 2017, 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, and have issued our report thereon dated October 14, 2017.

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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity'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
October 14, 2017