



ALASKA OCEAN OBSERVING SYSTEM

Financial Statements

September 30, 2011 and 2010

(With Independent Auditors' Report Thereon)

ALASKA OCEAN OBSERVING SYSTEM

Table of Contents

	Page(s)
Management's Discussion and Analysis	1 – 2
Independent Auditors' Report	3
Basic Financial Statements:	
Balance Sheets	4
Statements of Revenues, Expenses, and Changes in Net Assets	5
Statements of Cash Flows	6
Notes to Financial Statements	7 – 9

ALASKA OCEAN OBSERVING SYSTEM

Management's Discussion and Analysis

September 30, 2011 and 2010

(Unaudited – See accompanying accountants' report)

Introduction

The following discussion and analysis provide an overview of the financial position and activities of Alaska Ocean Observing System (AOOS) for the years ended September 30, 2011 and 2010. This discussion has been prepared by management and should be read in conjunction with the financial statements including the notes thereto, which follow this section.

Using the Financial Statements

AOOS's financial report includes three basic financial statements: the Balance Sheets, the Statements of Revenues, Expenses, and Changes in Net Assets and the Statements of Cash Flows. These statements are prepared in accordance with accounting principles generally accepted in the United States of America and Governmental Accounting Standards Board (GASB) pronouncements. Resources are classified into three net asset categories – unrestricted, restricted, and invested in capital assets, net of related debt.

Summary of Net Assets

The Balance Sheet presents the financial position of AOOS at the end of the fiscal year and includes all assets and liabilities of AOOS. Net assets, which represent the difference between total assets and total liabilities are an indicator of the financial condition of AOOS. The change in net assets from year to year is an indicator of whether financial condition is improving.

AOOS's assets, liabilities, and net assets at September 30, 2011, 2010, and 2009 are summarized as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Assets:			
Current assets	\$ 144,825	598,892	666,534
Capital assets	61,741	64,149	—
Total assets	<u>206,566</u>	<u>663,041</u>	<u>666,534</u>
Liabilities:			
Current liabilities	144,825	598,892	666,534
Net assets:			
Unrestricted	—	—	—
Restricted	—	—	—
Invested in capital assets	61,741	64,149	—
Total net assets	<u>\$ 61,741</u>	<u>64,149</u>	<u>—</u>

Current assets decreased by \$454,067 from September 30, 2010 to September 30, 2011 due primarily to a decrease in accounts receivable. In the same period, current liabilities decreased by \$454,067 due primarily to a decrease in accounts payable.

Capital assets decreased by \$2,408 from September 30, 2010 to September 30, 2011 due to the net difference between depreciation and final payment of a grant-funded wave buoy.

ALASKA OCEAN OBSERVING SYSTEM

Management's Discussion and Analysis

September 30, 2011 and 2010

(Unaudited – See accompanying accountants' report)

Current assets decreased by \$67,642 from September 30, 2009 to September 30, 2010 due primarily to a decrease in accounts receivable. In the same period, current liabilities decreased by \$67,642 due primarily to a decrease in accounts payable.

Capital assets increased by \$64,149 from September 30, 2009 to September 30, 2010 due to the commencement of constructing a grant-funded wave buoy.

Statement of Revenues, Expenses, and Changes in Net Assets

The statement of revenues, expenses, and changes in net assets presents the results of operations for AOOS as a whole. AOOS's significant recurring source of revenue is from grants.

AOOS's revenues, expenses, and changes in net assets for the years ended September 30, 2011 and 2010, and 2009 are summarized as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Operating revenues	\$ 1,612,246	1,704,542	1,917,830
Operating expenses	1,619,106	1,704,542	1,917,830
Operating income	(6,860)	—	—
Capital contributions	4,452	64,149	—
Change in net assets	(2,408)	64,149	—
Net assets at beginning of year	64,149	—	—
Net assets at end of year	\$ <u>61,741</u>	<u>64,149</u>	<u>—</u>

Contacting AOOS's Financial Management

This financial report is designed to provide AOOS's management, grantors, and members with a general overview of AOOS's finances, and to demonstrate its accountability for the money it receives.

If you have questions about this report or need additional financial information, contact AOOS's fiscal agent at 301 Railway Avenue, Seward, Alaska, phone 907-224-6300.



KPMG LLP
Suite 600
701 West Eighth Avenue
Anchorage, AK 99501

Independent Auditors' Report

The Board of Directors
Alaska Ocean Observing System:

We have audited the accompanying balance sheets of Alaska Ocean Observing System (AOOS) as of September 30, 2011 and 2010, and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of AOOS's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of AOOS's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 AOOS as of September 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 16, 2012 on our consideration of AOOS's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 1 and 2 is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

March 16, 2012

ALASKA OCEAN OBSERVING SYSTEM

Balance Sheets

September 30, 2011 and 2010

Assets	2011	2010
Current assets:		
Accounts receivable – federal grants	\$ 143,468	598,122
Accounts receivable – other	—	770
Prepaid expenses	1,357	—
Total current assets	144,825	598,892
Capital assets – equipment, net (note 2)	61,741	64,149
Total assets	\$ 206,566	663,041
Liabilities and Net Assets		
Current liabilities:		
Accounts payable (note 3)	\$ 121,523	574,300
Accrued expenses	23,302	24,592
Total current liabilities	144,825	598,892
Net assets:		
Invested in capital assets	61,741	64,149
Unrestricted	—	—
Total net assets	61,741	64,149
Commitments and contingencies (notes 4, 5, and 6)		
Total liabilities and net assets	\$ 206,566	663,041

See accompanying notes to financial statements.

ALASKA OCEAN OBSERVING SYSTEM

Statements of Revenues, Expenses, and Changes in Net Assets

Years ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Grants – federal	\$ 1,612,246	1,700,442
Other	—	4,100
Total operating revenues	<u>1,612,246</u>	<u>1,704,542</u>
Operating expenses:		
Data collection and dissemination	1,514,894	1,202,044
Administrative (note 3)	97,352	498,398
Depreciation	6,860	—
Other	—	4,100
Total operating expenses	<u>1,619,106</u>	<u>1,704,542</u>
Operating loss	(6,860)	—
Capital contributions:		
Capital grants – federal	4,452	64,149
Change in net assets	(2,408)	64,149
Net assets – beginning of year	<u>64,149</u>	—
Net assets – end of year	<u>\$ 61,741</u>	<u>64,149</u>

See accompanying notes to financial statements.

ALASKA OCEAN OBSERVING SYSTEM

Statements of Cash Flows

Years ended September 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Receipts from grants	\$ 2,065,542	1,767,933
Receipts from programs	770	4,100
Payments to vendors and subcontractors	(1,808,404)	(1,506,442)
Payments for salaries and benefits	<u>(257,908)</u>	<u>(265,591)</u>
Cash provided by operating activities	<u>—</u>	<u>—</u>
Capital and related financing activities:		
Capital grants received	4,452	64,149
Purchase of capital assets	<u>(4,452)</u>	<u>(64,149)</u>
Cash provided by capital and related financing activities	<u>—</u>	<u>—</u>
Net increase in cash	—	—
Cash and equivalents, beginning of year	—	—
Cash and equivalents, end of year	<u>\$ —</u>	<u>—</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating loss	\$ (6,860)	—
Depreciation expense	6,860	—
Adjustments to reconcile operating loss to net cash provided by operating activities:		
Changes in assets and liabilities that provided (used) cash:		
Accounts receivable	454,654	68,261
Other receivables	770	(770)
Prepaid expenses	(1,357)	151
Accounts payable	(452,777)	(71,773)
Accrued expenses	<u>(1,290)</u>	<u>4,131</u>
Net cash provided by operating activities	<u>\$ —</u>	<u>—</u>

See accompanying notes to financial statements.

ALASKA OCEAN OBSERVING SYSTEM

Notes to Financial Statements

September 30, 2011 and 2010

(1) Organization and Summary of Significant Accounting Policies

(a) *Organization*

Alaska Ocean Observing System (AOOS) was formed in 2004 as one of eleven regional observing systems formed as part of the Integrated Ocean Observing System. AOOS is subject to accounting principles generally accepted in the United States of America applicable to state and local governments because a controlling majority of the members of the organization's governing body are appointed by one or more federal or state governments.

The Seward Association for the Advancement of Marine Science (SAAMS) acts as a fiscal agent for AOOS and is reimbursed based on actual costs expended. SAAMS holds all cash received by AOOS and makes payments for all amounts owed. AOOS's net "cash" position is reported as accounts payable to SAAMS.

(b) *Measurement Focus and Basis of Accounting*

The accounting and financial reporting treatment applied is determined by its measurement focus. The accounts of AOOS are reported using the flow of economic resources measurement focus. The accounts are maintained on the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of timing of related cash flows.

AOOS has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with standards issued by the GASB. AOOS has elected to not apply FASB pronouncements issued after the applicable date.

(c) *Estimates*

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosures of contingent assets and liabilities, and revenue and expenses for the reporting period. Actual results could differ from those estimates.

(d) *Revenues*

AOOS administers grants that are of a cost reimbursement type that include provisions for advances and billings for costs incurred. Revenues and receivables of AOOS are recorded when reimbursable expenses are incurred to the extent of the grant or contract amount. Amounts receivable from federal funding agencies include amounts relating to expenses incurred prior to year-end but not billed until after year-end. Advances from federal funding agencies are considered earned when an expense is incurred. All receipts in excess of expenses for ongoing programs are recorded as deferred revenue.

AOOS's principle operating revenue is grants. Grant funds received for the construction or acquisition of capital assets are considered capital contributions. When both restricted and unrestricted resources are available for use, it is AOOS's policy to use restricted resources first, then unrestricted resources as they are needed.

Contribution revenue is reported when received.

ALASKA OCEAN OBSERVING SYSTEM

Notes to Financial Statements

September 30, 2011 and 2010

(e) Capital Assets

Capital assets are carried at original acquisition cost. Depreciation is computed using the straight-line method over their estimated useful lives.

(f) Income Taxes

AOOS is the Alaskan portion of the National Federation of Regional Associations of Coastal Ocean Observing Systems and as such is not a legal entity subject to federal income taxation.

(2) Capital Assets

Capital assets activity for the year ended September 30, 2011 and 2010 is as follows:

	<u>Beginning of year</u>	<u>Addition</u>	<u>Deletion</u>	<u>End of year</u>	<u>Annual depreciation expense</u>
2011:					
Capital assets being depreciated:					
Equipment	\$ —	68,601	—	68,601	
Accumulated depreciation	—	(6,860)	—	(6,860)	
Capital assets not being depreciated:					
Construction in progress	64,149	4,452	(68,601)	—	
	<u>\$ 64,149</u>	<u>66,193</u>	<u>(68,601)</u>	<u>61,741</u>	<u>6,860</u>
2010:					
Capital assets not being depreciated:					
Construction in progress	\$ —	64,149	—	64,149	—

Capital assets consist entirely of a wave buoy that was placed in service during 2011.

(3) Related-Party Transaction

Under a memorandum of understanding between SAAMS and AOOS, SAAMS is paid for services provided while acting as the fiscal agent for AOOS. During the year ended September 30, 2011 and 2010, AOOS paid SAAMS \$97,352 and \$108,406 for those services, respectively. At September 30, 2011 and 2010, AOOS had payables to SAAMS of \$35,438 and \$33,359, respectively.

(4) Defined Contribution Plan

AOOS participates in a qualified defined contribution 401(k) retirement plan. There were no contributions charged to expense for fiscal year 2011 or 2010.

(5) Contingencies

Amounts received or receivable from federal agencies are subject to audit and adjustment by the grantor agencies. Any disallowed claims, including amounts already collected, could become a liability of AOOS. In management's opinion, the amount that might be disallowed, if any, will not have a material effect on the financial statements.

ALASKA OCEAN OBSERVING SYSTEM

Notes to Financial Statements

September 30, 2011 and 2010

(6) Concentration of Revenue

AOOS receives almost all of its revenue from federal grants. Changes in government funding could have a significant effect on the activity of AOOS.

(7) Subsequent Events

In connection with the preparation of the financial statements, AOOS evaluated subsequent events after the balance sheet date of September 30, 2011 through March 16, 2012, which was the date the financial statements were available to be issued.