

Northeastern Regional Association of Coastal Ocean Observing Systems

**Audited Financial Statements
and Other Information**

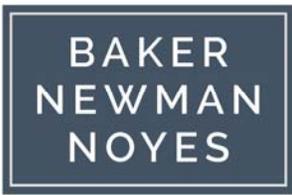
*Years Ended September 30, 2017 and 2016
With Independent Auditors' Reports*

**NORTHEASTERN REGIONAL ASSOCIATION OF
COASTAL OCEAN OBSERVING SYSTEMS**

AUDITED FINANCIAL STATEMENTS AND OTHER INFORMATION

Years Ended September 30, 2017 and 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Northeastern Regional Association of Coastal Ocean Observing Systems

Report on the Financial Statements

We have audited the accompanying financial statements of the Northeastern Regional Association of Coastal Ocean Observing Systems (NERACOOS) (a nonprofit organization), which comprise the statements of financial position as of September 30, 2017 and 2016, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility

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 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 auditors' 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 opinion.

To the Board of Directors of
Northeastern Regional Association of Coastal Ocean Observing Systems

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of NERACOOS as of September 30, 2017 and 2016, and the results of its activities and changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 December 22, 2017, on our consideration of NERACOOS' 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 NERACOOS' internal control over financial reporting and compliance.

Baku Newman & Noyes LLC

Manchester, New Hampshire
December 22, 2017

**NORTHEASTERN REGIONAL ASSOCIATION OF
COASTAL OCEAN OBSERVING SYSTEMS**

STATEMENTS OF FINANCIAL POSITION

September 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|---------------------------------------|-------------------|-------------------|
| <u>ASSETS</u> | | |
| Current assets: | | |
| Cash | \$ 332,389 | \$ 215,067 |
| Grants and contributions receivable | 537,953 | 303,993 |
| Prepaid expenses | <u>4,293</u> | <u>6,435</u> |
| Total current assets | 874,635 | 525,495 |
| Other assets: | | |
| Deposit | <u>1,963</u> | <u>1,963</u> |
| Total other assets | <u>1,963</u> | <u>1,963</u> |
| Total assets | \$ <u>876,598</u> | \$ <u>527,458</u> |
| <u>LIABILITIES AND NET ASSETS</u> | | |
| Current liabilities: | | |
| Accounts payable | \$ 514,261 | \$ 344,728 |
| Accrued salaries and related taxes | 43,603 | 50,764 |
| Accrued retirement contribution | 10,509 | 366 |
| Deferred revenue | <u>22,625</u> | <u>18,607</u> |
| Total current liabilities | 590,998 | 414,465 |
| Net assets: | | |
| Unrestricted net assets | <u>285,600</u> | <u>112,993</u> |
| Total net assets | <u>285,600</u> | <u>112,993</u> |
| Total liabilities and net assets | \$ <u>876,598</u> | \$ <u>527,458</u> |

See accompanying notes.

**NORTHEASTERN REGIONAL ASSOCIATION OF
COASTAL OCEAN OBSERVING SYSTEMS**

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended September 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|-------------------------------|-------------------|-------------------|
| Revenue and support: | | |
| Grants | \$3,420,496 | \$3,243,239 |
| Contributions | 27,517 | 30,761 |
| Program income | 14,802 | 5,983 |
| Investment income | <u>107</u> | <u>107</u> |
| Total revenue and support | 3,462,922 | 3,280,090 |
| Expenses: | | |
| Program service | 3,134,665 | 3,106,268 |
| Management and general | 129,358 | 153,673 |
| Fundraising | <u>26,292</u> | <u>10,490</u> |
| Total expenses | <u>3,290,315</u> | <u>3,270,431</u> |
| Change in net assets | 172,607 | 9,659 |
| Net assets, beginning of year | <u>112,993</u> | <u>103,334</u> |
| Net assets, end of year | <u>\$ 285,600</u> | <u>\$ 112,993</u> |

See accompanying notes.

**NORTHEASTERN REGIONAL ASSOCIATION OF
COASTAL OCEAN OBSERVING SYSTEMS**

STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2017 and 2016

| | <u>2017</u> | <u>2016</u> |
|---|-------------------|-------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 172,607 | \$ 9,659 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Change in grants and contributions receivable | (233,960) | 633,214 |
| Change in prepaid expenses | 2,142 | (139) |
| Change in accounts payable | 169,533 | (631,923) |
| Change in accrued salaries and related taxes | (7,161) | (9,047) |
| Change in accrued retirement contributions | 10,143 | (5,164) |
| Change in deferred revenue | <u>4,018</u> | <u>18,607</u> |
| Net cash provided by operating activities | <u>117,322</u> | <u>15,207</u> |
| Increase in cash | 117,322 | 15,207 |
| Cash at beginning of year | <u>215,067</u> | <u>199,860</u> |
| Cash at end of year | <u>\$ 332,389</u> | <u>\$ 215,067</u> |

See accompanying notes.

**NORTHEASTERN REGIONAL ASSOCIATION OF
COASTAL OCEAN OBSERVING SYSTEMS**

NOTES TO FINANCIAL STATEMENTS

September 30, 2017 and 2016

1. Nature of Organization and Significant Accounting Policies

Organization

The Northeastern Regional Association of Coastal Ocean Observing Systems (NERACOOS) is a Maine nonprofit corporation incorporated in 2008. NERACOOS' mission is to produce, integrate and communicate high quality information that helps ensure safety, economic and environmental resilience, and sustainable use of the coastal ocean. NERACOOS spans coastal waters from the Canadian Maritime Provinces to the New York Bight. NERACOOS provides weather and ocean data to fishers and commercial shippers determining if conditions are safe for passage and to emergency managers issuing storm warnings. NERACOOS is also advancing efforts to improve water quality monitoring, harmful algal bloom predictions and warnings, and coastal flooding and erosion forecasting systems.

Cash

For purposes of the statements of cash flows, NERACOOS considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. NERACOOS has no cash equivalents at September 30, 2017 and 2016. NERACOOS maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. NERACOOS has not experienced any losses on such accounts.

Grants and Contributions Receivable

Federal grants receivable are carried at the unpaid balance of the original amount billed, or costs incurred, to the federal award granting agency, reduced by an estimate made for doubtful accounts based on a review of all outstanding amounts and their terms. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Grants receivable are written off when deemed uncollectible.

Unconditional promises to give are recorded as contributions receivable at a present value using a risk-free rate of return, less an appropriate allowance for uncollectible contributions at the time the contribution is made. The allowance for uncollectible contributions is based on an overall review of outstanding contributions and an analysis of individual large contributions outstanding. Contributions are written off when deemed uncollectible.

Grants and Contributions Revenue

Federal grants are reported as unrestricted revenue as reimbursable costs are incurred under the terms of the federal awards.

Unconditional grants and contributions of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Contributions of assets other than cash are recorded at their estimated fair value. Contributions received with a donor stipulation that limits their use are reported as temporarily or permanently restricted net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

**NORTHEASTERN REGIONAL ASSOCIATION OF
COASTAL OCEAN OBSERVING SYSTEMS**

NOTES TO FINANCIAL STATEMENTS

September 30, 2017 and 2016

1. Nature of Organization and Significant Accounting Policies (Continued)

Unconditional grants and contributions expected to be collected within one year are reported at their net realizable value. Unconditional contributions expected to be collected in future years are initially reported at fair value determined using the discounted present value of estimated future cash flows technique.

Conditional contributions depend on the occurrence of a specified future and uncertain event to bind the potential donor and are recognized as assets and revenue when the conditions are substantially met and the contribution becomes unconditional or irrevocable.

Classification of Net Assets

Net assets are classified and reported based on the existence or absence of donor-imposed restrictions. NERACOOS considers contributions to be temporarily restricted if they are received with donor stipulations that restrict the timing or purpose of expending the donated assets. All such contributions are reported as permanently restricted or temporarily restricted depending upon specific language in the contribution, pledge, or gift instrument.

The following provides a description of the net asset classifications represented in NERACOOS' net assets:

Unrestricted net assets include amounts appropriated for expenditure from temporarily restricted net assets and those without donor-imposed restrictions. NERACOOS records as unrestricted contributions restricted contributions whose restrictions are met in the same reporting period. Income derived from the unrestricted assets is classified as unrestricted.

Temporarily restricted net assets include grants and contributions for which donor or grantor imposed restrictions have not yet been met. Assets are released from restrictions as expenditures are made in line with the restrictions called for under the terms of the contribution or grant. NERACOOS has no temporarily restricted net assets.

Permanently restricted net assets include the portion of donor-restricted endowment funds that are deemed to be permanently restricted by explicit donor stipulation. NERACOOS has no permanently restricted net assets.

Deferred Revenue

Deferred revenue consists of grant revenue in excess of costs incurred on federal contracts. NERACOOS records deferred revenue when grant revenue is received before the incurrence of costs related to federal awards.

Vacation Pay

NERACOOS has accrued a liability for future vacation time that its employees have earned and which is vested with the employees.

**NORTHEASTERN REGIONAL ASSOCIATION OF
COASTAL OCEAN OBSERVING SYSTEMS**

NOTES TO FINANCIAL STATEMENTS

September 30, 2017 and 2016

1. Nature of Organization and Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

NERACOOS is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. As such, no tax provisions have been made in the accompanying financial statements.

NERACOOS has adopted provisions of the FASB ASC *Topic 740-10*. NERACOOS' policy is to evaluate all tax positions on an annual basis in conjunction with the filing of the annual return of organization exempt from income tax. Interest and penalties assessed by income taxing authorities are included in administrative expense. For 2017 and 2016, there were no penalties or interest assessed or paid. NERACOOS files informational returns in the U.S. federal and state jurisdictions.

Recent Accounting Pronouncements

In May 2014, the FASB issued No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which requires revenue to be recognized when promised goods or services are transferred to customers in amounts that reflect the consideration to which NERACOOS expects to be entitled in exchange for those goods and services. ASU 2014-09 will replace most existing revenue recognition guidance when it becomes effective. ASU 2014-09 is effective for NERACOOS on October 1, 2019. ASU 2014-09 permits the use of either the retrospective or cumulative effect transition method. Management is currently evaluating the impact that ASU 2014-09 will have on its financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* (ASU 2016-02). Under ASU 2016-02, at the commencement of a long-term lease, lessees will recognize a liability equivalent to the discounted payments due under the lease agreement, as well as an offsetting right-of-use asset. ASU 2016-02 is effective for NERACOOS on October 1, 2020, with early adoption permitted. Lessees (for capital and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees may not apply a full retrospective transition approach. NERACOOS is currently evaluating the impact of the pending adoption of ASU 2016-02 on its financial statements.

**NORTHEASTERN REGIONAL ASSOCIATION OF
COASTAL OCEAN OBSERVING SYSTEMS**

NOTES TO FINANCIAL STATEMENTS

September 30, 2017 and 2016

1. Nature of Organization and Significant Accounting Policies (Continued)

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities (Topic 958)* (ASU 2016-14). Under ASU 2016-14, the existing three-category classification of net assets (i.e., unrestricted, temporarily restricted and permanently restricted) will be replaced with a simplified model that combines temporarily restricted and permanently restricted into a single category called “net assets with donor restrictions.” ASU 2016-14 also enhances certain disclosures regarding board designations, donor restrictions and qualitative information regarding management of liquid resources. In addition to reporting expenses by functional classifications, ASU 2016-14 will also require the financial statements to provide information about expenses by their nature, along with enhanced disclosures about the methods used to allocate costs among program and support functions. ASU 2016-14 is effective for the NERACOOS fiscal year ending September 30, 2019, with early adoption permitted. NERACOOS is currently evaluating the impact of the pending adoption of ASU 2016-14 on its financial statements.

Subsequent Events

For the purpose of recognition and disclosure in the financial statements, management has evaluated subsequent events through December 22, 2017, which is the date the financial statements were available to be issued.

2. Retirement Plan

NERACOOS has a defined contribution retirement plan that contributes 5% of annual salaries for employees meeting certain eligibility requirements. For the years ended September 30, 2017 and 2016, retirement contribution expense was \$18,908 and \$10,790, respectively.

3. Operating Lease

NERACOOS leases office space under a lease expiring in September 2020. Base rent and common area charges are adjusted each year of the lease based on the Consumer Price Index. Lease expense for the years ending September 30, 2017 and 2016 was \$27,117 and \$25,592, respectively.

Future minimum payments under the operating lease are (unadjusted for inflation):

| | |
|------|-----------------|
| 2018 | \$24,952 |
| 2019 | 24,952 |
| 2020 | <u>24,952</u> |
| | <u>\$74,856</u> |

**NORTHEASTERN REGIONAL ASSOCIATION OF
COASTAL OCEAN OBSERVING SYSTEMS**

NOTES TO FINANCIAL STATEMENTS

September 30, 2017 and 2016

4. Concentrations

At September 30, 2017, 90% of the accounts receivable balance was due from one grantor, and 66% of the accounts payable balance was owed to two subrecipients. For the year ended September 30, 2017, 96% of grant revenue was received from one grantor. At September 30, 2016, 81% of the accounts receivable balance was due from one grantor, and 74% of the accounts payable balance was owed to five subrecipients. For the year ended September 30, 2016, 93% of grant revenue was received from one grantor.

5. Related Parties

All organizations being provided federal awards from NERACOOS are represented on the Board of Directors of NERACOOS. In addition, certain principal investigators of federal grant subawards also serve on the NERACOOS Board of Directors.

The amount of the subawards and accounts payable balance as of September 30, 2017 for which the principal investigator serves on the NERACOOS Board of Directors are as follows:

| | <u>Subaward</u> | <u>Accounts Payable</u> |
|--|-----------------|-------------------------|
| Bedford Institute of Oceanography | \$ 29,911 | \$ 29,911 |
| Gulf of Maine Research Institute | 152,424 | 22,107 |
| New Hampshire Department of Environmental Services | 9,521 | - |
| University of Massachusetts Dartmouth | 74,377 | 20,971 |
| University of Connecticut | 273,677 | 38,620 |
| University of Maine | 1,089,841 | 218,586 |
| University of New Hampshire | 412,500 | 116,975 |
| University of Rhode Island | 60,107 | - |
| Woods Hole Oceanographic Institution | 45,110 | 2,525 |

The amount of the subawards and accounts payable balance as of September 30, 2016 for which the principal investigator serves on the NERACOOS Board of Directors are as follows:

| | <u>Subaward</u> | <u>Accounts Payable</u> |
|--|-----------------|-------------------------|
| Bedford Institute of Oceanography | \$ 29,866 | \$ 29,866 |
| New Hampshire Department of Environmental Services | 2,021 | 2,021 |
| University of Maine | 673,989 | 76,843 |
| University of New Hampshire | 573,924 | 43,974 |
| University of Rhode Island | 62,547 | - |
| Woods Hole Oceanographic Institution | 73,900 | 1,365 |

**NORTHEASTERN REGIONAL ASSOCIATION OF
COASTAL OCEAN OBSERVING SYSTEMS**

NOTES TO FINANCIAL STATEMENTS

September 30, 2017 and 2016

6. Functional Expenses

Expenses by functional classification at September 30, 2017 and 2016 are as follows:

| | <u>Program Service</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>2017 Total</u> |
|-------------------------------|----------------------------|-----------------------------------|--------------------|-----------------------|
| Grant sub-awards | \$2,712,924 | \$ – | \$ – | \$2,712,924 |
| Salaries | 265,881 | 65,757 | 15,976 | 347,614 |
| Office expense | 15,104 | 18,152 | 1,761 | 35,017 |
| Employee benefits | 26,331 | 478 | 1,068 | 27,877 |
| Travel | 40,078 | – | – | 40,078 |
| Outside contract services | 5,000 | – | 6,000 | 11,000 |
| Meetings and conferences | 28,707 | 493 | 67 | 29,267 |
| Rent | 9,564 | 17,158 | 395 | 27,117 |
| Payroll taxes | 19,996 | 4,614 | 1,025 | 25,635 |
| Professional fees | – | 18,260 | – | 18,260 |
| Insurance | – | 4,446 | – | 4,446 |
| Professional association fees | <u>11,080</u> | <u>–</u> | <u>–</u> | <u>11,080</u> |
| | <u>\$3,134,665</u> | <u>\$129,358</u> | <u>\$26,292</u> | <u>\$3,290,315</u> |
| | | | | |
| | <u>Program Service</u> | <u>Management and General</u> | <u>Fundraising</u> | <u>2016 Total</u> |
| Grant sub-awards | \$2,690,352 | \$ – | \$ – | \$2,690,352 |
| Salaries | 263,772 | 76,519 | 7,862 | 348,153 |
| Office expense | 25,436 | 22,906 | 55 | 48,397 |
| Employee benefits | 23,993 | 5,282 | 705 | 29,980 |
| Travel | 47,503 | – | – | 47,503 |
| Outside contract services | – | 1,107 | – | 1,107 |
| Meetings and conferences | 22,300 | – | – | 22,300 |
| Rent | 7,678 | 16,634 | 1,280 | 25,592 |
| Payroll taxes | 19,714 | 5,719 | 588 | 26,021 |
| Professional fees | – | 21,153 | – | 21,153 |
| Insurance | – | 4,353 | – | 4,353 |
| Professional association fees | <u>5,520</u> | <u>–</u> | <u>–</u> | <u>5,520</u> |
| | <u>\$3,106,268</u> | <u>\$153,673</u> | <u>\$10,490</u> | <u>\$3,270,431</u> |

**NORTHEASTERN REGIONAL ASSOCIATION OF
COASTAL OCEAN OBSERVING SYSTEMS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2017

| <u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u> | <u>Federal CFDA Number</u> | <u>Pass Through Entity Identifying Number</u> | <u>Passed Through to Subrecipients</u> | <u>Federal Expend- itures</u> |
|--|------------------------------------|---|--|---------------------------------------|
| Research and Development Cluster: | | | | |
| U.S. Department of Commerce: | | | | |
| Integrated Ocean Observing System (IOOS): | | | | |
| Continued Development of the Northeastern Regional Coastal Ocean Observing System | 11.012 | | \$ 302,706 | \$ 312,602 |
| NERACOOS: The Integrated Ocean Observing System for the Northeast Region | 11.012 | | 1,372,420 | 1,763,917 |
| Operational Nutrient Observatory for the Northeastern Regional Association of Coastal Ocean Observing Systems | 11.012 | | 523,274 | 537,581 |
| Pass-through University System of New Hampshire: | | | | |
| Tracking Ocean Alkalinity Using New Carbon Measurement Technologies (TAACT) | 11.012 | 16-035 | 7,369 | 7,459 |
| Pass-through Woods Hole Oceanographic Institution: | | | | |
| Transition of Imaging FlowCytobot to Operational Support For Harmful Algal Bloom Mitigation and Research | 11.012 | 24513700 | 6,261 | 7,010 |
| Pass-through University of Maryland Center for Environmental Science: | | | | |
| Alliance for Coastal Technologies (ACT 2016): | | | | |
| National Scale Efforts Towards Evaluation of Observing Technologies | 11.012 | SA7525796EPO3615 | — | 7,787 |
| Total Integrated Ocean Observing System (IOOS) | | | 2,212,030 | 2,636,356 |

**NORTHEASTERN REGIONAL ASSOCIATION OF
COASTAL OCEAN OBSERVING SYSTEMS**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)

For the Year Ended September 30, 2017

| <u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u> | <u>Federal CFDA Number</u> | <u>Pass Through Entity Identifying Number</u> | <u>Passed Through to Subrecipients</u> | <u>Federal Expend- itures</u> |
|---|------------------------------------|---|--|---------------------------------------|
| Office of Coastal Management: High Resolution Coastal Inundation Modeling and Advancement of Green Infrastructure and Living Shoreline Approaches in the Northeast | 11.473 | | \$ <u>321,475</u> | \$ <u>324,986</u> |
| Total U.S. Department of Commerce | | | 2,533,505 | 2,961,342 |
| U.S. Department of Interior: Hurricane Sandy Disaster Relief – Coastal Resiliency Grants: Pass-through: National Fish and Wildlife Foundation: Improving Northeast Coast Storm – Related Data Interpretation and Accessibility | 15.153 | 44212 | <u>150,293</u> | <u>180,283</u> |
| Total Research and Development Cluster | | | <u>2,683,798</u> | <u>3,141,625</u> |
| Total Expenditures of Federal Awards | | | \$ <u>2,683,798</u> | \$ <u>3,141,625</u> |

See accompanying notes to Schedule of Expenditures of Federal Awards.

**NORTHEASTERN REGIONAL ASSOCIATION OF
COASTAL OCEAN OBSERVING SYSTEMS**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended September 30, 2017

1. Basis of Presentation

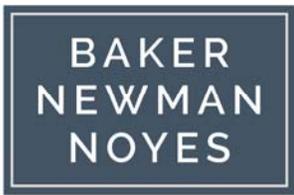
The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of NERACOOS under programs of the federal government for the year ended September 30, 2017 and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of NERACOOS, it is not intended to and does not present the financial position, changes in net assets, or cash flows of NERACOOS.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. NERACOOS has elected to not use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

3. Indirect Cost Rates

NERACOOS has predetermined indirect cost rates ranging from 11.14% to 33.23% for various grant agreements. The rates are predetermined rates for the fiscal year ended September 30, 2017 through September 30, 2018. The indirect cost rates are based upon the grant budget approved by the grantor and are subject to change.



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

To the Board of Directors of
Northeastern Regional Association of Coastal Ocean Observing Systems:

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 Northeastern Regional Association of Coastal Observing Systems (NERACOOS) which comprise the statement of financial position as of September 30, 2017, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 22, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered NERACOOS' 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 NERACOOS' internal control. Accordingly, we do not express an opinion on the effectiveness of NERACOOS' 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. We did identify a certain deficiency in internal control, described in the Schedule of Findings and Questioned Costs as item 2017-001, that we consider to be a significant deficiency.

To the Board of Directors of
Northeastern Regional Association of Coastal Ocean Observing Systems:

Compliance and Other Matters

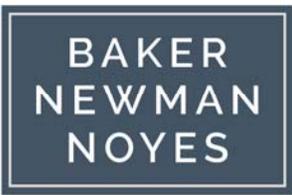
As part of obtaining reasonable assurance about whether NERACOOS' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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*.

NERACOOS' response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. NERACOOS' response was not subjected to the audit procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

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.

Baku Newman & Noyes LLC
Manchester, New Hampshire
December 22, 2017



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of
Northeastern Regional Association of Coastal Ocean Observing Systems:

Report on Compliance for Each Major Federal Program

We have audited the Northeastern Regional Association of Coastal Ocean Observing System's (NERACOOS) compliance with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of NERACOOS' major federal programs for the year ended September 30, 2017. NERACOOS' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of NERACOOS' 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 the audit requirements of Title 2 of the U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 NERACOOS' 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 NERACOOS' compliance.

Opinion on Each Major Federal Program

In our opinion, NERACOOS 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 September 30, 2017.

To the Board of Directors of
Northeastern Regional Association of Coastal Ocean Observing Systems:

Report on Internal Control Over Compliance

Management of NERACOOS 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 NERACOOS' 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 the Uniform Guidance, 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 NERACOOS' internal control over compliance.

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.

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

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Baku Newman & Noyes LLC

Manchester, New Hampshire
December 22, 2017

**NORTHEASTERN REGIONAL ASSOCIATION OF
COASTAL OCEAN OBSERVING SYSTEMS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: *Unmodified*

Internal control over financial reporting:
 Material weaknesses identified? Yes No
 Significant deficiency(ies) identified that are not
 considered to be material weaknesses? Yes No

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? Yes No
 Significant deficiency(ies) identified that are not
 considered to be material weaknesses? Yes None reported

Type of auditors' report issued on compliance
 for major programs: *Unmodified*

Any audit findings disclosed that are required to be reported
 in accordance with Section 2 CFR 200.516(a)? Yes No

Identification of major programs

| <u>CFDA Number</u> | <u>Name of Federal Program or Cluster</u> |
|------------------------|--|
| 11.012, 11.473, 15.153 | Coastal Ocean Observing – research and development cluster |

Dollar threshold used to distinguish
 between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee: Yes No

**NORTHEASTERN REGIONAL ASSOCIATION OF
COASTAL OCEAN OBSERVING SYSTEMS**

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For the Year Ended September 30, 2017

Section II – Financial Statement Findings

Findings related to the financial statements which are required to be reported in accordance with *Government Auditing Standards*:

2017-001

Criteria – Section 2 CFR 200.61, *Internal Controls* states that an entity must implement a process designed to provide reasonable assurance regarding the achievement of objectives in the effectiveness and efficiency of operations; reliability of reporting for internal and external use; and compliance with applicable laws and regulations.

Condition – The data collection form (From SF-SAC) (DCF) must be filed with the Federal Audit Clearinghouse within 9 months of the fiscal year ending September 30.

Context – Management did not file the data collection form (From SF-SAC) with the Federal Audit Clearinghouse within 9 months of the fiscal year ending September 30, 2016. The DCF for fiscal year ending September 30, 2016 was filed on October 25, 2017.

Effect – NERACOOS was no longer considered a low-risk auditee under 2 CFR section 200.520. The late filing error did not affect NERACOOS' federal awards.

Cause – Management did not receive notification when the data collection form was available to be filed.

Recommendation – Management should establish controls to ensure that all filings are completed within the reporting deadlines.

Management Response – NERACOOS has implemented controls and procedures to ensure that the Data Collection Form is filed within the reporting deadline. Further, the Executive Director and the Finance Director are now receiving email notifications from the Federal Audit Clearinghouse when the reporting process has been initiated, which will mitigate the risk of management missing the filing deadline in the future.

Section III – Findings and Questioned Costs for Federal Awards

None.

**NORTHEASTERN REGIONAL ASSOCIATION OF
COASTAL OCEAN OBSERVING SYSTEMS**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended September 30, 2017

There were no reported findings from the prior year.