

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC.

Annual Financial Report

For the Year Ended August 31, 2007

COASTAL BEND BAYS AND ESTUARIES PROGRAM, INC.
 ANNUAL FINANCIAL REPORT
 YEAR ENDED AUGUST 31, 2007

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LOVVORN & KIESCHNICK, LLP
418 Peoples Street, Suite 308
Corpus Christi, Texas 78401

Independent Auditor's Report

To the Board of Directors
Coastal Bend Bays & Estuaries Program, Inc.
Corpus Christi, Texas

We have audited the accompanying statement of financial position of Coastal Bend Bays & Estuaries Program, Inc. (a nonprofit organization) as of August 31, 2007, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Coastal Bend Bays & Estuaries Program, Inc. as of August 31, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 4, 2008, on our consideration of Coastal Bend Bays & Estuaries Program, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Coastal Bend Bays & Estuaries Program, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Lovvorn + Kieschnick, LLP

March 4, 2008

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COASTAL BEND BAYS & ESTUARIES PROGRAM, INC.
STATEMENT OF FINANCIAL POSITION
August 31, 2007

ASSETS

Current assets

| | |
|--|------------------|
| Cash | \$ 757,951 |
| Cash - restricted (Note 6) | 93,182 |
| Short-term Investments - restricted (Note 6) | 4,277,659 |
| Prepaid Expenses | 2,852 |
| Grants receivable | <u>779,143</u> |
| Total current assets | 5,910,787 |

Long term assets

| | |
|--------------------------------------|-----------------------------|
| Property and Equipment, net (Note 5) | <u>4,413,453</u> |
| Total assets | <u>\$ 10,324,240</u> |

LIABILITIES AND NET ASSETS

Current liabilities

| | |
|----------------------------------|-----------------------|
| Accounts payable | \$ 194,317 |
| Accrued expenses | <u>515,101</u> |
| Total current liabilities | <u>709,418</u> |

Net assets

| | |
|---|-----------------------------|
| Unrestricted: | |
| Undesignated | 708,719 |
| Invested in Property and Equipment | <u>4,413,453</u> |
| Total Unrestricted | 5,122,172 |
| Temporarily restricted (Note 6) | <u>4,492,650</u> |
| Total net assets | <u>9,614,822</u> |
| Total liabilities and net assets | <u>\$ 10,324,240</u> |

See notes to financial statements.

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC.
STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2007

| | Unrestricted | Temporarily Restricted | Total |
|--|-------------------------|---------------------------|-------------------------|
| Public support and revenue | | | |
| Federal and State funded grant agreements (Note 2) | \$ - | \$ 2,470,711 | \$ 2,470,711 |
| Supplemental Environmental Project (SEP) (Note 6) | - | - | 0 |
| Local government contributions (Note 4) | 272,500 | - | 272,500 |
| Private non-profit corporate contributions | - | 993,408 | 993,408 |
| Interest income | 2,414 | 202,230 | 204,644 |
| In kind contributions (Note 3) | 68,227 | - | 68,227 |
| Other income | 18,106 | - | 18,106 |
| Net assets released from restrictions (Note 7) | 3,500,440 | (3,500,440) | - |
| Total public support and revenue | <u>3,861,687</u> | <u>165,909</u> | <u>4,027,596</u> |
| Expenses | | | |
| Federal and State funded grant agreements (Note 2) | 2,457,969 | - | 2,457,969 |
| General fund | 1,252,722 | - | 1,252,722 |
| In kind contributions (Note 3) | 68,227 | - | 68,227 |
| Total expenses | <u>3,778,918</u> | <u>-</u> | <u>3,778,918</u> |
| Change in net assets | 82,769 | 165,909 | 248,678 |
| Net assets, August 31, 2006, restated (Note 9) | 5,039,403 | 4,326,741 | 9,366,144 |
| Net assets, August 31, 2007 | <u>\$ 5,122,172</u> | <u>\$ 4,492,650</u> | <u>\$ 9,614,822</u> |

See notes to financial statements.

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2007

| | Federal and State Funded | In Kind Contributions | General Fund | Total |
|---|--------------------------------|--------------------------|---------------------|---------------------|
| Personnel | | | | |
| Salaries | \$ 542,128 | \$ - | \$ 49,819 | \$ 591,947 |
| Fringe Benefits | | | | |
| Health and workers compensation insurance | 54,133 | - | 9,827 | 63,960 |
| Pension plan | 33,469 | - | 1,972 | 35,441 |
| Payroll taxes | 52,752 | - | - | 52,752 |
| Total personnel expenses | 682,482 | - | 61,618 | 744,100 |
| Travel, training, conferences | 16,267 | - | 33,023 | 49,290 |
| Supplies | 39,955 | - | 7,254 | 47,209 |
| Equipment | - | - | 10 | 10 |
| Contractual | 1,605,698 | - | 1,065,812 | 2,671,510 |
| Other expenses | | | | |
| Rent | - | 26,400 | - | 26,400 |
| Utilities | - | 24,551 | 4,838 | 29,389 |
| Maintenance | 5,970 | 153 | 169 | 6,292 |
| Telephone and Internet | 3,590 | 632 | 764 | 4,986 |
| Insurance expense | 8,991 | - | 7,601 | 16,592 |
| Equipment rental | 9,007 | - | 2,253 | 11,260 |
| Printing and duplication | 10,223 | - | 8,571 | 18,794 |
| Advertising | 22,784 | - | 10,707 | 33,491 |
| Professional services | 23,690 | 450 | - | 24,140 |
| Janitorial | - | 3,154 | - | 3,154 |
| Security | 564 | 7,887 | - | 8,451 |
| Data Processing | 11,595 | - | 6,520 | 18,115 |
| Dues and subscriptions | 6,637 | 5,000 | 2,475 | 14,112 |
| Temporary Staff | 1,592 | - | - | 1,592 |
| Registration fees | 6,278 | - | 13,471 | 19,749 |
| Postage and freight | 2,531 | - | - | 2,531 |
| Miscellaneous | 115 | - | 22,729 | 22,844 |
| Depreciation | - | - | 4,907 | 4,907 |
| Total expenses | \$ 2,457,969 | \$ 68,227 | \$ 1,252,722 | \$ 3,778,918 |

See notes to financial statements.

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2007

| | |
|--|------------------------------|
| Cash flows from operating activities | |
| Changes in net assets | \$ 248,678 |
| Adjustments to reconcile change in net assets to net cash flow from operating activities: | |
| Depreciation | 4,907 |
| Income Temporarily Restricted | (217,878) |
| (Increase) decrease in operating assets: | |
| Grants Receivable | (297,430) |
| Prepaid Expenses | 2,010 |
| Cash - Restricted | (2,090) |
| Increase (decrease) in operating liabilities: | |
| Accounts payable and other payables | 23,157 |
| Accrued Expenses | <u>503,518</u> |
| Net cash provided by operating activities | 264,872 |
| Cash flows from investing activities | |
| Purchase of Equipment | (5,871) |
| Purchase of US Treasury Bills | (194,902) |
| Sale of Certificates of Deposit | <u>(5,775)</u> |
| Net cash provided (used) by investing activities | (206,548) |
| Cash flows from financing activities | |
| Income temporarily restricted | <u>217,878</u> |
| Net increase in cash | 276,202 |
| Cash | |
| Cash at the beginning of the year | <u>481,749</u> |
| Cash at the end of the year | <u><u>\$ 757,951</u></u> |

See notes to financial statements.

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Coastal Bend Bays & Estuaries Program, Inc. is a nonprofit Texas corporation chartered in August 1999. The Organization was organized to implement the Coastal Bend Bays Plan, which seeks to ensure that the Coastal Bend bays and estuaries remain a vibrant part of the region's environmental and economic landscape by preserving and enhancing their roles as a recreational resource, international seaport, and habitat for fish and wildlife.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual method of accounting.

Financial Statement Presentation

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of funding entity-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to funding entity-imposed restrictions.

Temporarily restricted net assets - Net assets subject to funding entity-imposed stipulations that may or will be met, either by actions of the Organization and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets - Net assets subject to funding entity-imposed stipulations that they be maintained permanently by the Organization. Generally, the grantor of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

Contributions

Contributions are recognized as revenue when they are received or unconditionally pledged. All contributions are available for unrestricted use unless specifically restricted by the donor.

Use of Estimates

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

Revenue Accounting

Government grants are recognized as revenue in the period of related expenses. Therefore, unreimbursed expenses are accrued as accounts receivable and excess reimbursements are accrued as a liability, to be refunded to the government.

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and Equipment

Property and equipment are stated at cost or donated value. Equipment depreciation is calculated using the straight-line method over five years. Office build out amortization is calculated using the straight-line method over five years.

Government Grant Revenues

Substantially all of the Organization's public support and revenues are from various government grants. Federal funds and state funds are provided through the Texas Commission On Environmental Quality, U.S. Fish & Wildlife Service and U.S. Environmental Protection Agency. Local funds are provided by the City of Corpus Christi, Port of Corpus Christi, San Patricio County, City of Portland, City of Ingleside, City of Port Aransas, City of Aransas Pass and Nueces County.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The cash restricted is not considered to be a cash equivalent for purposes of the statement of cash flows.

Federal Income Tax Accounting

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, an annual return must be filed for each calendar year on Form 990, Return of Organization Exempt from Income Tax, to report details of operations and financial position.

Donated Materials, Equipment and Services (In Kind Services)

Donated materials and equipment and donated services are recorded as contributions at their estimated values at the date of receipt.

Concentrations of Credit Risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed to completely perform as contracted. Management believes the likelihood of incurring material losses due to concentration of credit risk is remote. The principal financial instruments subject to credit risk are as follows:

The Organization's cash and cash - restricted are deposited with a financial institution (bank). The cash deposited exceeds the FDIC (Federal Deposit Insurance Corporation) insured limits and is not secured by any other collateral.

Investments

Investments are carried at estimated fair value based on quoted market prices. As of August 31, 2007, investments consisted of U.S. Treasury bills with an estimated fair value of \$4,119,222 and Certificates of Deposits \$158,437.

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC
 NOTES TO THE FINANCIAL STATEMENTS
 AUGUST 31, 2007

2. FEDERAL AND STATE FUNDED GRANT AGREEMENTS

CBBEP has ongoing grants with the following State and Federal Agencies:

- Texas Commission On Environmental Quality
- Texas General Land Office
- United States Fish and Wildlife Service
- United States Environmental Agency Region VI (two grants)
- United States Environmental Agency Region IV (Gulf of Mexico program)

3. IN KIND CONTRIBUTION AGREEMENT

Agreement between the Port of Corpus Christi Authority of Nueces County, Texas (Authority) and the Coastal Bend Bays & Estuaries Program, Inc. (CBBEP). The Authority will provide CBBEP with certain services to support the management and operation of CBBEP. Services provided include office space, office furniture, telephones, and access to the local area network.

4. LOCAL GOVERNMENT CONTRIBUTIONS

As of August 31, 2007 the Organization had received the following contributions from local sources:

| | |
|------------------------|-------------------|
| City of Corpus Christi | \$ 75,000 |
| Port of Corpus Christi | 75,000 |
| Port Industries | 75,000 |
| City of Portland | 5,000 |
| City of Port Aransas | 5,000 |
| City of Rockport | 7,500 |
| San Patricio County | <u>30,000</u> |
| Total Contributions | <u>\$ 272,500</u> |

5. PROPERTY AND EQUIPMENT

Property and equipment at August 31, 2007 consisted of the following:

| | |
|--|---------------------|
| Land (Habitat) | \$ 4,389,521 |
| Office Build Out | 166,184 |
| Equipment | <u>57,952</u> |
| Total | \$ 4,613,657 |
| Less accumulated depreciation and amortization | <u>(200,204)</u> |
| Property and equipment, net | <u>\$ 4,413,453</u> |

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2007

5. PROPERTY AND EQUIPMENT (continued)

Land (Habitat) – The Coastal Bend Bays & Estuaries Program Inc. acquires real property interests in wetlands and associated uplands to ensure that the real property will be administered for the long-term conservation of such lands and waters and the migratory birds and fish and other wildlife dependent thereon.

Office Build Out – The Port of Corpus Christi Authority of Nueces County, Texas (Authority) contributes office space to the Coastal Bend Bays & Estuaries Program, Inc. (CBBEP) (see note 3). The Authority spent \$166,184 "building out" the office space provided to CBBEP. CBBEP amortized the "build out" over five years. The amortization was complete in 2004.

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes as of August 31, 2007:

Court Ordered Condition of Probation (COCP):

In February, 2003, the CBBEP received from the United States District Court for the Southern District of Texas, Corpus Christi Division, funds to develop, in coordination with the TCEQ and the U.S. Environmental Protection Agency (EPA), water quality remediation projects in and around Corpus Christi. Specifically, the CBBEP will implement the COCP project: "Preservation and Enhancement of Wetlands and Wildlife Habitats in the Nueces River Delta." The CBBEP maintains these funds in a separate interest-bearing account used exclusively for such funds. The source of these funds are as a result of a felony conviction which required a Company to pay the funds for this project as a condition of probation for a criminal conviction.

\$ 4,106,727

Shamrock Island Habitat Protection & Enhancement Project

In June, 2004, the CBBEP received monies for the enhancement of colonial waterbird habitat on Shamrock Island in Nueces County, which has experienced significant loss of wetland and rookery habitat due to dredging activities and erosion from waves and ships. This project will satisfy required mitigation for the seagrasses that will be impacted by activities near Packery Channel. Funds are provided by the City of Corpus Christi.

188,425

Colonial Waterbird Rookery Island Enhancement Project

In November, 2004, the CBBEP began receiving SEP monies for the Colonial Waterbird Rookery Island Enhancement Project. The project will enhance the colonial waterbird habitat on Shamrock and Causeway Islands in Nueces County. These Islands are experiencing significant loss of wetland and rookery habitat due to dredging activities and erosion from waves and ships. These funds are approved by TCEQ and contributed by respondents in enforcement actions brought by the TCEQ.

66,125

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC
 NOTES TO THE FINANCIAL STATEMENTS
 AUGUST 31, 2007

6. TEMPORARILY RESTRICTED NET ASSETS (continued)

| | |
|--|--------------|
| City of Corpus Christi Grant | |
| Digital Elevation Model of the Nueces Delta | |
| In August 2006, CBBEP received monies for the Digital Elevation Model of the Nueces Delta project. This project will be used to develop a research-quality digital elevation model that will be used to better understand how vegetation assemblages are correlated with elevation; map habitats in conjunction with aerial photography; and design freshwater diversion projects. Initial grant is \$120,733. | 120,733 |
| Earl Sams Foundation | 3,500 |
| Coastal Bend Community Foundation | 7,140 |
| Total Temporarily Restricted Net Assets | \$ 4,492,650 |

7. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes by donors as follows:

| | |
|---|--------------|
| Environmental projects funded by federal and state grants | \$ 2,457,971 |
| Private non-profit corporate grant | 994,907 |
| State Farm Grant | 10,000 |
| Earl Sams Foundation | 5,000 |
| Coastal Bend Community Foundation | 32,562 |
| Total | \$ 3,500,440 |

8. RETIREMENT PLAN

The Organization sponsors a simplified employee pension (SEP) in accordance with section 408(k) of the Internal Revenue Code. All employees who are at least 19 years old and whose total compensation during the Plan Year (Organization's fiscal year) is \$400 or more are eligible participants. The plan provides that the Organization make discretionary contributions in each Plan Year to the Individual Retirement Accounts of all eligible employees. For the year ended August 31, 2007, the Organization contributed 6% of the gross compensation of all eligible employees for a total contribution of \$35,441.

9. RESTATEMENT OF BEGINNING NET ASSETS

During the year, management determined that certain grants receivables were not going to be received and also determined that several outstanding invoices were no longer valid. Beginning Net Assets have been restated as follows:

| | NET ASSETS | | |
|---|--------------|------------------------|-----------|
| | Unrestricted | Temporarily Restricted | Total |
| Beginning balance, as previously reported | 5,038,473 | 4,347,289 | 9,385,762 |
| Receivables restatement | (1,462) | (20,722) | (22,184) |
| Payables restatement | 2,392 | 174 | 2,566 |
| Beginning balance, as restated | 5,039,403 | 4,326,741 | 9,366,144 |

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LOVVORN & KIESCHNICK, LLP
418 Peoples Street, Suite 308
Corpus Christi, Texas 78401

Independent Auditor's Report

Report on Compliance and on Internal Control over Financial
Reporting Based on an Audit of Financial Statements Performed
In Accordance with Government Auditing Standards

To The Board of Directors
Coastal Bend Bays & Estuaries Program, Inc.
Corpus Christi, Texas

Members of the Board:

We have audited the basic financial statements of Coastal Bend Bays & Estuaries Program, Inc. (a nonprofit organization) as of and for the year ended August 31, 2007, and have issued our report thereon dated March 4, 2008. 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, and the provisions of the State of Texas, *Uniform Grant and Contract Management Standards* (UGCMS).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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 and UGCMS*.

This report is intended solely for the information and use of management, others within the organization, the Texas Commission On Environmental Quality, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Lovvorn + Kirschneck, LLP

March 4, 2008

LOVVORN & KIESCHNICK, LLP
418 Peoples Street, Suite 308
Corpus Christi, Texas 78401

Independent Auditor's Report

Report on Compliance with Requirements Applicable
To Each Major Program and Internal Control over Compliance
In Accordance with OMB Circular A-133

To The Board of Directors
Coastal Bend Bays & Estuaries Program, Inc.
Corpus Christi, Texas

Members of the Board:

Compliance

We have audited the compliance of Coastal Bend Bays & Estuaries Program, Inc. (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2007. The Organization's major federal programs are identified in the summary of auditor's result section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of the major federal programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization's compliance based on our audit.

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 Coastal Bend Bays & Estuaries Program, Inc.'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. Our audit does not provide a legal determination on the Organization's compliance with those requirements.

In our opinion, Coastal Bend Bays & Estuaries Program, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2007.

Internal Control Over Compliance

The management of Coastal Bend Bays & Estuaries Program, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 the Organization's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the organization, the Texas Commission on Environmental Quality, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Lovvorn + Kirschneck, LLP

March 4, 2008

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED AUGUST 31, 2007

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

2. Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| 11.463 | National Oceanic and Atmospheric Administration |
| 66.456 | National Estuary Program |

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

3. State Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with State of Texas Single Audit Circular Yes X No

Identification of major programs:

| <u>Grant Number</u> | <u>Name of State Program</u> |
|---------------------|---|
| 582-6-70861 | Texas Commission On Environmental Quality |

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes No

B. Financial Statement Findings

NONE

C. Federal/State Award Findings and Questioned Costs

NONE

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED AUGUST 31, 2007

| <u>Finding/Recommendation</u> | <u>Current Status</u> | <u>Management's Explanation If Not Implemented</u> |
|-------------------------------|-----------------------|--|
| N/A - No Prior Findings | | |

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC.
CORRECTIVE ACTION PLAN
YEAR ENDED AUGUST 31, 2007

Program

Corrective Action Plan

N/A

No Corrective Action Required

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2007

| <u>Grantor Agency/Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass-Through Entity Identifying Number</u> | <u>Expenditures</u> |
|---|------------------------------------|---|---------------------|
| U.S. Fish and Wildlife Service | | | |
| Direct Programs: | | | |
| Habitat and Artificial Reefs | 15.FFB | 1448-20181-01-G936 | 497 |
| Habitat and Artificial Reefs | 15.FFB | 1448-20181-01-G936 | 610 |
| Habitat and Artificial Reefs | 15.630 | 201815G923 | 5,069 |
| Habitat and Artificial Reefs | 15.630 | 1448-20181-01-G942 | - |
| Total U.S. Fish and Wildlife Service | | | <u>\$ 6,176</u> |
| U.S. Environmental Protection Agency | | | |
| Direct Programs: | | | |
| National Estuary Program | 66.456 | CE-98685802 | 39,211 |
| National Estuary Program | 66.456 | CE-98685803 | 26,165 |
| National Estuary Program | 66.456 | CE-98685804 | 77,396 |
| National Estuary Program | 66.456 | CE-98685805 | 34,653 |
| National Estuary Program | 66.456 | CE-98685806 | 360,720 |
| Total CFDA Number 66.456 | | | <u>\$ 538,145</u> |
| Gulf of Mexico Program | 66.606 | MX-96423705-2 | 7,801 |
| Total U.S. Environmental Protection Agency | | | <u>\$ 545,946</u> |
| U.S. Department of Commerce, National Oceanic and Atmospheric Administration (NOAA) | | | |
| Pass-Through Program From: | | | |
| Texas GLO - Coastal Management | | | |
| Texas Coastal Management Program | 11.419 | NA05NOS4191064 | 74,735 |
| Texas Coastal Management Program | 11.419 | NA06NOS4190219 | 7,775 |
| Total CFDA Number 11.419 | | | <u>\$ 82,510</u> |
| Port Aransas Nature Preserve Wetlands Protection | 11.463 | NA05NOS4631257 | 1,031,724 |
| Total U.S. Department of Commerce, NOAA | | | <u>\$1,114,234</u> |
| Total Federal Financial Assistance | | | <u>\$1,666,356</u> |

The accompanying notes are an integral part of this schedule.

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2007

Note 1: Federal Assistance Reconciliation

| | |
|---|---------------------|
| Federal Expenditures per Schedule of Expenditures of Federal Awards | \$ 1,666,356 |
| Capitalization of Assets Purchased - Land | - |
| Federal Expenses on Statement of Activities | <u>\$ 1,666,356</u> |

Note 2: Significant Accounting Policies Used In Preparing the Schedule

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Coastal Bend Bays & Esturaries Program, Inc. and is presented on the full accrual basis of accounting. 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. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC.
 SCHEDULE OF EXPENDITURES OF STATE AWARDS
 For the Year Ended August 31, 2007

| <u>Grantor Agency/Program Title</u> | <u>Grant Contract Number</u> | <u>Expenditures</u> |
|--|--|--------------------------|
| Texas Commission On Environmental Quality | 582-4-65562 | \$ (857) |
| | 582-4-65562 | 234,596 |
| | 582-6-70861 | 124,901 |
| | 582-6-70861 | 432,230 |
| | | <u>\$ 790,870</u> |
| Texas Commission On Environmental Quality | Supplemental Environmental Project Agreement Effective 2/04/2000 | <u>\$ 743</u> |
| Total State Financial Assistance | | <u><u>\$ 791,613</u></u> |

The accompanying notes are an integral part of this schedule.

NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS

Note 1: State Assistance Reconciliation

| | |
|---|-------------------|
| State Expenditures per Schedule of Expenditures of State Awards | \$ 791,613 |
| Capitalization of Assets Purchased - Land | - |
| State Expenses on Statement of Activities | <u>\$ 791,613</u> |

Note 2: Significant Accounting Policies Used In Preparing the Schedule

The accompanying schedule of expenditures of state awards includes the state grant activity of Coastal Bend Bays & Estuaries Program, Inc. and is presented on the full accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of State of Texas, UGCMS. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.