

Report on the

Marine Environmental Sciences Consortium

Dauphin Island, Alabama

October 1, 2019 through September 30, 2020

Filed: October 29, 2021



Department of Examiners of Public Accounts

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Rachel Laurie Riddle, Chief Examiner



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Honorable Rachel Laurie Riddle
Chief Examiner of Public Accounts
Montgomery, Alabama 36130

Dear Madam:

An audit was conducted on the Marine Environmental Sciences Consortium, Dauphin Island, Alabama, for the period October 1, 2019 through September 30, 2020. Under the authority of the *Code of Alabama 1975*, Section 41-5A-19, I hereby swear to and submit this report to you on the results of the audit.

Respectfully submitted,

Phillipe Walker
Examiner of Public Accounts

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Department of
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SUMMARY

**Marine Environmental Sciences Consortium
October 1, 2019 through September 30, 2020**

**Dauphin Island Sea Lab Foundation, Inc.
October 1, 2019 through September 30, 2020**

Marine Environmental Sciences Consortium (the “Consortium”), also known as Dauphin Island Sea Lab (“DISL”), located in Dauphin Island, Alabama, provides educational programs in Marine Sciences on both the undergraduate and graduate levels. As a marine laboratory, the DISL’s mission encompasses marine science education, marine science research, coastal zone management policy and educating the general public through the Estuarium, DISL’s public aquarium. The DISL primarily serves the 23 four-year colleges and universities of Alabama through its college summer courses and graduate programs of University Programs (UP). The Consortium’s educational mission also includes Discovery Hall Programs (DHP) which encompasses K-12 field programs, teacher-training, and public outreach. DHP also includes the Estuarium which focuses solely on the Mobile-Tensaw Estuary System. The research programs of the DISL range from biogeochemistry to oceanography to paleoecology. The Coastal Policy Center offers local government, industry, and agency decision makers a range of coastal zone management services. One of the area’s major players in coastal zone management is the Mobile Bay National Estuary Program, which falls within the DISL’s numerous programs.

The Dauphin Island Sea Lab Foundation, Inc., was organized as a 501(c) (3) organization as defined by the Internal Revenue Service Code of 1954. The Foundation has been established to support the Consortium in its mission to provide wise stewardship of the marine environment through education and research.

This report presents the results of an audit, the objectives of which were to determine whether the financial statements present fairly the financial position and results of financial operations and whether the Consortium complied with applicable laws and regulations, including those applicable to its major federal financial assistance programs. This report also presents the results of an audit of the Consortium's component unit, the Foundation, which was audited by other auditors. The Consortium's audit was conducted 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, as well as, the requirements of the Department of Examiners of Public Accounts under the authority of the *Code of Alabama 1975*, Section 41-5A-12. The Foundation's audit was conducted in accordance with auditing standards generally accepted in the United States of America.

An unmodified opinion was issued on the basic financial statements of the Consortium and its component unit, which means the financial statements present fairly, in all material respects, the financial positions and the results of operations for the fiscal year ending September 30, 2020.

Tests performed during the audit did not disclose any significant instances of noncompliance with applicable state laws and regulations.

EXIT CONFERENCE

The following officials/employees were invited to an exit conference to discuss the results of this audit: Dr. John Valentine, Executive Director and David England, Director of Financial and Administrative Services. The following individuals attended the exit conference via teleconference: Dr. John Valentine, Executive Director and David England, Director of Financial and Administrative Services. Representing the Department of Examiners of Public Accounts were Mary Ann DuBose, Audit Manager and Phillippe Walker, Examiner.



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COMMENTS

**Marine Environmental Sciences Consortium
October 1, 2019 through September 30, 2020**

The Marine Environmental Sciences Consortium (the “Consortium”), also known as Dauphin Island Sea Lab (“DISL”), was formally established by Act Number 2432, Acts of Alabama 1971, page 3890. The purposes of the Consortium are to provide educational programs in Marine Sciences on both the undergraduate and graduate levels; to promote and encourage pure and applied research in Marine Sciences and related areas; to promote and encourage communication and dialog among those interested in marine sciences; and to do and perform all other acts and things which may be necessary or appropriate for the carrying out and accomplishment of any and all foregoing objectives. On May 18, 1972, the Consortium acquired a former U. S. Air Force radar base with seven permanent and five temporary buildings. This facility was named the Dauphin Island Sea Lab to distinguish it from the Point Aux Pins Estuarine Lab. The management of the latter was turned over to the Consortium by the University of Alabama System as part of a cooperative effort. The Consortium is located on 36 acres on the eastern end of Dauphin Island, a barrier island approximately three miles from the mainland and 40 miles south of Mobile, Alabama.

The Consortium is recognized regionally and nationally as a marine science institution of growing academic and research distinction. The management of the Consortium is vested in its Board of Directors which is composed of the Chief Executive Officers of the Consortium institutions. The members of the Consortium are: Alabama A&M University, Alabama State University; Athens State University; Auburn University; Auburn University at Montgomery; Birmingham Southern College; Huntingdon College; Jacksonville State University; Judson College; Samford University; Spring Hill College; Stillman College; Talladega College; Troy University; Tuskegee University; University of Alabama at Birmingham; University of Alabama at Huntsville; The University of Alabama in Tuscaloosa; University of Mobile; University of Montevallo; University of North Alabama, University of South Alabama; and University of West Alabama.

The teaching facilities include four classroom/laboratory buildings. The graduate and research programs are housed in the Weise Marine Science Hall, which contains 24,000 square feet of research labs and office space. The research vessels available for class and research activities include a 65-foot diesel-powered steel hull vessel, a 46-foot fiberglass hull vessel, and several outboard (14 to 30 feet) vessels.

The Estuarium/Public aquarium highlights the four key habitats of coastal Alabama and includes the 10,000 square foot exhibit hall, a 7,000-gallon stingray touch pool, and the Living Marsh Boardwalk.

Independent Auditor's Report

Independent Auditor's Report

Dr. John F. Valentine, Executive Director
Marine Environmental Sciences Consortium
Dauphin Island, Alabama 36528

Report on the Financial Statements

We have audited the accompanying financial statements of the Marine Environmental Sciences Consortium, a component unit of the State of Alabama, as of and for the year ended September 30, 2020, and related notes to the financial statements, which collectively comprise the Marine Environmental Sciences Consortium's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Dauphin Island Sea Lab Foundation, Inc., a discretely presented component unit, which represents 100% of the total assets, total net assets and revenues of the component unit. Those financial statements, which were prepared in accordance with the Financial Reporting Standards of the Financial Accounting Standards Board (FASB), were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for Dauphin Island Sea Lab Foundation, Inc., is based on the report of other auditors. 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. The financial statements of Dauphin Island Sea Lab Foundation, Inc. were not audited in accordance with ***Government Auditing Standards***.

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

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

Opinion

In our opinion, based on our audit and the report of other auditors, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Marine Environmental Sciences Consortium and the Dauphin Island Sea Lab Foundation, Inc., as of September 30, 2020, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Schedule of the Consortium's Proportionate Share of the Collective Net Pension Liability, the Schedule of the Consortium's Contributions – Pension, the Schedule of the Consortium's Proportionate Share of the Collective Net Other Postemployment Benefits (OPEB) Liability, and the Schedule of the Consortium's Contributions – Other Postemployment Benefits (OPEB) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

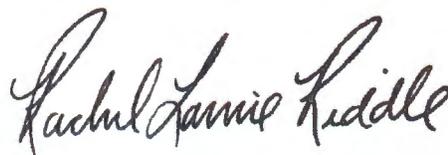
Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Marine Environmental Sciences Consortium's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 10), is presented for the purpose of additional analysis, as required by Title 2 U. S. ***Code of Federal Regulations*** Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)***, and is not a required part of the basic financial statements.

The Schedule of Expenditures of Federal Awards is the responsibility of management and was derived from and directly relates to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards 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 October 13, 2021, on our consideration of the Marine Environmental Sciences Consortium's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Marine Environmental Sciences Consortium's 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 the Marine Environmental Sciences Consortium's internal control over financial reporting and compliance.



Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

October 13, 2021

Management's Discussion and Analysis
(Required Supplementary Information)

Management's Discussion and Analysis

For the Year Ended September 30, 2020

Introduction

The following discussion presents an overview of the financial position and financial activities of the Marine Environmental Sciences Consortium (MESC) for the year ended September 30, 2020. This discussion was prepared by MESC's management and should be read in conjunction with the financial statements and notes thereto, which follow.

MESC's financial report consists of the following statements:

- ◆ The Statement of Net Position
- ◆ The Statement of Revenues, Expenses, and Changes in Net Position
- ◆ The Statement of Cash Flows

These statements are intended to present the financial position, operating activities and cash flows of MESC. The Notes to the Financial Statements provide additional information that is needed to fully understand the financial statements.

Analysis of Financial Position and Results of Operations

Statement of Net Position

The Statement of Net Position presents the assets, deferred outflows, liabilities, deferred inflows and net position of MESC as of the fiscal year ended September 30, 2020. The net position is displayed in three parts, restricted, unrestricted and net investment in capital assets. Restricted net position may either be expendable or non-expendable and are those assets that are restricted by law or by an external donor. Unrestricted net position, while it is generally designated for specific purposes, is available for use by MESC to meet current expenses for any purpose. The Statement of Net Position, along with all of MESC's basic financial statements, is prepared under the accrual basis of accounting, whereby revenues are recognized when the service is provided and expenses are recognized when others provide the service to MESC, regardless of when cash is exchanged.

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of MESC. They are also able to determine how much MESC owes to vendors and lending institutions. Finally, the Statement of Net Position provides a picture of end-of-year data concerning Assets (current and noncurrent), Deferred Outflows, Liabilities (current and noncurrent), Deferred Inflows and Net Position (assets and deferred outflows minus liabilities and deferred inflows) and their availability for expenditures by MESC.

Total assets and total liabilities consist of both current and noncurrent portions. Current assets consist of cash totaling \$2,298,897, accounts receivables of \$4,631,022 and inventories of \$173,543. Noncurrent assets consist of deposits with fiscal agent of \$2,078,646. Liabilities include current and non-current lease obligations of \$3,013,647 and a Payroll Protection Loan of \$964,469 (subsequently forgiven in November of 2020). Unearned revenues totaled \$613,050 and compensated absences totaled \$530,938.

Statement of Net Position		
For the Year Ended September 30, 2020		
	2020	2019
Assets		
Current Assets	\$ 7,103,462	\$ 4,117,709
Capital Assets, Net	12,271,640	12,885,318
Other Noncurrent Assets	2,078,646	
Total Assets	21,453,748	17,003,027
Deferred Outflow of Resources		
Pension	1,701,000	1,844,000
OPEB	938,219	695,377
Total Deferred Outflows	2,639,219	2,539,377
Liabilities		
Current Liabilities	2,196,194	1,845,569
Noncurrent Liabilities	14,095,713	14,772,670
Total Liabilities	16,291,907	16,618,239
Deferred Inflow of Resources		
Pension	474,000	857,000
OPEB	3,377,401	319,800
Total Deferred Inflows	3,851,401	1,176,800
Net Position		
Net Investment in Capital Assets	8,293,525	11,740,318
Restricted – Nonexpendable		
Restricted – Expendable	1,643,759	540,036
Unrestricted	(5,987,625)	(10,532,989)
Total Net Position	\$ 3,949,659	\$ 1,747,365

At September 30, 2020 the Consortium reported a liability of \$8,009,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2019 and the pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2018. The Consortium's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2019, the Consortium's proportion was 0.072430% which is a decrease of 0.002386% from its proportion on September 30, 2018.

At September 30, 2020, the Consortium reported a liability of \$ 2,859,871 for its proportionate share of the collective net Other Postemployment Benefits (OPEB) liability. The collective net OPEB liability was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2018. The Consortium's proportion of the collective net OPEB liability was based on a projection of the Consortium's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2019, the Consortium's proportion was 0.075803%, which was an increase of 0.003835% from its proportion measured as of September 30, 2018.

Capital assets include those with an acquisition cost of \$5,000 or more, and a useful life in excess of 1 year. The consumption of assets follows MESC's philosophy to use available resources to acquire and improve all areas of MESC to better serve its students and the public.

Multiple structures were damaged on September 16, 2020, by Hurricane Sally. The repairs are expected to cost an estimated \$2 million. Property insurance was in place on all damaged structures at the time of the damage and will be filed on actual expenses as the repairs are made in fiscal year 2020-2021 and beyond.

Statement of Revenues, Expenses and Changes in Net Position

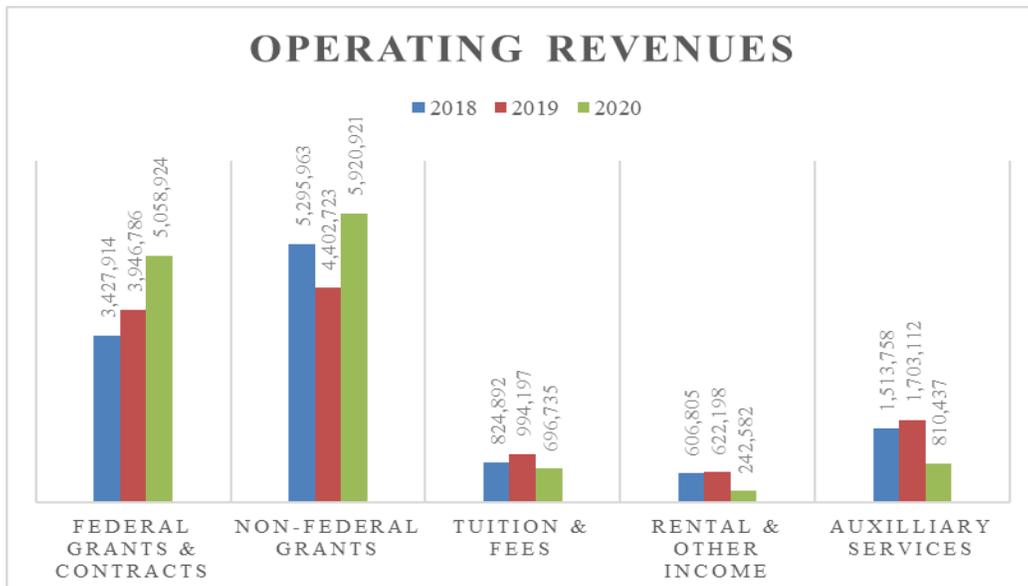
Changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Position. The purpose of the statement is to present the revenues received by MESC, both operating and non-operating, and the expenses paid by MESC, operating and non-operating, and any other revenues, expenses, gains and losses received or spent by MESC.

Generally, operating revenues are received for providing goods and services to the various customers and constituencies of MESC. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the MESC. Non-operating revenues are revenues received for which goods and services are not provided. For example, state appropriations are non-operating revenues because they are provided by the Legislature to the institution without the Legislature directly receiving commensurate goods and services for those revenues.

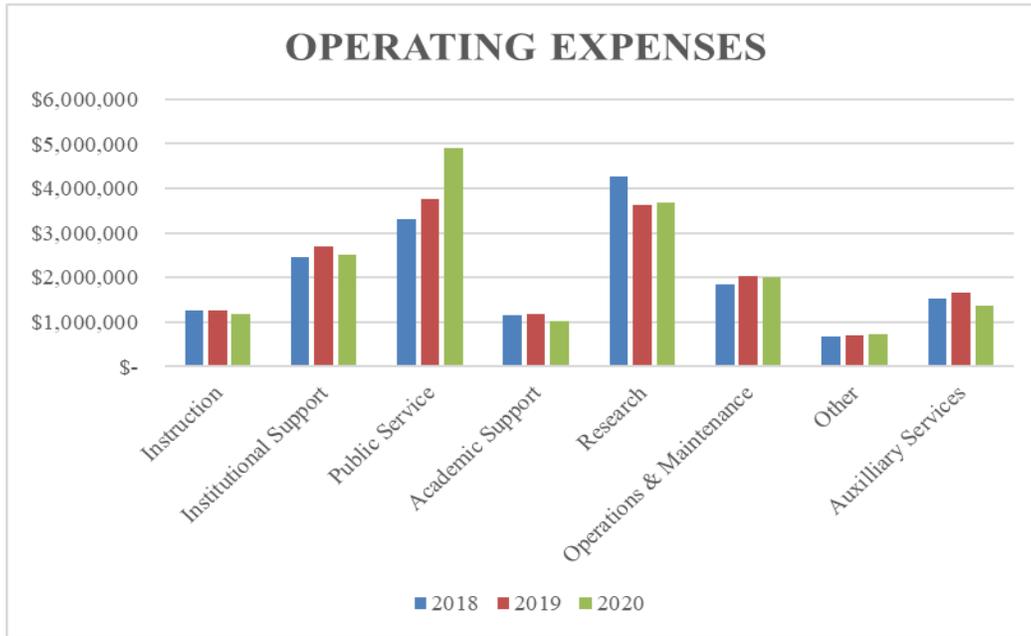
The Statement of Revenues, Expenses, and Changes in Net Position reflects an increase of \$2,202,294.

Statement of Revenues, Expenses and Changes in Net Position For the Year Ended September 30, 2020		
	2020	2019
Operating Revenues	\$12,729,600	\$11,669,015
Operating Expenses	17,418,792	17,125,495
Operating Loss	(4,689,192)	(5,456,480)
Non-Operating Revenues	5,299,008	5,173,290
Non-Operating Expenses	26,517	31,369
Income Before Other Revenues, Expenses		
Gains and Losses	583,299	
Gain on Capital Asset Impairments	1,618,995	
Increase (Decrease) in Net Position	2,202,294	(314,559)
Net Position – Beginning of the Year	1,747,365	2,075,881
Restatement		(13,957)
Net Position – End of the Year	<u>\$ 3,949,659</u>	<u>\$ 1,747,365</u>

The chart below displays the operating revenues by type and their relationship to one another as discussed in the previous paragraph. Non-Federal Grants and Contracts represent the largest source of Operating Revenues. The largest source of non-operating revenues is the State Appropriation. MESC annually receives a State Appropriation as a separate line item in the State of Alabama Education Trust Fund budget. The State Appropriation for fiscal year 2020 totaled \$5,203,025. Of this, \$76,088 was earmarked for Mobile Bay National Estuary Program, a division of MESC/Dauphin Island Sea Lab, and \$76,088 was earmarked for the Mississippi-Alabama Sea Grant Consortium, making the net appropriation available to MESC \$5,050,849.



The operating expenses by function are displayed in the following exhibit:



The chart above allows the reader to visualize each functional expenditure category and how each functional category of expenditures compares to the other over the last three years.

A capital impairment of \$343,320 was recognized for hurricane damages sustained to two buildings on September 16, 2020. The impairment is netted against insurance recoveries of \$1,962,315, resulting in a gain on capital impairments and is recognized in the Statement of Revenues, Expenses, and Changes in Net Position. The capital impairment gain was recognized on two buildings, which met the requirements of GASB Statement Number 42. The carrying value of these two buildings is \$1,081,802 after the impairment.

Statement of Cash Flows

The final statement presented by MESC is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the institution during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of MESC. The second section reflects cash flows from non-capital financing activities. This section reflects the cash received and spent for non-operating, non-investing and non-capital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Position.

Statement of Cash Flows		
For the Year Ending September 30, 2020		
	2020	2019
Cash Provided (Used) by:		
Operating Activities	\$ (4,339,587)	\$ (3,851,598)
Noncapital Financing Activities	5,884,675	4,854,650
Capital Financing Activities	(622,758)	(511,711)
Investing Activities	994	790
Net Change in Cash	923,324	(492,131)
Cash – Beginning of Year	1,375,573	883,442
Cash – End of Year	<u>\$2,298,897</u>	<u>\$1,375,573</u>

Significant Capital Asset and Debt Activity

The Consortium entered into a Guaranteed Energy Savings Contract with Southland Energy that was financed through a capital lease with Bank of America. The energy savings plan includes replacement of aged HVAC equipment, solar arrays on 3 buildings, and upgraded LED lighting throughout the campus. The energy savings are guaranteed by the contractor to cover the lease payments for the life of the capital lease, 20 years. If the energy savings fail to yield enough savings to cover the lease payment, Southland is contractually required to pay the difference.

The Consortium entered into an unsecured promissory note, dated April 17, 2020 (“the PPP Loan”), with Trustmark National Bank under the Paycheck Protection Program (the “PPP”) administered by the United States Small Business Administration (“SBA”) and authorized by the Keeping American Workers Employed and Paid Act, which is part of the Coronavirus Aid, Relief, and Economic Security Act, enacted on March 27, 2020. The principal amount of the PPP loan is \$964,469 and was disbursed on April 17, 2020. The proceeds of the loan were used by the Consortium to cover payroll costs, including benefits. The entire amount of the obligation was subsequently forgiven on November 2, 2020, under the provisions provided for in the act.

Economic Outlook

MESC has followed a conservative fiscal policy during these times of uncertain level of state and federal support, rising fuel and energy costs. We are currently reviewing our operations and undergoing an outside evaluation to identify areas in which efficiencies can be gained and costs reduced. We suffered damages to several building from Hurricane Sally on September 16, 2020. This did not severely impact our operations, although two building were severely damaged. Repairs to our facilities are expected to take several years to fully restore all buildings. This is combined with an effort to identify alternative sources of funding, upgrade and invest in new infrastructure so we can continue to offer the same level of service to our constituents and give our researchers the resources needed to continue to be at the forefront of Marine research.

MESC anticipates the current fiscal year will be much like last and will maintain a close watch over resources to maintain MESC’s ability to react to unknown internal and external issues and continue to be wise stewards of all funds awarded to us.

Basic Financial Statements

Statement of Net Position
September 30, 2020

ASSETS

Current Assets

Cash	\$ 2,298,897
Accounts Receivable	4,631,022
Inventories	173,543
Total Current Assets	<u>7,103,462</u>

Noncurrent Assets

Deposit with Fiscal Agent	2,078,646
Capital Assets:	
Land	658,757
Improvements Other Than Buildings	433,744
Buildings	16,138,728
Equipment	3,457,089
Vessels	1,220,431
Library Holdings	126,694
Construction in Progress	8,350
Less: Accumulated Depreciation	<u>(9,772,153)</u>
Total Capital Assets, Net of Depreciation	<u>12,271,640</u>
Total Noncurrent Assets	<u>14,350,286</u>
Total Assets	<u>21,453,748</u>

Deferred Outflow of Resources

Pension	1,701,000
Other Postemployment Benefit (OPEB)	938,219
Total Deferred Outflow of Resources	<u>\$ 2,639,219</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

LIABILITIES**Current Liabilities**

Accounts Payable and Accrued Liabilities	\$	93,770
Leases Payable		285,887
Loans Payable		964,469
Compensated Absences		31,856
Unearned Revenue		613,050
Deposits Held for Others		207,162
Total Current Liabilities		<u>2,196,194</u>

Noncurrent Liabilities

Leases Payable		2,727,760
Compensated Absences		499,082
Net Pension Liability		8,009,000
Net Other Postemployment Benefit (OPEB)		2,859,871
Total Noncurrent Liabilities		<u>14,095,713</u>

Total Liabilities		<u>16,291,907</u>
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Deferred Inflow of Resources

Pension		474,000
Other Postemployment Benefit (OPEB)		3,377,401
Total Deferred Inflow of Resources		<u>3,851,401</u>

NET POSITION

Net Investment in Capital Assets		8,293,525
Restricted for:		
Expendable:		
Scholarships and Fellowships		55,989
Research and Public Outreach		1,481,364
Instruction		78,071
Capital Projects		28,335
Unrestricted		<u>(5,987,625)</u>
Total Net Position	\$	<u>3,949,659</u>

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Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended September 30, 2020

OPERATING REVENUES

Student Tuition and Fees	\$ 696,735
Federal Grants and Contracts	5,058,925
State and Local Grants and Contracts	1,900,074
Private Grants and Contracts	4,020,847
Sales and Services of Educational Departments	86,254
Auxiliary Enterprises:	
Estuarium	348,799
Gift Shop	274,294
Food Services	187,344
Rental Income	156,328
Total Operating Revenues	<u>12,729,600</u>

OPERATING EXPENSES

Instruction	1,189,097
Institutional Support	2,515,644
Public Service	4,910,701
Academic Support	1,034,318
Student Services	66,876
Research	3,678,036
Operation and Maintenance	2,013,933
Depreciation	656,598
Auxiliary Enterprises:	
Estuarium	588,915
Gift Shop	333,378
Food Services	431,296
Total Operating Expenses	<u>17,418,792</u>
Operating Income (Loss)	<u>(4,689,192)</u>

NONOPERATING REVENUES (EXPENSES)

State Appropriations	5,203,025
Investment Income	994
Private Gifts	74,795
Other Nonoperating Revenues	20,194
Interest on Capital Asset Related Debt	(26,517)
Net Nonoperating Revenues	<u>5,272,491</u>
Income Before Other Revenues, Expenses, Gains, or Losses	583,299
Gain on Capital Asset Impairments	<u>1,618,995</u>
Changes in Net Position	2,202,294
Total Net Position - Beginning of Year	<u>1,747,365</u>
Total Net Position - End of Year	<u>\$ 3,949,659</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Statement of Cash Flows
For the Year Ended September 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and Fees	\$ 1,020,117
Grants and Contracts	10,250,020
Payments to Suppliers	(7,725,287)
Payments to Utilities	(664,013)
Payments to Employees	(6,211,616)
Payments to Benefits	(2,048,661)
Payments to Scholarships and Fellowships	(6,600)
Auxiliary Enterprise Charges:	
Estuarium	343,171
Gift Shop	254,253
Food Services	206,447
Sales and Services of Educational Departments	86,254
Other Receipts (Payments)	156,328
Net Cash Provided (Used) by Operating Activities	<u>(4,339,587)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	5,203,025
Private Grants and Gifts	74,795
Proceeds from Paycheck Protection Program	964,469
Other	(357,614)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>5,884,675</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	(386,240)
Principal Paid on Capital Debt and Leases	(210,000)
Interest Paid on Capital Debt and Leases	(26,518)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(622,758)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on Investments	994
Net Cash Provided (Used) by Investing Activities	<u>994</u>

Net Increase (Decrease) in Cash	923,324
Cash - Beginning of Year	1,375,573
Cash - End of Year	<u>\$ 2,298,897</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided (Used) by Operating Activities:

Operating Income (Loss) \$ (4,689,192)

Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:

Depreciation Expense 656,598
Changes in Assets and Liabilities:
(Increase)/Decrease in Receivables (97,524)
(Increase)/Decrease in Inventories (2,591)
(Increase)/Decrease in Deferred Outflows (99,842)
Increase/(Decrease) in Accounts Payable (312,895)
Increase/(Decrease) in Compensated Absences 16,240
Increase/(Decrease) in Deferred Inflows 2,674,601
Increase/(Decrease) in Pension Liability 570,000
Increase/(Decrease) in OPEB Liability (3,054,982)

Net Cash Provided (Used) by Operating Activities \$ (4,339,587)

Statement of Financial Position
Dauphin Island Sea Lab Foundation, Inc.
September 30, 2020

	Total
<u>Assets</u>	
<u>Current Assets</u>	
Cash	\$ 304,024.00
Promises to Give	1,810.00
Investments - Community Foundation of South Alabama	2,335,137.00
Total Current Assets	<u>2,640,971.00</u>
<u>Liabilities and Net Assets</u>	
<u>Net Assets</u>	
Without Donor Restrictions	2,252,262.00
With Donor Restrictions	388,709.00
Total Liabilities and Net Assets	<u>\$ 2,640,971.00</u>

The accompanying Notes to the Financial Statements are an integral part of this statement.

Statement of Activities
Dauphin Island Sea Lab Foundation, Inc.
For the Year Ended September 30, 2020

	Without Donor Restrictions	With Donor Restrictions	Total
<u>Support and Revenue</u>			
Special Events	\$ 84,249.00	\$	\$ 84,249.00
Less Cost of Special Events	(21,505.00)		(21,505.00)
Net Special Events	62,744.00		62,744.00
Contributions and Grants	102,502.00	67,565.00	170,067.00
Investment Income	173,547.00	22,224.00	195,771.00
Net Assets Released from Restrictions	19,738.00	(19,738.00)	
Total Support and Revenue	358,531.00	70,051.00	428,582.00
<u>Expenses</u>			
Program Expenses	60,824.00		60,824.00
General and Administrative Expenses	22,977.00		22,977.00
Fundraising Expenses	20,800.00		20,800.00
Total Expenses	104,601.00		104,601.00
Change in Net Assets	253,930.00	70,051.00	323,981.00
Net Assets - Beginning of Year	1,998,332.00	318,658.00	2,316,990.00
Net Assets - End of Year	\$ 2,252,262.00	\$ 388,709.00	\$ 2,640,971.00

The accompanying Notes to the Financial Statements are an integral part of this statement.

Notes to the Financial Statements

For the Year Ended September 30, 2020

Note 1 – Summary of Significant Accounting Policies

The financial statements of the Marine Environmental Sciences Consortium (the “Consortium”) are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the Consortium are described below.

A. Reporting Entity

The Marine Environmental Sciences Consortium is a component unit of the State of Alabama. A component unit is a legally separate organization for which the elected officials of the primary government are financially accountable. The Governmental Accounting Standards Board (GASB) in Statement Number 14, “The Financial Reporting Entity,” states that a primary government is financially accountable for a component unit if it appoints a voting majority of the organization’s governing body and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government. In this case, the primary government is the State of Alabama and the Consortium receives a substantial portion of its funding from the State of Alabama (potential to impose a specific financial burden). Based on this criterion, the Consortium is considered for financial reporting purposes to be a component unit of the State of Alabama.

B. Component Unit

The Dauphin Island Sea Lab Foundation, Inc. has been established to support the Consortium in its mission to provide wise stewardship of the marine environment through education and research for the benefit of the Consortium. Because of the significance of the relationship between the Consortium and the Foundation, the Foundation is considered a component unit of the Consortium. The Foundation’s financial statements and accompanying notes are reported separately because of the difference in the reporting model for the Foundation. The Foundation follows the Financial Accounting Standards Board (FASB) rather than the Governmental Accounting Standards Board (GASB). As a result, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation’s financial statements for these differences.

Notes to the Financial Statements

For the Year Ended September 30, 2020

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The financial statements of the Consortium have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

It is the policy of the Consortium to first apply restricted resources when an expense is incurred and then apply unrestricted resources when both restricted and unrestricted resources are available.

The Statement of Revenues, Expenses and Changes in Net Position distinguishes between operating and nonoperating revenues. Operating revenues, such as tuition and fees, result from exchange transactions associated with the principal activities of the Consortium. Exchange transactions are those in which each party to the transactions receives or gives up essentially equal values. Nonoperating revenues arise from exchange transactions not associated with the Consortium's principal activities, such as investment income and from all nonexchange transactions, such as state appropriations.

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position

1. Cash and Investments

The Consortium has defined cash to include currency on hand and demand deposits with financial institutions.

2. Receivables

Account receivables relate to amounts due from federal grants, state appropriations and third-party tuition.

3. Inventories

The inventories are comprised of consumable supplies, items held for resale, and any other significant inventories. Inventories are valued at the lower of cost or market. The inventories are valued using the first in/first out (FIFO) method.

Notes to the Financial Statements

For the Year Ended September 30, 2020

4. Capital Assets

Capital assets with a unit cost of over \$5,000 and an estimated useful life in excess of one year are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value (an entry price). Land and Construction in Progress are the only capital assets that are not depreciated. Depreciation is not allocated to a functional expense category. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend its life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements which significantly increase values, change capacities or extend useful lives are capitalized. Upon the sale or retirement of fixed assets being depreciated using the straight-line method, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operation.

The method of depreciation and useful lives of the capital assets are as follows:

Assets	Depreciation Method	Useful Lives
Buildings	Straight-Line	40 – 50 years
Betterments	Straight-Line	7 – 20 years
Improvements Other Than Buildings	Composite	15 – 30 years
Equipment	Composite	5 – 10 years
Vessels	Straight-Line	20 years
Library Holdings	Composite	15 years

5. Deferred Outflows of Resources

Deferred outflows of resources are reported in the Statement of Net Position. Deferred outflows of resources are defined as a consumption of net assets by the government that is applicable to a future reporting period. Deferred outflows of resources increase net position, similar to assets.

6. Long-Term Obligations

Long-term debt obligations are reported as lease obligations in the Statement of Net Position.

Notes to the Financial Statements
For the Year Ended September 30, 2020

7. Compensated Absences

The Board of Directors determines annual, sick, and compensatory leave policies for the Consortium's employees. The annual, sick, and compensatory leave policies adopted by the Consortium are as follows:

No liability is recorded for sick leave. As of September 30, 2020, substantially all employees of the Consortium earn 12 days of sick leave each year. There is no limit on the amount of sick leave an employee may accrue. However, a separating employee will not be paid for unused sick leave.

Permanent employees employed to work more than 20 hours per week earn annual leave according to the schedule below:

Continuous Service	Annual Accrual Rate
1 month to 3 years	96 hours
3 to 5 years	120 hours
5 to 10 years	144 hours
Over 10 years	176 hours

Employees resigning, retiring, or leaving the Consortium for any reason will be paid for compensatory time earned. Compensatory time may accrue to a maximum of 240 hours.

Payment is made to employees for unused leave at termination or retirement. The accrued liability recorded for accumulated unpaid leave is listed as compensated absences liability in the accompanying financial statements.

8. Deferred Inflows of Resources

Deferred inflows of resources are reported in the Statement of Net Position. Deferred inflows of resources are defined as an acquisition of net assets by the government that is applicable to a future reporting period. Deferred inflows of resources decrease net position, similar to liabilities.

Notes to the Financial Statements

For the Year Ended September 30, 2020

9. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, the Teachers' Retirement System of Alabama (the "Plan") financial statements are prepared using the economic resources measurement focus and accrual basis of accounting. Contributions are recognized as revenues when earned, pursuant to plan requirements. Benefits and refunds are recognized as revenues when due and payable in accordance with the terms of the Plan. Expenses are recognized when the corresponding liability is incurred, regardless of when the payment is made. Investments are reported at fair value. Financial statements are prepared in accordance with requirements of the Governmental Accounting Standards Board (GASB). Under these requirements, the Plan is considered a component unit of the State of Alabama and is included in the State's Comprehensive Annual Financial Report.

10. Postemployment Benefits Other Than Pensions (OPEB)

The Alabama Retired Education Employees' Health Care Trust (the "Trust") financial statements are prepared by using the economic resources measurement focus and accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Trust and additions to/deductions from the Trust's fiduciary net position. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due pursuant to plan requirements. Benefits are recognized when due and payable in accordance with the terms of the plan. Subsequent events were evaluated by management through the date the financial statements were issued.

11. Net Position

Net position is required to be classified for accounting and reporting purposes into the following categories:

- ◆ **Net Investment in Capital Assets** – Capital assets, including restricted capital assets, reduced by accumulated depreciation and by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position. Any significant unspent related debt proceeds or inflows of resources at year-end related to capital assets are not included in this calculation.

Notes to the Financial Statements
For the Year Ended September 30, 2020

◆ **Restricted:**

✓ **Expendable** – Net position whose use by the Consortium is subject to externally imposed stipulations that can be fulfilled by actions of the Consortium pursuant to those stipulations or that expire by the passage of time.

◆ **Unrestricted** – Net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position. Unrestricted resources may be designated for specific purposes by action of management or the Board of Directors.

12. Federal Financial Assistance Programs

The Consortium participates in various federal programs. Federal programs are audited in accordance with Title 2 U. S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*.

Note 2 – Deposits

The Consortium's deposits at year-end were held by financial institutions in the State of Alabama's Security for Alabama Funds Enhancement (SAFE) Program. The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975*, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office. Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the Federal Deposit Insurance Corporation (FDIC). If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

The Statement of Net Position classification cash includes all readily available cash such as petty cash and demand deposits.

Notes to the Financial Statements
For the Year Ended September 30, 2020

Note 3 – Receivables

Receivables are summarized as follows:

Accounts Receivable:	
Federal	\$2,279,216
State-Insurance Recoveries	1,962,314
Third Party Tuition and Fees	356,262
Auxiliary	33,230
Total Accounts Receivable	<u>\$4,631,022</u>

Note 4 – Capital Assets

Capital asset activity for the year ended September 30, 2020, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
Land	\$ 658,757	\$	\$	\$ 658,757
Improvements Other Than Buildings	433,744			433,744
Buildings	16,482,048		343,320	16,138,728
Equipment	3,340,986	241,202	125,099	3,457,089
Vessels	1,075,392	145,039		1,220,431
Library Holdings	126,694			126,694
Construction in Progress	8,350			8,350
Total	<u>22,125,971</u>	<u>386,241</u>	<u>468,419</u>	<u>22,043,793</u>
Less: Accumulated Depreciation				
Improvements Other Than Buildings	272,986	23,754		296,740
Buildings	5,883,397	329,641		6,213,038
Equipment	2,404,367	235,489	125,099	2,514,757
Vessels	627,740	59,267		687,007
Library Holdings	52,163	8,448		60,611
Total Accumulated Depreciation	<u>9,240,653</u>	<u>656,599</u>	<u>125,099</u>	<u>9,772,153</u>
Capital Assets, Net	<u>\$12,885,318</u>	<u>\$(270,358)</u>	<u>\$343,320</u>	<u>\$12,271,640</u>

Notes to the Financial Statements

For the Year Ended September 30, 2020

Note 5 – Capital Asset Impairment and Insurance

On September 16, 2020, the Consortium sustained damage to several buildings from a hurricane. Based on the damage, two of the buildings were considered impaired capital assets. The total insurance recovery for the damaged buildings on September 30, 2020, was \$2,030,992. The amount of this recovery that is not related to capital assets that are considered impaired was \$68,677. Albatross Hall was the only building considered idle at year-end. The carrying value of this building was \$13,505. After September 2020, the Consortium also received additional receipts of \$92,066 in FEMA proceeds. In the subsequent years, the Consortium may receive additional insurance proceeds as settlements are negotiated and processed; however, as of the issuance date of these financial statements, those amounts are not known. The impairment loss and insurance recovery for each building is as follows:

Building	Impairment Loss	Insurance Recovery
Wiese-Marine Science Hall	\$337,062	\$1,123,102
Albatross Hall (Dorms)	6,258	839,212
Total	\$343,320	\$1,962,314

Note 6 – Defined Benefit Pension Plan

A. Plan Description

The Teachers' Retirement System of Alabama (TRS), a cost-sharing multiple-employer public employee retirement plan (the "Plan"), was established as of September 15, 1939, under the provisions of Act Number 419, Acts of Alabama 1939, for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by State-supported educational institutions. The responsibility for the general administration and operation of the TRS is vested in its Board of Control. The TRS Board of Control consists of 15 trustees. The Plan is administered by the Retirement Systems of Alabama (RSA). The *Code of Alabama 1975*, Section 16-25-2, grants the authority to establish and amend the benefit terms to the TRS Board of Control. The Plan issues a publicly available financial report that can be obtained at www.rsa-al.gov.

Notes to the Financial Statements

For the Year Ended September 30, 2020

B. Benefits Provided

State law establishes retirement benefits as well as death and disability benefits and any ad hoc increase in postretirement benefits for the TRS. Benefits for TRS members vest after 10 years of creditable service. TRS members are eligible for retirement after age 60 with 10 years or more of creditable service or with 25 years of service (regardless of age) and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, members of the TRS are allowed 2.0125% of their average final compensation (highest 3 of the last 10 years) for each year of service.

Act Number 2012-377, Acts of Alabama, established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a guaranteed minimum or a formula method, with the member receiving payment under the method that yields the highest monthly benefit. Under the formula method, Tier 2 members of the TRS are allowed 1.65% of their average final compensation (highest 5 of the last 10 years) for each year of service. Members are eligible for disability retirement if they have 10 years of creditable service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending June 30 are paid to a qualified beneficiary.

C. Contributions

Covered members of the TRS contributed 5% of earnable compensation to the TRS as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, covered members of the TRS were required by statute to contribute 7.25% of earnable compensation. Effective October 1, 2012, covered members of the TRS were required by statute to contribute 7.50% of earnable compensation. Certified law enforcement, correctional officers and firefighters of the TRS contributed 6% of earnable compensation as required by statute until September 30, 2011. From October 1, 2011 to September 30, 2012, certified law enforcement, correctional officers, and firefighters of the TRS were required by statute to contribute 8.25% of earnable compensation. Effective October 1, 2012, certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 8.50% of earnable compensation.

Tier 2 covered members of the TRS contribute 6% of earnable compensation to the TRS as required by statute. Tier 2 certified law enforcement, correctional officers, and firefighters of the TRS are required by statute to contribute 7% of earnable compensation.

Notes to the Financial Statements

For the Year Ended September 30, 2020

Participating employers' contractually required contribution rate for the year ended September 30, 2020, was 12.43% of annual pay for Tier 1 members and 11.34% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Consortium were \$633,439 for the year ended September 30, 2020.

D. Pension Liabilities, Pension Expense, and Deferred Outflow of Resources and Deferred Inflows of Resources Related to Pensions

At September 30, 2020, the Consortium reported a liability of \$8,009,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2019, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of September 30, 2018. The Consortium's proportion of the collective net pension liability was based on the employers' shares of contributions to the pension plan relative to the total employer contributions of all participating TRS employers. At September 30, 2019, the Consortium's proportion was 0.072430%, which was a decrease of 0.002386% from its proportion measured as of September 30, 2018.

For the year ended September 30, 2020, the Consortium recognized pension expense of \$964,000. At September 30, 2020, the Consortium reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 118	\$266
Changes of assumptions	247	
Net difference between projected and actual earnings on pension plan investments	279	
Changes in proportion and differences between employer contributions and proportionate share of contributions	424	208
Employer contributions subsequent to the measurement date	633	
Total	\$1,701	\$474
(Dollar amounts in thousands)		

Notes to the Financial Statements

For the Year Ended September 30, 2020

The \$633,000 reported as deferred outflows of resources related to pensions resulting from Consortium contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending September 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending:	
September 30, 2021	\$168
2022	\$128
2023	\$174
2024	\$134
2025	\$ (10)
Thereafter	\$
(Amounts in Thousands)	

E. Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of September 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Investment Rate of Return (*)	7.75%
Projected Salary Increases	3.25% - 5.00%
(*) Net of pension plan investment expense	

The actuarial assumptions used in the September 30, 2018, valuation were based on the results of an actuarial experience study for the period October 1, 2010 through September 30, 2015.

Mortality rates were based on the sex distinct RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for males and 112% for females age 78 and older. The rates of disabled mortality were based on the sex distinct RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

Notes to the Financial Statements
For the Year Ended September 30, 2020

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimates of geometric real rates of return for each major asset class are as follows:

	Target Allocation	Long-Term Expected Rate of Return (*)
Fixed Income	17.00%	4.40%
U. S. Large Stocks	32.00%	8.00%
U. S. Mid Stocks	9.00%	10.00%
U. S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	12.00%	9.50%
International Emerging Market Stocks	3.00%	11.00%
Alternatives	10.00%	10.10%
Real Estate	10.00%	7.50%
Cash Equivalents	3.00%	1.50%
Total	100.00%	

(*) Includes assumed rate of inflation of 2.50%.

F. Discount Rate

The discount rate used to measure the total pension liability was 7.70%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Notes to the Financial Statements
For the Year Ended September 30, 2020

G. Sensitivity of the Consortium’s Proportionate Share of the Collective Net Pension Liability to Changes in the Discount Rate

The following table presents the Consortium’s proportionate share of the collective net pension liability calculated using the discount rate of 7.70%, as well as what the Consortium’s proportionate share of the collective net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.70%) or 1-percentage point higher (8.70%) than the current rate:

	1% Decrease (6.70%)	Current Discount Rate (7.70%)	1% Increase (8.70%)
Consortium’s proportionate share of collective net pension liability	\$10,872	\$8,009	\$5,585
(Dollar Amounts in Thousands)			

H. Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued RSA Comprehensive Annual Report for the fiscal year ended September 30, 2019. The supporting actuarial information is included in the GASB Statement Number 67 Report for the TRS prepared as of September 30, 2019. The auditor’s report dated August 18, 2020, on the total pension liability, total deferred outflows of resources, total deferred inflows of resources, total pension expense for the sum of all participating entities as of September 30, 2019, along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

Notes to the Financial Statements

For the Year Ended September 30, 2020

Note 7 – Other Postemployment Benefits (OPEB)

A. Plan Description

The Alabama Retired Education Employees' Health Care Trust (the "Trust") is a cost-sharing multiple-employer defined benefit postemployment healthcare plan that administers healthcare benefits to the retirees of participating state and local educational institutions. The Trust was established under the Alabama Retiree Health Care Funding Act of 2007 which authorized and directed the Public Education Employees' Health Insurance Board (PEEHIB) to create an irrevocable trust to fund postemployment healthcare benefits to retirees participating in the Public Education Employees' Health Insurance Plan (PEEHIP). Active and retiree health insurance benefits are paid through PEEHIP. In accordance with GASB, the Trust is considered a component unit of the State of Alabama (the "State") and is included in the State's Comprehensive Annual Financial Report.

The PEEHIP was established in 1983 pursuant to the provisions of the *Code of Alabama 1975*, Section 16-25A-4, (Act Number 83-455, Acts of Alabama) to provide a uniform plan of health insurance for active and retired employees of state and local educational institutions which provide instruction at any combination of grades K-14 (collectively, eligible employees), and to provide a method for funding the benefits related to the plan. The four-year universities participate in the plan with respect to their retired employees and are eligible and may elect to participate in the plan with respect to their active employees. Responsibility for the establishment of the health insurance plan and its general administration and operations is vested in the PEEHIB. The PEEHIB is a corporate body for purposes of management of the health insurance plan. The *Code of Alabama 1975*, Section 16-25A-4, provides the PEEHIB with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years for the plan. All assets of the PEEHIP are held in trust for the payment of health insurance benefits. The Teachers' Retirement System of Alabama (TRS) has been appointed as the administrator of the PEEHIP and, consequently, serves as the administrator of the Trust.

B. Benefits Provided

The PEEHIP offers a basic hospital medical plan to active members and non-Medicare eligible retirees. Benefits include inpatient hospitalization for a maximum of 365 days without a dollar limit, inpatient rehabilitation, outpatient care, physician services, and prescription drugs.

Active employees and non-Medicare eligible retirees who do not have Medicare eligible dependents can enroll in a health maintenance organization (HMO) in lieu of the basic hospital medical plan. The HMO includes hospital medical benefits, dental benefits, vision benefits, and an extensive formulary. However, participants in the HMO are required to receive care from a participating physician in the HMO plan.

Notes to the Financial Statements

For the Year Ended September 30, 2020

The PEEHIP offers four optional plans (Hospital Indemnity, Cancer, Dental, and Vision) that may be selected in addition to or in lieu of the basic hospital medical plan or HMO. The Hospital Indemnity Plan provides a per-day benefit for hospital confinement, maternity, intensive care, cancer, and convalescent care. The Cancer Plan covers cancer disease only and benefits are provided regardless of other insurance. Coverage includes a per-day benefit for each hospital confinement related to cancer. The Dental Plan covers diagnostic and preventative services, as well as basic and major dental services. Diagnostic and preventative services include oral examinations, teeth cleaning, x-rays, and emergency office visits. Basic and major services include fillings, general aesthetics, oral surgery not covered under a Group Medical Program, periodontics, endodontics, dentures, bridgework, and crowns. Dental services are subject to a maximum of \$1,250 per year for individual coverage and \$1,000 per person per year for family coverage. The Vision Plan covers annual eye examinations, eyeglasses, and contact lens prescriptions.

PEEHIP members may opt to elect the PEEHIP Supplemental Plan as their hospital medical coverage in lieu of the PEEHIP Hospital Medical Plan. The PEEHIP Supplemental Plan provides secondary benefits to the member's primary plan provided by another employer. Only active and non-Medicare retiree members and dependents are eligible for the PEEHIP Supplemental Plan. There is no premium required for this plan, and the plan covers most out-of-pocket expenses not covered by the primary plan. The plan cannot be used as a supplement to Medicare, the PEEHIP Hospital Medical Plan, or the State or Local Governmental Plans administered by the State Employees' Insurance Board (SEIB).

Medicare eligible members and Medicare eligible dependents who are covered on a retiree contract were enrolled in the United Healthcare Group Medicare Advantage plan for PEEHIP retirees. Effective January 1, 2020, Humana Insurance Company replaced United Healthcare as the administrator of the PEEHIP Group Medicare Advantage (PPO) Plan. The plan is fully insured, and members are able to have all of their Medicare Part A (hospital insurance), Part B (medical insurance), and Part D (prescription drug coverage) in one convenient plan. Retirees can continue to see their same providers with no interruption and see any doctor who accepts Medicare on a national basis. Members have the same benefits in and out-of-network and there is no additional retiree cost share if a retiree uses an out-of-network provider and no balance billing from the provider.

Notes to the Financial Statements

For the Year Ended September 30, 2020

C. Contributions

The *Code of Alabama 1975*, Section 16-25A-8, and the *Code of Alabama 1975*, Section 16-25A-8.1, provide the PEEHIB with the authority to set the contribution requirements for plan members and the authority to set the employer contribution requirements for each required class, respectively. Additionally, the PEEHIB is required to certify to the Governor and the Legislature, the amount, as a monthly premium per active employee, necessary to fund the coverage of active and retired member benefits for the following fiscal year. The Legislature then sets the premium rate in the annual appropriation bill.

For employees who retired after September 30, 2005, but before January 1, 2012, the employer contribution of the health insurance premium set forth by the PEEHIB for each retiree class is reduced by 2% for each year of service less than 25 and increased by 2% for each year of service over 25 subject to adjustment by the PEEHIB for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree.

For employees who retired after December 31, 2011, the employer contribution to the health insurance premium set forth by the PEEHIB for each retiree class is reduced by 4% for each year of service less than 25 and increased by 2% for each year over 25, subject to adjustment by the PEEHIB for changes in Medicare premium costs required to be paid by a retiree. In no case does the employer contribution of the health insurance premium exceed 100% of the total health insurance premium cost for the retiree. For employees who retired after December 31, 2011, who are not covered by Medicare, regardless of years of service, the employer contribution to the health insurance premium set forth by the PEEHIB for each retiree class is reduced by a percentage equal to 1% multiplied by the difference between the Medicare entitlement age and the age of the employee at the time of retirement as determined by the PEEHIB. This reduction in the employer contribution ceases upon notification to the PEEHIB of the attainment of Medicare coverage.

D. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At September 30, 2020, the Consortium reported a liability of \$2,859,871 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of September 30, 2019, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2018. The Consortium's proportion of the collective net OPEB liability was based on a projection of the Consortium's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2019, the Consortium's proportion was 0.075803%, which was an increase of 0.003835% from its proportion measured as of September 30, 2018.

Notes to the Financial Statements

For the Year Ended September 30, 2020

For the year ended September 30, 2020, the Consortium recognized OPEB expense of \$(107,327) with no special funding situations. At September 30, 2020, the Consortium reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 94,693	\$2,192,826
Changes of assumptions	136,719	1,184,575
Net difference between projected and actual earnings on OPEB plan investments	5,900	
Changes in proportion and differences between employer contributions and proportionate share of contributions	574,083	
Employer contributions subsequent to the measurement date	126,824	
Total	\$938,219	\$3,377,401

The \$126,824 reported as deferred outflows of resources related to OPEB resulting from the Consortium's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending September 30, 2021.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending:	
September 30, 2021	\$(516,222)
2022	\$(516,222)
2023	\$(508,728)
2024	\$(426,898)
2025	\$(507,743)
Thereafter	\$ (90,193)

Notes to the Financial Statements

For the Year Ended September 30, 2020

E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of September 30, 2018, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Projected Salary Increases (1)	3.25% - 5.00%
Long-Term Investment Rate of Return (2)	7.25%
Municipal Bond Index Rate at the Measurement Date	3.00%
Municipal Bond Index Rate at the Prior Measurement Date	4.18%
Projected Year for Fiduciary Net Position (FNP) to be Depleted	2055
Single Equivalent Interest Rate at the Measurement Date	5.50%
Single Equivalent Interest Rate at the Prior Measurement Date	4.44%
Healthcare Cost Trend Rate:	
Pre-Medicare Eligible	6.75%
Medicare Eligible	(**)
Ultimate Trend Rate:	
Pre-Medicare Eligible	4.75% in 2026
Medicare Eligible	4.75% in 2024
(1) Includes 3.00% wage inflation.	
(2) Compounded annually, net of investment expense, and includes inflation.	
(**) Initial Medicare claims are set based on scheduled increases through plan year 2022	

Mortality rates for the period after service retirement are according to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using scale BB and adjusted 105% for males and 120% for females.

The decremental assumptions used in the valuation were selected based on the actuarial experience study prepared as of September 30, 2015, submitted to and adopted by the Teachers' Retirement System of Alabama Board on September 13, 2016.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) were based on the actuarial valuation as of September 30, 2018. However, updated Medicare Advantage premium rates which reflect the repeal of the ACS Health Insurer Fee, updated optional claims costs, and updated participation assumptions were used in this report.

Notes to the Financial Statements

For the Year Ended September 30, 2020

The long-term expected return on plan assets is to be reviewed as part of regular experience studies prepared every five years, in conjunction with similar analysis for the Teachers' Retirement System of Alabama. Several factors should be considered in evaluating the long-term rate of return assumption, including long-term historical data, estimates inherent in current market data, and a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected return, net of investment expense and inflation), as developed for each major asset class. These ranges should be combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and then adding expected inflation. The assumption is intended to be a long-term assumption and is not expected to change absent a significant change in the asset allocation, a change in the inflation assumption, or a fundamental change in the market that alters expected returns in future years.

The long-term expected rate of return on the OPEB plan investments is determined based on the allocation of assets by asset class and by the mean and variance of real returns.

The target asset allocation and best estimates of expected geometric real rates of return for each major asset class is summarized below:

Asset Class	Target Allocation	Long-Term Expected Rate of Return (*)
Fixed Income	30.00%	4.40%
U. S. Large Stocks	38.00%	8.00%
U. S. Mid Stocks	8.00%	10.00%
U. S. Small Stocks	4.00%	11.00%
International Developed Market Stocks	15.00%	9.50%
Cash Equivalents	5.00%	1.50%
Total	<u>100.00%</u>	

(*) Geometric mean, includes 2.5% inflation

Notes to the Financial Statements

For the Year Ended September 30, 2020

F. Discount Rate

The discount rate, also known as the Single Equivalent Interest Rate (SEIR), as described by GASB Statement Number 74, used to measure the total OPEB liability at September 30, 2019, was 5.50%. The discount rate used to measure the total OPEB liability at the prior measurement date was 4.44%. Premiums paid to the Public Education Employees' Health Insurance Board for active employees shall include an amount to partially fund the cost of coverage for retired employees. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating school systems must contribute for each active employee. Approximately, 24.245% of the employer contributions were used to assist in funding retiree benefit payments in 2019, and it is assumed that the amount will increase by 1.00% per year and continue into the future. The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. Therefore, the projected future benefit payments for all current plan members were projected through 2117. The long-term rate of return is used until the assets are expected to be depleted in 2055, after which the municipal bond rate is used.

G. Sensitivity of the Consortium's Proportionate Share of the Collective Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following table presents the Consortium's proportionate share of the collective net OPEB liability of the Trust calculated using the current healthcare trend rate, as well as what the collective net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (5.75% Decreasing to 3.75% for Pre-Medicare and Known Decreasing to 3.75% for Medicare Eligible)	Current Healthcare Trend Rate (6.75% Decreasing to 4.75% for Pre-Medicare and Known Decreasing to 4.75% for Medicare Eligible)	1% Increase (7.75% Decreasing to 5.75% for Pre-Medicare and Known Decreasing to 5.75% for Medicare Eligible)
Consortium's proportionate share of collective net OPEB liability	\$2,293,102	\$2,859,871	\$3,573,691

Notes to the Financial Statements
For the Year Ended September 30, 2020

H. Sensitivity of the College’s Proportionate Share of the Collective Net OPEB Liability to Changes in the Discount Rate

The following table presents the Consortium’s proportionate share of the collective net OPEB liability of the Trust calculated using the discount rate of 5.50%, as well as what the collective net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (4.50%)	Current Rate (5.50%)	1% Increase (6.50%)
Consortium’s proportionate share of the collective net OPEB liability	\$3,456,817	\$2,859,871	\$2,372,363

I. OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan’s fiduciary net position is located in the Trust’s financial statements for the fiscal year ended September 30, 2019. The supporting actuarial information is included in the GASB Statement Number 74 Report for PEEHIP prepared as of September 30, 2019. Additional financial and actuarial information is available at www.rsa-al.gov.

Note 8 – Significant Commitments

As of September 30, 2020, the Consortium had been awarded approximately \$18 million in contracts and grants on which performance had not been accomplished and funds had not been received. These awards, which represent commitments of sponsors to provide funds for specific purposes, have not been reflected in the financial statements.

Note 9 – Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities represent amounts due at September 30, 2020, for goods and services received prior to the end of the fiscal year.

Benefits	\$80,975
Supplies	12,795
Total	<u>\$93,770</u>

Notes to the Financial Statements

For the Year Ended September 30, 2020

Note 10 – Short-Term Debt

Paycheck Protection Program (PPP)

On April 17, 2020, the Consortium entered into an unsecured promissory note, dated April 17, 2020 (the “PPP Loan”), with Trustmark National Bank under the Paycheck Protection Program (the “PPP”) administered by the United States Small Business Administration (SBA) and authorized by the Keeping American Workers Employed and Paid Act, which is part of the Coronavirus Aid, Relief, and Economic Security Act, enacted on March 27, 2020.

The principal amount of the PPP loan is \$964,469, bears interest of 1.0% per annum and was disbursed on April 17, 2020. The PPP loan has a maturity date of April 7, 2022. No payments of the principal or interest are required during the first six months, but interest accrues during this period. After this period, monthly payments of principal and interest are required in the amount of \$54,287 and continue until maturity with respect to any portion of the PPP loan not forgiven. The PPP Loan may be prepaid, in full or in part, at any time prior to maturity with no prepayment penalties. The note contains events of default and other provisions customary for a loan of this type.

The proceeds of the loan will be used by the Consortium to cover payroll costs, including benefits.

Under the terms of the PPP Loan, Section 1106 of the Cares Act contains provisions for the forgiveness of all or a portion of the PPP Loan. On October 13, 2020, loan forgiveness was applied for and the SBA granted a Notice of Paycheck Protection Program Forgiveness Payment to the Consortium with a forgiveness payment date of November 2, 2020 for the entire amount.

Note 11 – Long-Term Liabilities

Long-term liabilities activity for the year ended September 30, 2020, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Capital Lease Payable – Bond	\$1,145,000	\$	\$210,000	\$ 935,000	\$220,000
Capital Lease Payable – GESB		2,078,646		2,078,646	65,887
<u>Other Liabilities:</u>					
Compensated Absences	514,699	16,240		530,939	31,856
Total Long-Term Liabilities	\$1,659,699	\$2,094,886	\$210,000	\$3,544,585	\$317,743

Notes to the Financial Statements

For the Year Ended September 30, 2020

Note 12 – Capital Leases

Dauphin Island Public Education Building Authority (the “Authority”), a non-profit corporation, issued the Dauphin Island Public Education Building Authority Revenue Bond, Series 2015, in the principal amount of \$2,000,000.00 in fiscal year 2015. These bonds were issued to finance the acquisition, construction and renovation of equipment and existing building on the Consortium’s campus located on Dauphin Island, Alabama. The Consortium leases the land, upon which the improvements were made, to the Authority.

The Consortium leases the improvements from the Authority. The lease payments are payable solely from non-appropriated funds and are equal to the principal and interest payments on the bond issue. The lease term began July 2015 and ends July 2024.

The bond issuance is secured by a Guaranty Agreement, the Authority and Trustmark National Bank. After payment in full of indebtedness secured by the Mortgage, the Consortium may purchase the improvements for the purchase price equal to the sum of \$100.00.

Principal and interest maturity requirements on the capital lease debt are as follows:

Fiscal Years	Principal	Interest	Total
2020-2021	\$220,000	\$21,307	\$241,307
2021-2022	230,000	15,923	245,923
2022-2023	240,000	10,297	250,297
2023-2024	245,000	4,497	249,497
Totals	<u>\$935,000</u>	<u>\$52,024</u>	<u>\$987,024</u>

The Consortium entered into a Guaranteed Energy Savings Contract with Southland Energy and financed through a capital lease with Bank of America. The energy savings plan includes replacement of aged HVAC equipment, solar arrays on 3 buildings, and upgraded LED lighting throughout the campus. The energy savings are guaranteed by the contractor to cover the lease payments for the life of the capital lease, 20 years. If the energy savings fail to yield enough savings to cover the lease payment, Southland is contractually required to pay the difference.

Notes to the Financial Statements
For the Year Ended September 30, 2020

Principal and interest maturity requirements on the Capital Lease for the Guaranteed Energy Contract are as follows:

Fiscal Years	Principal	Interest	Total
2020-2021	\$ 65,887	\$ 66,059	\$ 131,946
2021-2022	42,253	63,965	106,218
2022-2023	49,587	62,623	112,210
2023-2024	54,819	61,047	115,866
2024-2025	60,336	59,305	119,641
2025-2026	66,152	57,387	123,539
2026-2027	72,278	55,285	127,563
2027-2028	78,731	52,988	131,719
2028-2029	85,525	50,486	136,011
2029-2030	92,674	47,768	140,442
2030-2031	100,194	44,823	145,017
2031-2032	108,103	41,638	149,741
2032-2033	116,417	38,203	154,620
2033-2034	125,153	34,503	159,657
2034-2035	134,332	30,526	164,858
2035-2036	143,973	26,257	170,230
2036-2037	154,093	21,681	175,774
2037-2038	164,717	16,784	181,501
2038-2039	175,863	11,550	187,413
2039-2040	187,558	5,961	193,519
Totals	\$2,078,646	\$848,838	\$2,927,484

Note 13 – Risk Management

The Consortium is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Consortium purchases commercial insurance for its automobile coverage and general liability. In addition, the Consortium has fidelity bonds on the Consortium’s personnel who handle funds.

Employee health insurance is provided through the Public Education Employees’ Health Insurance Fund (PEEHIF) administered by the Public Education Employees’ Health Insurance Board (PEEHIB). The Fund was established to provide a uniform plan of health insurance for current and retired employees of state educational institutions and is self-sustaining. Monthly premiums for employee and dependent coverage are determined annually by the plan’s actuary and based on anticipated claims in the upcoming year, considering any remaining fund balance on hand available for claims. The Consortium contributes a specified amount monthly to the PEEHIF for each employee and this amount is applied against the employee’s premiums for the coverage selected and the employee pays any remaining premium.

Settled claims resulting from these risks have not exceeded the Consortium’s coverage in any of the past three fiscal years.

Notes to the Financial Statements
For the Year Ended September 30, 2020

Note 14 – Component Unit

During the year ended September 30, 2020, the Dauphin Island Sea Lab Foundation, Inc. is a discretely presented component unit of the Consortium's financial statements because they operate almost exclusively for the benefit of the Consortium. During the fiscal year ended September 30, 2020, the Foundation contributed \$46,245 to the Consortium. Separate financial statements of the Dauphin Island Sea Lab Foundation, Inc. can be obtained from Kim Enikeieff, CPA, P. O. Box 8754, Mobile, Alabama 36689.

Notes to the Financial Statements
Dauphin Island Sea Lab Foundation, Inc.
September 30, 2020

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Dauphin Island Sea Lab Foundation, Inc. (the “Foundation”) was formed to support the Dauphin Island Sea Lab (the “Sea Lab”) in its mission to provide wise stewardship of the marine environment through education and research. The Foundation provides funds to sustain the activities of the Sea Lab and promotes awareness of the Sea Lab and its environmental issues. The Foundation is also building an endowment for the Sea Lab. Because of the significance of the relationship between the Foundation and the Sea Lab, the Foundation is considered a component unit of the Sea Lab. The Sea Lab is a governmental entity and follows the reporting model of the Governmental Accounting Standards Board (GASB) and the Foundation follows the reporting model of the Financial Accounting Standards Board (FASB). The audited financial statements of the Foundation are included in the annual audited financial statements of the Sea Lab and are reported as a separately reported component unit of the Sea Lab because of the difference in the reporting model of the Sea Lab.

Summary of Significant Accounting Policies

Method of Accounting

The financial statements of the Foundation have been prepared utilizing the accrual basis of accounting.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the Foundation that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the year in which the contributions are recognized. All other donor restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Foundation considers all highly liquid investments available for current use with initial maturity of three months or less to be cash equivalents.

Notes to the Financial Statements
Dauphin Island Sea Lab Foundation, Inc.
September 30, 2020

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in net assets without donor restrictions if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

The Foundation values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value hierarchy that prioritizes the inputs to valuation techniques is used to measure the fair value. The hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. The hierarchy is broken down into the following three levels, based on the reliability of the inputs:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities that are observable at the measurement date;

Level 2: Significant observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data; and

Level 3: Significant unobservable inputs for the asset or liability that reflect the reporting organization's own estimates about the assumptions that market participants would use in pricing the asset or liability.

Investments are composed of index funds and hedge funds investing in debt and equity securities and are carried at fair value. Unrealized gains and losses are included in the change in net assets.

Contributions

Contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions depending on the existence or nature of any donor restrictions.

Notes to the Financial Statements
Dauphin Island Sea Lab Foundation, Inc.
September 30, 2020

Income Taxes

Income taxes are not provided for in the financial statements since the Foundation is exempt from federal and state income taxes under section 501 (c)(3) of the Internal Revenue Code and similar state provisions. The Foundation is not classified as a private foundation.

A policy for accounting for uncertainty in income taxes was adopted in prior years that require the Foundation to determine whether it is more likely than not that a tax position will be sustained upon examination based on the technical merits of the position. The Foundation has no uncertain tax positions that qualified for either recognition or disclosure in the financial statements at September 30, 2020.

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.

Donated Materials and Services

Donated materials or equipment, when received, are reflected as contributions in the accompanying statements at their estimated fair market values at the date of receipt. No amounts have been reflected in the statements for donated services as no objective basis is available to measure the value of such services. Nevertheless, a substantial number of volunteers donated significant amounts of their time in the Foundation's program services.

Cost Allocation

The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include compensation and benefits, which are allocated on the basis of estimates of time and effort, as well as depreciation, occupancy and telephone costs which are allocated based on the ratio of program revenue to total revenue.

Evaluation of Subsequent Events

The Organization has evaluated subsequent events through December 31, 2020, the date which the financial statements were available to be issued.

Notes to the Financial Statements
Dauphin Island Sea Lab Foundation, Inc.
September 30, 2020

Restrictions on Net Assets

Net assets with donor restrictions are available for the following purposes or period at September 30:

	2020
Program expenses and equipment	\$130,264
Endowment	258,445
Total	<u>\$388,709</u>

Promises to Give

Unconditional promises to give at September 30, are as follows:

	2020
Promises Without Donor Restrictions	\$1,810
Gross Unconditional Promises to Give	1,810
Less Allowance for Uncollectible Promises	<u>-</u>
Net Unconditional Promises to Give	1,810
Amounts Due In:	
Less Than One Year	1,810
One to Five Years	<u>-</u>
Gross Unconditional Promises to Give	<u>\$1,810</u>

The discount on the long-term promises to give to determine the net present value was not significant.

Notes to the Financial Statements
Dauphin Island Sea Lab Foundation, Inc.
September 30, 2020

NOTE 2 – INVESTMENTS

The Community Foundation of South Alabama holds and invests the Foundation’s investment portfolio. These funds are under the control of the Community Foundation of South Alabama and at the request of the Foundation, the Community Foundation of South Alabama disburses funds as needed.

Investments are stated at fair value and are summarized as follows as of September 30:

	2020			Total
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	
Community Foundation of South Alabama	\$2,335,137	\$	\$	\$2,335,137
Total	\$2,335,137	\$	\$	\$2,335,137

Investment return for the year ended September 30, 2020, is summarized as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Interest and Dividend Income	\$ 34,435	\$ 4,333	\$ 38,768
Realized Gains (Losses)	53,994	6,799	60,793
Unrealized Gains (Losses)	106,593	14,108	120,701
Administrative Fees	(21,475)	(3,016)	(24,491)
Total	\$173,547	\$22,224	\$195,771

NOTE 3 – GOVERNING BOARD DESIGNATIONS

Dauphin Island Sea Lab Foundation, Inc.’s governing board has designated, from net assets without restrictions of \$2,252,262 as of September 30, 2020, for the following purpose as of September 30:

	2020
Quasi – Endowment	\$2,076,692
Total	\$2,076,692

Notes to the Financial Statements
Dauphin Island Sea Lab Foundation, Inc.
September 30, 2020

NOTE 4 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Foundation’s financial assets as of the balance sheet date, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

	2020
Financial Assets at Year-End	\$2,640,971
Less those unavailable for general expenditures within one year, due to:	
Donor Restrictions	130,264
Endowment	258,445
Board Designations: Quasi Endowment Fund	2,076,692
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 175,570</u>

NOTE 5 – ENDOWMENT

The Foundation’s endowment consists of donor restricted endowment funds and board designated endowment funds, which are held in an agency endowment arrangement at the Community Foundation of South Alabama (the “Community Foundation”). The Community Foundation provides professional management of the Foundation’s investments, which consist of index funds and hedge funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor restrictions.

The Board of Trustees of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies net assets with donor restrictions (1) the original value of gifts donated to the endowment, (2) the original value of subsequent gifts to the endowment, and (3) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The Foundation classifies amounts in its donor restricted endowment fund as net assets with donor restrictions until the Board appropriates amounts for expenditure and any purpose restrictions have been met. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation’s investment policies.

Notes to the Financial Statements
Dauphin Island Sea Lab Foundation, Inc.
September 30, 2020

The Foundation has adopted investment and spending policies for endowment assets that attempt to subject the fund to low investment risk and provide the Foundation's programs with current income. Endowment assets are invested in indexed funds. The Foundation seeks to build endowment assets through investment earnings and additional contributions. The Foundation has a policy of appropriating for distribution annually a portion of the endowment fund's investment income from the previous years. The current spending policy is expected to allow the Foundation's endowment fund to grow as a result of investment returns. This is consistent with the Foundation's objective to provide income to the Foundation's programs, preserve endowment assets without subjecting them to substantial risk, and provide additional real growth through investment income and new gifts.

Changes in endowment net assets for the year ended September 30, 2020, is summarized as follows:

	Without Donor Restrictions	With Donor Restrictions	Total
Endowment net assets beginning of year	\$1,882,419	\$253,201	\$2,135,620
Investment return:			
Investment income	12,706	1,317	14,023
Net appreciation (realized and unrealized)	160,587	20,907	181,494
Total investment return	173,293	22,224	195,517
Contributions	20,980		20,980
Amounts appropriated for Expenditure		(16,980)	(16,980)
Total	<u>\$2,076,692</u>	<u>\$258,445</u>	<u>\$2,335,137</u>

Notes to the Financial Statements
Dauphin Island Sea Lab Foundation, Inc.
September 30, 2020

NOTE 6 – SUBSEQUENT EVENTS

The Foundation’s management has performed subsequent events procedures through December 31, 2020, which is the date through which the financial statements were available to be issued. There were no subsequent events requiring adjustment to the financial statements or disclosures as stated herein except as follows:

In March 2020, the World Health Organization (“WHO”) declared the coronavirus (COVID-19) a global pandemic and public health emergency. The WHO has recommended containment and mitigation measures worldwide and domestically, self-isolation and shelter-in-place requirements have been or are being put in place.

At this point, the Foundation cannot reasonably estimate the length or severity of this pandemic, or the extent to which this disruption may impact the Foundation’s financial statements and future results of operations. The Foundation will continue to monitor and evaluate the nature and extent of the impact on our ongoing activities and the potential effect on future contributions or funding and expenses, financial condition, and liquidity.

Required Supplementary Information

Schedule of the Consortium's Proportionate Share of the Collective Net Pension Liability
For the Year Ended September 30, 2020
(Dollar amounts in thousands)

	2020	2019	2018	2017	2016	2015
Consortium's proportion of the collective net pension liability	0.072430%	0.074816%	0.072610%	0.068555%	0.063946%	0.067073%
Consortium's proportionate share of the collective net pension liability	\$ 8,009	\$ 7,439	\$ 7,136	\$ 7,422	\$ 6,692	\$ 6,093
Consortium's covered payroll during the measurement period (*)	\$ 5,305	\$ 5,388	\$ 5,103	\$ 4,759	\$ 4,434	\$ 4,340
Consortium's proportionate share of the collective net pension liability as a percentage of its covered payroll	150.97%	138.07%	139.84%	155.96%	150.91%	140.40%
Plan fiduciary net position as a percentage of the total collective pension liability	69.85%	72.29%	71.50%	67.93%	67.51%	71.01%

(*) Per GASB 82, which amends GASB 68, covered payroll is defined as the payroll on which contributions to a pension plan are based, also known as pensionable payroll. For fiscal year 2020, the measurement period for covered payroll is October 1, 2018 through September 30, 2019.

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Schedule of the Consortium's Contributions - Pension
For the Year Ended September 30, 2020
(Dollar amounts in thousands)

	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 633	\$ 629	\$ 601	\$ 564	\$ 515	\$ 457
Contributions in relation to the contractually required contribution	\$ 633	\$ 629	\$ 601	\$ 564	\$ 515	\$ 457
Contribution deficiency (excess)	\$	\$	\$	\$	\$	\$
Consortium's covered payroll	\$ 5,317	\$ 5,305	\$ 5,388	\$ 5,103	\$ 4,759	\$ 4,434
Contributions as a percentage of covered payroll	11.91%	11.86%	11.15%	11.05%	10.83%	10.32%

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Per GASB 82, which amends GASB 68, covered payroll is defined as the payroll on which contributions to a pension plan are based, also known as pensionable payroll. For fiscal year 2020, the covered payroll is for the reporting fiscal year October 1, 2019 through September 30, 2020.

The amount of contractually required contributions is equal to the amount that would be recognized as additions from the Consortium's contributions in the pension plan's schedule of changes in fiduciary net position during the period that coincides with the Consortium's fiscal year. For participants in TRS, this includes amounts paid for Accrued Liability, Normal Cost, Term Life Insurance, Pre-Retirement Death Benefit and Administrative Expenses.

***Schedule of the Consortium's Proportionate Share of the Collective Net Other Postemployment Benefits (OPEB) Liability
Alabama Retired Education Employees' Health Care Trust
For the Year Ended September 30, 2020
(Dollar amounts in thousands)***

	2020	2019	2018
Consortium's proportion of the collective net OPEB liability	0.075803%	0.071968%	0.067102%
Consortium's proportionate share of the collective net OPEB liability (asset)	\$ 2,860	\$ 5,915	\$ 4,984
Consortium's covered-employee payroll during the measurement period (*)	\$ 5,305	\$ 5,388	\$ 5,103
Consortium's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered-employee payroll	53.91%	109.78%	97.67%
Plan fiduciary net position as a percentage of the total collective OPEB liability	28.14%	14.81%	15.37%

(*) Per GASB 75, covered-employee payroll is defined as the payroll of employees that are provided with OPEB through the OPEB plan. The covered-employee payroll for this RSI Schedule (GASB 75 paragraph 97) is for the reporting period (i.e. the measurement period), which for the September 30, 2020 year is October 1, 2018 through September 30, 2019.

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Schedule of the Consortium's Contributions - Other Postemployment Benefits (OPEB)
Alabama Retired Education Employees' Health Care Trust
For the Year Ended September 30, 2020
(Dollar amounts in thousands)

	2020	2019	2018
Contractually required contribution	\$ 127	\$ 210	\$ 178
Contributions in relation to the contractually required contribution	<u>\$ 127</u>	<u>\$ 210</u>	<u>\$ 178</u>
Contribution deficiency (excess)	\$	\$	\$
Consortium's covered-employee payroll	\$ 5,317	\$ 5,305	\$ 5,388
Contributions as a percentage of covered-employee payroll	2.39%	3.96%	3.30%

This schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

***Notes to Required Supplementary Information
for Other Postemployment Benefits (OPEB)
For the Year Ended September 30, 2020***

Changes in Actuarial Assumptions

In 2019, the anticipated rates of participation, spouse coverage, and tobacco use were adjusted to more closely reflect actual experience.

In 2016, rates of withdrawal, retirement, disability, mortality, spouse coverage, and tobacco usage were adjusted to more closely reflect actual experience. In 2016, economic assumptions and the assumed rates of salary increase were adjusted to more closely reflect actual and anticipated experience. In 2016 and later, the expectation of retired life mortality was changed to the RP-2000 White Collar Mortality Table projected to 2020 using scale BB and adjusted 115% for all ages for males and 112% for ages 78 and over for females. The rates of disabled mortality were based on the RP-2000 Disabled Mortality Table projected to 2020 using Scale BB and adjusted 105% for males and 120% for females.

Recent Plan Changes

Beginning in plan year 2021, the MAPD plan premium rates exclude the ACA Health Insurer Fee which was repealed on December 20, 2019.

Effective January 1, 2017, Medicare eligible medical and prescription drug benefits are provided through the MAPD plan.

The Health Plan is changed each year to reflect the ACA maximum annual out-of-pocket amounts.

***Notes to Required Supplementary Information
for Other Postemployment Benefits (OPEB)
For the Year Ended September 30, 2020***

Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates in the Schedule of Employer Contributions are calculated as of September 30, three years prior to the end of the fiscal year in which contributions are reported. Therefore, the actuarially determined employer contribution for fiscal year ending September 30, 2019, is determined based on the actuarial valuation as of September 30, 2016. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percent of pay
Remaining Amortization Period	25 years, closed
Asset Valuation Method	Market Value of Assets
Inflation	2.875%
Healthcare Cost Trend Rate:	
Pre-Medicare Eligible	7.75%
Medicare Eligible	5.00%
Ultimate Trend Rate:	
Pre-Medicare Eligible	5.00%
Medicare Eligible	5.00%
Year of Ultimate Trend Rate	2022 for Pre-Medicare Eligible 2018 for Medicare Eligible
Investment Rate of Return	5.00%, including inflation

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Supplementary Information

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2020***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Identifying Number	Pass-Through to Subrecipients	Total Federal Expenditures
<u>Research and Development Cluster</u>				
<u>U. S. Department of Commerce</u>				
<u>Direct Programs</u>				
Office for Coastal Management	11.473		\$ 195,523.15	\$ 242,213.70
Gulf Coast Ecosystem Restoration Science, Observation, Monitoring and Technology	11.451			93,975.29
Gulf Coast Ecosystem Restoration Science, Observation, Monitoring and Technology	11.451		16,105.57	116,451.55
<u>Passed Through Mississippi State University</u>				
Gulf Coast Ecosystem Restoration Science, Observation, Monitoring and Technology	11.451	010500.320558.02		7,702.10
<u>Passed Through University of South Alabama</u>				
Gulf Coast Ecosystem Restoration Science, Observation, Monitoring and Technology	11.451	NA19NOS4510194		34,495.49
<u>Passed Through University of Southern Mississippi</u>				
Gulf Coast Ecosystem Restoration Science, Observation, Monitoring and Technology	11.451	USM-GR05842-004		55,248.62
Sub-Total Gulf Coast Ecosystem Restoration Science, Observation, Monitoring and Technology			16,105.57	307,873.05
<u>Passed Through University of South Alabama</u>				
Sea Grant Support	11.417	18-03-548001-1000		101,618.82
<u>Passed Through University of Southern Mississippi</u>				
Sea Grant Support	11.417	8006034-01.01 DISL-R/SFA-21-PD		5,461.36
Sea Grant Support	11.417	GR05007-01.01 DISL-R-HCE-17-A		17,718.00
Sea Grant Support	11.417	8005953-01.01 DISL-R-HCE-17-B		5,754.03
Sea Grant Support	11.417	8005953-01.01 DISL-R-SFA-23	4,886.19	70,261.99
Sea Grant Support	11.417	USM-8005953-EO-94 DISL		10,657.23
Sea Grant Support	11.417	8006034-01.01 DISL-R/SFA-19-PD		3,774.40
Sub-Total Sea Grant Support			4,886.19	215,245.83
<u>Passed Through Mississippi State University</u>				
National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes	11.432	191001.363513.02C		8,933.63
National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes	11.432	191001.363513.02D	1,199.30	1,495.30
Sub-Total National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes			1,199.30	10,428.93
<u>Passed Through National Fish and Wildlife Foundation</u>				
Congressionally Identified Awards and Projects	11.469	NA14NMF4690277	\$	\$ 45,594.71

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2020***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Identifying Number	Pass-Through to Subrecipients	Total Federal Expenditures
<u>U. S. Department of Defense</u>				
<u>Direct Program</u>				
Basic and Applied Scientific Research	12.300		\$	\$ 174,632.60
<u>U. S. Department of the Interior</u>				
<u>Passed Through Alabama Department of Conservation and Natural Resources</u>				
GoMESA	15.435	GMSN2017		41,260.68
Cooperative Endangered Species Conservation Fund	15.615	MOA Manatee Study 2019		1,702.77
Cooperative Endangered Species Conservation Fund	15.615	AL-E-F19AP00878		17,907.00
Sub-Total Cooperative Endangered Species Conservation Fund				19,609.77
<u>U. S. Department of the Treasury</u>				
<u>Passed Through Alabama Department of Conservation and Natural Resources</u>				
Resources and Ecosystems Sustainability, Tourist Opportunities and Revived Economies of the Gulf Coast States	21.015	B5COEADMIN		88,078.21
<u>National Science Foundation</u>				
<u>Direct Programs</u>				
Integrative Activities	47.083			42,898.48
Geosciences	47.050		39,675.24	426,483.55
<u>Passed Through University of South Alabama</u>				
Geosciences	47.050	1436576		6,718.10
<u>Passed Through Florida Gulf Coast University</u>				
Geosciences	47.050	17056-NSF-DISL-01		72,090.84
Sub-Total Geosciences			39,675.24	505,292.49
<u>Passed Through University of South Alabama</u>				
Office of International Science and Engineering	47.079	A17-0170-S004-02		240,827.56
<u>Environmental Protection Agency</u>				
<u>Direct Program</u>				
Regional Wetland Program Development Grants	66.461		25,978.82	25,978.82
<u>U. S. Department of Health and Human Services</u>				
<u>Direct Program</u>				
Food and Drug Administration Research	93.103			228,383.26
Total Research and Development Cluster			\$ 283,368.27	\$ 2,188,318.09

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2020***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Identifying Number	Pass-Through to Subrecipients	Total Federal Expenditures
<u>Other Federal Awards</u>				
<u>U. S. Department of Commerce</u>				
<u>Passed Through National Marine Sanctuary Foundation (NMSF)</u>				
Ocean Exploration	11.011	18-08-B-188	\$	\$ 5,533.02
<u>Passed Through Texas A&M University</u>				
Integrated Ocean Observing System (IOOS)	11.012	02-S160278	2,088.75	23,890.51
<u>Passed Through Alabama Department of Conservation and Natural Resources</u>				
Coastal Zone Management Administration Awards	11.419	DISL-CZM-306-20-1		51,192.51
Coastal Zone Management Administration Awards	11.419	DISL-CZM-306-20-2		17,638.23
Coastal Zone Management Administration Awards	11.419	MBNEP-CZM-306-19-2		3,955.25
Coastal Zone Management Administration Awards	11.419	MBNEP-CZM-306-20-1		3,965.35
Coastal Zone Management Administration Awards	11.419	MBNEP-CZM-306-19-3		12,325.14
Sub-Total Coastal Zone Management Administration Awards				89,076.48
<u>Passed Through National Fish and Wildlife Foundation</u>				
Office for Coastal Management	11.473	0318.18.062497	225,484.00	247,269.01
<u>Passed Through The Nature Conservancy</u>				
Office for Coastal Management	11.473	SA102519_A105364		4,008.99
Sub-Total Office for Coastal Management			225,484.00	251,278.00
<u>U. S. Department of Treasury</u>				
<u>Passed Through State of Alabama Department of Finance</u>				
Coronavirus Relief Fund	21.019	N.A.		20,996.58
<u>Environmental Protection Agency</u>				
<u>Direct Programs</u>				
Gulf Coast Ecosystem Restoration Council Comprehensive Plan Component	66.130		62,845.09	80,819.16
National Estuary Program	66.456			601,975.19
Gulf of Mexico Program	66.475		65,372.76	88,971.87
<u>Passed Through U. S. Endowment for Forestry and Communities</u>				
Healthy Watersheds Consortium Grant Program	66.441	E18-43	76,795.10	100,929.45
<u>Passed Through Dog River Clearwater Revival</u>				
Gulf of Mexico Program	66.475	MX-00D87119-0	\$ 16,000.00	\$ 28,400.40

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2020***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Identifying Number	Pass-Through to Subrecipients	Total Federal Expenditures
<u>Passed Through Alabama Department of Environmental Management</u>				
Nonpoint Source Implementation Grants	66.460	C80592042	\$ 17,713.27	\$ 21,095.11
Nonpoint Source Implementation Grants	66.460	C90593012	305,928.00	305,928.00
Nonpoint Source Implementation Grants	66.460	C90593044	146,365.39	146,365.39
Sub-Total Nonpoint Source Implementation Grants			470,006.66	473,388.50
<u>U. S. Department of Gulf Coast Ecosystem Restoration Council</u>				
<u>Passed Through Alabama Department of Conservation and Natural Resources</u>				
Gulf Coast Ecosystem Restoration Council Comprehensive Plan Component Program	87.051	B2F1-NEPWS/18/MBNEP	788,808.38	947,039.88
Gulf Coast Ecosystem Restoration Council Comprehensive Plan Component Program	87.051	B2F1-SAV/18/DISL	101,908.50	179,068.70
Sub-Total Gulf Coast Ecosystem Restoration Council Comprehensive Plan Component Program			890,716.88	1,126,108.58
Total Other Federal Awards			1,809,309.24	2,891,367.74
Total Expenditures of Federal Awards			\$ 2,092,677.51	\$ 5,079,685.83

N.A. = Not Available/Not Applicable

The accompanying Notes to the Schedule of Expenditures of Federal Awards are an integral part of this schedule.

***Notes to the Schedule of Expenditures
of Federal Awards
For the Year Ended September 30, 2020***

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity of the Marine Environmental Sciences Consortium, under programs of the federal government for the year ended September 30, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U. S. *Code of Federal Regulations* 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 the Marine Environmental Sciences Consortium, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Marine Environmental Sciences Consortium.

Note 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.

Note 3 – Indirect Cost Rate

The Marine Environmental Sciences Consortium has elected not to use the 10-percent de minimis indirect cost rate allowed under the *Uniform Guidance*.

Additional Information

Board Members and Officials
October 1, 2019 through September 30, 2020

Board Members		Term Expires
Dr. Tony G. Waldrop, Chairman	President, University of South Alabama	Indefinite
Dr. Andrew Hugine, Jr.	President, Alabama A & M University	Indefinite
Dr. Quinton T. Ross	President, Alabama State University	Indefinite
Dr. Phillip Way	President, Athens State University	Indefinite
Dr. Jay Gogue	President, Auburn University	Indefinite
Dr. Carl Stockton	Chancellor, Auburn University at Montgomery	Indefinite
Daniel Coleman, MBA	President, Birmingham Southern College	Indefinite
Rev. John Cameron West	President, Huntingdon College	Indefinite
Dr. Don C. Killingsworth, Jr.	President, Jacksonville State University	Indefinite
Dr. John M. Beehler	President, Jacksonville State University	October 2019
Dr. W. Mark Tew	President, Judson College	Indefinite
Dr. Andrew Westmoreland	President, Samford University	Indefinite
Dr. E. Joseph Lee, II	President, Spring Hill College	Indefinite
Dr. Cynthia Warwick	President, Stillman College	Indefinite

Board Members and Officials
October 1, 2019 through September 30, 2020

Board Members		Term Expires
Dr. Billy C. Hawkins	President, Talladega College	Indefinite
Dr. Jack Hawkins, Jr.	Chancellor, Troy University	Indefinite
Dr. Lily McNair	President, Tuskegee University	Indefinite
Dr. Stuart Bell	President, University of Alabama	Indefinite
Dr. Ray Watts	President, University of Alabama at Birmingham	Indefinite
Dr. Darren Dawson	President, University of Alabama at Huntsville	Indefinite
Dr. Lonnie Burnett	President, University of Mobile	Indefinite
Dr. John W. Stewart, III	President, University of Montevallo	Indefinite
Dr. Kenneth Kitts	President, University of North Alabama	Indefinite
Dr. Ken Tucker	President, University of West Alabama	Indefinite

Officials

Dr. John F. Valentine, Board Secretary	Executive Director
David England	Director of Financial and Administrative Services

***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***

Independent Auditor's Report

Dr. John F. Valentine, Executive Director
Marine Environmental Sciences Consortium
Dauphin Island, Alabama 36528

We have audited, 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, the financial statements of the Marine Environmental Sciences Consortium, a component unit of the State of Alabama, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the Marine Environmental Sciences Consortium's basic financial statements, and have issued our report thereon dated October 13, 2021. Our report includes a reference to other auditors who audited the financial statements of Dauphin Island Sea Lab Foundation, Inc. as described in our report on the Marine Environmental Sciences Consortium's financial statements. The financial statements of Dauphin Island Sea Lab Foundation, Inc. were not audited in accordance with ***Government Auditing Standards***.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Marine Environmental Sciences Consortium's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Marine Environmental Sciences Consortium's internal control. Accordingly, we do not express an opinion on the effectiveness of the Marine Environmental Sciences Consortium's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

***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***

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Marine Environmental Sciences Consortium's financial statements are free of 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under ***Government Auditing Standards***.

Purpose of this Report

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



Rachel Laurie Riddle
Chief Examiner
Department of Examiners of Public Accounts

Montgomery, Alabama

October 13, 2021

***Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance Required
by the Uniform Guidance***

Independent Auditor's Report

Dr. John F. Valentine, Executive Director
Marine Environmental Sciences Consortium
Dauphin Island, Alabama 36528

Report on Compliance for Each Major Federal Program

We have audited the Marine Environmental Sciences Consortium's, a component unit of the State of Alabama, compliance with the types of compliance requirements described in the ***OMB Compliance Supplement*** that could have a direct and material effect on each of the Marine Environmental Sciences Consortium's major federal programs for the year ended September 30, 2020. The Marine Environmental Sciences Consortium's major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs. The financial statements of Dauphin Island Sea Lab Foundation, Inc. were not audited in accordance with the *Uniform Guidance*, accordingly, this report does not extend to Dauphin Island Sea Lab Foundation, Inc.

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.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance with each of the Marine Environmental Sciences Consortium's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States; and the audit requirements of Title 2 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 the Marine Environmental Sciences Consortium's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

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 on the Marine Environmental Sciences Consortium's compliance.

Opinion on Each Major Federal Program

In our opinion, the Marine Environmental Sciences Consortium complied, in all material respects, with the 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, 2020.

Report on Internal Control Over Compliance

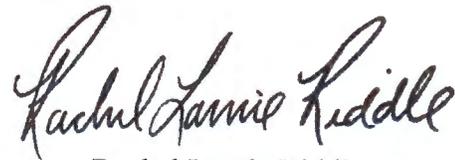
Management of the Marine Environmental Sciences Consortium is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Marine Environmental Sciences Consortium's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our 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 the Marine Environmental Sciences Consortium's 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 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.

***Report on Compliance for Each Major Federal Program and
Report on Internal Control Over Compliance Required
by the Uniform Guidance***

Our consideration of the 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.



Rachel Laurie Riddle
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

October 13, 2021

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2020

Section I – Summary of Examiner's Results

Financial Statements

Type of report the auditor issued on whether the audited financial statements were prepared in accordance with GAAP:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified?

_____ Yes X None reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified?

_____ Yes X None reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of the *Uniform Guidance*?

_____ Yes X No

Identification of major federal programs:

CFDA Numbers	Name of Federal Program or Cluster
66.456	National Estuary Program
87.051	Gulf Coast Ecosystem Restoration Council Comprehensive Plan Component Program

Dollar threshold used to distinguish between Type A and Type B programs:

\$750,000.00

Auditee qualified as low-risk auditee?

 X Yes _____ No

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2020

Section II – Financial Statement Findings (GAGAS)

No matters were reportable.

Section III – Federal Awards Findings and Questioned Costs

No matters were reportable.