

Report on the

# Marine Environmental Sciences Consortium

Dauphin Island, Alabama

October 1, 2016 through September 30, 2017

Filed: June 29, 2018



## Department of Examiners of Public Accounts

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*Rachel Laurie Riddle, Chief Examiner*





Rachel Laurie Riddle  
Chief Examiner

State of Alabama  
Department of  
**Examiners of Public Accounts**

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

Dear Madam:

Under the authority of the *Code of Alabama 1975*, Section 41-5A-19, as added by Act Number 2018-129, I submit this report on the results of the audit of the Marine Environmental Sciences Consortium for the period October 1, 2016 through September 30, 2017.

Sworn to and subscribed before me this  
the 19<sup>th</sup> day of June, 2018.

Kelly D. Matthews  
Notary Public

Respectfully submitted,

JoNesia S. Turner  
JoNesia S. Turner  
Examiner of Public Accounts

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## *Table of Contents*

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	<i>Page</i>
<b>Summary</b>	A
Contains items pertaining to state and federal legal compliance, Consortium operations and other matters.	
<b>Comments</b>	C
Contains information pertaining to the Consortium operations, compliance and other matters.	
<b>Independent Auditor's Report</b>	E
Reports on whether the financial information constitutes a fair presentation of the financial position and results of financial operations in accordance with generally accepted accounting principles (GAAP).	
<b>Management's Discussion and Analysis</b>	I
Provides information required by the Governmental Accounting Standards Board (GASB) that is prepared by management of the Consortium introducing the basic financial statements and providing an analytical overview of the Consortium's financial activities for the year. This information has not been audited, and no opinion is provided about the information.	
<b><u>Basic Financial Statements</u></b>	1
Provides the minimum combination of financial statements and notes to the financial statements that is required for the fair presentation of the Consortium's financial position and results of operations in accordance with GAAP.	
<b>Marine Environmental Sciences Consortium</b>	
Exhibit #1      Statement of Net Position	2
Exhibit #2      Statement of Revenues, Expenses and Changes in Net Position	4
Exhibit #3      Statement of Cash Flows	5
<b>Dauphin Island Sea Lab Foundation, Inc.</b>	
Exhibit #4      Statement of Financial Position	7
Exhibit #5      Statement of Activities	8



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# *Table of Contents*

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*Page*

## **Notes to the Financial Statements**

Marine Environmental Sciences Consortium 10

Dauphin Island Sea Lab Foundation, Inc. 27

## **Required Supplementary Information** 34

Provides information required by the GASB to supplement the basic financial statements. This information has not been audited and no opinion is provided about the information.

Exhibit #6 Schedule of the Consortium's Proportionate Share of the Net Pension Liability 35

Exhibit #7 Schedule of the Consortium's Contributions 36

## **Supplementary Information** 37

Contains financial information and notes relative to federal financial assistance.

Exhibit #8 Schedule of Expenditures of Federal Awards 38

## **Notes to the Schedule of Expenditures of Federal Awards** 48

## **Additional Information** 49

Provides basic information related to the Consortium, including reports and items required by generally accepted government auditing standards and/or Title 2 U. S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (*Uniform Guidance*) for federal compliance audits.

Exhibit #9 **Board Members and Officials** – a listing of the Board members and officials. 50

Exhibit #10 **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*** – a report on internal controls related to the financial statements and on whether the Consortium complied with laws and regulations which could have a direct and material effect on the Consortium's financial statements. 52



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## *Table of Contents*

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	<i>Page</i>
Exhibit #11	54
<b>Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the <i>Uniform Guidance</i></b> – a report on internal controls over compliance with requirements of laws, regulations, contracts, and grants applicable to major federal programs and an opinion on whether the Consortium complied with laws, regulations, and the provisions of contracts or grant agreements which could have a direct and material effect on each major program.	
Exhibit #12	57
<b>Schedule of Findings and Questioned Costs</b> – a schedule summarizing the results of audit findings relating to the financial statements as required by <i>Government Auditing Standards</i> and findings and questioned costs for federal awards as required by the <i>Uniform Guidance</i> .	

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Department of  
**Examiners of Public Accounts**

**SUMMARY**

**Marine Environmental Sciences Consortium  
October 1, 2016 through September 30, 2017**

**Dauphin Island Sea Lab Foundation, Inc.  
October 1, 2016 through September 30, 2017**

Marine Environmental Sciences Consortium (the "Consortium"), also known as Dauphin Island Sea Lab (DISL) 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 22 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, as added by Act Number 2018-129. 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 position and the results of operations for the fiscal year ending September 30, 2017.

There were no findings in the prior audit.

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

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: Dr. John Valentine, Executive Director and David England, Director of Financial and Administrative Services. Representing the Department of Examiners of Public Accounts was JoNesia Turner, Examiner.



Department of  
**Examiners of Public Accounts**

**COMMENTS**

**Marine Environmental Sciences Consortium  
October 1, 2016 through September 30, 2017**

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 objects. 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; Springhill College; Talladega College; Troy University; Tuskegee University; University of Alabama in Birmingham; University of Alabama in 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 42-foot fiberglass hull vessel, and several outboard (14 to 23 feet) vessels.

The Estuarium/Public aquarium is a 12,500 square foot exhibit hall and living marsh boardwalk highlighting the four key habitats of coastal Alabama.

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*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 basic financial statements of the Marine Environmental Sciences Consortium, as of and for the year ended September 30, 2017, as listed in the table of contents as Exhibits 1 through 3.

### **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 component unit. Those financial statements 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 basic 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 opinion.

### Opinion

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Marine Environmental Sciences Consortium and the Dauphin Island Sea Lab Foundation, Inc., as of September 30, 2017, and the respective changes in financial position and where applicable, its cash flows for the year then ended in conformity 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 Net Pension Liability, and the Schedule of the Consortium's Contributions 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 basic financial statements of the Marine Environmental Sciences Consortium, taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 8), is presented for the purposes 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. This information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 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 June 18, 2018, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with **Government Auditing Standards** 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

June 18, 2018

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*Management's Discussion and Analysis  
(Required Supplementary Information)*

# Management's Discussion and Analysis

For the Year Ended September 30, 2017

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## **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, 2017. 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, liabilities and net position of MESC as of the fiscal year ended September 30, 2017. 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 generally designated for specific purposes, are 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 the net position (assets minus liabilities) and their availability for expenditures by MESC.

Total assets and total liabilities consist of both current and noncurrent portions. Current assets consist of cash and cash equivalents totaling \$1,515,447 and accounts receivables of \$2,410,530. Non-current assets include lease improvement receivable of \$497,162. Liabilities include current and non-current lease obligations of \$1,540,000. Unearned revenues totaled \$1,901,681.

# Management's Discussion and Analysis

For the Year Ended September 30, 2017

<b>Statement of Net Position</b>		
	2017	2016
<b>Assets</b>		
Current assets	\$ 4,071,164	\$ 5,718,130
Non-current assets	13,745,274	14,035,964
Total Assets	<u>17,816,438</u>	<u>19,754,094</u>
Deferred Outflow of Resources	1,623,000	1,039,000
<b>Liabilities</b>		
Current liabilities	2,389,297	3,073,400
Noncurrent liabilities	9,257,969	8,688,264
Total liabilities	<u>11,647,266</u>	<u>11,761,664</u>
Deferred Inflow of Resources	378,000	282,000
<b>Net Position</b>		
Net Investment in Capital Assets	11,708,112	11,809,050
Restricted - expendable	608,355	1,133,493
Unrestricted	(4,902,295)	(4,193,112)
Total Net Position	<u>\$ 7,414,172</u>	<u>\$ 8,749,431</u>

At September 30, 2017, the Consortium reported a liability of \$7,422,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2016, and the pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015. 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, 2016, the Consortium's proportion was 0.068555 % which is an increase of 0.004609 % from its proportion on September 30, 2015.

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.

# Management's Discussion and Analysis

For the Year Ended September 30, 2017

## 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.

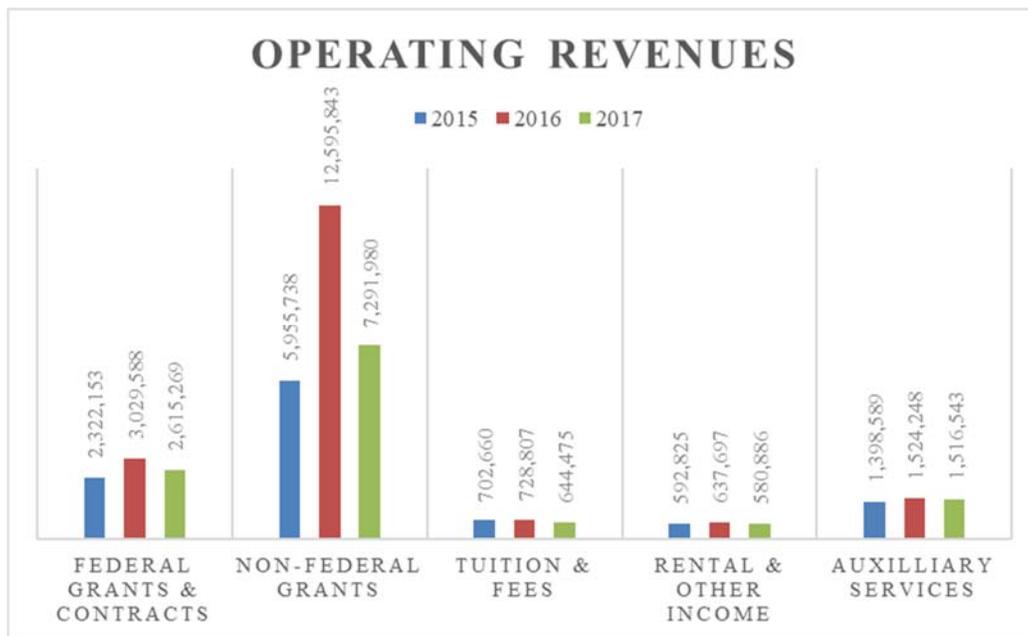
The Statement of Revenues, Expenses, and Changes in Net Position reflects a decrease of \$1,335,259 in net position at the end of the fiscal year.

<b>Statement of Revenues, Expenses and Changes in Net Position</b>		
	2017	2016
Operating revenues	\$ 12,649,154	\$ 18,516,183
Operating expenses	18,455,211	23,034,280
Operating loss	(5,806,057)	(4,518,097)
Nonoperating revenues & expenses	4,470,798	4,217,897
Changes in Net Position	(1,335,259)	(300,200)
Total Net Position - Beg. of Year	8,749,431	9,049,631
Total Net Position - End of Year	\$ 7,414,172	\$ 8,749,431

# Management's Discussion and Analysis

For the Year Ended September 30, 2017

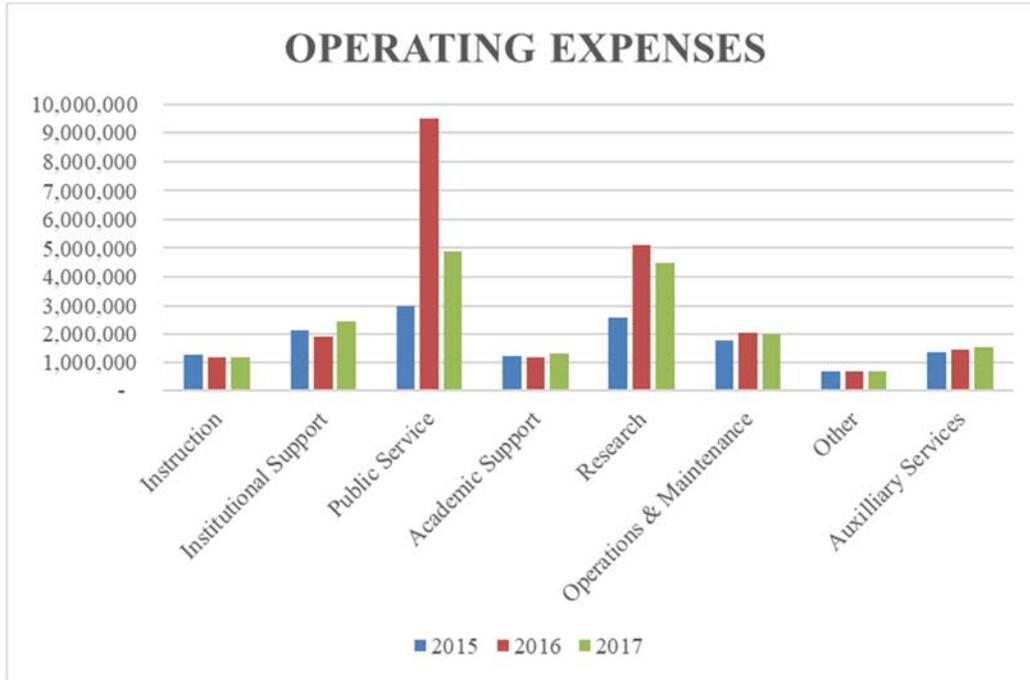
The chart below displays the operating revenues by type and their relationship to one another as discussed in the previous paragraph. Non-Federal Grants and Contracts represent the largest source of Operating Revenues. The largest source of non-operating revenues is the State Appropriation. MESC annually receives a State Appropriation as a separate line item in the State of Alabama Education Trust Fund budget. The State Appropriation for fiscal year 2017 totaled \$ 4,505,262. 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 \$ 4,353,086.



# Management's Discussion and Analysis

For the Year Ended September 30, 2017

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.

## **Statement of Cash Flows**

The final statement presented by MESOC 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 MESOC. 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.

# Management's Discussion and Analysis

For the Year Ended September 30, 2017

<b>Statement of Cash Flows</b>	
	<u>2017</u>
Cash provided (used) by:	
Operating activities	\$ (4,347,899)
Noncapital financing activities	4,880,936
Capital and related financing activities	(547,834)
Investing activities	<u>1,604</u>
 Net change in Cash	 (13,193)
 Cash, beginning of year	 <u>1,528,640</u>
Cash, end of year	<u>\$ 1,515,447</u>

## **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. 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. The Consortium continues to be an active participant in the BP sponsored Gulf Research Initiative and other RESTORE funded projects to study the effects of the DWHO.

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.

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# *Basic Financial Statements*

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***Statement of Net Position***  
***September 30, 2017***

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**ASSETS**

**Current Assets**

Cash	\$	1,515,447
Accounts Receivable		2,410,530
Inventories		145,187
Total Current Assets		<u>4,071,164</u>

**Noncurrent Assets**

Accounts Receivable		497,162
Capital Assets:		
Land		658,757
Improvements Other Than Buildings		433,744
Buildings		15,987,742
Equipment		3,090,366
Vessels		1,075,392
Library Holdings		126,694
Construction in Progress		27,505
Less: Accumulated Depreciation		<u>(8,152,088)</u>
Total Capital Assets, Net of Depreciation		<u>13,248,112</u>
Total Noncurrent Assets		<u>13,745,274</u>
Total Assets		<u>17,816,438</u>

**Deferred Outflow of Resources**

Related to Defined Benefit Pension Plan	\$	<u>1,623,000</u>
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The accompanying Notes to the Financial Statements are an integral part of this statement.

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**LIABILITIES****Current Liabilities**

Accounts Payable	\$	107,394
Leases Payable		195,000
Compensated Absences		31,338
Unearned Revenue		1,901,681
Deposits Held for Others		153,884
Total Current Liabilities		<u>2,389,297</u>

**Noncurrent Liabilities**

Leases Payable		1,345,000
Compensated Absences		490,969
Net Pension Liability		7,422,000
Total Noncurrent Liabilities		<u>9,257,969</u>

Total Liabilities		<u>11,647,266</u>
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**Deferred Inflow of Resources**

Related to Defined Benefit Pension Plan		<u>378,000</u>
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**NET POSITION**

Net Investment in Capital Assets		11,708,112
Restricted for:		
Expendable:		
Scholarships and Fellowships		50,957
Research and Public Outreach		310,798
Instruction		218,266
Capital Projects		28,334
Unrestricted		<u>(4,902,295)</u>
Total Net Position	\$	<u>7,414,172</u>

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***Statement of Revenues, Expenses and Changes in Net Position***  
***For the Year Ended September 30, 2017***

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**OPERATING REVENUES**

Student Tuition and Fees	\$ 644,476
Federal Grants and Contracts	2,615,269
State and Local Grants and Contracts	537,007
Private Grants and Contracts	6,754,973
Sales and Services of Educational Departments	155,002
Auxiliary Enterprises:	
Estuarium	578,893
Gift Shop	478,841
Food Services	458,809
Rental Income	409,024
Other Operating Revenues	16,860
Total Operating Revenues	<u>12,649,154</u>

**OPERATING EXPENSES**

Instruction	1,142,251
Institutional Support	2,464,834
Public Service	4,883,156
Academic Support	1,283,304
Student Services	76,787
Research	4,503,381
Operation and Maintenance	1,984,746
Scholarships and Fellowships	3,039
Depreciation	608,047
Auxiliary Enterprises:	
Estuarium	478,822
Gift Shop	441,444
Food Services	585,400
Total Operating Expenses	<u>18,455,211</u>
Operating Income (Loss)	<u>(5,806,057)</u>

**NONOPERATING REVENUES (EXPENSES)**

State Appropriations	4,429,174
Investment Income	1,604
Private Gifts	64,691
Other Nonoperating Revenues	16,055
Interest on Capital Asset Related Debt	(40,726)
Net Nonoperating Revenues	<u>4,470,798</u>
Changes in Net Position	<u>(1,335,259)</u>
Total Net Position - Beginning of Year	8,749,431
Total Net Position - End of Year	<u>\$ 7,414,172</u>

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

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***Statement of Cash Flows***  
***For the Year Ended September 30, 2017***

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**CASH FLOWS FROM OPERATING ACTIVITIES**

Tuition and Fees	\$ 539,608
Grants and Contracts	11,714,739
Payments to Suppliers	(10,207,993)
Payments to Utilities	(678,430)
Payments to Employees	(5,939,255)
Payments to Benefits	(1,840,191)
Payments to Scholarships and Fellowships	(6,595)
Auxiliary Enterprise Charges:	
Estuarium	578,058
Gift Shop	479,794
Food Services	431,480
Sales and Services of Educational Departments	155,002
Other Receipts (Payments)	425,884
Net Cash Provided (Used) by Operating Activities	<u>(4,347,899)</u>

**CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES**

State Appropriations	4,429,174
Private Grants and Gifts	64,691
Other	387,071
Net Cash Provided (Used) by Noncapital Financing Activities	<u>4,880,936</u>

**CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES**

Purchases of Capital Assets	(317,108)
Principal Paid on Capital Debt and Leases	(190,000)
Interest Paid on Capital Debt and Leases	(40,726)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(547,834)</u>

**CASH FLOWS FROM INVESTING ACTIVITIES**

Interest on Investments	1,604
Net Cash Provided (Used) by Investing Activities	<u>1,604</u>

Net Increase (Decrease) in Cash	(13,193)
Cash and Cash Equivalents - Beginning of Year	1,528,640
Cash and Cash Equivalents - End of Year	<u>\$ 1,515,447</u>

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

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

Operating Income (Loss) \$ (5,806,057)

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

Depreciation Expense 608,047

Changes in Assets and Liabilities:

(Increase)/Decrease in Receivables 1,631,652

(Increase)/Decrease in Inventories 1,904

Increase/(Decrease) in Accounts Payable (1,062,364)

Increase/(Decrease) in Compensated Absences 36,919

Increase/(Decrease) in Deferred Outflows (584,000)

Increase/(Decrease) in Deferred Inflows 96,000

Increase/(Decrease) in Pension Liability 730,000

Net Cash Provided (Used) by Operating Activities \$ (4,347,899)

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***Statement of Financial Position***  
***Dauphin Island Sea Lab Foundation, Inc.***  
***September 30, 2017***

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2017

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**Assets**

Cash	\$	293,006.00
Investments - Community Foundation of South Alabama		1,529,162.00
Promises to Give		370,000.00
Total Assets		<u>2,192,168.00</u>

**Liabilities and Net Assets**

Unrestricted		1,856,269.00
Temporarily Restricted		52,408.00
Permanently Restricted		283,491.00
Total Liabilities and Net Assets	\$	<u>2,192,168.00</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, 2017***

	Unrestricted	Temporarily Restricted
<b><u>Revenue and Other Support</u></b>		
Special Events	\$ 99,119.00	\$
Less Cost of Special Events	(37,857.00)	
Net Special Events	<u>61,262.00</u>	
Contributions	38,097.00	50,000.00
Environmental Fines	-	
Donated Property	370,000.00	
Investment Income (Loss)	102,297.00	
Net Assets Released from Restrictions	<u>-</u>	<u>-</u>
Total Revenues and Other Support	<u>571,656.00</u>	<u>50,000.00</u>
<b><u>Expenses</u></b>		
Program Expenses	7,240.00	
General and Administrative Expenses	12,438.00	
Fundraising Expenses	<u>23,885.00</u>	
Total Expenses	<u>43,563.00</u>	
Change in Net Assets	528,093.00	50,000.00
Net Assets - Beginning of Year	<u>1,328,176.00</u>	<u>2,408.00</u>
Net Assets - End of Year	<u>\$ 1,856,269.00</u>	<u>\$ 52,408.00</u>

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

<b>Permanently Restricted</b>	<b>Total 2017</b>
\$	\$ 99,119.00
	(37,857.00)
	61,262.00
	88,097.00
	-
	370,000.00
24,868.00	127,165.00
	-
24,868.00	646,524.00
	7,240.00
	12,438.00
	23,885.00
	43,563.00
24,868.00	602,961.00
258,623.00	1,589,207.00
\$ 283,491.00	\$ 2,192,168.00

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2017*

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#### **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.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2017***

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**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. Deposits and Investments**

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

**2. Receivables**

Accounts receivable 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.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2017*

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#### **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. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

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.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2017***

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**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, 2017, 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.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2017*

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#### **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. 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.
  
- ◆ **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.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2017***

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**11. 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.

**Note 3 – Receivables**

Receivables are summarized as follows:

<u>Accounts Receivable:</u>	
Federal	\$1,790,603
Third Party Tuition and Fees	570,647
Auxiliary	49,280
Dauphin Island Public Education	
Building Authority Construction Fund	497,162
Total Accounts Receivable	<u>\$2,907,692</u>

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2017***

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**Note 4 – Capital Assets**

Capital asset activity for the year ended September 30, 2017, was as follows:

	Beginning Balance	Additions	Deductions	Reclassifications/ Adjustments	Ending Balance
Land	\$ 658,757	\$	\$	\$	\$ 658,757
Improvements Other Than Buildings	433,744				433,744
Buildings	13,649,056	96,021		2,242,665	15,987,742
Equipment	2,939,910	196,372	45,916		3,090,366
Vessels	1,075,392				1,075,392
Library Holdings	126,694				126,694
Construction in Progress	2,245,455	24,715		(2,242,665)	27,505
Total	<u>21,129,008</u>	<u>317,108</u>	<u>45,916</u>		<u>21,400,200</u>
Less: Accumulated Depreciation					
Improvements Other Than Buildings	200,023	24,965			224,988
Buildings	4,914,899	319,755			5,234,654
Equipment	1,981,780	201,111	45,916		2,136,975
Vessels	466,430	53,770			520,200
Library Holdings	26,825	8,446			35,271
Total Accumulated Depreciation	<u>7,589,957</u>	<u>608,047</u>	<u>45,916</u>		<u>8,152,088</u>
Capital Assets, Net	<u>\$13,539,051</u>	<u>\$(290,939)</u>	<u>\$</u>	<u>\$</u>	<u>\$13,248,112</u>

**Note 5 – Defined Benefit Pension Plan**

**A. Plan Description**

The Teachers' Retirement System of Alabama ("TRS"), a cost-sharing multiple employer public employee retirement plan, was established as of September 15, 1939, under the provisions of Act Number 419 of the Legislature of 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). Title 16-Chapter 25 of the *Code of Alabama*, 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](http://www.rsa-al.gov).

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2017*

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#### **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 who retire after age 60 with 10 years or more of creditable service or with 25 years of service (regardless of age) 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 377 of the Legislature of 2012, established a new tier of benefits (Tier 2) for members hired 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 are calculated and paid to the beneficiary based on the member's age, service credit, employment status and eligibility for retirement.

#### **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.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2017*

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Participating employers' contractually required contribution rate for the year ended September 30, 2017, was 12.01% of annual pay for Tier 1 members and 10.82% of annual pay for Tier 2 members. These required contribution rates are a percentage 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 \$563,686.00 for the year ended September 30, 2017. The percentages of the contributions and the amount of contributions made by the Consortium and its employees equal the required contributions for each year as follows:

Fiscal Year Ended September 30,	Tier 1 2017	Tier 2 2017	Tier 1 2016	Tier 2 2016
Total Percentage of Covered Payroll	19.51%	16.82%	19.44%	16.84%
<b>Contributions:</b>				
Percentage Contributed by Consortium	12.01%	10.82%	11.94%	10.84%
Percentage Contributed by Regular Employees	7.50%	6.00%	7.50%	6.00%
Percentage Contributed by Law Enforcement Employees	8.50%	7.00%	8.50%	7.00%
Contributed by Consortium	\$447,216	\$116,470	\$435,464	\$ 79,913
Contributed by Employees	279,277	64,586	273,532	44,233
Total Contributions	<u>\$726,493</u>	<u>\$181,056</u>	<u>\$708,996</u>	<u>\$124,146</u>

#### **D. Pension Liabilities, Pension Expense, and Deferred Resources Related to Pensions**

At September 30, 2017, the Consortium reported a liability of \$7,422,000.00 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2015. 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, 2016, the Consortium's proportion was 0.068555%, which was an increase of 0.004609% from its proportion measured as of September 30, 2015.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2017***

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For the year ended September 30, 2017, the Consortium recognized pension expense of \$806,000.00. At September 30, 2017, 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	\$	\$191,000.00
Changes in assumptions	524,000.00	
Net difference between projected and actual earnings on pension plan investments	107,000.00	
Changes in proportion and differences between employer contributions and proportionate share of contributions	428,000.00	187,000.00
Employer contributions subsequent to the measurement date	564,000.00	
Total	\$1,623,000.00	\$378,000.00

The \$564,000.00 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 ended September 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the pension will be recognized in pension expense as follows:

Year Ending:	
September 30, 2018	\$148,000
2019	\$148,000
2020	\$246,000
2021	\$ 90,000
2022	\$ 49,000
Thereafter	\$

**E. Actuarial Assumptions**

The total pension liability was determined by an actuarial valuation as of September 30, 2015, 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	

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2017*

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The actuarial assumptions used in the actuarial valuation as of September 30, 2015, were based on results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2015. The Board of Control accepted and approved these changes in September 2016, which became effective at the beginning of fiscal year 2016.

Mortality rates were based on the 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 RP-2000 Disabled Mortality Table projected to 2020 using Scale BB and adjusted 105% for males and 120% for females.

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 summarized in the following table:

	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 7.75%. 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 employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rates of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2017***

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

The following table presents the Consortium's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as what the Consortium's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Rate (7.75%)	1% Increase (8.75%)
Consortium's proportionate share of collective net pension liability	\$9,887	\$7,422	\$5,334
(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, 2016. The supporting actuarial information is included in the GASB Statement Number 67 Report for the TRS prepared as of September 30, 2016. The auditor's report dated September 22, 2017, 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, 2016, along with supporting schedules is also available. The additional financial and actuarial information is available at [www.rsa-al.gov](http://www.rsa-al.gov).

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2017***

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**Note 6 – Other Postemployment Benefits (OPEB)**

**A. Plan Description**

The Consortium contributes to the Alabama Retired Education Employees' Health Care Trust (the "Trust"), a cost-sharing multiple-employer defined benefit postemployment healthcare plan. The Trust provides health care benefits to state and local school system retirees and was established in 2007 under the provisions of Act Number 2007-16, Acts of Alabama, as an irrevocable trust fund. Responsibility for general administration and operation of the Trust is vested with the Public Education Employees' Health Insurance Board (PEEHIB) members. The *Code of Alabama 1975*, Section 16-25-A-4, provides the PEEHIB with the authority to amend the benefit provisions in order to provide reasonable assurance of stability in future years. The Trust issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained at the Public Education Employees' Health Insurance Plan website, <http://www.rsa-al.gov> under the Employers' Financial Reports section. The provisions of GASB Statement Number 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, were implemented prospectively.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2017*

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#### **B. Funding Policy**

The Public Education Employees' Health Insurance Fund (PEEHIF) was established in 1983 under the provisions of Act Number 255, Acts of Alabama, to provide a uniform plan of health insurance for current and retired employees of state educational institutions. The plan is administered by the PEEHIB. Any Trust assets used in paying administrative costs and retiree benefits are transferred to and paid from the PEEHIF. The PEEHIB periodically reviews the funds available in the PEEHIF and if excess funds are determined to be available, the PEEHIB authorizes a transfer of funds from the PEEHIF to the Trust. Retirees are required to contribute monthly as follows:

	Fiscal Year 2017
Individual Coverage – Non-Medicare Eligible	\$ 166.00
Individual Coverage – Medicare Eligible	\$ 25.00
Family Coverage – Non-Medicare Eligible Retired Member and Non-Medicare Eligible Non-Spousal Dependent(s)	\$ 421.00
Family Coverage – Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) With Non-Medical Eligible Spouse	\$ 521.00
Family Coverage – Non-Medicare Eligible Retired Member and Non-Spousal Dependent Medicare Eligible	\$ 280.00
Family Coverage – Non-Medicare Eligible Retired Member and Spouse Dependent Medicare Eligible	\$ 310.00
Family Coverage – Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) – No Spouse	\$ 280.00
Family Coverage – Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s) – With Non-Medicare Eligible Spouse	\$ 380.00
Family Coverage – Medicare Eligible Retired Member and Non-Spousal Dependent Medicare Eligible	\$ 139.00
Family Coverage – Medicare Eligible Retired Member and Spousal Dependent Medicare Eligible	\$ 169.00
Surviving Spouse – Non-Medicare Eligible	\$ 816.00
Surviving Spouse – Non-Medicare Eligible and Dependent Non-Medicare Eligible	\$1,028.00
Surviving Spouse – Non-Medicare Eligible and Dependent Medicare Eligible	\$1,067.00
Surviving Spouse – Medicare Eligible	\$ 430.00
Surviving Spouse – Medicare Eligible and Dependent Non-Medicare Eligible	\$ 720.00
Surviving Spouse – Medicare Eligible and Dependent Medicare Eligible	\$ 759.00

For employees that retire other than for disability on or after October 1, 2005 and before January 1, 2012, for each year under 25 years of service, the retiree pays two percent of the employer premium and for each year over 25 years of service, the retiree premium is reduced by two percent of the employer premium. Employees who retire on or after January 1, 2012, with less than 25 years of service are required to pay 4% for each year under 25 years of service. In addition, non-Medicare eligible employees who retire on or after January 1, 2012, are required to pay 1% more for each year less than 65 (age premium) and to pay the net difference between the active employee subsidy and the non-Medicare eligible subsidy (subsidy premium). When the retiree becomes Medicare eligible, the age and subsidy premium no longer applies, but the years of service premium (if applicable to the retiree) will continue to be applied throughout retirement. These changes are being phased in over a 5 year period. The tobacco premium is \$50.00 per month for retired members who use tobacco products. The wellness premium is \$50.00 per month for non-Medicare eligible retirees and non-Medicare spouses covered on retiree contracts who choose not to participate or fail to complete their requirements by the deadline of August 31 of each year.

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2017*

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The Consortium is required to contribute at a rate specified by the State for each active employee. The Consortium's share of premiums for retired employees health insurance is included as part of the premium for active employees. The following shows the required contributions in dollars and the percentage of that amount contributed for retirees:

Fiscal Year Ended September 30,	Active Health Insurance Premiums Paid By the Consortium	Amount of Premium Attributable to Retirees	Percentage of Active Employee Premiums Attributable to Retirees	Total Amount Paid Attributable to Retirees	Percentage of Required Amount Contributed
2017	\$800.00	\$152.57	19.07%	\$156,055.09	100%
2016	\$780.00	\$211.21	27.08%	\$204,066.76	100%
2015	\$780.00	\$180.76	23.17%	\$164,476.32	100%

Each year the PEEHIB certifies to the Governor and to the Legislature the contribution rates based on the amount needed to fund coverage for benefits for the following fiscal year and the Legislature sets the premium rate in the annual appropriation bill. This results in a pay-as-you-go funding method.

#### **Note 7 – Significant Commitments**

As of September 30, 2017, the Consortium had been awarded approximately \$11.9 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 8 – Long-Term Liabilities**

Long-term liabilities activity for the year ended September 30, 2017, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Capital Lease Payable – Bond	\$1,730,000	\$	\$190,000	\$1,540,000	\$195,000
Other Liabilities:					
Compensated Absences	485,387	36,920		522,307	31,338
<b>Total Long-Term Liabilities</b>	<b>\$2,215,387</b>	<b>\$36,920</b>	<b>\$190,000</b>	<b>\$2,062,307</b>	<b>\$226,338</b>

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***Notes to the Financial Statements***  
***For the Year Ended September 30, 2017***

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**Capital Lease Payable**

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 begins 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
2017-2018	\$ 195,000.00	\$ 36,127.95	\$ 231,127.95
2018-2019	200,000.00	31,348.94	231,348.94
2019-2020	210,000.00	26,517.89	236,517.89
2020-2021	220,000.00	21,306.94	241,306.94
2021-2022	230,000.00	15,922.94	245,922.94
2022-2023	240,000.00	10,296.93	250,296.93
2023-2024	245,000.00	4,497.23	249,497.23
Totals	<u>\$1,540,000.00</u>	<u>\$146,018.82</u>	<u>\$1,686,018.82</u>

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## *Notes to the Financial Statements*

### *For the Year Ended September 30, 2017*

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#### **Note 9 – 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.

#### **Note 10 – Component Unit**

During the year ended September 30, 2017, 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, 2017, the Foundation contributed \$10,000 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.

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*Notes to the Financial Statements*  
*Dauphin Island Sea Lab Foundation, Inc.*  
*September 30, 2017*

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**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.

**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 unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Foundation considers all unrestricted cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

**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 unrestricted net assets 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.

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***Notes to the Financial Statements***  
***Dauphin Island Sea Lab Foundation, Inc.***  
***September 30, 2017***

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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 mutual 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 unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions.

**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, 2017.

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***Notes to the Financial Statements***  
***Dauphin Island Sea Lab Foundation, Inc.***  
***September 30, 2017***

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**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.

**Functional Expenses**

Functional expenses have been allocated among the program and supporting services based upon an analysis of the expenses and benefits derived.

**Evaluation of Subsequent Events**

The Organization has evaluated subsequent events through December 8, 2017, the date which the financial statements were available to be issued.

**Temporarily Restricted Net Assets**

Temporarily restricted net assets were available for the following purposes or period at September 30:

	2017
Program expenses and equipment	\$ 2,408
Renovations of the administrative building	50,000
Total	<u>\$52,408</u>

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***Notes to the Financial Statements***  
***Dauphin Island Sea Lab Foundation, Inc.***  
***September 30, 2017***

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**Permanently Restricted Net Assets**

Permanently restricted net assets were available for the following purposes or period at September 30:

	2017
Endowment	\$283,491
Total	<u>\$283,491</u>

**Promises to Give**

Unconditional promises to give at December 31 are as follows:

	2017
Receivable in less than one year	\$370,000
Total unconditional promises to give	<u>370,000</u>
Net unconditional promises to give	<u>\$370,000</u>

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

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***Notes to the Financial Statements***  
***Dauphin Island Sea Lab Foundation, Inc.***  
***September 30, 2017***

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**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:

	2017			
	Fair value measurements using			
	Level 1	Level 2	Level 3	Total
Mutual Funds – Community Foundation of South Alabama	\$1,529,162	\$	\$	\$1,529,162
Total	<u>\$1,529,162</u>	<u>\$</u>	<u>\$</u>	<u>\$1,529,162</u>

Investment return for the year ended September 30, 2017, is summarized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Interest and dividend income	\$ 18,565	\$	\$ 4,439	\$ 23,004
Realized gains (losses)	49,790		12,081	61,871
Unrealized gains (losses)	47,187		11,676	58,863
Administrative fees	(13,245)		(3,328)	(16,573)
Total	<u>\$102,297</u>	<u>\$</u>	<u>\$24,868</u>	<u>\$127,165</u>

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*Notes to the Financial Statements*  
*Dauphin Island Sea Lab Foundation, Inc.*  
*September 30, 2017*

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**NOTE 3 – 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 indexed 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 as permanently restricted net assets (1) the original value of gifts donated to the permanent endowment, (2) the original value of subsequent gifts to the permanent endowment, and (3) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. 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.

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.

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***Notes to the Financial Statements***  
***Dauphin Island Sea Lab Foundation, Inc.***  
***September 30, 2017***

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Changes in endowment net assets for the year ended September 30, 2017, is summarized as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets beginning of year	\$1,043,664	\$	\$258,623	\$1,302,287
Investment return:				
Investment income	5,030		1,111	6,141
Net appreciation (realized and unrealized)	96,977		23,757	120,734
Total investment return	102,007		24,868	126,875
Contributions	100,000			100,000
Total	<u>\$1,245,671</u>	<u>\$</u>	<u>\$283,491</u>	<u>\$1,529,162</u>

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*Required Supplementary Information*

***Schedule of the Consortium's Proportionate Share of the  
Net Pension Liability  
For the Year Ended September 30, 2017  
(Dollar amounts in thousands)***

	<b>2017</b>	<b>2016</b>	<b>2015</b>
Consortium's proportion of the net pension liability	0.068555%	0.063946%	0.067073%
Consortium's proportionate share of the net pension liability	\$ 7,422	\$ 6,692	\$ 6,093
Consortium's covered-employee payroll during the measurement period (*)	\$ 4,759	\$ 4,434	\$ 4,340
Consortium's proportionate share of the collective net pension liability as a percentage of its covered-employee payroll	155.96%	150.91%	140.40%
Plan fiduciary net position as a percentage of the total collective pension liability	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 2017, the measurement period for covered payroll is October 1, 2015 through September 30, 2016.

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  
For the Year Ended September 30, 2017  
(Dollar amounts in thousands)***

	2017	2016	2015
Contractually required contribution	\$ 564	\$ 515	\$ 457
Contributions in relation to the contractually required contribution	<u>\$ 564</u>	<u>\$ 515</u>	<u>\$ 457</u>
Contribution deficiency (excess)	\$	\$	\$
Consortium's covered-employee payroll	\$ 5,103	\$ 4,759	\$ 4,434
Contributions as a percentage of covered-employee payroll	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 2017, the covered payroll is for the reporting fiscal year October 1, 2016 through September 30, 2017.

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.

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## *Supplementary Information*

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2017***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Identifying Number</b>
<b><u>Research and Development Cluster</u></b>		
<b><u>U. S. Department of Commerce</u></b>		
<b><u>Direct Program</u></b>		
Gulf Coast Ecosystem Restoration Science, Observation, Monitoring and Technology	11.451	
<b><u>Passed Through Mississippi State University</u></b>		
Gulf Coast Ecosystem Restoration Science, Observation, Monitoring and Technology	11.451	010500-320558-02
Sub-Total Gulf Coast Ecosystem Restoration Science, Observation, Monitoring and Technology		
<b><u>Passed Through Woods Hole Oceanographic Institution</u></b>		
Sea Grant Support	11.417	C119844
<b><u>Passed Through University of Southern Mississippi</u></b>		
Sea Grant Support	11.417	R/SFA-03
Sea Grant Support	11.417	USM-GR05007-R/SFA-01
Sea Grant Support	11.417	USM-GR05007-E/O-84
Sea Grant Support	11.417	USM-GR05007-A/O-40
Sea Grant Support	11.417	USM-GR05007-R/SFA-05
Sub-Total Sea Grant Support		
<b><u>Passed Through Regents of the University of Michigan</u></b>		
Coastal Zone Management Administration Awards	11.419	3004480452
<b><u>Passed Through Mississippi State University</u></b>		
Coastal Zone Management Administration Awards	11.419	015900.340560.01
Coastal Zone Management Administration Awards	11.419	015900.340560.02
Sub-Total Coastal Zone Management Administration Awards		

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<u>Pass-Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
\$	\$ 114,595.96
	<u>4,949.98</u>
	119,545.94
	1,909.99
	22,945.49
	22,496.33
	89,942.14
	102,850.15
<u>16,409.72</u>	<u>61,408.28</u>
16,409.72	301,552.38
	16,714.53
	15,285.00
	<u>38,399.15</u>
\$	\$ 70,398.68

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2017***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Identifying Number</b>
<b><u>Passed Through Mississippi State University</u></b>		
National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes	11.432	191001-363405-02/TO 006
National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes	11.432	191001-363405-02/TO 008
National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes	11.432	191001-363405-02/TO 009
National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes	11.432	191001-363405-02/TO 0010
National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes	11.432	191001-363405-02/TO 0011
National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes	11.432	191001-363513.02A
National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes	11.432	191001-363513.02B
Sub-Total National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes		
<b><u>Passed Through University of South Alabama</u></b>		
Unallied Management Projects	11.454	NA15NMF4540103
<b><u>Passed Through National Fish and Wildlife Foundation</u></b>		
Congressionally Identified Awards and Projects	11.469	NA14NMF4690277
<b><u>Passed Through University of South Alabama</u></b>		
Unallied Science Program	11.472	150452/ 01-13
<b><u>U. S. Department of Defense</u></b>		
<b><u>Direct Program</u></b>		
Basic and Applied Scientific Research	12.300	
Basic and Applied Scientific Research	12.300	
Sub-Total Basic and Applied Scientific Research		

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<b>Pass-Through to Subrecipients</b>	<b>Total Federal Expenditures</b>
\$	\$ 14,023.27
16,894.17	16,894.17
11,477.44	11,477.44
8,085.39	8,085.39
123,720.90	126,989.90
29,030.00	29,611.00
81,780.23	83,441.23
270,988.13	290,522.40
	12,828.83
	24,628.13
	32,621.00
	36,928.63
	14,525.28
\$	\$ 51,453.91

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2017***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Identifying Number</b>
<b><u>U. S. Department of the Interior</u></b>		
<b><u>Direct Programs</u></b>		
Coastal Program	15.630	
Endangered Species Conservation - Recovery Implementation Funds	15.657	
Cooperative Research and Training Programs - Resources of the National Park System	15.945	
Cooperative Research and Training Programs - Resources of the National Park System	15.945	
Sub-Total Cooperative Research and Training Programs - Resources of the National Park System		
<b><u>Passed Through Alabama Department of Conservation and Natural Resources</u></b>		
Cooperative Endangered Species Conservation Fund	15.615	N.A.
<b><u>Passed Through Auburn University</u></b>		
Assistance to State Water Resources Research Institutes	15.805	16-WRC-362436-DISL
<b><u>National Science Foundation</u></b>		
<b><u>Direct Program</u></b>		
Geosciences	47.050	
Geosciences	47.050	
Geosciences	47.050	
<b><u>Passed Through University of California Santa Barbara</u></b>		
Geosciences	47.050	KK1333
<b><u>Passed Through University of South Alabama</u></b>		
Geosciences	47.050	OCE-1342699
Geosciences	47.050	1436576
Sub-Total Geosciences		
<b><u>Environmental Protection Agency</u></b>		
<b><u>Direct Programs</u></b>		
Regional Wetland Program Development Grants	66.461	
Office of Research and Development Consolidated Research/Training/Fellowships	66.511	

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<u>Pass-Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
\$	\$ 5,606.00
	7,343.22
	17,385.36
	<u>1,912.53</u>
	19,297.89
	22,500.00
4,814.73	48,544.60
	70,385.58
22,760.03	112,187.38
	26,733.07
	10,657.91
	15,536.94
	<u>47,825.84</u>
<u>22,760.03</u>	<u>283,326.72</u>
	29,546.82
2,672.48	29,546.82
\$	\$ 38,420.97

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2017***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Identifying Number</b>
<b><u>U. S. Department of Health and Human Services</u></b>		
<b><u>Direct Program</u></b>		
Food and Drug Administration Research	93.103	
Food and Drug Administration Research	93.103	
Sub-Total Food and Drug Administration Research		
Total Research and Development Cluster (M)		
<b><u>Other Federal Awards</u></b>		
<b><u>U. S. Department of Commerce</u></b>		
<b><u>Passed Through National Marine</u></b>		
<b><u>Sanctuary Foundation (NMSF)</u></b>		
Ocean Exploration	11.011	15-08-B-00033
<b><u>Passed Through Texas A&amp;M Research Foundation</u></b>		
Integrated Ocean Observing System (IOOS)	11.012	S120009
<b><u>Passed Through Texas A&amp;M University</u></b>		
Integrated Ocean Observing System (IOOS)	11.012	S160278
Sub-Total Integrated Ocean Observing System (IOOS)		
<b><u>Passed Through Alabama Department of</u></b>		
<b><u>Conservation and Natural Resources</u></b>		
Coastal Zone Management Administration Awards	11.419	MBNEP-CZM-309-16-1
Coastal Zone Management Administration Awards	11.419	MBNEP-CZM-306-17-1
Coastal Zone Management Administration Awards	11.419	DISL-CZM-306-16-1
Coastal Zone Management Administration Awards	11.419	DISL-CZM-306-17-1
Sub-Total Coastal Zone Management Administration Awards		
<b><u>Passed Through North Pacific Research Board</u></b>		
Unallied Science Program	11.472	A70-02
<b><u>National Science Foundation</u></b>		
<b><u>Passed through Monterey Peninsula College</u></b>		
Education and Human Resources	47.076	PR 45733
<b><u>Environmental Protection Agency</u></b>		
<b><u>Direct Program</u></b>		
National Estuary Program	66.456	

<b>Pass-Through to Subrecipients</b>	<b>Total Federal Expenditures</b>
\$	\$ 176,758.07
	2,429.56
	<u>179,187.63</u>
 317,645.09	 1,537,325.12
	 17,693.59
	 23,622.85
 2,020.00	 39,085.72
 2,020.00	 62,708.57
	 33,696.55
	10,500.00
	18,343.60
	42,807.61
	<u>105,347.76</u>
	 22,544.12
	 3,958.00
\$	\$ 666,015.66

***Schedule of Expenditures of Federal Awards  
For the Year Ended September 30, 2017***

<b>Federal Grantor/ Pass-Through Grantor/ Program Title</b>	<b>Federal CFDA Number</b>	<b>Pass-Through Grantor's Identifying Number</b>
<b><u>Passed Through Gulf of Mexico Alliance</u></b>		
Gulf of Mexico Program	66.475	121609-00
<b><u>Passed Through University of Southern Mississippi</u></b>		
Gulf of Mexico Program	66.475	MX-95453310-6
Sub-Total Gulf of Mexico Program		
<b><u>Passed Through Alabama Department of Environmental Management</u></b>		
Nonpoint Source Implementation Grants	66.460	C60590123
Nonpoint Source Implementation Grants	66.460	C70591061
Sub-Total Nonpoint Source Implementation Grants		
<b><u>General Services Administration</u></b>		
<b><u>Passed through Alabama Department of Economic and Community Affairs</u></b>		
Donation of Federal Surplus Personal Property (N)	39.003	N.A.
Total Federal Awards		

(M) = Major Program

(N) = Non-Monetary Federal Assistance

N.A. = Not Available/Not Applicable

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



<u>Pass-Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
\$	\$ 66,897.36
	<u>10,500.00</u>
	77,397.36
13,997.50	77,050.00
<u>54,964.58</u>	<u>54,964.58</u>
68,962.08	132,014.58
	<u>267.84</u>
<u>\$ 388,627.17</u>	<u>\$ 2,625,272.60</u>

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***Notes to the Schedule of Expenditures  
of Federal Awards  
For the Year Ended September 30, 2017***

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**Note 1 – Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) includes the federal award activity of Marine Environmental Sciences Consortium, under programs of the federal government for the year ended September 30, 2017. 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 Marine Environmental Sciences Consortium, it is not intended to and does not present the financial position, changes in net position, or cash flows of 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**

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

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## *Additional Information*

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***Board Members and Officials***  
***October 1, 2016 through September 30, 2017***

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<b>Board Members</b>		<b>Term Expires</b>
Dr. Tony G. Waldrop, Chairman	President, University of South Alabama	Indefinite
Dr. Leon Wilson	Interim President, Alabama State University	10/01/2017
Dr. Gwendolyn Boyd	President, Alabama State University	11/05/2016
Dr. Robert Glenn	President, Athens State University	Indefinite
Dr. Steven Leath	President, Auburn University	Indefinite
Dr. Jay Gogue	President, Auburn University	06/18/2017
Dr. Carl Stockton	Chancellor, Auburn University at Montgomery	Indefinite
Ms. Linda Flaherty-Goldsmith	President, Birmingham Southern College	Indefinite
Rev. John Cameron West	President, Huntingdon College	Indefinite
Dr. John M. Beehler	President, Jacksonville State University	Indefinite
Dr. David E. Potts	President, Judson College	Indefinite
Dr. Andrew Westmoreland	President, Samford University	Indefinite
Dr. Andrew Hugine, Jr.	President, Alabama A & M University	Indefinite
Dr. Christopher Puto	President, Spring Hill College	Indefinite
Dr. Billy C. Hawkins	President, Talladega College	Indefinite

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***Board Members and Officials***  
***October 1, 2016 through September 30, 2017***

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<b>Board Members</b>		<b>Term Expires</b>
Dr. Jack Hawkins, Jr.	Chancellor, Troy University	Indefinite
Dr. Charlotte P. Morris	President, Tuskegee University	Indefinite
Dr. Brian L. Johnson	President, Tuskegee University	06/30/2017
Dr. Stuart Bell	President, University of Alabama	Indefinite
Dr. Ray Watts	President, University of Alabama at Birmingham	Indefinite
Dr. Robert Altenkirch	President, University of Alabama at Huntsville	Indefinite
Dr. Timothy L. Smith	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
Mr. David England	Director of Financial and Administrative Services

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***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***

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**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 as of and for the year ended September 30, 2017, and 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 June 18, 2018. 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) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 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.

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***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***

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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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under ***Government Auditing Standards***.

**Purpose of this Report**

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



Rachel Laurie Riddle  
Chief Examiner  
Department of Examiners of Public Accounts

Montgomery, Alabama

June 18, 2018

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

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***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 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, 2017. 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 OMB Uniform Guidance, accordingly, this report does not extend to Dauphin Island Sea Lab Foundation, Inc.

***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to each of 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 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 also 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.

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

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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, 2017.

### ***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 for the purpose of expressing our opinion on compliance for each major 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.

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

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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.

**Purpose of the Report**

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

June 18, 2018

***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 2017***

**Section I – Summary of Examiner's Results**

**Financial Statements**

Type of opinion issued: 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 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 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 programs:

CFDA Numbers	Name of Federal Program or Cluster
11.417, 11.419, 11.432, 11.451, 11.454, 11.469, 11.472, 12.300, 15.615, 15.630, 15.657, 15.805, 15.945, 47.050, 66.461, 66.511, 93.103	Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000.00

Auditee qualified as low-risk auditee?  X  Yes    \_\_\_\_\_ No

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***Schedule of Findings and Questioned Costs***  
***For the Year Ended September 30, 2017***

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**Section II – Financial Statement Findings (GAGAS)**

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
		No matters were reportable.	

**Section III – Federal Awards Findings and Questioned Costs**

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			No matters were reportable.	