

Report on the

Marine Environmental Sciences Consortium

Dauphin Island, Alabama

October 1, 2009 through September 30, 2010

Filed: August 12, 2011



Department of Examiners of Public Accounts

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Ronald L. Jones, Chief Examiner



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Honorable Ronald L. Jones
Chief Examiner of Public Accounts
Montgomery, Alabama 36130

Dear Sir:

Under the authority of the *Code of Alabama 1975*, Section 41-5-21, we submit this report on the results of the audit of the Marine Environmental Sciences Consortium for the period October 1, 2009 through September 30, 2010.

Sworn to and subscribed before me this
the 26th day of July, 20 11.

Marcella Jones
Notary Public

Sworn to and subscribed before me this
the 26th day of July, 20 11.

Marcella Jones
Notary Public

Respectfully submitted,

Hilario O. Lim
Hilario O. Lim
Examiner of Public Accounts

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

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SUMMARY

**Marine Environmental Sciences Consortium
October 1, 2009 through September 30, 2010**

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.

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. The 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 41-5-14.

An unqualified opinion was issued on the basic financial statements, which means the Consortium's financial statements present fairly, in all material respects, the financial position and the results of operations for the fiscal year ending September 30, 2010.

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. George Crozier, Executive Director, and David England, Associate Director of Administrative Services. The following individuals attended the exit conference: David England, Associate Director of Administrative Services. Representing the Department of Examiners of Public Accounts were Mr. Hilario O. Lim and Ms. JoNesia Turner, Examiners.



Department of
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COMMENTS

**Marine Environmental Sciences Consortium
October 1, 2009 through September 30, 2010**

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 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; University of West Alabama; and Alabama A&M University.

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 library is equipped with holdings that include more than 7,000 book titles and many periodicals dealing with marine sciences. 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 10,000 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

We have audited the accompanying basic financial statements of the Marine Environmental Sciences Consortium, as of and for the year ended September 30, 2010, as listed in the table of contents as Exhibits 1 through 3. These basic financial statements are the responsibility of the Marine Environmental Sciences Consortium's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

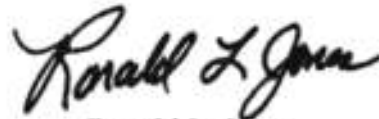
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our 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, as of September 30, 2010, and its changes in financial position, including cash flows, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with ***Government Auditing Standards***, we have also issued our report dated June 30, 2011 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*** and should be considered in assessing the results of our audit.

The accompanying Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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 (Exhibit4) is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

June 30, 2011

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Management's Discussion and Analysis
(Required Supplementary Information)

Management's Discussion and Analysis

For the Year Ended September 30, 2010

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, 2010. 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 Assets
- The Statement of Revenues, Expenses, and Changes in Net Assets
- 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 Assets

The Statement of Net Assets presents the assets, liabilities and net assets of MESC as of the fiscal year ended September 30, 2010. The net assets are displayed in three parts, restricted, unrestricted and invested in capital assets net of related debt. Restricted net assets may either be expendable or non-expendable and are those assets that are restricted by law or by an external donor. Unrestricted net assets, while they are generally designated for specific purposes, are available for use by MESC to meet current expenses for any purpose. The statement of net assets, 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 Assets 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 Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditures by MESC.

Management's Discussion and Analysis

For the Year Ended September 30, 2010

The total net assets of MESC reflect a decrease in Restricted and an increase in unrestricted net assets. The increase in liabilities is due to a \$5 million research grant received from BP, on which no substantial work had taken place by the end of the fiscal year. This grant is reflected as deferred revenue in the financial statements and therefore reported as a liability on the Statement of Net Assets. More information about this grant can be found in the accompanying Notes to the Financial Statements. 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.

Statement of Net Assets		
	2010	2009
Assets		
Current assets	\$ 6,949,403	\$ 1,389,704
Non-current (Capital) assets	12,531,347	11,296,390
Total Assets	19,480,750	12,686,094
Liabilities		
Current liabilities	5,829,817	503,224
Noncurrent liabilities	919,017	711,969
Total liabilities	6,748,834	1,215,193
Net assets		
Invested in capital assets, net Of related debt	12,439,064	11,162,378
Restricted - expendable	91,156	390,170
Unrestricted	201,696	(81,647)
Total Net Assets	\$ 12,731,916	\$ 11,470,901

Statement of Revenues, Expenses and Changes in Net Assets

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

Management's Discussion and Analysis

For the Year Ended September 30, 2010

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. Nonoperating revenues are revenues received for which goods and services are not provided. GASB Statement No. 34 requires that state appropriations be classified as nonoperating.

The Statement of Revenues, Expenses, and Changes in Net Assets reflect operating revenues of \$8,687,799 which is a decrease of \$644,166 from the prior year. The decrease is mostly the result of the end of the major construction phase of the Richard C. Shelby Center for Ecosystem Based Fisheries Management Building (the Shelby Center).

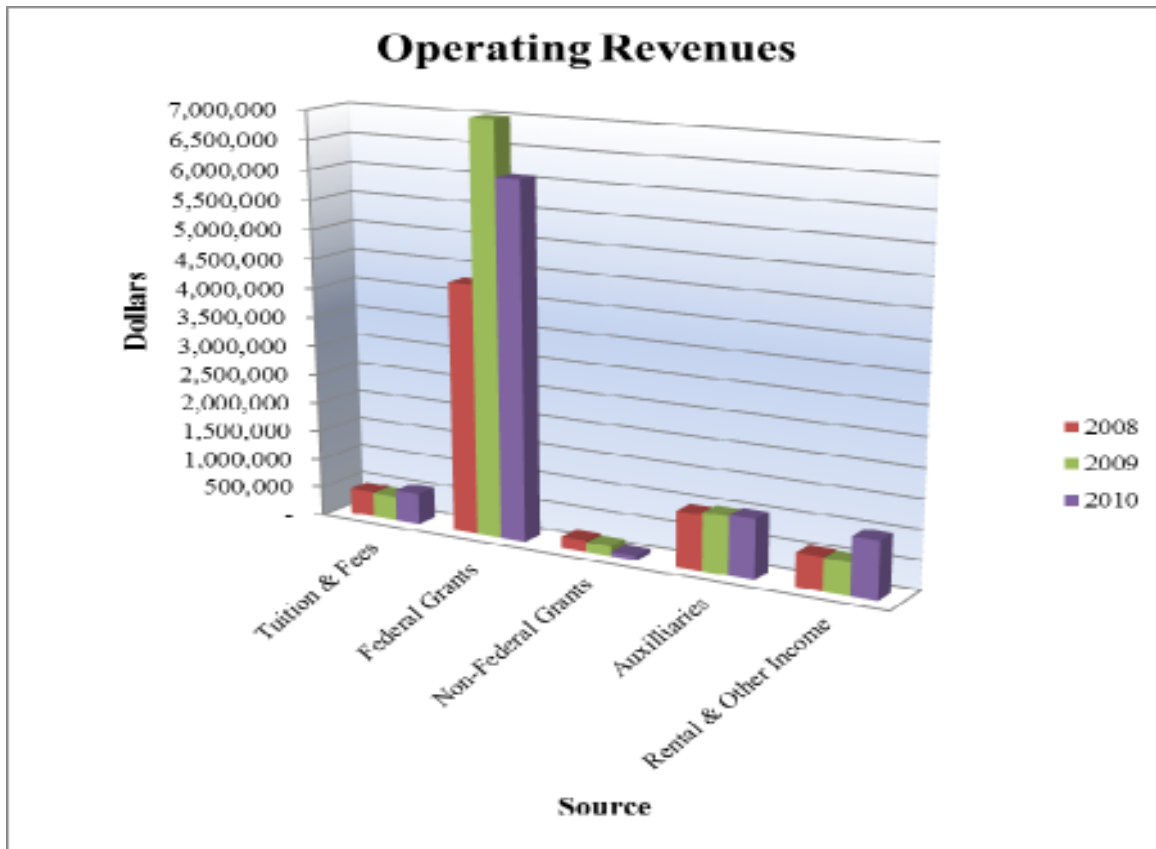
Statement of Revenues, Expenses and Changes in Net Assets		
	2010	2009
Operating revenues	\$ 8,687,799	\$ 9,331,965
Operating expenses	11,445,558	10,909,571
Operating loss	(2,757,759)	(1,577,606)
Nonoperating revenues & expenses	4,019,850	4,335,988
Changes in Net Assets	1,262,091	2,758,382
Total Net Assets - Beginning of Year (Restated)	11,469,825	8,712,519
Total Net Assets - End of Year	\$ 12,731,916	\$ 11,470,901

The effects the Deep Water Horizon Oil Spill (DWHO) had on revenues from our summer programs, workshops and camps are also reflected in this decrease of operating revenues. Claims have been filed with BP for reimbursement of these losses. The operating expenses reflect an increase from last year because of the efforts by our scientists to study the effects of the DWHO.

Management's Discussion and Analysis

For the Year Ended September 30, 2010

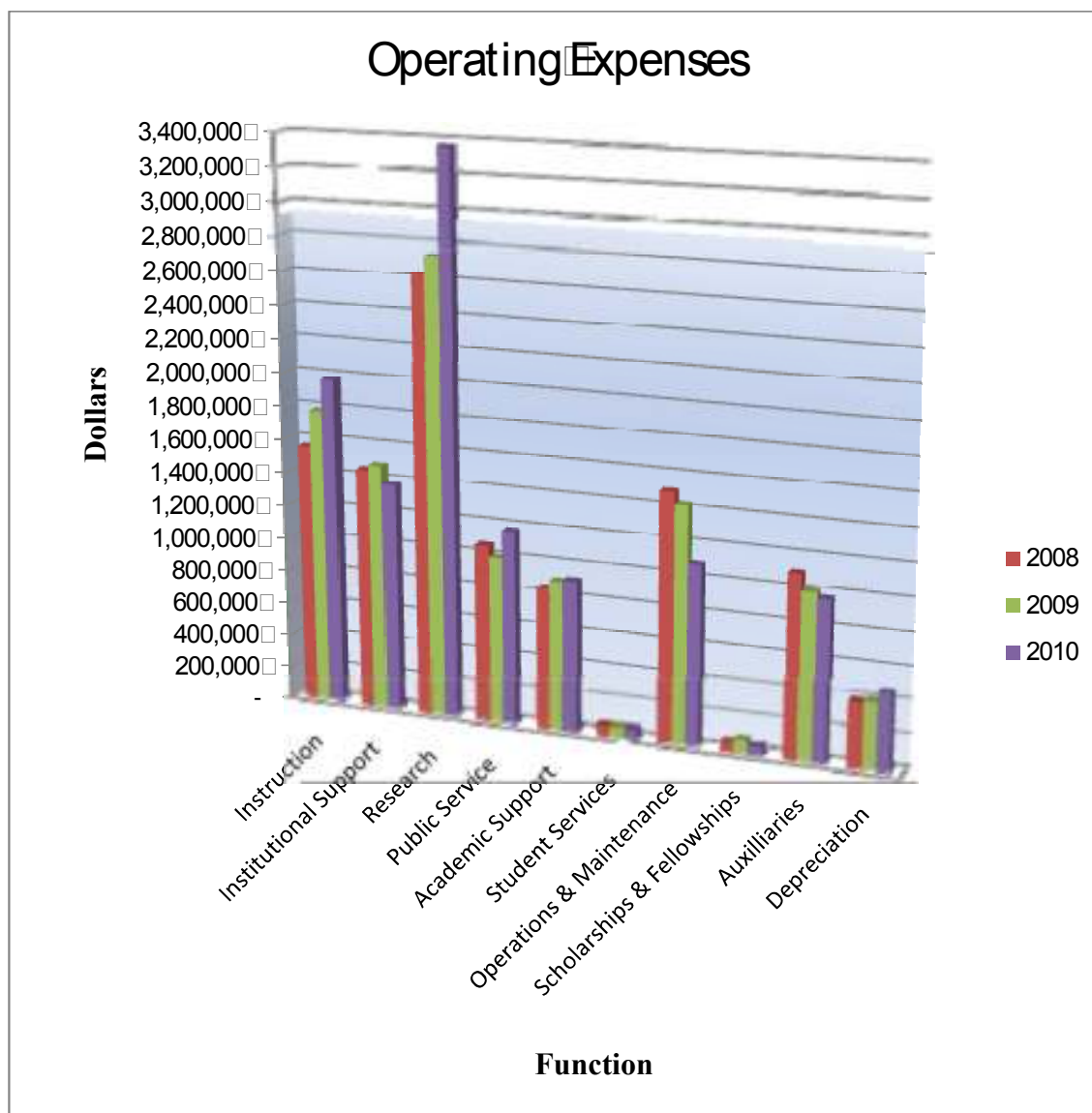
The chart below displays the operating revenues by type and their relationship to one another as discussed in the previous paragraph. Federal Grants and Contracts represent the largest source of Operating Revenues. The largest source of nonoperating revenues is the State Appropriation. MESC annually receives a State Appropriation as a separate line item in the State of Alabama Education Trust Fund budget. The 2010 FY State Appropriation totaled \$3,499,430 as compared to \$3,896,004 for the previous fiscal year.



Management's Discussion and Analysis

For the Year Ended September 30, 2010

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. The increases in expenditures are primarily attributable to the increases in health cost, retirement cost, and the costs of supporting the research effort of our scientists during the initial response to the DWHO. This initial rapid response was not funded by outside sources.

Management's Discussion and Analysis

For the Year Ended September 30, 2010

Statement of Cash Flows

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

Statement of Cash Flows	
	2010
Cash provided (used) by:	
Operating activities	\$ (2,435,870)
Noncapital financing activities	8,866,117
Capital and related financing activities	(1,362,007)
Investing activities	<u>685</u>
Net change in Cash	5,068,925
Cash, beginning of year	<u>196,092</u>
Cash, end of year	<u>\$ 5,265,017</u>

Economic Outlook

MESC's administration took precautionary steps in previous fiscal years to prepare for the eventual reality of a worsening global economy. A significant decrease in fiscal year 2010 State Appropriations, has led to a significant reduction in spending of monies other than Grants and Contracts, and reallocation of resources. In addition to these trying economic conditions, the DWHO affected our area in April of 2010. A significant portion of our resources were reallocated to help fund the research effort to study its effects. The Consortium has filed claims with BP for these costs and should be reimbursed for most, if not all of these expenses. The Consortium has since received research grants and is an active participant in the BP sponsored Gulf Research Initiative to study the effects of the DWHO over the next decade.

Management's Discussion and Analysis

For the Year Ended September 30, 2010

MESC has received a substantial decrease in state funding for the upcoming fiscal year. The Consortium will strive to continue to offer the same level of services and programs as in the past. 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.

Basic Financial Statements

Statement of Net Assets

September 30, 2010

ASSETS

Current Assets

Cash	\$	5,265,017
Accounts Receivable		1,544,631
Inventories		139,755
Total Current Assets		<u>6,949,403</u>

Noncurrent Assets

Capital Assets:

Land	658,757
Improvements Other Than Buildings	82,610
Buildings	9,181,972
Equipment	1,886,847
Vessels	1,075,392
Construction in Progress	4,136,472
Library Holdings	842,322
Less: Accumulated Depreciation	<u>(5,333,025)</u>
Total Capital Assets, Net of Depreciation	<u>12,531,347</u>

Total Noncurrent Assets	<u>12,531,347</u>
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Total Assets	<u>19,480,750</u>
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LIABILITIES

Current Liabilities

Accounts Payable	418,700
Leases Payable	14,570
Notes Payable	8,891
Compensated Absences	22,927
Deferred Revenue	5,243,441
Deposits Held for Others	121,288
Total Current Liabilities	<u>\$ 5,829,817</u>

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

Noncurrent Liabilities

Leases Payable	\$ 60,020
Notes Payable	499,805
Compensated Absences	359,192
Total Noncurrent Liabilities	<u>919,017</u>
Total Liabilities	<u>6,748,834</u>

NET ASSETS

Invested in Capital Assets, Net of Related Debt	12,439,064
Restricted for:	
Expendable:	
Scholarships and Fellowships	47,702
Research and Public Outreach	15,120
Capital Projects	28,334
Unrestricted	<u>201,696</u>
Total Net Assets	<u>\$ 12,731,916</u>

Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended September 30, 2010

OPERATING REVENUES

Student Tuition and Fees	\$ 539,710
Federal Grants and Contracts	6,019,179
State and Local Grants and Contracts	75,657
Private Grants and Contracts	474,430
Sales and Services of Educational Departments	105,989
Auxiliary Enterprises:	
Estuarium	310,146
Giftshop	300,077
Food Services	399,248
Other	7,909
Rental Income	406,712
Other Operating Revenues	48,742
Total Operating Revenues	<u>8,687,799</u>

OPERATING EXPENSES

Instruction	1,971,257
Institutional Support	1,375,703
Public Service	1,173,768
Academic Support	914,559
Student Services	59,606
Research	3,363,169
Operation and Maintenance	1,093,729
Scholarships and Fellowships	46,271
Depreciation	471,930
Auxiliary Enterprises:	
Estuarium	293,857
Giftshop	406,023
Food Services	271,141
Other	4,545
Total Operating Expenses	<u>11,445,558</u>
Operating Income (Loss)	<u>\$ (2,757,759)</u>

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

NONOPERATING REVENUES (EXPENSES)

State Appropriations	\$ 3,499,430
Investment Income	685
Private Gifts	150,741
Interest on Capital Asset Related Debt	(3,716)
Other Nonoperating Revenues (Expenses)	(9,440)
Net Nonoperating Revenues	<u>3,637,700</u>
Income Before Other Revenues, Expenses, Gains or Losses	879,941
Capital Grants and Contracts	<u>382,150</u>
Changes in Net Assets	1,262,091
Total Net Assets - Beginning of Year, as Restated (Note 12)	<u>11,469,825</u>
Total Net Assets - End of Year	<u><u>\$ 12,731,916</u></u>

Statement of Cash Flows
For the Year Ended September 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and Fees	\$ 571,048
Grants and Contracts	5,914,883
Payments to Suppliers	(3,387,111)
Payments to Utilities	(496,855)
Payments to Employees	(5,051,935)
Payments to Benefits	(1,913,861)
Payments to Scholarships and Fellowships	(79,791)
Auxiliary Enterprise Charges:	
Estuarium	305,995
Giftshop	325,419
Food Services	389,317
Other	7,859
Sales and Services of Educational Departments	105,989
Other Receipts (Payments)	873,173
Net Cash Provided (Used) by Operating Activities	<u>(2,435,870)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	3,499,430
Private Grants and Gifts	5,145,578
Proceeds from Loan	140,000
Principal Paid on Loan	(7,494)
Interest Paid on Loan	(14,916)
Other	103,519
Net Cash Provided (Used) by Noncapital Financing Activities	<u>8,866,117</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Purchases of Capital Assets	(1,707,963)
Capital Grants	382,150
Proceeds from Capital Lease	80,408
Principal Paid on Capital Debt and Leases	(114,643)
Interest Paid on Capital Debt and Leases	(1,959)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(1,362,007)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on Investments	685
Net Cash Provided (Used) by Investing Activities	<u>685</u>

Net Increase (Decrease) in Cash	5,068,925
Cash and Cash Equivalents - Beginning of Year	196,092
Cash and Cash Equivalents - End of Year	<u>\$ 5,265,017</u>

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

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

Operating Income (Loss)	\$ (2,757,759)
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Adjustments to Reconcile Net Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:

Depreciation Expense	471,930
Changes in Assets and Liabilities:	
(Increase)/Decrease in Receivables	(497,924)
(Increase)/Decrease in Inventories	7,212
Increase/(Decrease) in Accounts Payable	324,534
Increase/(Decrease) in Compensated Absences	16,137
Net Cash Provided (Used) by Operating Activities	<u><u>\$ (2,435,870)</u></u>

Notes to the Financial Statements

For the Year Ended September 30, 2010

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. 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.

The Consortium follows all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs).

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 net assets are available.

Notes to the Financial Statements

For the Year Ended September 30, 2010

The Statement of Revenues, Expenses and Changes in Net Assets 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.

C. Assets, Liabilities, and Net Assets

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.

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 fair market value at the date of donation. 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.

Notes to the Financial Statements

For the Year Ended September 30, 2010

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. Long-Term Obligations

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

6. 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, 2010, 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.

Notes to the Financial Statements

For the Year Ended September 30, 2010

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.

7. Net Assets

Net assets are required to be classified for accounting and reporting purposes into the following net asset categories:

- ♦ **Invested in Capital Assets, Net of Related Debt** – Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Any significant unspent related debt proceeds at year-end related to capital assets are not included in this calculation.
- ♦ **Restricted:**
 - 9 **Expendable** – Net assets 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 assets that are not subject to externally imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of management or the Board of Directors.

Notes to the Financial Statements

For the Year Ended September 30, 2010

8. Federal Financial Assistance Programs

The Consortium participates in various federal programs. Federal programs are audited in accordance with the Single Audit Act Amendments of 1996, the U. S. Office of Management and Budget Revised Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and the Office of Management and Budget (OMB) Compliance Supplement.

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 Depository 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 Assets classification cash includes all readily available cash such as petty cash and demand deposits.

Note 3 – Receivables

Receivables are reported net of uncollectible amounts and are summarized as follows:

<u>Accounts Receivable:</u>	
Federal	\$1,438,676
Third Party Tuition and Fees	82,091
Auxiliary	23,864
Total Accounts Receivable, Net	<u>\$1,544,631</u>

Notes to the Financial Statements

For the Year Ended September 30, 2010

Note 4 – Capital Assets

Capital asset activity for the year ended September 30, 2010, was as follows:

	Beginning Balance	Additions	Deductions	Reclassifications/ Adjustments	Ending Balance
Land	\$ 658,757	\$	\$	\$	\$ 658,757
Improvements Other Than Buildings	82,610				82,610
Buildings	9,181,972				9,181,972
Equipment	1,564,123	347,724	25,000		1,886,847
Vessels	560,248	382,150	195,793	328,787	1,075,392
Library Holdings	842,322				842,322
Construction in Progress	3,487,170	978,089		(328,787)	4,136,472
Total	16,377,202	1,707,963	220,793		17,864,372
Less: Accumulated Depreciation					
Improvements Other Than Buildings	57,735	3,844			61,579
Buildings	3,181,494	183,640			3,365,134
Equipment	1,141,399	157,485	25,000	1,076	1,274,960
Vessels	285,835	53,769	195,793		143,811
Library Holdings	414,349	56,155		17,037	487,541
Total Accumulated Depreciation	5,080,812	454,893	220,793	18,113	5,333,025
Capital Assets, Net	\$11,296,390	\$1,253,070	\$	\$ (18,113)	\$12,531,347

Note 5 – Defined Benefit Pension Plan

A. Plan Description

The Consortium contributes to the Teachers' Retirement System of Alabama, a cost-sharing multiple-employer public employee retirement system for the various state-supported educational agencies and institutions. This plan is administered by the Retirement Systems of Alabama.

Substantially all employees of the Consortium are members of the Teachers' Retirement System. Membership is mandatory for covered or eligible employees of the Consortium. Benefits vest after 10 years of creditable service. Vested employees may retire with full benefits at age 60 or after 25 years of service. Retirement benefits are calculated by two methods with the retiree receiving payment under the method which yields the highest monthly benefit. The methods are (1) Minimum Guaranteed, or (2) Formula, of which the Formula method usually produces the highest monthly benefit. Under this method retirees are allowed 2.0125% of their average final salary (best three of the last ten years) for each year of service. Disability retirement benefits are calculated in the same manner. Pre-retirement death benefits in the amount of the annual salary for the fiscal year preceding death are provided to plan members.

Notes to the Financial Statements

For the Year Ended September 30, 2010

The Teachers' Retirement System was established as of October 1, 1941, under the provisions of Act Number 419, Acts of Alabama 1939, for the purpose of providing retirement allowances and other specified benefits for qualified persons employed by state-supported educational institutions. The responsibility for general administration and operation of the Teachers' Retirement System is vested in the Board of Control (currently 14 members). Benefit provisions are established by the *Code of Alabama 1975*, Sections 16-25-1 through 16-25-113, as amended, and Sections 36-27B-1 through 36-27B-6, as amended.

The Retirement Systems of Alabama issues a publicly available financial report that includes financial statements and required supplementary information for the Teachers' Retirement System of Alabama. That report may be obtained by writing to The Retirement Systems of Alabama, 135 South Union Street, Montgomery, Alabama 36130-2150.

B. Funding Policy

Employees are required by statute to contribute 5 percent of their salary to the Teachers' Retirement System. The Consortium is required to contribute the remaining amounts necessary to fund the actuarially determined contributions to ensure sufficient assets will be available to pay benefits when due. Each year the Teachers' Retirement System recommends to the Legislature the contribution rate for the following fiscal year, with the Legislature setting this rate in the annual appropriation bill. 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,	2010	2009	2008
Total Percentage of Covered Payroll	17.51%	17.07%	16.75%
Contributions:			
Percentage Contributed by the Consortium	12.51%	12.07%	11.75%
Percentage Contributed by the Employees	5.00%	5.00%	5.00%
Contributed by the Consortium	\$531,947	\$504,033	\$498,241
Contributed by the Employees	212,435	208,791	212,017
Total Contributions	\$744,382	\$712,824	\$710,258

Notes to the Financial Statements

For the Year Ended September 30, 2010

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 operations 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/PEEHIP/peehip.html> under the Trust Fund Financials tab. The provisions of GASB Statement Number 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions* were implemented prospectively.

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 fund 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 2010
Individual Coverage – Non-Medicare Eligible	\$ 97.54
Individual Coverage – Medicare Eligible	\$ 1.14
Family Coverage – Non-Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$284.94
Family Coverage – Non-Medicare Eligible Retired Member and Dependent Medicare Eligible	\$188.54
Family Coverage – Medicare Eligible Retired Member and Non-Medicare Eligible Dependent(s)	\$188.54
Family Coverage – Medicare Eligible Retired Member and Dependent Medicare Eligible	\$ 92.14
Surviving Spouse – Non-Medicare Eligible	\$598.00
Surviving Spouse – Non-Medicare Eligible and Dependent Non-Medicare Eligible	\$730.00
Surviving Spouse – Non-Medicare Eligible and Dependent Medicare Eligible	\$689.00
Surviving Spouse – Medicare Eligible	\$313.00
Surviving Spouse – Medicare Eligible and Dependent Non-Medicare Eligible	\$445.00
Surviving Spouse – Medicare Eligible and Dependent Medicare Eligible	\$404.00

Notes to the Financial Statements

For the Year Ended September 30, 2010

For employees that retire other than for disability, 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. The tobacco surcharge is \$25.00 per month for retired members who smoke.

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 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
2010	\$752.00	\$241.27	32.08%	\$286,597.82	100%
2009	\$752.00	\$205.45	27.32%	\$240,420.97	100%
2008	\$775.00	\$212.35	27.40%	\$260,150.17	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 – Construction and Other Significant Commitments

As of September 30, 2010, the Consortium had been awarded approximately \$9,000,000.00 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.

Notes to the Financial Statements

For the Year Ended September 30, 2010

Note 8 – Long-Term Liabilities

Long-term liabilities activity for the year ended September 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Capital Lease Payable	\$108,825	\$ 80,408	\$114,643	\$ 74,590	\$14,570
Other Liabilities:					
Notes Payable	376,190	140,000	7,494	508,696	8,891
Compensated Absences	365,982	16,137		382,119	22,927
Total Long-Term Liabilities	<u>\$850,997</u>	<u>\$236,545</u>	<u>\$122,137</u>	<u>\$965,405</u>	<u>\$46,388</u>

Capital Lease Payable

Dauphin Island Public Educational Building Authority (the “Authority”), a non-profit corporation, issued Dauphin Island Public Educational Building Authority Revenue Bond, Series 1997, in the principal amount of \$2,000,000.00, in the fiscal year 1997-98. These bonds were issued to finance the acquisition, construction, and development of the Marine Environmental Sciences Consortium Estuarium located on Dauphin Island, Alabama. The Consortium leases the land, upon which the Estuarium was constructed, to the Authority.

The Consortium leased the Estuarium from the Authority. The lease payments were payable solely from non-appropriated funds and were equal to the principal and interest payments on the bond issue. The lease payments were due on or before the business day next preceding each February 1 and August 1. The lease term began February 1998 and was paid in full in February 2010.

The bond issuance is secured by a Guaranty Agreement, Mortgage, Assignment of Leases, and Security Agreement between the Consortium, the Authority, and the former AmSouth Bank, now Regions Bank. After payment in full of the indebtedness secured by the Mortgage, the Consortium purchased the Estuarium for a purchase price equal to \$100.00.

On April 1, 2004, a Financing and Lease Agreement was entered between the former AmSouth Leasing Corporation and the Authority as assigned to the Consortium to refinance the unpaid principal balance due on the Revenue Bond, Series 1997 and the accrued interest thereon.

The Consortium entered into a capital lease agreement for a telephone system in fiscal year 2009-2010.

Notes to the Financial Statements

For the Year Ended September 30, 2010

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

Fiscal Year	Telephone System		Total
	Principal	Interest	
2010-2011	\$14,570	\$ 4,093	\$18,663
2011-2012	15,472	3,191	18,663
2012-2013	16,430	2,233	18,663
2013-2014	17,446	1,217	18,663
2014-2015	10,672	215	10,887
Total	<u>\$74,590</u>	<u>\$10,949</u>	<u>\$85,539</u>

Notes Payable

Notes Payable for an annual renewable bank loan was entered into in 2005-2006 for \$500,000. Interest is paid on a monthly basis and principal is paid as funds are available. An amount of \$140,000 was borrowed during 2009-2010 to cover operating expenses due to budget cuts.

Notes Payable for \$26,537 for a three year retail installment sales contract for the financing of the purchase of a motor vehicle was entered into in 2008-2009.

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.

Notes to the Financial Statements

For the Year Ended September 30, 2010

Note 10 – Related Parties

Community Foundation of South Alabama

The Marine Environmental Sciences Consortium has entered into an agreement to become an Endowment Partner with the Community Foundation of South Alabama (the “Foundation”). The principal purposes of the Foundation are to receive and administer funds as endowment for various charitable and educational purposes and organizations in South Alabama. Funds have been deposited with the Foundation to establish a fund on the books of the Foundation to be known as the Dauphin Island Sea Lab Endowment Foundation.

Dauphin Island Sea Lab Foundation, Inc.

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 contains no financial statements of the Dauphin Island Sea Lab Endowment Foundation, the Community Foundation of South Alabama, or the Dauphin Island Sea Lab Foundation, Inc.

Note 11 – Deferred Revenues – BP Gulf of Mexico Research Initiative Funding

On July 26, 2010, Governor Bob Riley accepted a \$5 million grant from BP on behalf of the Consortium. This grant is part of a \$500 million commitment made by BP over a 10-year period to create a broad independent research program known as the Gulf of Mexico Research Initiative (GRI). The GRI will investigate the fate and effects of oil, dispersed oil, and dispersant on the ecosystems of the Gulf of Mexico and affected coastal States in a broad context of improving the fundamental understanding of environmental stresses. This grant is to be used in support of research with the Consortium’s collaborating academic institutions. As part of the agreement, the funds are to be spent or committed by the end of 2010. The Research Program will be managed in the tradition of full academic freedom and independent peer-review, and BP’s support shall in no way interfere with the academic freedom of the research institutions. Substantial progress on this award had not been made at the close of the fiscal year presented in these financial statements; therefore the grant is reported as deferred revenue.

Notes to the Financial Statements
For the Year Ended September 30, 2010

Note 12 – Net Asset Restatement

Beginning Net Assets September 30, 2009	\$11,470,901
<u>Prior Year Adjustment:</u>	
To Properly Reflect Prior Year Accumulated Depreciation	(1,076)
Net Assets October 1, 2009, as Restated	<u>\$11,469,825</u>

Supplementary Information

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2010

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
<u>Research and Development Cluster</u>		
<u>U. S. Department of Commerce</u>		
<u>Direct Programs</u>		
Marine Fisheries Initiative	11.433	
Marine Fisheries Initiative	11.433	
Marine Fisheries Initiative	11.433	
Congressionally Identified Awards and Projects	11.469	
Unallied Science Program	11.472	
<u>Passed Through University of Southern Mississippi</u>		
Sea Grant Support	11.417	USM-GR03924/ OMNIBUS-DISL-E/O-79
Sea Grant Support	11.417	USM-GR03924/ OMNIBUS-DISL-R/CEH-32
Sea Grant Support	11.417	USM-GR02638/ OMNIBUS-R/CEH-28
<u>Passed Through Alabama Department of Conservation and Natural Resources</u>		
Coastal Zone Management Administration Awards	11.419	DISL-CZM-306-10-2
Coastal Zone Management Administration Awards	11.419	DISL-CZM-306-10-1
Unallied Management Projects	11.454	FOCAL
Unallied Management Projects	11.454	C004863
<u>Passed Through Mississippi State University</u>		
National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes	11.432	1910001 363558-04/TO 012
National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes	11.432	1910001 363558-04/TO 011
National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes	11.432	1910001 363558-04/ TO 010
National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes	11.432	1910001 363558-04/TO 09
National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes	11.432	1910001 363558-04/TO 08
National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes	11.432	1910001 363558-04/TO 07
National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes	11.432	1910001 363593-04/ TO 008
Congressionally Identified Awards and Projects	11.469	1910001 361664-01

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
08/01/2009-07/31/2011	\$ 118,110.00	\$ 118,110.00	\$ 19,906.29	\$ 19,906.29
07/01/2008-06/30/2011	221,230.00	221,230.00	1,784.39	1,784.39
08/01/2007-07/31/2010	287,649.00	287,649.00	24,953.32	24,953.32
07/01/2006-01/31/2011	2,129,368.00	2,129,368.00	1,008,568.80	1,008,568.80
09/01/2009-08/31/2011	899,100.00	899,100.00	169,190.29	169,190.29
02/01/2010-01/31/2014	126,934.00	79,265.00	9,534.06	9,534.06
02/01/2010-01/31/2012	441,549.00	289,254.00	37,049.72	37,049.72
02/01/2008-01/31/2010	99,995.00	99,995.00	16,738.85	16,738.85
02/01/2010-03/15/2011	10,000.00	5,000.00	5,000.00	5,000.00
10/01/2009-02/15/2011	50,000.00	25,000.00	18,797.34	18,797.34
10/01/2006-06/30/2012	5,000,000.00	5,000,000.00	847,983.58	847,983.58
06/01/2007-05/31/2009	91,302.00	91,302.00	36,964.07	36,964.07
01/01/2010-09/30/2011	114,997.00	114,997.00	70,124.78	70,124.78
10/01/2009-09/30/2011	418,000.00	418,000.00	8,983.33	8,983.33
10/01/2009-09/30/2011	154,472.00	154,472.00	61,107.67	61,107.67
10/01/2009-09/30/2011	259,362.00	259,362.00	5,192.93	5,192.93
10/01/2009-09/30/2011	163,576.00	144,225.00	1,299.56	1,299.56
10/01/2009-09/30/2011	261,157.00	200,600.00	38,254.27	38,254.27
07/15/2008-02/15/2011	65,000.00	65,000.00	20,388.70	20,388.70
11/03/2008-12/31/2009	\$ 170,000.00	\$ 170,000.00	\$ 35,722.37	\$ 35,722.37

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2010***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
<u>Passed Through The Nature Conservancy</u>		
Habitat Conservation	11.463	020110-3808-01
Habitat Conservation	11.463	020109-01
ARRA-Habitat Conservation	11.463	ALFO SA 3807-01
<u>Passed Through University of South Alabama</u>		
Habitat Conservation	11.463	07-070284
Habitat Conservation	11.463	07-070062
<u>Passed Through Mississippi Department of Marine Resources</u>		
Coastal Services Center	11.473	S-09-DMR-DISL-EPA-03
<u>U. S. Department of Health and Human Services Direct Program</u>		
Food and Drug Administration-Research	93.103	1U18FD003853-01
<u>U. S. Department of the Interior Direct Program</u>		
Coastal Program	15.630	
<u>Passed Through Alabama Department of Conservation and Natural Resources</u>		
Endangered Species Conservation	15.612	Manatee Survey
Endangered Species Conservation	15.612	Manatee Survey
<u>Environmental Protection Agency Passed Through University of South Alabama</u>		
Office of Research and Development Consolidated Research/Training/Fellowships	66.511	01-08-12
Office of Research and Development Consolidated Research/Training/Fellowships	66.511	01-08-15
<u>National Science Foundation Direct Program</u>		
Geosciences	47.050	
ARRA -Trans-NSF Recovery Act Research Support	47.082	
<u>Passed Through Bermuda Institute of Ocean Sciences</u>		
Geosciences	47.050	102315 OCE 1030149

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
02/01/2010-12/31/2011	\$ 70,021.00	\$ 44,533.00	\$ 442.01	\$ 442.01
02/01/2009-04/30/2011	70,627.50	54,278.50	43,787.47	43,787.47
08/01/2009-06/30/2012	563,705.00	563,705.00	232,045.14	232,045.14
06/01/2007-03/31/2010	220,868.00	220,868.00	7,412.42	7,412.42
09/01/2006-03/31/2010	382,043.00	382,043.00	73,191.77	73,191.77
08/01/2009-07/30/2011	120,586.00	120,586.00	34,212.33	34,212.33
09/18/2009-09/17/2011	250,000.00	250,000.00	16,582.46	16,582.46
09/01/2008-12/31/2010	50,000.00	50,000.00	21,026.26	21,026.26
10/01/2009-09/30/2010	51,369.00	39,307.00	39,307.00	39,307.00
10/01/2008-09/30/2009	84,703.00	38,620.00	2,040.97	2,040.97
01/01/2009-10/31/2009	34,522.00	34,522.00	8,741.52	8,741.52
11/01/2006-10/31/2009	94,138.00	94,138.00	728.13	728.13
06/01/2010-05/31/2011	199,867.00	199,867.00	50,298.06	50,298.06
08/01/2009-07/31/2012	545,289.00	258,552.00	78,967.79	78,967.79
10/01/2010-09/30/2013	\$ 151,708.00	\$ 151,708.00	\$ 252.00	\$ 252.00

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2010

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
<u>Passed Through Results Group</u>		
Engineering Grants	47.041	ISIS NSF2010A
Total Research and Development Cluster (M)		
<u>Other Federal Awards</u>		
<u>U. S. Department of Commerce</u>		
<u>Direct Programs</u>		
Congressionally Identified Awards and Projects	11.469	
Congressionally Identified Awards and Projects	11.469	
Congressionally Identified Awards and Projects	11.469	
Coastal Services Center	11.473	
<u>Passed Through University of Southern Mississippi</u>		
Sea Grant Support	11.417	USM-GR02638/ OMNIBUS-DISL-ED-12
Sea Grant Support	11.417	USM-GR02639/ OMNIBUS-R/CCD-22-PD
<u>Passed Through Alabama Department of Conservation and Natural Resources</u>		
Coastal Zone Management Administration Awards	11.419	DISL-CZM-306a-10-1
Coastal Zone Management Administration Awards	11.419	MBNEP-CZM-306-10-1
Unallied Management Projects (M)	11.454	SLD-EDRP-DISL-08-1
Congressionally Identified Awards and Projects	11.469	DISL-WBBEP-469-07-1
<u>Passed Through Mississippi State University</u>		
National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes	11.432	1910001 363558 04/TO 006
National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes	11.432	1910001 363558 04/TO 001
<u>Passed Through The Association of National Estuary Programs, Inc.</u>		
Habitat Conservation	11.463	NEP/NOAA CRP
<u>Passed Through Gulf of Mexico Foundation</u>		
Habitat Conservation	11.463	CPR 7001
<u>Passed Through University of South Alabama</u>		
Habitat Conservation	11.463	01-08-17

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
09/07/2010-12/07-2011	\$ 27,000.00	\$ 27,000.00	\$ 1,897.23	\$ 1,897.23
			3,048,476.88	3,048,476.88
07/20/2010-12/31/2014	122,580.00	76,407.00	1,273.53	1,273.53
10/01/2009-09/30/2012	314,695.00	246,309.00	50,629.25	50,629.25
07/01/2006-01/31/2011	4,411,204.00	4,411,204.00	699,023.70	699,023.70
10/01/2008-09/30/2011	2,151,837.00	2,151,837.00	537,208.80	537,208.80
02/01/2006-07/31/2010	211,640.00	134,470.00	49,552.99	49,552.99
12/01/2009-11/30/2010	25,875.00	17,250.00	2,250.00	2,250.00
10/01/2009-09/30/2010	80,000.00	40,000.00	4,098.41	4,098.41
10/01/2009-01/31/2011	11,000.00	5,500.00	4,964.95	4,964.95
07/01/2008-09/15/2011	1,500,000.00	1,500,000.00	314,716.32	314,716.32
04/01/2008-11/30/2010	50,000.00	50,000.00	47,992.49	47,992.49
02/01/2007-01/31/2011	230,000.00	230,000.00	120,441.39	120,441.39
02/01/2007-06/30/2011	950,439.00	950,439.00	268,161.91	268,161.91
05/01/2008-12/31/2010	34,550.00	26,450.00	21,792.50	21,792.50
01/01/2008-03/31/2010	38,550.00	38,550.00	7,235.49	7,235.49
01/01/2007-03/31/2010	\$ 40,365.00	\$ 40,365.00	\$ 20,500.93	\$ 20,500.93

Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2010

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Grantor's Number
<u>Passed Through Texas A&M Research Foundation</u>		
Coastal Services Center	11.473	S080018
<u>U. S. Department of the Interior</u>		
<u>Direct Program</u>		
Fish and Wildlife Management Assistance	15.608	
<u>National Science Foundation</u>		
<u>Passed Through University of Southern Mississippi</u>		
Geosciences	47.050	USM-GR02399-A10
Geosciences	47.050	OCE-1045252
<u>Environmental Protection Agency</u>		
<u>Direct Programs</u>		
National Estuary Program	66.456	
Gulf of Mexico Program	66.475	
Gulf of Mexico Program	66.475	
<u>Passed Through The Alabama Department of Environmental Management</u>		
Nonpoint Source Implementation Grants	66.460	C90593013
<u>National Aeronautics and Space Administration (NASA)</u>		
<u>Passed Through University of South Carolina</u>		
Science	43.001	11-1823
Total Federal Awards		

(M) = Major Program

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

Assistance Period	Budget		Revenue Recognized	Expenditures
	Total	Federal Share		
12/31/2008-12/31/2011	\$ 66,297.00	\$ 66,297.00	\$ 14,424.55	\$ 14,424.55
07/01/2005-07/30/2011	50,000.00	50,000.00	10,131.43	10,131.43
09/01/2005-08/31/2011	250,720.00	250,720.00	62,071.39	62,071.39
06/15/2010-05/31/2011	46,500.00	46,500.00	13,278.96	13,278.96
10/01/2006-09/30/2011	4,204,701.00	2,102,350.00	572,636.36	572,636.36
05/01/2010-04/30/2013	159,847.00	79,975.00	8,486.45	8,486.45
12/01/2008-11/30/2011	103,725.00	79,925.00	62,479.11	62,479.11
12/04/2008-09/30/2010	92,480.00	45,000.00	45,000.00	45,000.00
12/15/2009-12/14/2011	\$ 22,725.00	\$ 22,725.00	4,160.00	4,160.00
			<u>\$ 5,990,987.79</u>	<u>\$ 5,990,987.79</u>

***Notes to the Schedule of Expenditures
of Federal Awards
For the Year Ended September 30, 2010***

Note 1 – Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the Marine Environmental Sciences Consortium and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements.

Note 2 – Subrecipients

Of the federal expenditures presented in the schedule, the Marine Environmental Sciences Consortium provided federal awards to subrecipients as follows:

Program Title	Federal CFDA Number	Amount Provided to Subrecipients
Sea Grant Support	11.417	\$ 2,478.00
Office of Oceanic and Atmospheric Research (OAR)		
Joint and Cooperative Institutes	11.432	\$ 40,000.00
Unallied Management Projects	11.454	\$159,232.51
Habitat Conservation	11.463	\$ 18,916.30
Congressionally Identified Awards and Projects	11.469	\$209,315.62
Coastal Services Center	11.473	\$289,310.56
National Estuary Program	66.456	\$135,672.76
Nonpoint Source Implementation Grants	66.460	\$ 39,130.43
Gulf of Mexico Program	66.475	\$ 59,000.00

Additional Information

Board Members and Officials
October 1, 2009 through September 30, 2010

Board Members		Term Expires
Mr. V. Gordon Moulton, Chairman	President, University of South Alabama	Indefinite
Dr. William H. Harris	President, Alabama State University	Indefinite
Dr. Robert Glenn	President, Athens State University	Indefinite
Dr. Jay Gogue	President, Auburn University	Indefinite
Dr. John G. Veres	Chancellor, Auburn University at Montgomery	Indefinite
Dr. G. David Pollick	President, Birmingham Southern College	Indefinite
Dr. John Cameron West	President, Huntingdon College	Indefinite
Dr. William A. Meehan	President, Jacksonville State University	Indefinite
Dr. David E. Potts	President, Judson College	Indefinite
Dr. Andrew Westmoreland	President, Samford University	Indefinite

Board Members and Officials
October 1, 2009 through September 30, 2010

Board Members		Term Expires
Dr. Andrew Hugine, Jr.	President, Alabama A & M University	Indefinite
Rev. Richard Salmi, S.J.	President, Spring Hill College	Indefinite
Dr. Billy C. Hawkins	President, Talladega College	Indefinite
Dr. Jack Hawkins, Jr.	Chancellor, Troy University	Indefinite
Dr. Gilbert L. Rochon	President, Tuskegee University	Indefinite
Dr. Robert E. Witt	President, University of Alabama	Indefinite
Dr. Carol Z. Garrison	President, University of Alabama at Birmingham	Indefinite
Dr. David B. Williams	President, University of Alabama at Huntsville	Indefinite
Dr. Mark Foley	President, University of Mobile	Indefinite

Board Members and Officials
October 1, 2009 through September 30, 2010

Board Members		Term Expires
Dr. Philip C. Williams	President, University of Montevallo	Indefinite
Dr. William G. Cale, Jr.	President, University of North Alabama	Indefinite
Dr. Richard Holland	President, University of West Alabama	Indefinite
<u>Officials</u>		
Dr. George F. Crozier	Executive Director (Board Secretary)	
Mr. David England	Associate Director of Administrative Services	

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

We have audited the financial statements of the Marine Environmental Sciences Consortium as of and for the year ended September 30, 2010, and have issued our report thereon dated June 30, 2011. 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.

Internal Control Over Financial Reporting

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

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.

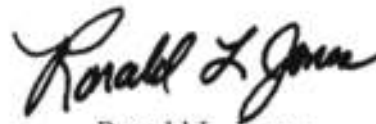
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses.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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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***.

***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***

This report is intended solely for the information and use of management, Board of Directors of the Consortium, others within the entity, other state officials, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

June 30, 2011

***Report on Compliance With Requirements That Could
Have a Direct and Material Effect on Each Major
Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133***

Independent Auditor's Report

Compliance

We have audited the Marine Environmental Sciences Consortium's compliance with the types of compliance requirements described in the ***OMB Circular A-133 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, 2010. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Marine Environmental Sciences Consortium's management. Our responsibility is to express an opinion on the Marine Environmental Sciences Consortium's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States; and OMB Circular A-133, ***Audits of States, Local Governments, and Non-Profit Organizations***. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Marine Environmental Sciences Consortium's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Marine Environmental Sciences Consortium's compliance with those requirements.

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, 2010.

***Report on Compliance With Requirements That Could
Have a Direct and Material Effect on Each Major
Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133***

Internal Control Over Compliance

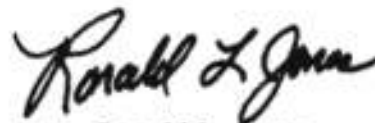
The management of the Marine Environmental Sciences Consortium is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Marine Environmental Sciences Consortium's internal control over compliance with the 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

***Report on Compliance With Requirements That Could
Have a Direct and Material Effect on Each Major
Program and on Internal Control Over Compliance in
Accordance With OMB Circular A-133***

This report is intended solely for the information and use of management, Board of Directors of the Consortium, others within the entity, other state officials, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Ronald L. Jones
Chief Examiner

Department of Examiners of Public Accounts

June 30, 2011

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2010

Section I – Summary of Examiner's Results

Financial Statements

Type of opinion issued: Unqualified

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: Unqualified

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

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
11.417, 11.419, 11.432, 11.433, 11.454, 11.463, 11.469, 11.472, 11.473, 15.612, 15.630, 47.041, 47.050, 66.511, 93.103 ARRA 11.463, ARRA 47.082	Research and Development Cluster
11.454	Unallied Management Projects

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000.00

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

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2010

Section II – Financial Statement Findings (GAGAS)

Ref. No.	Type of Finding	Finding/Noncompliance	Questioned Costs
		The audit did not disclose any findings or questioned costs required to be reported.	

Section III – Federal Awards Findings and Questioned Costs

Ref. No.	CFDA No.	Program	Finding/Noncompliance	Questioned Costs
			The audit did not disclose any findings or questioned costs required to be reported.	