



Alabama Department of Examiners of Public Accounts

Report on the
**Marine Environmental
Sciences Consortium
Dauphin Island, Alabama**

October 1, 2021 through September 30, 2022

Filed: June 16, 2023

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ALABAMA STATE HOUSE

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:

An audit was conducted on the Marine Environmental Sciences Consortium, Dauphin Island, Alabama, for the period October 1, 2021 through September 30, 2022, by Examiners Phillippe Walker, Misty Medders and Ashley Taylor. I, Phillippe Walker, served as Examiner-in-Charge on the engagement, and under the authority of the *Code of Alabama 1975*, Section 41-5A-19, I hereby swear to and submit this report to you on the results of the audit.

Respectfully submitted,

Phillippe Walker
Examiner of Public Accounts

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Department of
Examiners of Public Accounts

SUMMARY

**Marine Environmental Sciences Consortium
October 1, 2021 through September 30, 2022**

**Dauphin Island Sea Lab Foundation, Inc.
October 1, 2021 through September 30, 2022**

Marine Environmental Sciences Consortium (the “Consortium”), also known as Dauphin Island Sea Lab (“DISL”), located in Dauphin Island, Alabama, provides educational programs in Marine Sciences on both the undergraduate and graduate levels. As a marine laboratory, the DISL’s mission encompasses marine science education, marine science research, coastal zone management policy and educating the general public through the Alabama Aquarium, 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 Alabama Aquarium 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. (the “Foundation”), was organized as a 501(c)(3) organization as defined by the Internal Revenue Service Code of 1954. The Foundation has been established to support the Consortium in its mission to provide wise stewardship of the marine environment through education and research.

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

An unmodified opinion was issued on the basic financial statements of the Consortium and its component unit, which means the financial statements present fairly, in all material respects, the financial positions and the results of operations for the fiscal year ended September 30, 2022.

AUDIT FINDINGS

An instance of noncompliance with state laws and regulations and other matters was found during the audit, as shown on the Schedule of State Compliance and Other Findings, and it is summarized below.

- ◆ 2022-001: The Consortium awarded contracts to vendors without obtaining E-Verify documentation, as required by the *Code of Alabama 1975*, Section 31-13-9(b).

An instance of noncompliance relative to federal financial assistance programs was found (Exhibit 14), and it is summarized below:

- ◆ 2022-002: The Consortium did not minimize the time elapsing between the transfer of funds and the disbursement of those funds and, as a result, did not comply with cash management requirements.

EXIT CONFERENCE

The following officials/employees were invited to an exit conference to discuss the results of this audit: Dr. John Valentine, Executive Director; and David England, Deputy Director. The following individuals attended the exit conference virtually: Dr. John Valentine, Executive Director and David England, Deputy Director. Representing the Department of Examiners of Public Accounts were Bodie Pickens, Audit Manager and Phillippe Walker and Misty Medders, Examiners.

*Schedule of State Compliance
and Other Findings*

Schedule of State Compliance and Other Findings
For the Year Ended September 30, 2022

Ref. No.	Finding/Noncompliance
2022-001	<p><u>Finding:</u> The <i>Code of Alabama 1975</i>, Section 31-13-9(b), states, "As a condition for the award of any contract, grant, or incentive by the state, any political subdivision thereof, or any state-funded entity to a business entity or employer that employs one or more employees within the State of Alabama, the business entity or employer shall provide documentation establishing that the business entity or employer is enrolled in the E-Verify program. During the performance of the contract, the business entity or employer shall participate in the E-Verify program and shall verify every employee that is required to be verified according to the applicable federal rules and regulations."</p> <p>During the test of bid requirements, three bids were reviewed to determine compliance with the Law's E-Verify enrollment requirement. Due to a lack of policies and procedures that ensure vendors awarded contracts through the bid process were enrolled in the E-Verify program, two of the three bids were awarded without obtaining the required E-Verify documentation. As a result, the Consortium may have awarded contracts to entities that were not enrolled in the E-Verify program.</p> <p><u>Recommendation:</u> The Consortium should implement policies and procedures to ensure compliance with the <i>Code of Alabama 1975</i>, Section 31-13-9(b), by obtaining documentation that entities awarded contracts are enrolled in the E-Verify program.</p>

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 Audit of the Financial Statements

Opinions

We have audited the basic financial statements of the Marine Environmental Sciences Consortium, a component unit of the State of Alabama, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the Marine Environmental Sciences Consortium's basic financial statements as listed in the table of contents.

In our opinion, based on our audit and the report of other auditors, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Marine Environmental Sciences Consortium and Dauphin Island Sea Lab Foundation, Inc., as of September 30, 2022, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Basis for Opinions

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 (***Government Auditing Standards***). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Marine Environmental Sciences Consortium and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion. The financial statements of Dauphin Island Sea Lab Foundation, Inc., were not audited in accordance with ***Government Auditing Standards***.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Marine Environmental Sciences Consortium's basic financial statements for the year ended September 30, 2022, reflect the provisions of the Governmental Accounting Standards Board's (GASB) Statement Number 87, *Leases*. The Marine Environmental Sciences Consortium implemented the requirements of GASB Statement Number 87 during the fiscal year. Our opinion on the basic financial statements is not modified with respect to this matter.

Responsibilities of Management 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Marine Environmental Sciences Consortium's ability to continue as a going concern within one year after the date that the financial statements are available to be issued, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- ◆ exercise professional judgment and maintain professional skepticism throughout the audit.
- ◆ identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- ◆ obtain an understanding of internal control relevant to the audit 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 Marine Environmental Sciences Consortium's internal control. Accordingly, no such opinion is expressed.
- ◆ evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- ◆ conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Marine Environmental Sciences Consortium's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Required Supplementary Information

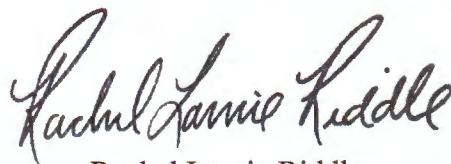
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (MD&A), the Schedule of the Consortium's Proportionate Share of the Collective Net Pension Liability, the Schedule of the Consortium's Contributions – Pension, the Schedule of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

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements of the Marine Environmental Sciences Consortium, taken as a whole. The accompanying Schedule of Expenditures of Federal Awards (Exhibit 10), 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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic 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 2, 2023, on our consideration of the Marine Environmental Sciences Consortium's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Marine Environmental Sciences Consortium's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Marine Environmental Sciences Consortium's internal control over financial reporting and compliance.



Rachel Laurie Riddle
Chief Examiner

Department of Examiners of Public Accounts

Montgomery, Alabama

June 2, 2023

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

Management's Discussion and Analysis

For the Year Ended September 30, 2022

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, 2022. This discussion was prepared by MESC's management and should be read in conjunction with the financial statements and notes thereto, which follow.

MESC's financial report consists of the following statements:

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

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

Analysis of Financial Position and Results of Operations

Statement of Net Position

The Statement of Net Position presents the assets, deferred outflows, liabilities, deferred inflows and net position of MESC as of the fiscal year ended September 30, 2022. The net position is displayed in three parts, restricted, unrestricted and net investment in capital assets. Restricted net position may either be expendable or non-expendable and are those assets that are restricted by law or by an external donor. Unrestricted net position, while it is generally designated for specific purposes, is available for use by MESC to meet current expenses for any purpose. The Statement of Net Position, along with all of MESC's basic financial statements, is prepared under the accrual basis of accounting, whereby revenues are recognized when the service is provided and expenses are recognized when others provide the service to MESC, regardless of when cash is exchanged.

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

Total assets and total liabilities consist of both current and noncurrent portions. Total assets and total liabilities consist of both current and noncurrent portions. Current assets consist of cash and cash equivalents totaling \$12,717,651, accounts receivables of \$5,051,717 and inventories of \$141,179. Liabilities include accounts payable of \$117,955, current and non-current lease obligations of \$2,626,113, unearned revenues totaled \$3,688,300 and compensated absences totaled \$573,146.

Statement of Net Position		
For the Year ending September 30, 2022		
	2022	2021
Assets		
Current Assets	\$ 17,972,054	\$ 14,135,273
Non-Current Assets	106,417	106,880
Capital Assets, Net	15,485,933	14,461,850
Total Assets	33,564,404	28,704,003
Deferred Outflow of Resources		
Pension	1,806,000	2,135,000
OPEB	1,680,985	2,111,257
Total Deferred Outflows	3,486,985	4,246,257
Liabilities		
Current Liabilities	4,440,564	5,662,050
Noncurrent Liabilities	12,652,811	16,214,355
Total Liabilities	17,093,375	21,876,405
Deferred Inflow of Resources		
Pension	2,322,000	308,000
OPEB	3,230,397	3,054,430
Total Deferred Inflows	5,552,397	3,362,430
Net Position		
Net Investment in Capital Assets	13,030,426	11,734,061
Restricted-Expendable	475,302	731,249
Unrestricted	899,889	(4,753,885)
Total Net Position	\$ 14,405,617	\$ 7,711,425

At September 30, 2022, the Consortium reported a liability of \$6,625,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2021, and the pension liability used to calculate the net pension liability was determined by an actuarial valuation as of September 30, 2020. 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, 2021, the Consortium's proportion was 0.070326%, which is an decrease of 0.003118% from its proportion on September 30, 2020.

At September 30, 2022, the Consortium reported a liability of \$3,212,776 for its proportionate share of the collective net Other Post Employment Benefits (OPEB) liability. The collective net OPEB liability was measured as of September 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2020. The Consortium's proportion of the collective net OPEB liability was based on a projection of the Consortium's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2021, the Consortium's proportion was 0.062181%, which was a decrease of 0.001879% from its proportion measured as of September 30, 2020.

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.

Statement of Revenues, Expenses and Changes in Net Position

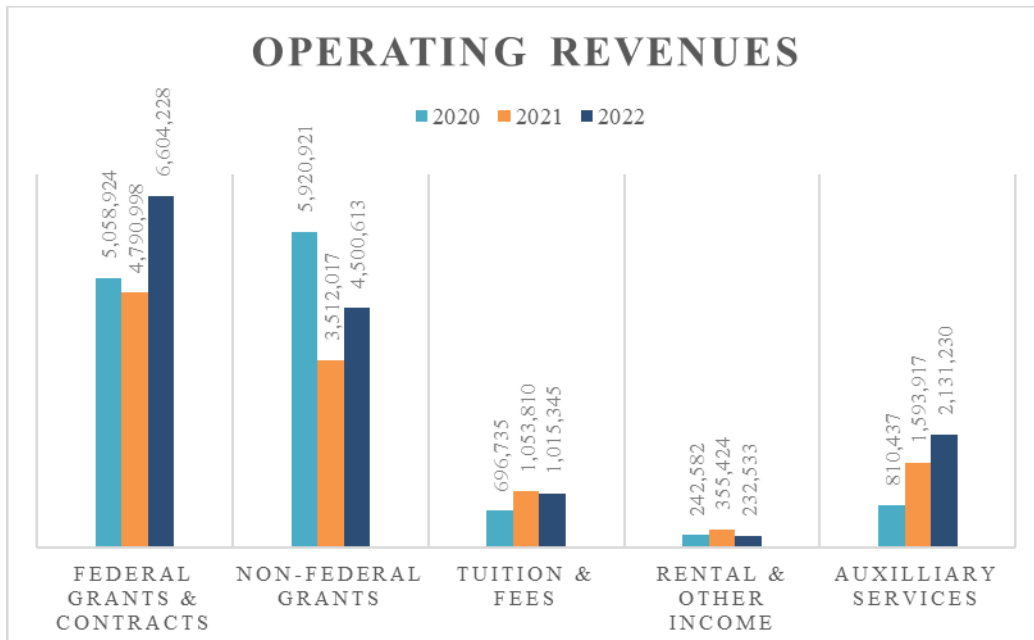
Changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses and Changes in Net Position. The purpose of the statement is to present the revenues received by MESC, both operating and non-operating, and the expenses 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 Consortium without the Legislature directly receiving commensurate goods and services for those revenues.

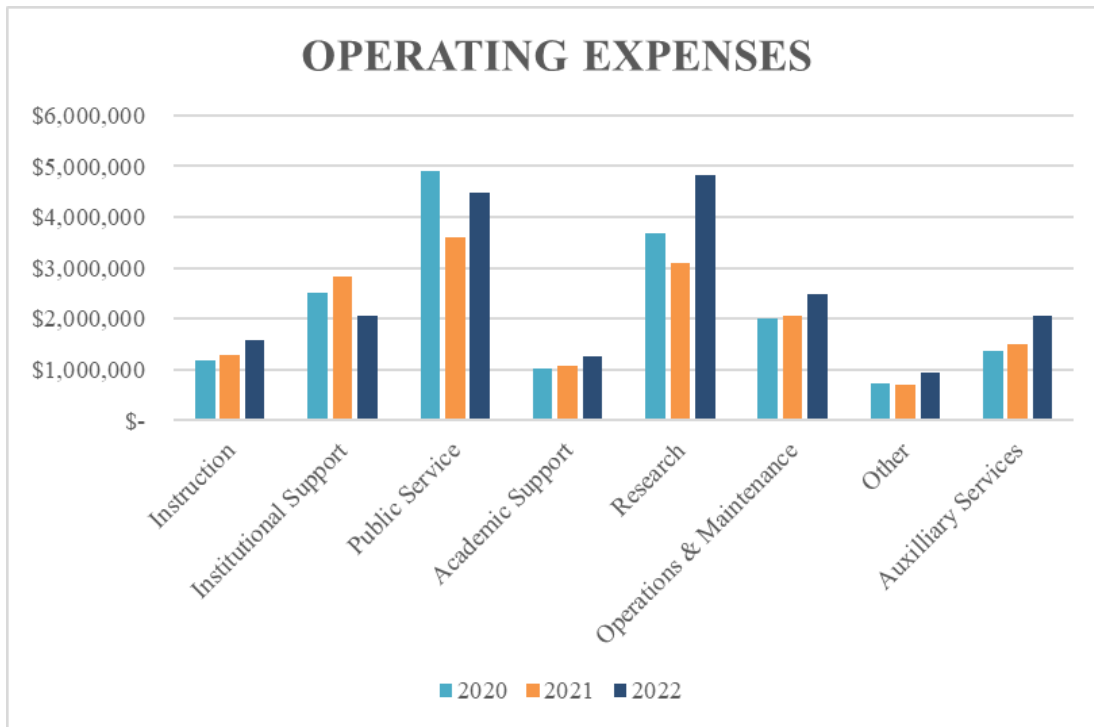
The Statement of Revenues, Expenses, and Changes in Net Position reflects an increase of \$6,694,192.

Statement of Revenues, Expenses and Changes in Net Position For the Year ending September 30, 2022		
	2022	2021
Operating Revenues	\$ 14,483,948	\$ 11,306,166
Operating Expenses	19,680,122	16,186,646
Operating Loss	(5,196,174)	(4,880,480)
Non-Operating Revenues	11,973,491	8,729,612
Non-Operating Expenses	83,125	87,366
Increase (Decrease) in Net Position	6,694,192	3,761,766
Net Position - Beginning of the Year	7,711,425	3,949,659
Net Position - End of the Year	\$ 14,405,617	\$ 7,711,425

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 non-operating revenues is the State Appropriation as a separate line item in the State of Alabama Education Trust Fund budget. 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 2022 totaled \$10,750,849. \$100,000 was earmarked for Mobile Bay National Estuary Program, a division of MESC/Dauphin Island Sea Lab, and \$100,000 was earmarked for the Mississippi-Alabama Sea Grant Consortium, and \$5,250,000 was to help address MESC’s aging dormitories, and other infrastructure needs, making the net appropriation available for operations to MESC \$5,500,849.



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



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

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

	2022	2021
Statement of Cash Flows		
For the Year Ending September 30, 2022		
Cash Provided (Used) by:		
Operating Activities	\$ (6,690,525)	\$ (4,381,364)
Noncapital Financing Activities	10,945,404	13,522,042
Capital Financing Activities	(2,100,454)	(885,021)
Investing Activities	5,112	3,560
Net Change in Cash	2,159,537	8,259,217
Cash, Beginning of Year	10,558,114	2,298,897
Cash, End of Year	<u>\$ 12,717,651</u>	<u>\$ 10,558,114</u>

Significant Capital Asset and Debt Activity

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

The Consortium entered into an unsecured promissory note, dated April 17, 2020 (“the PPP Loan”), with Trustmark National Bank under the Paycheck Protection Program (the “PPP”) administered by the United States Small Business Administration (“SBA”) and authorized by the Keeping American Workers Employed and Paid Act, which is part of the Coronavirus Aid, Relief, and Economic Security Act, enacted on March 27, 2020. The principal amount of the PPP loan is \$964,469.20 and was disbursed on April 17, 2020. The proceeds of the loan were used by the Consortium to cover payroll costs, including benefits. The entire amount of the obligation was subsequently forgiven on November 2, 2020, under the provisions provided for in the act.

On February 1, 2021, the Consortium entered into an unsecured promissory note, with Trustmark National Bank under the Paycheck Protection Program, Second Draw (the “PPP”) administered by the United States Small Business Administration (“SBA”) and authorized by the Keeping American Workers Employed and Paid Act, which is part of the Coronavirus Aid, Relief, and Economic Security Act, enacted on March 27, 2020.

The principal amount of the Second Draw PPP loan is \$1,055,449, bears interest of 1.0% per annum and was disbursed on February 3, 2021. The proceeds were used by the Consortium to cover payroll costs, including benefits.

Under the terms of the PPP Loan, Section 1106 of the Cares Act contains provisions for the forgiveness of all or a portion of the PPP Loan. On November 5, 2021, loan forgiveness was applied for, and the SBA granted a Notice of Paycheck Protection Program Forgiveness Payment to the Consortium with a forgiveness payment date of November 21, 2021, for the entire amount.

Economic Outlook

MESC has followed a conservative fiscal policy during these times of uncertain levels of state and federal support, inflation, rising fuel and energy costs. Fortunately, the Consortium has not faced decreases in its appropriation in recent years, but with the negative economic climate expenses may sometimes outpace the growth of the appropriation. In recent years we have received some supplemental appropriations that have helped address some of our infrastructure, but the need to replace, repair and retrofit our aging infrastructure across our campus continues to be a challenge for the Consortium. Hurricane Sally severely damaged one of our residential halls and providing adequate housing for our students continues to be a major issue. We continue to try to identify alternative sources of funding, upgrade and invest in new technology so we can continue to offer the same level of service to our constituents and give our researchers the resources needed to continue to be at the forefront of Marine research.

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

Basic Financial Statements

Statement of Net Position
September 30, 2022

ASSETS

Current Assets

Cash	\$ 12,717,651
Accounts Receivable	5,051,717
Inventories	141,179
Right to Use Assets - Leases	61,507
Total Current Assets	17,972,054

Noncurrent Assets

Right to Use Assets-Leases	106,417
Capital Assets:	
Land	658,757
Improvements Other Than Buildings	433,744
Buildings	16,138,728
Equipment	4,156,592
Vessels	1,220,431
Lease Purchased Assets	2,260,500
Library Holdings	126,694
Construction in Progress	1,057,248
Less: Accumulated Depreciation	(10,566,761)
Total Capital Assets, Net of Depreciation	15,485,933
Total Noncurrent Assets	15,592,350
Total Assets	33,564,404

Deferred Outflow of Resources

Pension	1,806,000
Other Postemployment Benefit (OPEB)	1,680,985
Total Deferred Outflow of Resources	\$ 3,486,985

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

LIABILITIES**Current Liabilities**

Accounts Payable and Accrued Liabilities	\$	117,955
Leases Payable		60,248
Purchase Lease Payable		289,587
Compensated Absences		34,389
Unearned Revenue		3,688,300
Deposits Held for Others		250,085
Total Current Liabilities		<u>4,440,564</u>

Noncurrent Liabilities

Leases Payable		110,358
Purchase Lease Payable		2,165,920
Compensated Absences		538,757
Net Pension Liability		6,625,000
Net Other Postemployment Benefit (OPEB)		3,212,776
Total Noncurrent Liabilities		<u>12,652,811</u>
Total Liabilities		<u>17,093,375</u>

Deferred Inflow of Resources

Pension		2,322,000
Other Postemployment Benefit (OPEB)		3,230,397
Total Deferred Inflow of Resources		<u>5,552,397</u>

NET POSITION

Net Investment in Capital Assets		13,030,426
Restricted for:		
Expendable:		
Scholarships and Fellowships		55,726
Research and Public Outreach		330,491
Instruction		60,751
Capital Projects		28,334
Unrestricted		<u>899,889</u>
Total Net Position	\$	<u>14,405,617</u>

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***Statement of Revenues Expenses and Changes in Net Position
For the Year Ended September 30, 2022***

OPERATING REVENUES

Student Tuition and Fees	\$ 875,604
Federal Grants and Contracts	6,604,228
State and Local Grants and Contracts	1,467,987
Private Grants and Contracts	3,032,626
Sales and Services of Educational Departments	139,740
Rental Income	232,533
Auxiliary Enterprises:	
Estuarium	960,296
Gift Shop	734,126
Food Services	436,808
Total Operating Revenues	<u>14,483,948</u>

OPERATING EXPENSES

Instruction	1,653,451
Institutional Support	2,053,866
Public Service	4,479,367
Academic Support	1,257,969
Student Services	58,425
Research	4,818,764
Operation and Maintenance	2,476,485
Depreciation	830,555
Auxiliary Enterprises:	
Estuarium	601,707
Gift Shop	721,386
Food Services	728,147
Total Operating Expenses	<u>19,680,122</u>
Operating Income (Loss)	<u>(5,196,174)</u>

NONOPERATING REVENUES (EXPENSES)

State Appropriations	10,750,849
Investment Income	5,112
Private Gifts	162,081
Paycheck Protection Program Loan Forgiveness	1,055,449
Interest on Capital Asset Related Debt	(83,125)
Net Nonoperating Revenues	<u>11,890,366</u>
Changes in Net Position	6,694,192
Total Net Position - Beginning of Year	7,711,425
Total Net Position - End of Year	<u>\$ 14,405,617</u>

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

Statement of Cash Flows
For the Year Ended September 30, 2022

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and Fees	\$ 953,885
Grants and Contracts	9,030,258
Payments to Suppliers	(9,649,326)
Payments to Utilities	(640,002)
Payments to Employees	(6,953,599)
Payments to Benefits	(2,038,289)
Payments to Scholarships and Fellowships	
Auxiliary Enterprise Charges:	
Estuarium	940,274
Gift Shop	742,927
Food Services	551,074
Sales and Services of Educational Departments	139,740
Other Receipts (Payments)	232,533
Net Cash Provided (Used) by Operating Activities	<u>(6,690,525)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State Appropriations	10,750,849
Private Grants and Gifts	162,081
Other	32,474
Net Cash Provided (Used) by Noncapital Financing Activities	<u>10,945,404</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from Capital Debt	106,880
Purchases of Capital Assets	(1,854,639)
Principal Paid on Capital Debt and Leases	(269,570)
Interest Paid on Capital Debt and Leases	(83,125)
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(2,100,454)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on Investments	5,112
Net Cash Provided (Used) by Investing Activities	<u>5,112</u>

Net Increase (Decrease) in Cash	2,159,537
Cash - Beginning of Year	10,558,114
Cash - End of Year	<u>\$ 12,717,651</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) \$ (5,196,174)

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

Depreciation Expense 830,555
Changes in Assets and Liabilities:
(Increase)/Decrease in Receivables (1,604,654)
(Increase)/Decrease in Inventories (11,082)
(Increase)/Decrease in Deferred Outflows 759,272
Increase/(Decrease) in Accounts Payable (277,519)
Increase/(Decrease) in Compensated Absences 23,739
Increase/(Decrease) in Deferred Inflows 2,189,967
Increase/(Decrease) in Pension Liability (2,460,000)
Increase/(Decrease) in OPEB Liability (944,629)

Net Cash Provided (Used) by Operating Activities \$ (6,690,525)

Statement of Financial Position
Dauphin Island Sea Lab Foundation, Inc.
September 30, 2022 and 2021

	2022	2021
<u>Assets</u>		
<u>Current Assets</u>		
Cash	\$ 1,166,937	\$ 719,118
Promises to Give	300	400
Prepaid Expenses	2,863	1,130
Investments - Community Foundation of South Alabama	2,326,668	2,745,504
Total Current Assets	<u>3,496,768</u>	<u>3,466,152</u>
Property and Equipment:		
Boat	27,800	
Accumulated Depreciation	(3,971)	
Net Property and Equipment	<u>23,829</u>	
Total Assets	<u><u>3,520,597</u></u>	<u><u>3,466,152</u></u>
<u>Liabilities and Net Assets</u>		
<u>Net Assets</u>		
Without Donor Restrictions:		
Undesignated	406,889	259,329
Board Designated for Quasi Endowment	2,092,785	2,456,320
Total Without Donor Restrictions	<u>2,499,674</u>	<u>2,715,649</u>
With Donor Restrictions	<u>1,020,923</u>	<u>750,503</u>
Total Net Assets	<u>3,520,597</u>	<u>3,466,152</u>
Total Liabilities and Net Assets	<u><u>\$ 3,520,597</u></u>	<u><u>\$ 3,466,152</u></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 Years Ended September 30, 2022 and 2021

	Without Donor Restrictions	With Donor Restrictions	2022 Total	Without Donor Restrictions	With Donor Restrictions	2021 Total
Support and Revenue						
Special Events	\$ 132,098	\$	\$ 132,098	\$ 106,280	\$ 6,015	\$ 112,295
Less Cost of Special Events	(39,380)		(39,380)	(24,857)		(24,857)
Net Special Events	92,718		92,718	81,423	6,015	87,438
Contributions and Grants	217,238	312,591	529,829	129,630	325,040	454,670
Contributions - In Kind	34,615		34,615			
Investment Income	(376,199)	(42,171)	(418,370)	366,856	43,559	410,415
Net Assets Released from Restrictions				12,820	(12,820)	
Total Support and Revenue	(31,628)	270,420	238,792	590,729	361,794	952,523
Expenses						
Program Expenses	133,256		133,256	76,669		76,669
General and Administrative Expenses	30,291		30,291	29,873		29,873
Fundraising Expenses	20,800		20,800	20,800		20,800
Total Expenses	184,347		184,347	127,342		127,342
Change in Net Assets	(215,975)	270,420	54,445	463,387	361,794	825,181
Net Assets - Beginning of Year	2,715,649	750,503	3,466,152	2,252,262	388,709	2,640,971
Net Assets - End of Year	\$ 2,499,674	\$ 1,020,923	\$ 3,520,597	\$ 2,715,649	\$ 750,503	\$ 3,466,152

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

Notes to the Financial Statements

For the Year Ended September 30, 2022

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 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.

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.

Notes to the Financial Statements

For the Year Ended September 30, 2022

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

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

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

1. Cash and Investments

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

2. Receivables

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

3. Capital Assets

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

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

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

Notes to the Financial Statements
For the Year Ended September 30, 2022

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

4. 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.

5. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position.

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, 2022, 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, 2022

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. 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.

8. 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 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 Annual Comprehensive Financial Report.

Notes to the Financial Statements

For the Year Ended September 30, 2022

9. Postemployment Benefits Other Than Pensions (OPEB)

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

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.

Notes to the Financial Statements

For the Year Ended September 30, 2022

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)*.

12. Implementation of New Accounting Standard

In the fiscal year ended September 30, 2022, the Consortium adopted GASB Statement Number 87, *Leases*. This statement better meets the information needs of financial statement users by improving accounting and financial reporting for leases by governments. The statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and as inflows of resources or outflows of resources recognized based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use and underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

Note 2 – Deposits

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2022

Note 3 – Receivables

Receivables are summarized as follows:

<u>Accounts Receivable:</u>	
Federal	\$4,511,266
Third Party Tuition and Fees	503,187
Auxiliary	37,264
Total Accounts Receivable	\$5,051,717

Note 4 – Capital and Leased Assets

Capital asset activity for the year ended September 30, 2022, 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	16,138,728				16,138,728
Equipment	3,433,090	795,560	80,408	8,350	4,156,592
Vessels	1,220,431				1,220,431
Library Holdings	126,694				126,694
Lease Purchased Assets		14,431		2,246,069	2,260,500
Construction in Progress	2,267,019	1,044,648		(2,254,419)	1,057,248
Total	24,278,463	1,854,639	80,408		26,052,694
Less: Accumulated Depreciation					
Improvements Other Than Buildings	320,493	23,754			344,247
Buildings	6,192,493	322,775			6,515,268
Equipment	2,488,294	303,287	80,408		2,711,173
Vessels	746,276	59,269			805,545
Library Holdings	69,057	8,446			77,503
Lease Purchased Assets		113,025			113,025
Total Accumulated Depreciation	9,816,613	830,555	80,408		10,566,761
Capital Assets, Net	\$14,461,850	\$1,024,083	\$	\$	\$15,485,933

Notes to the Financial Statements
For the Year Ended September 30, 2022

Lease Purchase and Right-to-Use Asset activity for the year ended September 30, 2022, was as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
Right-to-Use Assets				
Buildings	\$	\$ 229,432	\$(61,507)	\$167,925
Total Right-to-Use Assets		229,432	(61,507)	167,925
Less: Lease Payable		(229,432)	58,826	170,606
Lease Assets, Net	\$	\$	\$ 2,681	\$ 2,681

Right-to-use assets consist of two office leases with lease terms of one year and five years. Lease Purchase assets are from the Guaranteed Energy Savings Contract with Southland Energy and consist of HVAC equipment, solar arrays on 3 buildings, and upgraded LED lighting throughout the campus. The lease contract and payment terms are detailed in Note 10.

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

Notes to the Financial Statements

For the Year Ended September 30, 2022

B. Benefits Provided

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

Act Number 2012-377, Acts of Alabama, established a new tier of benefits (Tier 2) for members hired on or after January 1, 2013. Tier 2 TRS members are eligible for retirement after age 62 with 10 years or more of creditable service and are entitled to an annual retirement benefit, payable monthly for life. Service and disability retirement benefits are based on a 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 up to 80% of their average final compensation. Members are eligible for disability retirement if they have 10 years of creditable service, are currently in-service, and determined by the RSA Medical Board to be permanently incapacitated from further performance of duty. Preretirement death benefits equal to the annual earnable compensation of the member as reported to the Plan for the preceding year ending June 30 are paid to a qualified beneficiary.

C. Contributions

Covered Tier 1 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.

Notes to the Financial Statements

For the Year Ended September 30, 2022

Effective October 1, 2021, the covered Tier 2 member contribution rate increased from 6% to 6.2% of earnable compensation to the TRS as required by statute. Effective October 1, 2021, the covered Tier 2 certified law enforcement, correctional officers, and firefighters contribution rate increased from 7% to 7.2% of earnable compensation to the TRS as required by statute.

Participating employers' contractually required contribution rate for the year ended September 30, 2022, was 12.43% of annual pay for Tier 1 members and 11.32% of annual pay for Tier 2 members. These required contribution rates are a percent of annual payroll, actuarially determined as an amount that, when combined with member contributions, is expected to finance the costs of benefits earned by members during the year, with an additional amount to finance any unfunded accrued liability. Total employer contributions to the pension plan from the Consortium were \$671,508.20 for the year ended September 30, 2022.

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

At September 30, 2022, the Consortium reported a liability of \$6,625,000 for its proportionate share of the collective net pension liability. The collective net pension liability was measured as of September 30, 2021, and the total pension liability used to calculate the collective net pension liability was determined by an actuarial valuation as of September 30, 2020. 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, 2021, the Consortium's proportion was 0.070326%, which was a decrease of 0.003118% from its proportion measured as of September 30, 2020.

For the year ended September 30, 2022, the Consortium recognized pension expense of \$117,000. At September 30, 2022, 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	\$ 307	\$ 386
Changes of assumptions	695	
Net difference between projected and actual earnings on pension plan investments		1,564
Changes in proportion and differences between employer contributions and proportionate share of contributions	132	372
Employer contributions subsequent to the measurement date	672	
Total	\$1,806	\$2,322
(Dollar amounts in thousands)		

Notes to the Financial Statements

For the Year Ended September 30, 2022

The \$672,000 reported as deferred outflows of resources related to pensions resulting from Consortium contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized in pension expense as follows:

Year Ending:	
September 30, 2023	\$(152,000)
2024	\$(192,000)
2025	\$(330,000)
2026	\$(514,000)
2027	\$ 0
Thereafter	\$ 0

E. Actuarial Assumptions

The total pension liability as of September 30, 2021, was determined by an actuarial valuation as of September 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Investment Rate of Return (*)	7.45%
Projected Salary Increases	3.25%-5.00%
(*) Net of pension plan investment expense	

The actuarial assumptions used in the actuarial valuation as of September 30, 2020, were based on the results of an investigation of the economic and demographic experience for the TRS based upon participant data as of September 30, 2020. The Board of Control accepted and approved these changes in September 2021 which became effective at the beginning of fiscal year 2021.

Notes to the Financial Statements

For the Year Ended September 30, 2022

Mortality rates for TRS were based on the Pub-2010 Teacher tables with the following adjustments, projected generationally using scale MP-2020 adjusted by 66-2/3% beginning with the year 2019:

Group	Membership Table	Set Forward(+)/ Setback (-)	Adjustment to Rates
Service Retirees	Teacher Retiree- Below Median	Male: +2, Female: +2	Male: 108% ages < 63, 96% ages > 67; Phasing down 63 -67 Female: 112% ages < 69 98% > age 74 Phasing down 69-74
Beneficiaries	Contingent Survivor Below Median	Male: +2, Female: None	None
Disabled Retirees	Teacher Disability	Male: +8, Female: +3	None

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

Asset Class	Target Allocation	Long-Term Expected Rate of Return (*)
Fixed Income	15.00%	2.80%
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%	9.00%
Real Estate	10.00%	6.50%
Cash Equivalents	5.00%	2.50%
Total	100.00%	

(*) Includes assumed rate of inflation of 2.00%.

Notes to the Financial Statements

For the Year Ended September 30, 2022

F. Discount Rate

The discount rate used to measure the total pension liability was 7.45%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that the employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on those assumptions, components of the pension plan's fiduciary net position were projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following table presents the Consortium's proportionate share of the collective net pension liability calculated using the discount rate of 7.45%, as well as what the Consortium's proportionate share of the collective net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.45%) or 1-percentage point higher (8.45%) than the current rate:

	1% Decrease (6.45%)	Current Discount Rate (7.45%)	1% Increase (8.45%)
Consortium's proportionate share of collective net pension liability	\$9,751	\$6,625	\$3,992
(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 Annual Comprehensive Financial Report for the fiscal year ended September 30, 2021. The supporting actuarial information is included in the GASB Statement Number 67 Report for the TRS prepared as of September 30, 2021. The auditor's report on the Schedule of Employer Allocations and Pension Amounts to Employer and accompanying notes detail by employer and in aggregate information needed to comply with GASB Statement Number 68 as of September 30, 2021, along with supporting schedules is also available. The additional financial and actuarial information is available at www.rsa-al.gov.

Notes to the Financial Statements

For the Year Ended September 30, 2022

Note 6 – Other Postemployment Benefits (OPEB)

A. Plan Description

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

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

B. Benefits Provided

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

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

Notes to the Financial Statements

For the Year Ended September 30, 2022

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

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

Effective January 1, 2017, Medicare eligible members and Medicare eligible dependents who are covered on a retiree contract were enrolled in the United Healthcare Group Medicare Advantage plan for PEEHIP retirees. Effective January 1, 2020, Humana Insurance Company replaced United Healthcare as the administrator of the PEEHIP Group Medicare Advantage (PPO) Plan. The plan is fully insured, and members are able to have all of their Medicare Part A (hospital insurance), Part B (medical insurance), and Part D (prescription drug coverage) in one convenient plan. Retirees can continue to see their same providers with no interruption and see any doctor who accepts Medicare on a national basis. Members have the same benefits in and out-of-network and there is no additional retiree cost share if a retiree uses an out-of-network provider and no balance billing from the provider.

Notes to the Financial Statements

For the Year Ended September 30, 2022

C. Contributions

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

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

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

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

At September 30, 2022, the Consortium reported a liability of \$3,212,776 for its proportionate share of the collective net OPEB liability. The collective net OPEB liability was measured as of September 30, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of September 30, 2020. The Consortium's proportion of the collective net OPEB liability was based on a projection of the Consortium's long-term share of contributions to the OPEB plan relative to the projected contributions of all participating employers, actuarially determined. At September 30, 2021, the Consortium's proportion was 0.062181%, which was a decrease of 0.001879% from its proportion measured as of September 30, 2020.

Notes to the Financial Statements
For the Year Ended September 30, 2022

For the year ended September 30, 2022, the Consortium recognized OPEB expense of \$(197,211), with no special funding situations. At September 30, 2022, the Consortium reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 76,014	\$1,117,731
Changes of assumptions	1,144,199	1,245,300
Net difference between projected and actual earnings on OPEB plan investments		100,218
Changes in proportion and differences between employer contributions and proportionate share of contributions	320,655	767,148
Employer contributions subsequent to the measurement date	140,117	
Total	<u>\$1,680,985</u>	<u>\$3,230,397</u>

The \$140,117 reported as deferred outflows of resources related to OPEB resulting from the Consortium's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended September 30, 2023.

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

Year Ending:	
September 30, 2023	\$(467,153)
2024	\$(401,280)
2025	\$(477,400)
2026	\$(143,130)
2027	\$ (91,690)
Thereafter	\$(108,876)

Notes to the Financial Statements

For the Year Ended September 30, 2022

E. Actuarial Assumptions

The total OPEB liability was determined by an actuarial valuation as of September 30, 2020, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Projected Salary Increases (1)	3.25% - 5.00%
Long-Term Investment Rate of Return (2)	7.00%
Municipal Bond Index Rate at the Measurement Date	2.29%
Municipal Bond Index Rate at the Prior Measurement Date	2.25%
Projected Year for Fiduciary Net Position (FNP) to be Depleted	2051
Single Equivalent Interest Rate at the Measurement Date	3.97%
Single Equivalent Interest Rate at the Prior Measurement Date	3.05%
Healthcare Cost Trend Rate:	
Initial Trend Rate:	
Pre-Medicare Eligible	6.50%
Medicare Eligible	(**)
Ultimate Trend Rate:	
Pre-Medicare Eligible	4.50% in 2028
Medicare Eligible	4.50% in 2025
(1) Includes 2.75% wage inflation.	
(2) Compounded annually, net of investment expense, and includes inflation.	
(**) Initial Medicare claims are set based on scheduled increases through plan year 2022.	

The rates of mortality are based on the Pub-2010 Public Mortality Plans Mortality Tables, adjusted generationally based on scale MP-2020, with an adjustment of 66-2/3% to the table beginning in year 2019. The mortality rates are adjusted forward and/or back depending on the plan and group covered, as shown in the table below.

Group	Membership Table	Set Forward (+)/ Setback (-)	Adjustment to Rates
Active Members	Teacher Employee – Below Median	None	65%
Service Retirees	Teacher Retiree – Below Median	Male: +2, Female: +2	Male: 108% ages<63, 96% ages>67; Phasing down 63-67 Female: 112% ages <69 98%> age 74; Phasing down 69-74
Disable Retirees	Teacher Disability	Male: +8, Female: +3	None
Beneficiaries	Teacher Contingent Survivor Below Median	Male: +2, Female: None	None

Notes to the Financial Statements

For the Year Ended September 30, 2022

The decremental assumptions used in the valuation were selected based on the actuarial experience study prepared as of September 30, 2020, submitted to and adopted by the Teachers' Retirement System of Alabama Board on September 13, 2021.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) were based on the actuarial valuation as of September 30, 2020.

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

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

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

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

(*) Geometric mean, includes 2.5% inflation

Notes to the Financial Statements

For the Year Ended September 30, 2022

F. Discount Rate

The discount rate (also known as the Single Equivalent Interest Rate (SEIR), as described by GASB Statement 74) used to measure the total OPEB liability was 3.97%. Premiums paid to the Public Education Employees' Health Insurance Board for active employees shall include an amount to partially fund the cost of coverage for retired employees. The projection of cash flows used to determine the discount rate assumed that plan contributions will be made at the current contribution rates. Each year, the State specifies the monthly employer rate that participating school systems must contribute for each active employee. Currently, the monthly employer rate is \$800 per non-Consortium active member. Approximately, 12.990% of the employer contributions were used to assist in funding retiree benefit payments in 2021 and it is assumed that the 12.990% will increase at the same rate as expected benefit payments for the closed group reaching 20.00%. It is assumed the \$800 rate will increase with inflation at 2.50% starting in 2024. Retiree benefit payments for Consortium members are paid by the Consortium and are not included in the cash flow projections. The discount rate determination will use a municipal bond rate to the extent the trust is projected to run out of money before all benefits are paid. Therefore, the projected future benefit payments for all current plan members were projected through 2119. The long-term rate of return is used until the assets are expected to be depleted in 2051, after which the municipal bond rate is used.

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

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

	1% Decrease (5.50% Decreasing to 3.50% for Pre-Medicare and Known Decreasing to 3.50% for Medicare Eligible)	Current Healthcare Trend Rate (6.50% Decreasing to 4.50% for Pre-Medicare and Known Decreasing to 4.50% for Medicare Eligible)	1% Increase (7.50% Decreasing to 5.50% for Pre-Medicare and Known Decreasing to 5.50% for Medicare Eligible)
Consortium's proportionate share of collective net OPEB liability	\$2,520,978	\$3,212,776	\$4,104,092

Notes to the Financial Statements
For the Year Ended September 30, 2022

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

The following table presents the Consortium’s proportionate share of the collective net OPEB liability of the Trust calculated using the discount rate of 3.97%, as well as what the collective net OPEB liability would be if calculated using one percentage point lower or one percentage point higher than the current rate:

	1% Decrease (2.97%)	Current Rate (3.97%)	1% Increase (4.97%)
Consortium’s proportionate share of the collective net OPEB liability	\$ 3,951,857	\$ 3,212,776	\$ 2,619,952

I. OPEB Plan Fiduciary Net Position

Detailed information about the OPEB plan’s Fiduciary Net Position is in the Trust’s financial statements for the fiscal year ended September 30, 2021. The supporting actuarial information is included in the GASB Statement Number 74 Report for PEEHIP prepared as of September 30, 2021. Additional financial and actuarial information is available at www.rsa-al.gov.

Note 7 – Significant Commitments

As of September 30, 2022, the Consortium had been awarded approximately \$33.2 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 – Short-Term Debt

Paycheck Protection Program (PPP)

On February 1, 2021, the Consortium entered into an unsecured promissory note, dated February 1, 2021 (the “PPP Loan”), with Trustmark National Bank under the Paycheck Protection Program (the “PPP”) administered by the United States Small Business Administration (“SBA”) and authorized by the Keeping American Workers Employed and Paid Act, which is part of the Coronavirus Aid, Relief, and Economic Security Act, enacted on March 27, 2020.

Notes to the Financial Statements

For the Year Ended September 30, 2022

The principal amount of the Second Draw PPP Loan is \$1,055,449, bears interest of 1.0% per annum and was disbursed on February 3, 2021. The PPP Loan has a maturity date of February 3, 2026. The PPP Loan may be prepaid, in full or in part, at any time prior to maturity with no prepayment penalties. The note contains events of default and other provisions customary for a loan of this type.

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

Under the terms of the PPP Loan, Section 1106 of the Cares Act contains provisions for the forgiveness of all or a portion of the PPP Loan. On November 5, 2021, loan forgiveness was applied for and the SBA granted a Notice of Paycheck Protection Program Forgiveness Payment to the Consortium with a forgiveness payment date of November 21, 2021 for the entire amount.

Note 9 – Long-Term Liabilities

Long-term liabilities activity for the year ended September 30, 2022, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Financing Lease - Bond	\$ 715,000	\$	\$230,000	\$ 485,000	\$240,000
Financing Lease - GESB	2,012,759		42,252	1,970,507	49,587
Other Liabilities:					
Lease Liability		229,432	58,826	170,606	60,248
Compensated Absences	549,408	23,738		573,146	34,389
Total Long-Term Liabilities	\$3,277,167	\$253,170	\$331,078	\$3,199,259	\$384,224

Note 10 – Leases

Financing Leases

Dauphin Island Public Education Building Authority (the “Authority”), a non-profit corporation, issued the Dauphin Island Public Education Building Authority Revenue Bond, Series 2015, in the principal amount of \$2,000,000 in fiscal year 2015. These bonds were issued to finance the acquisition, construction and renovation of equipment and existing buildings 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.

Notes to the Financial Statements

For the Year Ended September 30, 2022

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 financing lease debt are as follows:

Fiscal Years	Principal	Interest	Total
2022-2023	\$240,000	\$10,297	\$250,297
2023-2024	245,000	4,497	249,497
Totals	<u>\$485,000</u>	<u>\$14,794</u>	<u>\$499,794</u>

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

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

Fiscal Years	Principal	Interest	Total
2022-2023	\$ 49,587	\$ 62,623	\$ 112,210
2023-2024	54,819	61,047	115,866
2024-2025	60,336	59,305	119,641
2025-2026	66,152	57,387	123,539
2026-2027	72,278	55,285	127,563
2027-2028	78,731	52,988	131,719
2028-2029	85,525	50,486	136,011
2029-2030	92,674	47,768	140,442
2030-2031	100,194	44,823	145,017
2031-2032	108,103	41,638	149,741
2032-2033	116,417	38,203	154,620
2033-2034	125,154	34,503	159,657
2034-2035	134,332	30,526	164,858
2035-2036	143,972	26,257	170,229
2036-2037	154,093	21,681	175,774
2037-2038	164,717	16,784	181,501
2038-2039	175,863	11,550	187,413
2039-2040	187,558	5,961	193,519
Totals	<u>\$1,970,507</u>	<u>\$718,813</u>	<u>\$2,689,320</u>

Notes to the Financial Statements

For the Year Ended September 30, 2022

Right-to-use Assets Leases

The Consortium leases two office spaces with lease terms of one year and five years and monthly rent payments. With the implementation of GASB Statement 87, the Consortium recognized a Lease Liability and an Intangible Right-to-use Asset valued at the present value of all future lease payments, with an interest rate of 2%. Amortization of the discount on the lease and lease purchase liability is reported as an outflow of resources and is included in interest in the statement of revenues expenses and changes in net position. Leased assets that are not financed purchases are amortized over the shorter of the lease term or the useful life of the underlying asset. Amortization of leased assets is reported as an outflow of resources and is included in depreciation in the statement of revenues, expenses, and changes in net position. See the summary of changes in capital assets (Note 4) for the amount of leased assets and related accumulated amortization, which is reported as accumulated depreciation in these financial statements.

Future minimum payments under the lease agreements and the present value of the minimum payments as of September 30, 2022, are as follows:

Fiscal Year	Right-to-Use Buildings		Total
	Principal	Interest	
2022-2023	\$ 60,247.82	\$2,691.02	\$ 62,938.84
2023-2024	46,127.52	1,787.80	47,915.32
2024-2025	47,943.13	848.67	48,791.80
2025-2026	16,287.66	73.66	16,361.32
Total	\$170,606.13	\$5,401.15	\$176,007.28

Notes to the Financial Statements

For the Year Ended September 30, 2022

Note 11 – 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 12 – Component Unit

During the year ended September 30, 2022, the Dauphin Island Sea Lab Foundation, Inc. is a discretely presented component unit of the Consortium's financial statements because it operates almost exclusively for the benefit of the Consortium. During the fiscal year ended September 30, 2022, the Foundation contributed \$116,070 to the Consortium. Separate financial statements of the Dauphin Island Sea Lab Foundation, Inc. can be obtained from Kim Enikeieff, CPA, P. O. Box 8754, Mobile, Alabama 36689.

Notes to the Financial Statements
Dauphin Island Sea Lab Foundation, Inc.
September 30, 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

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

Summary of Significant Accounting Policies

Method of Accounting

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

Promises to Give

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

Cash and Cash Equivalents

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

Notes to the Financial Statements
Dauphin Island Sea Lab Foundation, Inc.
September 30, 2022

Investments

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

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

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

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

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

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

Contributions

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

Notes to the Financial Statements
Dauphin Island Sea Lab Foundation, Inc.
September 30, 2022

Property and Equipment

Purchased property and equipment is capitalized at cost. The Foundation follows the practice of capitalizing, at cost, or fair market value if donated, all expenditures for fixed assets in excess of \$500. Depreciation is provided principally on the straight-line method over the estimated useful lives of the depreciable assets.

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, 2022 or September 30, 2021.

Estimates

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

Donated Materials and Services

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

Cost Allocation

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

Notes to the Financial Statements
Dauphin Island Sea Lab Foundation, Inc.
September 30, 2022

Evaluation of Subsequent Events

The Foundation has evaluated subsequent events through January 6, 2023, the date which the financial statements were available to be issued.

Restrictions on Net Assets

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

	2022	2021
Program expenses and equipment	\$ 787,040	\$461,319
Endowment	233,883	289,184
Total	<u>\$1,020,923</u>	<u>\$750,503</u>

Promises to Give

Unconditional promises to give at September 30 are as follows:

	2022	2021
Promises Without Donor Restrictions	\$300	\$400
Gross Unconditional Promises to Give	<u>300</u>	<u>400</u>
Less Allowance for Uncollectible Promises	<u>0</u>	<u>0</u>
Net Unconditional Promises to Give	300	400
Amounts Due In:		
Less Than One Year	300	400
One to Five Years	<u>0</u>	<u>0</u>
Gross Unconditional Promises to Give	<u>\$300</u>	<u>\$400</u>

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

Notes to the Financial Statements
Dauphin Island Sea Lab Foundation, Inc.
September 30, 2022

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:

	2022			
	Fair Value Measurements Using			
	Measured at Fair Value	Level 1	Level 2	Level 3
Community Foundation of South Alabama	\$2,326,668	\$2,326,668	\$	\$
Total	<u>\$2,326,668</u>	<u>\$2,326,668</u>	<u>\$</u>	<u>\$</u>

	2021			
	Fair Value Measurements Using			
	Measured at Fair Value	Level 1	Level 2	Level 3
Community Foundation of South Alabama	\$2,745,504	\$2,745,504	\$	\$
Total	<u>\$2,745,504</u>	<u>\$2,745,504</u>	<u>\$</u>	<u>\$</u>

Notes to the Financial Statements
Dauphin Island Sea Lab Foundation, Inc.
September 30, 2022

Investment return for the year ended September 30, 2022, and 2021, is summarized as follows:

	2022		Total
	Without Donor Restrictions	With Donor Restrictions	
Interest and Dividend Income	\$ 37,094	\$ 4,169	\$ 41,263
Realized Gains (Losses)	54,810	6,314	61,124
Unrealized Gains (Losses)	(442,567)	(49,247)	(491,81)
Administrative Fees	(25,536)	(3,407)	(28,943)
Total	<u>\$(376,199)</u>	<u>\$(42,171)</u>	<u>\$(418,370)</u>

	2021		Total
	Without Donor Restrictions	With Donor Restrictions	
Interest and Dividend Income	\$ 36,254	\$ 4,275	\$ 40,529
Realized Gains (Losses)	95,381	11,314	106,695
Unrealized Gains (Losses)	259,966	31,401	291,367
Administrative Fees	(24,745)	(3,431)	(28,176)
Total	<u>\$366,856</u>	<u>\$43,559</u>	<u>\$410,415</u>

NOTE 3 – GOVERNING BOARD DESIGNATIONS

Dauphin Island Sea Lab Foundation, Inc.'s governing board has designated, from net assets without donor restrictions of \$2,499,674 and \$2,715,649 as of September 30, 2022, and 2021, respectively, net assets for the following purpose as of September 30:

	2022	2021
Quasi - Endowment	\$2,092,785	\$2,456,320
Total	<u>\$2,092,785</u>	<u>\$2,456,320</u>

Notes to the Financial Statements
Dauphin Island Sea Lab Foundation, Inc.
September 30, 2022

NOTE 4 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

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

	2022	2021
Financial Assets at Year-End	\$3,493,905	\$3,465,022
Less those unavailable for general expenditures within one year, due to:		
Donor Restrictions	787,040	461,319
Endowment	233,883	289,184
Board Designations: Quasi Endowment Fund	2,092,785	2,456,320
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 380,197</u>	<u>\$ 258,199</u>

NOTE 5 – ENDOWMENT

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

Notes to the Financial Statements
Dauphin Island Sea Lab Foundation, Inc.
September 30, 2022

The Board of Trustees of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies net assets with donor restrictions (1) the original value of gifts donated to the endowment, (2) the original value of subsequent gifts to the endowment, and (3) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The Foundation classifies amounts in its donor restricted endowment fund as net assets with donor restrictions until the Board appropriates amounts for expenditure and any purpose restrictions have been met.

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

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.

Notes to the Financial Statements
Dauphin Island Sea Lab Foundation, Inc.
September 30, 2022

Changes in endowment net assets for the year ended September 30, 2022, and 2021, is summarized as follows:

	2022		Total
	Without Donor Restrictions	With Donor Restrictions	
Endowment Net Assets			
Beginning of Year	\$2,456,320	\$289,184	\$2,745,504
Investment Return:			
Investment Income	11,092	762	11,854
Net Appreciation (Realized and Unrealized)	(387,757)	(42,933)	(430,690)
Total Investment Return	(376,665)	(42,171)	(418,836)
Contributions	13,130		13,130
Amounts Appropriated for Expenditure		(13,130)	(13,130)
Total	\$2,092,785	\$233,883	\$2,326,668

	2021		Total
	Without Donor Restrictions	With Donor Restrictions	
Endowment Net Assets			
Beginning of Year	\$2,076,692	\$258,445	\$2,335,137
Investment Return:			
Investment Income	11,461	844	12,305
Net Appreciation (Realized and Unrealized)	355,347	42,715	398,062
Total Investment Return	366,808	43,559	410,367
Contributions	12,820		12,820
Amounts Appropriated for Expenditure		(12,820)	(12,820)
Total	\$2,456,320	\$289,184	\$2,745,504

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Required Supplementary Information

Schedule of the Consortium's Proportionate Share of the Collective Net Pension Liability
For the Year Ended September 30, 2022
(Dollar amounts in thousands)

	2022	2021	2020	2019	2018	2017	2016	2015
Consortium's proportion of the collective net pension liability	0.070326%	0.073444%	0.072430%	0.074816%	0.072610%	0.068555%	0.063946%	0.067073%
Consortium's proportionate share of the collective net pension liability	\$ 6,625	\$ 9,085	\$ 8,009	\$ 7,439	\$ 7,136	\$ 7,422	\$ 6,692	\$ 6,093
Consortium's covered payroll during the measurement period (*)	\$ 5,126	\$ 5,317	\$ 5,305	\$ 5,388	\$ 5,103	\$ 4,759	\$ 4,434	\$ 4,340
Consortium's proportionate share of the collective net pension liability as a percentage of its covered payroll	129.24%	170.87%	150.97%	138.07%	139.84%	155.96%	150.91%	140.40%
Plan fiduciary net position as a percentage of the total collective pension liability	76.44%	67.72%	69.85%	72.29%	71.50%	67.93%	67.51%	71.01%

(*) Employer's covered payroll during the measurement period is the total covered payroll (See GASB Statement Number 82). For fiscal year 2022, the measurement period is October 1, 2020 through September 30, 2021.

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

Schedule of the Consortium's Contributions - Pension
For the Year Ended September 30, 2022
(Dollar amounts in thousands)

	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contribution	\$ 672	\$ 616	\$ 633	\$ 629	\$ 601	\$ 564	\$ 515	\$ 457
Contributions in relation to the contractually required contribution	\$ 672	\$ 616	\$ 633	\$ 629	\$ 601	\$ 564	\$ 515	\$ 457
Contribution deficiency (excess)	\$	\$	\$	\$	\$	\$	\$	\$
Consortium's covered payroll	\$ 5,844	\$ 5,126	\$ 5,317	\$ 5,305	\$ 5,388	\$ 5,103	\$ 4,759	\$ 4,434
Contributions as a percentage of covered payroll	11.50%	12.02%	11.91%	11.86%	11.15%	11.05%	10.83%	10.32%

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

Schedule of the Consortium's Proportionate Share of the Collective Net Other Postemployment Benefits (OPEB) Liability
Alabama Retired Education Employees' Health Care Trust
For the Year Ended September 30, 2022
(Dollar amounts in thousands)

	2022	2021	2020	2019	2018
Consortium's proportion of the collective net OPEB liability	0.062181%	0.064060%	0.075803%	0.071968%	0.067102%
Consortium's proportionate share of the collective net OPEB liability (asset)	\$ 3,213	\$ 4,157	\$ 2,860	\$ 5,915	\$ 4,984
Consortium's covered-employee payroll during the measurement period (*)	\$ 5,126	\$ 5,317	\$ 5,305	\$ 5,388	\$ 5,103
Consortium's proportionate share of the collective net OPEB liability (asset) as a percentage of its covered-employee payroll	62.68%	78.18%	53.91%	109.78%	97.67%
Plan fiduciary net position as a percentage of the total collective OPEB liability	27.11%	19.80%	28.14%	14.81%	15.37%

(*) Employer's covered-employee payroll during the measurement period is the total covered payroll.
For fiscal year 2022, the measurement period is October 1, 2020 through September 30, 2021.

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

Schedule of the Consortium's Contributions - Other Postemployment Benefits (OPEB)
Alabama Retired Education Employees' Health Care Trust
For the Year Ended September 30, 2022
(Dollar amounts in thousands)

	2022	2021	2020	2019	2018
Contractually required contribution	\$ 140	\$ 106	\$ 127	\$ 210	\$ 178
Contributions in relation to the contractually required contribution	\$ 140	\$ 106	\$ 127	\$ 210	\$ 178
Contribution deficiency (excess)	\$	\$	\$	\$	\$
Consortium's covered-employee payroll	\$ 5,174	\$ 5,126	\$ 5,317	\$ 5,305	\$ 5,388
Contributions as a percentage of covered-employee payroll	2.71%	2.07%	2.39%	3.96%	3.30%

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

***Notes to Required Supplementary Information for
Other Postemployment Benefits (OPEB)
For the Year Ended September 30, 2022***

Changes in Actuarial Assumptions

Changes to the actuarial assumptions as a result of the experience study for the five-year period ending June 30, 2020, are summarized below.

Assumption	Description
Price Inflation	2.50%
Investment Return	7.00%
Wage Inflation	2.75%
Mortality Rates (Pre-Retirement, Post-Retirement Healthy and Disabled)	Update to Pub-2010 Public Mortality Plans Mortality Tables. For future mortality improvement, generational mortality improvement scale MP-2020, with an adjustment of 66-2/3% to the table beginning in year 2019.
Retirement Rates	Decreased rates of retirement at most ages and extended retirement rates at age 80.
Withdrawal Rates	Changed from age-based table broken down by service bands to a pure service-based table. Used a liability weighted methodology in analyzing rates.
Disability Rates	Lowered rates of disability retirement at most ages.
Salary Increases	No change to total assumed rates of salary increases, but increased merit salary scale by 0.25% to offset the recommended decrease in the wage inflation assumption by 0.25%

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

Recent Plan Changes

Beginning in plan year 2021, the Medicare Advantage Plan with Prescription Drug Coverage (MAPD) plan premium rates exclude the Affordable Care Act (ACA) Health Insurer Fee which was repealed on December 20, 2019.

Effective January 1, 2017, Medicare eligible medical and prescription drug benefits are provided through the Medicare Advantage Plan with Prescription Drug Coverage (MAPD).

The Health Plan is changed each year to reflect the Affordable Care Act (ACA) maximum annual out-of-pocket amounts.

***Notes to Required Supplementary Information for
Other Postemployment Benefits (OPEB)
For the Year Ended September 30, 2022***

Method and Assumptions Used in Calculations of Actuarially Determined Contributions

The actuarially determined contribution rates in the Schedule of Employer's Contributions - Other Postemployment Benefits (OPEB) were calculated as of September 30, 2018, which is three years prior to the end of the fiscal year in which contributions are reported. The following actuarial methods and assumptions were used to determine the most recent contribution rate reported in that schedule:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percent of Pay
Remaining Amortization Period	23 years, closed
Asset Valuation Method	Market Value of Assets
Inflation	2.75%
Healthcare Cost Trend Rate:	
Pre-Medicare Eligible	6.75%
Medicare Eligible (*)	5.00%
Ultimate Trend Rate:	
Pre-Medicare Eligible	4.75%
Medicare Eligible	4.75%
Year of Ultimate Trend Rate	2026 for Pre-Medicare Eligible 2024 for Medicare Eligible
Optional Plans Trend Rate	2.00%
Investment Rate of Return	5.00%, including inflation
(*) Initial Medicare claims are set based on scheduled increases through plan year 2019.	

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Supplementary Information

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2022***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal Assistance Listing Number	Pass-Through Grantor's Number	Pass-Through to Subrecipient	Total Federal Expenditures
<u>Research and Development Cluster</u>				
<u>U. S. Department of Commerce</u>				
<u>Direct Programs</u>				
Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	11.427		\$ 9,938.32	\$ 157,687.05
Marine Mammal Data Program	11.439			7,957.00
<u>Passed Through Mississippi State University</u>				
NOAA Mission-Related Education Awards	11.008	015901.340580.01		30,460.49
<u>Passed Through University of South Alabama</u>				
Sea Grant Support	11.417	MASTER AGREEMENT 01-13 SHORT FORM 53		233,946.33
Sea Grant Support	11.417	MASTER AGREEMENT 01-13 SHORT FORM 55		90,945.00
<u>Passed Through University of Southern Mississippi</u>				
Sea Grant Support	11.417	8005953-01.01 DISL-R-SFA-23	7,160.75	40,083.78
Sea Grant Support	11.417	USM-8005953-EO-94 DISL		58,795.25
<u>Passed Through Woods Hole Oceanographic Institution</u>				
Sea Grant Support	11.417	C119844		63.78
Sub-Total Sea Grant Support			7,160.75	423,834.14
<u>Passed Through Mississippi State University</u>				
National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes	11.432	191001.361472.02	87,492.06	89,604.06
<u>Passed Through University of South Alabama</u>				
Gulf Coast Ecosystem Restoration Science, Observation, Monitoring and Technology	11.451	MASTER AGREEMENT 01-13 SHORT FORM 44		217,888.37
<u>Passed Through Gulf States Marine Fisheries Commission</u>				
Unallied Management Projects	11.454	ACQ-210-039-2022-DISL	4,510.74	6,486.44
<u>U. S. Department of Defense</u>				
<u>Direct Program</u>				
Basic and Applied Scientific Research	12.300		\$	\$ 141,886.80

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2022***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal Assistance Listing Number	Pass-Through Grantor's Number	Pass-Through to Subrecipient	Total Federal Expenditures
<u>U. S. Department of the Interior</u>				
<u>Direct Program</u>				
Prescott Marine Mammal Rescue Assistance	15.683		\$	\$ 61,455.01
<u>Passed Through Alabama Department of Conservation and Natural Resources</u>				
GoMESA	15.435	GMSN2017		40,030.87
<u>U. S. Department of the Treasury</u>				
<u>Passed Through Alabama Department of Conservation and Natural Resources</u>				
Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States	21.015	B5COEADMIN	137,787.27	1,072,422.65
<u>National Science Foundation</u>				
<u>Direct Programs</u>				
Integrative Activities	47.083			15,303.92
Geosciences	47.050		19,275.48	452,188.64
<u>Passed Through Florida Gulf Coast University</u>				
Geosciences	47.050	17056-NSF-DISL-01		62,044.51
Sub-Total Geosciences			19,275.48	514,233.15
<u>Passed Through University of South Alabama</u>				
Office of International Science and Engineering	47.079	A17-0170-S004		161,050.10
<u>U. S. Department of Health and Human Services</u>				
<u>Direct Program</u>				
Food and Drug Administration Research	93.103			997,889.74
Total Research and Development Cluster			\$ 266,164.62	\$ 3,938,189.79

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2022***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal Assistance Listing Number	Pass-Through Grantor's Number	Pass-Through to Subrecipient	Total Federal Expenditures
<u>Other Federal Awards</u>				
<u>U. S. Department of Commerce</u>				
<u>Passed Through National Marine Sanctuary Foundation (NMSF)</u>				
Ocean Exploration	11.011	21-09-B-402	\$	\$ 3,000.00
Ocean Exploration	11.011	22-02-B-425		3,000.00
Sub-Total Ocean Exploration				6,000.00
<u>Passed Through Texas A&M University</u>				
Integrated Ocean Observing System (IOOS)	11.012	02-S160278		1,017.12
<u>Passed Through Alabama Department of Conservation and Natural Resources</u>				
Coastal Zone Management Administration Awards	11.419	DISL-CZM-306-21-3		24,885.08
Environmental Sciences, Applications, Data, and Education	11.440	STRANDING RESPONSE 2010-2014		28,661.69
<u>Passed Through The Nature Conservancy</u>				
Habitat Conservation	11.463	SA111621_A107343_1		19,986.92
Office for Coastal Management	11.473	SA102519_A105364		48,350.61
<u>General Services Administration</u>				
<u>Passed Through Alabama Department of Economic and Community Affairs</u>				
Donation of Federal Surplus Personal Property	39.003	N.A.	23.34	23.34
<u>National Aeronautics and Space Administration</u>				
<u>Passed Through University of South Alabama</u>				
Science	43.001	MASTER AGREEMENT 01-13 SHORT FORM 51		7,637.07
<u>Environmental Protection Agency</u>				
<u>Direct Programs</u>				
Gulf Coast Ecosystem Restoration Council Comprehensive Plan Component	66.130		78,642.02	201,806.44
National Estuary Program	66.456			762,505.59
<u>Passed Through Alabama Department of Environmental Management</u>				
Nonpoint Source Implementation Grants	66.460	C90593044	\$ 166,439.61	\$ 166,439.61

***Schedule of Expenditures of Federal Awards
For the Year Ended September 30, 2022***

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal Assistance Listing Number	Pass-Through Grantor's Number	Pass-Through to Subrecipient	Total Federal Expenditures
<u>Passed Through The Nature Conservancy</u>				
Gulf of Mexico Program	66.475	AL-SA-081122-A107960-02	\$	\$ 63.82
<u>Passed Through University of South Alabama</u>				
Gulf of Mexico Program	66.475	MASTER AGREEMENT 01-13 SHORT FORM 54		4,835.98
<u>Passed Through Tampa Bay Estuary Program</u>				
Gulf of Mexico Program	66.475	TRASH FREE WATERS		7,486.93
Sub-Total Gulf of Mexico Program				<u>12,386.73</u>
<u>Passed Through Alabama Department of Environmental Management</u>				
Performance Partnership Grants	66.605	C00594049		1,941.77
Performance Partnership Grants	66.605	C10595028		201,119.47
Sub-Total Performance Partnership Grants				<u>203,061.24</u>
<u>U. S. Department of Gulf Coast Ecosystem Restoration Council</u>				
<u>Passed Through Alabama Department of Conservation and Natural Resources</u>				
Gulf Coast Ecosystem Restoration Council Comprehensive Plan Component Program	87.051	B2F1-NEPWS/18/MBNEP	392,411.86	661,434.83
Gulf Coast Ecosystem Restoration Council Comprehensive Plan Component Program	87.051	B2F1-CLSM	209,367.05	466,791.70
Gulf Coast Ecosystem Restoration Council Comprehensive Plan Component Program	87.051	B2F1-SAV/18/DISL		54,895.81
Sub-Total Gulf Coast Ecosystem Restoration Council Comprehensive Plan Component Program			<u>601,778.91</u>	<u>1,183,122.34</u>
Total Other Federal Awards			<u>846,883.88</u>	<u>2,665,883.78</u>
Total Expenditures of Federal Awards			<u>\$ 1,113,048.50</u>	<u>\$ 6,604,073.57</u>

N.A. = Not Available/Not Applicable

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

***Notes to the Schedule of Expenditures
of Federal Awards
For the Year Ended September 30, 2022***

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, 2022. 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*.

Additional Information

Board Members and Officials
October 1, 2021 through September 30, 2022

Board Members		Term Expires
Jo Bonner, Chairman	President, University of South Alabama	Indefinite
Dr. John Smith, Chairman	Interim President, University of South Alabama	December 2021
Dr. Daniel K. Wims	President, Alabama A & M University	Indefinite
Dr. Andrew Hugine, Jr.	President, Alabama A & M University	December 2021
Dr. Quinton T. Ross	President, Alabama State University	Indefinite
Dr. Phillip Way	President, Athens State University	Indefinite
Dr. Christopher Roberts	President, Auburn University	Indefinite
Dr. Jay Gogue	President, Auburn University	May 2022
Dr. Carl Stockton	Chancellor, Auburn University at Montgomery	Indefinite
Daniel Coleman, MBA	President, Birmingham Southern College	Indefinite
Rev. John Cameron West	President, Huntingdon College	Indefinite
Dr. Don C. Killingsworth, Jr.	President, Jacksonville State University	Indefinite
Dr. Beck Taylor	President, Samford University	Indefinite
Dr. E. Joseph Lee, II	President, Spring Hill College	Indefinite
Dr. Cynthia Warwick	President, Stillman College	Indefinite
Dr. Gregory J. Vincent	President, Talladega College	Indefinite

Board Members and Officials
October 1, 2021 through September 30, 2022

Board Members		Term Expires
Dr. Lisa Long	Acting President, Talladega College	May 2022
Dr. Jack Hawkins, Jr.	Chancellor, Troy University	Indefinite
Dr. Charlotte P. Morris	President, Tuskegee University	Indefinite
Dr. Stuart Bell	President, University of Alabama	Indefinite
Dr. Ray Watts	President, University of Alabama at Birmingham	Indefinite
Dr. Charles L. Karr	Interim President, University of Alabama at Huntsville	Indefinite
Dr. Darren Dawson	President, University of Alabama at Huntsville	December 2021
Dr. Lonnie Burnett	President, University of Mobile	Indefinite
Dr. John W. Stewart, III	President, University of Montevallo	Indefinite
Dr. Kenneth D. Kitts	President, University of North Alabama	Indefinite
Dr. Ken Tucker	President, University of West Alabama	Indefinite

Officials

Dr. John F. Valentine, Board Secretary	Executive Director
David England	Deputy Director

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

Independent Auditor's Report

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in ***Government Auditing Standards***, issued by the Comptroller General of the United States (***Government Auditing Standards***), the financial statements of Marine Environmental Sciences Consortium, a component unit of the State of Alabama, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the Marine Environmental Sciences Consortium's basic financial statements, and have issued our report thereon dated June 2, 2023. 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 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***.

Report on Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Marine Environmental Sciences Consortium's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under ***Government Auditing Standards***. We noted a certain matter that we have reported to the management of the Marine Environmental Sciences Consortium in the Schedule of State Compliance and Other Findings.

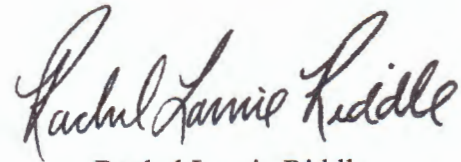
Marine Environmental Sciences Consortium's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the Marine Environmental Sciences Consortium's response to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. The Marine Environmental Sciences Consortium's response to the finding identified in our audit is described in the accompanying Auditee Response/Corrective Action Plan. The Marine Environmental Sciences Consortium's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

***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***

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 2, 2023

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

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the Marine Environmental Sciences Consortium's, a component unit of the State of Alabama, compliance with the types of compliance requirements identified as subject to audit 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, 2022. The Marine Environmental Sciences Consortium's major federal programs are identified in the Summary of Examiner's Results Section of the accompanying Schedule of Findings and Questioned Costs. The financial statements of Dauphin Island Sea Lab Foundation, Inc. were not audited in accordance with the *Uniform Guidance*, accordingly, this report does not extend to Dauphin Island Sea Lab Foundation, Inc.

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, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in ***Government Auditing Standards*** issued by the Comptroller General of the United States (***Government Auditing Standards***); and the audit requirements of Title 2 U. S. ***Code of Federal Regulations*** Part 200, ***Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*** (*Uniform Guidance*). Our responsibilities under those standards and the *Uniform Guidance* are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

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

We are required to be independent of Marine Environmental Sciences Consortium and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Marine Environmental Sciences Consortium's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to Marine Environmental Sciences Consortium's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Marine Environmental Sciences Consortium's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, ***Government Auditing Standards***, and the *Uniform Guidance* will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Marine Environmental Sciences Consortium's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, ***Government Auditing Standards***, and the *Uniform Guidance*, we

- ◆ exercise professional judgment and maintain professional skepticism throughout the audit.
- ◆ identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Marine Environmental Sciences Consortium's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

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

- ◆ obtain an understanding of Marine Environmental Sciences Consortium’s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Marine Environmental Sciences Consortium’s internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with the *Uniform Guidance* and which is described in the accompanying Schedule of Findings and Questioned Costs as Finding 2022-002. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on Marine Environmental Sciences Consortium’s response to the noncompliance finding identified in our compliance audit described in the accompanying Schedule of Findings and Questioned Costs. The Marine Environmental Sciences Consortium’s response to the noncompliance finding identified in our audit is described in the accompanying Auditee Response/Corrective Action Plan. The Marine Environmental Sciences Consortium’s response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

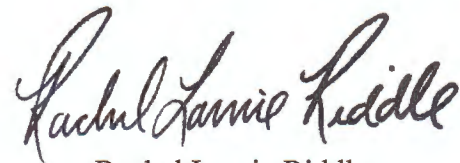
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Our consideration of the internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 2, 2023

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2022

Section I – Summary of Examiner's Results

Financial Statements

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

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified?

_____ Yes X None reported

Noncompliance material to financial statements noted?

_____ Yes X No

Federal Awards

Internal control over major federal programs:

Material weakness(es) identified?

_____ Yes X No

Significant deficiency(ies) identified?

_____ Yes X None reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with

2 CFR 200.516(a) of the *Uniform Guidance*?

 X Yes _____ No

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2022

Section I – Summary of Examiner's Results

Identification of major federal programs:

Assistance Listing Numbers	Name of Federal Program or Cluster
66.605	Performance Partnership Grants
	<u>Research and Development Cluster</u>
11.008	NOAA Mission-Related Education Awards
11.417	Sea Grant Support
11.427	Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program
11.432	National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes
11.439	Marine Mammal Data Program
11.451	Gulf Coast Ecosystem Restoration Science, Observation, Monitoring, and Technology
11.454	Unallied Management Projects
12.300	Basic and Applied Scientific Research
15.435	GoMESA
15.683	Prescott Marine Mammal Rescue Assistance
21.015	Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States
47.050	Geosciences
47.079	Office of International Science and Engineering
47.083	Integrative Activities
93.103	Food and Drug Administration Research

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

\$750,000.00

Auditee qualified as low-risk auditee?

_____ Yes X No

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2022

Section II – Financial Statement Findings (GAGAS)

No matters were reportable.

Section III – Federal Awards Findings and Questioned Costs

Reference Number:	2022-002
Compliance Requirement:	Cash Management
Type of Finding:	Compliance
Internal Control Impact:	None
Compliance Impact:	Nonmaterial Noncompliance
	<u>Research and Development Cluster</u>
AL Number and Title:	11.008 – NOAA Mission-Related Education Awards
Federal Awarding Agency:	U. S. Department of Commerce
Federal Award Number:	NA20SEC0080010
Pass-through Entity:	Mississippi State University
Pass-through Award Number:	015901.340580.01
AL Number and Title:	11.417 - Sea Grant Support
Federal Awarding Agency:	U. S. Department of Commerce
Federal Award Number:	NA20OAR4170494
Pass-through Entity:	University of South Alabama
Pass-through Award Number:	MASTER AGREEMENT 01-13 SHORT FORM 53
AL Number and Title:	11.417 - Sea Grant Support
Federal Awarding Agency:	U. S. Department of Commerce
Federal Award Number:	NA22OAR4170090
Pass-through Entity:	University of South Alabama
Pass-through Award Number:	MASTER AGREEMENT 01-13 SHORT FORM 55
AL Number and Title:	11.417 - Sea Grant Support
Federal Awarding Agency:	U. S. Department of Commerce
Federal Award Number:	NA18OAR4170080
Pass-through Entity:	University of Southern Mississippi
Pass-through Award Number:	USM-8005953-EO-94 DISL, 8005953-01.01 DISL-R-SFA-23

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2022

Section III – Federal Awards Findings and Questioned Costs

AL Number and Title: 11.417 - Sea Grant Support
Federal Awarding Agency: U. S. Department of Commerce
Federal Award Number: None
Pass-through Entity: Woods Hole Oceanographic Institution
Pass-through Award Number: C119844

AL Number and Title: 11.427 - Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program
Federal Awarding Agency: U. S. Department of Commerce
Federal Award Number: NA20NMF4270193
Pass-through Entity: None
Pass-through Award Number: None

AL Number and Title: 11.432 - National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes
Federal Awarding Agency: U. S. Department of Commerce
Federal Award Number: NA21OAR4320190
Pass-through Entity: Mississippi State University
Pass-through Award Number: 191001.361472.02

AL Number and Title: 11.439 - Marine Mammal Data Program
Federal Awarding Agency: U. S. Department of Commerce
Federal Award Number: NA22NMF4390273
Pass-through Entity: None
Pass-through Award Number: None

AL Number and Title: 11.451 - Gulf Coast Ecosystem Restoration Science, Observation, Monitoring, and Technology
Federal Awarding Agency: U. S. Department of Commerce
Federal Award Number: NA19NOS4510194
Pass-through Entity: University of South Alabama
Pass-through Award Number: MASTER AGREEMENT 01-13 SHORT FORM 44

AL Number and Title: 11.454 - Unallied Management Projects
Federal Awarding Agency: U. S. Department of Commerce
Federal Award Number: NA20NMF4540293
Pass-through Entity: Gulf States Marine Fisheries Commission
Pass-through Award Number: ACQ-210-039-2022-DISL

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2022

Section III – Federal Awards Findings and Questioned Costs

AL Number and Title: 12.300 - Basic and Applied Scientific Research
Federal Awarding Agency: U. S. Department of Defense
Federal Award Number: N00014-20-1-2377, N00014-21-1-2214
Pass-through Entity: None
Pass-through Award Number: None

AL Number and Title: 15.435 - GoMESA
Federal Awarding Agency: U. S. Department of the Interior
Federal Award Number: None
Pass-through Entity: Alabama Department of Conservation and Natural Resources
Pass-through Award Number: GMSN2017

AL Number and Title: 15.683 - Prescott Marine Mammal Rescue Assistance
Federal Awarding Agency: U. S. Department of the Interior
Federal Award Number: F20AP11129-01, F21AP03656-00
Pass-through Entity: None
Pass-through Award Number: None

AL Number and Title: 21.015 - Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States
Federal Awarding Agency: U. S. Department of the Treasury
Federal Award Number: RCEGR010006-01-00
Pass-through Entity: Alabama Department of Conservation and Natural Resources
Pass-through Award Number: B5COEADMIN

AL Number and Title: 47.050 - Geosciences
Federal Awarding Agency: National Science Foundation
Federal Award Number: 1838618, 1844910, 1924585, 1948441, 2150347, 2205278
Pass-through Entity: None
Pass-through Award Number: None

AL Number and Title: 47.050 - Geosciences
Federal Awarding Agency: National Science Foundation
Federal Award Number: 1841811
Pass-through Entity: Florida Gulf Coast University
Pass-through Award Number: 17056-NSF-DISL-01

Schedule of Findings and Questioned Costs
For the Year Ended September 30, 2022

Section III – Federal Awards Findings and Questioned Costs

AL Number and Title: 47.079 - Office of International Sciences and Engineering
Federal Awarding Agency: National Science Foundation
Federal Award Number: 1743802
Pass-through Entity: University of South Alabama
Pass-through Award Number: A17-0170-S004

AL Number and Title: 47.083 - Office of Integrative Activities
Federal Awarding Agency: National Science Foundation
Federal Award Number: 1833053
Pass-through Entity: None
Pass-through Award Number: None

AL Number and Title: 93.103 – Food and Drug Administration Research
Federal Awarding Agency: Department of Health and Human Resources
Federal Award Number: 3U19FD005923-06S1, 2U19FD005923-06
Pass-through Entity: None
Pass-through Award Number: None

Questioned Costs: \$127,110.16

The Consortium did not minimize the time elapsing between the transfer of funds and the disbursement of those funds and, as a result, did not comply with cash management requirements for the Food and Drug Administration Research Program (ALN 93.103).

Finding

Title 2 of the *Code of Federal Regulations*, Section 200.305(b) states, "For non-Federal entities other than states, payments methods must minimize the time elapsing between the transfer of funds from the United States Treasury or the pass-through entity and the disbursement by the non-Federal entity whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means."

Schedule of Findings and Questioned Costs

For the Year Ended September 30, 2022

During a review of the general ledger, it was noted that Assistance Listing Number (ALN) 93.103, Food and Drug Administration Research, which is part of the Research and Development Cluster, had an unearned revenue balance at year-end. Upon inquiry and investigation, it was discovered that the Consortium drew more funds than had been expended during the year. The error was made due to the Consortium using the wrong report when determining the amount of funds to draw. The improper draw resulted in the Consortium having excess cash for most of the year. The amount of excess cash varied throughout the year due to subsequent expenses and drawdowns, and at September 30, 2022, the Consortium had \$127,110.16 remaining in excess cash from the overdraw. As a result, the Consortium did not minimize the time elapsing between the transfer of funds and the disbursement of those funds and, as a result, did not comply with cash management requirements.

Recommendation

The Consortium should ensure that draw downs of Federal funds are properly supported and should comply with Title 2 of the *Code of Federal Regulations*, Section 200.305(b) by minimizing the time elapsing between the transfer of funds from the grantor and the expense of those funds.

Views of Responsible Officials of the Auditee

Management agrees with this finding and will take corrective action.

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Auditee Response/Corrective Action Plan

Response/Corrective Action Plan
For the Year Ended September 30, 2022

As required by the *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, 2 CFR 200.511(c), Marine Environmental Sciences Consortium prepared and hereby submits the following Corrective Action Plan for the findings included in section three of the Schedule of Findings and Questioned Costs for the year ended September 30, 2022.

Section III – Federal Awards Findings and Questioned Costs

Reference Number:	2022-002
Compliance Requirement:	Cash Management
Type of Finding:	Compliance
Internal Control Impact:	None
Compliance Impact:	Nonmaterial Noncompliance <u>Research and Development Cluster</u>
AL Number and Title:	11.008 – NOAA Mission-Related Education Awards
Federal Awarding Agency:	U.S. Department of Commerce
Federal Award Number:	NA20SEC0080010
Pass-through Entity:	Mississippi State University
Pass-through Award Number:	015901.340580.01
AL Number and Title:	11.417 - Sea Grant Support
Federal Awarding Agency:	U.S. Department of Commerce
Federal Award Number:	NA20OAR4170494
Pass-through Entity:	University of South Alabama
Pass-through Award Number:	MASTER AGREEMENT 01-13 SHORT FORM 53
AL Number and Title:	11.417 - Sea Grant Support
Federal Awarding Agency:	U.S. Department of Commerce
Federal Award Number:	NA22OAR4170090
Pass-through Entity:	University of South Alabama
Pass-through Award Number:	MASTER AGREEMENT 01-13 SHORT FORM 55
AL Number and Title:	11.417 - Sea Grant Support
Federal Awarding Agency:	U.S. Department of Commerce
Federal Award Number:	NA18OAR4170080
Pass-through Entity:	University of Southern Mississippi
Pass-through Award Number:	USM-8005953-EO-94, 8005953-01.01 DISL-R-SFA-23

AL Number and Title: 11.417 - Sea Grant Support
Federal Awarding Agency: U.S. Department of Commerce
Federal Award Number: None
Pass-through Entity: Woods Hole Oceanographic Institution
Pass-through Award Number: C119844

AL Number and Title: 11.427 - Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program
Federal Awarding Agency: U.S. Department of Commerce
Federal Award Number: NA20NMF4270193
Pass-through Entity: None
Pass-through Award Number: None

AL Number and Title: 11.432 - National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes
Federal Awarding Agency: U.S. Department of Commerce
Federal Award Number: NA21OAR4320190
Pass-through Entity: Mississippi State University
Pass-through Award Number: 191001.361472.02

AL Number and Title: 11.439 - Marine Mammal Data Program
Federal Awarding Agency: U.S. Department of Commerce
Federal Award Number: NA22NMF4390273
Pass-through Entity: None
Pass-through Award Number: None

AL Number and Title: 11.451 - Gulf Coast Ecosystem Restoration Science, Observation, Monitoring, and Technology
Federal Awarding Agency: U.S. Department of Commerce
Federal Award Number: NA19NOS4510194
Pass-through Entity: University of South Alabama
Pass-through Award Number: MASTER AGREEMENT 01-13 SHORT FORM 44

AL Number and Title: 11.454 - Unallied Management Projects
Federal Awarding Agency: U.S. Department of Commerce
Federal Award Number: NA20NMF4540293
Pass-through Entity: Gulf States Marine Fisheries Commission
Pass-through Award Number: ACQ-210-039-2022-DISL

AL Number and Title: 12.300 - Basic and Applied Scientific Research
Federal Awarding Agency: U.S. Department of Defense
Federal Award Number: N00014-20-1-2377, N00014-21-1-2214
Pass-through Entity: None
Pass-through Award Number: None

AL Number and Title: 15.435 - GoMESA
Federal Awarding Agency: U.S. Department of the Interior
Federal Award Number: None
Pass-through Entity: Alabama Department of Conservation and Natural Resources
Pass-through Award Number: GMSN2017

AL Number and Title: 15.683 - Prescott Marine Mammal Rescue Assistance
Federal Awarding Agency: U.S. Department of the Interior
Federal Award Number: F20AP11129-01, F21AP03656-00
Pass-through Entity: None
Pass-through Award Number: None

AL Number and Title: 21.015 - Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States
Federal Awarding Agency: U.S. Department of the Treasury
Federal Award Number: RCEGR010006-01-00
Pass-through Entity: Alabama Department of Conservation and Natural Resources
Pass-through Award Number: B5COEADMIN

AL Number and Title: 47.050 - Geosciences
Federal Awarding Agency: National Science Foundation
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Pass-through Entity: None
Pass-through Award Number: None

AL Number and Title: 47.050 - Geosciences
Federal Awarding Agency: National Science Foundation
Federal Award Number: 1841811
Pass-through Entity: Florida Gulf Coast University
Pass-through Award Number: 17056-NSF-DISL-01

AL Number and Title: 47.079 - Office of International Sciences and Engineering
Federal Awarding Agency: National Science Foundation
Federal Award Number: 1743802
Pass-through Entity: University of South Alabama
Pass-through Award Number: A17-0170-S004

AL Number and Title: 47.083 - Office of Integrative Activities
Federal Awarding Agency: National Science Foundation
Federal Award Number: 1833053
Pass-through Entity: None
Pass-through Award Number: None

AL Number and Title: 93.103 – Food and Drug Administration Research
Federal Awarding Agency: Department of Health and Human Resources
Federal Award Number: 3U19FD005923-06S1, 2U19FD005923-06
Pass-through Entity: None
Pass-through Award Number: None

Questioned Costs: \$127,110.16

The Consortium did not minimize the time elapsing between the transfer of funds and the disbursement of those funds and, as a result, did not comply with cash management requirements.

Finding

Title 2 of the *Code of Federal Regulations* Section 200.305(b) states, " For non-Federal entities other than states, payments methods must minimize the time elapsing between the transfer of funds from the United States Treasury or the pass-through entity and the disbursement by the non-Federal entity whether the payment is made by electronic funds transfer, or issuance or redemption of checks, warrants, or payment by other means."

During a review of the general ledger, it was noted that Assistance Listing Number (ALN) 93.103, Food and Drug Administration Research, which is part of the Research and Development Cluster, had an unearned revenue balance at year-end. Upon inquiry and investigation, it was discovered that the Consortium drew more funds than had been expended during the year. The error was made due to the Consortium using the wrong report when determining the amount of funds to draw. The improper draw resulted in the Consortium having excess cash for most of the year. The amount of excess cash varied throughout the year due to subsequent expenses and drawdowns, and at September 30, 2022, the Consortium had \$127,110.16 remaining in excess cash from the overdraw. As a result, the Consortium did not minimize the time elapsing between the transfer of funds and the disbursement of those funds and, as a result, did not comply with cash management requirements.

Recommendation

The Consortium should ensure that draw downs of Federal funds are properly supported and should comply with Title 2 of the *Code of Federal Regulations* Section 200.305(b) by minimizing the time elapsing between the transfer of funds from the grantor and the expense of those funds.

Views of Responsible Officials of the Auditee

Management agrees with this finding and will take corrective action.

Corrective Action Plan

The Deputy Director or Comptroller will verify and initial the amounts before drawn via ACH by the Grants and Contracts Manager. This will ensure that funds are drawn in a timely manner and are not in excess of expenditures.

Anticipated Completion Date:

This policy is effective May 15, 2023.

Contact Person(s):

David A. England, Deputy Director
Sherry Horton, Grants & Contracts Manager

Schedule of State Compliance and Other Findings ***For the Year Ended September 30, 2022***

Finding 2022-001:

The *Code of Alabama 1975*, Section 31-13-9(b), states, "As a condition for the award of any contract, grant, or incentive by the state, any political subdivision thereof, or any state-funded entity to a business entity or employer that employs one or more employees within the State of Alabama, the business entity or employer shall provide documentation establishing that the business entity or employer is enrolled in the E-Verify program. During the performance of the contract, the business entity or employer shall participate in the E-Verify program and shall verify every employee that is required to be verified according to the applicable federal rules and regulations."

During the test of bid requirements, three bids were reviewed to determine compliance with the Law's E-Verify enrollment requirement. Due to a lack of policies and procedures that ensure vendors awarded contracts through the bid process were enrolled in the E-Verify program, two of the three bids were awarded without obtaining the required E-Verify documentation. As a result, the Consortium may have awarded contracts to entities that were not enrolled in the E-Verify program.

Recommendation:

The Consortium should implement policies and procedures to ensure compliance with the *Code of Alabama 1975*, Section 31-13-9(b), by obtaining documentation that entities awarded contracts are enrolled in the E-Verify program.

Views of Responsible Officials of the Auditee

Management agrees with this finding and will take corrective action.

Corrective Action Plan

E-verify documentation is required to be included with all responses to a bid solicitation. If the document is not included with the bid submission the submission will be considered incomplete and will be disqualified from consideration.

Anticipated Completion Date:

This policy is effective May 15, 2023.

Contact Person(s):

David A. England, Deputy Director
Daphne Wood, Purchasing Agent

A handwritten signature in blue ink that reads "John F. Valentine". The signature is written in a cursive style and is centered within a light blue rectangular background.

Dr. John F. Valentine
Marine Environmental Sciences Consortium