

Mote Marine Laboratory, Inc.

Financial Statements,
Supplemental Information,
Contract Compliance and
Independent Auditor's Report
September 30, 2018 and 2017

Contents

	Page
Independent Auditor's Report	i
Financial Statements	
Statements of Financial Position	2
Statement of Activities 2018	3
Statement of Activities 2017	4
Statements of Cash Flows.....	5
Statement of Functional Expenses 2018.....	6
Statement of Functional Expenses 2017	7
Notes to Financial Statements	8
Supplemental Information	
Schedule of Expenditures of Federal Awards and State Financial Assistance.....	22
Contract Compliance	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	23
Report on Compliance for Each Major Federal Program and State Project; and Report on Internal Control over Compliance Required by the Uniform Guidance and Chapter 10.650, <i>Rules of the Auditor General</i> of the State of Florida	24
Schedule of Findings and Questioned Costs	25

Independent Auditor's Report

The Board of Trustees
Mote Marine Laboratory, Inc.
Sarasota, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of Mote Marine Laboratory, Inc. (Laboratory), a nonprofit organization, which comprise the statements of financial position as of September 30, 2018 and 2017, and the related statements of activities and cash flows, and statements of functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Mote Marine Laboratory, Inc. as of September 30, 2018 and 2017, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of Mote Marine Laboratory, Inc. as a whole. The accompanying Schedule of Expenditures of Federal Awards and State Financial Assistance, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and Chapter 10.650, *Rules of the Auditor General*, is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of the Laboratory's management and was derived from and relates directly to the underlying accounting and other records used to prepare the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United State of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2019 on our consideration of Mote Marine Laboratory, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Mote Marine Laboratory, Inc.'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 Mote Marine Laboratory, Inc.'s internal control over financial reporting and compliance.



Sarasota, Florida
March 25, 2019

Mote Marine Laboratory, Inc.

Statements of Financial Position

September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Assets		
Cash and cash equivalents	\$ 8,083,928	\$ 8,020,622
Accounts receivable	1,355,180	2,059,062
Pledges receivable	589,626	1,591,173
Due from Mote Marine Foundation, Inc.	186,191	279,918
Inventory	11,023	121,242
Prepaid expenses and other assets	138,760	120,080
Donated assets held for sale	41,300	37,110
Investments - certificates of deposit	595,000	-
Patents, net	103,896	95,696
Investment in deferred compensation plan	553,016	602,734
Land	7,498,190	7,498,190
Property and equipment, net	17,945,040	19,627,418
Construction in progress	284,344	36,460
Beneficial interest in the net assets of Mote Marine Foundation, Inc.	<u>16,830,569</u>	<u>16,208,829</u>
Total Assets	<u>\$ 54,216,063</u>	<u>\$ 56,298,534</u>
Liabilities and Net Assets		
Liabilities:		
Accounts payable	\$ 628,849	\$ 566,649
Accrued payroll	912,441	895,938
Memberships relating to future periods	763,985	732,854
Funds advanced on research programs	6,173,693	7,053,345
Deferred compensation payable	553,016	602,734
Lines of credit	1,569,602	3,846,601
Notes payable	<u>9,122,280</u>	<u>7,316,306</u>
Total liabilities	<u>19,723,866</u>	<u>21,014,427</u>
Net Assets:		
Unrestricted	13,007,676	14,026,483
Temporarily restricted	10,828,733	10,638,374
Permanently restricted	<u>10,655,788</u>	<u>10,619,250</u>
Total net assets	<u>34,492,197</u>	<u>35,284,107</u>
Total Liabilities and Net Assets	<u>\$ 54,216,063</u>	<u>\$ 56,298,534</u>

See accompanying notes to the financial statements.

Mote Marine Laboratory, Inc.

Statement of Activities
Year Ended September 30, 2018
(With Summarized Totals for 2017)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>2017 Total</u>
Support, Revenue and Reclassifications					
Program revenue:					
Research revenue:					
Federal	\$ 1,324,679	\$ -	\$ -	\$ 1,324,679	\$ 1,377,567
State	2,433,030	-	-	2,433,030	2,471,601
Other	4,897,705	-	-	4,897,705	4,383,213
Aquarium:					
Admission fees	4,205,945	-	-	4,205,945	3,701,751
Gift shop	1,105,414	-	-	1,105,414	1,035,227
Other	622,947	-	-	622,947	516,607
Memberships	998,989	-	-	998,989	960,630
Education	994,943	-	-	994,943	869,956
Protect Our Reefs-License Plate	877,114	-	-	877,114	948,473
Other programs	486,909	-	-	486,909	772,270
Contributions:					
Construction	-	144,510	-	144,510	2,135,000
Aquarium	-	49,229	-	49,229	79,364
Other programs	1,826,643	39,960	-	1,866,603	2,177,055
Non-cash contributions	569,383	414,332	-	983,715	526,461
Grants from Mote Marine Foundation, Inc.	735,060	-	-	735,060	935,582
Investment income	11,272	1,291	-	12,563	6,691
Unrealized gain on investments, net	-	851	-	851	1,731
Realized gain (loss) on investments, net	(3,981)	-	-	(3,981)	1,869
Realized gain (loss) on disposal of assets	(71,200)	-	-	(71,200)	1,700
Change in beneficial interest in the net assets of Mote Marine Foundation, Inc.	-	585,202	36,538	621,740	1,034,620
Net assets released from restrictions	1,045,016	(1,045,016)	-	-	-
Total support, revenue and reclassifications	<u>22,059,868</u>	<u>190,359</u>	<u>36,538</u>	<u>22,286,765</u>	<u>23,937,368</u>
Expenses:					
Program services:					
Research	10,995,854	-	-	10,995,854	10,516,108
Education	1,171,955	-	-	1,171,955	1,174,488
Aquarium	4,598,035	-	-	4,598,035	4,259,257
Protect Our Reefs-License Plate	789,352	-	-	789,352	939,575
MAP facility operations	550,964	-	-	550,964	889,657
Other	591,589	-	-	591,589	845,332
Supporting services:					
Administrative and general	2,627,002	-	-	2,627,002	2,480,302
Fundraising	1,753,924	-	-	1,753,924	1,686,780
Total expenses	<u>23,078,675</u>	<u>-</u>	<u>-</u>	<u>23,078,675</u>	<u>22,791,499</u>
Change in net assets	<u>(1,018,807)</u>	<u>190,359</u>	<u>36,538</u>	<u>(791,910)</u>	<u>1,145,869</u>
Net assets at beginning of year	<u>14,026,483</u>	<u>10,638,374</u>	<u>10,619,250</u>	<u>35,284,107</u>	<u>34,138,238</u>
Net assets at end of year	<u>\$ 13,007,676</u>	<u>\$ 10,828,733</u>	<u>\$ 10,655,788</u>	<u>\$ 34,492,197</u>	<u>\$ 35,284,107</u>

See accompanying notes to the financial statements.

Mote Marine Laboratory, Inc.

Statement of Activities

Year Ended September 30, 2017

(With Summarized Totals for 2018)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>2018 Total</u>
Support, Revenue and Reclassifications					
Program revenue:					
Research revenue:					
Federal	\$ 1,377,567	\$ -	\$ -	\$ 1,377,567	\$ 1,324,679
State	2,471,601	-	-	2,471,601	2,433,030
Other	4,383,213	-	-	4,383,213	4,897,705
Aquarium:					
Admission fees	3,701,751	-	-	3,701,751	4,205,945
Gift shop	1,035,227	-	-	1,035,227	1,105,414
Other	516,607	-	-	516,607	622,947
Memberships	960,630	-	-	960,630	998,989
Education	869,956	-	-	869,956	994,943
Protect Our Reefs-License Plate	948,473	-	-	948,473	877,114
Other programs	772,270	-	-	772,270	486,909
Contributions:					
Construction	-	2,135,000	-	2,135,000	144,510
Aquarium	-	79,364	-	79,364	49,229
Other programs	1,810,660	366,395	-	2,177,055	1,866,603
Non-cash contributions	526,461	-	-	526,461	983,715
Grants from Mote Marine Foundation, Inc.	935,582	-	-	935,582	735,060
Investment income	5,594	1,097	-	6,691	12,563
Unrealized gain on investments, net	-	1,731	-	1,731	851
Realized gain (loss) on investments, net	1,869	-	-	1,869	(3,981)
Realized gain (loss) on disposal of assets	1,700	-	-	1,700	(71,200)
Change in beneficial interest in the net assets of Mote Marine Foundation, Inc.	-	920,299	114,321	1,034,620	621,740
Net assets released from restrictions	1,745,002	(1,745,002)	-	-	-
Total support, revenue and reclassifications	<u>22,064,163</u>	<u>1,758,884</u>	<u>114,321</u>	<u>23,937,368</u>	<u>22,286,765</u>
Expenses:					
Program services:					
Research	10,516,108	-	-	10,516,108	10,995,854
Education	1,174,488	-	-	1,174,488	1,171,955
Aquarium	4,259,257	-	-	4,259,257	4,598,035
Protect Our Reefs-License Plate	939,575	-	-	939,575	789,352
MAP facility operations	889,657	-	-	889,657	550,964
Other	845,332	-	-	845,332	591,589
Supporting services:					
Administrative and general	2,480,302	-	-	2,480,302	2,627,002
Fundraising	1,686,780	-	-	1,686,780	1,753,924
Total expenses	<u>22,791,499</u>	<u>-</u>	<u>-</u>	<u>22,791,499</u>	<u>23,078,675</u>
Change in net assets	<u>(727,336)</u>	<u>1,758,884</u>	<u>114,321</u>	<u>1,145,869</u>	<u>(791,910)</u>
Net assets at beginning of year	<u>14,753,819</u>	<u>8,879,490</u>	<u>10,504,929</u>	<u>34,138,238</u>	<u>35,284,107</u>
Net assets at end of year	<u>\$ 14,026,483</u>	<u>\$ 10,638,374</u>	<u>\$ 10,619,250</u>	<u>\$ 35,284,107</u>	<u>\$ 34,492,197</u>

See accompanying notes to the financial statements.

Mote Marine Laboratory, Inc.
Statements of Cash Flows
Years Ended September 30, 2018 and 2017

	2018	2017
Cash Flows from Operating Activities:		
Change in net assets	\$ (791,910)	\$ 1,145,869
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,861,013	2,686,361
Realized (gain) loss on disposal of assets	71,200	(1,700)
Unrealized / realized (gain) loss on investments, net	3,130	(3,600)
Change in beneficial interest in the net assets of Mote Marine Foundation, Inc.	(621,740)	(1,034,620)
Non-cash contributions	(965,586)	(690,640)
Proceeds from donated assets held for sale	956,965	690,490
Change in operating assets:		
Accounts receivable	703,882	(159,256)
Pledges receivable	1,001,547	954,752
Due from Mote Marine Foundation, Inc.	93,727	(286,829)
Inventory	110,219	(20,504)
Prepaid expenses and other assets	(17,829)	(33,130)
Change in operating liabilities:		
Accounts payable	62,200	(128,568)
Accrued payroll	16,503	80,333
Memberships relating to future periods	31,131	1,367
Funds advanced on research programs	(879,652)	278,990
Total adjustments	<u>3,426,710</u>	<u>2,333,446</u>
Net cash provided by operating activities	<u>2,634,800</u>	<u>3,479,315</u>
Cash Flows from Investing Activities:		
Purchases of property and equipment	(1,426,040)	(6,879,249)
Proceeds from sale of property and equipment	25,500	11,250
Purchase of certificates of deposit	(595,000)	-
Patent costs	(27,192)	(5,786)
Net cash used in investing activities	<u>(2,022,732)</u>	<u>(6,873,785)</u>
Cash Flows from Financing Activities:		
Net change in lines of credit	(101,999)	(102,000)
Proceeds from notes payable	30,001	3,801,956
Repayments of notes payable	(476,764)	(280,032)
Net cash provided by (used in) financing activities	<u>(548,762)</u>	<u>3,419,924</u>
Net change in cash and cash equivalents	63,306	25,454
Cash and cash equivalents, beginning of year	8,020,622	7,995,168
Cash and cash equivalents, end of year	<u>\$ 8,083,928</u>	<u>\$ 8,020,622</u>
Cash and cash equivalents, end of year, consist of the following:		
Cash	8,045,007	7,394,225
Restricted cash	38,921	626,397
	<u>\$ 8,083,928</u>	<u>\$ 8,020,622</u>
Supplemental Disclosure of Non-Cash:		
Investing and Financing Activity:		
Cash paid for interest	\$ 226,086	\$ 190,122
Non-cash donations of property and equipment	\$ 6,000	\$ 8,500
Property and equipment purchased through financing	\$ 77,737	\$ -
Line of credit satisfied with note payable	\$ 2,175,000	\$ -

See accompanying notes to the financial statements.

Mote Marine Laboratory, Inc.

Statement of Functional Expenses

Year Ended September 30, 2018

(With Summarized Totals for 2017)

	Program Services				
	Research	Education	Aquarium	Protect our Reefs License Plate	MAP Facility Operations
Salaries and benefits	\$ 5,439,976	\$ 690,575	\$ 2,246,231	\$ 246,123	\$ 40,347
Contracted services	871,796	217,565	320,257	63,942	190
Depreciation	-	-	286,523	-	368,027
Repairs and maintenance	229,423	21,086	551,820	101,329	53,862
Travel, meals and seminars	347,927	54,790	53,534	6,436	-
Research supplies	468,039	7,677	-	12,146	-
Merchandise	-	-	472,873	-	-
Office expense	79,954	26,382	217,257	25,816	2,219
Electricity	25,002	-	179,845	26,365	79,890
Insurance	16,423	4,649	45,102	32,835	33,969
Telephone	25,842	6,393	16,107	13,971	3,679
Promotion and advertising	155,279	58,841	59,442	36,166	-
Expendable supplies	-	10,933	17,674	-	-
Printing and publication	17,878	7,174	5,965	3,822	-
Vessel	4,410	-	-	-	-
Vehicle	1,887	1,004	1,093	10	259
Interest	134,179	-	5,199	8,097	-
Accounting and legal	4,348	-	-	150	14,131
Equipment rental	21,540	2,028	7,936	9,342	732
Library	-	-	-	-	-
Licenses and fees	42,808	3,288	5,768	2,257	20,322
Rent	30,569	9,008	-	-	-
Miscellaneous	1,918	-	-	-	-
	<u>7,919,198</u>	<u>1,121,393</u>	<u>4,492,626</u>	<u>588,807</u>	<u>617,627</u>
Overhead allocation	2,872,314	19,181	1,138	196,123	(64,872)
Rental use charges allocation:					
Vessel, vehicle and equipment	204,342	31,381	104,271	4,422	(1,791)
Total Expenses	<u>\$ 10,995,854</u>	<u>\$ 1,171,955</u>	<u>\$ 4,598,035</u>	<u>\$ 789,352</u>	<u>\$ 550,964</u>

Percent of Total

	Supporting Services				2018 Functional Expenses	2017 Functional Expenses
	Other	Total	Administrative and General	Fund Raising		
\$ 193,091	\$ 8,856,343	\$ 2,184,248	\$ 939,463	\$ 3,123,711	\$ 11,980,054	\$ 11,884,143
219,833	1,693,583	111,741	242,050	353,791	2,047,374	1,960,429
-	654,550	2,187,471	-	2,187,471	2,842,021	2,671,667
59,612	1,017,132	381,744	22,724	404,468	1,421,600	1,365,233
19,916	482,603	47,087	192,417	239,504	722,107	788,408
246	488,108	-	-	-	488,108	612,957
-	472,873	-	-	-	472,873	428,115
29,157	380,785	113,265	75,444	188,709	569,494	564,306
49,956	361,058	262,378	-	262,378	623,436	685,715
49,743	182,721	197,315	-	197,315	380,036	393,902
4,020	70,012	33,580	3,209	36,789	106,801	110,243
16,077	325,805	6,347	142,525	148,872	474,677	377,301
-	28,607	5,908	-	5,908	34,515	36,563
2,962	37,801	4,971	65,555	70,526	108,327	112,261
41,015	45,425	660	242	902	46,327	37,779
19,786	24,039	14,621	-	14,621	38,660	45,006
38,043	185,518	40,568	-	40,568	226,086	190,122
12,695	31,324	53,186	-	53,186	84,510	138,644
6,209	47,787	31,744	52,611	84,355	132,142	99,137
-	-	30,871	-	30,871	30,871	32,525
778	75,221	29,849	7,463	37,312	112,533	111,067
500	40,077	-	-	-	40,077	95,992
75,035	76,953	19,093	-	19,093	96,046	49,984
838,674	15,578,325	5,756,647	1,743,703	7,500,350	23,078,675	22,791,499
(79,617)	2,944,267	(2,944,267)	-	(2,944,267)	-	-
(167,468)	175,157	(185,378)	10,221	(175,157)	-	-
\$ 591,589	\$ 18,697,749	\$ 2,627,002	\$ 1,753,924	\$ 4,380,926	\$ 23,078,675	\$ 22,791,499
	81%	11%	8%		100%	

See accompanying notes to the financial statements.

Mote Marine Laboratory, Inc.

Statement of Functional Expenses

Year Ended September 30, 2017

(With Summarized Totals for 2018)

	Program Services				
	<u>Research</u>	<u>Education</u>	<u>Aquarium</u>	<u>Protect our Reefs License Plate</u>	<u>MAP Facility Operations</u>
Salaries and benefits	\$ 5,199,036	\$ 680,553	\$ 2,241,502	\$ 315,159	\$ 132,094
Contracted services	909,014	218,497	124,669	135,251	9,903
Depreciation	-	-	267,889	-	382,917
Repairs and maintenance	247,703	15,578	526,946	54,365	68,640
Travel, meals and seminars	319,044	112,600	27,310	13,816	35.00
Research supplies	533,910	1,568	-	17,357	30,981
Merchandise	-	-	428,115	-	-
Office expense	99,769	21,696	212,898	27,695	3,286
Electricity	23,077	-	210,531	25,182	157,730
Insurance	14,559	-	41,268	50,897	43,914
Telephone	30,753	5,397	17,137	10,501	5,429
Promotion and advertising	114,268	43,572	41,985	42,829	-
Expendable supplies	-	14,206	18,824	-	-
Printing and publication	14,989	4,625	3,641	10,492	-
Vessel	2,817	380.00	-	48	-
Vehicle	5,630	190	1,327	150	-
Interest	107,550	-	4,691	8,255	-
Accounting and legal	-	-	-	-	76,903
Equipment rental	5,928	1,674	11,796	5,826	2,089
Library	45.00	-	-	-	-
Licenses and fees	10,475	3,521	11,361	2,699	37,639
Rent	34,079	9,625	-	23,200	-
Miscellaneous	-	-	-	-	-
	<u>7,672,646</u>	<u>1,133,682</u>	<u>4,191,890</u>	<u>743,722</u>	<u>951,560</u>
Overhead allocation	2,642,702	13,403	3,209.00	187,211	(62,175)
Rental use charges allocation:					
Vessel, vehicle and equipment	200,760	27,403	64,158	8,642	272
Total Expenses	<u>\$ 10,516,108</u>	<u>\$ 1,174,488</u>	<u>\$ 4,259,257</u>	<u>\$ 939,575</u>	<u>\$ 889,657</u>

Percent of Total

	Supporting Services				2017	2018	
	Other	Total	Administrative and General	Fund Raising	Total Functional Expenses	Total Functional Expenses	
\$	390,629	\$ 8,958,973	\$ 2,081,240	\$ 843,930	\$ 2,925,170	\$ 11,884,143	\$ 11,980,054
	169,521	1,566,855	130,358	263,216	393,574	1,960,429	2,047,374
	-	650,806	2,020,861	-	2,020,861	2,671,667	2,842,021
	64,597	977,829	373,494	13,910	387,404	1,365,233	1,421,600
	60,531	533,336	57,240	197,832	255,072	788,408	722,107
	29,141	612,957	-	-	-	612,957	488,108
	-	428,115	-	-	-	428,115	472,873
	24,037	389,381	81,689	93,236	174,925	564,306	569,494
	41,019	457,539	228,176	-	228,176	685,715	623,436
	37,224	187,862	206,040	-	206,040	393,902	380,036
	5,683	74,900	32,317	3,026	35,343	110,243	106,801
	3,312	245,966	4,745	126,590	131,335	377,301	474,677
	-	33,030	3,121.00	412	3,533	36,563	34,515
	1,760	35,507	4,453	72,301	76,754	112,261	108,327
	34,534	37,779	-	-	-	37,779	46,327
	19,317	26,614	18,392	-	18,392	45,006	38,660
	32,473	152,969	37,153	-	37,153	190,122	226,086
	20,383	97,286	41,358	-	41,358	138,644	84,510
	4,208	31,521	35,887	31,729	67,616	99,137	132,142
	-	45	32,480	-	32,480	32,525	30,871
	1,147	66,842	24,501	19,724	44,225	111,067	112,533
	29,088	95,992	-	-	-	95,992	40,077
	25,000	25,000	14,679.00	10,305.00	24,984.00	49,984	96,046
	993,604	15,687,104	5,428,184	1,676,211	7,104,395	22,791,499	23,078,675
	(1,401)	2,782,949	(2,782,949)	-	(2,782,949)	-	-
	(146,871)	154,364	(164,933)	10,569	(154,364)	-	-
\$	<u>845,332</u>	<u>\$ 18,624,417</u>	<u>\$ 2,480,302</u>	<u>\$ 1,686,780</u>	<u>\$ 4,167,082</u>	<u>\$ 22,791,499</u>	<u>\$ 23,078,675</u>
		<u>82%</u>	<u>11%</u>	<u>7%</u>		<u>100%</u>	

See accompanying notes to the financial statements.

Mote Marine Laboratory, Inc.

Notes to Financial Statements

September 30, 2018 and 2017

I. Organization

Mote Marine Laboratory, Inc. (Laboratory), a nonprofit corporation, operates and maintains a marine and environmental sciences laboratory for the encouragement and development of the study of marine sciences and the advancement of the general knowledge of kindred subjects through education, training, scientific research, exchange of scientific information and dissemination of information to the public. The Laboratory began operations in 1955.

2. Summary of Significant Accounting Policies

Financial Statements

The financial statements and notes are representations of the Laboratory's management who is responsible for their integrity and objectivity. The accounting policies conform to accounting principles generally accepted in the United States of America and have been consistently applied in the preparation of the financial statements.

Basis of Accounting

The Laboratory prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates and Assumptions

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates and assumptions.

Internal Borrowings

From time to time, the Laboratory borrows temporarily restricted assets for operating purposes. These borrowings are repaid as other resources become available. There were no borrowings outstanding for the years ended September 30, 2018 and 2017.

Accounts Receivable

Accounts receivable consist primarily of amounts due from program fees and grants receivable. A significant portion of grants receivable are research grants.

Substantially all research grants are cost reimbursement grants. Research grants receivable consists of billed and unbilled costs incurred on research contracts. Due to the nature of the grants, management considers them to be collectible and no allowance has been established. These amounts are included in accounts receivable on the statements of financial position.

Based on the Laboratory's collection history, management believes no allowance for uncollectible amounts is necessary.

Inventory

Inventory is stated at the lower of cost (first-in, first-out) or market (net realizable value).

Mote Marine Laboratory, Inc.
Notes to Financial Statements (Continued)
September 30, 2018 and 2017

2. Summary of Significant Accounting Policies (Continued)

Donated Assets

Donated assets are recorded at fair market value at the date of gift. Donated property and vessels, which are not classified by management for use by the Laboratory, are recorded as assets held for sale. The carrying value of such assets is adjusted to the lower of fair market value or the recorded value at the date of gift in order to more closely reflect the net realizable value.

Bequest Receivable

Bequests are recorded as support when the amount to be received can be reasonably estimated as provided by the executor of the estate.

Pledges Receivable

Pledges are recorded as support when the donor's commitment has been received.

Property and Equipment

Property and equipment are stated at cost, if purchased, or fair market value at the date of gift, if donated.

Depreciation is provided over the estimated useful lives of the assets using the straight-line half-year method. Estimated useful lives are as follows:

	Years
Vehicles	3
Vessels	5
Buildings and improvements	5 - 40
Furniture, fixtures and exhibits	5 - 10
Laboratory equipment	5 - 20
Trailers	5 - 10

The Laboratory capitalizes all fixed asset purchases or donations with an estimated useful life of greater than one year and a cost or fair market value of \$1,000 or greater.

Revenue Recognition

Revenue associated with research grants or contracts is generally recognized as related costs are incurred. Membership revenue is recognized ratably throughout the membership year.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions which are designated by the donor to be used in future periods, or for specific purposes, are recorded as temporarily restricted net assets. When the purpose of the restriction is accomplished, or passage of time has occurred, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Gifts of cash restricted for the purpose of acquiring or constructing long-lived assets are recorded as temporarily restricted net assets until the long-lived assets are acquired or constructed at which time the net assets are released from the restriction and reclassified as unrestricted net assets. Any conditional gifts for which the conditions are not met at year-end are recorded as refundable advances.

Patents

Patents are stated at the cost to acquire. Amortization is provided for using the straight-line method over the estimated useful life of ten years.

Mote Marine Laboratory, Inc.
Notes to Financial Statements (Continued)
September 30, 2018 and 2017

2. Summary of Significant Accounting Policies (Continued)

Donated Services

A substantial number of volunteers have made significant contributions of their time to the operations of the Laboratory. The amount of volunteer hours contributed to the Laboratory during the years ended September 30, 2018 and 2017 were 236,214 and 220,437 hours, respectively. The estimated value of these donated services has not been recorded in the accompanying financial statements because it does not meet the criteria for recognition under generally accepted accounting principles. However, management estimates the fair value of these services contributed to the Laboratory during the years ended September 30, 2018 and 2017 amounted to \$5,832,124 and \$5,321,349, respectively. These estimates are based on an article published in the NonProfit Times that estimates volunteer time to be worth \$24.69 and \$24.14 per hour in 2018 and 2017, respectively, according to the Independent Sector, a Washington D.C. based coalition of nonprofits and foundations.

Advertising and Promotion

Advertising and promotion costs are expensed as incurred. Advertising and promotion expense for the years ended September 30, 2018 and 2017 totaled \$474,677 and \$377,301, respectively.

Income Tax Status

The Laboratory is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Under the Income Taxes topic of the FASB Accounting Standards Codification, the Laboratory has reviewed and evaluated the relevant technical merits of each of its tax positions in accordance with accounting principles generally accepted in the United States of America for accounting for uncertainty in income taxes, and determined that there are no uncertain tax positions that would have a material impact on the financial statements of the Laboratory.

The Laboratory files income tax returns in the U.S. federal jurisdiction and the State of Florida. The tax periods open to examination by the major taxing jurisdictions to which the Laboratory is subject include fiscal years ended December 31, 2015 through September 30, 2018.

Financial Instruments Not Measured at Fair Value

Certain of the Laboratory's financial instruments are not measured at fair value on a recurring basis but nevertheless certain financial instruments are recorded at amounts that approximate fair value due to their liquid or short-term nature. Such financial assets and financial liabilities include cash and cash equivalents, accounts receivable, due from Mote Marine Foundation, Inc., prepaid expenses and other assets, accounts payable, accrued payroll, memberships relating to future periods, deferred compensation payable and funds advanced on research programs.

Overhead Allocation

Overhead is allocated to research programs at a rate established with the cognizant federal agency, The Department of Commerce and National Oceanic and Atmospheric Administration. Certain research contracts limit the amount of reimbursement for overhead expenses to a rate specified in the individual contracts.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services that benefited.

Mote Marine Laboratory, Inc.
Notes to Financial Statements (Continued)
September 30, 2018 and 2017

2. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

Cash on hand and highly liquid investments with a maturity of three months or less at date of acquisition are considered to be cash and cash equivalents. Cash restricted for the endowment and included as cash and cash equivalents in the financial statements amounted to \$38,921 and \$626,397 as of September 30, 2018 and 2017, respectively.

Beneficial Interest in the Net Assets of Mote Marine Foundation, Inc.

The Laboratory follows the *Not-for-Profit Entities* Topic of the FASB Accounting Standards Codification. The *Not-for-Profit Entities* Topic establishes standards for transactions in which a donor makes a contribution to a not-for-profit organization (the recipient) that agrees to transfer those assets to another entity (the beneficiary). The statement requires that, if the specified beneficiary is financially interrelated to the recipient organization, the beneficiary must recognize its interest in the net assets of the recipient organization. As presented in the financial statements, the Laboratory is financially interrelated to Mote Marine Foundation, Inc. and therefore, is required to report its beneficial interest in the net assets of Mote Marine Foundation, Inc.

Recently Adopted Accounting Pronouncements

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-07, *Disclosure for Investments in Certain Entities that Calculate Net Asset Value per Share (or Its Equivalent)*, which amends the disclosure requirements of Accounting Standards Codification Topic 820, *Fair Value Measurements and Disclosures*, for reporting entities that measure the fair value of an investment using the net asset value (NAV) per share (or its equivalent) as a practical expedient. The amendments in ASU 2015-07 remove the requirement to categorize within the fair value hierarchy and make certain disclosure for all investments for which fair value is measured using the NAV per share practical expedient. The Laboratory elected to adopt ASU 2015-07 for its fiscal year ended September 30, 2018, and has applied the amendments retrospectively to the fiscal year ended September 30, 2017. The retrospective application had no effect on the change in net assets previously reported.

3. Pledges Receivable

At September 30, 2018 and 2017, the Laboratory held written unconditional pledges receivable in the amounts of \$589,626 and \$1,591,173, respectively. The pledges have been restricted by the donors for future projects. Management considers all pledges receivable to be fully collectible as of September 30, 2018, therefore no allowance has been established uncollectible pledges against these assets.

Receipt of pledges receivable is scheduled as follows:

2019	\$	301,526
2020		216,200
2021		71,900
	\$	<u>589,626</u>

During the years ended September 30, 2018 and 2017, the Laboratory had \$74,035 and \$0, respectively, of uncollectible pledges due to unforeseen circumstances.

Mote Marine Laboratory, Inc.
Notes to Financial Statements (Continued)
September 30, 2018 and 2017

4. Accounts Receivable

Accounts receivable consists of the following at September 30:

	2018	2017
Costs billed on research grants and other contracts	\$ 800,829	\$ 1,041,088
Unbilled costs incurred on research grants	554,351	1,017,974
	\$ 1,355,180	\$ 2,059,062

During the years ended September 30, 2018 and 2017, the Laboratory had no write-offs of uncollectible accounts receivable.

5. Investments

During 2018, the Laboratory purchased certificates of deposit to maintain a portion of its endowment. The certificates of deposit earn interest at rates ranging from 1.40% to 2.65% and mature in one to five years. As of September 30, 2018, the certificates of deposit totaled \$595,000 and are stated at cost, which approximates fair value.

The Laboratory had realized losses on the sales of investments in the amount of \$3,981 for the year ended September 30, 2018, and realized gains on the sales of investments in the amount of \$1,869 for the year ended September 30, 2017.

Additionally, assets held at a community foundation during the years ended September 30, 2018 and 2017 incurred restricted unrealized gains of \$851 and \$1,731, respectively.

6. Property and Equipment

Property and equipment consists of the following as of September 30:

	2018	2017
Vehicles	\$ 753,203	\$ 764,414
Vessels	1,552,122	1,926,797
Buildings and improvements	42,143,074	41,884,186
Furniture, fixtures and exhibits	7,928,117	7,876,040
Laboratory equipment	8,124,849	7,630,098
Trailers	97,470	97,470
	60,598,835	60,179,005
Less accumulated depreciation	42,653,795	40,551,587
	\$ 17,945,040	\$ 19,627,418

Depreciation expense was \$2,842,021 and \$2,671,667 for the years ended September 30, 2018 and 2017, respectively.

At September 30, 2018, construction in progress totaled \$284,344, which consists of expenditures of \$247,884 for Mote Science Education Aquarium preconstruction and \$36,460 for the connector building west wing addition. At September 30, 2017, construction in progress consisted of expenditures of \$36,460 for the connector building west wing addition.

Mote Marine Laboratory, Inc.
Notes to Financial Statements (Continued)
September 30, 2018 and 2017

6. Property and Equipment (Continued)

In accordance with contract provisions, the Laboratory has segregated and identified property and equipment that has been purchased or improved with funds received from government agencies. Title to these assets acquired with government agency funds vests with the Laboratory as long as the Laboratory has a contract with the agency. Upon contract termination, title to these assets reverts to the agencies. At September 30, 2018 and 2017, property and equipment purchased or improved with funds received from government agencies, net of accumulated depreciation, totaled \$140,422 and \$217,073, respectively.

7. Inventory

Inventory consisted of the following as of September 30:

	2018	2017
Miscellaneous merchandise, stated at cost	\$ <u>11,023</u>	\$ <u>121,242</u>

8. Patents

During the years ended September 30, 2018 and 2017, the Laboratory incurred costs to maintain certain patents. The costs capitalized and the related amortization provided for is as follows:

	2018	2017
Patents	\$ <u>165,521</u>	\$ <u>138,328</u>
Less: accumulated amortization	<u>61,625</u>	<u>42,632</u>
	\$ <u>103,896</u>	\$ <u>95,696</u>

No significant residual value is estimated for these patents. Amortization expense for the years ended September 30, 2018 and 2017 totaled \$18,992 and \$14,694, respectively. The following table represents the total estimated amortization of patents for the five succeeding years and thereafter ending September 30:

Year	Estimated Amortization Expense
2019	\$ 14,290
2020	14,273
2021	13,654
2022	12,851
2023	12,496
Thereafter	29,692

Mote Marine Laboratory, Inc.
Notes to Financial Statements (Continued)
September 30, 2018 and 2017

9. Notes Payable

Notes payable consists of the following as of September 30:

	2018	2017
Note payable in semiannual installments of \$12,500 principal plus accrued interest, at LIBOR plus 2.5% with a 2.85% floor, due in full October 10, 2019, secured by Mote Marine Foundation, Inc.'s investments. Interest rate at September 30, 2018 was 4.63%	\$ 30,050	\$ 55,050
Note payable in 180 monthly installments of \$17,579 plus interest based on overnight LIBOR plus 2.18%, maturing on August 5, 2028 and secured with personal property and pledges and guaranteed by Mote Marine Foundation, Inc. with a \$1,500,000 limitation. Interest rate at September 30, 2018 was 4.35%.	2,513,807	2,724,756
Note payable in 60 monthly installments of \$624, interest at 2.39% due 2021, secured by vehicle.	22,228	29,087
Note payable in 48 monthly installments of \$348, interest at 3.64% due 2022, secured by vehicle.	13,101	-
Note payable in 60 monthly installments of \$665, interest at 2.39% due 2021, secured by vehicle.	23,696	31,008
Note payable in 48 monthly installments of \$382, interest at 3.64% due 2022, secured by vehicle.	14,370	-
Note payable in 60 monthly installments of \$413, interest at 2.39% due 2021, secured by vehicle.	14,693	19,226
Note payable in 60 monthly installments of \$402, interest at 3% secured by vehicle. Note was paid in full in 2018.	-	2,393
Note payable in 60 monthly installments of \$830, interest at 3.83% due 2022, secured by vehicle.	37,524	-
Note payable in 60 monthly installments of \$612, interest at 3.15% due 2019, secured by vehicle.	7,811	14,786
Note payable in 119 monthly installments of \$13,668 plus 4.2% interest, with final payment of \$1,348,395 due on October 1, 2028, secured by mortgage on real property located in Sarasota County	2,205,000	-
Note payable, interest only at 0.5% payable annually, commencing one year from the date of issuance of Certificate of Occupancy. Starting January 17, 2018, a principal reduction payment of \$200,000 per year, with all principal to be due and payable in full ten years from the Loan Repayment commencement date.	4,240,000	4,440,000
	9,122,280	7,316,306
Less current portion	545,449	264,008
Non-current portion	\$ 8,576,831	\$ 7,052,298

Mote Marine Laboratory, Inc.
Notes to Financial Statements (Continued)
September 30, 2018 and 2017

9. Notes Payable (Continued)

Aggregate maturities of long-term debt at September 30 are as follows:

2019	\$	545,449
2020		529,084
2021		527,787
2022		507,013
2023		497,561
Thereafter		6,515,386
	\$	<u>9,122,280</u>

Interest expense incurred under these notes payable totaled \$105,759 and \$91,340 for the years ended September 30, 2018 and 2017, respectively.

10. Lines of Credit

Pursuant to loan agreements with two banks, the Laboratory has a revolving line of credit of \$1,500,000 with each bank. One loan agreement expires on June 14, 2020 and the other is open-ended subject to renewal provisions. Interest on one line of credit is charged at the bank's prime rate less a margin of 1.25% with a 3% floor and is payable monthly. At September 30, 2018 and 2017, borrowings outstanding under this line of credit and secured by pledges and accounts receivable of the Laboratory amounted to \$1,217,102.

Interest on the second revolving line of credit is charged at one month LIBOR plus 1.90% per annum, payable monthly. At September 30, 2018 and 2017, borrowings outstanding under this line of credit and secured by assets of Mote Marine Foundation, Inc. held by the bank amounted to \$167,500 and \$269,500, respectively.

During 2018, the Laboratory paid in full the available line of credit of \$3,014,000 from Mote Scientific Foundation. At September 30, 2017, borrowings outstanding and secured by a lien on a certain estate in real property amounted to \$2,175,000.

The Laboratory also has a line of credit of \$185,000 from Sarasota-Manatee Airport Authority. The loan represents advanced funding for the improvements to the Airport Aquarium and has no expiration date or interest rate and will be repaid with any funds raised associated with the Airport Aquarium. At September 30, 2018 and 2017, borrowings outstanding totaled \$185,000.

The multiple lines of credit outstanding at September 30, 2018 and 2017 totaled \$1,569,602 and \$3,846,601, respectively.

Interest expense incurred under these lines of credit totaled \$120,327 and \$98,782 for the years ended September 30, 2018 and 2017, respectively.

Certain loan agreements described above and in Note 9 require that the Laboratory meet certain debt covenant compliance requirements. As of September 30, 2018, the Laboratory was in full compliance with all requirements.

Mote Marine Laboratory, Inc.
Notes to Financial Statements (Continued)
September 30, 2018 and 2017

11. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes as of September 30:

	<u>2018</u>	<u>2017</u>
Future projects	\$ 989,955	\$ 1,124,321
Construction loan	3,025,360	3,285,837
Library expenses	26,587	26,587
Beneficial interest in net assets of Mote Marine Foundation, Inc.	6,786,831	6,201,629
	<u>\$ 10,828,733</u>	<u>\$ 10,638,374</u>

12. Net Assets Released from Restrictions

Net assets released from donor restriction by incurring expenses satisfying the restricted purposes as of September 30:

	<u>2018</u>	<u>2017</u>
Aquarium expenses	\$ 49,959	\$ 79,626
Library expenses	-	1,619
Other	439,334	460,411
Construction	555,723	1,203,346
	<u>\$ 1,045,016</u>	<u>\$ 1,745,002</u>

13. Permanently Restricted Net Assets

Permanently restricted net assets are restricted to the investment of the original gift in perpetuity, the income from which is expendable to support the Laboratory. Permanently restricted net assets consist of the following as of September 30:

	<u>2018</u>	<u>2017</u>
Cultural endowment	\$ 600,000	\$ 600,000
Keys endowment	12,050	12,050
Beneficial interest in the net assets of Mote Marine Foundation, Inc.	10,043,738	10,007,200
	<u>\$ 10,655,788</u>	<u>\$ 10,619,250</u>

14. Retirement Plan

The Laboratory provides a 403(b) retirement plan. The Laboratory matches employee contributions based on an employee's length of service and gross salary. Retirement plan expense was \$529,472 and \$528,132 for the years ended September 30, 2018 and 2017, respectively.

15. Matching Requirements on Governmental Grants

The Laboratory is awarded grants from federal agencies which require matching contributions by the Laboratory. The matching requirements were met or exceeded on completed federal grants during 2018 and 2017.

16. Rental Use Charges

Periodically, certain programs require utilization of vessels, vehicles and equipment provided by the Laboratory. Each program is charged rent, based on use, at a pre-established rental fee that reflects the cost of operating the asset.

Mote Marine Laboratory, Inc.
Notes to Financial Statements (Continued)
September 30, 2018 and 2017

17. Financial Instruments with Off-Balance Sheet Risk

The Laboratory maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Accounts are guaranteed by the Federal Deposit Insurance Corporation (FDIC) up to certain limits. At any given time, the Laboratory may have cash and investment balances exceeding the insured amount. The Laboratory has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on cash and investments.

18. Related Party Transactions

The Mote Marine Foundation, Inc. (Foundation), a financially interrelated organization, provides support to the Laboratory in the form of grants. For the years ended September 30, 2018 and 2017, the Laboratory received grants from the Foundation in the amount of \$735,060 and \$935,582, respectively.

Mote Marine Foundation, Inc. is dependent on Laboratory personnel for administration and certain aspects of fund raising.

From time to time, the Laboratory will provide grants, receive donations and pay certain expenses on behalf of the Foundation. As of September 30, 2018 and 2017, the Foundation owed the Laboratory \$186,191 and \$279,918, respectively.

Certain trustee members are affiliated with organizations that transact with the Laboratory. Trustee members are required to complete conflict of interest disclosure statements and abstain from voting on related issues.

During the years ended September 30, 2018 and 2017, a trustee donated the use of an aircraft for travel accommodations for employees and trustees. The value of this donation for the years ended September 30, 2018 and 2017 is estimated to be \$18,129 and \$18,804, respectively.

From time to time, the trustees make pledges and contributions to the Laboratory.

19. Leased Facility

The Laboratory has a leasehold agreement with a municipality for real property on which the Laboratory has constructed its facilities. The agreement requires the Laboratory to pay the municipality one dollar per year until the agreement expires in the year 2050. The fair market value of the leasehold agreement is not determinable and therefore has not been recorded in the accompanying financial statements.

20. Endowments

The Laboratory's endowment consists of funds established for several purposes. Its endowment includes donor-restricted endowment 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-imposed restrictions. It is typical to establish all endowment funds in Mote Marine Foundation, Inc.

Interpretation of Relevant Law

The Board of Trustees of the endowment has interpreted the Florida Uniform Prudent Management of Institutional Funds Act (FUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Laboratory classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment and (b) the original value of subsequent gifts to the permanent endowment.

Mote Marine Laboratory, Inc.
Notes to Financial Statements (Continued)
September 30, 2018 and 2017

20. Endowments (Continued)

Endowment Net Asset Composition

As of September 30, 2018, endowment net assets consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 10,733	\$ 612,050	\$ 622,783

As of September 30, 2017, endowment net assets consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 9,268	\$ 612,050	\$ 621,318

Changes in Endowment Net Assets

Changes in endowment net assets for the year ended September 30, 2018 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, October 1, 2017	-	\$ 9,268	\$ 612,050	\$ 621,318
Endowment investment return:	-		-	
Investment income	-	852	-	852
Realized and unrealized gains	-	922	-	922
Total endowment investment return	-	1,774	-	1,774
Appropriation of endowment for expenditures	-	(309)	-	(309)
Endowment net assets, September 30, 2018	\$ -	\$ 10,733	\$ 612,050	\$ 622,783

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, October 1, 2016	-	\$ 7,142	\$ 612,050	\$ 619,192
Endowment investment return:	-		-	
Investment income	-	675	-	675
Realized and unrealized gains	-	1,731	-	1,731
Total endowment investment return	-	2,406	-	2,406
Appropriation of endowment for expenditures	-	(280)	-	(280)
Endowment net assets, September 30, 2017	\$ -	\$ 9,268	\$ 612,050	\$ 621,318

Mote Marine Laboratory, Inc.
Notes to Financial Statements (Continued)
September 30, 2018 and 2017

20. Endowments (Continued)

Return Objectives and Risk Parameters

The Laboratory has adopted investment policies and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Laboratory must hold in perpetuity or for donor-specified periods. Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce a long-term rate of return on assets of to match or exceed the rate of return determined from the sum of the annual distribution percentage, inflation measured by the CPI, and real growth of 1%.

The Cultural Endowment Program has a primary investment constraint to preserve principal along with restrictions on investment instruments so the Laboratory uses an alternative approved investment policy for this program.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Laboratory relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Laboratory targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Laboratory has a policy of appropriating for distribution each year 5% percent of its endowment funds average fair value over the period of 12 quarters through the calendar year end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Laboratory considered the long-term expected return on its endowment. Accordingly, over the long term, the Laboratory expects the current spending policy to allow its endowment to grow at an average of 1% percent annually. This is consistent with the Laboratory's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. The established policy for the Cultural Endowment Program distributes 100% of current income for use in operating costs for cultural activities expecting no further growth in this endowment.

21. Fair Value of Financial Assets and Liabilities

The Laboratory adopted the *Fair Value Measurements and Disclosures* Topic of the FASB Accounting Standards Codification which provides enhanced guidance for using fair value to measure assets and liabilities and clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the assets or liabilities and establishes a hierarchy that prioritizes the information used to develop those assumptions. The Laboratory has adopted Accounting Standards Update No. 2010-06, *Improving Disclosures about Fair Value Measurements*, which requires the Laboratory to present fair value measurements separately for each class of assets and liabilities held as of September 30, 2018 and 2017

The following tables present information about the Laboratory's assets and liabilities that are measured at fair value on a recurring and non-recurring basis as of September 30, 2018 and 2017, and indicate the fair value hierarchy of the valuation techniques used to determine such fair value. The three levels for measuring fair value are based on the reliability of inputs and are as follows:

Mote Marine Laboratory, Inc.
Notes to Financial Statements (Continued)
September 30, 2018 and 2017

21. Fair Value of Financial Assets and Liabilities (Continued)

Level 1 - quoted market prices in active markets for identical assets or liabilities, such as publicly traded equity securities. This level includes common and preferred stock, cash and money market funds, mutual funds, corporate bonds and bond funds, and government obligations.

Level 2 - inputs, other than quoted prices included in Level 1 that are observable, either directly or indirectly. Such inputs may include quoted prices for similar assets, observable inputs other than quoted prices (interest rates, yield curves, etc.), or inputs derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - inputs are unobservable data points for the asset or liability, and include situations where there is little, if any, market activity for the asset or liability. The inputs reflect the Laboratory's assumptions based on the best information available in the circumstance.

The following sets forth the fair value hierarchy by level for the Laboratory's assets measured at fair value on a recurring basis as of September 30, 2018:

Description	Total	Level 1	Level 2	Level 3	NAV*
Beneficial interest in the net assets of Mote Marine Foundation, Inc.	\$ 16,520,931	\$ 14,093,808	\$ 2,226,072	\$ -	\$ 201,051

The following sets forth the fair value hierarchy by level for the Laboratory's assets measured at fair value on a non-recurring basis as of September 30, 2018:

Description	Total	Level 1	Level 2	Level 3	NAV*
Beneficial interest in the net assets of Mote Marine Foundation, Inc.	\$ 309,638	\$ -	\$ -	\$ 309,638	\$ -
Pledges receivable	589,626	-	-	589,626	-
Ending balance	\$ 899,264	\$ -	\$ -	\$ 899,264	\$ -

The following sets forth the fair value hierarchy by level for the Laboratory's assets measured at fair value on a recurring basis as of September 30, 2017:

Description	Total	Level 1	Level 2	Level 3	NAV*
Beneficial interest in the net assets of Mote Marine Foundation, Inc.	\$ 15,602,672	\$ 13,157,740	\$ 2,162,026	\$ -	\$ 282,906

Mote Marine Laboratory, Inc.
Notes to Financial Statements (Continued)
September 30, 2018 and 2017

21. Fair Value of Financial Assets and Liabilities (Continued)

The following sets forth the fair value hierarchy by level for the Laboratory's assets measured at fair value on a non-recurring basis as of September 30, 2017:

Description	Total	Level 1	Level 2	Level 3	NAV*
Beneficial interest in the net assets of Mote Marine Foundation, Inc.	\$ 606,157	\$ -	\$ -	\$ 606,157	\$ -
Pledges receivable	1,591,173	-	-	1,591,173	-
Ending balance	<u>\$ 2,197,330</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,197,330</u>	<u>\$ -</u>

(*)Certain investments of Mote Marine Foundation, Inc. that are measured at fair value using the net asset value (NAV) per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in the tables above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statements of financial position.

22. Reclassifications

To facilitate comparison of financial data, certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 reporting presentation. Such reclassifications had no effect on the change in net assets previously reported.

23. Subsequent Events

The Laboratory has evaluated all events subsequent to the statement of financial position date of September 30, 2018 and through the date these financial statements were available to be issued, March 25, 2019, and have determined that there are no subsequent events that require disclosure.

Supplemental Information

Mote Marine Laboratory, Inc.
Schedule of Expenditures of Federal Awards and
State Financial Assistance
Year Ended September 30, 2018

Grantor	CFDA# or CSFA#	Pass-through Entity Identification or Grant Number	Total Expenditures		Transfer to Subrecipients
Federal Contracts and Grants					
<u>RESEARCH AND DEVELOPMENT CLUSTER</u>					
Department of Commerce					
National Oceanic and Atmospheric Administration (NOAA)					
Ocean Exploration	11.011	NA180AR0110291	\$ 213	\$ 213	\$ -
Integrated Ocean Observing System (IOOS)					
Passed through Texas A&M University	11.012	NA16NOS0120018	50,418	50,418	-
Sea Grant Support					
Passed through University of Florida	11.417	NA14OAR4170108	20,973		
Passed through University of Florida	11.417	NA16OAR4170257	146,885	167,858	-
Fisheries Development and Utilization Research and Development Grants and Cooperative Agreements Program	11.427	NA16NMF4270225	8,875		
	11.427	NA18NMF4270201	2,675	11,550	2,188
National Oceanic and Atmospheric Administration (NOAA) Cooperative Institutes					
Passed through Research Foundation CUNY	11.432	NA14NES4320003	32,112	32,112	-
Marine Fisheries Initiative	11.433	NA15NMF4330152	55,009	55,009	39,389
Marine Mammal Data Program					
	11.439	NA12NMF4390138	14,505		
	11.439	NA14NMF4390207	6,538		
	11.439	NA15NMF4390044	3,150		
	11.439	NA16NMF4390135	18,287		
	11.439	NA17NMF4390089	32,349	74,829	-
Unallied Management Projects					
	11.454	NA16NMF4540083	135,464		
	11.454	NA16NMF4540085	79,859		
Passed through National Fish and Wildlife Foundation	11.454	NA16NMF4540289	63,790	279,113	136,653
Unallied Science Program					
	11.472	NA16NMF4720283	51,147		
Passed through Florida Fish & Wildlife Conservation Commission	11.472	NA15NMF4720018	66,001	117,148	106,025
Coral Reef Conservation Program	11.482	NA16NOS4820058	12,899	12,899	-
Environmental Protection Agency					
Office of Water					
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act	66.436	00D03812	11,775		
Passed through Florida Fish & Wildlife Conservation Commission	66.436	X7-00D51817	5,914	17,689	-
National Science Foundation					
Geosciences					
	47.050	1452538	97,640		
	47.050	1460800	39,618		
	47.050	OCE-1712240	10,961		
	47.050	OCE-1757419	93,449	241,668	-
National Aeronautics and Space Administration					
Science					
Passed through Texas A&M University	43.001	NMX15AN76G	75,274	75,274	-

Mote Marine Laboratory, Inc.
Schedule of Expenditures of Federal Awards and
State Financial Assistance (Continued)
Year Ended September 30, 2018

<u>Grantor</u>	<u>CFDA# or CSFA#</u>	<u>Grant Number</u>	<u>Total Expenditures</u>		<u>Transfer to Subrecipients</u>
Federal Contracts and Grants (Continued)					
Department of the Interior Fish and Wildlife Service State Wildlife Grants Passed through Florida Fish & Wildlife Conservation Commission	15.634	FL-T-F-16AD00528	20,369		
Passed through The Nature Conservancy	15.634	FL-T-F-15AF00517	4,249	24,618	-
Department of Treasury Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States Passed through the University of South Florida	21.015	FLRACEP-20167-01	31,320	31,320	-
Department of State General Department of State Assistance	19.700	SIS-70017G33038	117,629	117,629	107,314
Total Federal Contracts and Grants			\$ 1,309,347	\$ 391,569	
State Contracts and Grants					
State of Florida Florida Fish & Wildlife Conservation Commission Cooperative Red Tide Research Program - Reduction of Harmful Impacts from Red Tide	77.010	15003	752,235	752,235	-
Marine Fisheries Assessment	77.023	16024	303,014	303,014	-
Department of Highway Safety & Motor Vehicles Protect Our Reefs License Plate Project	76.069	POR	877,114	877,114	47,750
Sea Turtle License Plate Project	76.070	17-037C	14,285	14,285	-
Save Our Seas License Plate Project	76.085	Tag 000009	11,397	11,397	-
Florida Department of State and Secretary of State General Program Support (Cultural and Museum Grants)	45.061	18.c.ps.170.256	45,736	45,736	-
Total State Contracts and Grants			\$ 2,003,781	\$ 47,750	
Total Federal and State Contracts and Grants			\$ 3,313,128	\$ 439,319	

Basis of presentation

The accompanying schedule of expenditures of federal awards includes the federal and state granting activity of Mote Marine Laboratory, Inc., and is presented on the Generally Accepted Accounting Principles basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance) and Chapter 10.650, Rules of the Auditor General. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

Indirect Cost Election

Mote Marine Laboratory, Inc. has not elected to use the 10% de minimis cost rate as covered in 2 CFR section 200.414 and has a federally negotiated rate with their cognizant agency.

Contract Compliance

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

The Board of Trustees
Mote Marine Laboratory, Inc.
Sarasota, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and Chapter 10.650, *Rules of the Auditor General*, the financial statements of Mote Marine Laboratory Inc. (Laboratory), which comprise the statement of financial position as of September 30, 2018, and the related statement of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 25, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Laboratory's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Laboratory's internal control. Accordingly, we do not express an opinion on the effectiveness of the Laboratory'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 a 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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Laboratory's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in black ink that reads "Kerbering Barkins & Co." The signature is written in a cursive style with a large, stylized initial 'K'.

Sarasota, Florida
March 25, 2019

Report on Compliance for Each Major Federal Program and State Project; and Report on Internal Control over Compliance Required by the Uniform Guidance and Chapter 10.650, Rules of the Auditor General of the State of Florida

Independent Auditor's Report

The Board of Trustees
Mote Marine Laboratory, Inc.
Sarasota, Florida

Report on Compliance for Each Major Federal Program and State Financial Assistance Project

We have audited Mote Marine Laboratory, Inc.'s (Laboratory) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the requirements described in the State of Florida Department of Financial Services Statements Projects Compliance Supplement that could have a direct and material effect on each of the Laboratory's major federal programs and state financial assistance projects for the year ended September 30, 2018. The Laboratory's major federal programs and state financial assistance projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal and state awards applicable to its federal programs and state financial assistance projects.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Laboratory's major federal programs and state financial assistance projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and Chapter 10.650, *Rules of the Auditor General*. Those standards, and the Uniform Guidance and Chapter 10.650, *Rules of the Auditor General* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program and state financial assistance project occurred. An audit includes examining, on a test basis, evidence about the Laboratory's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program and state financial assistance project. However, our audit does not provide a legal determination of the Laboratory's compliance.

Opinion on Each Major Federal Program and State Financial Assistance Project

In our opinion, the Laboratory complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs and state financial assistance projects for the year ended September 30, 2018.

Report on Internal Control Over Compliance

Management of the Laboratory is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Laboratory's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program and state financial assistance project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and state financial assistance project and to test and report on internal control over compliance in accordance with the Uniform Guidance and Chapter 10.650 *Rules of the Auditor General*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Laboratory's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance and the Chapter 10.650, *Rules of the Auditor General*. Accordingly, this report is not suitable for any other purpose.



Sarasota, Florida
March 25, 2019

Mote Marine Laboratory, Inc.
Schedule of Findings and Questioned Costs
Year Ended September 30, 2018

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Noncompliance material to financial statements noted?

yes no

Federal and State Awards

Internal control over major programs and projects:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes none reported

Type of auditors' report issued on compliance for major programs and projects: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a) and the provisions of the Florida Single Audit Act in accordance with Chapter 10.650 of the Rules of the Auditor General

yes no

Mote Marine Laboratory, Inc.
Schedule of Findings and Questioned Costs (Continued)
Year Ended September 30, 2018

Section I - Summary of Auditor's Results (Continued)

Identification of major programs and projects:

CFDA Numbers	Name of Federal Program or Cluster
	Research and Development Cluster:
11.011	Ocean Exploration
11.012	Integrated Ocean Observing System (IOOS)
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
11.433	Marine Fisheries Initiative
11.439	Marine Mammal Data Program
11.454	Unallied Management Projects
11.472	Unallied Science Program
11.482	Coral Reef Conservation Program
66.436	Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements – Section 104(b)(3) of the Clean Water Act
47.050	Geosciences
43.001	Science
15.634	State Wildlife Grants
21.015	Resources and Ecosystems Sustainability, Tourist Opportunities, and Revived Economies of the Gulf Coast States
19.700	General Department of State Assistance

Mote Marine Laboratory, Inc.
Schedule of Findings and Questioned Costs (Continued)
Year Ended September 30, 2018

Section I - Summary of Auditor's Results (Continued)

CSFA Numbers

77.010

77.023

Name of State Projects

Cooperative Red Tide Research Program

Marine Fisheries Assessment

Dollar threshold used to distinguish between type A and type B Federal programs: \$ 750,000

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

Auditee qualified as low-risk auditee? yes no

Section II - Financial Statement Findings

None

Section III - Federal and State Award Findings and Questioned Costs

None

Section IV - Summary Schedule of Prior Audit Findings and Questioned Costs

No prior audit findings or questioned costs to be addressed

Section V - Other

No management letter is required because there were no findings to be reported in a management letter as required by Section 215.97 (9)(f) and 215.97 (10)(d) of the Florida Statutes, Auditor General Rule 10.654 (1)(e) or 10.656 (3)(e).