

Mote Marine Laboratory, Inc.

Financial Statements,
Supplemental Information,
Contract Compliance and
Independent Auditor's Report
September 30, 2016



Kerkering, Barberio & Co.
Certified Public Accountants

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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 statement of financial position as of September 30, 2016, and the related statement of activities and cash flows, and statement of functional expenses for the nine months 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 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 reasonable 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 Laboratory as of September 30, 2016, and the changes in net assets and its cash flows for the nine months 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. taken 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 13, 2017 on our consideration of Mote Marine Laboratory, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Mote Marine Laboratory, Inc.'s internal control over financial reporting and compliance.



Sarasota, Florida
March 13, 2017

Mote Marine Laboratory, Inc.

Statement of Financial Position

September 30, 2016

Assets:

Cash and cash equivalents	\$ 7,995,168
Accounts receivable	1,899,806
Pledges receivable	2,545,925
Inventory	100,738
Prepaid expenses and other assets	86,950
Donated assets held for sale	45,610
Patents, net	102,404
Investment in deferred compensation plan	585,964
Land	7,498,190
Property and equipment, net	13,517,548
Construction in progress	1,938,248
Beneficial interest in the net assets of Mote Marine Foundation, Inc.	<u>15,174,210</u>
Total Assets	\$ <u>51,490,761</u>

Liabilities and Net Assets:

Accounts payable	\$ 695,217
Due to Mote Marine Foundation, Inc.	6,911
Accrued payroll	815,605
Memberships relating to future periods	731,487
Funds advanced on research programs	6,774,355
Deferred compensation payable	585,964
Lines of credit	3,948,601
Notes payable	<u>3,794,383</u>
Total Liabilities	<u>17,352,523</u>

Net Assets :

Unrestricted	14,753,819
Temporarily restricted	8,879,490
Permanently restricted	<u>10,504,929</u>
Total Net Assets	<u>34,138,238</u>

Total Liabilities and Net Assets	\$ <u>51,490,761</u>
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See accompanying notes to the financial statements.

Mote Marine Laboratory, Inc.
Statement of Activities
Nine Months Ended September 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support, Revenue and Reclassifications				
Program revenue:				
Research revenue:				
Federal	\$ 922,051	\$ -	\$ -	\$ 922,051
State	1,776,706	-	-	1,776,706
Other	2,936,917	-	-	2,936,917
Aquarium:				
Admission fees	3,026,707	-	-	3,026,707
Gift shop	888,752	-	-	888,752
Other	321,807	-	-	321,807
Memberships	702,718	-	-	702,718
Education	661,662	-	-	661,662
Protect Our Reefs-License Plate	752,988	-	-	752,988
Other programs	479,862	-	-	479,862
Contributions:				
Construction	-	279,171	-	279,171
Aquarium	-	90,332	-	90,332
Other programs	1,283,804	189,081	-	1,472,885
Non-cash contributions	93,140	-	-	93,140
Grants from Mote Marine Foundation, Inc.	382,827	-	-	382,827
Investment income	6,408	419	-	6,827
Unrealized gain on investments, net	-	1,346	-	1,346
Realized loss on investments, net	(16,956)	-	-	(16,956)
Realized gain (loss) on disposal of assets	(7,345)	4,000	-	(3,345)
Change in beneficial interest in the net assets of Mote Marine Foundation, Inc.	-	566,807	138,798	705,605
Net assets released from restrictions	<u>2,014,674</u>	<u>(2,014,674)</u>	<u>-</u>	<u>-</u>
Total support, revenue and reclassifications	<u>16,226,722</u>	<u>(883,518)</u>	<u>138,798</u>	<u>15,482,002</u>
Expenses:				
Program services:				
Research	7,830,641	-	-	7,830,641
Education	933,091	-	-	933,091
Aquarium	3,129,748	-	-	3,129,748
Protect Our Reefs-License Plate	686,000	-	-	686,000
MAP facility operations	524,594	-	-	524,594
Other	408,647	-	-	408,647
Supporting services:				
Administrative and general	1,821,042	-	-	1,821,042
Fundraising	1,070,392	-	-	1,070,392
Total expenses	<u>16,404,155</u>	<u>-</u>	<u>-</u>	<u>16,404,155</u>
Change in net assets before equity losses in subsidiary and minority interest	(177,433)	(883,518)	138,798	(922,153)
Loss on sale of subsidiary	(1,300,000)	-	-	(1,300,000)
Change in net assets	<u>(1,477,433)</u>	<u>(883,518)</u>	<u>138,798</u>	<u>(2,222,153)</u>
Net assets at beginning of year	<u>16,231,252</u>	<u>9,763,008</u>	<u>10,366,131</u>	<u>36,360,391</u>
Net assets at end of year	<u>\$ 14,753,819</u>	<u>\$ 8,879,490</u>	<u>\$ 10,504,929</u>	<u>\$ 34,138,238</u>

See accompanying notes to the financial statements.

Mote Marine Laboratory, Inc.
Statement of Cash Flows
Nine Months Ended September 30, 2016

Cash Flows from Operating Activities:	
Change in net assets	\$ <u>(2,222,153)</u>
Adjustments to reconcile change in net assets provided by operating activities	
Depreciation and amortization	1,811,178
Due from MESI	1,300,000
Realized loss on disposal of assets	3,345
Unrealized / realized loss on investments, net	15,610
Change in beneficial interest in the net assets of Mote Marine Foundation, Inc.	(705,605)
Non-cash contributions	(319,008)
Change in operating assets	
Accounts receivable	(741,938)
Due from Mote Marine Foundation, Inc.	340,591
Bequest receivable	190,553
Pledges receivable	555,996
Inventory	27,902
Prepaid expenses and other assets	(53,517)
Change in operating liabilities:	
Accounts payable	277,668
Accrued payroll	226,371
Due to Mote Marine Laboratory, Inc.	(6,911)
Memberships relating to future periods	29,484
Funds advanced on research programs	(15,215)
Total adjustments	<u>2,936,504</u>
Net cash provided by operating activities	<u>714,351</u>
Cash Flows from Investing Activities:	
Purchases of property and equipment	(2,570,380)
Proceeds from sale of property and equipment	14,100
Patent costs	(10,694)
Proceeds from donated assets held for sale	347,848
Net cash used in investing activities	<u>(2,219,126)</u>
Cash Flows from Financing Activities:	
Net change in lines of credit	(76,500)
Proceeds from notes payable	734,116
Repayments of notes payable	(301,650)
Net cash provided by in financing activities	<u>355,966</u>
Net change in cash and cash equivalents	(1,148,809)
Cash and cash equivalents, beginning of year	9,143,977
Cash and cash equivalents, end of year	\$ <u><u>7,995,168</u></u>
Supplemental Disclosure of Non-Cash:	
Investing and Financing Activity:	
Cash paid for interest	\$ <u><u>134,763</u></u>

See accompanying notes to the financial statements.

Mote Marine Laboratory, Inc.
Statement of Functional Expenses - Laboratory
Nine Months Ended September 30, 2016

	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	\$ 3,960,904	\$ 475,924	\$ 1,570,344	\$ 218,896	\$ 56,019
Contracted services	583,524	199,694	85,345	139,915	1,972
Depreciation and amortization	-	-	167,241	-	283,247
Repairs and maintenance	162,859	11,577	410,446	33,546	43,766
Travel, meals and seminars	388,608	60,671	26,005	13,662	-
Research supplies	476,978	11,670	-	8,402	20
Merchandise	-	-	360,571	-	-
Office expense	73,035	31,419	168,585	22,303	925
Electricity	16,971	-	151,030	25,127	116,654
Insurance	4,551	-	31,558	22,706	25,880
Telephone	25,723	5,212	14,112	10,683	4,038
Promotion and advertising	101,168	36,848	45,596	31,984	-
Expendable supplies	-	9,429	9,571	-	-
Printing and publication	12,660	6,120	3,399	1,810	-
Vessel	1,140	-	-	-	-
Vehicle	54	1,478	80	-	334
Interest	73,027	-	3,282	7,359	-
Accounting and legal	224	-	-	-	11,606
Equipment rental	2,099	557	11,477	200	1,110
Library	-	-	-	-	-
Licenses and fees	10,887	2,190	3,563	254	16,949
Rent	29,776	48,596	-	32,480	-
Miscellaneous	-	-	-	-	11,954
	<u>5,924,188</u>	<u>901,385</u>	<u>3,062,205</u>	<u>569,327</u>	<u>574,474</u>
Overhead allocation	1,756,467	12,870	-	113,348	(49,927)
Rental use charges allocation:					
Vessel, vehicle and equipment	149,986	18,836	67,543	3,325	47
Total Expenses	<u>\$ 7,830,641</u>	<u>\$ 933,091</u>	<u>\$ 3,129,748</u>	<u>\$ 686,000</u>	<u>\$ 524,594</u>

Percent of Total

	Supporting Services				Total Functional Expenses
	Other	Total	Administrative and General	Fund Raising	
\$ 216,439	\$ 6,498,526	\$ 1,360,424	\$ 482,579	\$ 1,843,003	\$ 8,341,529
75,715	1,086,165	101,242	239,475	340,717	1,426,882
-	450,488	1,360,690	-	1,360,690	1,811,178
36,633	698,827	287,670	6,454	294,124	992,951
54,402	543,348	22,500	70,596	93,096	636,444
40	497,110	1,519	-	1,519	498,629
-	360,571	-	-	-	360,571
9,037	305,304	62,689	63,210	125,899	431,203
32,826	342,608	152,156	-	152,156	494,764
36,712	121,407	212,990	-	212,990	334,397
3,084	62,852	27,148	2,286	29,434	92,286
14,114	229,710	4,508	126,602	131,110	360,820
-	19,000	-	28	28	19,028
1,490	25,479	3,849	51,144	54,993	80,472
32,222	33,362	-	-	-	33,362
17,339	19,285	6,759	-	6,759	26,044
22,651	106,319	28,444	-	28,444	134,763
9,988	21,818	40,250	-	40,250	62,068
4,883	20,326	34,927	8,923	43,850	64,176
-	-	17,261	-	17,261	17,261
1,593	35,436	14,456	12,629	27,085	62,521
-	110,852	-	-	-	110,852
-	11,954	-	-	-	11,954
569,168	11,600,747	3,739,482	1,063,926	4,803,408	16,404,155
(40,872)	1,791,886	(1,791,886)	-	(1,791,886)	-
(119,649)	120,088	(126,554)	6,466	(120,088)	-
\$ 408,647	\$ 13,512,721	\$ 1,821,042	\$ 1,070,392	\$ 2,891,434	\$ 16,404,155
	82%	11%	7%		100%

See accompanying notes to the financial statements.

Mote Marine Laboratory, Inc.

Notes to Financial Statements

September 30, 2016

1. 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.

Mote Environmental Services, Inc. (MESI) was a for-profit subsidiary of the Laboratory, majority-owned through the date of its sale to an independent third party on November 19, 2014. On November 19, 2014, Mote Marine Laboratory, Inc. entered into an agreement with an independent third party investor to sell its shares of MESI stock. Mote Marine Laboratory sold 1,000 MESI shares at a purchase price of \$401.85 for an aggregate purchase price of \$401,850. The purchase price was paid to the lab in its entirety on the closing date, November 19, 2014. The sturgeon farm and related sturgeon meat and caviar harvesting and production business was to continue to operate at the Mote Aquaculture Park and a lease agreement was entered into between Mote Marine Laboratory and the purchaser for the use of the facilities. During 2016 the purchasers vacated the premises and defaulted on the related promissory note. See Note 4.

Mote Aquaculture, Inc. is a wholly-owned, for-profit subsidiary of the Laboratory. Mote Aquaculture, Inc. was incorporated in 1996 and has been inactive since 1997. Mote Aquaculture, Inc. was administratively dissolved in 2016.

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 nine months ended September 30, 2016, respectively.

Mote Marine Laboratory, Inc.
Notes to Financial Statements (Continued)
September 30, 2016

2. Summary of Significant Accounting Policies (Continued)

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 statement 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).

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
Library	5 - 20
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.

Mote Marine Laboratory, Inc.
Notes to Financial Statements (Continued)
September 30, 2016

2. Summary of Significant Accounting Policies (Continued)

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 received with donor stipulations that limit the use of donated assets are treated as temporarily restricted net assets. When the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement 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.

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 nine months ended September 30, 2016 were 195,754 hours. The estimated value of these donated services has not been recorded in the accompanying financial statements. However, management estimates the fair value of these services contributed to the Laboratory during the nine months ended September 30, 2016 amounted to approximately \$4,611,964. These estimates are based on an article published in the NonProfit Times that estimates volunteer time to be worth \$23.56 per hour in 2016, 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 nine months ended September 30, 2016 totaled \$360,820.

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, 2013 through December 31, 2015 and the nine months ended September 30, 2016.

Mote Marine Laboratory, Inc.
Notes to Financial Statements (Continued)
September 30, 2016

2. Summary of Significant Accounting Policies (Continued)

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 statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services that benefited.

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 \$622,199 as of September 30, 2016.

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.

3. Pledges Receivable

At September 30, 2016, the Laboratory held written unconditional pledges receivable in the amounts of \$2,545,925. The pledges have been restricted by the donors for future projects. Management considers all pledges receivable to be fully collectible as of September 30, 2016, therefore no allowance has been established uncollectible pledges against these assets.

Mote Marine Laboratory, Inc.
Notes to Financial Statements (Continued)
September 30, 2016

3. Pledges Receivable (Continued)

Receipt of pledges receivable is scheduled as follows:

2017	\$ 467,542
2018	889,783
2019	888,800
2020	246,800
2021	53,000
	<u>\$ 2,545,925</u>

During the nine months ended September 30, 2016, the Laboratory had \$43,888 in uncollectible pledges due to unforeseen circumstances.

4. Promissory Note

On November 19, 2014, Mote Marine Laboratory, Inc. entered into a written promissory note receivable from MESI in the amount of \$1,400,000 as consideration for the purchase of MESI from Mote Marine Laboratory, Inc. by a private investor. A simple interest per annum of 1.89% was due on the unpaid principal balance from the effective date of the note. The first through the 8th principal payments in the amount of \$100,000 plus the interest rate on the unpaid principal at the date of each payment was to be made to the note holder, Mote Marine Laboratory, Inc., on each anniversary of the effective date. The ninth and balloon payment of \$600,000 plus the interest rate on the forgoing unpaid principal was payable to the note holder, the Laboratory, on the ninth anniversary of the effective contract date. The entire remaining balance of \$1,300,000 was written off as a loss on the sale of the subsidiary in 2016 due to default.

5. Accounts Receivable

Accounts receivable consists of the following at September 30, 2016:

Costs billed on research grants and other contracts	\$ 911,558
Unbilled costs incurred on research grants	988,248
	<u>\$ 1,899,806</u>

During the nine months ended September 30, 2016, the Laboratory had \$0 in write-offs in uncollectible accounts receivable.

6. Investments

The Laboratory had realized losses on the sales of investments in the amount of \$16,956 for the nine months ended September 30, 2016.

Additionally, assets held at a community foundation during the nine months ended September 30, 2016 incurred restricted unrealized gains of \$1,346.

Mote Marine Laboratory, Inc.
Notes to Financial Statements (Continued)
September 30, 2016

7. Property and Equipment

Property and equipment consists of the following as of September 30, 2016:

Vehicles	\$ 802,296
Vessels	1,900,891
Buildings and improvements	34,283,380
Furniture, fixtures and exhibits	7,393,759
Laboratory equipment	7,397,998
Trailers	98,670
	<u>51,876,994</u>
Less accumulated depreciation	38,359,446
	<u>\$ 13,517,548</u>

Depreciation expense was \$1,803,733 for the nine months ended September 30, 2016.

At September 30, 2016, construction in progress consisted of expenditures of \$1,938,248 for the new building at Summerland Key.

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, 2016, property and equipment purchased or improved with funds received from government agencies, net of accumulated depreciation, totaled \$272,652.

8. Inventory

Inventory consisted of the following at September 30, 2016, 2016:

Gift shop merchandise, stated at cost	\$ <u>100,738</u>
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9. Patents

During the nine months ended September 30, 2016 the Laboratory incurred costs to maintain certain patents. The costs capitalized and the related amortization provided for is as follows:

Patents	\$ 130,342
Less: accumulated amortization	27,938
	<u>\$ 102,404</u>

Mote Marine Laboratory, Inc.
Notes to Financial Statements (Continued)
September 30, 2016

9. Patents (Continued)

No significant residual value is estimated for these patents. Amortization expense for the nine months ended September 30, 2016 totaled \$7,445. The following table represents the total estimated amortization of patents for the five succeeding years ending September 30, 2016:

Year	Estimated Amortization Expense
2017	\$ 8,294
2018	7,295
2019	5,638
2020	5,622
2021	4,934
Thereafter	11,168

10. Notes Payable

Notes payable consists of the following as of September 30, 2016:

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, 2016 was 3.018%	\$ 80,050
Note payable in 180 monthly installments, maturing on August 5, 2028 including interest based on overnight LIBOR plus 2.18%, secured with personal property and pledges and guaranteed by Mote Marine Foundation, Inc. with a \$1,500,000 limitation. Interest at September 30, 2016 was 2.60%.	2,935,705
Note payable in 60 monthly installments of \$624, interest at 2.39% due 2021, secured by vehicle.	35,230
Note payable in 60 monthly installments of \$665, interest at 2.39% due 2021, secured by vehicle.	37,556
Note payable in 60 monthly installments of \$413 including interest at 2.39% due 2021, secured by vehicle.	23,287
Note payable in 60 monthly installments of \$300, interest at 0% due 2017, secured by vehicle.	3,001
Note payable in 60 monthly installments of \$645, interest at 3% due 2017, secured by vehicle.	3,202
Note payable in 60 monthly installments of \$402, interest at 3% due 2018, secured by vehicle.	7,073
Note payable in 60 monthly installments of \$842, interest at 3% due 2017, secured by vehicle.	6,657

Mote Marine Laboratory, Inc.
Notes to Financial Statements (Continued)
September 30, 2016

10. Notes Payable (Continued)

Notes payable consists of the following as of September 30, 2016 (Continued):

Note payable in 60 monthly installments of \$612, interest at 3% due 2017, secured by vehicle.	3,036
Note payable in 60 monthly installments of \$612, interest at 3.15% due 2019, secured by vehicle.	21,542
Note payable, interest only at 0.5% payable annually, commencing 1 year from the date of issuance of Certificate of Occupancy. 5 years from Loan Repayment commencement date a Principal reduction payment of \$1 million and a principal reduction payment of \$200,000 thereafter, with all principal to be due and Payable in full 10 years from the Loan Repayment commencement date.	638,044
	3,794,383
Less current portion	280,022
Non-current portion	\$ 3,514,361

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

2017	\$ 280,022
2018	264,008
2019	262,297
2020	236,285
2021	869,110
Thereafter	1,882,661
	\$ 3,794,383

11. 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 March 14, 2017 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, 2016, borrowings outstanding under this line of credit and secured by pledges and accounts receivable of the Laboratory amounted to \$1,217,101.

Interest on the second revolving line of credit is charged at one month LIBOR plus 1.90% per annum with a 2.75% floor, payable monthly. At September 30, 2016, borrowings outstanding under this line of credit and secured by assets of Mote Marine Foundation, Inc. held by the bank amounted to \$371,500.

The Laboratory also has an available line of credit of \$3,014,000 from Mote Scientific Foundation. The loan agreement expires on September 30, 2018. Interest is charged at *The Wall Street Journal's* Prime Rate less a margin of 1.25% and is payable quarterly. At September 30, 2016, borrowings outstanding and secured by a lien on a certain estate in real property amounted to \$2,175,000.

Mote Marine Laboratory, Inc.
Notes to Financial Statements (Continued)
September 30, 2016

11. Lines of Credit (Continued)

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, 2016, borrowings outstanding totaled \$185,000.

The multiple lines of credit outstanding at September 30, 2016 totaled \$3,948,601.

Interest expense incurred under these lines of credit totaled \$71,412 for the nine months ended September 30, 2016.

Certain loan agreements described above and in Note 10 require that the Laboratory meet certain debt covenant compliance requirements. As of September 30, 2016, the Laboratory was in full compliance with all requirements.

12. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes at September 30, 2016:

Future projects	\$ 1,215,770
Construction	2,354,184
Library expenses	28,205
Beneficial interest in net assets of Mote Marine Foundation, Inc.	5,281,331
	<u>\$ 8,879,490</u>

13. Net Assets Released from Restrictions

Net assets released from donor restriction by incurring expenses satisfying the restricted purposes at September 30, 2016 are as follows:

Aquarium expenses	\$ 148,709
Library expenses	7,386
Other	392,329
Construction	1,441,250
Scholarships	25,000
	<u>\$ 2,014,674</u>

14. 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, 2016:

Cultural endowment	\$ 600,000
Keys endowment	12,050
Beneficial interest in the net assets of Mote Marine Foundation, Inc.	9,892,879
	<u>\$ 10,504,929</u>

Mote Marine Laboratory, Inc.
Notes to Financial Statements (Continued)
September 30, 2016

15. 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 \$332,738 for the nine months ended September 30, 2016.

16. 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 2016.

17. Lease Income

Mote Marine Laboratory holds title to approximately 200 acres of land in Sarasota County, Florida, located on Fruitville Rd, which has been developed as Mote Aquaculture Park. Mote entered into an agreement with MESI (now Healthy Earth, Inc.) to lease real property and buildings on this parcel for the continued operations of the sturgeon farm and related sturgeon meat and caviar harvesting and production. Base rent for use of facilities by MESI at Mote Aquaculture Park was \$20,833 per month. The initial term of this lease is 5 years, commencing on November 19, 2014 and ending on the last day of the month in the 5th anniversary year. The lessee had four (4) options to extend the terms of the lease for a five (5) year period upon the same terms and conditions. The lessee defaulted on the lease after July 2016.

18. 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.

19. 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.

20. 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 nine months ended September 30, 2016, the Laboratory received grants from the Foundation in the amounts of \$382,827.

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, 2016, the Laboratory owed the Foundation \$6,911.

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.

Mote Marine Laboratory, Inc.
Notes to Financial Statements (Continued)
September 30, 2016

20. Related Party Transactions (Continued)

During the nine months ended September 30, 2016, a trustee donated the use of an aircraft for travel accommodations for employees and trustees. The value of this donation as of September 30, 2016 is estimated to be \$13,516.

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

21. 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.

22. Endowments

The Laboratory's endowment consisted 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.

As of September 30, 2016, 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	\$ -	\$ 7,142	\$ 612,050	\$ 619,192

Changes in endowment net assets for the year ended September 30, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2016	-	\$ 5,770	\$ 612,050	\$ 617,820
Endowment investment return:				
Investment income	-	222	-	222
Realized and unrealized gains	-	1,346	-	1,346
Total endowment investment return	-	1,568	-	1,568
Appropriation of endowment for expenditures	-	(196)	-	(196)
Endowment net assets, September 30, 2016	\$ -	\$ 7,142	\$ 612,050	\$ 619,192

Mote Marine Laboratory, Inc.
Notes to Financial Statements (Continued)
September 30, 2016

22. 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 preceeding 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.

23. 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, 2016.

The following table presents 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, 2016, 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, 2016

23. 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.

Fair Value Measurements on a Recurring Basis at Reporting Date Using:

Description	Fair Value 9/30/16	Level 1	Level 2	Level 3
Beneficial interest in the net assets of Mote Marine Foundation, Inc.	\$ 14,549,135	\$ 11,744,048	\$ 1,793,654	\$ 1,011,433

Fair Value Measurements on a Non-Recurring Basis at Reporting Date Using:

Description	Fair Value 9/30/16	Level 1	Level 2	Level 3
Beneficial interest in the net assets of Mote Marine Foundation, Inc.	\$ 625,075	\$ -	\$ -	\$ 625,075
Pledges receivable	2,545,925	-	-	2,545,925
Ending balance	\$ 3,171,000	\$ -	\$ -	\$ 3,171,000

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

	Total
Beginning balance	\$ 784,537
Change in value of the beneficial interest in net assets of Mote Marine Foundation, Inc.	226,896
Ending balance	\$ 1,011,433

24. Subsequent Events

The Laboratory has evaluated all events subsequent to the balance sheet date to September 30, 2016 and through the date these financial statements were available to be issued, March 13, 2017, 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
Nine Months Ended September 30, 2016

Grantor	Match	CFDA# or CSFA#	Grant Number	Total Expenditures	
Federal Contracts and Grants					
RESEARCH AND DEVELOPMENT CLUSTER					
Department of Commerce					
National Oceanic and Atmospheric Administration (NOAA)					
Integrated Ocean Observing System (IOOS)					
Passed through Texas A&M University					
		11.012	NA11NOS0120024	13,195	
Passed through Texas A&M University					
		11.012	NA16NOS0120018	14,865	28,060
Sea Grant Support					
Passed through University of Florida					
	Y	11.417	NA14OAR4170108	38,694	38,694
NOAA Cooperative Institutes					
Passed through Research Foundation CUNY					
		11.432	NA14NES4320003	13,975	13,975
Marine Fisheries Initiative					
		11.433	NA15NMF4330152	60,658	60,658
Marine Mammal Data Program					
	Y	11.439	NA12NMF4390138	697	
	Y	11.439	NA14NMF4390207	3,529	
	Y	11.439	NA15NMF4390044	19,186	23,412
Unallied Management Projects					
		11.454	NA15NMF4540102	158,931	158,931
Unallied Science Program					
	Y	11.472	NA14NMF4720320	5,612	
	Y	11.472	NA15NMF4720018	1,280	6,892
Center for Sponsored Coastal Ocean Research-					
Coastal Ocean Program					
Passed through Florida Fish & Wildlife Conservation					
Commission					
		11.478	NA11NOS4780058	34,880	34,880
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	9,107	9,107
National Science Foundation					
Geosciences					
		47.050	GEO-1461393	17,739	
		47.050	OCE-1156580	19,294	
		47.050	OCE-1156141	90,693	
		47.050	1452538	105,414	
		47.050	1460800	84,269	317,409
National Aeronautics and Space Administration					
Science					
Passed through Texas A&M University					
		43.001	NMX15AN76G	73,143	73,143

Mote Marine Laboratory, Inc.
Schedule of Expenditures of Federal Awards and
State Financial Assistance (Continued)
Nine Months Ended September 30, 2016

Grantor	Match	CFDA# or CSFA#	Grant Number	Total Expenditures	
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	1,526	
Passed through The Nature Conservancy		15.634	FL-T-F-15AF00517	18,598	20,124
Wildlife Without Borders - Mexico		15.641	F15AP00279	1,685	1,685
National Park Service					
Natural Resource Stewardship		15.944	P13AC01104	42,063	42,063
Total Federal Contracts and Grants				\$ 829,033	
State and Local 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	578,273	
		77.010	12054	6,784	585,057
Marine Fisheries Assessment					
		77.023	13029	183,344	
		77.023	16024	23,583	206,927
Department of Highway Safety & Motor Vehicles					
Protect Our Reefs License Plate Project		76.069	POR	752,988	752,988
Sea Turtle License Plate Project					
Passed through Sea Turtle Conservancy		76.070	16-021C	14,162	14,162
Department of Agriculture and Consumer Services					
Aquaculture Development Projects					
Passed through University of South Florida		42.015	2107-1100-00-4	23,000	23,000
Total State Contracts and Grants				\$ 1,582,134	
Total Federal and State Contracts and Grants				\$ 2,411,167	

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.

Mote Marine Laboratory, Inc.
Schedule of Expenditures of Federal Awards and
State Financial Assistance (Continued)
Nine Months Ended September 30, 2016

Of the federal expenditures presented in the schedule, Mote Marine Laboratory, Inc. provided federal awards to subrecipients as follows:

Program Number	Subrecipient / Program Title	Federal	Amount	2016
185-651	University of South Florida National Oceanic and Atmospheric Administration - Sea Grant Support	11,417	57,482	431
106-419A	Florida Fish & Wildlife Conservation Commission Environmental Protection Agency - Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act	66,436	42,046	698
110-606	The Florida International University National Oceanic and Atmospheric Administration - Marine Fisheries Initiative	11,433	73,339	52,436
Total Federal Funding / Disbursements to Subrecipients:			\$ 172,867	\$ 53,565

Of the state expenditures presented in the schedule, Mote Marine Laboratory, Inc. provided state awards to subrecipients as follows:

POR 2013 3	Smithsonian Institution DHSMV- Protect Our Reefs	76,069	\$ 9,500	\$ 2,375
POR 2013 7	University of Miami DHSMV- Protect Our Reefs	76,069	24,650	12,016
POR 2013 9	Nova Southeastern University DHSMV- Protect Our Reefs	76,069	5,680	1,266
POR 2013 10	Florida Institute of Technology DHSMV- Protect Our Reefs	76,069	9,500	2,375
POR 2013 27	Smithsonian Institution DHSMV- Protect Our Reefs	76,069	9,500	2,362
POR 2014 1	Jacksonville University DHSMV- Protect Our Reefs	76,069	9,905	2,213
POR 2014 2	University of North Florida DHSMV- Protect Our Reefs	76,069	10,541	2,634
POR 2014 3	Florida Atlantic University DHSMV- Protect Our Reefs	76,069	13,330	5,818
POR 2014 8	Marine Resources Development Foundation DHSMV- Protect Our Reefs	76,069	4,785	572
POR 2014 10	Smithsonian Institution DHSMV- Protect Our Reefs	76,069	9,932	4,966
POR 2014 11	University of Miami DHSMV- Protect Our Reefs	76,069	9,420	2,355
POR 2014 13	Reef Relief DHSMV- Protect Our Reefs	76,069	10,000	2,500
POR 2014 16	Nova Southeastern University DHSMV- Protect Our Reefs	76,069	9,886	4,720
POR 2015 1	Smithsonian Institution DHSMV- Protect Our Reefs	76,069	14,139	7,069
POR 2015 3	University of Miami DHSMV- Protect Our Reefs	76,069	14,725	7,362
POR 2015 4	Eckerd College DHSMV- Protect Our Reefs	76,069	14,955	7,477
POR 2015 9	Marine Resources Development Foundation DHSMV- Protect Our Reefs	76,069	4,690	2,345
POR 2015 10	Jacksonville University DHSMV- Protect Our Reefs	76,069	14,962	7,481
POR 2015 11	Nova Southeastern University DHSMV- Protect Our Reefs	76,069	5,260	2,630
POR 2015 14	University of Miami DHSMV- Protect Our Reefs	76,069	10,001	5,000
POR 2015 15	University of Miami DHSMV- Protect Our Reefs	76,069	10,000	5,000
POR 2015 16	University of Miami DHSMV- Protect Our Reefs	76,069	11,447	5,724
POR 2015 18	Nova Southeastern University DHSMV- Protect Our Reefs	76,069	5,000	2,500
POR 2015 21	Reef Relief DHSMV- Protect Our Reefs	76,069	15,000	7,500
POR 2015 22	Reef Environmental Education Foundation DHSMV- Protect Our Reefs	76,069	11,050	5,525
Total State Funding / Disbursements to Subrecipients:			\$ 267,858	\$ 111,785

CONTRACT COMPLIANCE

**Independent Auditor's 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**

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, 2016, and the related statement of activities, and cash flows for the nine months then ended, and the related notes to the financial statements, and have issued our report thereon dated March 13, 2017.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Purpose of this Report

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



Sarasota, Florida
March 13, 2017

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

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 nine months ended September 30, 2016. 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 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 nine months ended September 30, 2016.

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 project and to test and report on internal control over compliance in accordance with 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 13, 2017

Mote Marine Laboratory, Inc.
Schedule of Findings and Questioned Costs
Nine Months Ended September 30, 2016

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)

Nine Months Ended September 30, 2016

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

Identification of major programs and projects:

<i>CFDA Numbers</i>	<i>Name of Federal Program or Cluster</i>
11.012	Integrated Ocean Observing System (IOOS)
11.417	Sea Grant Support
11.432	NOAA Cooperative Institutes
11.433	Marine Fisheries Initiative
11.439	Marine Mammal Data Program
11.454	Unallied Management Projects
11.472	Unallied Science Program
11.478	Center for Sponsored Coastal Ocean Research - Coastal Ocean 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
15.641	Wildlife Without Borders - Mexico
15.944	National Resource Stewardship

Mote Marine Laboratory, Inc.

Schedule of Findings and Questioned Costs (Continued)

Nine Months Ended September 30, 2016

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

CSFA Numbers

76.069

77.010

Name of State Projects

Protect Our Reefs License Plate Project

Cooperative Red Tide Research Program –

Reduction of Harmful Impacts from Red Tide

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).