

## **Financial Statements**



**June 30, 2019**

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**Bigelow Laboratory for Ocean Sciences**

**June 30, 2019**

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## **Independent Auditors' Report**

**To the Board of Trustees  
Bigelow Laboratory for Ocean Sciences  
East Boothbay, Maine**

### **Report on Financial Statements**

We have audited the accompanying financial statements of Bigelow Laboratory for Ocean Sciences (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year 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.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 Bigelow Laboratory for Ocean Sciences as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Report on Summarized Comparative Information**

The financial statements of Bigelow Laboratory for Ocean Sciences as of June 30, 2018, were audited by other auditors whose report dated January 9, 2019 expressed an unmodified opinion on those statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2019, on our consideration of Bigelow Laboratory for Ocean Sciences' internal control over financial reporting and on 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 Bigelow Laboratory for Ocean Sciences' internal control over financial reporting and compliance.

Purdy Powers + Company  
Professional Association

Portland, Maine  
December 13, 2019

## Statement of Financial Position

### Bigelow Laboratory for Ocean Sciences

As of June 30, 2019

(with comparative totals for June 30, 2018)

	<u>2019</u>	<u>2018</u>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 707,320	\$ 910,406
Cash restricted for improvements	36,044	36,008
Cash restricted for research	1,560,328	1,925,029
Contracts and grants receivable	1,675,837	815,381
Pledges receivable, current	375,666	438,500
Accounts receivable, net	206,908	373,523
Inventory	-	1,689
Prepaid expenses	<u>76,169</u>	<u>70,227</u>
<b>Total Current Assets</b>	4,638,272	4,570,763
<b>Property and Equipment</b> , net of accumulated depreciation	36,891,086	38,331,643
<b>Other Assets</b>		
Pledges receivable long-term, net	237,825	222,877
Investments	6,265,177	4,364,917
Investments - endowment	<u>3,152,884</u>	<u>2,474,571</u>
	<u>9,655,886</u>	<u>7,062,365</u>
<b>Total Assets</b>	<u>\$ 51,185,244</u>	<u>\$ 49,964,771</u>
<b>Current Liabilities</b>		
Accounts payable	\$ 389,639	\$ 282,552
Accrued payroll and other expenses	456,445	451,231
Current portion of notes payable	160,326	100,000
Current portion of capital lease	-	5,407
Deferred revenue	<u>1,722,378</u>	<u>768,645</u>
<b>Total Current Liabilities</b>	2,728,788	1,607,835
<b>Long-Term Liabilities</b>		
Notes payable, net of current portion	13,053,674	13,056,911
Less: unamortized debt issuance costs	(162,866)	-
Swap contract	<u>984,678</u>	<u>-</u>
	<u>13,875,486</u>	<u>13,056,911</u>
<b>Total Liabilities</b>	<u>16,604,274</u>	<u>14,664,746</u>
<b>Net Assets</b>		
Net assets without donor restrictions	12,762,596	14,091,035
Nets assets with donor restrictions	<u>21,818,374</u>	<u>21,208,990</u>
<b>Total Net Assets</b>	<u>34,580,970</u>	<u>35,300,025</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 51,185,244</u>	<u>\$ 49,964,771</u>

See accompanying independent auditors' report and notes to financial statements.

## Statement of Activities

### Bigelow Laboratory for Ocean Sciences

**For the Year Ended June 30, 2019**  
**(with comparative totals for June 30, 2018)**

	2019			2018
	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total	Total
<b>Revenues and Other Support</b>				
Grants and contracts	\$ 8,028,839	\$ 417,136	\$ 8,445,975	\$ 7,593,011
Contributions	2,458,974	368,758	2,827,732	2,179,717
Course fees	574,910	-	574,910	298,707
Other income	917,006	110,000	1,027,006	1,366,079
Net gain on investments	229,999	-	229,999	48,091
Net assets released from restrictions	286,510	(286,510)	-	-
<b>Total Revenues and Other Support</b>	<b>12,496,238</b>	<b>609,384</b>	<b>13,105,622</b>	<b>11,485,605</b>
<b>Expenses</b>				
Research and education	7,806,625	-	7,806,625	6,597,492
Management and general	4,286,460	-	4,286,460	5,594,750
Development	746,914	-	746,914	576,325
<b>Total Expenses</b>	<b>12,839,999</b>	<b>-</b>	<b>12,839,999</b>	<b>12,768,567</b>
<b>Revenues Over (Under) Expenses</b>	<b>(343,761)</b>	<b>609,384</b>	<b>265,623</b>	<b>(1,282,962)</b>
<b>Non-Operating Revenue, Gains, and Losses</b>				
Grants and contracts for equipment purchases	-	-	-	80,368
Loss on interest rate swap	(984,678)	-	(984,678)	-
<b>Increase (Decrease) in Net Assets</b>	<b>(1,328,439)</b>	<b>609,384</b>	<b>(719,055)</b>	<b>(1,202,594)</b>
Net assets at beginning of year	14,091,035	21,208,990	35,300,025	36,502,619
<b>Net Assets at End of Year</b>	<b>\$ 12,762,596</b>	<b>\$ 21,818,374</b>	<b>\$ 34,580,970</b>	<b>\$ 35,300,025</b>

See accompanying independent auditors' report and notes to financial statements.

## Statement of Functional Expenses

### Bigelow Laboratory for Ocean Sciences

For the Year Ended June 30, 2019

(with comparative totals for June 30, 2018)

	2019				2018
	Research & Education	Management & General	Development	Total	Total
<b>Personnel</b>					
Salaries and wages	\$ 2,829,806	\$ 1,436,658	\$ 332,889	\$ 4,599,353	\$ 4,643,562
Fringe benefits	1,348,291	621,661	157,262	2,127,214	2,213,546
Total Personnel	<u>4,178,097</u>	<u>2,058,319</u>	<u>490,151</u>	<u>6,726,567</u>	<u>6,857,108</u>
<b>Other Expenses</b>					
Subcontracts	560,770	-	-	560,770	136,809
Supplies and leases	769,340	67,203	5,643	842,186	1,181,849
Participant support	301,641	382	-	302,023	184,296
Publications, books and periodicals	46,106	10,054	-	56,160	32,367
Dues and licenses	10,691	78,811	11,791	101,293	102,047
Travel	145,511	19,234	23,856	188,601	194,774
Shipment costs	72,138	-	-	72,138	65,899
Telephone	3,528	58,381	4,644	66,553	47,115
Utilities	19,349	334,328	-	353,677	373,453
Equipment - non-federal	494	15,995	-	16,489	224
Repairs and maintenance	23,506	29,310	-	52,816	80,523
Shipping and postage	94,970	2,554	6,197	103,721	101,245
Consulting and contracted services	191,167	211,345	27,997	430,509	315,286
Professional fees	3,447	81,702	-	85,149	97,323
Insurance	9,387	101,833	-	111,220	89,353
Depreciation and amortization	1,301,585	641,219	152,695	2,095,499	2,118,910
Interest	6,000	505,649	-	511,649	521,760
Fundraising	-	-	-	-	6,103
Technical services	5,729	2,895	-	8,624	10,006
Bad debt	-	-	-	-	60,000
Training	26,976	4,193	1,112	32,281	31,425
Other	36,193	63,053	22,828	122,074	160,692
Total Other Expenses	<u>3,628,528</u>	<u>2,228,141</u>	<u>256,763</u>	<u>6,113,432</u>	<u>5,911,459</u>
	<u>\$ 7,806,625</u>	<u>\$ 4,286,460</u>	<u>\$ 746,914</u>	<u>\$ 12,839,999</u>	<u>\$ 12,768,567</u>

See accompanying independent auditors' report and notes to financial statements.

# Statement of Cash Flows

## Bigelow Laboratory for Ocean Sciences

**For the Year Ended June 30, 2019**  
**(with comparative totals for June 30, 2018)**

	<u>2019</u>	<u>2018</u>
<b>Operating Activities</b>		
Decrease in net assets	\$ (719,055)	\$ (1,202,594)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,095,499	2,118,910
Debt issuance costs	1,346	-
Grant proceeds restricted to acquisition of equipment	-	(80,368)
Pledges receivable restricted to endowment	251,500	251,500
Net gain on investments	(229,999)	(48,091)
Restricted contributions	(260,875)	(367,751)
Loss on interest rate swap	984,678	-
Bad debt	-	60,000
(Increase) Decrease in operating assets:		
Contracts and grants receivable	(860,456)	461,672
Pledges receivable	(203,614)	703,790
Accounts receivable	166,615	(192,535)
Inventory	1,689	215,294
Prepaid expenses	(5,942)	(40,970)
Increase (Decrease) in operating liabilities:		
Accounts payable	107,087	(523,188)
Accrued payroll and other expenses	5,214	690
Deferred revenue	953,733	(175,037)
<b>Net Cash Provided by Operating Activities</b>	<u>2,287,420</u>	<u>1,181,322</u>
<b>Investing Activities</b>		
Purchase of buildings and equipment	(654,942)	(507,483)
Accounts payable for building	-	(547,405)
Proceeds from sale of investments	2,008,151	134,871
Purchase of investments	(4,356,725)	(813,569)
<b>Net Cash Used by Investing Activities</b>	<u>(3,003,516)</u>	<u>(1,733,586)</u>
<b>Financing Activities</b>		
Grant proceeds restricted to acquisition of equipment	-	80,368
Contribution restricted to endowments	260,875	367,751
Payments on notes payable	(107,123)	(109,567)
Payments on capital lease	(5,407)	(34,157)
<b>Net Cash Provided by Financing Activities</b>	<u>148,345</u>	<u>304,395</u>
<b>Decrease in Cash</b>	<u>(567,751)</u>	<u>(247,869)</u>
Cash and cash equivalents at beginning of year	<u>2,871,443</u>	<u>3,119,312</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u><u>\$ 2,303,692</u></u>	<u><u>\$ 2,871,443</u></u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid during the year for interest	<u>\$ 510,303</u>	<u>\$ 521,760</u>
<b>Components of Cash:</b>		
Cash and cash equivalents	\$ 707,320	910,406
Cash restricted for improvements	36,044	36,008
Cash restricted for research	1,560,328	1,925,029
	<u><u>\$ 2,303,692</u></u>	<u><u>\$ 2,871,443</u></u>
<b>Non-cash Activity:</b>		
Notes payable and debt issue costs paid off with loan proceeds	<u>\$ 12,914,000</u>	<u>\$ -</u>

See accompanying independent auditors' report and notes to financial statements.



## Notes to Financial Statements

# Bigelow Laboratory for Ocean Sciences

### Note A - Summary of Significant Accounting Policies

#### Nature of Activities

Bigelow Laboratory for Ocean Sciences (the “Laboratory”) provides scientific research, educational services, and oceanographic goods and services to government, industry, and educational entities. The Laboratory continues to pursue research, educational, and technology transfer opportunities.

#### Basis of Presentation

The accompanying financial statements include a statement of financial position, a statement of activities, a statement of functional expenses, and a statement of cash flows. The Laboratory is required to report information regarding its financial position and activities according to two classes of net assets as follows:

Net Assets without Donor Restrictions - Represents those resources that are not subject to donor-imposed restrictions (donors include other types of contributors, including makers of certain grants), and can be used for any purpose designated by the Laboratory’s governing board.

Net Assets with Donor Restrictions - Represents resources and the portion of net assets resulting from contributions and other inflows of assets whose use is subject to donor-imposed restrictions.

#### Revenue and Expense Recognition

The financial statements of the Laboratory have been prepared on the accrual basis of accounting. Revenues received are recorded as revenue without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in net assets with donor restrictions.

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

Expenses are recognized as incurred. Expense amounts are allocated among the various programs on both a direct basis and according to a cost allocation basis.

#### Contributions

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

## **Notes to Financial Statements - Continued**

### **Bigelow Laboratory for Ocean Sciences**

#### **Note A - Summary of Significant Accounting Policies - Continued**

##### **Grants and Contracts**

Grants and contracts includes revenues received from Federal and other private agencies for work performed. The Laboratory has numerous grants for which the grantor agencies' promises to give are conditioned upon incurring certain qualified expenses under the grant programs, and therefore the Laboratory recognizes revenue from grants and contracts as related costs are incurred. Payments received in advance of expenditures are recorded as deferred revenue until expended.

##### **Donated Services and Materials**

Donated marketable securities and other noncash donations are recorded as support at their estimated fair values at the date of donation. Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as revenue without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as revenue with donor restrictions. In the absence of donor stipulations regarding how long the contributed assets must be used, the Laboratory has adopted a policy of implying a time restriction on contributions of such assets that expire over the assets useful lives.

##### **Cash and Cash Equivalents**

For purposes of the statement of cash flows, the Laboratory considers all highly liquid debt instruments purchased with an initial maturity of three months or less to be cash equivalents. Cash and cash equivalents residing within the Laboratory's investment portfolios are reported as investments. The Laboratory maintains its deposits in bank deposit accounts, which also include a sweep account. Funds in excess of federally insured limits are collateralized by the relevant U.S. Treasuries or Agencies. The Laboratory has not experienced any losses in such accounts and believes that it is not exposed to any significant risk.

##### **Contracts, Grants and Accounts Receivable**

Contracts and grants receivable consist primarily of amounts due from federal agencies. Accounts receivable consist primarily of amounts due from various organizations for fees earned for services provided. All such receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuations allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to accounts receivable. The allowance for uncollectible accounts was \$60,000 at June 30, 2019 and 2018.

## Notes to Financial Statements - Continued

### Bigelow Laboratory for Ocean Sciences

#### Note A - Summary of Significant Accounting Policies - Continued

##### **Pledges Receivable**

Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Pledges receivable expected to be received in more than one year are discounted to present value.

##### **Property and Equipment**

Property and equipment is stated at cost if purchased or at fair value if contributed. The Laboratory's capitalization policy is to capitalize any asset over \$5,000 with a useful life of one year or more. Assets are depreciated or amortized on a straight-line basis over their estimated useful lives ranging from 3 to 40 years.

Expenditures for repairs and maintenance are expensed when incurred and betterments are capitalized. Assets sold or otherwise disposed of are removed from the accounts, along with the related depreciation allowances, and any gain or loss is recognized accordingly. Depreciation expense for the years ended June 30, 2019 and 2018 was \$2,095,499 and \$2,118,910, respectively.

##### **Investments**

The Laboratory reports investments in marketable securities with readily determinable fair values and all investments in debt securities at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets in the accompanying statement of activities.

##### **Collections**

The Laboratory houses the Provasoli-Guillard National Center of Marine Algae and Microbiota. The Laboratory does not capitalize this collection of more than 2,700 strains of marine phytoplankton, bacteria, and viruses. The Laboratory holds the collection for educational and research purposes; the strains are available to the public. Proceeds from the sales of strain samples are used to maintain and preserve the collection.

##### **Deferred Revenue**

Deferred revenue represents amounts advanced under grants and contracts with governmental agencies and private organizations which have not been expended in the current period and are available for use in the subsequent fiscal year.

##### **Compensated Absences**

Vested and accumulated vacation leave is reported as an expense and a liability when the obligation becomes determinable.

## Notes to Financial Statements - Continued

### Bigelow Laboratory for Ocean Sciences

#### Note A - Summary of Significant Accounting Policies - Continued

##### **Debt Issuance Costs**

The Company has adopted Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 835-30, *Simplifying the Presentation of Debt Issuance Costs*. Accordingly, it is the Company's policy to record these costs as interest expense ratably over the corresponding loan period of thirty years and six months. Accumulated amortization of deferred debt issuance costs was \$1,346 as of June 30, 2019.

##### **Functional Expenses**

The costs of program and supporting services activities have been summarized on a functional basis in the statement of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis, such as time and effort or full time equivalents.

##### **Estimates**

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

##### **New Accounting Pronouncement**

In August 2016, the FASB issued Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*, which is intended to improve how a not-for-profit entity classifies its net assets, as well as the information it presents in its financial statements about its liquidity and availability of resources, expenses and investment returns, and cash flows. The guidance was effective for the fiscal year ended June 30, 2019, and replaces the three classes of net assets previously presented on the statement of financial position with two new classes of net assets, which are based on the existence or absence of donor-imposed restrictions. ASU No. 2016-14 includes specific disclosure requirements intended to improve a financial statement user's ability to assess the entity's available financial resources, along with its management of liquidity and liquidity risk.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This update is to provide guidance for not-for-profit entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) or exchanges (reciprocal transactions) and determining whether a contribution is conditional. In general, the update is effective for annual periods beginning after December 15, 2018. Early adoption is permitted. Management is currently evaluating the impact of adoption on its financial statements.

## Notes to Financial Statements - Continued

### Bigelow Laboratory for Ocean Sciences

#### Note A - Summary of Significant Accounting Policies - Continued

##### **Pending Accounting Pronouncements**

###### *Revenue Recognition*

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASC 606 (as revised) is a single, principle-based model for recognizing contract revenue and related incremental expenses. For entities other than public business entities, certain not-for-profit entities, and certain employee benefit plans, the Standard is effective for annual reporting periods beginning after December 15, 2018. The new Standard will be adopted by the Laboratory beginning in the fiscal year ended June 30, 2020 and may include certain retrospective adjustments at that time. The effects on the Laboratory's future financial statements of these changes have not yet been determined.

###### *Leases*

In February 2016, FASB released ASU 2016-02 Leases (Topic 842). This new standard will provide users of the financial statements a more accurate picture of the assets and the long-term financial obligations of organizations that lease. The standard is for a dual-model approach: a lessee will account for most existing capital leases as Type A leases, and most existing operating leases as Type B leases. Both will be reported on the balance sheet of the organization for leases with a term exceeding 12 months. Lessors will see some changes too, largely made to align with the revised lease model. For nonpublic organizations, the new leasing standard will apply for fiscal years beginning after December 15, 2020. The standard requires retroactive application to previously issued financial statements, if presented. Management is currently evaluating the impact of adoption on its financial statements.

##### **Comparative Data**

The financial information for the year ended June 30, 2018, is presented for comparative purposes only, and is not intended to be a complete financial statement presentation. Certain prior year balances have been reclassified to conform with the current year presentation.

## Notes to Financial Statements - Continued

### Bigelow Laboratory for Ocean Sciences

#### Note B - Contracts and Grants Receivables

The majority of the \$1,675,837 and \$815,381 of contracts and grants receivable due as of June 30, 2019 and 2018, respectively are due from government agencies for services performed. In addition, the Laboratory has future awards from various government agencies that are conditional upon funding availability from the specific agencies and are, therefore, not shown as assets or revenues on the financial statements. For the years ended June 30, 2019 and 2018, the future research conditional awards were \$5,070,084 and \$3,954,399, respectively.

Future unconditional awards are as follows as of June 30:

	<u>2019</u>	<u>2018</u>
Research awards	\$ 11,786,493	\$ 8,219,698
Education	126,311	91,818
Plant and equipment awards	28,805	66,188
Core facility	3,594	7,093
	<u>\$ 11,945,203</u>	<u>\$ 8,384,797</u>

#### Note C - Pledges Receivable

Pledges receivable are as follows as of June 30:

	<u>2019</u>	<u>2018</u>
Annual fund	\$ 200,000	\$ 22,000
Endowment for Chair for Research and Education	250,000	500,000
Fellowship	110,000	-
Endowment for VP of Education	62,000	-
Matching grant challenge	-	100,000
Comprehensive campaign	-	65,000
Dr. Graham Shimmiel Endowment	-	1,500
	<u>622,000</u>	<u>688,500</u>
Less discount	<u>(8,509)</u>	<u>(27,123)</u>
Pledges receivable, net of discount	<u>\$ 613,491</u>	<u>\$ 661,377</u>
Amounts due in:		
Less than one year	\$ 375,666	\$ 438,500
One to five years	246,334	250,000
	<u>\$ 622,000</u>	<u>\$ 688,500</u>

## Notes to Financial Statements - Continued

### Bigelow Laboratory for Ocean Sciences

#### Note C - Pledges Receivable - Continued

For the years ended June 30, 2019 and 2018, a discount rate of 1.6% and 3% was applied to pledges receivable in excess of one year, respectively.

Approximately 72% and 82% of unconditional promises to give received during the years ended June 30, 2019 and 2018, respectively were from two donors.

#### Note D - Property and Equipment

During 2005, approximately 64 acres of land in East Boothbay, Maine with a cost of \$2,728,008 was acquired and was partially funded by a grant from the National Oceanic and Atmospheric Administration (NOAA) in the amount of \$1,464,735. This grant restricts the sale of the land without prior approval from NOAA.

The Laboratory received grants from the Maine Technology Institute for \$4,528,971, National Science Foundation for \$4,975,000, and National Institutes of Standards and Technology (NIST) for \$9,145,710 for construction of the new facilities. NIST restricts that the portion of the new building funded by their grants must be used for the original purposes set out by the Laboratory for 20 years. Also related to the construction, the Laboratory obtained financing from a local bank of \$13,156,911 that was disbursed for the initial three phases of the project. In addition, another \$75,000 loan was obtained for site work for the new administrative building. Construction of all buildings was completed in June 2013.

Property and equipment consisted of the following at June 30:

	<u>2019</u>	<u>2018</u>
Land	\$ 2,800,537	\$ 2,800,537
Site work - new campus	5,289,188	5,285,145
Buildings – new campus	34,246,115	34,246,115
Buildings other	489,598	489,598
Administrative furnishings and equipment	164,687	164,687
Facilities equipment	5,357,284	5,051,176
Scientific equipment acquired through grants	8,226,740	7,881,949
Equipment – matching portion	246,097	246,097
Donated equipment and furnishings	239,121	239,121
Leasehold improvements	37,338	37,338
	<u>57,096,705</u>	<u>56,441,763</u>
Less: accumulated depreciation	<u>20,205,619</u>	<u>18,110,120</u>
	<u>\$ 36,891,086</u>	<u>\$ 38,331,643</u>

## Notes to Financial Statements - Continued

### Bigelow Laboratory for Ocean Sciences

#### Note E - Investments

Fair value of investments consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Money market funds	\$ 4,685,899	\$ 4,670,227
Equity funds	385,140	2,169,261
Exchange traded funds	<u>4,347,022</u>	<u>-</u>
	<u>\$ 9,418,061</u>	<u>\$ 6,839,488</u>

#### Note F - Fair Value Measurements

The Laboratory applies a framework for measuring fair values under generally accepted accounting principles which applies to all financial instruments that are measured and reported at fair value.

The framework for measuring fair value of financial assets and liabilities includes a hierarchy of three levels for observable independent market inputs and unobservable market assumptions. A description of the inputs used in the valuation of assets and liabilities under this hierarchy is as follows:

Level 1 – Quoted prices are available in active markets, such as the New York or American Stock Exchange markets, for identical investments as of the reporting date. Level 1 also includes U.S. Treasury and federal agency securities and mortgage-backed securities traded by brokers or dealers in active markets.

Level 2 – Pricing inputs are observable for the investments, either directly or indirectly, as of the reporting date, but are not the same as those used in Level 1. Fair values are obtained from third party pricing services that may use models or other valuation methodologies to derive market value. These may be investments traded in less active dealer or broker markets.

Level 3 – Pricing inputs are unobservable for investments and valuations are derived from other methodologies not based on market exchange, dealer or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets and liabilities. The types of investments in this category would generally include debt and equity securities issued by private entities and partnerships.



## Notes to Financial Statements - Continued

### Bigelow Laboratory for Ocean Sciences

#### Note F - Fair Value Measurements - Continued

The following summarizes fair values of investment assets by levels within the fair value hierarchy at June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 4,682,126	\$ -	\$ -	\$ 4,682,126
Equity funds	385,140	-	-	385,140
Exchange traded funds	4,350,795	-	-	4,350,795
Total investments	<u>\$ 9,418,061</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,418,061</u>

The following summarizes fair values of investment assets by levels within the fair value hierarchy at June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 4,670,227	\$ -	\$ -	\$ 4,670,227
Equity funds	2,169,261	-	-	2,169,261
Total investments	<u>\$ 6,839,488</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,839,488</u>

#### Note G - Endowment Fund

The Laboratory has endowment funds established for a number of purposes. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. The funds are recorded at fair value and the principal is recorded as net assets with donor restrictions. Earnings and losses on these funds are considered restricted or unrestricted depending on donor intentions and are recorded as such.

The State of Maine has adopted the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). In accordance with UPMIFA the Laboratory classifies as net assets with donor restrictions (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, (c) accumulations to the endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund, and (d) any remaining portion of the donor-restricted endowment until such amounts are appropriated for expenditure by the Laboratory in a manner consistent with the standard of prudence prescribed by UPMIFA.

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

## Notes to Financial Statements - Continued

### Bigelow Laboratory for Ocean Sciences

#### Note G - Endowment Fund - Continued

Endowment net asset composition by type of fund is as follows at June 30, 2019:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 3,152,884	\$ 3,152,884

Endowment net asset composition by type of fund is as follows at June 30, 2018:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 2,474,571	\$ 2,474,571

Changes in endowment net assets for the year ended June 30, 2019 are as follows:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Endowment, beginning of year	\$ -	\$ 2,474,571	\$ 2,474,571
Contributions received	-	561,395	561,395
Investment return (loss)	-	116,918	116,918
Appropriation of endowment assets for expenditure	-	-	-
Transfers from board designated endowment fund	-	-	-
Endowment, end of year	\$ -	\$ 3,152,884	\$ 3,152,884

## Notes to Financial Statements - Continued

### Bigelow Laboratory for Ocean Sciences

#### Note G - Endowment Fund - Continued

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment, beginning of year	\$ -	\$ 1,972,673	\$ 1,972,673
Contributions received	-	423,528	423,528
Investment return	-	78,370	78,370
Appropriation of endowment assets for expenditure	-	-	-
Transfer to board designated endowment fund	-	-	-
Endowment, end of year	<u>\$ -</u>	<u>\$ 2,474,571</u>	<u>\$ 2,474,571</u>

#### Note H - Line of Credit

The Laboratory has an operating line of credit with a local bank with a maximum amount available for borrowing of \$1,000,000 with an interest rate at the Wall Street Prime (5.5% and 5.0% at June 30, 2019 and 2018, respectively). The line renews annually and is unsecured. There was no outstanding balance at June 30, 2019 and 2018.

#### Note I - Swap Contract

The Laboratory entered into an agreement with the First National Bank in April of 2019 to borrow \$12,914,000. The proceeds were used to refinance debt in the amount of \$12,756,911 and to pay for associated issuance costs. As part of the agreement the Laboratory entered into an Interest Rate Swap transaction, in which the Laboratory receives or is charged a monthly amount based upon the difference between the fixed and floating rates as detailed in the contract. The Laboratory utilized SJ Advisors LLC, an outside 3<sup>rd</sup> party, to perform a valuation of the swap as of June 30, 2019. The market value of the interest rate swap is determined by present values of future cash flows. Cash flows based on a fixed rate equal the notional amount of \$12,914,000 times the fixed rate times the day count fraction for each period. Cash flows based on a floating rate equal the notional amount times the floating rate, as projected by the forward yield curve on the valuation date times the day count fraction for each period. Discount factors are based on the discount curve on the valuation date. As of June 30, 2019, the market value of the interest rate swap of (\$984,678) has been recorded as a current liability on the statement of financial position.

## Notes to Financial Statements - Continued

### Bigelow Laboratory for Ocean Sciences

#### Note J - Notes Payable

Long-term debt consists of the following:

	<u>2019</u>	<u>2018</u>
Bond payable to a bank with monthly principal and interest payments through April 2049. The interest is fixed at 3.724% through an interest rate swap agreement (see Note I). The note is secured by real estate.	\$ 12,914,000	\$ -
Note payable to a bank with annual payments of principal of \$100,000 a year and monthly payments of interest only commencing on July 1, 2015 through July 1, 2020. After which monthly principal and interest payments through June 2040. The interest was fixed at 3.95% from April 15, 2015 through March 15, 2020. After March 15, 2020 the interest rate would have been variable equal to the Wall Street Prime Rate (5.5% at June 30, 2019). The note was secured by real estate.	-	\$ 9,700,000
Note payable to a bank with monthly interest only payments commencing on April 15, 2015 through March 15, 2020. After which monthly principal and interest payments through June 2040. The interest was fixed at 3.95% from April 15, 2015 through March 15, 2020. After March 15, 2020 the interest rate would have been variable equal to the Wall Street Prime Rate (5.5% at June 30, 2019). The note was secured by real estate.	-	2,287,857
Note payable to a bank with monthly interest only payments commencing on April 15, 2015 through March 15, 2020. After which monthly principal and interest payments through June 2040. The interest was fixed at 3.95% from April 15, 2015 through March 15, 2020. After March 15, 2020 the interest rate would have been variable equal to the Wall Street Prime Rate (5.5% at June 30, 2019). The note was secured by real estate.	-	869,054
Note payable to Maine Community Foundation requiring quarterly payments of interest only at a fixed rate of 2% through December 31, 2020. All principal is due in full on December 31, 2020.	<u>300,000</u>	<u>300,000</u>
	13,214,000	13,156,911
Less current portion	<u>160,326</u>	<u>100,000</u>
Long-term debt, net of current portion	<u>\$ 13,053,674</u>	<u>\$ 13,056,911</u>

## Notes to Financial Statements - Continued

### Bigelow Laboratory for Ocean Sciences

#### Note J - Notes Payable - Continued

Required future annual principal payments on the notes payable are as follows:

2020	\$ 160,326
2021	549,511
2022	259,097
2023	269,051
2024	278,155
Thereafter	<u>11,697,860</u>
	<u>\$ 13,214,000</u>

#### Note K - Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted for the following purposes or periods at June 30:

	<u>2019</u>	<u>2018</u>
<i>Subject to expenditure for specified purpose:</i>		
Grant equipment	\$ 741,258	\$ 602,974
Grant buildings	14,846,116	15,485,198
Donated equipment	66,034	87,365
Research and education support	620,187	78,459
Campus facility improvements	36,044	889,843
Advancement	280,767	218,565
Other	<u>2,159,027</u>	<u>731,477</u>
	<u>18,749,433</u>	<u>18,093,881</u>
<i>Subject to the passage of time:</i>		
Pledges receivable	<u>143,350</u>	<u>178,877</u>
<i>Not subject to appropriation or expenditure:</i>		
General operations support	\$ 218,217	\$ 138,505
National Center for Marine Algae and Microbiota	55,161	55,715
Principal investigator salaries	11,000	11,000
Keller scholarship	27,234	22,304
Pledge receivable for endowments	350,000	501,500
Residence endowment	905,137	905,137
Endowment for chair for research and education	1,046,771	1,000,000
Dr. Graham Shimmiel endowment	<u>312,071</u>	<u>302,071</u>
	<u>2,925,591</u>	<u>2,936,232</u>

## Notes to Financial Statements - Continued

### Bigelow Laboratory for Ocean Sciences

#### Note L - Liquidity and Availability

Financial assets consist of the Laboratory's cash and cash equivalents, contracts and grants receivable, pledges receivable, accounts receivable, and investments. The following reflects the Laboratory's financial assets as of June 30, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the date of the Statement of Net Position.

Financial assets available to meet cash needs for general expenditures within one year consists of the following at June 30:

	<u>2019</u>	<u>2018</u>
Financial assets, at year end	\$ 13,980,164	\$ 11,338,335
Less those unavailable for general expenditures within one year, due to:		
<i>Contractual or donor-imposed restrictions</i>		
Pledges receivable due in more than one year	(237,825)	(222,877)
Restricted by donor with time or purpose restrictions	<u>(6,425,093)</u>	<u>(5,250,989)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 7,317,246</u>	<u>\$ 5,864,469</u>

The Laboratory's financial assets available to meet cash needs for general expenditures within one year represents funding for ongoing operational requirements and planned increases in program expenditures in 2020.

The Laboratory is substantially supported by grants and contracts. The Laboratory actively manages its cash flow to ensure funds are available for general expenditures, liabilities, and other obligations as they come due. As more fully described in Note H, the Laboratory also has availability under the line of credit of \$1,000,000, should an unanticipated liquidity need be identified.

#### Note M - Retirement Plan

Substantially all eligible research and administrative personnel participate in individual annuity contracts through Teachers Insurance and Annuity Association College Retirement Equities Fund. Contributions for each annuity are made both by the participant and the Laboratory. The Laboratory's contributions amounted to \$302,945 and \$307,742 for the years ended June 30, 2019 and 2018, respectively.

## Notes to Financial Statements - Continued

### Bigelow Laboratory for Ocean Sciences

#### Note N - Leases

The Laboratory leases photocopiers and a mailing machine under operating leases. Lease expense amounted to \$15,994 and \$25,452 for the years ended June 30, 2019 and 2018, respectively. In July 2016, the Laboratory entered into a seven year lease agreement with ReVision Investments, LLC, whereby ReVision will be leasing solar power grids to the Laboratory for a period of seven years. At the end of the seven year period, the Laboratory will have an option to purchase the grids at fair market value. As of June 30, 2019, the future minimum lease payments for the years ending June 30 are as follows:

2020	\$	19,651
2021		10,107
2022		10,315
2023		13,978

#### Note O - Commitments and Contingencies

##### Grants

All government grants and contracts are subject to audit and acceptance of final costs by the appropriate governmental agency. Most contract terms contain a provisionally approved overhead rate that is subject to final government audit. To date, government audits have resulted in only minor settlement amounts.

In the opinion of the Laboratory, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the grants. Therefore, no provision has been recorded in the accompanying financial statements for such contingency.

##### Power Commitment

The Laboratory has also entered into a contract to purchase power from ReVision Investments, LLC for a period of twenty years, with an option to extend up to two additional terms of five year each. The contracted energy price per kilowatt hour (kWh) increases at an incremental rate each year, beginning at \$0.1100 per kWh in year one and ending at \$0.2089 per kWh in year twenty.

#### Note P - Concentrations

The Laboratory receives a substantial portion of its operating revenues (not including contributions for building construction and endowment contributions) from governmental agencies. For the years ended June 30, 2019 and 2018, the Laboratory received approximately 48% and 50%, respectively, of its operating revenues from governmental agencies. Receivables directly from government agencies comprised approximately 73% and 63% of contracts and grants receivables as of June 30, 2019 and 2018, respectively.

## **Notes to Financial Statements - Continued**

### **Bigelow Laboratory for Ocean Sciences**

#### **Note Q - Related Party Transactions**

During the years ended June 30, 2019 and 2018, the Laboratory received contributions of \$1,461,315 and \$973,560, respectively from Trustees and Advisory Board members.

#### **Note R - Income Taxes**

The Laboratory qualifies as an organization exempt from federal income tax under Internal Revenue Code Section 501(c)(3) and files a Form 990 tax return. With few exceptions, the Laboratory is no longer subject to U.S. federal income tax examinations by tax authorities for years before 2016 due to the statute of limitations. The Laboratory has adopted the provisions of FASB ASC, Income Taxes. Management of the Laboratory believes it has no material uncertain tax positions, and accordingly it will not recognize any liability for unrecognized tax benefits.

#### **Note S - Subsequent Events**

Management has made an evaluation of subsequent events to and including December 13, 2019, which was the date the financial statements were available to be issued, and determined that any subsequent events that would require recognition or disclosure have been considered in the preparation of the financial statements.



**Independent Auditors' 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***

**To the Board of Trustees  
Bigelow Laboratory for Ocean Sciences  
East Boothbay, Maine**

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, the financial statements of Bigelow Laboratory for Ocean Sciences (a nonprofit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, statements of functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 13, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Bigelow Laboratory for Ocean Sciences' 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 Bigelow Laboratory for Ocean Sciences' internal control. Accordingly, we do not express an opinion on the effectiveness of Bigelow Laboratory for Ocean Sciences' 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 Bigelow Laboratory for Ocean Sciences' 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 organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Purdy Powers & Company  
Professional Association

**Portland, Maine  
December 13, 2019**