

Financial Statements

Bigelow | Laboratory for
Ocean Sciences

June 30, 2020

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Bigelow Laboratory for Ocean Sciences

June 30, 2020

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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, 2020, 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, 2020, 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

We have previously audited Bigelow Laboratory for Ocean Sciences’s 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 13, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, 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 February 26, 2021, 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
February 26, 2021**

Statement of Financial Position

Bigelow Laboratory for Ocean Sciences

As of June 30, 2020

(with comparative totals for June 30, 2019)

	<u>2020</u>	<u>2019</u>
Current Assets		
Cash and cash equivalents	\$ 2,954,111	\$ 707,320
Cash restricted for improvements	-	36,044
Cash restricted for research	4,333,917	1,560,328
Contracts and grants receivable	748,925	1,675,837
Pledges receivable, current	160,059	375,666
Accounts receivable, net	249,155	206,908
Prepaid expenses	46,177	76,169
Total Current Assets	<u>8,492,344</u>	<u>4,638,272</u>
Property and Equipment , net of accumulated depreciation	35,761,704	36,891,086
Other Assets		
Pledges receivable long-term, net	400,785	237,825
Investments	4,815,603	6,265,177
Investments - endowment	4,329,882	3,152,884
	<u>9,546,270</u>	<u>9,655,886</u>
Total Assets	<u>\$ 53,800,318</u>	<u>\$ 51,185,244</u>
Current Liabilities		
Accounts payable	\$ 300,567	\$ 389,639
Accrued payroll and other expenses	570,781	456,445
Current portion of notes payable	309,511	160,326
Promissory note - Paycheck Protection Program	1,339,900	-
Deferred revenue	3,101,239	1,722,378
Total Current Liabilities	<u>5,621,998</u>	<u>2,728,788</u>
Long-Term Liabilities		
Notes payable, net of current portion	12,744,163	13,053,674
Less: unamortized debt issuance costs	(157,482)	(162,866)
Swap contract	2,924,973	984,678
	<u>15,511,654</u>	<u>13,875,486</u>
Total Liabilities	<u>21,133,652</u>	<u>16,604,274</u>
Net Assets		
Net assets without donor restrictions	12,855,587	12,762,596
Net assets with donor restrictions	19,811,079	21,818,374
Total Net Assets	<u>32,666,666</u>	<u>34,580,970</u>
Total Liabilities and Net Assets	<u>\$ 53,800,318</u>	<u>\$ 51,185,244</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, 2020
(with comparative totals for June 30, 2019)

	2020			2019
	Net Assets without Donor Restrictions	Net Assets with Donor Restrictions	Total	Total
Revenues and Other Support				
Grants and contracts	\$ 8,229,743	\$ 204,545	\$ 8,434,288	\$ 8,445,975
Contributions	2,957,781	477,926	3,435,707	2,827,732
Course fees	474,037	-	474,037	574,910
Other income	1,439,241	-	1,439,241	1,027,006
Net gain on investments	(12,044)	110,658	98,614	229,999
Net assets released from restrictions	853,619	(853,619)	-	-
Total Revenues and Other Support	13,942,377	(60,490)	13,881,887	13,105,622
Expenses				
Research and education	7,994,332	-	7,994,332	7,806,625
Management and general	5,029,721	-	5,029,721	4,286,460
Development	831,843	-	831,843	746,914
Total Expenses	13,855,896	-	13,855,896	12,839,999
Revenues Over (Under) Expenses	86,481	(60,490)	25,991	265,623
Non-Operating Revenue, Gains, and Losses				
Loss on interest rate swap	(1,940,295)	-	(1,940,295)	(984,678)
Increase (Decrease) in Net Assets	(1,853,814)	(60,490)	(1,914,304)	(719,055)
Net assets at beginning of year	12,762,596	21,818,374	34,580,970	35,300,025
Reclassification	1,946,805	(1,946,805)	-	-
Net Assets at End of Year	\$ 12,855,587	\$ 19,811,079	\$ 32,666,666	\$ 34,580,970

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, 2020

(with comparative totals for June 30, 2019)

	2020				2019
	Research & Education	Management & General	Development	Total	Total
Personnel					
Salaries and wages	\$ 2,976,224	\$ 1,730,823	\$ 375,940	\$ 5,082,987	\$ 4,599,353
Fringe benefits	1,417,342	776,263	194,225	2,387,830	2,127,214
Total Personnel	<u>4,393,566</u>	<u>2,507,086</u>	<u>570,165</u>	<u>7,470,817</u>	<u>6,726,567</u>
Other Expenses					
Subcontracts	666,748	-	-	666,748	560,770
Supplies and leases	783,309	84,955	4,771	873,035	842,186
Participant support	255,807	15,277	852.00	271,936	302,023
Publications, books and periodicals	26,843	11,290	-	38,133	56,160
Dues and licenses	11,483	96,168	11,049	118,700	101,293
Travel	131,477	35,307	23,934	190,718	188,601
Shipment costs	59,344	-	-	59,344	72,138
Telephone	2,637	38,713	4,324	45,674	66,553
Utilities	18,104	304,917	-	323,021	353,677
Equipment - federal	17,412	-	-	17,412	-
Equipment - non-federal	18,982	33,747	-	52,729	16,489
Repairs and maintenance	20,061	40,435	-	60,496	52,816
Shipping and postage	70,433	9,759	6,682	86,874	103,721
Consulting and contracted services	157,192	352,371	3,634	513,197	430,509
Professional fees	43,565	69,089	1,605	114,259	85,149
Insurance	552	121,016	-	121,568	111,220
Depreciation and amortization	1,260,059	719,024	163,521	2,142,604	2,095,499
Interest	3,025	532,060	-	535,085	511,649
Technical services	5,376	8,045	-	13,421	8,624
Training	13,949	3,142	1,917	19,008	32,281
Other	34,408	47,320	39,389	121,117	122,074
Total Other Expenses	<u>3,600,766</u>	<u>2,522,635</u>	<u>261,678</u>	<u>6,385,079</u>	<u>6,113,432</u>
Total Expenses Before Overhead Charge	<u>7,994,332</u>	<u>5,029,721</u>	<u>831,843</u>	<u>13,855,896</u>	<u>12,839,999</u>
Overhead Charged to Direct Research					
Costs and Development	<u>3,637,686</u>	<u>(3,896,089)</u>	<u>258,403</u>	<u>-</u>	<u>-</u>
	<u>\$ 11,632,018</u>	<u>\$ 1,133,632</u>	<u>\$ 1,090,246</u>	<u>\$ 13,855,896</u>	<u>\$ 12,839,999</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, 2020
(with comparative totals for June 30, 2019)

	<u>2020</u>	<u>2019</u>
Operating Activities		
Decrease in net assets	\$ (1,914,304)	\$ (719,055)
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	2,142,604	2,095,499
Change in allowance for doubtful accounts	(49,507)	-
Debt issuance costs	4,038	1,346
Pledges receivable restricted to endowment	36,000	251,500
Net gain on investments	(98,614)	(229,999)
Restricted contributions	(1,066,340)	(260,875)
Loss on interest rate swap	1,940,295	984,678
(Increase) Decrease in operating assets:		
Contracts and grants receivable	926,912	(860,456)
Pledges receivable	16,647	(203,614)
Accounts receivable	7,260	166,615
Inventory	-	1,689
Prepaid expenses	29,992	(5,942)
Increase (Decrease) in operating liabilities:		
Accounts payable	(89,072)	107,087
Accrued payroll and other expenses	114,336	5,214
Deferred revenue	1,378,861	953,733
Net Cash Provided by Operating Activities	<u>3,379,108</u>	<u>2,287,420</u>
Investing Activities		
Purchase of buildings and equipment	(1,013,222)	(654,942)
Proceeds from sale of investments	1,802,739	2,008,151
Purchase of investments	(1,431,549)	(4,356,725)
Net Cash Used by Investing Activities	<u>(642,032)</u>	<u>(3,003,516)</u>
Financing Activities		
Contribution restricted to endowments	1,066,340	260,875
Payments on notes payable	(158,980)	(107,123)
Proceeds from Paycheck Protection Program loan	1,339,900	-
Payments on capital lease	-	(5,407)
Net Cash Provided by Financing Activities	<u>2,247,260</u>	<u>148,345</u>
Increase (Decrease) in Cash	4,984,336	(567,751)
Cash and cash equivalents at beginning of year	<u>2,303,692</u>	<u>2,871,443</u>
Cash and Cash Equivalents at End of Year	<u>\$ 7,288,028</u>	<u>\$ 2,303,692</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for interest	<u>\$ 491,468</u>	<u>\$ 510,303</u>
Components of Cash:		
Cash and cash equivalents	\$ 2,954,111	707,320
Cash restricted for improvements	-	36,044
Cash restricted for research	<u>4,333,917</u>	<u>1,560,328</u>
	<u>\$ 7,288,028</u>	<u>\$ 2,303,692</u>
Non-cash Activity:		
Notes payable and debt issue costs paid off with loan proceeds	<u>\$ -</u>	<u>\$ 12,914,000</u>

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

Notes to Financial Statements - Continued

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 \$10,493 and \$60,000 at June 30, 2020 and 2019, respectively.

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, 2020 and 2019 was \$2,142,604 and \$2,095,499, 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 \$5,384 and \$1,346 as of June 30, 2020 and 2019, respectively.

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.

On July 1, 2019, the Company adopted ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This ASU includes specific criteria to consider when determining whether a contract or agreement should be accounted for as a contribution or as an exchange transaction. It also provides a framework for determining whether a contribution is conditional or unconditional, and thus the timing of revenue recognition.

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. In June of 2020, the FASB issued an update granting a one-year effective date delay in implementation to private companies and not-for-profit organizations that have not yet applied the revenue recognition standard. Early application continues to be permitted. The new Standard will thus be adopted by the Laboratory beginning in the fiscal year ended June 30, 2021 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, 2021. 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, 2019, 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 \$748,925 and \$1,675,837 of contracts and grants receivable due as of June 30, 2020 and 2019, 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, 2020 and 2019, the future research conditional awards were \$9,882,495 and \$5,070,084, respectively.

Future unconditional awards are as follows as of June 30:

	<u>2020</u>	<u>2019</u>
Research awards	\$ 12,098,954	\$ 11,786,493
Education	529,469	126,311
Plant and equipment awards	28,075	28,805
Core facility	<u>358,032</u>	<u>3,594</u>
	<u>\$ 13,014,530</u>	<u>\$ 11,945,203</u>

Note C - Pledges Receivable

Pledges receivable are as follows as of June 30:

	<u>2020</u>	<u>2019</u>
Annual fund	\$ 535,309	\$ 200,000
Endowment for VP of Education	36,000	62,000
Endowment for Chair for Research and Education	-	250,000
Fellowship	<u>-</u>	<u>110,000</u>
	571,309	622,000
Less discount	<u>(10,465)</u>	<u>(8,509)</u>
Pledges receivable, net of discount	<u>\$ 560,844</u>	<u>\$ 613,491</u>
Amounts due in:		
Less than one year	\$ 160,059	\$ 375,666
One to five years	<u>411,250</u>	<u>246,334</u>
	<u>\$ 571,309</u>	<u>\$ 622,000</u>

Notes to Financial Statements - Continued

Bigelow Laboratory for Ocean Sciences

Note C - Pledges Receivable - Continued

For the years ended June 30, 2020 and 2019, a discount rate of 1.6% was applied to pledges receivable in excess of one year.

Approximately 80% and 72% of unconditional promises to give received during the years ended June 30, 2020 and 2019, 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>2020</u>	<u>2019</u>
Land	\$ 2,800,537	\$ 2,800,537
Site work - new campus	5,289,188	5,289,188
Buildings – new campus	34,431,329	34,246,115
Buildings other	489,598	489,598
Administrative furnishings and equipment	172,373	164,687
Facilities equipment	5,600,293	5,357,284
Scientific equipment acquired through grants	8,585,971	8,226,740
Equipment – matching portion	246,097	246,097
Donated equipment and furnishings	239,121	239,121
Leasehold improvements	37,338	37,338
	<u>57,891,845</u>	<u>57,096,705</u>
Less: accumulated depreciation	<u>22,348,222</u>	<u>20,205,619</u>
	35,543,623	36,891,086
Add: construction in progress	218,081	-
	<u>\$ 35,761,704</u>	<u>\$ 36,891,086</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>2020</u>	<u>2019</u>
Money market funds	\$ 431,754	\$ 4,685,899
Equity funds	2,238,337	385,140
Exchange traded funds	<u>6,475,394</u>	<u>4,347,022</u>
	<u>\$ 9,145,485</u>	<u>\$ 9,418,061</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, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market funds	\$ 431,754	\$ -	\$ -	\$ 431,754
Equity funds	2,238,337	-	-	2,238,337
Exchange traded funds	<u>6,475,394</u>	<u>-</u>	<u>-</u>	<u>6,475,394</u>
Total investments	<u>\$ 9,145,485</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,145,485</u>

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	\$ 4,685,899	\$ -	\$ -	\$ 4,685,899
Equity funds	385,140	-	-	385,140
Exchange traded funds	<u>4,347,022</u>	<u>-</u>	<u>-</u>	<u>4,347,022</u>
Total investments	<u>\$ 9,418,061</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,418,061</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, 2020:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 4,329,882	\$ 4,329,882

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

Changes in endowment net assets for the year ended June 30, 2020 are as follows:

	Without Donor <u>Restrictions</u>	With Donor <u>Restrictions</u>	<u>Total</u>
Endowment, beginning of year	\$ -	\$ 3,152,884	\$ 3,152,884
Contributions received	-	1,066,340	1,066,340
Investment return (loss)	-	110,658	110,658
Appropriation of endowment assets for expenditure	-	-	-
Transfers from board designated endowment fund	-	-	-
Endowment, end of year	<u>\$ -</u>	<u>\$ 4,329,882</u>	<u>\$ 4,329,882</u>

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, 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	-	116,918	116,918
Appropriation of endowment assets for expenditure	-	-	-
Transfer to board designated endowment fund	-	-	-
Endowment, end of year	<u>\$ -</u>	<u>\$ 3,152,884</u>	<u>\$ 3,152,884</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 (3.25% and 5.5% at June 30, 2020 and 2019, respectively). The line renews annually and is unsecured. There was no outstanding balance at June 30, 2020 and 2019.

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 3rd party, to perform a valuation of the swap as of June 30, 2020 and 2019, respectively. 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, 2020 and 2019, the market value of the interest rate swap of (\$2,924,973) and (\$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>2020</u>	<u>2019</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.	\$ 12,753,674	\$ 12,914,000
Note payable to Maine Community Foundation requiring quarterly payments of interest only at a fixed rate of 2% through December 31, 2025. All principal is due in full on December 31, 2025.	<u>300,000</u>	<u>300,000</u>
	13,053,674	13,214,000
Less current portion	<u>309,511</u>	<u>160,326</u>
Long-term debt, net of current portion	<u>\$ 12,744,163</u>	<u>\$ 13,053,674</u>

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

2021	\$ 309,511
2022	319,097
2023	329,051
2024	338,155
2025	350,073
Thereafter	<u>11,407,787</u>
	<u>\$ 13,053,674</u>

Note K - Promissory Note - Paycheck Protection Program

During the year ended June 30, 2020, the Laboratory received a loan through the U.S. SBA (Small Business Administration) Paycheck Protection Program (PPP), established as part of the 2020 CARES Act. The \$1,339,900 promissory note will be forgiven if the loan is used for payroll, rent, mortgage interest, or utilities incurred over the twenty four week period starting from the day the funds were received from the lender (with at least 60% of the loan being used for payroll). In addition, the Bigelow Laboratory for Ocean Sciences must maintain staffing and 75% of salaries as assessed individually, subject to certain exemptions. For any portion of the loan not forgiven, principal and interest payments shall begin on the seven month anniversary of execution of the note, with interest at a rate of 1% and principal in an amount so that the remaining loan balance fully amortizes by the maturity date of April 10, 2022.

Notes to Financial Statements - Continued

Bigelow Laboratory for Ocean Sciences

Note K - Promissory Note - Paycheck Protection Program - Continued

During the year ended June 30, 2020, the Laboratory incurred certain expenses identified above as eligible for forgiveness, with additional amounts charged subsequent to year end. However, as of June 30, 2020 no final determination on forgiveness had been made, and thus the entire loan balance of \$1,339,900 is recorded as a short term promissory note payable on the accompanying Statement of Financial Position.

Note L - Net Assets with Donor Restrictions

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

	<u>2020</u>	<u>2019</u>
<i>Subject to expenditure for specified purpose:</i>		
Grant equipment	\$ 597,224	\$ 741,258
Grant buildings	14,269,655	14,846,116
Donated equipment	44,702	66,034
Research and education support	164,516	181,737
Campus facility improvements	-	36,044
Advancement	215,874	280,767
Other	<u>275,401</u>	<u>177,541</u>
	<u>\$ 15,567,372</u>	<u>\$ 16,329,497</u>
 <i>Subject to the passage of time:</i>		
Pledges receivable	<u>\$ 375,535</u>	<u>\$ 493,350</u>
 <i>Not subject to appropriation or expenditure:</i>		
General operations support	\$ 147,250	\$ 246,500
National Center for Marine Algae and Microbiota	55,161	55,161
Principal investigator salaries	11,000	11,000
Keller scholarship	27,234	27,234
Residence endowment	1,202,207	920,636
Endowment for chair for research and education	2,000,000	1,500,000
Dr. Graham Shimmiel endowment	<u>425,320</u>	<u>288,191</u>
	<u>\$ 3,868,172</u>	<u>\$ 3,048,722</u>
 See Note U for reclassification of prior year restricted funds	 <u>\$ 19,811,079</u>	 <u>\$ 19,871,569</u>

Notes to Financial Statements - Continued

Bigelow Laboratory for Ocean Sciences

Note M - Board Designated Net Assets

The Laboratory has set aside funds received primarily from the proceeds from a prior insurance claim, as well as a bequest received during the year ended June 30, 2020. The balances of \$2,336,778 and \$1,946,805 at June 30, 2020 and 2019, respectively, may only be used with Board approval. No specified purpose has been identified for the future expenditure of the designated funds.

Note N - 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>2020</u>	<u>2019</u>
Financial assets, at year end	\$ 17,591,652	\$ 13,980,164
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	(400,785)	(237,825)
Restricted by donor with time or purpose restrictions	<u>(9,412,726)</u>	<u>(6,425,093)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 7,778,141</u>	<u>\$ 7,317,246</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 2021.

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.

Notes to Financial Statements - Continued

Bigelow Laboratory for Ocean Sciences

Note O - 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 \$420,481 and \$302,945 for the years ended June 30, 2020 and 2019, respectively. Prior to the year ended June 30, 2020, the Laboratory became aware of compliance issues related to its 403(b) plan, and took steps to identify and take the necessary voluntary corrective measures. In January and February of 2020, the plan contributed \$92,854 of principal contributions and lost earnings related to the prior issues. As of the report date, management believes it has taken all necessary corrective action.

Note P - Leases

The Laboratory leases photocopiers and a mailing machine under operating leases. Lease expense amounted to \$12,633 and \$15,994 for the years ended June 30, 2020 and 2019, 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, 2020, the future minimum lease payments for the years ending June 30 are as follows:

2021	\$	10,107
2022		10,315
2023		13,978

Note Q - 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.

Notes to Financial Statements - Continued

Bigelow Laboratory for Ocean Sciences

Note Q - Commitments and Contingencies - Continued

COVID-19 Pandemic

Bigelow Laboratory for Ocean Sciences and its operations have been significantly impacted by the COVID-19 pandemic. As of the report date, there is uncertainty associated with the pandemic's impact on fundraising, as well as potential volatility in governmental and private grants and contracts impacting the Laboratory's CORE service areas.

Note R - 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, 2020 and 2019, the Laboratory received approximately 47% and 48%, respectively, of its operating revenues from governmental agencies. Receivables directly from government agencies comprised approximately 75% and 83% of contracts and grants receivables as of June 30, 2020 and 2019, respectively.

Note S - Related Party Transactions

During the years ended June 30, 2020 and 2019, the Laboratory received contributions of \$1,380,144 and \$1,461,315, respectively from Trustees and Advisory Board members.

Note T - 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 2017 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.

Notes to Financial Statements - Continued

Bigelow Laboratory for Ocean Sciences

Note U - Reclassification

During the year ended June 30, 2020, management and staff undertook an effort to revisit the propriety of restrictions and designations on funds received both in the current and in prior years. As part of the endeavor, a determination was made that \$1,946,805 of balances that had previously been recorded as subject to expenditure for a specified purpose did not have any such donor restrictions. These funds were in fact internally designated by the Board of Trustees upon or shortly after receipt, to be set aside for a future as yet to be determined purpose. Accordingly, a reclassification of the balance to Net Assets without Donor Restrictions has been reflected on the attached Statement of Activities for the year ended June 30, 2020.

Note V - Subsequent Events

Subsequent to June 30, 2020, the Bigelow Laboratory for Ocean Sciences incurred allowable expenses and met the staffing and pay rate requirement sufficient for full forgiveness of its promissory note received through the Payroll Protection Program. In November of 2020 the Laboratory received notification that the SBA has provided full forgiveness of the loan.

In August 2020, the Laboratory entered into a bill credit agreement to purchase solar power from Sunrise Energy from a 3rd party array that is expected to be completed within 12 months. Once complete, Bigelow agrees to purchase 90% of its 2019 calendar year power usage at a discounted rate of 2 cents/kWh below the CMP prevailing meter rate for entities of Bigelow's size for a period of 20 years.

Management has made an evaluation of subsequent events to and including February 26, 2021, 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, 2020, and the related statements of activities, 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 February 26, 2021.

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) as a basis for designing 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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
February 26, 2021