

***THE MOUNT DESERT ISLAND
BIOLOGICAL LABORATORY
INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED
DECEMBER 31, 2016***

**THE MOUNT DESERT ISLAND BIOLOGICAL LABORATORY
TABLE OF CONTENTS
FOR THE YEAR ENDED DECEMBER 31, 2016**

TABLE OF CONTENTS

Pages

INDEPENDENT AUDITORS' REPORT 1 - 2

FINANCIAL STATEMENTS

EXHIBITS

Statement of Financial Position 3

Statement of Activities 4

Statement of Cash Flows 5

NOTES TO FINANCIAL STATEMENTS 6 - 18

SUPPLEMENTAL SCHEDULES

Schedule 1 - Comparative Statements of Financial Position 19

Schedule 2 - Comparative Statements of Activities 20

SINGLE AUDIT ACT

INDEPENDENT AUDITORS' REPORTS & SCHEDULES

Schedule of Expenditures of Federal Awards 21

Notes to Schedule of Expenditures of Federal Awards 22

*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* 23 - 24

*Independent Auditors' Report on Compliance for each Major Program
and on Internal Control over Compliance Required by the Uniform Guidance* 25 - 26

Schedule of Findings and Questioned Costs 27 - 28





HORTON, McFARLAND & VEYSEY, LLC
CERTIFIED PUBLIC ACCOUNTANTS
P.O. BOX 543
ELLSWORTH, MAINE 04605
207-667-5529 • 1-800-499-9108 • FAX 207-667-9915

James E. McFarland, CPA
Annette L. Gould, CPA
Ellen Cleveland, CPA
M.R. Horton, Jr., CPA
(1925 -2010)
Floyd S. Veysey, CPA
(1948 - 2006)

Amy J. Billings, CPA
Nicholas Henry, CPA

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Mount Desert Island Biological Laboratory

Report on the Financial Statements

We have audited the accompanying financial statements of Mount Desert Island Biological Laboratory (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, 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 Mount Desert Island Biological Laboratory as of December 31, 2016, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules on pages 19-20 and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 2, 2017, on our consideration of Mount Desert Island Biological Laboratory's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Mount Desert Island Biological Laboratory's internal control over financial reporting and compliance.

Horton, McFarland & Veysey, LLC
Horton, McFarland & Veysey, LLC
Ellsworth, ME
June 2, 2017



**THE MOUNT DESERT ISLAND BIOLOGICAL LABORATORY
STATEMENT OF FINANCIAL POSITION
AT DECEMBER 31, 2016**

Assets

Current Assets:	
Cash & Cash Equivalents	2,726,302
Certificates of Deposit	6,628,127
Accounts Receivable (Net of Allowance)	126,054
Grants Receivable	1,003,792
Contributions Receivable	28,675
Pledges Receivable	366,417
Prepaid Expenses	5,070
Total Current Assets	<u>10,884,437</u>
Non Current Assets:	
Pledges Receivable (Net of Discount)	682,869
Investments	5,224,082
Investments - Charitable Gift Annuities	24,532
Land, Buildings & Equipment (Net of Depreciation)	14,409,381
Total Non Current Assets	<u>20,340,864</u>
Total Assets	<u>31,225,301</u>

Liabilities

Current Liabilities:	
Accounts Payable	612,870
Accrued Indirect Cost Adjustments	566,345
Revenues Received in Advance	6,900
Deferred Grants	466,429
Charitable Gift Annuities	1,493
Bonds Payable	125,000
Total Current Liabilities	<u>1,779,037</u>
Long Term Liabilities:	
Charitable Gift Annuities	8,012
Bonds Payable	4,175,000
Less: Bond Issuance Costs (Net of Amortization)	(128,429)
Total Long Term Liabilities	<u>4,054,583</u>
Total Liabilities	<u>5,833,620</u>

Net Assets

Unrestricted	12,877,491
Temporarily Restricted	8,065,808
Permanently Restricted	4,448,382
Total Net Assets	<u>25,391,681</u>
Total Liabilities & Net Assets	<u>31,225,301</u>

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



THE MOUNT DESERT ISLAND BIOLOGICAL LABORATORY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Operating Support and Revenue				
Grants & Contracts	5,626,241			5,626,241
Indirect Costs Recovered-Grants & Contracts	1,766,983			1,766,983
Contributions & Private Grants	976,002	287,252	13,035	1,276,289
Fees for Programs & Services	1,633,621			1,633,621
Interest Income (Net of Fees)	11,513	22,465		33,978
Long-Term Investment Return Utilized	211,412			211,412
Miscellaneous Revenue	19,041	1,000		20,041
Net Assets Released from Restrictions	664,716	(664,716)		-
Total Operating Support & Revenue	10,909,529	(353,999)	13,035	10,568,565
Operating Expenses				
Research Programs & Core Services	3,299,495			3,299,495
Research Training & Education Programs	1,075,044			1,075,044
Research Subawards	2,532,939			2,532,939
Facilities & Food Services	1,148,140			1,148,140
Development & Public Affairs	605,408			605,408
General Administration	1,759,870			1,759,870
Bond & Mortgage Interest	245,154			245,154
Depreciation & Amortization	1,192,633			1,192,633
Total Operating Expenses	11,858,683	-	-	11,858,683
Change in Net Assets from Operating Activities	(949,154)	(353,999)	13,035	(1,290,118)
Non-Operating Activities				
Government Grants for Capital Purposes	2,400,719			2,400,719
Contributions & Non-government Grants for Capital Purposes	32,986			32,986
Proceeds from the Sale of Assets	500			500
Long-Term Investment Return	1,673	481,293		482,966
Change in Value of Split-Interest Agreements	(357)			(357)
Long-Term Investment Return Utilized by Operations		(211,412)		(211,412)
Total Non-Operating Activities	2,435,521	269,881	-	2,705,402
Total Change in Net Assets	1,486,367	(84,118)	13,035	1,415,284
Net Assets, Beginning of Year (Restated)	11,391,124	8,149,926	4,435,347	23,976,397
Net Assets, End of Year	12,877,491	8,065,808	4,448,382	25,391,681

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



**THE MOUNT DESERT ISLAND BIOLOGICAL LABORATORY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016**

Cash Flows from Operating Activities

Change in Net Assets	1,415,284
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:	
Provision For Depreciation & Amortization	1,192,633
Unrealized (Gains) Losses on Investments	(386,651)
Realized Loss on Disposal of Assets	154,867
Decrease (Increase) in:	
Accounts Receivable	(48,641)
Grants Receivable	(453,559)
Contributions & Pledges Receivable (Net of Discount)	335,775
Prepaid Expenses	15,880
Increase (Decrease) in:	
Accounts Payable	4,660
Charitable Gift Annuities	(1,493)
Accrued Indirect Cost Adjustments	106,024
Revenues Received in Advance & Deferred Grants	236,679

Net Cash Provided by Operating Activities 2,571,458

Cash Flows From Financing Activities

Repayment of Loans (115,000)

Net Cash Provided By Financing Activities (115,000)

Cash Flows From Investing Activities

(Purchase) Sale of Investments (Net)	(97,160)
(Purchase) Sale of Certificates of Deposit	(2,485,333)
Building and Plant Improvements	(2,071,457)
Purchase of Equipment	(576,015)

Net Cash Used By Investing Activities (5,229,965)

Increase (Decrease) in Cash & Equivalents (2,773,507)

Cash & Equivalents, Beginning of Period 5,499,809

Cash & Equivalents, End of Period 2,726,302

Supplemental Disclosures of Cash Flow Information:

Cash Paid During the Year for:

 Interest Expense 243,904

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



NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Mount Desert Island Biological Laboratory's (the Institution) financial statements include the operations for which the Board of Trustees exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

NATURE OF ACTIVITIES

The Mount Desert Island Biological Laboratory is a nonprofit; no stock corporation organized in the State of Maine. The Institution is a scientific research and educational facility located in Bar Harbor, Maine. It is funded primarily through grants and contributions.

BASIS OF PRESENTATION

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. The Institution reports gifts of land, buildings, and equipment as unrestricted support (revenue) unless explicit donor-imposed restrictions specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support (revenue). Without explicit donor-imposed stipulations about how long those long-lived assets must be maintained, the Institution reports expirations of donor-imposed restrictions when the donated or acquired long-lived assets are placed into service. When a donor-imposed restriction expires, that is, when the stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Mount Desert Island Biological Laboratory complies with the *Financial Statements of Not-for-profit Organizations* topic of the FASB Codification. Under this topic, the Institution is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

A description of The Mount Desert Island Biological Laboratory's net asset categories is as follows:

Unrestricted - Unrestricted net assets consist of investments and otherwise unrestricted amounts that are available for use in carrying out the mission of the Institution, and include those expendable resources which have been designated for special use by the Board of Trustees.

Temporarily Restricted - Temporarily restricted net assets represent those amounts which are donor restricted for specific purposes. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.



NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Permanently Restricted - Permanently restricted net assets result from contributions from donors who place restrictions on the use of the funds which mandate that the original principal be invested in perpetuity. Generally, the donors of these assets permit the Institution to use all or part of the income earned on related investments for general or specific purposes.

MANAGEMENT ESTIMATES

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

FAIR VALUE OF FINANCIAL MEASUREMENTS

In accordance with financial accounting standards, a three-tiered hierarchy of input levels is used for measuring fair value. Financial accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Valuation techniques utilized to determine fair value are consistently applied. The three tiers of input used for fair value measurement are as follows:

Level 1: Fair values based on quoted market prices in active markets for identical assets and liabilities.

Level 2: Fair values are based on observable inputs that include: quoted market prices for similar assets and liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the assets.

Level 3: Fair values are calculated by the use of pricing models and/or discounted cash flow methodologies and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data.

The Mount Desert Island Biological Laboratory's only financial instrument that is reported at fair value is the investments, which fall under Level 1 of the fair value hierarchy.

The carrying amount of bonds payable approximates fair value because these financial instruments bear interest at variable rates, which approximate current market rates for notes with similar maturities and credit quality.

The carrying amount of cash and cash equivalents, accounts receivable, grants receivable, and notes receivable approximates fair value because of the short maturity of these financial instruments. The carrying value, which is the fair value of investments, is based upon values provided by an external investment manager or quoted market values. In the limited cases where such values are not available, historical cost is used as an estimate of market value.



NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INCOME TAX STATUS

The Institution qualifies as an organization exempt from income tax under Section 501(c) (3) of the Internal Revenue Code. The Institution did not have gross income (gross income is gross receipts minus the cost of goods sold) from unrelated trade or business activities of \$1,000 or more. Unrelated trade or business income is the gross income derived from any trade or business activity that is regularly carried on, and not substantially related to the Organization's exempt purpose or function (aside from the Organization's need for income or funds or the use it makes of the profits).

The Institution regularly reviews and evaluates its tax position taken in previously filed information returns and as is reflected in its financial statements, with regard to issues affecting its tax exempt status, unrelated business income, and related matters. The Institution believes that in the event of an examination by taxing authorities, its position would prevail based upon technical merit of such positions. Therefore, the Institution has concluded that no tax benefits or liabilities are required to be recognized. The Institution's tax returns are subject to federal and state review by taxing authorities for fiscal years ended December 31, 2014, 2015, 2016.

The Institution is subject to federal and state payroll taxes and is required to file the appropriate tax returns. Management believes that all required returns have been properly filed as of December 31, 2016. No examinations have been conducted by the federal or state taxing authorities and no correspondence has been received from these authorities.

CASH, CASH EQUIVALENTS AND CUSTODIAL CREDIT RISK

The Mount Desert Island Biological Laboratory maintains its cash balances at various financial institutions. At each FDIC insured institution, Mount Desert Island Biological Laboratory's cash deposits, including certificates of deposits, are insured up to \$250,000 by the FDIC. In some instances, cash deposits in excess of the \$250,000 FDIC limit are swept into repurchase agreements for overnight investment in securities held in a Federal Reserve account pledged by the bank as collateral for these funds above the FDIC limit. The securities subject to repurchase agreement are not insured by the FDIC. Funds held by the bank pursuant to a repurchase agreement do not constitute a deposit and, therefore, are not insured by the FDIC or by the United States Government or any of its agencies. With respect to amounts invested in these repurchase agreements, the FDIC has stated that customers will be treated as a secured creditor of the bank in the event of the Bank's insolvency.

At December 31, 2016, total cash deposits with financial institutions, including certificates of deposit, were \$9,513,355. Of these cash deposits \$36,797 were uninsured and uncollateralized.

For purposes of the statements of cash flows, cash and cash equivalents are comprised of cash on hand and demand deposits with banks and other financial institutions with an original maturity of three months or less.



NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deposits and Investments

The Institution has adopted deposit and investment policies that govern the Institution's allowable deposits or investments and address the specific types of risk to which the Institution is exposed. The objective for endowment funds is to match the S&P 500 stock index (net of fees) over a three year period. The equity portfolio will be broadly diversified according to economic sector, industry, number of holdings and other investment characteristics. The objective for non-endowment funds is to maximize earnings without causing significant risk to principal. The Institution does not have a formal policy of requiring collateral or other security support for financial instruments subject to credit risk.

Certificates of Deposit

The Institution has invested in Certificates of Deposit through the CDARS Network which allows the Institution to deposit large amounts with a CDARS Network member who places the funds in FDIC insured CD's issued by other members of the Network. At December 31, 2016, the Institution has CDARS Network Certificates of Deposit maturing from January 2017 to December 2017.

ACCOUNTS RECEIVABLE

Accounts receivable are stated at net realizable value. Uncollectible accounts are written off in the year in which they are deemed to be uncollectible. An allowance for doubtful accounts of \$5,071 has been netted against accounts receivable as of December 31, 2016. The calculation of the allowance is based on management's review of the individual receivables and past experience of the Institution.

PREPAID EXPENSES

Payments to vendors that will benefit periods beyond the current fiscal year are recorded as prepaid expenses.

GENERAL FIXED ASSETS, DEPRECIATION AND AMORTIZATION

Fixed assets of the Institution include land, land improvements, buildings, building improvements, vehicles, equipment, and all other tangible and intangible assets which may arise that are used in operations and that have an initial useful life extending beyond a single fiscal year. All improvements to fixed assets which add to the value or materially extend the life of the asset are capitalized. All fixed assets of the Institution are recorded at historical cost or estimated historical cost when the actual amount is not available. The historical cost of these assets includes not only the cost of the asset but also may include capitalized interest charges and other direct costs associated with placing the asset into its intended location and its intended use. Donated fixed assets are reported at their fair value or the estimated fair value at the time of acquisition plus other direct costs associated with placing the asset into its intended location and intended use.



NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Land is not depreciated. All other individual fixed assets of the Institution are depreciated over their estimated useful lives using the straight-line method. Under this method, the recorded cost of each fixed asset less any estimated residual value is divided by the estimated useful life resulting in an even amount of depreciation to be taken on an annual basis. The estimated residual value is the amount that the capital asset is expected to be worth at the end of its useful life. Fixed assets which are under construction but not yet completed are recorded as construction in progress. These fixed assets will not begin to be depreciated until they are completed. See note on long term liabilities for descriptions of assets pledged as collateral for debt.

The Institution follows the policy of establishing a provision for annual amounts of depreciation, which allocates the cost of the plant, property, and equipment over its estimated useful life. The ranges of estimated useful lives and methods of depreciation used are:

	Years	Method
Buildings & Improvements	20 – 40	Straight-Line
Equipment & Furnishings	5 – 10	Straight-Line

CONTRIBUTIONS, PROMISES TO GIVE AND IN KIND CONTRIBUTIONS

Contributions are recognized when the donor makes a promise to give to the Institution that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Contributions and pledges receivable are recorded at their estimated net realizable value (discounted to present value).

The Institution uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Gifts of equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated asset must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how those assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.



NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In accordance with financial accounting standards, the financial statements reflect only those contributed services requiring specific expertise, which the Institution would otherwise need to purchase. However, many individuals volunteer their time and perform a variety of tasks, such as assisting special events. Contributed goods and services are recorded at rates that would have been paid for similar goods or services if purchased and are included in contributions. There were contributed legal services recorded for the year ended December 31, 2016 in the amount of \$77,748. The services related to an intellectual property project being conducted by the Institution.

INVESTMENTS AND INVESTMENT INCOME

It is the Institution's policy to value investments and record investment interest, fees, realized and unrealized gains and losses in accordance with Financial Accounting Standard Board (FASB) ASC 958-320, *Not-for-Profit Entities, Investments – Debt and Equity Securities*. In accordance with this codification section, Institution investments are recorded at their fair value at the Statement of Financial Position date. The investments of the Institution consist exclusively of equity investments for which the fair value is readily available through market quotes and other areas. This use of quoted prices to determine fair value is referred to as level 1 of the three level hierarchies for determining the fair value of investments. The Institution's method for valuing its investments has not changed during the current fiscal year in comparison to prior fiscal year. The investment policy of the Institution is to obtain a consistent rate of return on its investments with as little exposure to risks as possible. Withdrawals from the investments held as endowment funds require Board of Trustee approval. The Institution's spending policy for endowment funds allows for expending up to 5% of the three year trailing average of each individual endowment fund based on December 31 values as approved by the Board of Trustees.

ADVERTISING

All non-direct response advertising costs of the Institution are expensed as they are incurred. Total advertising costs incurred by the Institution was \$21,250 for the fiscal year ended December 31, 2016.

RETIREMENT PLAN

The Institution has a defined contribution 403b salary deferral retirement plan covering substantially all the employees, which is administered through TIAA. The Institution's policy is to fund retirement costs as they are accrued. Retirement costs for 2016 were \$186,017.

SUBSEQUENT EVENTS MEASUREMENT DATE

The Mount Desert Island Biological Laboratory monitored and evaluated any subsequent events for footnote disclosures or adjustments required in its financial statements from the year end of December 31, 2016 through June 2, 2017, the date on which the financial statements were available to be issued.



**THE MOUNT DESERT ISLAND BIOLOGICAL LABORATORY
NOTES TO FINANCIAL STATEMENTS
AT DECEMBER 31, 2016**

NOTE 2 – ASSET COLLATERALIZED AND LETTER OF CREDIT

The Institution has assigned a security interest in the Institution's First Advisor Investment account of not less than \$200,000 to The First, N.A. to establish a \$150,000 Irrevocable Standby Letter of Credit with that bank. This action was taken in accordance with regulations of the U. S. Nuclear Regulatory Commission to guarantee financial responsibility for any clean-up resulting from radioactive contamination. This assignment does not affect earnings but it does impair liquidity.

NOTE 3 – PLEDGES RECEIVABLE

As of December 31, 2016 the Institution had outstanding pledges receivable totaling \$1,083,583 with a present value discount of \$34,297 for a discounted value of \$1,049,286. Pledges are discounted using the effective interest rate method at 3%. All pledges are expected to be collected and no allowance has been made for uncollectible amounts.

Pledges receivable are scheduled to be received as follows:

Less than 1 Year	366,417
1 to 5 Years	<u>717,166</u>
	<u>1,083,583</u>

NOTE 4 – FIXED ASSETS AND DEPRECIATION

Fixed assets consisted of the following at December 31, 2016:

Description	Balance 1/1/16	Additions	Transfers	Disposals	Balance 12/31/16
Land	116,870				116,870
Buildings & Improvements	18,363,672		23,559	(303,614)	18,083,617
Construction in Progress	-	2,071,457	(23,559)		2,047,898
Equipment & Furnishings	7,163,228	576,015		(14,516)	7,724,727
	<u>25,643,770</u>	<u>2,647,472</u>	-	<u>(318,130)</u>	<u>27,973,112</u>
Less: Accumulated Depreciation	12,540,782	1,186,212		(163,263)	13,563,731
Total Net Fixed Assets	<u>13,102,988</u>	<u>1,461,260</u>	-	<u>(154,867)</u>	<u>14,409,381</u>

NOTE 5 – BOND PAYABLE

Bond payable debt at December 31, 2016 consisted of one bond with a principal balance of \$4,300,000, issued through the Finance Authority of Maine, variable rate revenue bonds (Mount Desert Island Biological Laboratory Issue Series 2007). The bonds are secured by a Letter of Credit Reimbursement Agreement with Bar Harbor Bank & Trust. This Letter of Credit Reimbursement Agreement is secured by a security agreement between the Institution and the Bank dated October 1, 2009. The Institution has entered into an interest rate Swap Agreement to minimize the effects of the variable interest rate. Interest is payable monthly. The first principal payment was made December 1, 2010, and the final payment is due December 1, 2036. The bonds are subject to certain covenants, the most restrictive covenant requires a minimum debt service coverage ratio.



**THE MOUNT DESERT ISLAND BIOLOGICAL LABORATORY
NOTES TO FINANCIAL STATEMENTS
AT DECEMBER 31, 2016**

NOTE 5 – BOND PAYABLE (Continued)

At December 31, 2016, The Institution was in compliance with the required debt service coverage ratio.

Maturity of long-term debt is as follows:

Year ending December 31,	Amount
2017	125,000
2018	130,000
2019	140,000
2020	145,000
2021	155,000
2022-2026	900,000
2027-2031	1,170,000
2032-2036	<u>1,535,000</u>
	<u><u>4,300,000</u></u>

The above bond payable is secured by any and all business assets of the Institution, including but not limited to: all machinery, equipment, fixtures, appliances, furnishings, supplies, inventory, receivables, general intangibles, investment property, real property, insurance proceeds and settlements.

The calculation of the required minimum debt service ratio referred to above is:

Change in Unrestricted Net Assets From Operating Activities	(949,154)
Add Back:	
Depreciation & Amortization	1,192,633
Bond Interest & Fees	<u>245,154</u>
Funds Available for Debt Service	<u><u>488,633</u></u>
Debt Service to Others:	
Bond Principal Payments	115,000
Bond Interest & Fees	<u>245,154</u>
Total Debt Service to Others	<u><u>360,154</u></u>
Debt Service Coverage Ratio (1.1 or Higher Required)	1.36

NOTE 6 – CHARITABLE GIFT ANNUITIES

The Institution has established a gift annuities program which allows the Institution to accept a gift from a donor in exchange for the Institution agreeing to pay the Donor's annuity payments until the Donor's death. The Institution evaluates each potential annuity prior to acceptance with the consideration of the age of the donor, terms of the annuity payments, required payments terms, and the gift acceptance policy.



**THE MOUNT DESERT ISLAND BIOLOGICAL LABORATORY
NOTES TO FINANCIAL STATEMENTS
AT DECEMBER 31, 2016**

NOTE 6 – CHARITABLE GIFT ANNUITIES (Continued)

Upon execution of the charitable gift annuity agreements, the Institution records an asset for the fair market value of the charitable gift annuities and a liability based upon the actuarial present value of amounts expected to be paid to donors. The net of the gift annuity asset and liability is the remainder interest, the residual the Institution expects to receive from the annuities. The present value is readjusted annually.

The following table summarizes activity in the gift annuities investment for the year ended December 31, 2016:

Charitable Gift Annuities Investment Balance at 1/1/16	24,711
Contributions Recorded as Revenues	-
Increase in Liability	-
Interest & Dividend Income	793
Annuity Payments	(1,850)
Investment Fees	(253)
Change in Value	1,131
Charitable Gift Annuities Investment Balance at 12/31/16	<u>24,532</u>

The following table summarizes the change in the charitable gift annuities liability account for the year ended December 31, 2016:

Charitable Gift Annuities Liability Balance at 1/1/16	10,998
Increase in Liability	
Annuity Liability Principal Payments	<u>(1,493)</u>
Charitable Gift Annuities Investment Balance at 12/31/16	<u>9,505</u>
Amount Shown as a Current Liability	1,493
Amount Shown as a Long Term Liability	<u>8,012</u>
	<u>9,505</u>

The liabilities are determined based upon the Donor's life expectancy and using discount rates between 5% and 10%, at December 31, 2016, provided by Internal Revenue Service valuation tables. At the time of the Donor's death, any remaining unamortized liability is recorded as additional contributions.

NOTE 7 – INTEREST COSTS

Total interest costs incurred for 2016 were \$245,154. All interest costs were expensed in 2016 with no interest costs capitalized during 2016. Cash disbursements for interest were \$245,154 during 2016.



THE MOUNT DESERT ISLAND BIOLOGICAL LABORATORY
NOTES TO FINANCIAL STATEMENTS
AT DECEMBER 31, 2016

NOTE 8 – NET ASSETS

Net assets are available for the following purposes at December 31, 2016:

	Temporarily Restricted	Permanently Restricted
Student Fellowships Funds	484,942	1,580,884
Visiting Scientist Fellowships Funds	379,797	525,076
Lecture, Symposium & Course Funds	194,788	175,765
Director's & Other Funds	259,762	42,825
Flexible Reserve Funds	6,681,709	-
General Endowment Funds	64,810	2,123,832
	<u>8,065,808</u>	<u>4,448,382</u>

NOTE 9 – INVESTMENTS

Investments are held at various institutions. Investments are reported at their fair market value as required by the accounting standards codification.

Fair values and cost basis have been established and are comprised as follows as of December 31, 2016:

	Cost	Fair Value	Carrying Value
Cash & Near Cash	318,679	318,679	318,679
Equities	2,994,764	4,358,242	4,358,242
Fixed Income	509,384	503,110	503,110
Mutual Funds	69,870	68,583	68,583
	<u>3,892,697</u>	<u>5,248,614</u>	<u>5,248,614</u>

The components of investment return are as follows at December 31, 2016

Interest & Dividend Income	131,867
Unrealized Gains (Losses)	387,782
Fees	(2,705)
	<u>516,944</u>
Operating Interest Income (Net of Fees)	33,978
Non-Operating Long-Term Investment Return	482,966
	<u>516,944</u>



NOTE 9 – INVESTMENTS (Continued)

Endowment

The Institution complies with *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* topic of the FASB Codification. This topic provides guidance on the net asset classification of donor-restricted endowment funds for not-for-profit organizations that is subject to the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) as enacted by the State of Maine.

The Institution interprets UPMIFA as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of the interpretation, the Institution classifies as permanently restricted net assets (a) the original value of the gifts donated (b) the original value of subsequent gifts, and (c) net investment returns to temporarily restricted net assets.

The change in the Institution’s endowment funds for the year ended December 31, 2016 is as follows:

	Temporarily Permanently			
	Unrestricted	Restricted	Restricted	Total
Endowment Assets, January 1, 2016	-	(24,867)	2,117,982	2,093,115
Investment Return:				
Investment Income	-	36,645		36,645
Unrealized Gains (Losses)	-	149,209		149,209
Less: Fees	-	123		123
Total Investment Return	-	185,731	-	185,731
Contributions	30,000	1,000	5,850	36,850
Released from Restrictions	-	(97,054)		(97,054)
	30,000	(96,054)	5,850	(60,204)
Endowment Assets, December 31, 2016	30,000	64,810	2,123,832	2,218,642

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Health Reimbursement Arrangement

The Institution offers employees a health expense reimbursement benefit whereby the Institution covers employee’s medical costs above a certain amount until the employee meets the high insurance deductible. There are currently approximately 44 employees covered by this benefit. A liability for these medical costs reimbursements is contingent on a specific event that is outside the control of the employer and therefore are not recorded as a liability in these financial statements.



NOTE 10 – COMMITMENTS AND CONTINGENCIES (Continued)

Lines of Credit

The Institution has an irrevocable stand by letter of credit with The First, N.A. in the amount of \$150,000 as described in Note 2.

Contracts

The Institution entered into various agreements during 2015 and 2016 for construction services and related furnishing and equipment purchases, related to the new teaching lab building being constructed. The agreements have a total agreed upon price of \$2,433,662 for the services as outlined in the agreements. At December 31, 2016 there remained an unpaid commitment on the agreements of \$615,836.

Bond Payable Covenant

As referred to in the long term liability note (see note 6 for more information) the Institution has a restrictive covenant to maintain a debt service coverage ratio of 1.1 or higher. At December 31, 2016 the Institution was in compliance with this covenant.

General

The Institution is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Institution purchases commercial insurance for the risks of losses to which it is exposed. There have been no significant reductions in the commercial coverage from the prior year. The Institution is not aware of any material actual or potential claim liabilities which should be recorded at December 31, 2016.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the Institution expects such amount, if any to be immaterial.

NOTE 11 – RELATED PARTY TRANSACTIONS

The Institution actively maintains a Conflict of Interest Policy, which Trustees review and discuss annually during a regular meeting of the Board of Trustees. All Trustees and key non-Trustee members of board committees acknowledge review of this policy and disclose potential conflicts of interest on an annual basis.

Two Trustees of the Institution rented lab, office and/or housing space from the Institution. During 2016, the Trustees paid the Institution \$39,747 for the use of the facilities. The Trustees were paid \$8,200, during 2016, by the Institution for course related services performed by the Trustees.

The Institution paid three former Trustees for course related services. During 2016, the Institution paid \$17,500 for the services performed. One former Trustee used the Institution and office space at the Institution at no charge during 2016. A former Trustee paid \$13,091 to the Institution for core facilities use and accommodations for his lab staff.



NOTE 11 – RELATED PARTY TRANSACTIONS (Continued)

The Institution paid a former Trustee a grant writing fee of \$5,206 and an external advisory committee fee of \$500 during 2016.

The Institution purchased food and catering services, from a business owned by an employee of the Institution, in the amount of \$10,693 for 2016. The Institution also purchased food from a relative of the same employee in the amount of \$1,092 in 2016.

The Institution paid \$2,917, to the family member of a Trustee, to rent a boat during 2016.

The Institution paid \$10,047 to the former Vice President of Administration for consulting work after her retirement during 2016.

There were no related party payables at December 31, 2016. Related party receivables totaled \$13,392 at December 31, 2016.

NOTE 12 – FUNCTIONAL EXPENSE

Total program costs for the year ended December 31, 2016 were \$9,372,471. Total fundraising costs for the year ended December 31, 2016 were \$366,060. Total administrative and general costs for the year ended December 31, 2016 were \$2,120,152.

NOTE 13 – CHANGE IN ACCOUNTING PRINCIPLE - BOND ISSUANCE COSTS

The Institution has implemented FASB Accounting Standards Update No 2015-03 Simplifying the Presentation of Debt Issuance Costs for 2016. This update requires that bond issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs are not affected by the amendment. The effect of the change is that debt issuance costs are no longer shown as an asset and are instead reported as a direct reduction from long term liabilities. Debt Issuance costs are being amortized on the straight line method over the life of the related bond payable. The annual amount is \$6,421 through 2036.

NOTE 14 – SUBSEQUENT EVENT

In the first quarter of 2017, the Institution became aware of additional liability for employer contributions to the 403B plan, referred to in note 1. The amount has not been finalized as of the date of these financial statements and therefore has not been recorded. The contributions will be made in 2017, once the amount has been determined.

NOTE 15 – RESTATEMENT

Unrestricted Net Assets, beginning of year, and Total Net Assets, beginning of year, have each been increased by \$186,952. This restatement is necessary because the net indirect cost rates calculated for 2013 through 2015 were finalized higher than the provisional indirect cost rates used in those fiscal years.



**THE MOUNT DESERT ISLAND BIOLOGICAL LABORATORY
COMPARATIVE STATEMENTS OF FINANCIAL POSITION
AT DECEMBER 31,**

SCHEDULE 1

	2016	<i>Restated</i> 2015
Assets		
Current Assets:		
Cash & Cash Equivalents	2,726,302	5,499,809
Certificates of Deposit	6,628,127	4,142,794
Accounts Receivable (Net of Allowance)	126,054	77,413
Grants Receivable	1,003,792	550,233
Contributions Receivable	28,675	19,875
Pledges Receivable	366,417	404,917
Prepaid Expenses	5,070	20,950
Total Current Assets	<u>10,884,437</u>	<u>10,715,991</u>
Non Current Assets:		
Pledges Receivable (Net of Discount)	682,869	988,944
Investments	5,224,082	4,740,092
Investments - Charitable Gift Annuities	24,532	24,711
Land, Buildings & Equipment (Net of Depreciation)	14,409,381	13,102,988
Total Non Current Assets	<u>20,340,864</u>	<u>18,856,735</u>
Total Assets	<u>31,225,301</u>	<u>29,572,726</u>
Liabilities		
Current Liabilities:		
Accounts Payable	612,870	608,210
Accrued Indirect Cost Adjustments	566,345	460,321
Revenues Received in Advance	6,900	-
Deferred Grants	466,429	236,650
Charitable Gift Annuities	1,493	1,493
Bonds Payable	125,000	115,000
Total Current Liabilities	<u>1,779,037</u>	<u>1,421,674</u>
Long Term Liabilities:		
Charitable Gift Annuities	8,012	9,505
Bonds Payable	4,175,000	4,300,000
Less: Bond Issuance Costs (Net of Amortization)	(128,429)	(134,850)
Total Long Term Liabilities	<u>4,054,583</u>	<u>4,174,655</u>
Total Liabilities	<u>5,833,620</u>	<u>5,596,329</u>
Net Assets		
Unrestricted	12,877,491	11,391,124
Temporarily Restricted	8,065,808	8,149,926
Permanently Restricted	4,448,382	4,435,347
Total Net Assets	<u>25,391,681</u>	<u>23,976,397</u>
Total Liabilities & Net Assets	<u>31,225,301</u>	<u>29,572,726</u>

See independent auditors' report.



THE MOUNT DESERT ISLAND BIOLOGICAL LABORATORY
COMPARATIVE STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31,

SCHEDULE 2

	2016	Restated 2015
	Summarized	Summarized
	Totals	Totals
Operating Support and Revenue		
Grants & Contracts	5,626,241	5,659,831
Indirect Costs Recovered-Grants & Contracts	1,766,983	1,691,045
Contributions & Private Grants	1,276,289	2,747,167
Fees for Programs & Services	1,633,621	1,707,586
Interest Income (Net of Fees)	33,978	56,185
Long-Term Investment Return Utilized	211,412	187,602
Miscellaneous Revenue	20,041	20,316
Net Assets Released from Restrictions	-	-
Total Operating Support & Revenue	<u>10,568,565</u>	<u>12,069,732</u>
Operating Expenses		
Research Programs & Core Services	3,299,495	3,444,519
Research Training & Education Programs	1,075,044	993,282
Research Subawards	2,532,939	2,592,547
Facilities & Food Services	1,148,140	1,012,641
Development and Public Affairs	605,408	586,613
General Administration	1,759,870	1,756,738
Bond & Mortgage Interest	245,154	250,671
Depreciation & Amortization	1,192,633	1,224,947
Total Operating Expenses	<u>11,858,683</u>	<u>11,861,958</u>
Change in Net Assets from Operating Activities	<u>(1,290,118)</u>	<u>207,774</u>
Non-Operating Activities		
Government Grants for Capital Purposes	2,400,719	266,822
Contributions & Non-government Grants for Capital Purposes	32,986	-
Proceeds from Sale of Assets	500	1,100
Long-Term Investment Return	482,966	46,089
Change in Value of Split-Interest Agreements	(357)	(32)
Long-Term Investment Return Utilized by Operations	(211,412)	(187,602)
Total Non-Operating Activities	<u>2,705,402</u>	<u>126,377</u>
Total Change in Net Assets	1,415,284	334,151
Net Assets, Beginning of Year (Restated)	<u>23,976,397</u>	<u>23,642,246</u>
Net Assets, End of Year	<u>25,391,681</u>	<u>23,976,397</u>

See independent auditors' report.



THE MOUNT DESERT ISLAND BIOLOGICAL LABORATORY
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED DECEMBER 31, 2016

Federal Grantor/Pass-Through Grantor/Program Title	Research & Development	Federal CFDA Number	Award Date	Passed-Through to Sub recipients	Total Expenditures
National Institutes of Health:					
National Institute of Environmental Health Sciences:					
Environmental Health - The Comparative Toxicogenomics Database (CTD) Passed-Through North Carolina State University	Yes	93.113	9/5/16	250,356	268,017
Environmental Health - Generation of a Centralized and Integrated Resource for Exposure Data	Yes	93.113	12/21/10		442
Environmental Health - The Comparative Toxicogenomics Database (CTD)	Yes	93.113	12/1/16	250,356	22,045
					290,504
National Institute of General Medical Sciences:					
Biomedical Research and Research Training Programs:					
Comparative Functional Genomics INBRE in Maine	Yes	93.859	4/12/16	2,227,314	3,711,526
Comparative Biology of Tissue Repair, Regeneration & Aging	Yes	93.859	5/19/16		2,198,375
The Function of Germ Granules in Maintaining Pluripotency in the C. Elegans Germline	Yes	93.859	3/3/16	2,227,314	286,408
					6,196,309
National Institute of Diabetes and Digestive and Kidney Diseases:					
Diabetes, Digestive and Kidney Diseases Extramural Research Programs:					
Origins of Renal Physiology	Yes	93.847	2/19/15		97,462
Mechanisms of Phosphorylation Mediated Intracellular Signaling in a CLC Channel	Yes	93.847	6/30/16	25,070	236,026
Mechanisms of Cellular Osmosensing and Osmotic Stress Induced Damaged Repair	Yes	93.847	1/15/16	25,070	474,214
					807,702
National Institute on Aging:					
Aging Research - Lifespan Extension by Differential Translation Mediated by EIF-4G in C. Elegans	Yes	93.866	2/27/15		132,604
National Institute of Biomedical Imaging and Bioengineering:					
Trans-NIH Research Support - Establishing a Network of Skilled BD2K Practitioners	Yes	93.310	9/25/15		107,019
National Institute of Neurological Disorders and Stroke:					
Extramural Research Programs in the Neurosciences and Neurological Disorders - Analyzing Paclitaxel-Induced Changes in the Skin as Possible Cause of CIPN	Yes	93.853	5/20/16	2,502,740	91,517
					7,625,655
Total National Institutes of Health					
National Science Foundation:					
Biological Sciences - REU Site: Comparative Approaches in Cellular, Molecular and Environmental Biology	Yes	47.074	7/28/15		106,724
Total National Science Foundation					106,724
Environmental Protection Agency:					
Environmental Education Grant Program	No	66.951	9/10/15		112,411
Total Environmental Protection Agency				2,502,740	112,411
Total Federal Funds					7,844,790

See independent auditor's report and accompanying notes to schedule of expenditures of federal awards



Note 1: General

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant activity of The Mount Desert Island Biological Laboratory (the Institution) for the year ended December 31, 2016.

Note 2: Basis of Accounting

The accompanying schedules are prepared and presented using the accrual basis of accounting. This basis of accounting is described in Note 1 to the Institution's basic financial statements. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulation Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Mount Desert Island Biological Laboratory, it is not intended to, and does not, present the financial position, changes in net position, or cash flows of the Mount Desert Island Biological Laboratory; therefore some amounts presented in this schedule may differ from the amounts presented in, or used in the preparation of, the basic financial statements. The Organization did not elect to use the 10% de minimis indirect cost rate.

Note 3: Relationship to Basic Financial Statements

Governmental Accounting Standards Board (GASB) Statement No. 33 provides that grant revenue should be recognized when all applicable eligibility requirements are met, and, under accrual accounting, when the resources are available. Therefore, the proceeds of grants which do not specify time requirements, and for which all other eligibility requirements have been met, are recognized as revenues in the current fiscal year. Expenditures are recognized in the fiscal year spent for the required purpose.

Note 4: Program Clusters

OMB Circular A-133 defines a cluster of programs as a grouping of closely related programs that share common compliance requirements. According to this definition, similar programs deemed to be a cluster of programs are tested accordingly.

Note 5: Contingency

The grant revenue amounts received are subject to audit and adjustment. If any expenditures or expenses are disallowed by the grantor agencies as a result of such an audit, any claim for reimbursement to the grantor agencies would become a liability of the Mount Desert Island Biological Laboratory. In the opinion of management, all grant expenditures are in compliance with the terms of the grant agreements and applicable federal and state laws and regulations.





HORTON, McFARLAND & VEYSEY, LLC
CERTIFIED PUBLIC ACCOUNTANTS
P.O. BOX 543
ELLSWORTH, MAINE 04605
207-667-5529 • 1-800-499-9108 • FAX 207-667-9915

James E. McFarland, CPA
Annette L. Gould, CPA
Ellen Cleveland, CPA
M.R. Horton, Jr., CPA
(1925 -2010)
Floyd S. Veysey, CPA
(1948 - 2006)

Amy J. Billings, CPA
Nicholas Henry, CPA

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 of
Mount Desert Island Biological Laboratory

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 Mount Desert Island Biological Laboratory (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 2, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Horton, McFarland & Veysey, LLC
Horton, McFarland & Veysey, LLC
Ellsworth, ME
June 2, 2017





HORTON, McFARLAND & VEYSEY, LLC
CERTIFIED PUBLIC ACCOUNTANTS
P.O. BOX 543
ELLSWORTH, MAINE 04605
207-667-5529 • 1-800-499-9108 • FAX 207-667-9915

James E. McFarland, CPA
Annette L. Gould, CPA
Ellen Cleveland, CPA
M.R. Horton, Jr., CPA
(1925 -2010)
Floyd S. Veysey, CPA
(1948 - 2006)

Amy J. Billings, CPA
Nicholas Henry, CPA

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

To the Board of Trustees of
Mount Desert Island Biological Laboratory

Report on Compliance for Each Major Federal Program

We have audited Mount Desert Island Biological Laboratory's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Mount Desert Island Biological Laboratory's major federal programs for the year ended December 31, 2016. Mount Desert Island Biological Laboratory's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Mount Desert Island Biological Laboratory's compliance.

Opinion on Each Major Federal Program

In our opinion, Mount Desert Island Biological Laboratory complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2016.

Report on Internal Control Over Compliance

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

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

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

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

Horton, McFarland & Veysey, LLC
Horton, McFarland & Veysey, LLC
Ellsworth, ME
June 2, 2017



**THE MOUNT DESERT ISLAND BIOLOGICAL LABORATORY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2016**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: [unqualified], qualified, adverse, disclaimer]

Internal control over financial reporting: -

Material weakness(es) identified? - _____ Yes X No

Reportable condition(s) identified not considered to be material reported weaknesses? - _____ Yes X None

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal Control over major programs: -

Material weaknesses identified? - _____ Yes X No

Reportable condition(s) identified not considered to be material reported weaknesses? - _____ Yes X None

Type of auditors' report issued on compliance for major programs: [unqualified], qualified, adverse, disclaimer]

Any audit findings disclosed that are required to be reported in accordance with CFR 200.516(a)? - _____ Yes X No

Identification of major programs:

<i>CFDA Number(s)</i>	<i>Name of Federal Program or Cluster</i>
93.113, 93.859, 93.847, 93.866, 93.310, 93.853	NIH - National Institute of Health Research and Development Cluster



**THE MOUNT DESERT ISLAND BIOLOGICAL LABORATORY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED DECEMBER 31, 2016**

Dollar threshold used to distinguish -
Between Type A and Type B programs - \$ 750,000
Auditee qualified as low-risk auditee? X Yes No

Financial Statement Findings

None Reported.

Federal Award Findings and Questioned Costs

None Reported.

Summary of Prior Year Findings

None Reported.

