

**Harbor Branch Oceanographic
Institute Foundation, Inc.**

**Financial Statements and
Supplementary Information**
Years Ended June 30, 2018 and 2017

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Harbor Branch Oceanographic Institute Foundation, Inc.

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Harbor Branch Oceanographic Institute Foundation, Inc.

Contents

Independent Auditor's Report	3-4
Management's Discussion and Analysis	5-9
Financial Statements	
Statements of Financial Position	11
Statements of Activities	12
Statements of Cash Flows	13
Statements of Functional Expenses	14-15
Notes to Financial Statements	16-27
Supplementary Information	
Independent Auditor's Report on Supplementary Information	29
Schedule of Revenue and Expenses - Year Ended June 30, 2018	30
Note to Schedule of Revenue and Expenses - Year Ended June 30, 2018	31-32
Reports Required by <i>Government Auditing Standards</i> and Florida Single Audit Act	
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	34-35
Independent Auditor's Report on Compliance for the Major State Project and Report on Internal Control Over Compliance Required by Chapter 10.650, Rules of the Auditor General	36-37
Schedule of Expenditures of State Financial Assistance	38
Note to Schedule of Expenditures of State Financial Assistance	39
Schedule of Findings and Questioned Costs - State Financial Assistance	40

Independent Auditor's Report

To the Board of Directors
Harbor Branch Oceanographic Institute Foundation, Inc.
Fort Pierce, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of Harbor Branch Oceanographic Institute Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 the Foundation as of June 30, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The Foundation's Management's Discussion and Analysis on pages 5 through 9, which is presented to highlight certain information in the Foundation's financial statements, and the accompanying schedule of expenditures of state financial assistance, as required by the State of Florida, Chapter 10.650, Rules of the Auditor General, 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 consolidated 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 September 28, 2018 on our consideration of the Foundation'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 the Foundation's internal control over financial reporting and compliance.

BDO USA, LLP
Certified Public Accountants
September 28, 2018

Harbor Branch Oceanographic Institute Foundation, Inc.

Management's Discussion and Analysis

The Harbor Branch Oceanographic Institute Foundation (the "Foundation") offers this Management's Discussion and Analysis to help readers further understand the Foundation's financial activities during the fiscal year from July 1, 2017 to June 30, 2018 (our 2018 fiscal year). The discussion and analysis should be read in conjunction with the 2018 consolidated financial statements and the report of the independent auditors included herein.

What is the Harbor Branch Oceanographic Institute Foundation?

The Harbor Branch Oceanographic Institution was founded in 1971 by J. Seward Johnson, Sr. to fulfill his vision of preserving the environment through a deep, scientific understanding of the ocean. Famed Inventor Edwin A. Link furthered the founder's vision with his passion for sea exploration and engineering expertise. Together, Johnson and Link produced countless innovations through partnerships with many of the world's most talented scientists. That work, and the intellectual curiosity of Johnson and Link, propelled the Harbor Branch Oceanographic Institution to become one of the world's foremost leaders in oceanographic research. Today, Johnson's legacy is carried on by the Harbor Branch Oceanographic Institute Foundation, a 501(c)(3) nonprofit organization, through its grant-making to the Harbor Branch Oceanographic Institute, a research institute at Florida Atlantic University ("HBOI").

The Harbor Branch Oceanographic Institution has existed independently as a nonprofit since its inception, with its Board of Directors overseeing research operations, a unique campus boasting the largest privately owned deep water channel in Florida and a substantial endowment. In 2007, the State of Florida funded FAU's acquisition of the Harbor Branch Oceanographic Institute. The Board of Directors turned its attention away from governing the Institute, became the Harbor Branch Oceanographic Institute Foundation, and pledged to continue to leverage its considerable assets to support the HBOI.

Our Mission Today

The mission of the Foundation is to support the Harbor Branch Oceanographic Institute, a research institute within Florida Atlantic University. The Foundation provides funding and support for research and education in marine sciences and ocean engineering. Our goal is to support HBOI as it increases understanding of oceans and coastal areas through exploration and scientific investigation.

Our Investment Approach

The Foundation's Investment Policy has an objective to earn the highest possible total return (capital appreciation and income return) consistent with prudent levels of risk. At a minimum, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of these assets and provide necessary capital to fund an annual spending policy of up to five percent (5%), based on a three-year rolling average of the market value. Therefore, the desired minimum rate of return is equal to the Consumer Price Index (CPI) plus 500 basis points (5%) on an annualized basis. In light of this return requirement, the portfolio should be constructed using a total return approach with a significant portion of the funds invested to seek growth of principal over time. The assets are to be invested for the long term, and a higher short-term volatility in these assets is to be expected and accepted.

Harbor Branch Oceanographic Institute Foundation, Inc.

Management's Discussion and Analysis

The spending policy reflects the fundamental objective of preserving and enhancing the resources of the Foundation, both at present and in the future. Current spending and the long term objectives of preserving and enhancing the assets are balanced by considerations given to reasonable expectations of investment returns, gift contributions, operating expenses and inflation.

Grant-making

The Foundation has been diligent in fulfilling its mission with a long history of providing grants and other funding totaling over \$38,000,000 since 2007 to HBOI.

In FY15, the Grants Committee, confirmed by the Board of Directors, determined to focus its funding to HBOI as follows:

- To support the goals of a Harbor Branch Oceanographic Institute Strategic Plan
- To fund high impact projects or initiatives
- To provide maximum visibility and raise the profile of HBOI
- To be used to maximize or leverage Discretionary Fund grant dollars to HBOI to obtain funds from other funding sources
- To fund projects that may not meet the criteria or have the opportunity for timely funding from other funding sources, including FAU

In FY18, the Grants Committee confirmed a preference away from multi-year grants. Instead, future grants will be one-year only; in certain cases these may have the intention of being rolling, with any subsequent "renewal" based on evaluation and available spendable.

The Foundation's Board of Directors retains sole discretion over grant-making to HBOI. This ensures the Foundation retains the necessary oversight over the distribution of funds, which are to be used to further its mission of supporting meaningful oceanographic research at HBOI. Through an established grant-making process and timeline, the Foundation invites grant proposals from HBOI for Discretionary Grants and Specialty License Plate grants. These proposals are reviewed by staff for completeness and compliance and then forwarded to the Grants Committee for their consideration and any recommendation to the full Board.

The Foundation's grant awards are conditional, which means they are made based on HBOI and FAU's agreement to, and fulfillment of, specific conditions relating to the use of the funds and for the purpose for which they are granted as codified in Funding Letters.

Discretionary Grants are made subject to an annual available spendable amount as calculated by the Foundation's Investment Policy and less previously made multi-year grant commitments expected to be paid out in any given year and projected operational expenses.

In addition, the Foundation's **Specialty License Plate** program focuses on four key areas to further oceanographic research and preserve the environment. User fees from the purchase of these plates are used to fund vetted projects along with some grants to others, a marketing budget to promote each plate, and certain administration fees, all allowed by legislative statute.

Harbor Branch Oceanographic Institute Foundation, Inc.

Management's Discussion and Analysis

The four plates include:

Save our Seas Specialty License Plate: Enacted in 2007, research conducted as a result of funding from the *Save our Seas* specialty license plate has primarily focused on links between water quality and its impacts on coral reef health, and understanding how that affects the environment's resources - both for recreational and commercial use.

Aquaculture Specialty License Plate: Enacted in 2004, funding generated by the *Aquaculture* specialty license plate goes toward promoting research of aquaculture and advancing technology for use by Florida farmers to challenge the current 91 percent of the seafood consumed in the US originating abroad.

Protect Wild Dolphins License Plate: Enacted in 1998, the *Protect Wild Dolphins* specialty license plate allows researchers to study, conduct care and protection activities on, and disseminate information about wild dolphins in the Florida waters, which, for 20 years, has provided invaluable insight into the ecosystem.

Protect Florida Whales License Plate: Enacted in 2002, proceeds generated by the *Protect Florida Whales* license plate go toward a stranding response team and educational efforts. Florida is part of the Southeastern region stranding network and these programs are critical in helping Florida whales.

The FY18 Numbers

Discretionary and Specialty License Plate Grants for HBOI totaled payouts in the amount of \$1,848,632 for the year ended June 30, 2018. An additional \$480,145 came from FAU Plate Holding Accounts to support awarded Specialty License Plate projects.

Discretionary Grants

	FY18 Payment	Original Total Award
New Faculty Hiring	\$ 1,057,033	\$ 5,481,051
Rewarding Faculty Excellence (Incentives)	139,911	1,465,000
Ensuring Faculty Excellence (Salary Support)	468,423	1,734,750
2017 IRL Fellowship	66,447	89,826
2018 IRL Fellowship	7,420	102,700
IRL Symposium	6,367	—
Special Award	2,698	—
	\$ 1,748,299	\$ 8,873,327

Harbor Branch Oceanographic Institute Foundation, Inc.

Management's Discussion and Analysis

Specialty License Plate Grants

Payments from the Foundation for *Save Our Seas* were made as follows.

Investigating critical factors affecting sea turtle health in Florida - Principal Investigator Annie Page-Karjian, Ph.D.	\$ 30,855
Snap, crackle, pop: capturing mollusk predation with acoustics - Principal Investigator Matt Ajemian, Ph.D.	28,171
Developing next generation ocean color remote sensing algorithms for Indian River Lagoon (IRL) HABs and other particles - Principal Investigator Mike Twardowski, Ph.D.	30,391
An Innovative Approach to Sponge Community Restoration - Principal Investigator Shirley Pomponi, Ph.D.	10,916
	<hr/> \$ 100,333 <hr/>

In addition, payments towards the following awards were made from FAU Plate Holding Accounts to support these Foundation-awarded plate projects:

AQUACULTURE

Advancement of Land-based integrated Multitrophic Aquaculture -
Principal Investigator Paul Wills, Ph.D. \$ 189,299

PROTECT FLORIDA WHALES Protect Florida Whales MMRC - Stranding Response -
Principal Investigator Steve Burton, M.S. 155,721

PROTECT WILD DOLPHINS

Dolphins as Sentinels for Harmful Algal Bloom Toxins in the Indian River Lagoon:
An Interdisciplinary Study - Principal Investigator Jim Sullivan, Ph.D. 30,000

PROTECT WILD DOLPHINS

Dolphin Photo-ID Program - Principal Investigator Marilyn Mazzoil 105,125

\$ 480,145

Payments from the Foundation were less than last year due to FAU's holding of previous funds received and a change in process as noted below.

In FY16, during the audit presentation to the Audit Committee at the October 11, 2016 meeting the Foundation Board and management discussed the advisability of the practice of providing to FAU SLP funds in advance of an awarded project use per plate.

Harbor Branch Oceanographic Institute Foundation, Inc.

Management's Discussion and Analysis

At the time of that audit, it was noted over \$2,000,000 in total plate funds were being held as yet unexpended by FAU. It was also noted that after analysis of the past year, there had been at least \$1,000,000 in total plate funds held at any given time. It was discussed rather than forwarding funds upon receipt that these funds remain restricted with the Foundation per plate, which would provide greater transparency, oversight, and, if possible, earn interest at low risk on behalf of each plate. Having the Foundation manage and monitor SLP funds until expended on awarded projects (actual research completed) would be more consistent with addressing possible perception issues as well as ensuring legislative and accounting compliance to protect the integrity of the plate funds.

Funds are now expended only when actually needed. This management mirrors the manner in which the Foundation's Discretionary Grants had been and are paid out, e.g., invoicing for reimbursement as funds are expended rather than forwarding monies as they are received for the plate.

After review by the Audit Committee, Grants Committee and Finance Committee, this change in process was approved by the Board in November, 2016.

We would like to thank the Foundation's Board of Directors for their strategic leadership and commitment to the mission of the Foundation. Their volunteer service is reflected in the growth and strength of the Foundation and its assets and the impact the Foundation has made for HBOI. The Foundation's professional staff implements the policies and strategy established by the Board and we are grateful for their dedication.

Respectfully Submitted,



Katha Kissman, President & CEO



Debbie Dutton, Director of Operations

Financial Statements

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Harbor Branch Oceanographic Institute Foundation, Inc.

Statements of Financial Position

<i>June 30,</i>	2018	2017
Assets		
Cash and cash equivalents	\$ 3,987,597	\$ 1,577,538
Contributions receivable	83,095	98,795
Prepaid expenses and other assets	32,627	32,671
Investments	76,410,389	71,123,051
Property and equipment, net	15,332	14,269
Total Assets	\$ 80,529,040	\$ 72,846,324
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 86,964	\$ 95,905
Due to Florida Atlantic University	818,550	592,797
Total liabilities	905,514	688,702
Commitments and contingencies		
Net assets (deficit):		
Unrestricted	(104,449)	(104,449)
Temporarily restricted	79,727,975	72,262,071
Total net assets	79,623,526	72,157,622
Total Liabilities and Net Assets	\$ 80,529,040	\$ 72,846,324

See accompanying notes to financial statements.

Harbor Branch Oceanographic Institute Foundation, Inc.

Statements of Activities

<i>Year Ended June 30,</i>	2018			2017		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, gains and other support:						
Specialty license plate contributions	\$ 589,958	\$ 2,196,656	\$ 2,786,614	\$ 1,373,621	\$ 1,406,415	\$ 2,780,036
Investment income	—	7,603,162	7,603,162	—	9,119,823	9,119,823
Fundraising, net of \$28,557 and \$105,214 direct expenses, respectively	—	103,251	103,251	—	83,843	83,843
Contributions	24,218	2,500	26,718	25,552	2,500	28,052
Other income	67,954	12,800	80,754	57,670	394	58,064
Net assets released from restrictions	2,452,465	(2,452,465)	—	1,475,158	(1,475,158)	—
Total revenues, gains and other support	3,134,595	7,465,904	10,600,499	2,932,001	9,137,817	12,069,818
Expenses						
Program services:						
Marine and ocean research science	2,488,407	—	2,488,407	3,042,278	—	3,042,278
Supporting services:						
General administration	588,281	—	588,281	494,812	—	494,812
Fundraising	57,907	—	57,907	80,875	—	80,875
Total supporting services	646,188	—	646,188	575,687	—	575,687
Total expenses	3,134,595	—	3,134,595	3,617,965	—	3,617,965
Change in net assets	—	7,465,904	7,465,904	(685,964)	9,137,817	8,451,853
Net assets (deficit), beginning of year	(104,449)	72,262,071	72,157,622	581,515	63,124,254	63,705,769
Net assets (deficit), end of year	\$ (104,449)	\$79,727,975	\$79,623,526	\$ (104,449)	\$ 72,262,071	\$ 72,157,622

See accompanying notes to financial statements.

Harbor Branch Oceanographic Institute Foundation, Inc.

Statements of Cash Flows

<i>Year Ended June 30,</i>	2018	2017
Operating activities:		
Change in net assets	\$ 7,465,904	\$ 8,451,853
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	2,636	2,575
Net unrealized and realized gain on investments	(5,504,279)	(7,479,339)
Cash provided by (used for):		
Contributions receivable	15,700	(15,205)
Prepaid expenses and other assets	44	44,640
Accounts payable and accrued expenses	(8,941)	—
Due to Florida Atlantic University	225,753	424,586
Net cash provided by operating activities	2,196,817	1,429,110
Investing activities:		
Proceeds from sale of investments	4,427,337	23,338,982
Purchases of investments	(4,210,396)	(24,044,847)
Proceeds from land held for sale	—	514,800
Purchase of new server and software	(3,699)	—
Net cash provided by (used for) investing activities	213,242	(191,065)
Net increase in cash and cash equivalents	2,410,059	1,238,045
Cash and cash equivalents, beginning of year	1,577,538	339,493
Cash and cash equivalents, end of year	\$ 3,987,597	\$ 1,577,538

See accompanying notes to financial statements.

Harbor Branch Oceanographic Institute Foundation, Inc.

Statement of Functional Expenses

<i>Year Ended June 30, 2018</i>	Program Services	Supporting Services			Total
	Marine and Ocean Research Science	General Administration	Fundraising	Total Supporting Services	
Discretionary grants to FAU	\$ 1,748,299	\$ —	\$ —	\$ —	\$ 1,748,299
Specialty license plate grants to FAU	100,333	—	—	—	100,333
Specialty license plate distributions to others	174,011	—	—	—	174,011
Administrative fee to FAU	90,014	—	—	—	90,014
Investment management fees	—	79,000	—	79,000	79,000
Professional services	41,445	268,328	—	268,328	309,773
Salaries and related expenses	149,328	165,116	20,894	186,010	335,338
Marketing	127,802	—	14,200	14,200	142,002
Insurance	24,435	26,607	3,258	29,865	54,300
Promotion and printing	3,581	3,581	10,742	14,323	17,904
Travel	6,196	4,957	1,239	6,196	12,392
Equipment	205	1,640	205	1,845	2,050
Taxes	—	4,027	—	4,027	4,027
Materials and supplies	511	4,091	511	4,602	5,113
Computer and website	6,289	899	1,797	2,696	8,985
Dues and subscriptions	—	6,920	1,730	8,650	8,650
Rent and utilities	12,455	13,563	1,661	15,224	27,679
Depreciation	1,186	1,292	158	1,450	2,636
Miscellaneous	2,317	8,108	1,158	9,266	11,583
Postage and freight	—	152	354	506	506
Total	\$ 2,488,407	\$ 588,281	\$ 57,907	\$ 646,188	\$ 3,134,595

See accompanying notes to financial statements.

Harbor Branch Oceanographic Institute Foundation, Inc.

Statement of Functional Expenses

<i>Year Ended June 30, 2017</i>	Program Services	Supporting Services			Total
	Marine and Ocean Research Science	General Administration	Fundraising	Total Supporting Services	
Discretionary grants to FAU	\$ 1,479,174	\$ —	\$ —	\$ —	\$ 1,479,174
Specialty license plate grants to FAU	803,449	—	—	—	803,449
Specialty license plate distributions to others	171,177	—	—	—	171,177
Administrative fee to FAU	103,844	—	—	—	103,844
Investment management fees	—	79,483	—	79,483	79,483
Professional services	129,626	137,742	—	137,742	267,368
Salaries and related expenses	137,672	140,020	30,855	170,875	308,547
Marketing	190,576	—	21,174	21,174	211,750
Insurance	—	43,735	1,822	45,557	45,557
Promotion and printing	5,370	5,370	16,110	21,480	26,850
Travel	4,406	3,525	881	4,406	8,812
Equipment	498	3,984	498	4,482	4,980
Taxes	—	4,013	—	4,013	4,013
Materials and supplies	410	3,283	410	3,693	4,103
Computer and website	5,712	816	1,632	2,448	8,160
Dues and subscriptions	—	5,982	1,496	7,478	7,478
Rent and utilities	—	27,660	—	27,660	27,660
Depreciation	—	2,575	—	2,575	2,575
Miscellaneous	10,364	36,275	5,182	41,457	51,821
Postage and freight	—	349	815	1,164	1,164
Total	\$ 3,042,278	\$ 494,812	\$ 80,875	\$ 575,687	\$ 3,617,965

See accompanying notes to financial statements.

Harbor Branch Oceanographic Institute Foundation, Inc.

Notes to Financial Statements

1. Summary of Significant Accounting Policies

Organization

Harbor Branch Oceanographic Institute Foundation, Inc. (the "Foundation") is a nonprofit corporation organized and operated for the benefit of Harbor Branch Oceanographic Institute at Florida Atlantic University ("FAU") which is a unit of the State of Florida. The Foundation functions as a direct-support organization of FAU and is a component unit (for accounting purposes only) of FAU.

Effective December 31, 2007, in connection with the transfer of its operations and certain assets to FAU, the Foundation changed its name to Harbor Branch Oceanographic Institution Foundation and on August 30, 2010 to Harbor Branch Oceanographic Institute Foundation, Inc. The Foundation retained certain parcels of real property, its endowment fund (see Note 4) and certain other assets and remains a separate tax-exempt charitable organization. The operations and assets were transferred to FAU to provide for the creation of a research institute to be known as "Harbor Branch Oceanographic Institute at FAU" ("FAU Harbor Branch").

Liquidity

Assets are presented in the accompanying statements of financial position according to their nearness of conversion to cash and liabilities according to the nearness of their maturity and resulting use of cash.

Cash and Cash Equivalents

The Foundation considers cash and all highly liquid investments with an original maturity of three months or less to be cash and cash equivalents.

Contributions Receivable

Contributions receivable represent specialty license plate monies due from the State of Florida. The Foundation considers these amounts to be fully collectible and therefore has not recorded an allowance for doubtful accounts. Amounts becoming uncollectible will be charged to operations when that determination is made.

Investments and Investment Income

Investments are recorded at their estimated fair value. Donated investments are recorded at fair value on the date of donation. Investment income or loss (including realized and unrealized gains and losses on investments, interest and dividends) is included in the statements of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

The Foundation's investment objective is to earn the highest possible total return (capital appreciation and income return) consistent with prudent levels of risk. In terms of relative risk, the volatility of the portfolio should be in line with general market conditions. At a minimum, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of these assets and provide necessary capital to fund an annual spending policy of up to five percent (5%), based on a three year rolling average of the market value.

Harbor Branch Oceanographic Institute Foundation, Inc.

Notes to Financial Statements

Based on the Foundation's return requirement, the portfolio is constructed using a total return approach with a significant portion of the funds invested to seek growth of principal over time. The assets are to be invested for the long term, and a higher short-term volatility in these assets is to be expected and accepted. The Foundation recognizes the strategic importance of asset allocation and style diversification in the investment performance of the assets over long periods of time. Domestic and international equities both large and small capitalization, fixed income, cash equivalent securities and alternative investments in the form of hedge funds have been determined to be acceptable vehicles for assets. The Foundation may utilize mutual funds and exchange traded funds to accomplish this strategy. Additional asset classes and style strategies may be incorporated into the investment philosophy in the future.

Property and Equipment, Net

Property and equipment are stated at cost less accumulated depreciation. Donated property and equipment is recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contribution is recorded as restricted. In the absence of such stipulations, contributions are recorded as unrestricted. When assets are retired or otherwise disposed of, the asset's cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is recognized in the period. Maintenance and repairs are charged to expense as incurred; significant renewals and betterments are capitalized. Depreciation is provided for property and equipment using the straight-line method based on estimated useful lives.

Impairment of Long-Lived Assets

The Foundation reviews its long-lived assets, such as property and equipment and land held for investment (included in investments), for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the discounted cash flows. There was no impairment of long-lived assets during 2018 and 2017.

Due to FAU

Amount due to FAU represents discretionary and research funding grants payable to FAU Harbor Branch for expenditures that met the conditions during the year. Discretionary grants are approved by the Foundation's Board of Directors to help fund certain new faculty, provide faculty incentives, salary support, research projects, fellowships, and certain operational supports. Amounts due to FAU related to discretionary grants at June 30, 2018 and 2017 were \$586,358 and \$574,980, respectively.

FAU Harbor Branch is the research sub-recipient of the specialty license plate program. As of June 30, 2018 and 2017, amounts due to FAU related to this program were \$122,770 and \$17,817, respectively.

Harbor Branch Oceanographic Institute Foundation, Inc.

Notes to Financial Statements

In addition, during the fiscal year 2018, the Foundation received \$109,422 of a pass through grant in which the donor specified FAU Harbor Branch as the beneficiary. The Foundation accounts for this as an agency transaction and does not record the revenue or expense. The grant was conditional upon the quarterly submission of required deliverables. As of June 30, 2018, none of the conditions of the grant had yet been met at year end and the entire amount received was included in the amount due to FAU.

Net Assets

Unrestricted net assets consist of amounts that are available for use in carrying out the activities of the Foundation. Temporarily restricted net assets represent those amounts which are not available until future periods or are donor restricted for specific purposes. Permanently restricted net assets result from gifts and bequests from donors who place restrictions on the use of the funds which mandate that the original principal be invested in perpetuity. The Foundation did not have any permanently restricted net assets at June 30, 2018 and 2017.

Contributions and Donor Imposed Restrictions

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or are restricted by the donor for specific purposes are reported as temporarily or permanently restricted support that increase those net asset classes. When donor restrictions expire, that is, when a time restriction ends or a purpose restriction is fulfilled, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restriction. If a temporarily restricted contribution is fulfilled in the same year in which the contribution is received, the Foundation reports the support as unrestricted.

Functional Allocation of Expenses

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

Income Taxes

The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and from state income taxes under similar provisions of the Florida Statutes.

The Foundation identifies and evaluates uncertain tax positions, if any, and recognizes the impact of uncertain tax positions for which there is a less than more-likely-than-not probability of the position being upheld when reviewed by the relevant taxing authority. Such positions are deemed to be unrecognized tax benefits and a corresponding liability is established on the statements of financial position. The Foundation has not recognized a liability for uncertain tax positions. If there were an unrecognized tax benefit, the Foundation would recognize interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. The Foundation's tax years subject to examination by the Internal Revenue Service generally remain open for three years from the date of filing. The Foundation did not realize or report any unrelated business income which would be subject to federal or state income taxes.

Harbor Branch Oceanographic Institute Foundation, Inc.

Notes to Financial Statements

Use of 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 those estimates.

Fair Value of Financial Instruments

The Foundation reports its financial instruments using a three-tier hierarchy, which prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described below:

Level 1 - Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 2 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 - Inputs that are both significant to the fair value measurement and unobservable.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of June 30, 2018. The respective carrying value of certain on-balance-sheet financial instruments approximates their fair values due to the short-term nature of these instruments. These financial instruments include contributions receivable, accounts payable and accrued expenses.

The Foundation's Level 1 financial assets consist of investments as identified in Note 2 and are valued based on quoted market prices. These investments are valued on a daily basis in an active market.

There are no Level 2 or 3 financial instruments.

Harbor Branch Oceanographic Institute Foundation, Inc.

Notes to Financial Statements

Concentrations of Credit Risk

The Foundation's financial instruments that are exposed to concentrations of credit risk consist of cash and cash equivalents, which include checking accounts placed with federally insured financial institutions. While such accounts may at times exceed federally insured limits, the Foundation has policies in place to move excess as soon as possible and has not experienced any losses on such accounts.

The Foundation has significant investments in mutual funds and exchange traded funds which are also subject to concentrations of credit risk. Investments are made by investment managers engaged by the Foundation and the investments are monitored for the Foundation by an investment consultant with input by the Foundation's Finance Committee. Although the market value of investments is subject to fluctuations on a day-to-day basis, management believes the investment policy is prudent for the long-term welfare of the Foundation and its beneficiaries.

Reclassifications

Certain items have been reclassified in the 2017 financial statements to conform to the 2018 presentation.

Accounting Pronouncements Issued but Not Yet Adopted

Financial Statement Presentation of Not-for-Profit Entities

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) - Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statements of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for fiscal years beginning after December 15, 2017. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for periods prior to adoption. Management is currently evaluating the impact of this ASU on its financial statements.

Harbor Branch Oceanographic Institute Foundation, Inc.

Notes to Financial Statements

2. Investments

The fair value of investments includes the following:

<i>June 30,</i>	2018	2017
Cash equivalents	\$ 51,400	\$ 73,857
Land held for investment	691,553	691,553
Level 1 investments:		
Fixed income mutual funds:		
Short term	8,515,036	8,255,845
Long term	8,387,713	8,296,450
Equity mutual funds and exchange traded funds:		
Large cap	32,810,970	30,039,673
Small cap	12,027,390	10,219,755
International	12,602,086	12,215,043
Alternative - other	1,324,241	1,330,875
Total Level 1 investments	75,667,436	70,357,641
Total investments	\$ 76,410,389	\$ 71,123,051

Investment income is comprised of the following:

<i>Year Ended June 30,</i>	2018	2017
Dividends and interest	\$ 2,098,883	\$ 1,640,484
Net realized/unrealized gains	5,504,279	7,479,339
	\$ 7,603,162	\$ 9,119,823

Investment management fees totaled \$79,000 and \$79,483 for the years ended June 30, 2018 and 2017, respectively and are presented in the accompanying statements of functional expenses.

Harbor Branch Oceanographic Institute Foundation, Inc.

Notes to Financial Statements

3. Property and Equipment

Property and equipment are comprised of the following:

<i>June 30,</i>	<i>Useful Life</i>	2018	2017
Buildings and building improvements	10-40 years	\$ 27,375	\$ 27,375
Software	15 years	23,699	20,000
Land improvements	5-50 years	250,445	250,445
		301,519	297,820
Less accumulated depreciation		(286,187)	(283,551)
		\$ 15,332	\$ 14,269

4. Temporarily Restricted Net Assets

Temporarily restricted net assets are available as follows:

<i>June 30,</i>	2018	2017
J. Seward Johnson, Sr. Charitable Trust Endowment Fund	\$ 71,137,645	\$ 66,252,256
Seward Johnson Trust Fund for Oceanography	4,869,508	4,535,253
Specialty License Plate Program	3,616,265	1,406,809
2018 Indian River Lagoon Graduate Research Fellows Program	104,557	67,753
	\$ 79,727,975	\$ 72,262,071

Temporarily restricted net assets were released from restrictions from the following sources:

<i>Year Ended June 30,</i>	2018	2017
J. Seward Johnson, Sr. Charitable Trust Endowment Fund	\$ 2,233,149	\$ 1,260,883
Seward Johnson Trust Fund for Oceanography	152,869	86,316
2018 Indian River Lagoon Graduate Research Fellows Program	66,447	127,959
	\$ 2,452,465	\$ 1,475,158

Harbor Branch Oceanographic Institute Foundation, Inc.

Notes to Financial Statements

Seward Johnson Funds

The J. Seward Johnson, Sr. Charitable Trust Endowment Fund (the "Fund") is a donor-restricted term endowment fund established in 1994. The primary objective of the Fund is to provide a long-term flow of income to the Foundation. The Fund shall terminate on June 30, 2020, at which time the fund shall convert to a fund held by the Foundation for its exclusive long-term use, benefit or purposes. Accordingly, contributions to the Fund were recorded as temporarily restricted. The Foundation's annual expenditures from the Fund are limited to 5% of the annual average fair market value of the Fund and are recorded as net assets released from restrictions in the statements of activities. The investment income, including gains, losses, dividends and interest earned on the balance of the Fund, is included in the statements of activities as temporarily restricted.

The Seward Johnson Trust Fund for Oceanography (the "SJ Fund") is a donor-restricted fund and is not an endowment fund. The primary objective of the SJ Fund is to operate and maintain the Johnson-Sea-Link submersibles. The secondary objective of the SJ Fund is to support underwater oceanography and for other oceanographic purposes. The investment income, including gains, losses, dividends and interest, earned on the balance of the SJ Fund is included in the statements of activities as temporarily restricted. Under certain circumstances, the principal of the SJ Fund may be used at the discretion of the Foundation.

Changes in the Foundation's temporarily restricted endowment net assets for the years ended June 30, 2018 and 2017 are as follows:

	J. Seward Johnson, Sr. Charitable Trust Endowment Fund
Endowment net assets at June 30, 2016	\$ 58,975,130
Contributions	2,500
Interest and dividends	1,535,377
Net realized gain on investments	1,856,207
Net unrealized gain on investments	5,143,925
Distributions	(1,260,883)
Endowment net assets at June 30, 2017	66,252,256
Contributions	2,500
Interest and dividends	1,964,411
Net realized gain on investments	982,461
Net unrealized gain on investments	4,169,166
Distributions	(2,233,149)
Endowment net assets at June 30, 2018	\$ 71,137,645

Harbor Branch Oceanographic Institute Foundation, Inc.

Notes to Financial Statements

The Fund is a donor-restricted term endowment that is classified as temporarily restricted net assets until the term expires and it is used in accordance with the donor's restrictions on use. The State of Florida enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective June 30, 2009. UPMIFA establishes law for the management and investment of donor-restricted endowment funds. The Board of Directors of the Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds unless there are explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as restricted net assets (a) the original value of gifts donated to all donor-restricted endowments, (b) the original value of any subsequent gifts to donor-restricted endowments, and (c) the original value of accumulations to donor-restricted permanent endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

UPMIFA permits the Foundation to appropriate for expenditure or accumulate so much of a donor-restricted term endowment fund as it determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. In making its determination to appropriate or accumulate, the Foundation must act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and it must consider, if relevant, the following factors:

- The duration and preservation of the endowment fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policy of the Foundation

5. Retirement Plan

The Foundation established a 401(k) Profit Sharing Plan and Trust (the "Plan") effective January 1, 2012. Employees must be 21 years of age to participate and become eligible immediately upon employment. The Plan provides for up to a 3% dollar for dollar match on employee contributions and 100% vesting on employer matching contributions after three years of service. Total employer contributions to the Plan for the years ended June 30, 2018 and 2017, were \$11,350 and \$11,976, respectively, and are included in salaries and related expenses in the statements of functional expenses.

Harbor Branch Oceanographic Institute Foundation, Inc.

Notes to Financial Statements

6. Commitments and Contingencies

Specialty License Plates

Under Florida statute, the purpose of the specialty license plate program is to raise funds for a particular cause and on behalf of a legislatively dictated organization. Each specialty license plate requires an annual use fee which is a volunteer purchase. The specialty license plates administered by the Foundation are: Aquaculture, Protect Wild Dolphins, Protect Florida Whales, and Save Our Seas. FAU Harbor Branch is the research sub-recipient from the Foundation. The Foundation also stewards a state-allowed marketing budget and directly oversees marketing responsibilities for the plates.

The Foundation is subject to audit examination by the State of Florida to determine compliance with requirements in connection with the specialty license plate funds. In the event that expenditures would be disallowed, repayment could be required. Management is of the opinion that expenditures, if any, that would be disallowed, would not have a material adverse impact on the Foundation.

Legal - The Foundation v. FAU

At a special board meeting held March 30, 2017, the Board of Directors of the Foundation resolved that its officers were authorized to direct independent legal counsel to file a complaint for declaratory relief seeking assistance from the court to determine that certain actions and demands by FAU were an inappropriate exercise of its rights under the December 2007 Memorandum of Understanding ("MOU") between the two parties and that FAU had anticipatorily breached its contractual obligations to the Foundation. Following the adoption of Resolution 2017-1 at that meeting, a complaint was filed by the Foundation in the Circuit Court of the Nineteenth Judicial Circuit in and for St. Lucie County, Florida.

In-person mediation was held December 20, 2017, followed by continued negotiations between the parties through the mediator. The case did not settle, and the mediator declared an impasse. Litigation continues, and the parties are engaging in the discovery process. FAU recently filed a motion for partial summary judgment, in which FAU requests a legal ruling in advance of trial that FAU has the right to control the Foundation's budget. The Foundation will oppose FAU's motion, arguing that FAU has no such right under the terms of the MOU. The Court has scheduled a hearing on FAU's motion for summary judgment for December 6, 2018. No trial date has been set.

Environmental Contingencies and Legal

The Foundation had previously been involved in claims relating to possible contamination of soil and groundwater. This contamination is primarily the result of the storage of oil tanks. All issues with regard to this are now resolved. The Foundation may also be subject to claims and legal proceedings which arise in the ordinary course of business. Management does not believe that the outcome of such claims and any related legal action will have a material adverse effect on the financial position, results of activities or cash flows of the Foundation.

Harbor Branch Oceanographic Institute Foundation, Inc.

Notes to Financial Statements

In 1997, the then Harbor Branch Oceanographic Institution organized with other potentially responsible parties (the "Group") in a Florida Petroleum Reprocessors Superfund Site PRP Group for the purpose of addressing environmental response costs in connection with a used oil recycling facility located in Broward County, Florida. The Group agreed to share expenses on a pro-rata basis associated with resolving alleged liability and to fund remedial design/remedial action as may be needed. The Foundation's pro-rata share of future costs is currently expected to be around 1.7% of clean-up costs, including, without limitation, fees and costs incurred. In 2016, the Group projected it has raised enough funds to pay for implementation of remedy. When FAU obtained Harbor Branch Oceanographic Institute assets in 2007, the Harbor Branch Oceanographic Institute Foundation agreed to retain responsibility for participation in the Group. To date, while the Foundation may be subject to claims and legal proceedings which arise in the ordinary course of business, the Foundation has satisfied its financial obligations to the Group for work already completed or underway at the site. Management does not believe that the outcome of such claims and any related legal action will have a material adverse effect on the financial position, results of activities or cash flows of the Foundation.

The Group received status reports on March 17, 2017, September 21, 2017, April 3, 2018, and July 11, 2018. In July 2018, groundwater sampling for the FPR site was reported. Periodic sampling of groundwater is the main component of the monitored natural attenuation remedy for the FPR site. Under the approved protocol with EPA, the Group is required to conduct groundwater sampling, both on and off site, every three years. The next round of groundwater sampling is scheduled to occur in 2021.

It had been previously reported that there was a possible lease of the property. As of July 2018, neither the EPA, nor the SuperFund Group attorney, have heard anything more about the FPR site owners wanting to lease out the FPR site; it is now assumed the last prospective tenant is no longer interested.

Approximately \$562,000 was reported in the Group's escrow account; there are unknown FPR oversight costs for which EPA will bill at some point, but it was reported that these funds are adequate for the foreseeable future.

Research

The Foundation has committed finite grants subject to specified terms to help fund the addition of certain new faculty, provide faculty incentives, provide salary support, research projects, fellowships, and certain operational support at FAU Harbor Branch. The total expected commitment remaining at June 30, 2018 is as follows:

Year Ending June 30,

2019	\$ 2,122,000
2020	447,109
<hr/>	
Total commitment	\$ 2,569,109

This research funding is conditional upon the recipient performing specified services. These grant commitments have not been reflected in the accompanying financial statements since the conditions for performance have not been met.

Harbor Branch Oceanographic Institute Foundation, Inc.

Notes to Financial Statements

7. Related Party Transactions

The law firm of a non-voting board member of the Foundation provides legal services to the Foundation. Payments to the law firm for the years ended June 30, 2018 and 2017 were \$32,528 and \$61,139, respectively.

8. Subsequent Events

The Foundation has evaluated events and transactions occurring subsequent to June 30, 2018 as of September 28, 2018, which is the date the financial statements were available to be issued. Subsequent events occurring after September 28, 2018 have not been evaluated by management. No material events have occurred since June 30, 2018 that require recognition or disclosure in the financial statements, except as follows:

Effective July 5, 2018, the Foundation terminated the existing Specialty License Plate Memorandum of Understanding (MOU) with FAU by issuing a 90-day written notice dated April 6, 2018. In September 2018, the Foundation informed FAU that it had determined the MOU contract dated December 12, 2007 addresses all understandings with regard to the Foundation's commitments to support the FAU Harbor Branch, including the granting of Specialty License Plate Funds.

DRAFT - Subject to Revision - This document has been produced

Supplementary Information

DRAFT - Subject to Revision - Not to be Reproduced

Independent Auditor's Report on Supplementary Information

The Board of Directors
Harbor Branch Oceanographic Institute Foundation, Inc.
Fort Pierce, Florida

Our audits of the financial statements included in the preceding section of this report were conducted for the purpose of forming an opinion on those statements as a whole. The supplementary information presented in the following section of this report is presented for purposes of additional analysis and is 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.

BDO USA, LLP
Certified Public Accountants
September 28, 2018

Harbor Branch Oceanographic Institute Foundation, Inc.

Schedule of Revenue and Expenses - Year Ended June 30, 2018

Plate	CSFA#	Total Revenue by Plate FY18	Expenses							Total Expenses by Plate FY18
			FAU Harbor Branch Research Grants	10% Wyland Foundation Distribution	10% Guy Harvey Research Institute Distribution	Florida Aquaculture Association Distribution	4% FAU Admin Fee	3% HBOIF Admin Fee	Marketing Expense	
Protect Wild Dolphins	76.011	\$1,096,505	\$ —	\$ —	\$ —	\$ —	\$ 38,158	\$ 32,895	\$ 56,292	\$ 127,345
Protect Florida Whales	76.072	403,890	—	40,389	—	—	12,440	12,117	20,901	85,847
Aquaculture	76.080	355,792	—	—	35,579	5,000	10,759	10,673	17,048	79,059
Save Our Seas	76.085	930,427	100,333	—	93,043	—	28,657	27,913	47,761	297,707
		\$2,786,614	\$ 100,333	\$ 40,389	\$ 128,622	\$ 5,000	\$ 90,014	\$ 83,598	\$ 142,002	\$ 589,958

See accompanying note to schedule of revenue and expenses.

Harbor Branch Oceanographic Institute Foundation, Inc.

Note to Schedule of Revenue and Expenses - Year Ended June 30, 2018

1. Note to Schedule

Under Florida Statute (Title XXIII Motor Vehicles, Chapter 320, Motor Vehicle Licenses) the annual use fees generated by the four specialty license plates shall be distributed to the Harbor Branch Oceanographic Institute Foundation, Inc. (the "Foundation"), to be used as follows:

PROTECT WILD DOLPHINS:

- Up to 15 percent of the funds received by the Foundation, may be expended for administrative costs directly associated with the operations of the institution.
- Up to 10 percent of the funds distributed may be used by the Foundation, for continuing promotion and marketing of the license plate.
- The remainder of the funds must be used to collect, analyze, and archive scientific data regarding the wild dolphin population in Florida waters; provide care and assistance to stranded wild dolphins; distribute information to the scientific community, federal, state, and local government agencies, educational institutions, and the public for the purpose of protecting and preserving wild dolphins; individually identify wild dolphins through a photographic identification program; and advance the research technology associated with tracking and categorizing wild dolphins.

PROTECT FLORIDA WHALES:

- Up to 15 percent of the funds received by the Foundation may be used for administrative costs directly associated with the Harbor Branch Oceanographic Institution's Marine Mammal Research and Conservation program and this specialty license plate funding.
- Up to 10 percent of the funds may be used by the Foundation for continuing promotion and marketing of the license plate.
- Ten percent of the funds shall be distributed to the Wyland Foundation, Inc., and used specifically to conduct educational programs in this state which promote conservation of Florida marine mammals.
- The remainder of the funds shall be used to collect, analyze, and archive scientific data regarding whale populations that inhabit, utilize, or migrate in state waters; provide care and assistance to stranded whales; construct and maintain a Harbor-Branch-based teaching marine mammal hospital; train veterinary students in the rescue, medical and rehabilitation treatment, and release and postrelease monitoring of stranded whales; distribute information for the purpose of protecting and preserving whales; identify whale populations; conduct scientific research through genetic, telemetry, bioacoustical, and photographic identification research programs; advance the research technology associated with tracking, monitoring, and categorizing whales; develop methods of monitoring whale movements; and provide for methods of early-warning detection systems and advance notification that will help prevent accidental boat strikes in state waters.

Harbor Branch Oceanographic Institute Foundation, Inc.

Note to Schedule of Revenue and Expenses - Year Ended June 30, 2018

AQUACULTURE:

- Ten percent of the funds shall be distributed to the Guy Harvey Research Institute of the Nova Southeastern University Oceanographic Center to conduct outreach and education regarding aquaculture in the state.
- Up to 15 percent of the funds may be used for administrative costs directly associated with the Foundation's aquaculture programs and administrative costs associated with the Aquaculture license plate.
- Up to 10 percent of the funds may be used by the Foundation for continuing promotion and marketing of the license plate.
- The remaining funds shall be used to conduct scientific research on environmentally responsible and sustainable methods of farming freshwater and saltwater organisms such as fish, shellfish, and crustaceans for food; biomedical species for pharmaceutical and nutraceutical compounds; and marine ornamentals for the aquarium trade. These funds shall also be used to expand the institution's educational programs that include secondary school field experiences, college degree programs, and intensive courses in order to further the objective of increasing aquaculture's contribution to the state's economy.

SAVE OUR SEAS:

- Ten percent of the funds shall be distributed to the Guy Harvey Research Institute of the Nova Southeastern University Oceanographic Center to conduct fisheries and shark research in the state.
- Up to 15 percent of the funds may be used for administrative costs directly associated with the institution.
- Up to 10 percent of the funds may be used for continuing promotion and marketing of the license plate.
- The remaining funds shall be used to conduct scientific research and education on marine plants and animals and coastal oceanography in state marine waters; to collect and analyze long-term data sets on the state's critical marine habitats; to determine changes in populations and communities of marine organisms and their impacts on the use of the state's marine resources; to maintain reference collections of scientific specimens and photographic archives of the state's marine plants and animals; and to conduct scientific conferences of relevance to the state's marine resources and their management, utilization, and conservation.

Reports Required by *Government Auditing Standards*
and Florida Single Audit Act

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

The Board of Directors
Harbor Branch Oceanographic Institute Foundation, Inc.
Fort Pierce, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Harbor Branch Oceanographic Institute Foundation, Inc. (the "Foundation"), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 28, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

BDO USA, LLP
Certified Public Accountants
September 28, 2018

DRAFT - Subject to Revision - Not for Distribution

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

The Board of Directors
Harbor Branch Oceanographic Institute Foundation, Inc.
Fort Pierce, Florida

Report on Compliance for the Major State Project

We have audited Harbor Branch Oceanographic Institute Foundation, Inc.'s (the "Foundation") compliance with the types of compliance requirements described in the State of Florida's *Department of Financial Services* State Projects Compliance Supplement that could have a direct and material effect on the Foundation's major state project for the year ended June 30, 2018. The Foundation's major state project is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Foundation's major state project 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 State of Florida, Chapter 10.650, Rules of the Auditor General. Those standards and Chapter 10.650, Rules of the Auditor General, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state project occurred. An audit includes examining, on a test basis, evidence about the Foundation'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 the major state project. However, our audit does not provide a legal determination of the Foundation's compliance.

Opinion on the Major State Project

In our opinion, the Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major state project for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on the major state project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major state project and to test and report on internal control over compliance in accordance with the State of Florida's Chapter 10.650, Rules of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation'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 state project on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a 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 state project will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

Purpose of this Report

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 State of Florida, Chapter 10.650, Rules of the Auditor General. Accordingly, this report is not suitable for any other purpose.

BDO USA, LLP
Certified Public Accountants
September 28, 2018

Harbor Branch Oceanographic Institute Foundation, Inc.

Schedule of Expenditures of State Financial Assistance

State Agency/State Project	State CSFA No.	Provided to Subrecipients	Total Expenditures
Florida Department of Highway Safety and Motor Vehicles:			
Protect Wild Dolphins License Plate Project	76.011	\$ 38,158	\$ 127,345
Protect Florida Whales License Plate Project	76.072	12,440	85,846
Florida Aquaculture License Plate Project	76.080	10,759	79,060
Save Our Seas License Plate Project	76.085	128,990	297,707
Total expenditures of state financial assistance		\$ 190,347	\$ 589,958

See accompanying note to schedule of expenditures of state financial assistance.

Harbor Branch Oceanographic Institute Foundation, Inc.

Note to Schedule of Expenditures of State Financial Assistance

1. Basis of Presentation

The accompanying schedule of expenditures of state financial assistance includes the state project activity of Harbor Branch Oceanographic Institute Foundation, Inc. (the "Foundation") and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of Rules of the Florida Department of Financial Services, Chapter 69I-5, Florida Administrative Code. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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Harbor Branch Oceanographic Institute Foundation, Inc.

Schedule of Findings and Questioned Costs - State Financial Assistance

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified? Yes None Reported

Noncompliance material to financial statements noted? Yes No

State Project

Type of auditor's report issued on compliance for major project Unmodified

Internal control over major project:

- Material weaknesses identified? Yes No
- Significant deficiencies identified? Yes None Reported

Any audit findings disclosed that are required to be reported in accordance with Chapter 10.656? Yes No

Identification of major project:

State Project:

CSFA Number

Florida Department of Highway Safety and Motor Vehicles:
Save Our Seas License Plate Project

76.085

Dollar threshold used to distinguish between Type A and Type B programs: \$176,987

SECTION II - FINANCIAL STATEMENT FINDINGS

There were no findings related to the financial statements which are required to be reported in accordance with generally accepted government auditing standards.

SECTION III - FINDINGS AND QUESTIONED COSTS - MAJOR STATE PROJECT

There were no findings and questioned costs for the state project (as defined in Chapter 10.656) that are required to be reported.

SECTION IV - OTHER ISSUES

No management letter is required because there were no findings required to be reported in the management letter.

No Summary Schedule of Prior Audit Findings is required because there were no prior audit findings related to state projects.