

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

Financial Statements and
Supplementary Information
Years Ended June 30, 2016 and 2015

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Harbor Branch Oceanographic Institute Foundation, Inc.

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Contents

Independent Auditor's Report	3-4
Financial Statements	
Statements of Financial Position	6
Statements of Activities	7
Statements of Cash Flows	8
Statements of Functional Expenses	9-10
Notes to Financial Statements	11-21
Supplementary Information	
Independent Auditor's Report on Supplementary Information	23
Revenue and Expenses - Year Ended June 30, 2016	24
Reports Required by Government Auditing Standards and Florida Single Audit Act	
Schedule of Expenditures of State Financial Assistance	26
Notes to Schedule of Expenditures of State Financial Assistance	27
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>	28-29
Independent Auditor's Report on Compliance for Each Major State Project and Report on Internal Control Over Compliance Required by Chapter 10.650, Rules of the Auditor General	30-31
Schedule of Findings and Questioned Costs - State Financial Assistance	32

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 statement of financial position as of June 30, 2016, and the related statements of activities, cash flows and functional expenses 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.

Auditor's 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 Harbor Branch Oceanographic Institute Foundation, Inc. as of June 30, 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

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state financial assistance is presented for purposes of additional analysis as required by the State of Florida, Chapter 10.650, Rules of the Auditor General, 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.

The 2015 financial statements of Harbor Branch Oceanographic Institute Foundation, Inc. were audited by other auditors, whose report dated October 21, 2015 expressed an unmodified opinion on those statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated **DATE** 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

Date

Financial Statements

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Harbor Branch Oceanographic Institute Foundation, Inc.

Statements of Financial Position

<i>June 30,</i>	2016	2015
Assets		
Cash and cash equivalents	\$ 339,493	\$ 865,595
Land held for sale	514,800	1,891,228
Contributions receivable	83,590	76,655
Prepaid expenses and other assets	77,312	32,326
Investments	62,246,294	65,260,064
Property and equipment, net	708,396	710,970
Total Assets	\$ 63,969,885	\$ 68,836,838
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	\$ 264,116	\$ 155,260
Commitments and contingencies		
Net assets:		
Unrestricted	581,515	2,546,822
Temporarily restricted	63,124,254	66,134,756
Total net assets	63,705,769	68,681,578
Total Liabilities and Net Assets	\$ 63,969,885	\$ 68,836,838

See accompanying notes to financial statements.

Harbor Branch Oceanographic Institute Foundation, Inc.

Statements of Activities

Year Ended June 30,	2016			2015		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, gains (losses) and other support:						
Specialty license plate contributions	\$ 2,761,693	\$ -	\$ 2,761,693	\$ 2,786,003	\$ -	\$ 2,786,003
Investment income (loss)	-	(1,168,554)	(1,168,554)	-	1,729,559	1,729,559
Fundraising, net of \$106,822 and \$96,495 direct expenses, respectively	-	111,869	111,869	92,353	-	92,353
Contributions	31,983	-	31,983	52,696	-	52,696
Other income	48,331	-	48,331	46,374	-	46,374
Impairment on land held for sale	(1,376,428)	-	(1,376,428)	-	-	-
Net assets released from restrictions	1,953,817	(1,953,817)	-	2,644,300	(2,644,300)	-
Total revenues, gains (losses) and other support	3,419,396	(3,010,502)	408,894	5,621,726	(914,741)	4,706,985
Expenses:						
Program services:						
Marine and ocean research science	4,852,881	-	4,852,881	5,524,141	-	5,524,141
Supporting services:						
General administration	458,018	-	458,018	411,539	-	411,539
Fundraising	73,804	-	73,804	70,362	-	70,362
Total supporting services	531,822	-	531,822	481,901	-	481,901
Total expenses	5,384,703	-	5,384,703	6,006,042	-	6,006,042
Change in net assets	(1,965,307)	(3,010,502)	(4,975,809)	(384,316)	(914,741)	(1,299,057)
Net assets, beginning of year	2,546,822	66,134,756	68,681,578	2,931,138	67,049,497	69,980,635
Net assets, end of year	\$ 581,515	\$ 63,124,254	\$ 63,705,769	\$ 2,546,822	\$ 66,134,756	\$ 68,681,578

See accompanying notes to financial statements.

Harbor Branch Oceanographic Institute Foundation, Inc.

Statements of Cash Flows

<i>Year Ended June 30,</i>	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ (4,975,809)	\$ (1,299,057)
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation expense	2,574	2,574
Net unrealized and realized loss (gain) on investments	2,469,957	(317,643)
Impairment on land held for sale	1,376,428	-
Cash provided by (used for):		
Contributions receivable	(6,935)	8,494
Prepaid expenses and other assets	(44,986)	10,878
Accounts payable and accrued expenses	108,856	53,418
Net cash used for operating activities	(1,069,915)	(1,541,336)
Cash flows from investing activities:		
Proceeds from sale of investments	12,565,242	10,832,648
Purchases of investments	(12,021,429)	(8,725,572)
Net cash provided by investing activities	543,813	2,107,076
Net increase (decrease) in cash and cash equivalents	(526,102)	565,740
Cash and cash equivalents, beginning of year	865,595	299,855
Cash and cash equivalents, end of year	\$ 339,493	\$ 865,595

See accompanying notes to financial statements.

Harbor Branch Oceanographic Institute Foundation, Inc.

Statements of Functional Expenses

<i>Year Ended June 30, 2016</i>	Program Services	Supporting Services			Total
	Marine and Ocean Research Science	General Administration	Fundraising	Total Supporting Services	
Discretionary grants to FAU	\$ 1,963,817	\$ -	\$ -	\$ -	\$ 1,963,817
Specialty license plate grants to FAU	2,243,525	-	-	-	2,243,525
Specialty license plate distributions to others	166,901	-	-	-	166,901
Professional services	130,269	208,123	-	208,123	338,392
Salaries and related expenses	144,978	144,746	32,191	176,937	321,915
Marketing	179,436	-	19,937	19,937	199,373
Insurance	-	29,924	1,247	31,171	31,171
Promotion and printing	3,983	3,983	11,952	15,935	19,918
Travel	8,926	7,142	1,785	8,927	17,853
Equipment	721	5,766	721	6,487	7,208
Taxes	-	12,022	-	12,022	12,022
Materials and supplies	479	3,827	478	4,305	4,784
Computer and website	8,306	1,186	2,373	3,559	11,865
Dues and subscriptions	-	4,951	1,238	6,189	6,189
Rent and utilities	-	27,907	-	27,907	27,907
Depreciation	-	2,574	-	2,574	2,574
Miscellaneous	1,540	5,391	770	6,161	7,701
Postage and freight	-	476	1,112	1,588	1,588
Total	\$ 4,852,881	\$ 458,018	\$ 73,804	\$ 531,822	\$ 5,384,703

See accompanying notes to financial statements.

Harbor Branch Oceanographic Institute Foundation, Inc.

Statements of Functional Expenses

<i>Year Ended June 30, 2015</i>	Program Services	Supporting Services			Total
	Marine and Ocean Research Science	General Administration	Fundraising	Total Supporting Services	
Discretionary grants to FAU	\$ 2,627,660	\$ -	\$ -	\$ -	\$ 2,627,660
Specialty license plate grants to FAU	2,239,247	-	-	-	2,239,247
Specialty license plate distributions to others	166,713	-	-	-	166,713
Professional services	123,924	213,014	-	213,014	336,938
Salaries and related expenses	141,758	116,406	28,352	141,758	283,516
Marketing	204,133	-	22,681	22,681	226,814
Insurance	-	29,772	1,241	31,013	31,013
Promotion and printing	3,345	3,345	10,036	13,381	16,726
Travel	8,283	6,626	1,656	8,282	16,565
Equipment	1,220	9,762	1,220	10,982	12,202
Taxes	-	11,866	-	11,866	11,866
Materials and supplies	1,108	8,860	1,108	9,968	11,076
Computer and website	6,522	932	1,863	2,795	9,317
Dues and subscriptions	-	5,896	1,474	7,370	7,370
Rent and utilities	-	4,424	-	4,424	4,424
Depreciation	-	2,574	-	2,574	2,574
Miscellaneous	228	797	114	911	1,139
Postage and freight	-	265	617	882	882
Total	\$ 5,524,141	\$ 411,539	\$ 70,362	\$ 481,901	\$ 6,006,042

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, located in Boca Raton, 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."

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.

Land Held for Sale

The Foundation holds a certain parcel of land held for sale which is valued at cost and periodically reviewed for impairment.

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.

Harbor Branch Oceanographic Institute Foundation, Inc.

Notes to Financial Statements

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 a spending policy of up to five percent (5%) annually.

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 and Land Held for Sale

The Foundation reviews its long-lived assets, such as property and equipment, 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 2016 and 2015.

Recoverability of the land held for sale is measured by a comparison of the asset's carrying value to its fair value and any excess of its carrying value over fair value is recorded as impairment. During 2016, the Foundation recorded an impairment charge on the land held for sale of \$1,376,428. Fair value was based on an actual offer to purchase the property and a third party appraisal. The impairment charge is recorded as impairment on land held for sale on the statements of activities. See additional discussion at Note 8.

Harbor Branch Oceanographic Institute Foundation, Inc.

Notes to Financial Statements

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, 2016 or 2015.

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.

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.

Harbor Branch Oceanographic Institute Foundation, Inc.

Notes to Financial Statements

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, 2016. 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 cash and cash equivalents, 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.

The fair value of the Foundation's Level 2 and Level 3 investments as identified in Note 2 are estimated using information provided to the Foundation by the investment managers, given the absence of market quotations. The values are based on estimates that require varying degrees of judgment and are determined based on net asset values ("NAV") of the investment as supplied by the investment managers of the underlying funds.

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. Such accounts may at times exceed federally insured limits. The Foundation has not experienced any losses on such accounts.

The Foundation has significant investments in equities, mutual funds, exchange traded funds and hedge 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. 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.

Harbor Branch Oceanographic Institute Foundation, Inc.

Notes to Financial Statements

Reclassifications

Certain items have been reclassified in the 2015 financial statements to conform to the 2016 presentation.

Accounting Pronouncements Issued but Not Yet Adopted

Fair Value of Investments

In May 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-07, *Fair Value (Topic 820), Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Equivalent)*, which allows for those entities that have elected the practical expedient to use the net asset value (NAV) as a measure of fair value and to no longer categorize these investments within the fair value hierarchy. The practical expedient criteria differ from the criteria used to categorize other fair value measurements within the hierarchy. A reporting entity should continue to disclose information on investments for which fair value is measured at NAV (or its equivalent) as a practical expedient to help users understand the nature and risks of the investments and whether the investments, if sold, are probable of being sold at amounts different from NAV. The ASU is effective for fiscal years beginning after December 15, 2016, with early application permitted and should be applied retrospectively. The retrospective approach requires that an investment for which fair value is measured using the NAV practical expedient be removed from the fair value hierarchy in all periods presented in an entity's financial statements. Management is currently evaluating the impact of this ASU on its financial statements.

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 their 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>	2016	2015
Cash equivalents	\$ 15,956	\$ 1,056,215
Level 1 investments:		
Equities	-	4,513,579
Mutual funds and exchange traded funds:		
Fixed income	13,123,671	14,936,243
Large cap	25,506,073	24,531,475
Small cap	8,409,375	4,658,835
International	10,008,142	11,079,243
Alternative	1,025,485	-
Total Level 1 investments	58,072,746	59,719,375
Level 2 investments:		
Multi-strategy hedge fund of funds (a)	4,157,592	4,291,220
Level 3 investments:		
Diversified offshore fund (b)	-	193,254
Total investments	\$ 62,246,294	\$ 65,260,064

(a) This fund focuses on building and managing low volatility, multi-manager portfolios that have low correlation to the broader debt and equity indices. The fund currently offers liquidity on a quarterly basis and redemptions require 95 days advance notice.

(b) The investment objective of this fund is to minimize risk through diversification and maximize total return through manager selection. The fund seeks to achieve this objective by employing a multi-manager approach, maintaining investments with a broadly diversified group of investment managers specializing in alternative investment strategies. The fund offers quarterly redemptions after the subscriber has been invested in the fund for 2 years, and with 75 days notice. Full liquidation occurred during fiscal year 2016.

Activity for Level 3 investments is summarized as follows:

<i>Year Ended June 30,</i>	2016	2015
Fair value, beginning	\$ 193,254	\$ 1,859,951
Sales, net	(193,254)	(1,596,989)
Realized gain	-	371,844
Unrealized loss	-	(441,552)
Fair value, ending	\$ -	\$ 193,254

Harbor Branch Oceanographic Institute Foundation, Inc.

Notes to Financial Statements

Investment income (loss) is comprised of the following:

<i>Year Ended June 30,</i>	2016	2015
Dividends and interest	\$ 1,301,403	\$ 1,411,916
Net realized/unrealized gain (loss)	(2,469,957)	317,643
	\$ (1,168,554)	\$ 1,729,559

Investment management fees totaled \$95,948 and \$120,840 for the years ended June 30, 2016 and 2015, respectively and are included in professional services expense in the accompanying statements of functional expenses.

3. Property and Equipment

Property and equipment are comprised of the following:

<i>June 30,</i>	<i>Useful Life</i>	2016	2015
Buildings and building improvements	10-40 years	\$ 27,375	\$ 27,375
Equipment	5-18 years	8,336	8,336
Software	15 years	20,000	20,000
Land	n/a	691,553	691,553
Land improvements	5-50 years	250,445	250,445
		997,709	997,709
Less accumulated depreciation		(289,313)	(286,739)
		\$ 708,396	\$ 710,970

4. Temporarily Restricted Net Assets

Temporarily restricted endowment net assets are available as follows:

<i>June 30,</i>	2016	2015
J. Seward Johnson, Sr. Charitable Trust Endowment Fund	\$ 58,975,130	\$ 61,897,448
Seward Johnson Trust Fund for Oceanography	4,037,255	4,237,308
2016 Indian River Graduate Research Fellows Program	111,869	-
	\$ 63,124,254	\$ 66,134,756

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

<i>Year Ended June 30,</i>	2016	2015
J. Seward Johnson, Sr. Charitable Trust Endowment Fund	\$ 1,828,634	\$ 2,474,885
Seward Johnson Trust Fund for Oceanography	125,183	169,415
	\$ 1,953,817	\$ 2,644,300

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. 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, 2016 and 2015 are as follows:

	J. Seward Johnson, Sr. Charitable Trust Endowment Fund
Endowment net assets at June 30, 2014	\$ 62,753,587
Interest and dividends	1,321,454
Net realized gain on investments	2,751,549
Net unrealized loss on investments	(2,454,257)
Distributions	(2,474,885)
Endowment net assets at June 30, 2015	61,897,448
Interest and dividends	1,218,021
Net realized gain on investments	250,335
Net unrealized loss on investments	(2,562,040)
Distributions	(1,828,634)
Endowment net assets at June 30, 2016	\$ 58,975,130

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, 2016 and 2015, were \$9,651 and \$9,628, respectively, and are included in salaries and related expenses in the statements of functional expenses.

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.

Harbor Branch Oceanographic Institute Foundation, Inc.

Notes to Financial Statements

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.

Environmental Contingencies and Legal

The Foundation is involved in claims relating to possible contamination of soil and groundwater. This contamination is primarily the result of the storage of oil tanks. 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.

In 1997, the then Harbor Branch Oceanographic Institution organized with other potentially responsible parties 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. Said 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.

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, 2016 is as follows.

Year Ended June 30,

2017	\$ 2,875,091
2018	1,489,745
2019	538,198
2020	198,137
Total commitment	\$ 5,101,171

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, 2016 and 2015 were \$21,430 and \$27,530, respectively.

8. Subsequent Events

The Foundation has evaluated events and transactions occurring subsequent to June 30, 2016 as of **DATE**, which is the date the financial statements were available to be issued. Subsequent events occurring after **DATE** have not been evaluated by management. No material events have occurred since June 30, 2016 that require recognition or disclosure in the financial statements, except for the sale of land as disclosed in Note 1 and further discussed below.

During fiscal year 2016, the Foundation property known as "Peacock Road" was listed for sale at an amount based on a third-party appraisal. Subsequent to year end, an offer was received to purchase the property for an amount not significantly different from the listed and appraised value. Both the appraised value and the offer price were less than the carrying value of the land, which resulted in an impairment charge on the land held for sale. At June 30, 2016, the carrying value of the land held for sale is \$514,800, which is recorded in the statements of financial position and represents the expected sale price of the property. The property is scheduled to close in October 2016.

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Supplementary Information

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Independent Auditor's Report on Supplementary Information

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

Our audit 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

Date

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Harbor Branch Oceanographic Institute Foundation, Inc.

Revenue and Expenses - Year Ended June 30, 2016

<i>Plate</i>	CSFA#	Total Revenue by Plate FY16	Expenses								Total Expenses by Plate FY16	
			FAU Research	10% Wyland Foundation Distribution	10% Guy Harvey Research Inst Distribution	Florida Aquaculture Association Distribution	2.5% FAU Admin Fee	3% HBOIF Admin Fee	Marketing Expense	Marketing Residual (Distributed to FAU Research)		
Protect Wild Dolphins	76.011	\$ 1,142,690	\$ 965,573	\$ -	\$ -	\$ -	\$ -	\$ 28,567	\$ 34,282	\$ 82,660	\$ 31,608	\$ 1,142,690
Protect Florida Whales	76.072	392,076	292,096	39,208	-	-	-	9,803	11,762	29,232	9,975	392,076
Aquaculture	76.080	363,096	265,506	-	36,310	5,000	-	9,077	10,893	25,813	10,497	363,096
Save Our Seas	76.085	863,831	643,555	-	86,383	-	-	21,596	25,914	61,668	24,715	863,831
		\$ 2,761,693	\$ 2,166,730	\$ 39,208	\$ 122,693	\$ 5,000	\$ -	\$ 69,043	\$ 82,851	\$ 199,373	\$ 76,795	\$ 2,761,693

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

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Harbor Branch Oceanographic Institute Foundation, Inc.

Schedule of Expenditures of State Financial Assistance

State Agency/State Project	CSFA No.	Expenditures	Transferred to Subrecipient
Florida Department of Highway Safety and Motor Vehicles:			
Protect Wild Dolphins License Plate Project	76.011	\$ 1,142,690	\$ 1,025,749
Protect Florida Whales License Plate Project	76.072	392,076	311,873
Florida Aquaculture License Plate Project	76.080	363,096	285,080
Save Our Seas License Plate Project	76.085	863,831	689,866
Total expenditures of state financial assistance		\$ 2,761,693	\$ 2,312,568

See accompanying notes to Schedule of Expenditures of State Financial Assistance.

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Harbor Branch Oceanographic Institute Foundation, Inc.

Notes 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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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, 2016, 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 DATE.

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

Date

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Independent Auditor's Report on Compliance for Each 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 Projects

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 projects for the year ended June 30, 2016. The Foundation's major State projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Foundation's major State projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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 the major State projects 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 projects. However, our audit does not provide a legal determination of the Foundation's compliance.

Opinion on the Major State Projects

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 projects for the year ended June 30, 2016.

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 projects to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major State projects 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 projects 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 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

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

BDO USA, LLP

Date

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 auditor's report issued

Unmodified

Internal control over financial reporting:

- Material weaknesses identified?
Significant deficiencies identified?

- Yes No
Yes None Reported

Non-compliance material to financial statements noted?

- Yes No

State Financial Assistance

Internal control over major projects:

- Material weaknesses identified?
Significant deficiencies identified?

- Yes No
Yes None Reported

Type of auditor's report issued on compliance for major projects

Unmodified

Any audit finding disclosed that are required to be reported in accordance with Chapter 10.656?

- Yes No

Identification of major projects:

State Projects

CSFA Number

Table with 2 columns: Project Name, CSFA Number. Rows include Florida Department of Highway Safety and Motor Vehicles, Protect Wild Dolphins License Plate Project, Protect Florida Whales License Plate Project, Florida Aquaculture License Plate Project, Save Our Seas License Plate Project.

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

SECTION IV - OTHER ISSUES

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

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