

HARBOR BRANCH OCEANOGRAPHIC INSTITUTE FOUNDATION



AUDIT WRAP-UP

June 30, 2016

The following communication was prepared as part of our audit, has consequential limitations, and is intended solely for the information and use of those charged with governance (e.g., Board of Directors and Audit Committee) and, if appropriate, management of the Company and is not intended and should not be used by anyone other than these specified parties.

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October 11, 2016

Audit Committee
Harbor Branch Oceanographic Institute Foundation
5600 N US Highway 1
Fort Pierce, Florida 34946

Dear Committee Members:

Professional standards require us to communicate with you regarding matters related to the audit, that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. On August 1, 2016, we reported an overview of our plan for the audit of the financial statements of Harbor Branch Oceanographic Institute Foundation (the Foundation) as of and for the year ended June 30, 2016, including a summary of our overall objectives for the audit, and the nature, scope, and timing of the planned audit work.

This communication is intended to elaborate on the significant findings from our audit, including our views on the qualitative aspects of the Foundation's accounting practices and policies, management's judgments and estimates, financial statement disclosures, and other required matters.

We are pleased to be of service to the Foundation and look forward to discussing our audit findings, as well as other matters that may be of interest to you, and to answer any questions you might have.

Respectfully,

BDO USA, LLP.

BDO USA, LLP

Discussion Outline

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Status of Our Audit

We have substantially completed our audit of the financial statements as of and for the year ended June 30, 2016. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America. This audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

- The objective of our audit was to obtain reasonable - not absolute - assurance about whether the financial statements are free from material misstatements.
- The scope of the work performed was substantially the same as that described to you in our earlier Audit Planning communications.
- We expect to issue an unmodified opinion on the financial statements.
- We also considered internal control over compliance with requirements that could have a direct and material effect on the major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the State of Florida and 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.
- As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, 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. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Organization's compliance with those requirements. We do not expect to report any Findings in our reports on compliance.
- All records and information requested by BDO were freely available for our inspection.
- Management's cooperation was excellent. We received full access to all information that we requested while performing our audit, and we acknowledge the full cooperation extended to us by all levels of Foundation personnel throughout the course of our work.

Results of Our Audit

ACCOUNTING PRACTICES, POLICIES, ESTIMATES AND SIGNIFICANT UNUSUAL TRANSACTIONS

The following summarizes the more significant required communications related to our audit concerning the Foundation’s accounting practices, policies, estimates and significant unusual transactions:

The Foundation’s significant accounting practices and policies are those included in Note 1 to the financial statements. These accounting practices and policies are appropriate, comply with generally accepted accounting principles and industry practice, were consistently applied, and are adequately described within Note 1 to the financial statements.

- A summary of recently issued accounting pronouncements is included in Note 1 to the Foundation’s financial statements.
- There were no changes in significant accounting policies and practices during fiscal 2016.

Significant estimates are those that require management’s most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. The Foundation’s significant accounting estimates, including a description of management’s processes and significant assumptions used in development of the estimates, are disclosed in Note 1 of the financial statements.

Significant accounting estimates include:

Impairment of Land

Allocation of Functional Expense

- Management did not make any significant changes to the processes or significant assumptions used to develop the significant accounting estimates in fiscal year 2016.

The methods used to account for significant or unusual transactions, and related disclosures, are considered appropriate.

Sale of Peacock Road Property - The Foundation has entered into a Letter of Intent for the sale of the Foundation’s Peacock Road property for the total amount of \$514,800. Prior to the sale, the property was recorded for the amount of \$1,891,228, indicating a significant difference between the cost basis and fair value of \$514,800. The significant difference results in an impairment of \$1,376,428 for the land held for sale. This impairment was recorded for fiscal year 2016 and appropriately presented in the financial statements.

Results of Our Audit

CORRECTED AND UNCORRECTED MISSTATEMENTS

Management recorded the following adjustments arising from the audits that in our judgment were significant to the financial statements.

Item #	Account Name and Adjustment Description	Debit	Credit
1	PNC Bank Operating #3541	\$9,351	
	Wells Fargo SLP #6614	\$233	
	Accounts Payable		\$9,584
	<i>To reclassify pre-dated checks for expenses paid during FY 2017, but printed and mailed on 7/14/16 and 7/21/16.</i>		
2	Impairment on Land Held for Sale	\$1,376,428	
	Land Held for Sale		\$1,376,428
	<i>To record impairment of land held for sale based on appraised value and sales offer.</i>		
3	Unrestricted Contributions	\$111,869	
	Temporarily Restricted Contributions		\$111,869
	<i>To reclassify net proceeds from Love your Lagoon Event from unrestricted to temporarily restricted as funds are restricted for the "2016 Indian River Graduate Research Fellows Program."</i>		

There were no uncorrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we presented to management.

QUALITY OF THE COMPANY'S FINANCIAL REPORTING

A discussion was held regarding the quality of the Foundation's financial reporting, which included the following:

- Qualitative aspects of significant accounting policies and practices
- Our conclusions regarding significant accounting estimates
- Significant unusual transactions
- Financial statement presentation

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) as a basis for designing our auditing procedures 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.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the Foundation’s internal controls over financial reporting. The definitions of control deficiency, significant deficiency and material weakness follow:

Category	Definition
Deficiency in 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.
Significant Deficiency	A deficiency or 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.
Material Weakness	A deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Foundation’s financial statements will not be prevented, or detected and corrected on a timely basis.

In conjunction with our audit of the financial statements, we noted no material weaknesses and we did not report any significant deficiencies.

Other Required Communications

Following is a summary of those required items, along with specific discussion points as they pertain to the Foundation:

Requirement	Discussion Points
Significant changes to planned audit strategy or significant risks initially identified	There were no significant changes to the planned audit strategy or significant risks initially identified and previously communicated to those charged with governance as part of our Audit Planning communications.
Obtain information from those charged with governance relevant to the audit	There were no matters noted relevant to the audit, including, but not limited to: violations or possible violations of laws or regulations; risk of material misstatements, including fraud risks; or tips or complaints regarding the Foundation's financial reporting that we were made aware of as a result of our inquiry of those charged with governance.
Consultations with other accountants	We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent public accountants on the application of generally accepted accounting principles.
Significant findings and issues arising during the audit in connection with the Foundation's related parties	We have evaluated whether the identified related party relationships and transactions have been appropriately identified, accounted for, and disclosed and whether the effects of the related party relationships and transactions, based on the audit evidence obtained, prevent the financial statements from achieving fair presentation.
Disagreements with management	There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to the Foundation's financial statements or to our auditor's report.
Significant difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
Other matters significant to the oversight of the Foundation's financial reporting process, including complaints or concerns regarding accounting or auditing matters	There are no other matters that we consider significant to the oversight of the Foundation's financial reporting process that have not been previously communicated.
Representations requested from management	Please refer to the management representation letter.
Independence Communication	Our engagement letter to you dated March 11, 2016, describes our responsibilities in accordance with professional standards and certain regulatory authorities with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the Foundation with respect to independence as agreed to by the Foundation. Please refer to that letter for further information.

Significant Accounting and Reporting Matters

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.

Get to Know BDO - Nonprofit Resources

BDO NATIONAL INSTITUTE FOR NONPROFIT EXCELLENCESM

As one of the only national accounting firms with a strategic commitment to the nonprofit industry, we bring added perspective through the BDO Institute for Nonprofit ExcellenceSM (the Institute).

Externally, the Institute provides a national technical resource that exists to assist our clients and the industry. Internally, the Institute is our thought leadership center which assists client service teams around the country in developing innovative and practical tax, accounting and operational planning for our nonprofit clients.

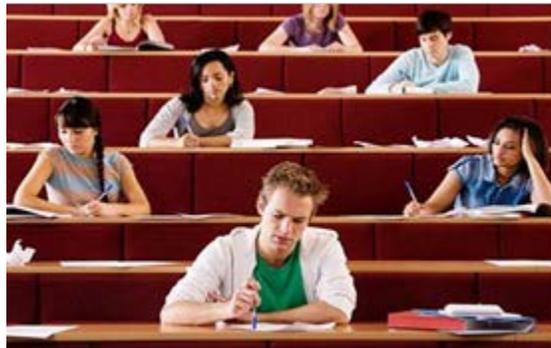
The Institute produces numerous publications, including a quarterly electronic newsletter, *Nonprofit Standard*, that focuses on the distinct needs of the nonprofit sector by addressing accounting, tax and operational issues such as executive compensation, Federal Form 990 issues and compliance with OMB Circulars.

The Institute also sponsors educational seminars locally or via webcasts on issues such as fair value accounting, new Financial Accounting Standards Board (FASB) Accounting Standards Updates (ASU) implementation and compliance, tax planning, and a variety of management topics.

NONPROFIT RESOURCES

BDO commits significant resources to keep our professionals and our clients up to date on current and evolving technical, governance, industry, and reporting developments. Our thought leadership consists of quarterly email updates, publications, surveys, practice aids, and tools that span a broad spectrum of topics that impact financial reporting, as well as corporate governance. Our focus is not simply to announce changes in technical guidance, regulations or emerging business trends, but rather expound on how such changes may impact our clients' businesses. Through our various webinar offerings, we reach a broad audience and provide brief, engaging, just-in-time training that we make available in a variety of ways to meet the needs of your busy schedule. The following provides a sample of our offerings, all of which are readily available on our refreshed website at: <http://www.bdo.com>.

To begin receiving email notifications regarding BDO publications and event invitations (live and web-based), please visit <https://www.bdo.com/member/registration> and create a user profile. If you already have an account on BDO's website, visit the My Profile page to login and manage your account preferences: <https://www.bdo.com/member/my-profile>.



Get to Know BDO - Nonprofit Resources

KEY INDUSTRY PUBLICATIONS

We share our knowledge through a variety of publications and industry-specific newsletters to keep you abreast of relevant news and hot topics - going beyond balance sheets and financial statements.

The *Nonprofit Standard* is published by BDO's Institute for Nonprofit Excellence providing financial information for tax-exempt organizations.



In addition to industry-specific thought leadership, our Assurance practice publishes the *BDO Knows* series of newsletters, alerts, and conference calls addressing significant financial reporting developments affecting both public and privately held companies.

Other publications include *Comment Letters* on FASB and SEC proposals, *Client Advisories* covering a variety of topics, as well as *EBP Commentator*, the newsletter of the Employee Benefit Audit practice.

Our tax practice publishes a variety of breaking tax alerts in specialty tax areas such as state and local taxation, international, federal, and compensation and benefits. We also publish a variety of tax newsletters, including the *Washington Tax Report* and *Tax Planning Letters* for businesses and individuals.

KEY PROGRAMS FOR THOSE CHARGED WITH GOVERNANCE

The BDO Ac'sense program is designed to assist those charged with corporate governance, including audit committees, boards of directors and financial executives in keeping up-to-date on the latest regulatory and financial reporting developments. The program is a multi-faceted and consists of complimentary CPE-worthy webinars and self-study courses covering both broad and specific topics of interest, proprietary publications, and direct access to various BDO practice aids and external resources. Tour the Ac'sense virtual resource center for more information at www.bdo.com/acsense.

And, because we are well aware that assembling a nonprofit committee can be a daunting task for any organization, we developed a comprehensive How-to guide, *Effective Audit Committees for Nonprofit Organizations*, that nonprofits of any size would find useful. Please visit www.bdo.com/publications for these and other insightful publications.



Get to Know BDO - Nonprofit Resources

BDO's newly launched blog boasts over 250 subscribers and open rates that far exceed industry standards. This is a strong indicator that we are addressing meaningful topics that are relevant and impactful to the nonprofit community.

THOUGHT LEADERSHIP ACROSS THE SOCIAL MEDIA LANDSCAPE

BDO's Nonprofit Industry practice leaders are frequent contributors and commentators across the social media landscape addressing changes and challenges facing nonprofits. Extending our thought leadership to social media is driven by our years of experience serving nonprofits and our commitment to providing timely and valuable information to our clients and contacts.

The recently launched, **BDO Nonprofit Standard Blog**, offers vital information around regulation, reporting requirements, fraud, and accounting matters unique to the nonprofit community. Recent topics include:

- ▶ Audit Pitfalls: Avoid Surprises Related to Post-Retirement Benefit Plans
- ▶ Fiduciary Responsibilities of the Nonprofit Board of Directors
- ▶ Disaster Relief organizations: Assistance Through Charitable Giving

The blog boasts an average open rate of 44% and click-through rate of 26%, far exceeding industry averages. With over 250 subscribers, the blog's dedicated readership leaves frequent comments for BDO's bloggers and drove over 3,000 page views in the blog's first month of activity. Our practice leaders also provide timely updates at www.twitter.com/bdononprofit, with followers that include reporters from *The Wall Street Journal* and *The NonProfit Times* and executives from major nonprofit organizations. In addition, our practice leaders interact with the nonprofit industry communities through LinkedIn, YouTube and other social media tools.



Please visit us at www.nonprofitblog.bdo.com.