

October 2, 2017

BDO USA, LLP
201 S. Orange Ave., Suite 800
Orlando, FL 32801

Ladies and gentlemen:

We are providing this letter in connection with your audits of the Statements of Financial Position, Statements of Activities, Statements of Cash Flows and Statements of Functional Expenses as of June 30, 2017 and 2016, and for the years then ended for the purpose of expressing an opinion as to whether the financial statements present fairly, in all material respects, the financial position, changes in net assets, and cash flows of Harbor Branch Oceanographic Institute Foundation Inc. in conformity with accounting principles generally accepted in the United States of America. We confirm that we are responsible for the preparation and fair presentation in the financial statements of financial position, changes in net assets, and cash flows in conformity with accounting principles generally accepted in the United States of America.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

We confirm, to the best of our knowledge and belief, as of the date of this representation letter, as entered on the first page, the following representations made to you during your audit:

- (1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated June 29, 2017, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
- (2) We have fulfilled our responsibility, as set out in the terms of the aforementioned audit engagement letter, for 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.
- (3) The financial statements include all assets and liabilities under the entity's control.
- (4) We have made available to you:
 - (a) All financial records, and related data and all audit or relevant monitoring reports, if any, received from funding sources, as agreed upon in the terms of the aforementioned audit engagement letter.
 - (b) All additional information that you have requested from us for the purpose of the audit.

- (c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - (d) Minutes of the meetings of directors and committees of directors that were held from July 1, 2016 to the date of this letter, or summaries of actions of recent meetings for which minutes have not yet been prepared.
- (5) There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.
- (6) There are no material transactions that have not been properly recorded in the accounting records underlying the financial statements or schedule of expenditures of state financial assistance.
- (7) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud or noncompliance. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud or noncompliance. We have no knowledge of any:
 - (a) Fraud or suspected fraud involving management or involving employees who have significant roles in internal control, whether or not perceived to have a material effect on the financial statements.
 - (b) Fraud or suspected fraud involving others where the fraud could have a material effect on the financial statements.
 - (c) Allegations of fraud or suspected fraud affecting the Organization received in communications from employees, former employees, regulatory agencies, grantors, law firms, predecessor accounting firms, or others.
 - (d) Instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts or grant agreements, or abuse, whose effects, both quantitatively and qualitatively, should be considered when preparing the financial statements.
- (8) We have no plans or intentions that may materially affect the carrying value or classification of assets, liabilities, or net asset balances.
- (9) The following, where applicable and material, have been properly recorded or disclosed in the financial statements:
 - (a) The identity of related parties and all related party relationships and transactions of which we are aware (e.g., transactions with unconsolidated subsidiaries; affiliates under common control with the entity or that are directly or indirectly controlled by the entity; directors, management, and members of their immediate families), including sales, purchases, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties.

- (b) Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances and line-of-credit or similar arrangements.
- (c) All derivative instruments and any embedded derivative instruments that require bifurcation, in accordance with FASB ASC 815, Derivatives and Hedging.
- (d) Guarantees, whether written or oral, under which Harbor Branch Oceanographic Institute Foundation Inc. is contingently liable.
- (e) Significant estimates and material concentrations known to management that are required to be disclosed in accordance with FASB ASC 275-10, Risk and Uncertainties - Overall. In that regard, all accounting estimates that could be material to the financial statements, including key factors and significant assumptions underlying those estimates, have been identified, and we believe the estimates are reasonable in the circumstances. (Significant estimates are estimates at the statement of financial position (balance sheet) date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets or geographic areas for which events could occur that would significantly disrupt normal finances within the next year.) .
- (f) The effects of all known actual or possible litigation, claims, and other liabilities or gain or loss contingencies that are required to be accrued or disclosed by FASB ASC 450, Contingencies, including:
 - Pending or anticipated tax assessments or refunds, other potential or pending claims, lawsuits by or against any branch of government or others;
 - Written or oral guarantees, endorsements, or unused letters of credit;
 - Unusual warranties or guarantees; or
 - Labor claims or negotiations.

FASB ASC 450-20, *Loss Contingencies*, requires loss contingencies to be accrued if it is probable an asset has been impaired or a liability incurred at the statement of financial position date and the amount of loss can be reasonably estimated. Such contingencies must be disclosed, but may not be accrued, if the loss is reasonably possible (but not probable) or the loss is probable but the amount of loss cannot be reasonably estimated.

- (g) Commitments, such as:
 - Major fixed asset purchase agreements;
 - More-than-one-year employment arrangements or contracts with suppliers or customers, or one-year-or-longer term leases;

- Deferred compensation, bonuses, pension and profit-sharing plans, or severance pay; or
 - Pending sale or merger of all or a portion of the business or of an interest therein or acquisition of all or a portion of the business, assets or securities of another entity;
- (h) Joint ventures or other participations, the detailed transactions of which are not carried on our books.
- (i) Foreign currency transaction gains or losses, as well as translation of foreign currency financial statements.
- (10) There are no:
- (a) Violations or possible violations of laws or regulations and provisions of contracts and grant agreements (including the failure to file reports required by regulatory bodies (e.g., EPA, OCC, FDIC, DOL, Medicare, U.S. Customs Service, HIPAA, IRS, Dept. of Commerce, state and municipal authorities) when the effects of failing to file could be material to the financial statements) whose effects should be considered for disclosure in the financial statements or as a basis for recording a loss contingency.
 - (b) Unasserted claims or assessments that our lawyer has advised us are probable of assertion and must be disclosed in accordance with FASB ASC 450.
 - (c) Designation of net assets disclosed to you that were not properly authorized and approved, or reclassifications of net assets that have not been properly reflected in the financial statements.
- (11) Receivables recorded in the financial statements represent valid claims against debtors or grantors for sales, contributions, pledges, or other charges arising on or before the statement of financial position date and have been appropriately reduced to their estimated net realizable value .
- (12) With regard to items reported at fair value: (a) the underlying assumptions are reasonable and they appropriately reflect management's intent and ability to carry out its stated courses of action, (b) the measurement methods and related assumptions used in determining fair value are appropriate in the circumstances and have been consistently applied, (c) the disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP and (d) there are no subsequent events that require adjustments to the fair value measurements and disclosures included in the financial statements.
- (13) Harbor Branch Oceanographic Institute Foundation Inc. has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.

- (14) We have complied with all aspects of grant agreements and other contractual agreements, including debt covenants, that would have a material effect on the financial statements in the event of noncompliance.
- (15) No discussions have taken place with your firm's personnel regarding employment with Harbor Branch Oceanographic Institute Foundation Inc.
- (16) Harbor Branch Oceanographic Institute Foundation Inc. is an exempt organization under Section 501(c)(3) of the Internal Revenue Code as evidenced by determination letter dated October 26, 2011. Any activities of which we are aware that would jeopardize our tax-exempt status, all activities subject to tax on unrelated business income or excise or other tax, have been disclosed to you. All required filings with tax authorities are up-to-date.
- (17) We have complied with all restrictions on resources, including donor restrictions, and all aspects of contractual and grant agreements that would have a material effect on the financial statements in the event of noncompliance. This includes complying with donor requirements to maintain a specific asset composition necessary to satisfy their restrictions.
- (18) Temporarily restricted net assets of Harbor Branch Oceanographic Institute Foundation Inc. at June 30, 2017 and 2016 consist of the following:

	2017	2016
J. Seward Johnson, Sr. Charitable Trust Endowment Fund	\$66,252,256	\$58,975,130
Seward Johnson Trust Fund for Oceanography	4,535,253	4,037,255
Indian River Graduate Research Fellows Program	<u>67,753</u>	<u>111,869</u>
Total	\$72,262,071	\$63,124,254

- (19) There are no permanently restricted net assets at June 30, 2017 and 2016.
- (20) The basis used for the allocation of functional expenses is reasonable.
- (21) As part of your audit, you assisted with the preparation of the financial statements and related notes and the schedule of expenditures of state financial assistance and preparation of the form 990. We acknowledge our responsibility as it relates to those nonattest/nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for the financial statements and related notes and schedule of expenditures of state financial assistance.
- (22) We are responsible for compliance with laws, regulations, and provisions of contracts and grant agreements applicable to us and we have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

(23) With respect to state projects:

- (a) We are responsible for understanding and complying with, and have complied with, the requirements of State of Florida, Chapter 10.650, Rules of the Auditor General including requirements relating to the preparation of the schedule of expenditures of state financial assistance (SESFA).
- (b) We have identified and disclosed to you all of our government programs and related activities subject to State of Florida, Chapter 10.650, Rules of the Auditor General , and included in the SESFA expenditures made during the audit period for all awards provided by state agencies and other direct assistance.
- (c) We are responsible for understanding and complying with, and have complied with in all material respects, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to our state project and have identified and disclosed to you the requirements of laws, regulations and the provisions of contracts and grant agreements considered to have a direct and material effect on each state project.
- (d) We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to our state project that provides a reasonable assurance that we are managing our state project in compliance with laws, regulations and the provisions of contracts and grant agreements that could have a material effect on our state project. We believe the internal control system is adequate and is functioning as intended. Also, subsequent to the date as of which compliance was audited, no changes have occurred in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies (including material weaknesses) in internal control over compliance as reported in the schedule of findings and questioned costs.
- (e) We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with state agencies or pass-through entities relating to each major state project.
- (f) We have received no requests from a state agency to audit one or more specific projects as a major project.
- (g) We have complied, in all material respects, with the direct and material compliance requirements, including when applicable, those set forth in the State of Florida Department of Financial Services State Projects Compliance Supplement, relating to state awards and have identified and disclosed to you all amounts questioned and all known noncompliance with the direct and material requirements of state awards, including the results of other audits or program reviews.
- (h) We have disclosed to you any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.

- (i) We have disclosed to you the findings, if any, received and related corrective actions taken for previous audits, attestation engagements, and internal and external monitoring that directly relate to the objectives of the compliance audit, including findings, if any, received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
 - (j) We have disclosed to you our interpretations of compliance requirements that have varying interpretations, if any.
 - (k) We have made available to you all documentation related to compliance with the direct and material requirements, including information related to state project financial reports and claims for advances and reimbursements.
 - (l) We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
 - (m) There are no known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.
 - (n) The copies of state project financial reports provided you are true copies of the reports submitted or electronically transmitted, to the respective state agency or pass-through entity, as applicable.
 - (o) We have charged costs to state awards in accordance with applicable cost principles.
- (24) With respect to the Schedule of Expenditures of State Financial Assistance (SESFA), we acknowledge that we are responsible for:
- (a) The information in the SEFSA.
 - (b) Understanding and complying with the compliance requirements related to the preparation of the SESFA.
 - (c) The form and content of the schedule is in accordance with Chapter 69I-5, Florida Administrative Code.
 - (d) The methods of measurement or presentation have not changed from those used in the prior period or, if the methods of measurements have changed, the reasons for such changes.

If the SEFSA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SESFA no later than the date we issue the SESFA and the auditor's report thereon.

- (25) We acknowledge our responsibility for the presentation of the Schedule of Revenues and Expenses in accordance with the underlying accounting and other records used to prepare the financial statements, and we believe the Schedule of Revenues and Expenses

including its form and content, is fairly presented in accordance with the underlying accounting and other records used to prepare the financial statements. The methods of measurement and presentation have not changed from those used in the prior period and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the supplementary information.

(26) In connection with any electronic presentation of the financial statements and your audit report thereon on our web site, we acknowledge that:

- We are responsible for the preparation, presentation, and content of the financial statements in the electronic format.
- If your audit report is presented on our web site, the full financial statements upon which you reported and to which you appended your signed report will be presented.
- We will clearly indicate in the electronic presentation on our web site the financial information that is subject to your audit report. We will clearly differentiate any information that may also be presented by us on or in connection with our web site that was contained in the published version of the financial statements and other supplementary information, but which is not part of the audited financial statements or other financial information covered by your audit report.
- We have assessed the security over financial statement information and the audit report presented on our web site, and are satisfied that procedures in place are adequate to ensure the integrity of the information provided. We understand the risk of potential misrepresentation inherent in publishing financial information on our web site through internal failure or external manipulation.
- Our web site, which contains the electronic financial statements, will advise the reader that such financial statements are presented for convenience and information purposes only, and while reasonable efforts have been made to ensure the integrity of such information, they should not be relied on. A copy of the printed financial statements will be provided on request.

To the best of our knowledge and belief, no events, including instances of noncompliance, have occurred subsequent to the statement of financial position date and through the date of this representation letter, as entered on the first page, that would require adjustment to or disclosure in the aforementioned financial statements or in the schedule of findings and questioned costs.

Very truly yours,

Katha Kissman, President & CEO

Debbie Dutton, Director of Operations