

HARBOR BRANCH OCEANOGRAPHIC INSTITUTE

FOUNDATION

Minutes Audit Committee October 9, 2018

PRESENT: Mike Brown, Sr.; John Papa*, Chair; Mike Toner*

ABSENT: C. Amos Bussmann

ALSO PRESENT: Debbie Dutton, Director of Operations; Melanie Fernandez*, Managing Partner, Assurance Services, BDO USA; Katha Kissman, President & CEO; Tara Miller*, Assurance Director, BDO USA; Seksit Niltub, CPA*, Assurance Manager, BDO USA; Mike O'Reilly*, Foundation Board Chair

*participated virtually

Call to Order

Chair Papa called the meeting to order at 10:01 am.

Approval of the Minutes

The minutes of the October 9, 2017 Audit Committee Meeting were approved unanimously.

Presentation of Wrap Up Report

Ms. Fernandez provided the presentation of the Audit Wrap Up Report. She reported an unmodified opinion for the organizational audit. For the single audit of the use of state funds (Specialty License Plate Program), BDO tested the funds received for the **Save Our Seas** plate and she reported an unmodified opinion with regard to compliance. She noted that the unmodified opinions were the highest to achieve. In addition, she noted there were no corrected or uncorrected misstatements that BDO brought to the attention of management.

Ms. Fernandez pointed out that this is the first time the Foundation included a "Management Discussion & Analysis" with the audit Financial Statement. The decrease in SLP grants to FAU from FY17 to FY18 would benefit from additional explanation; these were largely a result from the November 2016 Board-approved change in SLP processing. Ms. Fernandez suggested that this type of discussion would typically be seen in a Management Discussion and Analysis (MD&A) which is not required for nonprofit organizations, only public companies and government organizations and NFPs that follow GASB vs FASB. Management agreed and drafted a document which was vetted by BDO for financial accuracy.

Presentation of Draft FY17 Financial Statements

Management Discussion & Analysis

Mr. Niltub asked President Kissman to review the "Management Discussion & Analysis" in the audit. President Kissman noted that in addition to financial vetting by BDO, the document had been vetted by both internal and external legal counsel. Language contained with regard to the Foundation's history and mission, the Investment Policy, and grant making preferences was used from previously vetted Foundation documents.

In addition, President Kissman noted the benefit to having accompanying notes of explanation to any outside readers due to the numbers resulting from the Foundation's November 2016 Board-approved

SLP Process change. The new SLP process change required the Foundation to discontinue forwarding all State funds immediately upon receipt to FAU to put into their plate holding accounts until project expenditure. Rather, the Foundation now holds these funds until project expenditure. A further requirement was that FAU use the already stockpiled funds from their plate holding accounts first against expenditures of awards to exhaust these accounts.

Because the FAU **Save Our Seas** plate holding account was exhausted in the 4th Quarter FY18. These were the only FY18 project related payments made from our accounts. All other FY18 SLP project related expenses were paid through the FAU holding account plate funds. Invoices in the 1st Quarter, FY19 will be the first time the Foundation anticipates making full payouts against expenditures because the FAU plate holding accounts are now exhausted.

Without accompanying explanation, it could be inferred by some readers that the Foundation was holding SLP funds back; this is not correct. Because we did not want our Board, HBOI, FAU or the public to draw any incorrect assumptions, President Kissman adopted Ms. Fernandez's suggestion to include a Management Discussion and Analysis.

During discussion, Chair Papa asked the Staff if they could provide a breakdown of the \$38,000,000 paid out to FAU since 2007 as referenced in the Management's Discussion and Analysis. Said payouts were quantified by checks made payable to FAU during that period via QuickBooks. President Kissman and Director Dutton agreed to provide this.

Draft Financial Statements

Mr. Niltub provided the presentation of the auditor's draft FY18 Financial Statements with the Single Audit. Of particular note was to ensure the Committee understood the differences between FY17 financials and FY18 were driven by changes in audit presentation (e.g., land previously included in "Property and Equipment" from "land held for sale" to "land held as investment" and due to the change in the SLP process.) In addition, Ms. Fernandez pointed out that the Foundation Board should begin discussions of the pending restriction to the Endowment June 30, 2020. President Kissman reminded the Committee that Chair O'Reilly had already begun that with the appointment of the Long Range Planning Task Force which has held two meetings and will be reported on at the November 8, 2018 Board Meeting.

Following the presentation of the Financial Statements and a suggestion for modification to include a footnote on p. 21 to provide a greater explanation with regard to "cash equivalents," the motion was made to accept the FY18 Audited Financial Statement as presented subject to said footnote, to be crafted by BDO with Management's input and reviewed by the Audit Chair prior to finalization. The motion to recommend approval to the Board at its November 8, 2018 meeting subject to this modification was approved unanimously.

Presentation of Form 990

Ms. Miller provided the presentation of the IRS Tax Form 990 draft. Ms. Miller highlighted the small changes from last year's Form 990. A further change on Schedule D, Part VI, Land, Buildings and Equipment to align with the Financial Statements was recommended by Ms. Miller (1a Land, \$691,553 from column (b) to column (a)). No further changes to the draft were discussed or recommended.

During discussion, the Committee agreed to highlight to the Board Schedule A, Public Charity Status and Public Support. In Section C, Computation of Public Support Percentage, the percentage calculated is currently well above the 33 1/3 % which qualifies the Foundation as a public charity under the IRS 501(c)(3) code. The Foundation's Specialty License Plate revenues drive this percentage with a much smaller amount from **Love Your Lagoon** and miscellaneous unsolicited donations.

The motion to recommend approval to the Board of Directors of the Form 990 subject to the changes discussed at the October 9, 2018 Audit Committee Board meeting was approved unanimously.

Following these presentations, staff voluntarily left the room so the Audit Committee could speak with the representatives of BDO. Upon their return, it was reported by Chair Papa that the Committee was very pleased with the results of the audit and the confirmation by BDO of due diligence by staff.

For future discussion, Mike Brown suggested the Audit Committee look into issues of potential cybersecurity threats and any audit implications as well as potential insurance implications. President Kissman will address this.

Chair Papa thanked BDO for their good work and Ms. Fernandez, Ms. Miller, and Mr. Niltub left the meeting.

Other Business

As previously noted to the Committee, Other Business would include the discussion of re-engaging with BDO as their current 3 year contract has come to an end. President Kissman reminded the Committee that there had been a private consensus poll and all Committee members agreed that it made sense to continue with BDO rather than do an RFP (email dated August 17, 2018).

After discussion, the motion to authorize President Kissman to begin negotiations with BDO on a re-engagement of services for an additional five years (FY19-FY23 Audits), with a required lead audit partner rotation within BDO beginning with the FY21 Audit was approved unanimously.

Adjournment

There being no further business, the meeting was adjourned at 11:31 am.