



# Harbor Branch Oceanographic Institute Foundation, Inc.

Financial Statements and  
Supplementary Information  
Years Ended June 30, 2017 and 2016

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

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Financial Statements and Supplementary Information  
Years Ended June 30, 2017 and 2016

# Harbor Branch Oceanographic Institute Foundation, Inc.

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## Independent Auditor's Report

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

### *Report on the Financial Statements*

We have audited the accompanying financial statements of Harbor Branch Oceanographic Institute Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harbor Branch Oceanographic Institute Foundation, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

Our audit was conducted for the purpose of forming an opinion on the 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.

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2017 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*

BDO USA, LLP  
Certified Public Accountants  
October 2, 2017

## Financial Statements

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# Harbor Branch Oceanographic Institute Foundation, Inc.

## Statements of Financial Position

<i>June 30,</i>	2017	2016
<b>Assets</b>		
Cash and cash equivalents	\$ 1,577,538	\$ 339,493
Land held for sale	–	514,800
Contributions receivable	98,795	83,590
Prepaid expenses and other assets	32,671	77,312
Investments	70,431,498	62,246,294
Property and equipment, net	705,822	708,396
<b>Total Assets</b>	<b>\$ 72,846,324</b>	<b>\$ 63,969,885</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 688,702	\$ 264,116
<b>Commitments and contingencies</b>		
<b>Net assets (deficit):</b>		
Unrestricted	(104,449)	581,515
Temporarily restricted	72,262,071	63,124,254
<b>Total net assets</b>	<b>72,157,622</b>	<b>63,705,769</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 72,846,324</b>	<b>\$ 63,969,885</b>

*See accompanying notes to financial statements.*

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Statements of Activities

<i>Year Ended June 30,</i>	2017			2016		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
<b>Revenues, gains (losses) and other support:</b>						
Specialty license plate contributions	\$ 1,373,621	\$ 1,406,415	\$ 2,780,036	\$ 2,761,693	\$ -	\$ 2,761,693
Investment income (loss)	-	9,119,823	9,119,823	-	(1,168,554)	(1,168,554)
Fundraising, net of \$105,214 and \$106,822 direct expenses, respectively	-	83,843	83,843	-	111,869	111,869
Contributions	25,552	2,500	28,052	31,983	-	31,983
Other income	57,670	394	58,064	48,331	-	48,331
Impairment on land held for sale	-	-	-	(1,376,428)	-	(1,376,428)
Net assets released from restrictions	1,475,158	(1,475,158)	-	1,953,817	(1,953,817)	-
<b>Total revenues, gains (losses) and other support</b>	<b>2,932,001</b>	<b>9,137,817</b>	<b>12,069,818</b>	<b>3,419,396</b>	<b>(3,010,502)</b>	<b>408,894</b>
<b>Expenses</b>						
<b>Program services:</b>						
Marine and ocean research science	3,042,278	-	3,042,278	4,852,881	-	4,852,881
<b>Supporting services:</b>						
General administration	494,812	-	494,812	458,018	-	458,018
Fundraising	80,875	-	80,875	73,804	-	73,804
<b>Total supporting services</b>	<b>575,687</b>	<b>-</b>	<b>575,687</b>	<b>531,822</b>	<b>-</b>	<b>531,822</b>
<b>Total expenses</b>	<b>3,617,965</b>	<b>-</b>	<b>3,617,965</b>	<b>5,384,703</b>	<b>-</b>	<b>5,384,703</b>
<b>Change in net assets</b>	<b>(685,964)</b>	<b>9,137,817</b>	<b>8,451,853</b>	<b>(1,965,307)</b>	<b>(3,010,502)</b>	<b>(4,975,809)</b>
<b>Net assets, beginning of year</b>	<b>581,515</b>	<b>63,124,254</b>	<b>63,705,769</b>	<b>2,546,822</b>	<b>66,134,756</b>	<b>68,681,578</b>
<b>Net assets, end of year</b>	<b>\$ (104,449)</b>	<b>\$ 72,262,071</b>	<b>\$ 72,157,622</b>	<b>\$ 581,515</b>	<b>\$ 63,124,254</b>	<b>\$ 63,705,769</b>

*See accompanying notes to financial statements.*

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Statements of Cash Flows

<i>Year Ended June 30,</i>	<b>2017</b>	<b>2016</b>
<b>Operating activities:</b>		
Change in net assets	\$ 8,451,853	\$ (4,975,809)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation expense	2,575	2,574
Net unrealized and realized (gain) loss on investments	(7,479,339)	2,469,957
Impairment on land held for sale	-	1,376,428
Cash provided by (used for):		
Contributions receivable	(15,205)	(6,935)
Prepaid expenses and other assets	44,640	(44,986)
Accounts payable and accrued expenses	424,586	108,856
<b>Net cash provided by (used for) operating activities</b>	<b>1,429,110</b>	<b>(1,069,915)</b>
<b>Investing activities:</b>		
Proceeds from sale of investments	23,338,982	12,565,242
Purchases of investments	(24,044,847)	(12,021,429)
Proceeds from land held for sale	514,800	-
<b>Net cash (used for) provided by investing activities</b>	<b>(191,065)</b>	<b>543,813</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,238,045</b>	<b>(526,102)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>339,493</b>	<b>865,595</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,577,538</b>	<b>\$ 339,493</b>

*See accompanying notes to financial statements.*

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Statement of Functional Expenses

<i>Year Ended June 30, 2017</i>	Program Services	Supporting Services			Total
	Marine and Ocean Research Science	General Administration	Fundraising	Total Supporting Services	
Discretionary grants to FAU	\$ 1,479,174	\$ -	\$ -	\$ -	\$ 1,479,174
Specialty license plate grants to FAU	803,449	-	-	-	803,449
Specialty license plate distributions to others	171,177	-	-	-	171,177
Professional services	233,470	217,225	-	217,225	450,695
Salaries and related expenses	137,672	140,020	30,855	170,875	308,547
Marketing	190,576	-	21,174	21,174	211,750
Insurance	-	43,735	1,822	45,557	45,557
Promotion and printing	5,370	5,370	16,110	21,480	26,850
Travel	4,406	3,525	881	4,406	8,812
Equipment	498	3,984	498	4,482	4,980
Taxes	-	4,013	-	4,013	4,013
Materials and supplies	410	3,283	410	3,693	4,103
Computer and website	5,712	816	1,632	2,448	8,160
Dues and subscriptions	-	5,982	1,496	7,478	7,478
Rent and utilities	-	27,660	-	27,660	27,660
Depreciation	-	2,575	-	2,575	2,575
Miscellaneous	10,364	36,275	5,182	41,457	51,821
Postage and freight	-	349	815	1,164	1,164
<b>Total</b>	<b>\$ 3,042,278</b>	<b>\$ 494,812</b>	<b>\$ 80,875</b>	<b>\$ 575,687</b>	<b>\$ 3,617,965</b>

*See accompanying notes to financial statements.*

## Harbor Branch Oceanographic Institute Foundation, Inc.

### Statement 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
<b>Total</b>	<b>\$ 4,852,881</b>	<b>\$ 458,018</b>	<b>\$ 73,804</b>	<b>\$ 531,822</b>	<b>\$ 5,384,703</b>

*See accompanying notes to financial statements.*

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Notes to Financial Statements

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### 1. Summary of Significant Accounting Policies

#### *Organization*

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

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

#### *Liquidity*

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

#### *Cash and Cash Equivalents*

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

#### *Contributions Receivable*

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

#### *Land Held for Sale*

The Foundation held a certain parcel of land held for sale which was valued at cost and periodically reviewed for impairment. This parcel was sold during fiscal year 2017.

#### *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

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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 2017 and 2016.

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 statement of activities, year ended June 30, 2016. See additional discussion at Note 8.

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Notes to Financial Statements

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### *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, 2017 or 2016.

### *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

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### *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, 2017. The respective carrying value of certain on-balance-sheet financial instruments approximates their fair values due to the short-term nature of these instruments. These financial instruments include contributions receivable, accounts payable and accrued expenses.

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

The fair value of the Foundation's Level 2 investments as identified in Note 2 are estimated using information provided to the Foundation by its 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.

There are no Level 3 financial instruments.

### *Concentrations of Credit Risk*

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

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Notes to Financial Statements

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The Foundation has significant investments in 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 with input by the Foundation's Finance Committee. Although the market value of investments is subject to fluctuations on a day-to-day basis, management believes the investment policy is prudent for the long-term welfare of the Foundation and its beneficiaries.

### *Reclassifications*

Certain items have been reclassified in the 2016 financial statements to conform to the 2017 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 its financial statements.

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Notes to Financial Statements

### 2. Investments

The fair value of investments includes the following:

<i>June 30,</i>	<b>2017</b>	<b>2016</b>
<b>Cash equivalents</b>	<b>\$ 73,857</b>	<b>\$ 15,956</b>
<b>Level 1 investments:</b>		
Mutual funds and exchange traded funds:		
Fixed income	16,552,295	13,123,671
Large cap	30,039,673	25,506,073
Small cap	10,219,755	8,409,375
International	12,215,043	10,008,142
Alternative	1,330,875	1,025,485
<b>Total Level 1 investments</b>	<b>70,357,641</b>	<b>58,072,746</b>
<b>Level 2 investments:</b>		
Multi-strategy hedge fund of funds (a)	-	4,157,592
<b>Total investments</b>	<b>\$ 70,431,498</b>	<b>\$ 62,246,294</b>

(a) This fund focused on building and managing low volatility, multi-manager portfolios that have low correlation to the broader debt and equity indices. The fund was liquidated during fiscal 2017.

Investment income (loss) is comprised of the following:

<i>Year Ended June 30,</i>	<b>2017</b>	<b>2016</b>
Dividends and interest	\$ 1,640,484	\$ 1,301,403
Net realized/unrealized gain (loss)	7,479,339	(2,469,957)
	<b>\$ 9,119,823</b>	<b>\$ (1,168,554)</b>

Investment management fees totaled \$79,483 and \$95,948 for the years ended June 30, 2017 and 2016, respectively and are included in professional services expense in the accompanying statements of functional expenses.

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Notes to Financial Statements

### 3. Property and Equipment

Property and equipment are comprised of the following:

<i>June 30,</i>	<i>Useful Life</i>	<b>2017</b>	<b>2016</b>
Buildings and building improvements	10-40 years	\$ 27,375	\$ 27,375
Equipment	5-18 years	-	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
		<b>989,373</b>	<b>997,709</b>
<b>Less accumulated depreciation</b>		<b>(283,551)</b>	<b>(289,313)</b>
		<b>\$ 705,822</b>	<b>\$ 708,396</b>

### 4. Temporarily Restricted Net Assets

Temporarily restricted net assets are available as follows:

<i>June 30,</i>	<b>2017</b>	<b>2016</b>
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
Specialty License Plate Program	1,406,809	-
2017 Indian River Lagoon Graduate Research Fellows Program	67,753	111,869
	<b>\$ 72,262,071</b>	<b>\$ 63,124,254</b>

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

<i>Year Ended June 30,</i>	<b>2017</b>	<b>2016</b>
J. Seward Johnson, Sr. Charitable Trust Endowment Fund	\$ 1,260,883	\$ 1,828,634
Seward Johnson Trust Fund for Oceanography	86,316	125,183
2017 Indian River Lagoon Graduate Research Fellows Program	127,959	-
	<b>\$ 1,475,158</b>	<b>\$ 1,953,817</b>

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Notes to Financial Statements

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### *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, 2017 and 2016 are as follows:

	J. Seward Johnson, Sr. Charitable Trust Endowment Fund
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
Contributions	2,500
Interest and dividends	1,535,377
Net realized gain on investments	1,856,207
Net unrealized gain on investments	5,143,925
Distributions	(1,260,883)
Endowment net assets at June 30, 2017	<b>\$ 66,252,256</b>

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Notes to Financial Statements

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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, 2017 and 2016, were \$11,976 and \$9,651, 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

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

### *Legal - FAU*

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

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

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Notes to Financial Statements

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### *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, 2017 is as follows:

### *Year Ended June 30,*

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2018	\$ 1,944,510
2019	735,638
2020	506,199
<b>Total commitment</b>	<b>\$ 3,186,347</b>

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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.

### **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, 2017 and 2016 were \$61,139 and \$21,430, respectively.

### **8. Land Sale**

During fiscal year 2016, the Foundation property known as “Peacock Road” was listed for sale at an amount based on a third-party appraisal. 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 of \$1,376,428 during fiscal year 2016. At June 30, 2016, the carrying value of the land held for sale is \$514,800, which is recorded in the statement of financial position and represented the expected sale price of the property. The property sale closed on October 4, 2016 (fiscal year 2017) for the expected sale price.

### **9. Subsequent Events**

The Foundation has evaluated events and transactions occurring subsequent to June 30, 2017 as of October 2, 2017, which is the date the financial statements were available to be issued. Subsequent events occurring after October 2, 2017 have not been evaluated by management. No material events have occurred since June 30, 2017 that require recognition or disclosure in the financial statements.

## Supplementary Information

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201 South Orange Ave., Suite 800  
Orlando, FL 32801

## 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 was 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*

BDO USA, LLP  
Certified Public Accountants  
October 2, 2017

## Harbor Branch Oceanographic Institute Foundation, Inc.

### Schedule of Revenue and Expenses - Year Ended June 30, 2017

<i>Plate</i>	CSFA#	Total Revenue by Plate FY17	Expenses							Total Expenses by Plate FY17
			FAU Harbor Branch Research Grants	10% Wyland Foundation Distribution	10% Guy Harvey Research Institute Distribution	Florida Aquaculture Association Distribution	4% FAU Admin Fee	3% HBOIF Admin Fee	Marketing Expense	
Protect Wild Dolphins	76.011	\$1,118,269	\$ 352,741	\$ -	\$ -	\$ -	\$ 42,736	\$ 33,548	\$ 85,185	\$ 514,210
Protect Florida Whales	76.072	401,183	110,674	40,119	-	-	14,756	12,035	32,443	210,027
Aquaculture	76.080	362,726	102,727	-	36,272	5,000	13,167	10,882	26,449	194,497
Save Our Seas	76.085	897,858	237,307	-	89,786	-	33,185	26,936	67,673	454,887
		\$2,780,036	\$ 803,449	\$ 40,119	\$ 126,058	\$ 5,000	\$ 103,844	\$ 83,401	\$ 211,750	\$1,373,621

*See accompanying note to Schedule of Revenue and Expenses.*

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Note to Schedule of Revenue and Expenses - Year Ended June 30, 2017

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### 1. Note to Schedule

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

#### PROTECT WILD DOLPHINS:

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

#### PROTECT FLORIDA WHALES:

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

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Note to Schedule of Revenue and Expenses - Year Ended June 30, 2017

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### AQUACULTURE:

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

### SAVE OUR SEAS:

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

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

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# Harbor Branch Oceanographic Institute Foundation, Inc.

## Schedule of Expenditures of State Financial Assistance

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State Agency/State Project	CSFA No.	Expenditures	Transferred to Subrecipient
<b>Florida Department of Highway Safety and Motor Vehicles:</b>			
Protect Wild Dolphins License Plate Project	76.011	\$ 514,210	\$ 395,477
Protect Florida Whales License Plate Project	76.072	210,027	125,430
Florida Aquaculture License Plate Project	76.080	194,497	115,894
Save Our Seas License Plate Project	76.085	454,887	270,492
<b>Total expenditures of state financial assistance</b>		<b>\$ 1,373,621</b>	<b>\$ 907,293</b>

*See accompanying note to Schedule of Expenditures of State Financial Assistance.*

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Note to Schedule of Expenditures of State Financial Assistance

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### 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.



## **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, 2017, 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 October 2, 2017.

### *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*

BDO USA, LLP  
Certified Public Accountants  
October 2, 2017



## **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, 2017. 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, 2017.



### *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*

BDO USA, LLP  
Certified Public Accountants  
October 2, 2017

**Harbor Branch Oceanographic Institute Foundation, Inc.**  
**Schedule of Findings and Questioned Costs - State Financial Assistance**

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**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

Florida Department of Highway Safety and Motor Vehicles:

Protect Wild Dolphins License Plate Project

76.011

Save Our Seas License Plate Project

76.085

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.