

# AUDIT WRAP UP

June 30, 2017



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

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October 9, 2017

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

Dear Committee Members:

Professional standards require us to communicate with you regarding matters related to the audit, that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. On August 8, 2017, we presented an overview of our plan for the audit of the financial statements of Harbor Branch Oceanographic Institute Foundation (the Foundation) as of and for the year ended June 30, 2017, including a summary of our overall objectives for the audit, and the nature, scope, and timing of the planned audit work.

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

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

Respectfully,

*BDO USA, LLP*

BDO USA, LLP

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# Discussion Outline

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# Status of Our Audit

We have substantially completed our audit of the financial statements as of and for the year ended June 30, 2017. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. This audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

- The objective of our audit was to obtain reasonable - not absolute - assurance about whether the financial statements are free from material misstatements.
- The scope of the work performed was substantially the same as that described to you in our earlier Audit Planning communications.
- We expect to issue an unmodified opinion on the financial statements.
- We also considered internal control over compliance with requirements that could have a direct and material effect on the major state projects in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the State of Florida and Chapter 10.650, Rules of the Auditor General but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. We expect to issue an unmodified opinion on the compliance with major programs.
- As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the Organization's compliance with those requirements. We do not expect to report any Findings in our report on compliance.
- All records and information requested by BDO were freely available for our inspection.
- Management's cooperation was excellent. We received full access to all information that we requested while performing our audit, and we acknowledge the full cooperation extended to us by all levels of Foundation's personnel throughout the course of our work.

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# Results of Our Audit

## ACCOUNTING PRACTICES, POLICIES, ESTIMATES AND SIGNIFICANT UNUSUAL TRANSACTIONS

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

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

- A summary of recently issued accounting pronouncements is included in Note 1 to the Foundation's financial statements.
- There were no changes in significant accounting policies and practices during fiscal 2017.

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

### Significant accounting estimates include:

#### Allocation of Functional Expenses

- Management did not make any significant changes to the processes or significant assumptions used to develop the significant accounting estimates in fiscal 2017.

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

*FAU Legal* - We discussed with management the complaint filed against FAU during fiscal 2017, and reviewed relevant documents. We concur with management's decision to disclose this in the notes to the financial statements considering the significance of the complaint and we believe the disclosure is adequate.

*Specialty License Plate ("SLP") Funding to FAU* - The Foundation disbursed \$803,449 of research grants to FAU Harbor Branch during the fiscal year ended June 30, 2017. In November 2016, the Foundation changed the process for funding FAU Harbor Branch grants under the SLP program. Historically, the Foundation would remit funds from SLP contributions received from the State shortly after the funds were received. The Foundation now remits SLP funds to FAU upon reimbursement request by FAU Harbor Branch per fiscal year ended June 30, 2016 auditor observation and recommendation. There were no such reimbursement requests made by FAU Harbor Branch during the fiscal year ended June 30, 2017 under the modified process.

## CORRECTED AND UNCORRECTED MISSTATEMENTS

There were no corrected or uncorrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we brought to the attention of management.

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# Results of Our Audit

## QUALITY OF THE FOUNDATION'S FINANCIAL REPORTING

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

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

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# Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control.

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

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

Category	Definition
Deficiency in Internal Control	A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.
Significant Deficiency	A deficiency or combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.
Material Weakness	A deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Nonprofit's financial statements will not be prevented, or detected and corrected on a timely basis.

In conjunction with our audit of the financial statements, we noted no material weaknesses.

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# Other Required Communications

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

Requirement	Discussion Points
Significant changes to planned audit strategy or significant risks initially identified	There were no significant changes to the planned audit strategy or significant risks initially identified and previously communicated to those charged with governance as part of our Audit Planning communications.
Obtain information from those charged with governance relevant to the audit	There were no matters noted relevant to the audit, including, but not limited to: violations or possible violations of laws or regulations; risk of material misstatements, including fraud risks; or tips or complaints regarding the Foundation's financial reporting that we were made aware of as a result of our inquiry of those charged with governance.
Consultations with other accountants	We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent public accountants on the application of generally accepted accounting principles.
Significant findings and issues arising during the audit in connection with the Foundation's related parties	We have evaluated whether the identified related party relationships and transactions have been appropriately identified, accounted for, and disclosed and whether the effects of the related party relationships and transactions, based on the audit evidence obtained, prevent the financial statements from achieving fair presentation.
Disagreements with management	There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to the Foundation's financial statements or to our auditor's report.
Significant difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
Other matters significant to the oversight of the Foundation's financial reporting process, including complaints or concerns regarding accounting or auditing matters	There are no other matters that we consider significant to the oversight of the Foundation's financial reporting process that have not been previously communicated.
Representations requested from management	Please refer to the management representation letter.
Independence communication	Our engagement letter to you dated June 29, 2017 describes our responsibilities in accordance with professional standards and certain regulatory authorities and <i>Government Auditing Standards</i> with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the Foundation with respect to independence as agreed to by the Foundation. Please refer to that letter for further information.

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# Significant Accounting and Reporting Matters

## FINANCIAL STATEMENT PRESENTATION OF NOT-FOR-PROFIT ENTITIES

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) - Presentation of Financial Statements of Not-for-Profit Entities. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled "net assets without donor restrictions" and "net assets with donor restrictions", (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statements of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements. The ASU is effective for fiscal years beginning after December 15, 2017. Early adoption is permitted. The provisions of the ASU must be applied on a retrospective basis for all years presented although certain optional practical expedients are available for periods prior to adoption. Management is currently evaluating the impact of this ASU on their financial statements.

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# BDO Institute for Nonprofit Excellence<sup>SM</sup> Resource Center

## BDO INSTITUTE FOR NONPROFIT EXCELLENCE<sup>SM</sup> - OUR CONTINUED COMMITMENT TO THE NONPROFIT INDUSTRY

BDO is one of the only national accounting firms with a strategic commitment to the nonprofit industry. This commitment is perhaps best embodied by The BDO Institute for Nonprofit Excellence<sup>SM</sup> (Institute). Since the development of the Institute in 2001, we have been helping nonprofits thrive by specializing in meeting the needs of the nation's nonprofit sector. Based in our Greater Washington, D.C. Metro Office, the Institute's dedicated team of assurance, tax and consulting professionals supports and collaborates with BDO offices and nonprofit organizations around the country to develop innovative accounting and operational strategies for tax-exempt organizations.

The Institute provides BDO professionals, clients and the nonprofit industry at-large with practical, transformative [thought leadership](#) and educational resources that can help organizations navigate this dynamic and challenging industry. We produce numerous publications, including a newsletter as well as our [blog](#), The Nonprofit Standard. BDO also regularly sponsors [educational seminars](#) on a variety of industry-specific accounting and management issues.

## AN INCREDIBLE RESOURCE AT YOUR FINGERTIPS

The BDO Institute for Nonprofit Excellence<sup>SM</sup> Resource Center was born from the need to have a comprehensive, online, and easy-to-use resource for topics relevant to nonprofit governing boards and financial executives. We encourage you to visit the Center often for up-to-date information and insights you can rely on.

What you will find includes:

- ▶ Guidance and best practices related to the unique regulatory, economic, accounting, reporting and auditing aspects for nonprofits
- ▶ Thought leadership, blog posts, tools, and newsletters
- ▶ Technical updates and insights on emerging nonprofit issues
- ▶ Opportunities to engage with BDO thought leaders
- ▶ Events and webinars geared toward the unique issues affecting nonprofit organizations

For more information about BDO's Institute for Nonprofit Excellence<sup>SM</sup> Resource Center please go to <https://www.bdo.com/resource-center/institute-for-nonprofit-excellence>.

To begin receiving email notifications regarding BDO publications and event invitations (live and web-based), visit <https://www.bdo.com/member/registration> and create a user profile.

If you already have an account on BDO's website, visit the My Profile page to login and manage your account preferences <https://www.bdo.com/member/my-profile>.

To subscribe to receive posts from our Nonprofit Standard Blog, please go to <https://www.bdo.com/blogs/nonprofit-standard> and fill out the subscription form on the right-hand side of the page.

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# Get to Know BDO

## NONPROFIT INDUSTRY RESOURCES

### NONPROFIT FINANCIAL REPORTING RESOURCE CENTER

For the past two years, we have been closely monitoring updates from the Financial Accounting Standards Board (FASB) regarding the organization's Not-for-Profit Financial Statement Reporting Project.

On August 18, 2016, the FASB issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. The new guidance simplifies and improves how not-for-profit entities classify net assets as well as the information presented in financial statements and notes about liquidity, financial performance, and cash flows. Read the full [Accounting Standards Update](#).

To assist organizations in understanding the ASU and its impacts, we have compiled a full list of resources surrounding the FASB's project and nonprofit financial reporting.

Visit the [Nonprofit Financial Reporting Resource Center](#) for more information.

BDO has authored a book entitled, *How to Read Nonprofit Financial Statements: A Practical Guide*, which is an invaluable resource for anyone who works with these all-important documents. Written by Andrew S. Lang, LangCPA Consulting, [William Eisig](#), [Lee Klumpp](#), and [Tammy Ricciardella](#), this guide incorporates the extensive experience and deep industry knowledge of professionals in the top of their field. Whether you're a nonprofit executive unfamiliar with the language of financial statements or a seasoned pro, *How to Read Nonprofit Financial Statements: A Practical Guide, 3rd Edition* is a key resource that will help you read, interpret, and use nonprofit financial statements, including everything you need to know about the new FASB ASU 2016-14 nonprofit reporting standard.

### EFFECTIVE AUDIT COMMITTEES FOR NONPROFIT ORGANIZATIONS

The focus of BDO's governance initiatives is to provide those charged with governance with essential, relevant information through clear and concise executive summary-type communications. In this spirit, we have created the [Effective Audit Committees For Nonprofit Organizations](#) publication as a practical guide to forming and running an effective audit committee. Within this publication, we provide answers to certain frequently asked questions (FAQs) centering on the WHYs, WHOs, WHATs, WHENs and HOWs of audit committees. More specifically, these FAQs summarize the common functions and responsibilities of audit committees to help you and your organization form and maintain an effective audit committee and set an appropriate agenda for its ongoing activities.

Audit committees are vital to the health of any nonprofit, be it large or small. The audit committee and its individual members are crucial partners in the safeguarding of integrity, mission and, ultimately, success.

Throughout this publication, we focus on some of the more challenging aspects facing audit committees. To that end, in addition to our commentary, we have included links and references to other relevant BDO practice aids and tools as well as certain valuable external resources.