

HARBOR BRANCH OCEANOGRAPHIC INSTITUTE

FOUNDATION

HARBOR BRANCH OCEANOGRAPHIC INSTITUTE FOUNDATION AUDIT BACKGROUND INFORMATION

In accordance with its Financial Policies and Procedures, The Harbor Branch Oceanographic Institute Foundation issues a Request for Proposal (RFP) periodically to external audit firms. The RFP is issued as the result of a governance best practice for periodic change. When applicable, the Foundation's Audit Committee creates a RFP, reviews the proposals, and selects and engages one auditing firm to conduct the annual audit.

In FY15 it was determined to issue an RFP. As a result of that process, Cross, Fernandez & Riley, LLP from Orlando was selected to be the auditor for FY16, FY17, and FY18. Prior to the start of the FY16 audit, Cross, Fernandez & Riley, LLP merged with BDO USA, LLP and while it was the same personnel from CFR, it was BDO that conducted the audit.

As a result of a new auditor, this year's process was the foundation year and entailed a greater body of work as BDO became familiar with the history, practices, protocols and financial activities of the Foundation to understand its investments, grant making, general operations and Specialty License Plate program. This year's audit included explanations of re-alignments and clarifications of specific items in the financial statements from FY15 to FY16.

We wanted to point out a few key changes:

- The Foundation holds title to several parcels of land following the Harbor Branch Oceanographic Institute merger with FAU. One parcel located near the St. Lucie County Fairgrounds had been an unsuccessful commercial shrimp aquaculture venture. The land sat vacant for a number of years and it was determined by the Board to list the land for sale in January 2016. The Foundation entered into a Letter of Intent for the sale of the "Peacock Road" property in June 2016 for the total amount of \$514,800.

Prior to the sale, the property was reflected on the Foundation's records at the amount of \$1,891,228, indicating a significant difference between the cost basis and fair value of \$514,800 (per appraisal and subsequent offer to purchase). The significant difference results in an impairment of \$1,376,428 for the land held for sale. This impairment was recorded for fiscal year 2016 and appropriately presented in the financial statements. A subsequent event was also noted in the audited financial statements as this property closed in October for \$514,800.

- Because funds had been raised through the 2016 **Love Your Lagoon** event in FY16 but not expected to be paid out until FY17, the Finance Committee agreed to a change in process for the payment of this grant. Therefore, there was also a restriction of the funds for one grant to FAU Harbor Branch (2016 Indian River Lagoon Graduate Research Fellows Program -- \$111,869).

The 2016 **Love Your Lagoon** event was the 5th annual. At the time of the first event in 2010-2011, there was a severe and unexpected algal bloom and the Foundation Board wanted to not only find a way to respond but to showcase the significant history of research conducted by Harbor Branch on the Indian River Lagoon. The first event was launched with proceeds going to host the Indian River Lagoon Symposium, a multi-institutional, multi-agency scientific symposium held in FAU Harbor Branch's Johnson Education Center. The event includes oral presentations, a panel discussion and poster sessions of relevant "hot topics" facing the lagoon. Over 600 people attend over two days. The purpose of additional annual events is to raise funds for a specific activity at Harbor Branch which relates to research or outreach on the Indian River Lagoon. The health of the 156-mile Indian River Lagoon estuary located on Florida's East Coast is critical to

our local environment as well as having an overall estimated \$3.7 billion economic impact to the State of Florida. FAU Harbor Branch researchers have been studying the effects of water quality in the IRL and St. Lucie Estuary for decades with current critical concerns including reduction in IRL seagrass, coral health, dolphin and manatee health and monitoring, and harmful algal blooms (see our **YouTube video** on the Indian River Lagoon here: <https://www.youtube.com/watch?v=1v6KlaUA18Q>). In addition, FAU Harbor Branch's Indian River Observatory Water Quality (LOBOs) Network is the most comprehensive water quality network in the Lagoon, providing real-time, high-accuracy weather and water quality data at <http://fau.loboviz.com/>. Net proceeds from previous **Love Your Lagoon** events have directly contributed to these efforts.

- Upon verification of historic documentation, the word “endowment” associated with the SJ Fund was updated as presented in the prior year audit. The SJ Fund is not an endowment.

From the Financial Statements:

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 consolidated statements of activities. The investment income, including gains, losses, dividends and interest earned on the balance of the Fund, is included in the consolidated 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 consolidated statements of activities as temporarily restricted. Under certain circumstances, the principal of the SJ Fund may be used at the discretion of the Foundation.

- The decrease in investments as of June 30, 2016 was due to market fluctuation and timing; please note the current value of Endowment has recovered with the market and as of October 10, 2016 was **\$64,863,623.33.**

The Foundation’s portfolio is invested and subject to the control of the Foundation’s Finance Committee in accordance with a stated Investment Policy. Our investment objective is to earn the highest possible total return, through capital appreciation and income return, consistent with prudent levels of risk. To best steward our Endowment corpus, the Foundation uses the investment services of the Atlanta Consulting Group.

The Spending Policy in the Investment Policy reflects the fundamental objective of preserving and enhancing the resources of FAU Harbor Branch, both at present and in the future. The spending policy rate is to be no more than CPI plus five percent of the assets, calculated on a rolling three year average of the market value and actual disbursements are 100% discretionary.

Our Endowment is a philanthropic legacy of founder J. Seward Johnson, Sr. It is estimated that 90% of his lifetime charitable giving was for his love of oceanography.

The Foundation has two annual operating budgets – one for General Operations and one for Specialty License Plates.

We build our annual operating budget and our annual SLP budgets based on history and documented projections. Our budget reports show comparative Budget to Actuals for both the current and the most previous fiscal year.

Our goal is to adopt our operating budget for the coming fiscal year at the April Board meeting. The new fiscal year begins July 1.

Upon adoption, these budgets are entered into our QuickBooks program.

- BDO recommended the Foundation discuss with FAU the advisability of providing SLP funds in advance to FAU, noting a large pool of funds being consistently held in advance of use by the FAU Division of Research. It is recommended these funds remain in the Foundation's account restricted for the specialty license plates in the Foundation's Endowment to earn interest until actually needed by FAU Harbor Branch and managed in the same way current discretionary grant funds are being managed.

At the time of the audit, it was noted over \$2,000,000 in total plate funds were being held as yet unexpended by FAU. The auditors suggested these funds remain restricted with the Foundation per plate, providing greater transparency, oversight, and earning interest on behalf of each plate and expended only when actually needed. This management would mirror the manner in which the HBOIF Discretionary Grants are currently being paid out, e.g., invoicing for reimbursement as funds are expended rather than forwarding monies as they are received for the plate. It was further discussed that the Foundation's greatest opportunity to ensure the protection of the plates came from ensuring against any perception that interest earned on plate funds while sitting in a pool might be used in any manner other than for each designated plate.

In addition, the current SLP Request for Proposals (RFP) and award process per plate includes estimation of the amount of available funds in each plate and announced in an RFP to FAU Harbor Branch. That estimation is made from the amount of funds currently on hand at the FAU Division of Research added to expected funds from the State between that time and the time of the upcoming project commencement (a gap of approximately 3-5 months). Because estimations may not materialize, it was recommended to go back to the original intent of the Foundation to make awards based on actual funds available at the time of any RFP for a funding round or should any alternate award process be instituted.

Recommendations are being discussed by the Grants Committee and the Finance Committee for recommendations to the Board.