



Item: AF: I-3c

AUDIT AND FINANCE COMMITTEE

Tuesday, February 19, 2013

SUBJECT: REVIEW OF THE FINANCIAL STATEMENTS OF FAU DIRECT SUPPORT ORGANIZATIONS: HARBOR BRANCH OCEANOGRAPHIC INSTITUTE FOUNDATION, INC. FOR THE FISCAL YEARS ENDED JUNE 30, 2012 AND 2011.

PROPOSED COMMITTEE ACTION

Information only.

BACKGROUND INFORMATION

The audited financial statements of the Harbor Branch Oceanographic Institute Foundation (HBOIF) are presented to keep the Board of Trustees informed about the financial status of the Foundation. The audited financial statements for the period ending June 30, 2012 and 2011 were presented to the HBOIF Board of Directors on October 23, 2012.

IMPLEMENTATION PLAN/DATE

Not applicable.

FISCAL IMPLICATIONS

Not Applicable.

Supporting Documentation: HBOIF Consolidated Financial Statements for the Fiscal Years Ended June 30, 2012 and 2011.

Presented by: Mr. Dennis Crudele, SVP-Financial Affairs
Ms. Janet Alford, Executive Director, HBOIF

Phone: 561-297-3267

Phone: 772-446-9876/X224

**HARBOR BRANCH OCEANOGRAPHIC
INSTITUTE FOUNDATION, INC.**

ANNUAL FINANCIAL REPORTS

June 30, 2012 and 2011

Harbor Branch Oceanographic Institute Foundation, Inc.

Annual Financial Report

Fiscal Years Ended June 30, 2012 and 2011

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Berger, Toombs, Elam,
Gaines & Frank

Certified Public Accountants PL

600 Citrus Avenue
Suite 200
Fort Pierce, Florida 34950

772/461-6120 // 461-1155
FAX: 772/468-9278

Report of Independent Auditors

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

We have audited the accompanying statements of financial position of Harbor Branch Oceanographic Institute Foundation, Inc. (the Foundation), a nonprofit organization, as of June 30, 2012 and 2011 and the related statements of activities, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior period summarized comparative information has been derived from the Foundation's June 30, 2011 financial statements and, in our prior audit report dated November 30, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2012 and 2011, and the activities and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 29, 2012, on our consideration of the Foundation's internal control over financial reporting and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Berger, Toombs, Elam,
Gaines & Frank

Certified Public Accountants PL

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis as required by the Florida Auditor General, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Berger, Toombs, Elam,
Gaines & Frank*

Berger, Toombs, Elam, Gaines & Frank
Certified Public Accountants PL
Fort Pierce, Florida

October 29, 2012

Harbor Branch Oceanographic Institute Foundation, Inc.
STATEMENTS OF FINANCIAL POSITION
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Assets		
Cash and cash equivalents	\$ 191,459	\$ 1,709,508
Cash held in escrow	200,001	212,328
Investments	52,103,953	51,652,468
Receivables	326,402	325,974
Inventory	10,000	-
Prepaid expenses and other assets	19,433	36,334
Income taxes receivable	165,534	-
Grant advances	4,202,450	4,495,456
Note receivable	186,000	186,000
Land held for sale	1,891,228	1,886,488
Land, buildings and equipment, net	<u>724,133</u>	<u>708,852</u>
Total Assets	<u>\$ 60,020,593</u>	<u>\$ 61,213,408</u>
Liabilities		
Accounts payable and accrued expenses	\$ 170,206	\$ 193,182
Accrued taxes	-	56,307
Total Liabilities	<u>170,206</u>	<u>249,489</u>
Net assets		
Unrestricted	(2,088,930)	(1,773,460)
Temporarily restricted	<u>61,939,317</u>	<u>62,737,379</u>
Total Net Assets	<u>59,850,387</u>	<u>60,963,919</u>
Total Liabilities and Net Assets	<u>\$ 60,020,593</u>	<u>\$ 61,213,408</u>

The accompanying notes to financial statements are an integral part of this statement.

Harbor Branch Oceanographic Institute Foundation, Inc.
STATEMENTS OF ACTIVITIES
For the Year Ended June 30, 2012 and 2011

	<u>2012</u>			<u>2011</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
Revenues, gains, (losses) and other support:				
Support				
Specialty license plate contributions	\$ -	\$ 2,826,895	\$ 2,826,895	\$ 3,107,773
Revenues				
Sales	22,406	-	22,406	2,736,972
Contributions	66,614	-	66,614	-
Miscellaneous income	332,498	-	332,498	334,298
Investment losses	-	(363,901)	(363,901)	8,533,684
Loss on sale of assets	-	-	-	(1,663,258)
Net assets released from restrictions	3,261,056	(3,261,056)	-	-
Total Revenues	<u>3,682,574</u>	<u>(3,624,957)</u>	<u>57,617</u>	<u>9,941,696</u>
Total Support and Revenues	<u>3,682,574</u>	<u>(798,062)</u>	<u>2,884,512</u>	<u>13,049,469</u>
Expenses				
Program Services				
Ocean research and conservation	3,542,447	-	3,542,447	2,283,889
Aquacultured Marine Organisms	-	-	-	<u>3,126,523</u>
Total Program Services	<u>3,542,447</u>	<u>-</u>	<u>3,542,447</u>	<u>5,410,412</u>
Supporting Services				
General administration	291,589	-	291,589	733,322
Fundraising	164,008	-	164,008	<u>386,661</u>
Total Supporting Services	<u>455,597</u>	<u>-</u>	<u>455,597</u>	<u>1,119,983</u>
Other Non-operating Expenses				
Bad debts	-	-	-	<u>366,572</u>
Total Expenses	<u>3,998,044</u>	<u>-</u>	<u>3,998,044</u>	<u>6,896,967</u>
Change in Net Assets	(315,470)	(798,062)	(1,113,532)	6,152,502
Net Assets - Beginning	<u>(1,773,460)</u>	<u>62,737,379</u>	<u>60,963,919</u>	<u>54,811,417</u>
Net Assets - Ending	<u>\$ (2,088,930)</u>	<u>\$ 61,939,317</u>	<u>\$ 59,850,387</u>	<u>\$ 60,963,919</u>

The accompanying notes to financial statements are an integral part of this statement.

Harbor Branch Oceanographic Institute Foundation, Inc.
STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 2012 and 2011

	2012	2011
Cash Flows from Operating Activities		
Change in Net Assets	\$ (1,113,532)	\$ 6,152,502
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	4,719	364,569
Net unrealized and realized loss/ (gains) on investments	363,901	(8,533,684)
Deferred tax expense (benefit)	(221,841)	(260,253)
Loss/ (gain) on sale of assets	-	1,663,258
Decrease (Increase) in assets:		
Receivables	(428)	186,550
Grant advances	293,006	(1,035,951)
Inventories	(10,000)	-
Other assets	29,228	1,141,737
Increase (Decrease) in liabilities:		
Accounts payable	(22,976)	(363,356)
Net Cash Provided by Operating Activities	(677,923)	(684,628)
Cash Flows from Investing Activities		
Proceeds from sale of investments	13,859,106	13,435,732
Purchases of investments	(14,674,492)	(15,212,605)
Proceeds from sale of capital assets	-	1,551,907
Land for sale costs	(4,740)	-
Purchases of capital assets	(20,000)	(412,713)
Net Cash Used by Investing Activities	(840,126)	(637,679)
Cash Flows from Financing Activities		
Payments on long term debt	-	(11,712)
Net Decrease in Cash and Cash Equivalents	(1,518,049)	(1,334,019)
Cash and Cash Equivalents - Beginning of year	1,709,508	3,043,527
Cash and Cash Equivalents - End of year	\$ 191,459	\$ 1,709,508
Supplemental disclosures of cash flow information		
Cash payments for interest	\$ 471	\$ 2,161

The accompanying notes to financial statements are an integral part of this statement.

Harbor Branch Oceanographic Institute Foundation, Inc.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2012 and 2011

	<u>Program Services</u>		<u>Supporting Services</u>			June 30, 2012 Total	June 30, 2011 Total
	Ocean Research & Conservation	Total	General Administration	Fundraising	Total		
Grants to others	\$ 3,064,408	\$ 3,064,408	\$ -	\$ -	\$ -	\$ 3,064,408	\$ 2,178,413
Salaries and related expenses	-	-	54,797	127,860	182,657	182,657	1,551,341
Professional services	231,441	231,441	154,294	-	154,294	385,735	489,153
Material and supplies	-	-	2,128	236	2,364	2,364	501,792
Depreciation	-	-	4,247	472	4,719	4,719	364,569
Marketing	246,598	246,598	13,700	13,700	27,400	273,998	272,684
Miscellaneous	-	-	27,077	6,769	33,846	33,846	133,322
Utilities	-	-	-	-	-	-	231,806
Postage and freight	-	-	-	-	-	-	202,065
Repairs and maintenance	-	-	-	-	-	-	139,090
Rent	-	-	-	-	-	-	115,786
Taxes	-	-	8,967	996	9,963	9,963	224,275
Insurance	-	-	22,778	5,695	28,473	28,473	64,544
Communication	-	-	-	-	-	-	26,828
Travel	-	-	845	7,607	8,452	8,452	18,306
Minor equipment	-	-	2,662	296	2,958	2,958	14,260
Interest	-	-	94	377	471	471	2,161
Total	<u>\$ 3,542,447</u>	<u>\$ 3,542,447</u>	<u>\$ 291,589</u>	<u>\$ 164,008</u>	<u>\$ 455,597</u>	<u>\$ 3,998,044</u>	<u>\$ 6,530,395</u>

The accompanying notes to financial statements are an integral part of this statement.

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operation

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

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 funds (see Note 8) and certain other assets and remains a 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.

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.

Financial Statement Presentation

The financial statements are presented following the requirements of Accounting Standard Codification (ASC). Under ASC, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation’s financial statements for the previous year ended from which such information was derived.

The financial statements at June 30, 2011 reported the operations of the Foundation, and Harbor Branch Holdings, Inc. on a consolidated basis. Harbor Branch Holdings, Inc. ceased operations as of June 30, 2011, and all of its assets and liabilities were sold. The June 30, 2012 financial statements report the Foundation

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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.

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. Such accounts may at times exceed federally insured limits. The Foundation has not experienced any losses on such accounts.

The Foundation has significant investments in stocks, equity and fixed income mutual funds, foreign exempted limited liability companies 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. 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.

Grant Advances & Other Receivables

Grant advances represent the excess of funds advanced to FAU for state specialty license plate grants over allowable costs incurred.

Other receivables due to the Foundation are specialty license plate monies due from the State of Florida.

Land Held for Sale

The Foundation holds certain parcels of land for sale which are valued at cost.

Inventories

Inventories consist of novelties sold within the campus gift shop. The cost of inventory is valued at lower of cost or market using the first-in, first-out method (FIFO).

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property, Plant and Equipment, Net

Property, plant 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, plant and equipment using the straight-line method based on estimated useful lives.

Impairment of Long-Lived Assets

The Foundation reviews its long-lived assets, such as property, plant 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 fair value of the asset.

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 consolidated statements of activities as net assets released from restriction. It is the Foundation's policy to record temporarily restricted contributions received and expended in the same accounting period as unrestricted net assets.

Collections

The Foundation has elected to exercise the option to not capitalize the items that meet the definition of "Collections" as prescribed by accounting principles generally accepted in the United States of America. Therefore, the fair value of the donated collections (primarily artwork and sculptures) are not reflected in the accompanying consolidated financial statements.

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 consolidated statements of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

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 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. Additional asset classes and style strategies may be incorporated into the investment philosophy in the future.

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 Income Tax Code.

The Foundation adopted the ASC "Uncertainty in Income Taxes" on July 1, 2009, which provides guidance on the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Foundation has not recognized a liability as a result of the implementation of this new standard. A reconciliation of the beginning and ending amount of unrecognized tax benefits has not been provided since there is no unrecognized interest expense or penalties as a result of the implementation of this new standard. 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.

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Measurements

The Foundation reports its financial assets and liabilities using a three-tier hierarchy, which prioritizes the inputs used in measuring fair value as required by ASC. 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, 2012. The respective carrying value of certain on-balance-sheet financial instruments approximate their fair values due to the short-term nature of these instruments. These financial instruments include cash, receivables, accounts payable and accrued expenses and amounts due to FAU. The fair values of the Foundation's notes receivable and payable are estimated based on current rates that would be available for debt of similar terms which is not significantly different from its stated value.

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fair Value of Financial Measurements (Continued)

The Foundation's Level 1 financial assets consist of cash equivalents and investments as identified in Note 3 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 and Level 3 investments is estimated using information provided to the Foundation by the 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.

Reclassifications

Certain items have been reclassified in the 2011 financial statements to conform to the 2012 presentation.

NOTE 2 – CASH AND CASH EQUIVALENTS

As of June 30, 2012, the Foundation had \$391,460 on deposit, which was fully insured by the Federal Deposit Insurance Corporation. The Foundation has not experienced any losses in such accounts and management believes it is not exposed to any significant credit risk on cash.

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 3 – INVESTMENTS

The fair value of investments includes the following:

June 30,	2012	2011
Level 1 Investments:		
Equities	\$ 6,184,391	\$ 11,916,245
Equity mutual funds	17,765,252	14,935,493
Fixed income mutual funds	14,802,266	14,143,134
Cash management accounts	4,504,107	1,520,788
Total Level 1 Investments	43,256,016	42,515,660
Level 2 Investments:		
Limited liability offshore mutual fund (a)	1,827,793	1,918,672
Multi-strategy hedge fund of funds (b)	3,995,583	3,992,542
Commodity focused hedge fund (c)	1,186,887	1,339,316
Total Level 2 Investments	7,010,263	7,250,530
Level 3 Investments		
Diversified offshore fund (d)	1,837,674	1,886,278
Total Investments	\$ 52,103,953	\$ 51,652,468

- (a) This fund was formed primarily with the purpose of achieving long-term growth of capital with reduced volatility by allocating its capital among various fund managers that, as a group, employ a variety of investment techniques and strategies. The fund currently offers liquidity on a quarterly basis and redemptions require 90 days advance notice.
- (b) This fund focuses on building and managing low volatility, multi-manager portfolios that have low correlation to the broader debt and equity indices. The fund currently offers liquidity on a quarterly basis and redemptions require 95 days advance notice.
- (c) The purpose of this fund is to deliver high risk adjusted returns over a longer time horizon by actively allocating between more long-biased commodity strategies or more defensive strategies, depending on the investment manager's medium-term macroeconomic outlook. Generally, original shares may be redeemed, in whole or in part, as of the first business day in each calendar quarter or such other business day as the Directors may from time to time determine and notify to the Shareholders (the "Redemption Date"). Shareholders must provide 45 days prior written notice (subject to the discretion of the Directors to waive or reduce such notice), or at such other times with the consent of, and upon such terms of payment as may be approved by, the Directors, in its sole discretion.

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 3 – INVESTMENTS - CONTINUED

(d) The investment objective of this fund is to minimize risk through diversification and maximize total return through manager selection. The fund seeks to achieve this objective by employing a multi-manager approach, maintaining investments with a broadly diversified group of investment managers specializing in alternative investment strategies. The fund offers quarterly redemptions after the subscriber has been invested in the fund for 2 years, and with 75 days notice. Full liquidation could take anywhere from one month to three years.

Activity for Level 3 investments is summarized as follows:

<u>Year ended June 30,</u>	<u>2012</u>	<u>2011</u>
Fair value, beginning	\$ 1,886,278	\$ 1,738,921
Purchases (sales), net	1,116,004	(1,511)
Unrealized gain (loss)	<u>(1,164,608)</u>	<u>148,868</u>
 Fair Value, Ending	 <u>\$ 1,837,674</u>	 <u>\$ 1,886,278</u>

Investment income (loss) is comprised of the following:

<u>Year ended June 30,</u>	<u>2012</u>	<u>2011</u>
Dividends and interest	\$ 1,110,529	\$ 1,105,350
Net realized gain/(loss) on sale of investments	415,770	348,521
Net unrealized gain (loss)	<u>(1,891,502)</u>	<u>7,079,813</u>
	 <u>\$ (365,203)</u>	 <u>\$ 8,533,684</u>

Investment management fees totaled \$140,029 and \$123,376 for the years ended June 30, 2012 and 2011, respectively and are included in professional services expense in the accompanying consolidated statements of functional expenses.

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 4 – RECEIVABLES

Receivables are all due within one year and are comprised of the following:

June 30,	2012	2011
Contributions receivable	\$ 317,178	\$ 325,974
Trade receivables	256	-
Total Receivables	\$ 317,434	\$ 325,974

NOTE 5 – NOTE RECEIVABLE

On December 28, 2007, Holdings sold the assets of its wholly-owned for-profit subsidiary Harbor Branch Environmental Laboratory, Inc. (“HBEL”) for a total purchase price of \$602,375 and dissolved HBEL on February 15, 2008. HBOIF obtained a note receivable from the buyer for \$602,375 plus annual interest of 7.5% which is due in quarterly payments of \$16,809 beginning April 1, 2008 through December 31, 2011, at which time a final balloon payment of \$486,860 plus accrued interest is due. During fiscal year 2011, the buyer defaulted on the note. The Foundation offered to settle the note and as a result \$366,536 of the note was written off at June 30, 2011 leaving a balance receivable of \$186,000. The note is secured by certain property and equipment of HBEL and all accounts receivable.

NOTE 6 – CAPITAL ASSETS

Capital assets are comprised of the following:

June 30,	Useful Life	2012	2011
Buildings and building improvements	10-40 years	\$ 27,375	\$ 27,375
Equipment	5-18 years	324,044	324,044
Software	15 years	20,000	-
Land	n/a	691,553	691,553
Land improvements	5-50 years	250,445	250,445
Total Depreciable Assets		1,313,417	1,293,417
Less accumulated depreciation		(589,284)	(584,565)
		\$ 724,133	\$ 708,852

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

<u>June 30,</u>	<u>2012</u>	<u>2011</u>
J. Seward Johnson, Sr. Charitable Trust		
Endowment Fund	\$ 54,353,230	\$ 54,828,688
Seward Johnson Trust Fund for Oceanography	3,383,637	3,413,235
Specialty License Plate Programs	<u>4,202,450</u>	<u>4,495,456</u>
	<u>\$ 61,939,317</u>	<u>\$ 62,737,379</u>

Temporarily restricted net assets were released from restrictions for the following purposes:

<u>Year ended June 30,</u>	<u>2012</u>	<u>2011</u>
J. Seward Johnson, Sr. Charitable Trust		
Endowment Fund	\$ 132,883	\$ 2,883,155
Seward Johnson Trust Fund for Oceanography	8,272	143,939
Specialty License Plate Programs	<u>3,119,901</u>	<u>2,128,012</u>
	<u>\$ 3,261,056</u>	<u>\$ 5,155,106</u>

Seward Johnson Funds

The J. Seward Johnson, Sr. Charitable Trust Endowment Fund (the "Fund") is a donor-restricted 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. On March 31, 2004, J. Seward Johnson, Jr. resigned from the Board of Directors and terminated contributions to the Fund effective January 1, 2005. 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.

In accordance with the terms of the Fund, if the Directors of the Foundation determine by a majority of a 75% vote it is clearly in the Foundation's best interest to expend, pledge or borrow, the least but necessary amount, including up to all the principal of the Fund, they may do so but only with the approval of the Foundation Board of Directors. Such uses shall further be restricted to extraordinary needs affecting the safety or ability of the Foundation to meet its legal obligations or long-term objectives. On November 13, 2003, the Board of Directors of the

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS - CONTINUED

Foundation authorized the allocation of up to \$10,000,000 from restricted corpus of the Fund to fill a cash shortfall pending the sale of land. On June 17, 2004, this was increased to \$15,000,000 upon authorization by the Board of Directors of the Foundation and approved by the Board of Directors on October 31, 2004. On November 5, 2008, this was increased to \$30,000,000 upon authorization by the Board of Directors of the Foundation. Proceeds from the sale of land shall be returned immediately to the restricted fund. During fiscal 2010, \$23,529,159 of the proceeds from the sale of land reduced the amount borrowed from the Fund. As of June 30, 2011 and 2012, the outstanding amount borrowed from the Fund was \$6,966,567 and \$5,632,914 respectively.

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.

Changes in the Foundation's temporarily restricted endowment net assets for the years ended June 30, 2012 and 2011 are as follows:

	J. Seward Johnson, Sr. Charitable Trust Endowment Fund	Seward Johnson Trust Fund for Oceanography	<u>Total</u>
Endowment net assets at July 1, 2010	\$ 49,621,020	\$ 3,114,312	\$ 52,735,332
Interest and dividends	1,047,987	57,363	1,105,350
Net realized loss on investments	330,434	18,087	348,521
Net unrealized gain on investments	6,712,402	367,412	7,079,814
Distributions/fees	<u>(2,883,155)</u>	<u>(143,939)</u>	<u>(3,027,094)</u>
Endowment net assets at June 30, 2011	54,828,688	3,413,235	58,241,923
Interest and dividends	1,046,673	65,158	1,111,831
Net realized gain on investments	391,404	24,366	415,770
Net unrealized loss on investments	(1,780,652)	(110,850)	(1,891,502)
Distributions and investment fees	<u>(132,883)</u>	<u>(8,272)</u>	<u>(141,155)</u>
Endowment net assets at June 30, 2012	<u>\$ 54,353,230</u>	<u>\$ 3,383,637</u>	<u>\$ 57,736,867</u>

The investment policies for endowment funds are consistent with those as disclosed in Note 2, "Investments and Investment Income."

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 8 – INCOME TAXES

The components of income tax expense (benefit) related to Holdings are as follows:

<u>Year ended June 30,</u>	<u>2012</u>	<u>2011</u>
Current:		
Federal	\$ (165,534)	\$ 55,055
State	-	1,252
	<u> </u>	<u> </u>
Income tax (benefit)/liability	<u>\$ (165,534)</u>	<u>\$ 56,307</u>

The Foundation has adopted accounting guidance which clarifies the accounting and recognition for tax positions taken or expected to be taken in its income tax returns. The Foundation's tax filings are subject to audit by various taxing authorities. The Foundation's income tax returns for 2011, 2010 and 2009 remain open to examination by the Internal Revenue Service. In evaluating the Foundation's tax provisions and accrual, management believes that the estimates are appropriate based on current facts and circumstances.

NOTE 9 – PENSION PLAN

Prior to the transfer of net assets to FAU as described in Note 1, Harbor Branch Oceanographic Institution, Inc. ("HBOI") had an active defined contribution pension plan, the Harbor Branch Oceanographic Institution, Inc. Pension Plan (the "Plan"), covering substantially all full-time employees. HBOI would make a "safe harbor" contribution equal to three percent of an employee's Plan compensation, as defined in the plan. HBOI also would make non-elective contributions based on the date of hire and current year compensation of each participant. For an employee hired before April 1, 1980, HBOI would make a contribution equal to 10 percent of an employee's Plan compensation as defined in the plan, up to the Social Security Integration Level plus seven percent of Plan compensation in excess of such level. For an employee hired on or after April 1, 1980, HBOI would make a contribution equal to four percent of the employee's Plan compensation for the contribution period.

In connection with the transfer of net assets to FAU as described in Note 1, the Plan was amended on November 5, 2007, whereby future contributions to the Plan were ceased and the Plan was frozen as of December 31, 2007. The Foundation is currently in the process of terminating the Plan, and therefore, there were no contributions made to the plan for the year ended June 30, 2012 and June 30, 2011.

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Grant Audits

The Foundation is subject to state audit examination to determine compliance with grant 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

The Foundation is party to various claims and legal actions arising in the ordinary course of business. Management does not believe that the outcome of such claims and legal actions will have a material adverse effect on the financial position, results of operations or cash flows of the Foundation.

Environmental Contingencies

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. 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 operations or cash flows of the Foundation.

NOTE 11 – NET ASSETS RECLASSIFICATION

The Foundation's net assets at July 1, 2011 were reclassified to properly reflect the correct balances of restricted and unrestricted net assets related to a change in the methodology used to calculate the restricted net assets of the endowment funds and specialty license plate monies.

Net Assets	7/1/2011	Restatement	7/1/2011
Restricted Net Assets			
J. Seward Johnson, Sr. Charitable Trust			
Endowment Fund	\$ 47,488,134	7,340,554	\$ 54,828,688
Seward Johnson Trust Fund for Oceanography	2,956,266	456,969	3,413,235
Specialty License Plate Programs	5,388,520	(893,064)	4,495,456
Total Restricted Net Assets	\$ 55,832,920	6,904,459	\$ 62,737,379
Unrestricted Net Assets	\$ 5,130,999	(6,904,459)	\$ (1,773,460)
Total Net Assets	\$ 60,963,919	-	\$ 60,963,919

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

NOTE 12 – DATE OF MANAGEMENT REVIEW

In preparing the financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through October xx, 2012, the date that the financial statements were available to be issued.

Harbor Branch Oceanographic Institute Foundation, Inc.
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
June 30, 2012

<u>Year ended June 30, 2012</u>	<u>State CSFA Number</u>	<u>Grant Period</u>	<u>Expenditures</u>
STATE AGENCY/STATE PROJECT			
FLORIDA DEPARTMENT OF HIGHWAY SAFETY AND MOTOR VEHICLES			
Protect Wild Dolphins License Plate Program	76.011	7/1/11-6/30/12	\$ 1,541,370
Protect Florida Whales License Plate Program	76.072	7/1/11-6/30/12	370,503
Florida Aquaculture License Plate Program	76.080	7/1/11-6/30/12	398,450
Save Our Seas License Plate Program	76.085	7/1/11-6/30/12	918,582
TOTAL FLORIDA DEPARTMENT OF HIGHWAY SAFETY AND MOTOR VEHICLES			<u>\$ 3,228,905</u>

This schedule of expenditures of state financial assistance includes the state project activity of Harbor Branch Oceanographic Institute Foundation, Inc. and is presented on the accrual basis of accounting. The information in this 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 general purpose financial statements.

SUPPLEMENTARY INFORMATION

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS
June 30, 2012 and 2011

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards 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.

NOTE 2 – CONTINGENCIES

Amounts received, or receivable, from state agencies are subject to audit and adjustment by state agencies. If any expenditure is disallowed as a result of these audits the claims for reimbursement to the state agency would become a liability of the Foundation. In the opinion of Management, any such adjustment would not be significant.



Berger, Toombs, Elam,
Gaines & Frank

Certified Public Accountants PL

600 Citrus Avenue
Suite 200
Fort Pierce, Florida 34950

772/461-6120 // 461-1155
FAX: 772/468-9278

**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 the financial statements of the Harbor Branch Oceanographic Institute Foundation, Inc. (the Foundation) as of and for the year ended June 30, 2012 and have issued our report thereon dated October 29, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation 's internal control over financial reporting 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

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 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.

The Board of Directors
Harbor Branch Oceanographic Institute Foundation, Inc.

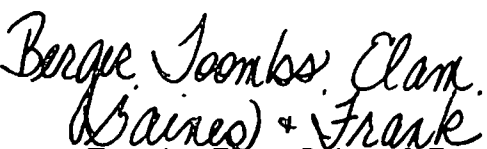
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We identified the following deficiency in internal control over financial reporting that we consider to be a material weakness, as defined above.

The small size of the organization's accounting and administrative staff precludes certain internal controls that would be preferred if the staff were large enough to provide optimum segregation of function. We recommend that the Board of Director's remain active in the day to day operations of the organization.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of 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*.

This report is intended solely for the information and use of the Board, Management and others within the entity and is not intended to be and should not be used by anyone other than those specified parties.


Berger, Toombs, Elam, Gaines & Frank
Certified Public Accountants PL
Fort Pierce, Florida

October 29, 2012



Berger, Toombs, Elam,
Gaines & Frank

Certified Public Accountants PL

600 Citrus Avenue
Suite 200
Fort Pierce, Florida 34950

772/461-6120 // 461-1155
FAX: 772/468-9278

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR STATE PROJECT
AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE STATE
OF FLORIDA'S CHAPTER 10.650, RULES OF THE AUDITOR GENERAL**

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

Compliance

We have audited the compliance of Harbor Branch Oceanographic Institute Foundation, Inc., (the Foundation) with the types of compliance requirements described in the *Florida Department of Financial Services, State Projects Compliance Supplement* that are applicable to each of its major State programs for the year ended June 30, 2012. The Foundation's major State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of the Foundation's management. Our responsibility is to express an opinion on the Foundation's compliance based on our audit.

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 Florida 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 a major State program 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. Our audit does not provide a legal determination on the Foundation's compliance with those requirements.

In our opinion, the Foundation complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended June 30, 2012

The Board of Directors
Harbor Branch Oceanographic Institute Foundation, Inc.

Internal Control Over Compliance

The Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered the Foundation's internal control over compliance with requirements that could have a direct and material effect on a major State program 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 State of Florida, 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, noncompliance with a type of compliance requirement of a State program 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 program will not be prevented, or detected and corrected, on a timely basis.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify a deficiency in internal control over compliance.

This report is intended solely for the information and use of the Board of Directors, Management, State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Berger, Toombs, Elam,
Gaines & Frank*

Berger, Toombs, Elam, Gaines & Frank
Certified Public Accountants PL
Fort Pierce, Florida

October 29, 2012

**Harbor Branch Oceanographic Institute Foundation, Inc.
Schedule of Findings and Questioned Costs
June 30, 2012**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting

Material weakness(es) identified yes no

Significant deficiency(ies) identified not considered to be material weaknesses?
 yes none reported

Noncompliance material to financial statements noted? yes no

State Awards

Internal Control over major programs:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified not considered to be material weaknesses?
 yes none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that were required to be reported in accordance with
Section 10.656(3)(e)? yes no

Identification of major projects:

<u>CSFA Number</u>	<u>State Project</u>
76.011	Florida Department of Highway Safety and Motor Vehicles: Protect Wild Dolphins License Plate Project
76.080	Florida Aquaculture License Plate Project
76.085	Save Our Seas License Plate Project

Dollar threshold used to distinguish between Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? yes no

SECTION II - FINANCIAL STATEMENT FINDINGS

No matters were reported in the current year. See section IV for prior year findings.

**Harbor Branch Oceanographic Institute Foundation, Inc.
Schedule of Findings and Questioned Costs
June 30, 2012**

SECTION III - STATE AWARD FINDINGS AND QUESTIONED COSTS

There were no audit findings related to state programs required to be reported by the Comptroller General of the United States, and State of Florida, Chapter 10.650, Rules of the Auditor General.

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Finding 2011-01

**State Agency: Florida Department of Highway and Motor Vehicles Compliance
Requirement: Allowable Costs**

Current Status

Corrective action was taken and the finding has been resolved.

Significant Deficiency

Finding 2011-02

Controls over State Projects

Current Status

Corrective action was taken and the finding has been resolved.