



Item: AF: I-1c

AUDIT AND FINANCE COMMITTEE

Tuesday, March 15, 2016

SUBJECT: REVIEW OF THE FINANCIAL STATEMENTS OF FAU DIRECT SUPPORT ORGANIZATIONS: HARBOR BRANCH OCEANOGRAPHIC INSTITUTE FOUNDATION, INC. FOR THE FISCAL YEARS ENDED JUNE 30, 2015 AND 2014.

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 periods ending June 30, 2015 and 2014 were presented to the HBOIF Board of Directors on November 11, 2015.

IMPLEMENTATION PLAN/DATE

Not applicable.

FISCAL IMPLICATIONS

Not applicable.

Supporting Documentation: HBOIF Consolidated Financial Statements for the Fiscal Years Ended June 30, 2015 and 2014.

Presented by:

Ms. Dorothy Russell, Vice President for Financial Affairs and CFO
Dr. Megan Davis, Interim Executive Director, HBOIF

Phone: 561-297-3267
Phone: 772-242-2298

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

ANNUAL FINANCIAL REPORTS

June 30, 2015 and 2014

Harbor Branch Oceanographic Institute Foundation, Inc.

Annual Financial Report

Fiscal Years Ended June 30, 2015 and 2014

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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

Report on the Financial Statements

We have audited the accompanying statements of financial position of Harbor Branch Oceanographic Institute Foundation, Inc. (the Foundation), a nonprofit Foundation, as of June 30, 2015 and the related statements of activities, cash flows and functional expenses for the years then ended.

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 statement 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 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 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 evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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, 2015, and the activities, cash flows, and functional expenses for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Foundation's June 30, 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 7, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of state projects 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. The schedule of expenditures of state awards 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. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2015 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. 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* in considering the Foundation's internal control over financial reporting and compliance.

*Berger, Toombs, Elam,
Gaines & Frank*

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

October 21, 2015

Harbor Branch Oceanographic Institute Foundation, Inc.
STATEMENTS OF FINANCIAL POSITION
June 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Assets		
Cash and cash equivalents	\$ 865,595	\$ 299,855
Investments	65,260,064	67,049,497
Land investments	1,891,228	1,891,228
Receivables	76,655	85,149
Inventory	-	10,294
Prepaid expenses and other assets	32,326	32,910
Land, buildings and equipment, net	<u>710,970</u>	<u>713,544</u>
Total Assets	<u>\$ 68,836,838</u>	<u>\$ 70,082,477</u>
Liabilities		
Accounts payable and accrued expenses	<u>\$ 155,260</u>	<u>\$ 101,842</u>
Net assets		
Unrestricted	2,546,822	2,931,138
Temporarily restricted	<u>66,134,756</u>	<u>67,049,497</u>
Total Net Assets	<u>68,681,578</u>	<u>69,980,635</u>
Total Liabilities and Net Assets	<u>\$ 68,836,838</u>	<u>\$ 70,082,477</u>

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

Harbor Branch Oceanographic Institute Foundation, Inc.
STATEMENTS OF ACTIVITIES
For the Year Ended June 30, 2015 and 2014

	2015			2014
	Unrestricted	Temporarily Restricted	Total	Total
Revenues, gains, and other support:				
Support				
Specialty license plate contributions	\$ -	\$ 2,786,003	\$ 2,786,003	\$ 2,614,305
Fundraising, net of \$96,495 and \$78,533 direct expenses	92,353	-	92,353	92,386
Contributions	52,696	-	52,696	19,167
Total Support	<u>145,049</u>	<u>2,786,003</u>	<u>2,931,052</u>	<u>2,725,858</u>
Revenues				
Sales	10,799	-	10,799	11,991
Miscellaneous income	35,575	-	35,575	74,214
Investment income	-	1,729,559	1,729,559	9,647,015
Gain on sale of assets	-	-	-	1,600
Net assets released from restrictions	5,430,303	(5,430,303)	-	-
Total Revenues	<u>5,476,677</u>	<u>(3,700,744)</u>	<u>1,775,933</u>	<u>9,734,820</u>
Total Support and Revenues	<u>5,621,726</u>	<u>(914,741)</u>	<u>4,706,985</u>	<u>12,460,678</u>
Expenses				
Program Services				
Marine and ocean research science	5,659,083	-	5,659,083	4,678,993
Total Program Services	<u>5,659,083</u>	<u>-</u>	<u>5,659,083</u>	<u>4,678,993</u>
Supporting Services				
General administration	276,597	-	276,597	230,000
Fundraising	70,362	-	70,362	31,895
Total Supporting Services	<u>346,959</u>	<u>-</u>	<u>346,959</u>	<u>261,895</u>
Total Expenses	<u>6,006,042</u>	<u>-</u>	<u>6,006,042</u>	<u>4,940,888</u>
Change in Net Assets	(384,316)	(914,741)	(1,299,057)	7,519,790
Net Assets - Beginning	<u>2,931,138</u>	<u>67,049,497</u>	<u>69,980,635</u>	<u>62,460,845</u>
Net Assets - Ending	<u>\$ 2,546,822</u>	<u>\$ 66,134,756</u>	<u>\$ 68,681,578</u>	<u>\$ 69,980,635</u>

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

Harbor Branch Oceanographic Institute Foundation, Inc.
STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 2015 and 2014

	2015	2014
Cash Flows from Operating Activities		
Change in Net Assets	\$ (1,299,057)	\$ 7,519,790
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	2,574	5,653
Net unrealized and realized loss/(gains) on investments	2,622,268	(6,733,283)
Decrease (Increase) in assets:		
Receivables	8,494	147,118
Inventories	10,294	(294)
Other assets	584	7,054
Increase (Decrease) in liabilities:		
Accounts payable	53,418	(171,341)
Net Cash Provided by Operating Activities	1,398,575	774,697
Cash Flows from Investing Activities		
Proceeds from sale of investments	7,892,737	14,328,834
Purchases of investments	(8,725,572)	(15,260,955)
Net Cash (Used) by Investing Activities	(832,835)	(932,121)
Net Increase (Decrease) in Cash and Cash Equivalents	565,740	(157,424)
Cash and Cash Equivalents - Beginning of year	299,855	457,279
Cash and Cash Equivalents - End of year	\$ 865,595	\$ 299,855

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

Harbor Branch Oceanographic Institute Foundation, Inc.
STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2015 and 2014

	Program Services	Supporting Services			June 30, 2015 Total	June 30, 2014 Total
	Marine and Ocean Research Science	General Administration	Fundraising	Total Supporting Services		
Grants to others	\$ 5,033,620	\$ -	\$ -	\$ -	\$ 5,033,620	\$ 4,059,534
Professional services	202,163	134,775	-	134,775	336,938	530,332
Salaries and related expenses	198,461	56,703	28,352	85,055	283,516	97,357
Marketing	204,133	-	22,681	22,681	226,814	135,466
Insurance	-	29,772	1,241	31,013	31,013	29,641
Promotion and printing	3,345	3,345	10,036	13,381	16,726	12,938
Travel	8,283	6,626	1,656	8,282	16,565	13,801
Equipment	1,220	9,762	1,220	10,982	12,202	5,694
Taxes	-	11,866	-	11,866	11,866	9,109
Materials and supplies	1,108	8,860	1,108	9,968	11,076	17,317
Computer and website	6,522	932	1,863	2,795	9,317	13,416
Dues and subscriptions	-	5,896	1,474	7,370	7,370	103
Utilities	-	4,424	-	4,424	4,424	6,828
Depreciation	-	2,574	-	2,574	2,574	5,653
Miscellaneous	228	797	114	911	1,139	3,294
Postage and freight	-	265	617	882	882	405
Total	<u>\$ 5,659,083</u>	<u>\$ 276,597</u>	<u>\$ 70,362</u>	<u>\$ 346,959</u>	<u>\$ 6,006,042</u>	<u>\$ 4,940,888</u>

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

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

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 Harbor Branch Oceanographic Institute at 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 year ended June 30, 2014 which such information was derived.

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

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.

Other Receivables

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

Land Investment

The Foundation holds certain parcels of land for investment 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, 2015 and 2014

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.

Permanently Restricted Net Assets

Permanently restricted net assets are resources whose use by the organization is limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time. The portion of the organization's donor-restricted endowment funds that must be maintained in perpetuity are classified in this net asset class, as is the organization's beneficial interest in a perpetual charitable trust held by a bank trustee.

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

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

Endowment Investments

Endowment investments consist of investments purchased with the following resource:

- Donor-restricted term endowments, which are contributions restricted by donors to investment for the term specified by the donor. During that term, the donor may either require investment income and appreciation to be reinvested in the fund, or may permit the organization to spend those amounts in accordance with the donor's restrictions on use.

Endowment investments also include investments purchased with unspent investment income and net gains on these resources.

Endowment investments are reported at fair value.

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value of Financial Measurements (Continued)

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, 2015. 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 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.

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 reclassifications have been made to the prior years' comparative financial statement totals to conform to the current year presentation. These reclassifications had no effect on previously reported results of operations or net assets.

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 2 – CASH AND CASH EQUIVALENTS

As of June 30, 2015, the Foundation had \$865,595 on deposit, of which, \$476,789 was not insured by the Federal Deposit Insurance Corporation. As of June 30, 2014, the Foundation had \$299,855 on deposit, of which, \$49,855 was not 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.

NOTE 3 – INVESTMENTS

The fair value of investments includes the following:

<u>June 30,</u>	<u>2015</u>	<u>2014</u>
Level 1 Investments:		
Equities	\$ 4,513,579	\$ 8,693,193
Equity mutual funds	50,188,813	49,375,474
Exchange-traded funds	5,016,983	-
Cash management accounts	1,056,215	1,073,804
Total Level 1 Investments	<u>60,775,590</u>	<u>59,142,471</u>
Level 2 Investments:		
Limited liability offshore mutual fund (a)	-	2,023,674
Multi-strategy hedge fund of funds (b)	4,291,220	4,023,401
Total Level 2 Investments	<u>4,291,220</u>	<u>6,047,075</u>
Level 3 Investments		
Diversified offshore fund (c)	193,254	1,859,951
Total Investments	<u>\$ 65,260,064</u>	<u>\$ 67,049,497</u>

- (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.

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 3 – INVESTMENTS (CONTINUED)

- (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 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:

Year ended June 30,	2015	2014
Fair value, beginning	\$ 1,859,951	\$ 1,763,719
Purchases (sales), net	(1,596,989)	-
Realized gain	371,844	-
Unrealized gain (loss)	(441,552)	96,232
	\$ 193,254	\$ 1,859,951
Fair Value, Ending	\$ 193,254	\$ 1,859,951

Investment income (loss) is comprised of the following:

Year ended June 30,	2015	2014
Dividends and interest	\$ 1,411,916	\$ 1,077,531
Net realized gain/(loss) on sale of investments	2,939,911	1,836,201
Net unrealized gain (loss)	(2,622,268)	6,733,283
	\$ 1,729,559	\$ 9,647,015
	\$ 1,729,559	\$ 9,647,015

Investment management fees totaled \$120,840 and \$143,336 for the years ended June 30, 2015 and 2014, 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, 2015 and 2014

NOTE 4 – RECEIVABLES

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

<u>June 30,</u>	<u>2015</u>	<u>2014</u>
Contributions receivable	\$ 76,655	\$ 79,810
Trade receivables	-	5,339
 Total Receivables	 <u>\$ 76,655</u>	 <u>\$ 85,149</u>

NOTE 5 – CAPITAL ASSETS

Capital assets are comprised of the following:

<u>June 30,</u>	<u>Useful Life</u>	<u>2015</u>	<u>2014</u>
Buildings and building improvements	10-40 years	\$ 27,375	\$ 27,375
Equipment	5-18 years	8,336	8,336
Software	15 years	20,000	20,000
Land	n/a	691,553	691,553
Land improvements	5-50 years	<u>250,445</u>	<u>250,445</u>
 Total Depreciable Assets		 997,709	 997,709
Less accumulated depreciation		<u>(286,739)</u>	<u>(284,165)</u>
		 <u>\$ 710,970</u>	 <u>\$ 713,544</u>

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available as follows:

<u>June 30,</u>	<u>2015</u>	<u>2014</u>
J. Seward Johnson, Sr. Charitable Trust		
Endowment Fund	\$ 61,897,448	\$ 62,753,587
Seward Johnson Trust Fund for Oceanography	<u>4,237,308</u>	<u>4,295,910</u>
	<u>\$ 66,134,756</u>	<u>\$ 67,049,497</u>

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

<u>Year ended June 30,</u>	<u>2015</u>	<u>2014</u>
J. Seward Johnson, Sr. Charitable Trust		
Endowment Fund	\$ 2,474,885	\$ 1,854,679
Seward Johnson Trust Fund for Oceanography	169,415	126,932
Specialty License Plate Programs	<u>2,786,003</u>	<u>2,614,305</u>
	<u>\$ 5,430,303</u>	<u>\$ 4,595,916</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.

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.

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

Seward Johnson Funds (Continued)

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, 2015 and 2014 are as follows:

	J. Seward Johnson, Sr. Charitable Trust <u>Endowment Fund</u>	Seward Johnson Trust Fund for <u>Oceanography</u>	<u>Total</u>
Endowment net assets at July 1, 2013	\$ 55,579,338	\$ 3,804,755	\$ 59,384,093
Interest and dividends	1,008,493	69,038	1,077,531
Net realized gain on investments	1,718,555	117,646	1,836,201
Net unrealized gain on investments	6,301,880	431,403	6,733,283
Loan repayment and investment fees	<u>(1,854,679)</u>	<u>(126,932)</u>	<u>(1,981,611)</u>
Endowment net assets at June 30, 2014	62,753,587	4,295,910	67,049,497
Interest and dividends	1,321,454	90,462	1,411,916
Net realized gain on investments	2,751,549	188,362	2,939,911
Net unrealized loss on investments	(2,454,257)	(168,011)	(2,622,268)
Distributions and investment fees	<u>(2,474,885)</u>	<u>(169,415)</u>	<u>(2,644,300)</u>
Endowment net assets at June 30, 2015	<u>\$ 61,897,448</u>	<u>\$ 4,237,308</u>	<u>\$ 66,134,756</u>

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

NOTE 7 – INCOME TAXES

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 2013, 2012 and 2011 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.

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 8 – ACCOUNTING FOR ENDOWMENTS

The organization's endowment consists of investment established either by donors (referred to as donor-restricted endowment funds) and or by resources set aside by the Board of Directors to function as endowments (referred to as board-designated endowment funds). Donor-restricted endowment funds are further divided into those that provide a perpetual source of support for the organization's activities (referred to as permanent endowments) and those that are restricted by donors to investment for a specified term (referred to as term endowments). As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

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 organization has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted permanent endowment funds unless there are explicit donor stipulations to the contrary. As a result of this interpretation, the organization classifies as permanently restricted net assets (a) the original value of gifts donated to all donor-restricted permanent endowments, (b) the original value of any subsequent gifts to donor-restricted permanent 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. The remaining portion of a donor-restricted permanent endowment fund is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization. All donor-restricted term endowments are classified as temporarily restricted net assets until the term expires and they are used in accordance with the donor's restrictions on use.

UPMIFA permits the organization to appropriate for expenditure or accumulate so much of a donor-restricted 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 organization 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 organization 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 organization
- The investment policy of the organization

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 9 – PENSION PLAN

The Foundation terminated the Harbor Branch Oceanographic Institute Foundation, Inc. Pension Plan, and filed the final Form 5500-SF in April 2015.

Beginning in 2012, the Foundation offered a 401K plan that cover employees. Under this retirement plan, the Foundation contributions 3% of each individuals employee’s salary as a match of the amount contributed by the employee. Total employer retirement contributions of \$9,628 were made during the year.

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.

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.

Research

The Foundation has committed to help fund the addition of certain new faculty and faculty incentives. The total expected commitment remaining at June 30, 2015 is as follows.

2016	\$ 2,651,123
2017	2,470,102
2018	1,081,112
2019	<u>496,568</u>
Total Commitment	<u>\$ 6,698,905</u>

NOTE 11 – GIFT SHOP

During the year ended June 30, 2015, the Foundation transferred the gift shop, including all inventory to FAU.

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2015 and 2014

NOTE 12 – RELATED PARTIES

The law firm of a non-voting board member provides legal services to the Foundation. Payments to the law firm for the years ended June 30, 2015 and 2014 totaled \$27,530 and \$37,533, respectively.

NOTE 13 – DATE OF MANAGEMENT REVIEW

In preparing the financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through October 21, 2015, the date that the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

Harbor Branch Oceanographic Institute Foundation, Inc.
SCHEDULE OF STATE PROJECTS
Year ended June 30, 2015

STATE AGENCY/STATE PROJECT	PROGRAM YEAR	STATE CSFA #	TOTAL EXPENDED
FLORIDA DEPARTMENT OF HIGHWAY SAFETY AND MOTOR VEHICLES:			
Protect Wild Dolphins License Plate Project	2014/2015	76.011	\$1,168,876
Protect Florida Whales License Plate Project	2014/2015	76.072	395,386
Florida Aquaculture License Plate Project	2014/2015	76.080	372,560
Save Our Seas License Plate Project	2014/2015	76.085	<u>849,181</u>
TOTAL EXPENDITURES OF STATE PROJECTS			<u><u>\$2,786,003</u></u>

See accompanying notes to Schedule of Expenditures of State Projects.

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO SCHEDULE OF STATE PROJECTS
June 30, 2015

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.

Harbor Branch Oceanographic Institute Foundation, Inc.
Schedule of Findings and Questioned Costs
June 30, 2015

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 Corrective Action Plan is required because there were no findings required to be reported under the Florida Single Audit Acts.



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, 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 of America, the financial statements of Harbor Branch Oceanographic Institute Foundation, Inc. (the Foundation) which comprise the statement of financial position as of June 30, 2015 and 2014 and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to financial statements and have issued our report thereon dated October 21, 2015.

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 opinions 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 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 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 significant deficiencies or material weaknesses. Given these limitations, during our audit, we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Board of Directors
Harbor Branch Oceanographic Institute Foundation, Inc.

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*.

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.

*Berger, Toombs, Elam,
Gaines & Frank*

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

October 21, 2015



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 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

Report on Compliance for Each Major State Project

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 could have a material effect on each of the Foundation's major state projects for the year ended June 30, 2015. 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 the requirement of laws, regulations, contracts and grants applicable to its state projects.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of 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 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 project 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.

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state project. However, our audit does not provide a legal determination of the Foundation's compliance.

Opinion on Each Major State Project

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 each of its major state projects for the year ended June 30, 2015.

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 each major state project to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state project 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 and correct, noncompliance with a type of compliance requirement of a state project 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.

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

The 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.

*Berger, Toombs, Elam,
Gaines & Frank*

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

October 21, 2015