Consolidated Financial Statements
Year Ended June 30, 2009



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Independent Auditors' Report

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

We have audited the accompanying consolidated statement of financial position of Harbor Branch Oceanographic Institution, Inc., (the "Foundation") as of June 30, 2009 and the related consolidated statements of activities and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2009, and the changes in their net assets and their cash flows for the year 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 February 4, 2010, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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.

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 financial assistance is presented for purposes of additional analysis as required by Chapter 3A-5, Rules of the Florida Department of Banking and Finance, 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 financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Certified Public Accountants

Cross, Fernandez & Rilez, LLP

February 4, 2010

Consolidated Statement of Financial Position

June 30,	2009
Assets	
Cash and cash equivalents	\$ 3,729,509
Investments (Note 3)	17,360,659
Receivables, net (Note 4)	513,614
Grant advances	3,695,412
Inventory	687,929
Prepaid expenses and other assets (Note 10)	274,447
Deferred tax asset	10,225
Note receivable (Note 5)	573,751
Land held for sale	5,700,475
Property, plant and equipment, net (Note 6)	2,229,964
	\$ 34,775,985
Liabilities and Net Assets	
Liabilities:	
Accounts payable and accrued expenses	\$ 679,607
Due to Florida Atlantic University (Note 1)	68,698
Notes payable (Note 7)	89,366
Deferred tax liability (Note 10)	248,501
Total liabilities	1,086,172
Commitments and contingencies (Note 9)	
Net assets (deficit):	
Unrestricted	(14,923,625)
Temporarily restricted (Note 8)	48,613,438
Total net assets	33,689,813
	\$ 34,775,985

See accompanying notes to consolidated financial statements.

Consolidated Statement of Activities

		2009	
		Temporarily	
Year ended June 30,	Unrestricted	Restricted	Total
Revenues, gains, (losses) and other support:			
Sales revenue – ORA	\$ 4,192,265	s –	\$ 4,192,265
Specialty license plate contributions		3,281,340	3,281,340
Contributions	6,437	-	6,437
Other income, net	194.838		194,838
Investment loss, net (Note 3)	(359,378)	(3,253,353)	(3,612,731)
Net assets released from restriction (Note 8)	3,699,313	(3,699,313)	
Total revenues, gains, (losses) and other support	7,733,475	(3,671,326)	4,062,149
Expenses:			
Grants to others	2,898,410		2,898,410
Salaries and related expenses	1,781,645		1,781,645
Materials and supplies	1,254,143		1,254,143
Miscellaneous	439,954		439,954
Income tax benefit (Note 10)	(13,037)		(13,037)
Professional fees and services	519,977		519,977
Depreciation	337,412	_	337,412
Outside services	267,492	_	267,492
Utilities	298,879		298,879
SLP Marketing Expense	164,665	_	164,665
Travel	87,860	_	87,860
Insurance	63,879	-	63,879
Telephone	49,444		49,444
Interest	7,926	_	7,926
Repairs and maintenance	5,232		5,232
Total expenses	8,163,881		8,163,881
Change in net assets	(430,406)	(3,671,326)	(4,101,732)
Net assets (deficit), beginning of year	(14,493,219)	52,284,764	37,791,545
Net assets (deficit), end of year	\$ (14,923,625)	\$ 48,613,438	\$ 33,689,813

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended June 30,	2009
Cash flows from operating activities: Change in net assets Adjustments to reconcile change in net assets to net cash used in	\$ (4,101,732)
operating activities: Depreciation Net unrealized loss on investments Net realized loss on sale of investments Deferred tax expense Loss on disposal of property and equipment Increase in receivables Decrease in grant advances Decrease in inventory	337,412 3,358,886 1,012,168 12,324 107,988 (129,708) 70,473 187,666
Increase in prepaids and other assets Decrease in accounts payable and accrued expenses Decrease in due to Florida Atlantic University	 (206,183) (183,724) (751,699)
Net cash used in operating activities	 (286,129)
Cash flows from investing activities: Proceeds from sale of investments Purchase of investments Transfer of investments Purchase of property, plant and equipment Payments received on note receivable	3,949,596 (5,340,217) 778,349 (94,276) 12,446
Net cash used in investing activities	 (694,102)
Cash flows from financing activities: Principal payments on notes payable	(99,370)
Net decrease in cash and cash equivalents	(1,079,601)
Cash and cash equivalents, beginning of year	4,809,110
Cash and cash equivalents, end of year	\$ 3,729,509
Supplemental disclosure of cash flow information: Cash paid during the period for interest	\$ 7,926

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Organization and Nature of Operations

Prior to the transfer of its operations, employees and certain assets to Florida Atlantic University ("FAU") on December 31, 2007 as further described below, Harbor Branch Oceanographic Institution, Inc. ("HBOI") was a tax-exempt charitable organization and was established to solicit, receive and maintain funds to be applied exclusively for scientific, charitable, or educational purposes. HBOI conducted research and provided education in the marine sciences; biological, chemical and environmental sciences; marine biomedical sciences; aquaculture; and engineering. HBOI's operations were funded by grants through contracts from federal and state government agencies as well as contributions.

Effective December 31, 2007, in connection with the transfer of its operations and certain assets to FAU, HBOI changed its name to Harbor Branch Oceanographic Institution Foundation, Inc. ("HBOIF" or the "Foundation"). Upon approval by the Board of Trustees of FAU effective July 1, 2008, HBOIF became a Direct-Support Organization of FAU. HBOIF 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 transferred to FAU were done for the creation of a research institute to be known as Harbor Branch Oceanographic Institute at FAU.

Effective December 31, 2007, in connection with a Memorandum of Understanding between HBOI and FAU dated December 12, 2007, HBOI transferred to FAU certain real property, personal property, contracts, and intellectual property. In addition, all employees of HBOI became employees of FAU on December 31, 2007. As a result of this transfer, FAU is now responsible for the research and educational operations previously provided by HBOI. The amount due to FAU at June 30, 2009 was \$68,698.

Notes to Consolidated Financial Statements

2. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of the Foundation and Harbor Branch Holdings, Inc. ("Holdings"), its wholly-owned subsidiary (collectively the "Foundation"). Holdings is a taxable holding company which currently has one wholly-owned for-profit subsidiary, Ocean Reefs & Aquariums, Inc. ("ORA"). ORA produces aquacultured saltwater fish, invertebrates and live aquarium foods for the marine aquarium hobby. All significant intercompany accounts and transactions have been eliminated in consolidation.

Liquidity

Assets are presented in the accompanying statement 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.

Notes to Consolidated Financial Statements

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

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

Inventories

Inventories consist of saltwater fish, invertebrates and live aquarium foods. The cost of inventory is valued at lower of cost or market using the first-in, first-out method (FIFO).

Land Held for Sale

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

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

Notes to Consolidated Financial Statements

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.

Revenue Recognition

The Foundation recognizes sales revenues from ORA upon shipment of products to customers.

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 statement 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.

Notes to Consolidated Financial Statements

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.

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 statement 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.

Notes to Consolidated Financial Statements

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 fund of funds 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. Holdings is a wholly-owned taxable subsidiary of the Foundation and is subject to federal and state income taxes.

Deferred income taxes are recognized for the tax consequences in future years for differences between the tax bases of assets and liabilities and their financial reporting amounts at each year end based on enacted tax laws and statutory tax rates applicable to the period in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

Notes to Consolidated Financial Statements

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.

Subsequent Events

The Foundation has evaluated events and transactions occurring subsequent to June 30, 2009 as of February 4, 2010, which is the date the financial statements were available to be issued. Subsequent events occurring after February 4, 2010 have not been evaluated by management. No material events have occurred since June 30, 2009 that require recognition or disclosure in the financial statements.

Fair Value of Financial Instruments

Effective January 1, 2008, the Foundation adopted Statement of Financial Accounting Standards (SFAS) No. 157 "Fair Value Measurements" (SFAS 157) which defines fair value, establishes a framework for measuring fair value and expands required disclosure about fair value measurements. The impact of adopting SFAS 157 as of January 1, 2008 was not significant to the Foundation's financial statements. SFAS 157 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. SFAS 157 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The

Notes to Consolidated Financial Statements

standard describes three levels of inputs that may be used to measure fair value:

Level 1 – Valuation based on quoted prices in active markets for identical assets or liabilities.

Level 2 – Valuation based on observable quoted prices for similar assets and liabilities in active markets.

Level 3 – Valuation based on inputs that are unobservable and are supported by little or no market activity, therefore requiring management's best estimate of what market participants would use as fair value.

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of June 30, 2009. The respective carrying value of certain onbalance-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.

The Foundation's Level 1 financial assets consist of cash equivalents of \$1,149,459 as of June 30, 2009 and investments as identified in Note 3 and are valued based on quoted market prices. These investments include equity mutual funds, fixed income mutual funds, cash management accounts and equities, which are valued on a daily basis in an active market. The Company's has no Level 2 financial assets.

The Foundation's Level 3 alternative investments include shares in foreign exempted limited liability companies (see Note 3). Given the absence of market quotations, their fair value is estimated using

Notes to Consolidated Financial Statements

information provided to the Foundation by the investment managers. The values are based on estimates that require varying degrees of judgment and are primarily based on net asset values supplied by the investment managers of the underlying funds.

3. Investments

The fair value of investments includes the following:

<i>June 30,</i>	200	9
Level 1 Investments:		
Equities	\$ 3,114,09	6
Equity mutual funds	3,177,66	2
Fixed income mutual funds	5,859,31	2
Cash management accounts	365,30	9
Level 3 Investments:		
Alternative investments	4,844,28	0
	\$ 17,360,65	9

Activity for Level 3 investments is summarized as follows:

Year ended June 30,	2009
Fair value at June 30, 2008	\$ 6,250,233
Sales	(62,550)
Realized loss	(4,450)
Unrealized loss	 (1,338,953)
Fair value at June 30, 2009	\$ 4,844,280

Notes to Consolidated Financial Statements

Investment income (loss) is comprised of the following:

Year ended June 30,	2009
Dividends and interest Net realized loss on sale of investments Net unrealized loss	\$ 758,323 (1,012,168) (3,358,886)
	\$ (3,612,731)

Investment management fees totaled \$71,726 for the year ended June 30, 2009 and are included in outside services expense in the accompanying consolidated statement of activities.

4. Receivables

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

June 30,	 2009
Contributions receivable	\$ 375,549
Trade receivables	169,051
Total receivables	544,600
Less: allowance for doubtful accounts – trade receivables	 (30,986)
	\$ 513,614

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 entered into a note receivable with 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, 2012, at which time a final balloon payment of \$486,860 plus accrued interest is due.

Notes to Consolidated Financial Statements

6.	Property, Plant and Equipment	Property, plant and equipment is comprised of t	the follow	wing:
		June 30, Usej	ful Life	2009
		Equipment 5-18	years \$ years years	3,332,414 1,460,501 250,445
		Less accumulated depreciation	***************************************	5,043,360 (2,813,396)
			\$	2,229,964
7.	Notes Payable	Notes payable are comprised of the following: <i>June 30</i> ,		2009
		3.9% note payable to GE Capital secured by ORA equipm \$750 of principal and interest payable monthly through December 2011	ment;	19,366
		\$250,000 line of credit for ORA operations; unsecured ar on demand; interest payable monthly at prime (3.25% a June 30, 2009); guaranteed by the Foundation		70,000
		Total notes payable	\$	89,366
		The aggregate maturities of notes payable are as	s follows	:
		Year ending June 30,		
		2010 2011 2012		\$ 76,985 8,668 3,713
				\$ 89,366

Notes to Consolidated Financial Statements

8. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

<i>June 30</i> ,	2009
J. Seward Johnson, Sr. Charitable Trust Endowment Fund	\$ 41,583,260
Seward Johnson Trust Fund for Oceanography	2,628,525
Specialty License Plate Programs	4,401,653
	\$ 48,613,438

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

Year Ended June 30,	 2009
J. Seward Johnson, Sr. Charitable Trust Endowment Fund Seward Johnson Trust Fund for Oceanography	\$ 610,679 173,817
Specialty License Plate Programs	 2,914,817
	\$ 3,699,313

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 statement of activities. On March 31, 2004, J. Seward Johnson, Jr. resigned from the Board of Trustees and terminated contributions to the Fund effective January 1, 2005. The investment income, including gains, losses, dividends and interest

Notes to Consolidated Financial Statements

earned on the balance of the Fund, is included in the consolidated statement 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 Trustees. 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 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 Trustees on October 21, 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. As of June 30, 2009, the outstanding amount borrowed from the Fund was \$31,252,756.

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 statement of activities as temporarily restricted. Under certain circumstances, the principal of the SJ Fund may be used at the discretion of the Foundation.

Notes to Consolidated Financial Statements

Changes in the Foundation's temporarily restricted endowment net assets for the year ended June 30, 2009 are as follows:

	J. Seward		
	Johnson, Sr.	Seward	
	Charitable	Johnson	
	Trust	Trust Fund	
	Endowment	for	
	Fund	Oceanography	Total
Endowment net assets at June 30,			
2008	\$44,779,647	\$3,469,987	\$48,249,634
Interest and dividends	553,161	130,240	683,401
Net realized loss on investments	(726,841)	(184,760)	(911,601)
Net unrealized loss on		, , ,	` ,
investments	(2,412,028)	(613,125)	(3,025,153)
Distributions – transfer to			
unrestricted	(610,679)	(173,817)	(784,496)
Endowment net assets at June 30,			
2009	\$41,583,260	\$2,628,525	\$44,211,785

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

Notes to Consolidated Financial Statements

9. 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.

Notes to Consolidated Financial Statements

10. Income Taxes

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

Year ended June 30,		2009
Current:		
Federal	\$	(25,361)
State		
		(25,361)
Deferred:		
Federal		10,523
State		1,801
		12,324
Income tax benefit	\$ ((13,037)

The deferred tax asset and liability related to Holdings represents the following:

June 30,	 2009
Deferred tax asset:	
Accrued time off	\$ 10,225
Deferred tax liability:	
Depreciation and amortization	\$ 248,501

Estimated tax payments not applied and overpayments of prior year taxes totaled \$228,223 and are included in prepaid expenses and other assets on the Consolidated Statement of Financial Position.

At June 30, 2009, the Foundation had net operating loss carryforwards of approximately \$4,300,000 to offset unrelated business income, which expire at various dates through 2025. Accordingly, no provision for income taxes for the Foundation was recorded.

Notes to Consolidated Financial Statements

11. Harbor Branch Holdings, Inc. Financial Information

The following is condensed financial information for Harbor Branch Holdings, Inc. which includes its wholly-owned subsidiary Ocean Reefs & Aquariums, Inc.:

Condensed Statement of Financial Position		
June 30,	2009	
Cash and cash equivalents	¢ 1 100 40 <i>c</i>	
Inventory	\$ 1,190,496	
Other assets	687,929	
Deferred tax asset	370,352	
Property, plant and equipment, net	10,225 2,206,660	
Toperty, plant and equipment, net	2,200,000	
Total assets	4,465,662	
Accounts payable and accrued expenses	131,996	
Deferred taxes liability	248,501	
Notes payable	89,366	
Due to HBOIF	3,599,762	
Total liabilities	4,069,625	
Total unrestricted net assets	\$ 396,037	
Condensed Statement of Activities Year ended June 30, 2009	8	
Sales revenue	¢ 4 207 247	
Other income	\$ 4,297,247	
Outer meonic	29,786	
Total revenue	4,327,033	
General and administrative expenses	4,361,678	
Income tax benefit	(13,037)	
Total expenses	4,348,641	
Change in net assets	\$ (21,608)	

Notes to Consolidated Financial Statements

12. 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 nonelective 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, 2009.

Schedule of Expenditures of State Financial Assistance

Schedule of Expenditures of State Financial Assistance

Year ended June 30, 2009	State CSFA Number	Grant Period	Grant Expenditures Recognized as Revenue
STATE AGENCY/STATE PROJECT			
FLORIDA DEPARTMENT OF HIGHWAY SAFETY AND MOTOR VEHICLES:			
Protect Wild Dolphins License Plate Program	76.011	1/1/08 - 6/30/09	\$1,347,560
Protect Florida Whales License Plate Program	76.072	1/1/08 - 6/30/09	605,522
Florida Aquaculture License Plate Program	76.080	1/1/08 - 6/30/09	384,639
Save Our Seas License Plate Program	76.085	1/1/08 - 6/30/09	1,038,173
TOTAL FLORIDA DEPARTMENT OF HIGHWAY SAFETY AND			
MOTOR VEHICLES			\$3,375,894

See accompanying note to the schedule of expenditures of state financial assistance.

Note to Schedule of Expenditures of State Financial Assistance

1. Basis of Presentation

The accompanying schedule of expenditures of state financial assistance is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Chapter 3A-5, Rules of the Florida Department of Banking and Finance. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements.

Reports Required by Government Auditing Standards and Florida Single Audit Act



Independent Auditors' 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*

To The Board of Directors Harbor Branch Oceanographic Institution Foundation, Inc.

We have audited the consolidated financial statements of Harbor Branch Oceanographic Institution Foundation, Inc. (the "Foundation") as of and for the year ended June 30, 2009, and have issued our report thereon dated February 4, 2010. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Foundation's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Foundation's financial statements that is more than inconsequential will not be prevented or detected by the Foundation's internal control. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as Items 2009-01, 2009-02, 2009-03, 2009-04 and 2009-05 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Foundation's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider Items 2009-01, 2009-02, 2009-03 and 2009-04 to be material weaknesses in internal control over financial reporting.

The Foundation's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Foundation's responses and, accordingly, we express no opinion on them.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's consolidated 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 audit committee, board of directors, management of the Foundation and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Certified Public Accountants

Gons, Fernandez & Riley, LLP

February 4, 2010



Independent Auditors' Report on Compliance With Requirements Applicable to Each Major State Project and on Internal Control Over Compliance

To The Board of Directors Harbor Branch Oceanographic Institution Foundation, Inc.

Compliance

We have audited the compliance of Harbor Branch Oceanographic Institution Foundation, Inc. (the "Foundation") with the types of compliance requirements described in the *State of Florida Executive Office of the Governor's State Projects Compliance Supplement* that are applicable to each of its major state projects for the year ended June 30, 2009. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major state projects 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 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. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of 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 projects for the year ended June 30, 2009. However, the results of our auditing procedures disclosed one instance of noncompliance with those requirements, which is required to be reported in accordance with the *Florida Single Audit Act* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2009-06.

Internal Control Over Compliance

The management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to state projects. 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 project in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, 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 control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a state project on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a state project such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a state project that is more than inconsequential will not be prevented or detected by the Foundation's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a state project will not be prevented or detected by the Foundation's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as Item 2009-06 to be a material weakness in internal control over compliance.

The Foundation's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Foundation's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the audit committee, board of directors, management of the Foundation and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Certified Public Accountants

Goss, Fernandez & Rilez, LLP

February 4, 2010

Schedule of Findings and Questioned Costs – State Projects

Year ended June 30, 2009				
Section I – Summary of Auditors' Results				
Financial Statements				
Type of auditors' report issued	Unqualified			
Internal control over financial reporting:				
Material weaknesses identified?Significant deficiencies identified that are not	X	yes		no
considered to be material weaknesses?	X	yes		none reported
Noncompliance material to financial statements noted?		yes	X	no
State Projects				
Type of auditors' report issued on compliance for major projects	Unqualified			
Internal control over major projects:				
Material weaknesses identified?Significant deficiencies identified that are not considered	<u>X</u>	yes	***************************************	_ no
to be material weaknesses?	****	yes	X	_ none reported
Any audit findings disclosed that are required to be reported under Section 10.656, Rules of the Auditor General?	X	yes		_ no
Any audit comments or recommendations reported in a separate letter as required by Section 10.654(1)(e), Rules of the Auditor General?	s	yes	X	no
Identification of major projects:				
State Project Protect Florida Whales License Plate Project Aquaculture License Plate Project Save Our Seas License Plate Project	CSFA No 76.072 76.080 76.085	<u>.</u>		
Dollar threshold used to distinguish between type A and type B state financial assistance projects:	\$300,000)		

Schedule of Findings and Questioned Costs – State Projects

Section II - Financial Statement Findings

Material Weaknesses

Finding 2009-01

Controls Over Cash Disbursements (ORA)

Condition Found

As part of our understanding of internal controls over the cash disbursements at Ocean Reefs & Aquariums, Inc.'s ("ORA"), a for-profit subsidiary wholly owned by the Foundation, we noted the following:

- Certain expense reports did not include supporting documentation and were not approved;
- Checks written to "cash" in Marshall Islands Mariculture Farm ("MIMF") not used for petty cash.

Criteria

Internal controls should be in place to provide reasonable assurance that expense reimbursements and disbursements are supported by proper documentation and are properly authorized, approved and business related.

Effect

These lack of controls over cash disbursements could result in disbursements that are not properly authorized or approved and an increased risk of misappropriation of assets.

Recommendation

We recommend expense reports and disbursements be properly approved with proper supporting documentation attached showing the type of expense incurred in accordance with the Organization's policy. The person approving the disbursement should verify that the amount of the disbursement agrees to the supporting documentation and should be an individual separate from the individual submitting the request for approval.

Management's Response

Beginning in June 2008, management has implemented the following purchasing policy:

Purchasing

• Purchases up to \$50, no signature required, reimbursed through petty cash. Petty cash payouts may be done through the Controller. Petty cash payout requests MUST be accompanied by a receipt, please allow 24 hours after turning in receipts.

Schedule of Findings and Questioned Costs – State Projects

- Purchases between \$50-\$150 require Supervisor's signature. No personal reimbursements. All
 purchases at this dollar level require purchase orders, and must be purchased through company
 accounts. If a company account is not available, please submit purchase order to the Controller for
 purchasing.
- Purchases over \$150 require Supervisor's signature, AND officer signature (President, Hatchery Manager, or Controller). No personal reimbursements. All purchases at this dollar level require purchase orders, and must be purchased through company accounts. If a company account is not available, please submit purchase order to the Controller for purchasing.

Personal Reimbursements

- Mileage is the ONLY personal expense reimbursable.
- All Mileage will be paid at a rate of \$0.585 (58.5 cents) per mile.
- Mileage reimbursements MUST be accompanied by a travel log. If you need a travel log to keep your miles, please see the Controller.

Petty cash and personal reimbursements are now handled by the Administrative Assistant, after being approved by the Controller or another officer. New policies are currently being written for MIMF payments made out to "cash", to include no checks written to cash except for those to replenish the petty cash account.

Finding 2009-02

Bank Reconciliations (ORA)

Condition Found

There is no review being performed over bank reconciliations when they are prepared. During our review of bank reconciliations, we noted several items that were improperly listed as outstanding items. Also, we noted a bank account that was not reconciled as of the audit fieldwork date.

Criteria

Internal controls should be in place to ensure that all bank accounts are reconciled on a timely basis and any outstanding or reconciling items are reviewed monthly.

Effect

Not reconciling bank accounts on a monthly basis and unreconciled differences may result in errors or other problems that may not be identified, or if identified, may not be resolved on a timely basis.

Schedule of Findings and Questioned Costs – State Projects

Recommendation

We recommend that all bank accounts be reconciled each month prior to preparation of the monthly financial statements. The President should review and approve all bank reconciliations before the financial statements are finalized for unusual reconciling items and ensure the balances agree to the bank statement and general ledger.

Management's Response

Beginning September 2009, monthly bank statement reconciliation and financial reports and review are now completed by the 15th of the following month and reviewed by ORA's President.

Finding

2009-03

Accounts Receivable (ORA)

Condition Found

At year end and during the year, we were unable to obtain a detail accounts receivable listing by customer that agreed to the general ledger.

Criteria

Internal controls should be in place to ensure that subsidiary records are reconciled and agreed to the general ledger on a regular basis.

Effect

This lack of controls over reconciling accounts receivable may result in an error or fraud in the accounts receivable subledger and revenue may not be properly stated.

Recommendation

We recommend that a reconciliation of the accounts receivable detail to the general ledger be made at the end of each month and that any reconciling items be investigated and corrected timely. The President should review the reconciliation for propriety.

Management's Response

This is an issue we have been working on this year, assuring all AR listings are up to date and accessible within the same general ledger file as our admin and other books. AR is handled by the General Office Assistant and reviewed by the Controller. We currently have a plan in place to reconcile AR on a monthly basis and have this reviewed by the President.

Schedule of Findings and Questioned Costs – State Projects

Finding 2009-04

Controls Over Financial Reporting (ORA)

Condition Found

While conducting our audit, we noted that obtaining a complete and accurate final general ledger was problematic, as was the case for the production of supporting schedules for balances in the general ledger such as accounts receivable, property and equipment and elimination of intercompany accounts. In addition, no payroll accrual was recorded at year end. We also noted that alternative investments were not properly valued at year end (HBOIF only).

Criteria

Controls and processes should be in place to ensure accounts receivable, property and equipment and intercompany accounts are properly supported and reconciled to the general ledger, payroll accruals properly recorded and alternative investments are properly valued at year end.

Effect

The lack of producing supporting schedules for accounts, not reconciling them to the general ledger, not reflecting the proper accruals at year end and not properly valuing alternative investments may result in financial statements that are not accurately presented.

Recommendation

We recommend that assistance be provided to the ORA accounting department in order to provide management with accurate financial statements on a monthly basis. An experienced Controller or Chief Financial Officer, either hired or possibly contracted on a part-time basis, would provide the needed higher-level accounting supervisory role. In addition, we recommend ORA convert to a computerized fixed asset system designed to accumulate asset cost and calculate depreciation expense. For HBOIF, we recommend that alternative investments be properly valued and recorded at year end by reconciling these investment values directly to the statements provided by the alternative investment managers.

Management's Response

With the corrections made to ORA's accounting software, we now have accurate financial statements created each month with supporting schedules and reconciliations completed to match the general ledger.

Schedule of Findings and Questioned Costs – State Projects

Significant Deficiency

Finding 2009-05

No review of Journal Entries (HBOIF and ORA)

Condition Found

During our review of the journal entry process, it was noted that there is no review by management of journal entries prior to posting at HBOIF and ORA.

Criteria

Proper segregation of duties should be in place to ensure that the person posing journal entries is not charged with reviewing the posting.

Effect

With no review of journal entries prior to posting, the possibility exists that inaccurate or fraudulent journal entries may be posted and not identified by management.

Recommendation

We recommend the President or Treasurer review journal entries each month to ensure that they are proper and made in accordance with the business purpose. This ensures that there is no manipulation of the financial accounting data by the person creating and posting the journal entries.

Management's Response

ORA: This has been corrected by the following: All JEs posted by employees are reviewed by the Controller; all JEs posted by the Controller are now being reviewed by the President.

HBOIF: The Foundation recognizes the lack of review of journal entries. At this time, no change in procedure is planned.

Schedule of Findings and Questioned Costs – State Projects

Section III - Findings and Questioned Costs - Major State Projects

Finding 2009-06

Material Weakness

Subrecipient Monitoring

Protect Florida Whales License Plate Project	CSFA No. 76.072
Aquaculture License Plate Project	CSFA No. 76.080
Save Our Seas License Plate Project	CSFA No. 76.085

Condition Found

HBOIF did not have a written agreement in place with their subrecipient of the state license plate funds to identify award information and compliance requirements. Additionally, there was not a system in place to monitor the subrecipient use of state funds to ensure compliance with requirements per the Florida Statutes governing the specialty license funds.

Criteria

Per State of Florida, State Projects Compliance Supplement, Part 3: Compliance Requirements, I. Subrecipient Monitoring; Nonstate entities that provide state financial assistance to a subrecipient shall: provide to a subrecipient information needed by the subrecipient to comply with the requirements of the Florida Single Audit Act; review subrecipient audit reports, including management letters, to the extent necessary to determine whether timely and appropriate corrective action has been taken; perform such other procedures as specified in the terms and conditions of the written agreement with the state agency including any required monitoring of the subrecipient's use of state financial assistance through site visits, limited scope audits, or other specified procedures; and require that the subrecipient provide access to its records to the nonstate entity's independent auditor, the state awarding agency, the Chief Financial Officer, and the Auditor General. (Section 215.97, Florida Statutes).

Effect

By not having a signed agreement in place with the subrecipient and not monitoring expenditures, HBOIF cannot ensure that the subrecipient expenditures of state funds are allowable under the Florida Statutes and/or compliance requirements which may result in findings or questioned costs.

Recommendation

HBOIF should develop an agreement with the subrecipient to ensure that state funds passed to and expended by the subrecipient are spent in accordance with allowable costs and activities per the state statute. Some system of monitoring by HBOIF over subrecipient expenditures should be developed and put in place to ensure that monitoring of expenditures on passed-through funds is being done monthly.

Schedule of Findings and Questioned Costs – State Projects

Management's Response

The Chairman of the Board of HBOIF will write a letter to the President of Florida Atlantic University (FAU) requesting confirmation that the license plate funds expended by FAU for the period January 1, 2008 through June 30, 2009 were used in accordance with the Florida Statutes governing specialty license plate funds. We are working with our auditors and FAU to determine the appropriate subrecipient monitoring procedures for future license plate expenditures by FAU.

Section IV - Prior Year Findings and Questioned Costs

An audit in accordance with government auditing standards and the Florida Single Audit act for the six months ended June 30, 2008 was not required. The following were prior year findings for the year ended December 31, 2007:

Finding 2007-01

Controls Over Cash Disbursements (ORA)

Condition Found

As part of our understanding of internal controls over the cash disbursements at Ocean Reefs & Aquariums, Inc.'s ("ORA"), a for-profit subsidiary wholly owned by the Foundation, we noted the following:

- Purchase of supplies did not have proper receiving documentation attached;
- Paid invoices are not properly canceled when paid:
- Certain expense reports did not include supporting documentation and were not approved. It was also noted that certain expense reports were submitted and paid that appeared to be non-business related.

Recommendation

All invoices for purchases of supplies should be matched with the receiver and purchase order by someone other than the person who initiated the purchase order. In addition, all invoices should be properly stamped "paid" once disbursed. We recommend expense reports be properly approved with proper supporting documentation attached showing the type of expense incurred in accordance with the Organization's policy. The person approving the expense report should ensure that supporting documentation is attached, and should be an individual separate from the individual submitting the expense report for approval.

Current Status

As above noted in Finding 2009-01, expense reports continue to not have supporting documentation and are not properly approved. However, we did not identify any expenses that were not business related.

Schedule of Findings and Questioned Costs – State Projects

See "Management's Response" to Finding 2009-01 above for the policies and procedures implemented during fiscal year 2009 that remediated the following:

- Purchase of supplies now have proper receiving documentation attached and are being properly matched with the invoice;
- Paid invoices are now being properly canceled when paid.

Finding 2007-02

Segregation of Duties - Cash Receipts (ORA)

Condition Found

We noted segregation over cash receipts at ORA was lacking since one employee was receiving the mail, preparing the deposit log, mailing the deposit to the bank and posting the cash receipts to the general ledger. In addition, there were some situations where the sales representative opened and distributed the mail.

Recommendation

In order to further segregate duties over cash receipts, we recommended an employee independent of the cash receipts function open the mail and complete a daily check log of incoming checks. This log should then be compared to the deposits entered into the accounting system and the daily deposit taken to the bank. We also recommended that the sales representative not be involved in the cash receipt process.

Current Status

Management has corrected this finding by implementing the following policies and procedures during 2008 which strengthened controls and improved segregation of duties over cash receipts:

- Mail is received and distributed by the Admin Assistant. If she is unavailable, the task is performed by the Controller.
- Checks are written into the log, by the Admin Assistant and given to Accounts Receivable Clerk to enter into computer against the proper invoices.
- Checks are then given to Controller to prepare bank deposit and record in the general ledger.
- Deposits are then checked against written check log by the Accounts Payable Clerk and handdelivered to bank or mailed to our lockbox at the bank by the Controller.

Note: most payments come by way of credit/debit card, or payment directly from customer to lockbox.