

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

ANNUAL FINANCIAL REPORTS

June 30, 2011 and 2010

Harbor Branch Oceanographic Institute Foundation, Inc.

Annual Financial Report

Fiscal Years Ended June 30, 2011 and 2010

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Independent Auditors' Report

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

We have audited the accompanying consolidated statements of financial position of Harbor Branch Oceanographic Institute Foundation, Inc. (the Foundation), a nonprofit organization, as of June 30, 2011 and 2010 and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior period summarized comparative information has been derived from the Foundation's June 30, 2010 financial statements and, in the prior auditor's report dated January 27, 2011, they expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2011 and 2010, and the activities and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 30, 2011, on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



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

November 30, 2011

Harbor Branch Oceanographic Institute Foundation, Inc.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Assets		
Cash and cash equivalents	\$ 1,709,508	\$ 3,043,527
Cash held in escrow	212,328	500,000
Investments	51,652,468	42,444,105
Receivables	325,974	512,524
Inventory	-	561,064
Prepaid expenses and other assets	36,334	496,990
Grant advances	4,495,456	3,459,505
Deferred tax asset	-	17,873
Note receivable	186,000	561,536
Land held for sale	1,886,488	1,505,837
Land, buildings and equipment, net	<u>708,852</u>	<u>2,593,266</u>
Total Assets	<u>\$ 61,213,408</u>	<u>\$ 55,696,227</u>
Liabilities		
Accounts payable and accrued expenses	\$ 193,182	\$ 556,538
Accrued taxes	56,307	-
Notes payable	-	11,712
Deferred tax liability	-	316,560
Total Liabilities	<u>249,489</u>	<u>884,810</u>
Net assets		
Unrestricted	5,130,999	5,464,848
Temporarily restricted	<u>55,832,920</u>	<u>49,346,569</u>
Total Net Assets	<u>60,963,919</u>	<u>54,811,417</u>
Total Liabilities and Net Assets	<u>\$ 61,213,408</u>	<u>\$ 55,696,227</u>

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

Harbor Branch Oceanographic Institute Foundation, Inc.
CONSOLIDATED STATEMENTS OF ACTIVITIES
For the Year Ended June 30, 2011 and 2010

	2011			2010
	Unrestricted	Temporarily Restricted	Total	Total
Revenues, gains, (losses) and other support:				
Support				
Specialty license plate contributions	\$ -	\$ 3,107,773	\$ 3,107,773	\$ 3,080,118
Revenues				
Sales	2,736,972	-	2,736,972	3,436,174
Contributions	-	-	-	8,196,226
Miscellaneous income	334,298	-	334,298	109,432
Investment income	-	8,533,684	8,533,684	1,641,381
Loss on sale of assets	(1,663,258)	-	(1,663,258)	-
Gain on sale of land	-	-	-	12,055,451
Net assets released from restrictions	5,155,106	(5,155,106)	-	-
Total Revenues	<u>6,563,118</u>	<u>3,378,578</u>	<u>9,941,696</u>	<u>25,438,664</u>
Total Support and Revenues	<u>6,563,118</u>	<u>6,486,351</u>	<u>13,049,469</u>	<u>28,518,782</u>
Expenses				
Program Services				
Ocean research and conservation	2,283,889	-	2,283,889	2,587,031
Aquacultured Marine Organisms	3,126,523	-	3,126,523	3,541,508
Total Program Services	<u>5,410,412</u>	<u>-</u>	<u>5,410,412</u>	<u>6,128,539</u>
Supporting Services				
General administration	733,322	-	733,322	830,656
Fundraising	386,661	-	386,661	437,983
Total Supporting Services	<u>1,119,983</u>	<u>-</u>	<u>1,119,983</u>	<u>1,268,639</u>
Other Non-operating Expenses				
Bad debts	366,572	-	366,572	-
Total Expenses	<u>6,896,967</u>	<u>-</u>	<u>6,896,967</u>	<u>7,397,178</u>
Change in Net Assets	(333,849)	6,486,351	6,152,502	21,121,604
Net Assets - Beginning	<u>5,464,848</u>	<u>49,346,569</u>	<u>54,811,417</u>	<u>33,689,813</u>
Net Assets - Ending	<u>\$ 5,130,999</u>	<u>\$ 55,832,920</u>	<u>\$ 60,963,919</u>	<u>\$ 54,811,417</u>

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

Harbor Branch Oceanographic Institute Foundation, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Year Ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Cash Flows from Operating Activities		
Change in Net Assets	\$ 6,152,502	\$ 21,121,604
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	364,569	376,460
Donated land	-	(8,196,226)
Net unrealized and realized gains on investments	(8,533,684)	(1,108,060)
Deferred tax expense (benefit)	(260,253)	60,411
(Gain)/Loss on sale of assets	1,663,258	(12,055,451)
Decrease (Increase) in assets:		
Receivables	186,550	1,090
Grant advances	(1,035,951)	235,907
Inventories	-	126,865
Other assets	1,141,737	(222,543)
Increase (Decrease) in liabilities:		
Accounts payable	(363,356)	(123,069)
Due to Florida Atlantic University	-	(68,698)
Net Cash Provided by Operating Activities	<u>(684,628)</u>	<u>148,290</u>
Cash Flows from Investing Activities		
Proceeds from sale of investments	2,176,430	1,069,216
Purchases of investments	(15,212,605)	(13,257,794)
Transfer of investments	11,259,302	(11,786,808)
Proceeds from land sale, net of expenses	-	23,254,762
Payments received on note receivable	-	12,215
Proceeds of capital assets	1,551,907	-
Purchases of capital assets	<u>(412,713)</u>	<u>(48,209)</u>
Net Cash Used by Investing Activities	<u>(637,679)</u>	<u>(756,618)</u>
Cash Flows from Financing Activities		
Payments on long term debt	<u>(11,712)</u>	<u>(77,654)</u>
Net Decrease in Cash and Cash Equivalents	(1,334,019)	(685,982)
Cash and Cash Equivalents - Beginning of year	<u>3,043,527</u>	<u>3,729,509</u>
Cash and Cash Equivalents - End of year	<u>\$ 1,709,508</u>	<u>\$ 3,043,527</u>
Supplemental disclosures of cash flow information		
Cash payments for interest	<u>\$ 2,161</u>	<u>\$ 1,808</u>

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

Harbor Branch Oceanographic Institute Foundation, Inc.
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2011 and 2010

	Program Services			Supporting Services			June 30, 2011 Total	June 30, 2010 Total
	Ocean Research & Conservation	Aquacultured Marine Organisms	Total	General Administration	Fundraising	Total		
Grants to others	\$ 1,960,572	\$ -	\$ 1,960,572	\$ -	\$ 217,841	\$ 217,841	\$ 2,178,413	\$ 2,880,136
Salaries and related expenses	-	1,267,315	1,267,315	176,736	107,290	284,026	1,551,341	1,701,107
Professional services	87,945	231,751	319,696	181,786	310	182,096	501,792	450,208
Material and supplies	-	436,548	436,548	49,770	2,835	52,605	489,153	1,038,244
Depreciation	-	306,507	306,507	55,862	2,200	58,062	364,569	376,460
Marketing	235,372	10,044	245,416	14,136	13,132	27,268	272,684	352,975
Miscellaneous	-	24,843	24,843	89,228	19,251	108,479	133,322	95,174
Utilities	-	197,035	197,035	33,612	1,159	34,771	231,806	280,570
Postage and freight	-	181,859	181,859	19,196	1,010	20,206	202,065	-
Repairs and maintenance	-	118,227	118,227	20,168	695	20,863	139,090	9,396
Rent	-	98,418	98,418	16,789	579	17,368	115,786	-
Taxes	-	202,490	202,490	20,055	1,730	21,785	224,275	-
Insurance	-	9,315	9,315	44,338	10,891	55,229	64,544	84,208
Communication	-	24,145	24,145	2,549	134	2,683	26,828	38,860
Travel	-	9,688	9,688	1,777	6,841	8,618	18,306	69,506
Minor equipment	-	6,393	6,393	7,115	752	7,867	14,260	-
Interest	-	1,945	1,945	205	11	216	2,161	1,808
Bad debts	-	-	-	-	-	-	-	18,526
Total	<u>\$ 2,283,889</u>	<u>\$ 3,126,523</u>	<u>\$ 5,410,412</u>	<u>\$ 733,322</u>	<u>\$ 386,661</u>	<u>\$ 1,119,983</u>	<u>\$ 6,530,395</u>	<u>\$ 7,397,178</u>

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

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operation

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

The Foundation conducted research and provided education in the marine sciences, biological, chemical and environmental sciences, marine biomedical sciences; aquaculture; and engineering. The Foundation’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, 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.

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.

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.

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Financial Statement Presentation (Continued)

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

Liquidity

Assets are presented in the accompanying statements of financial position according to their nearness of conversion to cash and liabilities according to the nearness of their maturity and resulting use of cash.

Cash and Cash Equivalents

The Foundation considers cash and all highly liquid investments with an original maturity of three months or less to be cash and cash equivalents.

Concentrations of Credit Risk

The Foundation's financial instruments that are exposed to concentrations of credit risk consist of cash and cash equivalents, which include checking accounts placed with federally insured financial institutions. Such accounts may at times exceed federally insured limits. The Foundation has not experienced any losses on such accounts.

The Foundation has significant investments in stocks, equity and fixed income mutual funds, foreign exempted limited liability companies and hedge funds which are also subject to concentrations of credit risk. Investments are made by investment managers engaged by the Foundation and the investments are monitored for the Foundation by an investment consultant. Although the market value of investments is subject to fluctuations on a day-to-day basis, management believes the investment policy is prudent for the long-term welfare of the Foundation and its beneficiaries.

Grant Advances

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).

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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 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 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.

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

The Foundation's investment objective is to earn the highest possible total return (capital appreciation and income return) consistent with prudent levels of risk. In terms of relative risk, the volatility of the portfolio should be in line with general market conditions. At a minimum, long-term rates of return should be equal to an amount sufficient to maintain the purchasing power of these assets and provide necessary capital to fund a spending policy of five percent (5%) annually.

Based on the Foundation's return requirement, the portfolio is constructed using a total return approach with a significant portion of the funds invested to seek growth of principal over time. The assets are to be invested for the long term, and a higher short-term volatility in these assets is to be expected and accepted. The Foundation recognizes the strategic importance of asset allocation and style diversification in the investment performance of the assets over long periods of time. Domestic and international equities both large and small capitalization, fixed income, cash equivalent securities and alternative investments in the form of hedge funds have been determined to be acceptable vehicles for assets. Additional asset classes and style strategies may be incorporated into the investment philosophy in the future.

Income Taxes

The Foundation is exempt from Federal income taxes under Section 501 (c)(3) of the Internal Revenue Code and from state income taxes under similar provisions of the Florida Income Tax Code. Holdings is a wholly-owned taxable subsidiary of the Foundation and is subject to federal and state income taxes.

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income Taxes (Continued)

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Measurements

The Foundation reports its financial assets and liabilities using a three-tier hierarchy, which prioritizes the inputs used in measuring fair value as required by ASC. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described below:

- Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.
- Level 2 – Inputs other than quoted prices included within Level 2 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.
- Level 3 – Inputs that are both significant to the fair value measurement and unobservable.

A financial instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fair Value of Financial Measurements (Continued)

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of June 30, 2011. The respective carrying value of certain on-balance-sheet financial instruments approximate their fair values due to the short-term nature of these instruments. These financial instruments include cash, receivables, accounts payable and accrued expenses and amounts due to FAU. The fair values of the Foundation's notes receivable and payable are estimated based on current rates that would be available for debt of similar terms which is not significantly different from its stated value.

The Foundation's Level 1 financial assets consist of cash equivalents and investments as identified in Note 3 and are valued based on quoted market prices. These investments are valued on a daily basis in an active market.

The fair value of the Foundation's Level 2 and Level 3 investments is estimated using information provided to the Foundation by the investment managers, given the absence of market quotations. The values are based on estimates that require varying degrees of judgment and are determined based on net asset values ("NAV") of the investment as supplied by the investment managers of the underlying funds.

Reclassifications

Certain items have been reclassified in the 2010 financial statements to conform to the 2011 presentation.

NOTE 2 – CASH AND CASH EQUIVALENTS

As of June 30, 2011 and 2010, the Foundation had \$1,857,356 on deposit, of which \$983,256 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.

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 3 – INVESTMENTS

The fair value of investments includes the following:

<u>June 30,</u>	<u>2011</u>	<u>2010</u>
Level 1 Investments:		
Equities	\$ 11,916,245	\$ 5,517,893
Equity mutual funds	14,935,493	5,618,410
Fixed income mutual funds	14,143,134	10,485,729
Cash management accounts	<u>1,520,788</u>	<u>12,597,906</u>
Total Level 1 Investments	<u>42,515,660</u>	<u>34,219,938</u>
Level 2 Investments:		
Limited liability offshore mutual fund (a)	1,918,672	1,734,750
Multi-strategy hedge fund of funds (b)	3,992,542	3,533,247
Commodity focused hedge fund (c)	<u>1,339,316</u>	<u>1,217,249</u>
Total Level 2 Investments	<u>7,250,530</u>	<u>6,485,246</u>
Level 3 Investments		
Diversified offshore fund (d)	<u>1,886,278</u>	<u>1,738,921</u>
Total Investments	<u>\$ 51,652,468</u>	<u>\$ 42,444,105</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. The fund currently offers liquidity on a quarterly basis and redemptions require 90 days advance notice.
- (b) This fund focuses on building and managing low volatility, multi-manager portfolios that have low correlation to the broader debt and equity indices. The fund currently offers liquidity on a quarterly basis and redemptions require 95 days advance notice.
- (c) The purpose of this fund is to deliver high risk adjusted returns over a longer time horizon by actively allocating between more long-biased commodity strategies or more defensive strategies, depending on the investment manager's medium-term macroeconomic outlook. Generally, original shares may be redeemed, in whole or in part, as of the first business day in each calendar quarter or such other business day as the Directors may from time to time determine and notify to the Shareholders (the "Redemption Date"). Shareholders must provide 45 days prior written notice (subject to the discretion of the Directors to waive or reduce such notice), or at such other times with the consent of, and upon such terms of payment as may be approved by, the Directors, in its sole discretion.

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 3 – INVESTMENTS - CONTINUED

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

Activity for Level 3 investments is summarized as follows:

<u>Year ended June 30,</u>	<u>2011</u>	<u>2010</u>
Fair value, beginning	\$ 1,738,921	\$ 1,165,604
Purchases (sales)	(1,511)	481,000
Realized loss	-	-
Unrealized gain (loss)	<u>148,868</u>	<u>92,317</u>
Fair Value, Ending	<u><u>\$ 1,886,278</u></u>	<u><u>\$ 1,738,921</u></u>

Investment income (loss) is comprised of the following:

<u>Year ended June 30,</u>	<u>2011</u>	<u>2010</u>
Dividends and interest	\$ 1,105,350	\$ 533,321
Net realized gain/(loss) on sale of investments	348,521	(18,169)
Net unrealized gain (loss)	<u>7,079,813</u>	<u>1,126,229</u>
	<u><u>\$ 8,533,684</u></u>	<u><u>\$ 1,641,381</u></u>

Investment management fees totaled \$123,376 and \$65,349 for the years ended June 30, 2011 and 2010, 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, 2011

NOTE 4 – RECEIVABLES

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

<u>June 30,</u>	<u>2011</u>	<u>2010</u>
Contributions receivable	\$ 325,974	\$ 413,093
Trade receivables	-	124,431
 Total Receivables	 325,974	 537,524
 Less: allowance for doubtful accounts - trade receivables	 -	 (25,000)
	<u>\$ 325,974</u>	<u>\$ 512,524</u>

NOTE 5 – NOTE RECEIVABLE

On December 28, 2007, Holdings sold the assets of its wholly-owned for-profit subsidiary Harbor Branch Environmental Laboratory, Inc. ("HBEL") for a total purchase price of \$602,375 and dissolved HBEL on February 15, 2008. HBOIF obtained a note receivable from the buyer for \$602,375 plus annual interest of 7.5% which is due in quarterly payments of \$16,809 beginning April 1, 2008 through December 31, 2012, at which time a final balloon payment of \$486,860 plus accrued interest is due. During fiscal year 2011, the buyer defaulted on the note. The Foundation offered to settle the note and as a result \$366,536 of the note was written off at June 30, 2011 leaving a balance receivable of \$186,000. The note is secured by certain property and equipment of HBEL and all accounts receivable.

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment is comprised of the following:

<u>June 30,</u>	<u>Useful Life</u>	<u>2011</u>	<u>2010</u>
Buildings and building improvements	10-40 years	\$ 27,375	\$ 3,360,379
Equipment	5-18 years	324,044	1,478,964
Land	n/a	691,553	691,553
Land improvements	5-50 years	250,445	250,445
 Total Depreciable Assets		 1,293,417	 5,781,341
Less accumulated depreciation		(584,565)	(3,188,075)
		<u>\$ 708,852</u>	<u>\$ 2,593,266</u>

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 7 – NOTES PAYABLE

Notes payable are comprised of the following:

<u>June 30,</u>	<u>2011</u>	<u>2010</u>
3.9% note payable to GE Capital secured by ORA equipment; \$750 of principal and interest payable monthly through December 2011	<u>\$ -</u>	<u>\$ 11,712</u>

The aggregate maturities of notes payable are as follows:

<u>Year ending June 30,</u>		
2011	<u>\$ -</u>	<u>\$ 3,044</u>

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

<u>June 30,</u>	<u>2011</u>	<u>2010</u>
J. Seward Johnson, Sr. Charitable Trust Endowment Fund	\$ 47,488,134	\$ 42,280,466
Seward Johnson Trust Fund for Oceanography	2,956,266	2,657,343
Specialty License Plate Programs	<u>5,388,520</u>	<u>4,408,760</u>
	<u>\$ 55,832,920</u>	<u>\$ 49,346,569</u>

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

<u>Year ended June 30,</u>	<u>2011</u>	<u>2010</u>
J. Seward Johnson, Sr. Charitable Trust Endowment Fund	\$ 2,883,155	\$ 663,581
Seward Johnson Trust Fund for Oceanography	143,939	131,426
Specialty License Plate Programs	<u>2,128,012</u>	<u>3,073,011</u>
	<u>\$ 5,155,106</u>	<u>\$ 3,868,018</u>

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS - CONTINUED

Seward Johnson Funds

The J. Seward Johnson, Sr. Charitable Trust Endowment Fund (the "Fund") is a donor-restricted endowment fund established in 1994. The primary objective of the Fund is to provide a long-term flow of income to the Foundation. The Fund shall terminate on June 30, 2020, at which time the fund shall convert to a fund held by the Foundation for its exclusive long-term use, benefit or purposes. Accordingly, contributions to the Fund were recorded as temporarily restricted. The Foundation's annual expenditures from the Fund are limited to 5% of the annual average fair market value of the Fund and are recorded as net assets released from restrictions in the consolidated statements of activities. On March 31, 2004, J. Seward Johnson, Jr. resigned from the Board of Directors and terminated contributions to the Fund effective January 1, 2005. The investment income, including gains, losses, dividends and interest earned on the balance of the Fund, is included in the consolidated statements of activities as temporarily restricted.

In accordance with the terms of the Fund, if the Directors of the Foundation determine by a majority of a 75% vote it is clearly in the Foundation's best interest to expend, pledge or borrow, the least but necessary amount, including up to all the principal of the Fund, they may do so but only with the approval of the Foundation Board of Directors. Such uses shall further be restricted to extraordinary needs affecting the safety or ability of the Foundation to meet its legal obligations or long-term objectives. On November 13, 2003, the Board of Directors of the Foundation authorized the allocation of up to \$10,000,000 from restricted corpus of the Fund to fill a cash shortfall pending the sale of land. On June 17, 2004, this was increased to \$15,000,000 upon authorization by the Board of Directors of the Foundation and approved by the Board of Directors on October 31, 2004. On November 5, 2008, this was increased to \$30,000,000 upon authorization by the Board of Directors of the Foundation. Proceeds from the sale of land shall be returned immediately to the restricted fund. During fiscal 2010, \$23,529,159 of the proceeds from the sale of land reduced the amount borrowed from the Fund. As of June 30, 2011 and 2010, the outstanding amount borrowed from the Fund was \$6,227,785 and \$6,902,441 respectively.

The Seward Johnson Trust Fund for Oceanography (the "SJ Fund") is a donor-restricted fund. The primary objective of the SJ Fund is to operate and maintain the Johnson-Sea-Link submersibles. The secondary objective of the SJ Fund is to support underwater oceanography and for other oceanographic purposes. The investment income, including gains, losses, dividends and interest, earned on the balance of the SJ Fund is included in the consolidated statements of activities as temporarily restricted.

Under certain circumstances, the principal of the SJ Fund may be used at the discretion of the Foundation.

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS - CONTINUED

Changes in the Foundation's temporarily restricted endowment net assets for the years ended June 30, 2011 and 2010 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, 2009	\$ 41,583,260	\$ 2,628,525	\$ 44,211,785
Interest and dividends	442,150	52,067	494,217
Net realized loss on investments	(15,063)	(1,774)	(16,837)
Net unrealized gain on investments	933,700	109,951	1,043,651
Distributions - transfer to unrestricted	<u>(663,581)</u>	<u>(131,426)</u>	<u>(795,007)</u>
Endowment net assets at June 30, 2010	42,280,466	2,657,343	44,937,809
Interest and dividends	1,047,987	57,363	1,105,350
Net realized gain on investments	330,434	18,087	348,521
Net unrealized gain on investments	6,712,402	367,412	7,079,814
Distributions - transfer to unrestricted	<u>(2,883,155)</u>	<u>(143,939)</u>	<u>(3,027,094)</u>
Endowment net assets at June 30, 2011	<u>\$ 47,488,134</u>	<u>\$ 2,956,266</u>	<u>\$ 50,444,400</u>

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

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 9 – INCOME TAXES

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

<u>Year ended June 30,</u>	<u>2011</u>	<u>2010</u>
Current:		
Federal	\$ 55,055	\$ (221,085)
State	<u>1,252</u>	<u>-</u>
	56,307	(221,085)
Deferred:		
Federal	-	51,581
State	<u>-</u>	<u>8,830</u>
	-	60,411
Income tax (benefit)/liability	<u>\$ 56,307</u>	<u>\$ (160,674)</u>

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

<u>June 30,</u>	<u>2011</u>	<u>2010</u>
Deferred tax asset		
Bad debt reserve	\$ -	\$ 9,408
Accrued time off	<u>-</u>	<u>8,465</u>
	<u>\$ -</u>	<u>\$ 17,873</u>
Deferred tax liability:		
Depreciation and amortization	<u>\$ -</u>	<u>\$ 316,560</u>

At June 30, 2011, the Foundation had accrued \$56,307 in income tax as a result of discharge of indebtedness income.

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 2010, 2009 and 2008 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, 2011

NOTE 10 – 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

<u>June 30,</u>	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ -	\$ 1,058,743
Inventory	-	561,064
Other assets	-	556,846
Deferred tax asset	-	17,873
Property, plant and equipment, net	-	<u>1,880,441</u>
 Total Assets	 -	 <u>4,074,967</u>
 Accounts payable and accrued expenses	 -	 107,371
Deferred taxes liability	-	316,560
Notes payable	-	11,712
Due to HBOIF	-	<u>3,515,762</u>
 Total Liabilities	 -	 <u>3,951,405</u>
 Total Unrestricted Net Assets	 <u>\$ -</u>	 <u>\$ 123,562</u>

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 10 – HARBOR BRANCH HOLDINGS, INC. FINANCIAL INFORMATION - CONTINUED

Condensed Statement of Activities

<u>Year ended June 30,</u>	<u>2011</u>	<u>2010</u>
Sales revenue	\$ 2,725,576	\$ 3,625,971
Other income	307,900	11,269
Gain on discharge of indebtedness	2,011,770	-
Loss on sale	<u>(1,663,258)</u>	<u>-</u>
 Total Revenue	 3,381,988	 3,637,240
 General and administrative expenses	 3,505,551	 4,070,389
Income tax benefit	<u>-</u>	<u>(160,674)</u>
 Total Expenses	 3,505,551	 3,909,715
 Change in Net Assets	 <u>\$ (123,563)</u>	 <u>\$ (272,475)</u>

As of June 30, 2011, certain assets and liabilities of Ocean Reefs and Aquariums were sold. As a result, operations ceased to exist and any remaining assets and liabilities were transferred to the Foundation. ORA recognized a \$1,663,258 loss on the sale and a \$2,011,770 gain from the discharge of indebtedness. A \$56,307 tax liability was also recognized as a result of the transactions.

NOTE 11 – PENSION PLAN

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

In connection with the transfer of net assets to FAU as described in Note 1, the Plan was amended on November 5, 2007, whereby future contributions to the Plan were ceased and the Plan was frozen as of December 31, 2007. The Foundation is currently in the process of terminating the Plan, and therefore, there were no contributions made to the plan for the year ended June 30, 2011 and June 30, 2010.

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

NOTE 12 – 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.

Letter of Credit

The Foundation is a guarantor on a \$50,000 irrevocable letter of credit entered into by Oceans, Reefs & Aquariums, Inc. on January 16, 2010 to secure payments for utility services. The letter expired on January 16, 2011 and \$0 was drawn on the letter at June 30, 2011.

NOTE 13 – DATE OF MANAGEMENT REVIEW

In preparing the financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through November 30, 2011, the date that the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

Harbor Branch Oceanographic Institute Foundation, Inc.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year ended June 30, 2011

STATE AGENCY/STATE PROJECT	PROGRAM YEAR	STATE CSFA #	TOTAL EXPENDED
FLORIDA DEPARTMENT OF HIGHWAY SAFETY AND MOTOR VEHICLES:			
Protect Wild Dolphins License Plate Project	2010/2011	76.011	\$ 996,222
Protect Florida Whales License Plate Project	2010/2011	76.072	205,773
Florida Aquaculture License Plate Project	2010/2011	76.080	383,521
Save Our Seas License Plate Project	2010/2011	76.085	<u>771,055</u>
TOTAL EXPENDITURES OF STATE AWARDS			<u><u>\$2,356,571</u></u>

See accompanying notes to Schedule of Expenditures of Federal Awards.

Harbor Branch Oceanographic Institute Foundation, Inc.
NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS
June 30, 2011 and 2010

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 – SUB-RECIPIENT MONITORING

The Foundation has provided no federal awards to subrecipients.

NOTE 3 – 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.



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**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.
Ft. Pierce, Florida

We have audited the financial statements of the Harbor Branch Oceanographic Institute Foundation, Inc. (the Foundation) as of and for the year ended June 30, 2011 and have issued our report thereon dated November 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

The 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*.

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

*Berger, Toombs, Elam,
Gaines & Frank*

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

November 30, 2011



**Berger, Toombs, Elam,
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Certified Public Accountants PL

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

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

Compliance

We have audited the compliance of Harbor Branch Oceanographic Institute Foundation, Inc., (the Foundation) with the types of compliance requirements described in the *Florida Department of Financial Services, State Projects Compliance Supplement* that are applicable to each of its major State programs for the year ended June 30, 2011. The Foundation's major State programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major State programs is the responsibility of the Foundation's management. Our responsibility is to express an opinion on the Foundation's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and State of Florida, Chapter 10.650, Rules of the Auditor General. Those standards and Chapter 10.650, Rules of the Florida Auditor General require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major State program occurred. An audit includes examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Foundation's compliance with those requirements.

As described in item 2011-01 in the accompanying schedule of findings and questioned costs, the Foundation did not comply with the allowable cost requirements that are applicable to its State License Plate programs. Compliance with such requirements is necessary for the Foundation to comply with the requirements applicable to those programs.

In our opinion, except for the noncompliance described in the preceding paragraph, the Foundation complied, in all material respects, with the requirements referred to above that are applicable to each of its major State programs for the year ended June 30, 2011

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

Internal Control Over Compliance

The Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to State programs. In planning and performing our audit, we considered the Foundation's internal control over compliance with requirements that could have a direct and material effect on a major State program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with State of Florida, Chapter 10.650, Rules of the Auditor General, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect, noncompliance with a type of compliance requirement of a State program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a State program will not be prevented, or detected and corrected, on a timely basis.

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

As described in item 2011-02 in the accompanying schedule of findings and questioned costs, the Foundation does not have controls in place to provide reasonable assurance that state funds are expended in accordance with compliance requirements.

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

*Berger, Toombs, Elam,
Gaines & Frank*

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

November 30, 2011

**Harbor Branch Oceanographic Institute Foundation, Inc.
Schedule of Findings and Questioned Costs
June 30, 2011**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting

Material weakness(es) identified ___ yes X no

Significant deficiency(ies) identified not considered to be material weaknesses?

 ___ yes X none reported

Noncompliance material to financial statements noted? ___ yes X no

State Awards

Internal Control over major programs:

Material weakness(es) identified? X yes ___ no

Significant deficiency(ies) identified not considered to be material weaknesses?

 ___ yes X none reported

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

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

Identification of major projects:

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

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

Auditee qualified as low-risk auditee? ___ yes X no

SECTION II - FINANCIAL STATEMENT FINDINGS

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

**Harbor Branch Oceanographic Institute Foundation, Inc.
Schedule of Findings and Questioned Costs
June 30, 2011**

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

Finding 2011-01

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

<u>CSFA Number</u>	<u>State Project</u>
76.072	Protect Florida Whales
76.080	Florida Aquaculture License Plate Project
76.085	Save Our Seas License Plate Project

Criteria

Per Florida Department of Financial Services, *State Projects Compliance Supplement*, Part 3: Compliance Requirements, B. Allowable Costs, up to fifteen percent of funds received may be spent for administrative costs and ten percent of the funds received may be spent for continuing promotion and marketing of each license plate.

Condition

In connection with our compliance testing over allowable costs, we noted the Foundation disbursed greater than the allowable amount on promotion and marketing for the Protect Florida Whales, Aquaculture, and Save Our Seas License Plate Projects.

Effect

State funding is not spent in accordance with regulations and the Foundation could be responsible for disbursements made in excess of allowable percentages.

Questioned Costs

\$47,413. This is the amount in excess of allowable costs spent on promotion and marketing related to the Save Our Seas License Plate Project.

\$8,553. This is the amount in excess of allowable costs spent on promotion and marketing related to the Protect Florida Whales License Plate Project.

\$5,434. This is the amount in excess of allowable costs spent on promotion and marketing related to the Florida Aquaculture License Plate Project.

Recommendation

We recommend the Foundation establish a procedure to ensure that state funds are expended in accordance with allowable costs and develop a system to monitor the performance of the established procedure.

**Harbor Branch Oceanographic Institute Foundation, Inc.
Schedule of Findings and Questioned Costs
June 30, 2011**

Response

The Foundation disbursed greater than the allowable costs (10% of funds received) for Specialty License Plate marketing during fiscal year 2011.

HBOIF response to Finding 2011-01.

- The expenses over budget were absorbed by the Foundation and did not come from research dollars.
- The trigger for the overage was created by the method by which FAUF bills for the Director of Marketing salary to HBOIF. The Executive Director of HBOIF will write to FAUF to inform FAUF that their method of billing (at quarter end for expenses paid in prior periods) is causing audit issues for HBOIFL.
- Director of Operations has requested monthly invoices from FAUF. This fiscal year, those invoices have been received but still include expenses from prior fiscal year.
- The HBOI Foundation uses only .6% of the allowable amount up to 15% for administrative costs. The Foundation board intends to review this amount held in reserve and discuss how to categorize the Director of Specialty License Plate Marketing responsibilities to determine if it warrants increasing the percentage withheld for administrative costs to include Director of Marketing salary.

Significant Deficiency

Finding 2011-02

Controls over State Projects

<u>CSFA Number</u>	<u>State Project</u>
76.011	Protect Wild Dolphins License Plate Project
76.072	Protect Florida Whales License Plate Project
76.080	Florida Aquaculture License Plate Project
76.085	Save Our Seas License Plate Project

Criteria

Controls should be in place to provide reasonable assurance that state funds are expended in accordance with compliance requirements.

Condition

In connection with our compliance testing over activities allowed, we noted the Foundation does not have a system in place to approve the use of state funds.

Effect

The lack of approval for the use of state funds may lead to findings or questioned costs.

**Harbor Branch Oceanographic Institute Foundation, Inc.
Schedule of Findings and Questioned Costs
June 30, 2011**

Recommendation

We recommend the Foundation designate appropriate personnel to review and approve the use of state funds prior to disbursement of such funds or enter into a sub-recipient agreement with Harbor Branch Oceanographic Institute at Florida Atlantic University.

Response

The Foundation does not have a system in place to approve the use of state funds.

HBOIF Response to Finding 2011-02.

- We will enter into a sub-recipient agreement.

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS

Significant Deficiency

Finding 2010-01

Controls Over Employee Expense Reporting (ORA)

Condition

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

- One expense reimbursement did not include supporting documentation and was not approved;
- ORA's expense report template was not being used for many of the expense reimbursements tested;
- One payroll advance and one incentive payment were paid through accounts payable and were not properly processed through the payroll processing system.

Harbor Branch Oceanographic Institute Foundation, Inc.
Schedule of Findings and Questioned Costs
June 30, 2011

SECTION IV – PRIOR YEAR FINDINGS AND QUESTIONED COSTS (CONTINUED)

Finding 2010-01 (Continued)

Controls Over Employee Expense Reporting (ORA) (Continued)

Auditor's Recommendation

We recommend all supporting documentation be retained for post audit verification. The expense report template should be prepared for all expense reimbursements in order to document approval and the purpose of the expenditure. All payroll payments should be paid through the payroll system to ensure taxes are properly withheld.

Current Status

The finding has been corrected.

Material Weakness

Finding 2010-02

Controls Over Financial Reporting (Foundation and ORA)

Condition

The following adjustments were posted in connection with the prior year audit that were material to the financial statements and were caused by the lack of accounting oversight of the specific accounts noted:

- Decrease the fair value of investments as of June 30, 2010 and reduce unrealized gains recorded by the Foundation
- Increased grant advances as of June 30, 2010 and related state license plate expenditures of the Foundation
- Auditor prepared the income tax accrual and recorded related adjustments of the tax accounts of ORA

Auditor's Recommendation

We recommend unrealized gains and state license plate expenditures be reconciled at least quarterly to ensure accounts are properly reported. The Foundation should consider consulting an outside accountant to assist in the preparation of the year-end tax accrual for ORA.

Current Status

The finding has been corrected.

Harbor Branch Oceanographic Institute Foundation, Inc.
Schedule of Findings and Questioned Costs
June 30, 2011

Material Weakness

Finding 2010-03

**State Agency: Florida Department of Highway and Motor Vehicles Compliance
Requirement: Subrecipient Monitoring**

Condition

In connection with the testing of compliance over subrecipient monitoring, the prior auditor noted 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.

Auditor's Recommendation and Current Status

Subrecipient monitoring is not a requirement applicable to the current year audit.