BOARD OF TRUSTEES
Florida Atlantic University

Item: AF: I-3d

AUDIT AND FINANCE COMMITTEE

Wednesday, February 16, 2011

SUBJECT: REVIEW OF THE HARBOR BRANCH OCEANOGRAPHIC INSTITUTE FOUNDATION CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2010 AND 2009.

PROPOSED COMMITTEE ACTION

Information only.

BACKGROUND INFORMATION

The audited financial statements of the Harbor Branch Oceanographic Institute Foundation are presented to keep the Board of Trustees informed about the financial status of the Foundation. The audited consolidated financial statements are for the period ending June 30, 2010 and 2009 will be to the Foundation's Board of Directors at their next meeting.

IMPLEMENTATION PLAN/DATE

Not applicable.

FISCAL IMPLICATIONS

Not Applicable.

Supporting Documentation: Harbor Branch Oceanographic Institute Foundation Consolidated Financial Statements for the Years Ended June 30, 2010 and 2009.

Presented by: Mr. Dennis Crudele, Sr. Vice President-Financial Affairs **Phone:** 561-297-3266
Ms. Janet Alford, Executive Director, HBOIF **Phone:** 772-446-9876/X224

Harbor Branch Oceanographic Institute Foundation, Inc.

Consolidated Financial Statements

Years Ended June 30, 2010 and 2009

CFR

CROSS, FERNANDEZ & RILEY, LLP

Accountants & Consultants

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Independent Auditors' Report

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

We have audited the accompanying consolidated statements of financial position of Harbor Branch Oceanographic Institute Foundation, Inc., (the "Foundation"), formerly Harbor Branch Oceanographic Institution Foundation, Inc., as of June 30, 2010 and 2009 and the related consolidated statements of activities and cash flows for the years 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 audits.

We conducted our audits 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. 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 audits provide 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, 2010 and 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 January 27, 2011, 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 audits were 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 Rules of the Florida Department of Financial Services, Chapter 69I-5, Florida Administrative Code, 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.

Cross, Fernandez & Riley, LLP

Certified Public Accountants

January 27, 2011

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Harbor Branch Oceanographic Institute Foundation, Inc.

Consolidated Statements of Financial Position

June 30,		2010		2009
Assets				
Cash and cash equivalents	**$**	**3,043,527**	$	3,729,509
Amount held in escrow (Note 1)		**500,000**		–
Investments (Note 3)		**42,444,105**		17,360,659
Receivables, net (Note 4)		**512,524**		513,614
Grant advances		**3,459,505**		3,695,412
Inventory		**561,064**		687,929
Prepaid expenses and other assets		**496,990**		274,447
Deferred tax asset (Note 10)		**17,873**		10,225
Note receivable (Note 5)		**561,536**		573,751
Land held for sale		**1,505,837**		5,700,475
Property, plant and equipment, net (Note 6)		**2,593,266**		2,229,964
	$	**55,696,227**	$	34,775,985
Liabilities and Net Assets				
Liabilities:				
Accounts payable and accrued expenses	**$**	**556,538**	$	679,607
Due to Florida Atlantic University		**–**		68,698
Notes payable (Note 7)		**11,712**		89,366
Deferred tax liability (Note 10)		**316,560**		248,501
Total liabilities		**884,810**		1,086,172
Commitments and contingencies (Note 9)		**–**		–
Net assets (deficit):				
Unrestricted		**5,464,848**		(14,923,625)
Temporarily restricted (Note 8)		**49,346,569**		48,613,438
Total net assets		**54,811,417**		33,689,813
	$	**55,696,227**	$	34,775,985

See accompanying notes to consolidated financial statements.

Consolidated Statements of Activities

	2010			2009		
Year ended June 30,	*Unrestricted*	*Temporarily Restricted*	*Total*	*Unrestricted*	*Temporarily Restricted*	*Total*
Revenues, gains, (losses) and other support:						
Sales revenue – ORA	**$ 3,436,174**	**$ –**	**$ 3,436,174**	$ 4,192,265	$ –	$ 4,192,265
Specialty license plate contributions	**–**	**3,080,118**	**3,080,118**	–	3,281,340	3,281,340
Contributions (Note 1)	**8,196,226**	**–**	**8,196,226**	6,437	–	6,437
Other income, net	**109,432**	**–**	**109,432**	194,838	–	194,838
Investment gain (loss), net (Note 3)	**120,350**	**1,521,031**	**1,641,381**	(359,378)	(3,253,353)	(3,612,731)
Gain on land sale (Note 1)	**12,055,451**	**–**	**12,055,451**	–	–	–
Net assets released from restriction (Note 8)	**3,868,018**	**(3,868,018)**	**–**	3,699,313	(3,699,313)	–
Total revenues, gains, (losses) and other support	**27,785,651**	**733,131**	**28,518,782**	7,733,475	(3,671,326)	4,062,149
Expenses:						
Grants to others	**2,880,136**	**–**	**2,880,136**	2,898,410	–	2,898,410
Salaries and related expenses	**1,701,107**	**–**	**1,701,107**	1,781,645	–	1,781,645
Materials and supplies	**1,038,244**	**–**	**1,038,244**	1,254,143	–	1,254,143
Miscellaneous	**255,848**	**–**	**255,848**	439,954	–	439,954
Professional fees and services	**450,208**	**–**	**450,208**	519,977	–	519,977
Depreciation	**376,460**	**–**	**376,460**	337,412	–	337,412
Outside services	**178,581**	**–**	**178,581**	267,492	–	267,492
Utilities	**280,570**	**–**	**280,570**	298,879	–	298,879
State license plate marketing	**174,394**	**–**	**174,394**	164,665	–	164,665
Travel	**69,506**	**–**	**69,506**	87,860	–	87,860
Insurance	**84,208**	**–**	**84,208**	63,879	–	63,879
Telephone	**38,860**	**–**	**38,860**	49,444	–	49,444
Interest	**1,808**	**–**	**1,808**	7,926	–	7,926
Repairs and maintenance	**9,396**	**–**	**9,396**	5,232	–	5,232
Bad debts	**18,526**	**–**	**18,526**	–	–	–
Total expenses	**7,557,852**	**–**	**7,557,852**	8,176,918	–	8,176,918
Change in net assets before income tax benefit	**20,227,799**	**733,131**	**20,960,930**	(443,443)	(3,671,326)	(4,114,769)
Income tax benefit (Note 10)	**160,674**	**–**	**160,674**	13,037	–	13,037
Change in net assets	**20,388,473**	**733,131**	**21,121,604**	(430,406)	(3,671,326)	(4,101,732)
Net assets (deficit), beginning of year	**(14,923,625)**	**48,613,438**	**33,689,813**	(14,493,219)	52,284,764	37,791,545
Net assets (deficit), end of year	**$ 5,464,848**	**$ 49,346,569**	**$ 54,811,417**	$ (14,923,625)	$ 48,613,438	$ 33,689,813

See accompanying notes to consolidated financial statements.

Harbor Branch Oceanographic Institute Foundation, Inc.

Consolidated Statements of Cash Flows

Year ended June 30,	**2010**	2009
Cash flows from operating activities:		
Change in net assets	**$ 21,121,604**	$ (4,101,732)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	**376,460**	337,412
Net unrealized (gain) loss on investments	**(1,126,229)**	3,358,886
Net realized loss on sale of investments	**18,169**	1,012,168
Deferred tax expense (benefit)	**60,411**	12,324
Gain on land sale	**(12,055,451)**	–
Land contribution from FAU	**(8,196,226)**	–
Loss on disposal of property and equipment	**–**	107,988
Cash provided by (used for):		
Receivables	**1,090**	(129,708)
Grant advances	**235,907**	70,473
Inventory	**126,865**	187,666
Prepaids and other assets	**(222,543)**	(206,183)
Accounts payable and accrued expenses	**(123,069)**	(183,724)
Due to Florida Atlantic University	**(68,698)**	(751,699)
Net cash provided by (used for) operating activities	**148,290**	(286,129)
Cash flows from investing activities:		
Proceeds from sale of investments	**1,069,216**	3,949,596
Purchase of investments	**(13,257,794)**	(5,340,217)
Transfer of investments	**(11,786,808)**	778,349
Proceeds from land sale, net of expenses	**23,254,762**	–
Purchase of property, plant and equipment	**(48,209)**	(94,276)
Payments received on note receivable	**12,215**	12,446
Net cash used for investing activities	**(756,618)**	(694,102)
Cash flows from financing activities:		
Principal payments on notes payable	**(77,654)**	(99,370)
Net decrease in cash and cash equivalents	**(685,982)**	(1,079,601)
Cash and cash equivalents, beginning of year	**3,729,509**	4,809,110
Cash and cash equivalents, end of year	**$ 3,043,527**	$ 3,729,509
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	**$ 1,808**	$ 7,926
Cash paid during the year for taxes	**–**	344,240

See accompanying 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 and on August 30, 2010 to Harbor Branch Oceanographic Institute 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 were transferred to FAU to provide 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.

On July 30, 2009, HBOIF and FAU entered into an Addendum to the Memorandum of Understanding which restructured the original conveyance of real property to FAU by providing for the reconveyance of that real property to HBOIF which in turn would convey it to the Trustees of the Internal Improvement Fund of the State of Florida (“TIIF”) pursuant to the terms of an Option Agreement for Sale and Purchase, entered into by and between HBOIF and TIIF dated May 28, 2009. Consideration to FAU for the restructuring was the conveyance to it by HBOIF of a 6.23 acre parcel of real property and the leaseback to FAU of the reconveyed property by TIIF.

On June 15, 2009, HBOIF entered into an Option Agreement for Sale and Purchase with Florida Communities Trust (“FCT”) and St. Lucie County for other real property which it owned in St. Lucie County, Florida consisting of approximately 268.44 acres.

In March, 2010:

i. FAU reconveyed to HBOIF the property conveyed to it by HBOIF in December 2007;
ii. HBOIF conveyed to FAU the 6.23 acre parcel;
iii. HBOIF conveyed 139.57 acres to TIIF pursuant to the Option Agreement with TIIF for the consideration of $18,000,000;
iv. HBOIF conveyed 247.82 acres to TIIF, pursuant to the Option Agreement with FCT and St. Lucie County for the consideration of $6,040,488.

The Foundation recorded a contribution during fiscal 2010 of $8,196,226 on the Statement of Activities in connection with the reconveyance by FAU of the real property conveyed to them in December 2007. The Foundation recorded a gain on land sale of $12,055,451 during fiscal 2010 on the Statement of Activities in connection with the sale of the reconveyed land to TIFF and FCT.

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 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).

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.

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 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.

The Foundation adopted the accounting standard "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 benefit as of the date of adoption. The Foundation has not recognized 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 Instruments

The Foundation reports its financial assets and liabilities using a three-tier hierarchy, which prioritizes the inputs used in measuring fair value. 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 1 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

- Level 3 – Inputs that are both significant to the fair value measurement and unobservable.

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

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management as of June 30, 2010. 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 of $1,659,970 and $1,149,459 as of June 30, 2010 and 2009, respectively, 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 2009 financial statements to conform to the 2010 presentation.

3. Investments

The fair value of investments includes the following:

June 30,	**2010**	2009
Level 1 Investments:		
Equities	**$ 5,517,893**	$ 3,114,096
Equity mutual funds	**5,618,410**	3,177,662
Fixed income mutual funds	**10,485,729**	5,859,312
Cash management accounts	**12,597,906**	365,309
Total Level 1 Investments	**34,219,938**	12,516,379
Level 2 Investments:		
Limited liability offshore mutual fund (a)	**1,734,750**	1,301,681
Multi-strategy hedge fund of funds (b)	**3,533,247**	2,376,995
Commodity focused hedge fund (c)	**1,217,249**	–
Total Level 2 Investments	**6,485,246**	3,678,676
Level 3 Investments:		
Diversified offshore fund (d)	**1,738,921**	1,165,604
	$ 42,444,105	$ 17,360,659

(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.

(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 1 year, and with 75 days notice. Full liquidation could take anywhere from one month to three years.

Activity for Level 3 investments is summarized as follows:

Year ended June 30,	**2010**	2009
Fair value, beginning	**$ 1,165,604**	$ 1,707,961
Purchases (sales)	**481,000**	(58,100)
Realized loss	**–**	(27,821)
Unrealized gain (loss)	**92,317**	(456,436)
Fair value, ending	**$ 1,738,921**	$ 1,165,604

Investment income (loss) is comprised of the following:

Year ended June 30,	**2010**	2009
Dividends and interest	**$ 533,321**	$ 758,323
Net realized loss on sale of investments	**(18,169)**	(1,012,168)
Net unrealized gain (loss)	**1,126,229**	(3,358,886)
	$ 1,641,381	$ (3,612,731)

Investment management fees totaled $65,349 and $71,726 for the years ended June 30, 2010 and 2009, respectively and are included in outside services expense in the accompanying consolidated statements of activities.

4. Receivables

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

June 30,	**2010**	2009
Contributions receivable	**$ 413,093**	$ 375,549
Trade receivables	**124,431**	169,051
Total receivables	**537,524**	544,600
Less: allowance for doubtful accounts – trade receivables	**(25,000)**	(30,986)
	$ 512,524	$ 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. The note is secured by certain property and equipment of HBEL and all accounts receivable.

6. Property, Plant and Equipment

Property, plant and equipment is comprised of the following:

June 30,	*Useful Life*	**2010**	2009
Buildings and building improvements	10-40 years	**$ 3,360,379**	$ 3,332,414
Equipment	5-18 years	**1,478,964**	1,460,501
Land		**691,553**	–
Land improvements	5-50 years	**250,445**	250,445
		5,781,341	5,043,360
Less accumulated depreciation		**(3,188,075)**	(2,813,396)
		$ 2,593,266	$ 2,229,964

7. Notes Payable

Notes payable are comprised of the following:

June 30,		**2010**		2009
3.9% note payable to GE Capital secured by ORA equipment; $750 of principal and interest payable monthly through December 2011	**$**	**11,712**	$	19,366
$250,000 line of credit for ORA operations; unsecured and due on demand; interest payable monthly at prime (3.25% at June 30, 2010); guaranteed by the Foundation		**–**		70,000
Total notes payable	**$**	**11,712**	$	89,366

The aggregate maturities of notes payable are as follows:

Year ending June 30,		
2011	**$**	**8,668**
2012		**3,044**
	$	**11,712**

8. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

June 30,	**2010**	2009
J. Seward Johnson, Sr. Charitable Trust Endowment Fund	**$ 42,280,466**	$ 41,583,260
Seward Johnson Trust Fund for Oceanography	**2,657,343**	2,628,525
Specialty License Plate Programs	**4,408,760**	4,401,653
	$ 49,346,569	$ 48,613,438

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

Year Ended June 30,	**2010**	2009
J. Seward Johnson, Sr. Charitable Trust Endowment Fund	**$ 663,581**	$ 610,679
Seward Johnson Trust Fund for Oceanography	**131,426**	173,817
Specialty License Plate Programs	**3,073,011**	2,914,817
	$ 3,868,018	$ 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 statements 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 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 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. 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, 2010 and 2009, the outstanding amount borrowed from the Fund was $6,902,441 and $31,252,756, respectively.

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

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

Changes in the Foundation's temporarily restricted endowment net assets for the years ended June 30, 2010 and 2009 are as follows:

	J. Seward Johnson, Sr. Charitable Trust Endowment Fund	*Seward Johnson Trust Fund for 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**
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	**(663,581)**	**(131,426)**	**(795,007)**
Endowment net assets at June 30, 2010	**$42,280,466**	**$2,657,343**	**$44,937,809**

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

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.

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 expires on January 16, 2011 and $0 was drawn on the letter at June 30, 2010.

10. Income Taxes

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

Year ended June 30,	**2010**	2009
Current:		
Federal	**$ (221,085)**	$ (25,361)
State	**–**	–
	(221,085)	(25,361)
Deferred:		
Federal	**51,581**	10,523
State	**8,830**	1,801
	60,411	12,324
Income tax benefit	**$ (160,674)**	$ (13,037)

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

June 30,	**2010**	2009
Deferred tax asset:		
Bad debt reserve	**$ 9,408**	$ –
Accrued time off	**8,465**	10,225
	$ 17,873	$ 10,225
Deferred tax liability:		
Depreciation and amortization	**$ 316,560**	$ 248,501

At June 30, 2010, the Foundation had net operating loss (“NOL”) carryforwards of approximately $4,300,000 to offset unrelated business income, which expire at various dates through 2025. The deferred tax asset related to the NOL carryforward is fully reserved. Accordingly, no provision for income taxes for the Foundation was recorded.

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,	**2010**	2009
Cash and cash equivalents	**$ 1,058,743**	$ 1,190,496
Inventory	**561,064**	687,929
Other assets	**556,846**	370,352
Deferred tax asset	**17,873**	10,225
Property, plant and equipment, net	**1,880,441**	2,206,660
Total assets	**4,074,967**	4,465,662
Accounts payable and accrued expenses	**107,371**	131,996
Deferred taxes liability	**316,560**	248,501
Notes payable	**11,712**	89,366
Due to HBOIF	**3,515,762**	3,599,762
Total liabilities	**3,951,405**	4,069,625
Total unrestricted net assets	**$ 123,562**	$ 396,037

Condensed Statement of Activities

Year ended June 30,	**2010**	2009
Sales revenue	**$ 3,625,971**	$ 4,297,247
Other income	**11,269**	29,786
Total revenue	**3,637,240**	4,327,033
General and administrative expenses	**4,070,389**	4,361,678
Income tax benefit	**(160,674)**	(13,037)
Total expenses	**3,909,715**	4,348,641
Change in net assets	**$ (272,475)**	$ (21,608)

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 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, 2010 and 2009.

13. Subsequent Event

The Foundation has evaluated events and transactions occurring subsequent to June 30, 2010 as of January 27, 2011, which is the date the financial statements were available to be issued. Subsequent events occurring after January 27, 2011 have not been evaluated by management. No material events have occurred since June 30, 2010 that require recognition or disclosure in the financial statements, except as follows:

On October 18, 2010, the Foundation received a Letter of Intent from a third party indicating intent to acquire certain assets and assume certain liabilities of Oceans, Reefs, and Aquariums, Inc. for a sum of $800,000 and to acquire a certain parcel of land from HBOIF for a sum of $700,000.

Schedule of Expenditures of State Financial Assistance

Year ended June 30, 2010	*State CSFA Number*	*Grant Period*	*Expenditures*	*Transfers to Subrecipients*
STATE AGENCY/STATE PROJECT				
FLORIDA DEPARTMENT OF HIGHWAY SAFETY AND MOTOR VEHICLES:				
Protect Wild Dolphins License Plate Program	76.011	7/1/09-6/30/10	$1,636,465	$1,566,832
Protect Florida Whales License Plate Program	76.072	7/1/09-6/30/10	410,069	384,710
Florida Aquaculture License Plate Program	76.080	7/1/09-6/30/10	323,424	303,068
Save Our Seas License Plate Program	76.085	7/1/09-6/30/10	684,571	625,526
TOTAL FLORIDA DEPARTMENT OF HIGHWAY SAFETY AND MOTOR VEHICLES			$3,054,529	$2,880,136

Note 1 – Basis of Presentation

This schedule of expenditures of state financial assistance includes the state project activity of Harbor Branch Oceanographic Institute Foundation, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Rules of the Florida Department of Financial Services, Chapter 69I-5, Florida Administrative Code. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements.

Reports Required by Government Auditing Standards and Florida Single Audit Act

CROSS, FERNANDEZ & RILEY, LLP
Accountants & Consultants

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 Institute Foundation, Inc.

We have audited the consolidated financial statements of Harbor Branch Oceanographic Institute Foundation, Inc. (the "Foundation") as of and for the year ended June 30, 2010, and have issued our report thereon dated January 27, 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.

<u>Internal Control Over Financial Reporting</u>

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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness and a deficiency that we consider to be a significant deficiency.

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 a 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Finding 2010-02 to be a material weakness.

A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and questioned costs Finding 2010-01 to be a significant deficiency.

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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.*

We noted certain matters that we reported to management of the Foundation in a separate letter dated January 27, 2011.

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.

Cross, Fernandez & Riley, LLP

Certified Public Accountants

January 27, 2011

CROSS, FERNANDEZ & RILEY, LLP
Accountants & Consultants

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 State of Florida's Chapter 10.650, Rules of the Auditor General

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

Compliance

We have audited Harbor Branch Oceanographic Institute Foundation, Inc.'s (the "Foundation") compliance 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 projects for the year ended June 30, 2010. 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.

As described in item 2010-03 in the accompanying schedule of findings and questioned costs, the Foundation did not comply with requirements regarding subrecipient monitoring that are applicable to its State License Plate programs. Compliance with such requirements is necessary, in our opinion, 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 compliance requirements referred to above that could have a direct and material effect on each of its major state projects for the year ended June 30, 2010.

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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 and to test and report on internal control over compliance in accordance with the State of Florida's 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.

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 significant deficiencies or material weaknesses, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over compliance that we consider to be a material weakness.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state project on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state project will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2010-03 to be a material weakness.

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.

Cross, Fernandez & Riley, LLP

Certified Public Accountants

January 27, 2011

Year ended June 30, 2010

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued	**Unqualified**			
Internal control over financial reporting:				
• Material weaknesses identified	X	yes		no
• Significant deficiencies identified that are not 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	**Qualified**			
Internal control over major projects:				
• Material weaknesses identified	X	yes		no
• Significant deficiencies identified that are not considered 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 10.656(3)(e), Rules of the Auditor General	X	yes		no

Identification of major projects:

State Project	CSFA No.
Florida department of Highway Safety and Motor Vehicles:	
Protect Wild Dolphins License Plate Program	76.011
Protect Florida Whales License Plate Program	76.072
Florida Aquaculture License Plate Program	76.080
Save Our Seas License Plate Program	76.085

Dollar threshold used to distinguish between type A and type B state projects: $300,000

Section II – Financial Statement Findings

<u>Significant Deficiency</u>

Finding 2010-01

Controls Over Employee Expense Reporting (ORA)

<u>Condition and Context</u>

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:

- 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 and instead employees were providing receipts which did not provide all the proper documentation as to the purpose of the expense;
- One payroll advance and one incentive payment were paid through accounts payable and were not properly processed through the payroll processing system. These payments were properly approved by management.

<u>Criteria</u>

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. The Organization's expense report template should be used for all expense reimbursement requests to properly document the business purpose and authorization of the expense. Payroll-related disbursements should be accounted for as such, and have the proper taxes and withholdings applied.

<u>Effect</u>

Expense reports that are submitted without all the proper documentation and proper approvals could result in misappropriation of cash. The improper processing of payroll transactions results in a liability of approximately $1,000 for payroll taxes that did not get paid.

<u>Recommendation</u>

We recommend the expense report template be used for all expense reimbursements to properly document the purpose of the expenditure and proper authorization in accordance with the Organization's policy. Any payroll-related advances or incentive payments should be paid through the payroll system and taxes properly withheld.

Views of Responsible Officials and Planned Corrective Actions

ORA's expense report template will be used for all expense reimbursements. All payroll related advances and incentive payments will be paid through the payroll system and taxes therefore properly withheld.

Material Weakness

Finding 2010-02

Controls over Financial Reporting (HBOIF and ORA)

Condition and Cause

We recorded the following audit adjustments in connection with our audit that were material to the financial statements and were caused by the lack of accounting oversight of the specific accounts noted:

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

Criteria

Controls and processes should be in place to ensure these accounts are properly reconciled and recorded in order for the Organization's financial statements to be presented in accordance with generally accepted accounting principles.

Effect

The lack of oversight over the accounting for the above accounts results in financial statements that are not accurately presented.

Recommendation

Investments and grant advances should be properly reconciled each month to ensure unrealized gains and state license plate expenditures are accurately reported. Since the Foundation does not have accounting staff with the knowledge needed to prepare the ORA tax accrual, we recommend they consider using an outside accounting consultant to assist in the preparation of the year-end tax accrual for ORA.

Views of Responsible Officials and Planned Corrective Actions

HBOIF will work with Florida Atlantic University Foundation, Inc. ("FAUF") to have their books match on a regular basis, most likely quarterly, if practical, provided an arrangement can be made with FAUF (access to books, understanding of how to accomplish on HBOIF books). If quarterly reconciliation is not practicable, HBOIF will reconcile with FAUF's books at fiscal year end prior to providing books to the auditors. HBOIF plans to hire an accountant prior to the next audit to prepare the ORA tax accrual.

Section III – State Project Findings and Questioned Costs

Material Weakness

Finding 2010-03

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

State Project	CSFA Number
Protect Wild Dolphins License Plate Program	76.011
Protect Florida Whales License Plate Program	76.072
Florida Aquaculture License Plate Program	76.080
Save Our Seas License Plate Program	76.085

Criteria

Per Florida Department of Financial Services, *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).

Condition

In connection with our testing of compliance over subrecipient (FAU) monitoring, we 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.

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.

Views of Responsible Officials and Planned Corrective Actions

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 from July 1, 2009 through June 30, 2010 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.

HBOIF's attorney will work with FAU's attorney to draft an agreement between the two organizations regarding sub-recipient monitoring of the SLP funds for each plate. In addition, HBOIF and FAU will set up an audit process where a statistical sampling of invoices will be monitored/tested by HBOIF staff on a regular (quarterly) basis.

Section IV – Prior Year Findings and Questioned Costs

Material Weaknesses

Finding 2009-01

Controls Over Cash Disbursements (ORA)

Condition

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.

Auditors' Recommendation

We recommended 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.

Current Status

The finding on checks written to "cash" in Marshall Islands Mariculture Farm ("MIMF") not used for petty cash has been corrected. The finding related to controls over employee expense reports has not been corrected and is reported again as finding 2010-01.

Finding 2009-02

Bank Reconciliations (ORA)

Condition

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.

Auditors' Recommendation

We recommended 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.

Current Status

The finding has been corrected.

Finding 2009-03

Accounts Receivable (ORA)

Condition

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.

Auditors' Recommendation

We recommended 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.

Current Status

The finding has been corrected.

Finding 2009-04

Controls Over Financial Reporting (ORA)

Condition

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).

Auditors' 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.

Current Status

The finding has been corrected.

Significant Deficiency

Finding 2009-05

No review of Journal Entries (HBOIF and ORA)

Condition

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.

Auditors' Recommendation

We recommended 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.

Current Status

The finding has been corrected.

Material Weakness

Finding 2009-06

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

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

Condition

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.

Auditors’ Recommendation

We recommended HBOIF 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.

Current Status

This finding has not been corrected and is reported again as Finding 2010-03.