



Item: AC: I-1e

## AUDIT AND COMPLIANCE COMMITTEE

Friday, December 6, 2019

**SUBJECT: REVIEW OF THE FINANCIAL STATEMENTS OF FAU DIRECT SUPPORT ORGANIZATIONS: HARBOR BRANCH OCEANOGRAPHIC INSTITUTE FOUNDATION, INC. FOR THE FISCAL YEARS ENDED JUNE 30, 2019 and 2018**

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### PROPOSED COMMITTEE ACTION

Information only.

### BACKGROUND INFORMATION

The audited financial statements of the Harbor Branch Oceanographic Institute Foundation (HBOIF) are presented to keep the Board of Trustees informed about the financial status of the Foundation. The audited financial statements for the periods ending June 30, 2019 and 2018 were presented to the HBOIF Board of Directors on November 14, 2019.

### IMPLEMENTATION PLAN/DATE

Not applicable.

### FISCAL IMPLICATIONS

Not applicable.

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**Supporting Documentation:** HBOIF Consolidated Financial Statements for the Fiscal Years Ended June 30, 2019 and 2018

**Presented by:**

Mr. Jeff Atwater, Vice President of Strategic Initiatives and CFO

**Phone:** 561 297 3267



# Harbor Branch Oceanographic Institute Foundation, Inc.

Financial Statements and  
Supplementary Information  
Years Ended June 30, 2019 and 2018

**Harbor Branch Oceanographic Institute Foundation, Inc.**

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Financial Statements and Supplementary Information  
Years Ended June 30, 2019 and 2018

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Contents

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Independent Auditor's Report	3-4
Management's Discussion and Analysis	5-11
<b>Financial Statements</b>	
Statements of Financial Position	13
Statements of Activities	14
Statements of Cash Flows	15
Statements of Functional Expenses	16-17
Notes to Financial Statements	18-30
<b>Supplementary Information</b>	
Independent Auditor's Report on Supplementary Information	32
Schedule of Specialty License Plate Revenue and Expenses Year Ended June 30, 2019	33
Note to Schedule of Specialty License Plate Revenue and Expenses Year Ended June 30, 2019	34-35
<b>Reports Required by <i>Government Auditing Standards</i> and Florida Single Audit Act</b>	
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 <i>Government Auditing Standards</i>	37-38
Independent Auditor's Report on Compliance for each of the Major State Projects and Report on Internal Control Over Compliance Required by Chapter 10.650, Rules of the Auditor General	39-40
Schedule of Expenditures of State Financial Assistance	41
Note to Schedule of Expenditures of State Financial Assistance	42
Schedule of Findings and Questioned Costs - State Financial Assistance	43



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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Harbor Branch Oceanographic Institute Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



### ***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, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Foundation's Management's Discussion and Analysis on pages 5 through 11, which is presented to highlight certain information in the Foundation's financial statements, and the accompanying schedule of expenditures of state financial assistance, as required by the State of Florida, Chapter 10.650, Rules of the Auditor General are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2019 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 solely 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 effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

*BDO USA, LLP*

Certified Public Accountants

October 2, 2019

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Management's Discussion and Analysis

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The Harbor Branch Oceanographic Institute Foundation, Inc. (the "Foundation") offers this Management's Discussion and Analysis to help readers further understand the Foundation's financial activities during the fiscal year from July 1, 2018 to June 30, 2019 (our 2019 fiscal year). The discussion and analysis should be read in conjunction with the 2019 financial statements and the report of the independent auditor included herein.

### What is the Harbor Branch Oceanographic Institute Foundation?

The Harbor Branch Oceanographic Institution was founded in 1971 by J. Seward Johnson, Sr. to fulfill his vision of preserving the environment through a deep, scientific understanding of the ocean. Famed Inventor Edwin A. Link furthered the founder's vision with his passion for sea exploration and engineering expertise. Together, Johnson and Link produced countless innovations through partnerships with many of the world's most talented scientists. That work, and the intellectual curiosity of Johnson and Link, propelled Harbor Branch Oceanographic Institution to become one of the world's foremost leaders in oceanographic research. Today, Johnson's legacy is carried on by the Harbor Branch Oceanographic Institute Foundation, a 501(c)(3) nonprofit organization, through its grant-making to the Harbor Branch Oceanographic Institute, a research institute at Florida Atlantic University.

The Harbor Branch Oceanographic Institution has existed independently as a nonprofit since its inception, with its Board of Directors overseeing research operations, a unique campus boasting the largest privately owned deep water channel in Florida and a substantial endowment. The State of Florida funded the purchase of appraised wetlands from the Institution at approximately \$24 million. The Institution also conveyed the Harbor Branch Oceanographic Institute campus property to the State of Florida for use by Florida Atlantic University ("FAU") for no consideration. The Institution gifted tangible and intangible personal property booked by FAU as \$92.2 million of assets as of December 31, 2007. The Board of Directors turned its attention away from governing the Institute, became the renamed Harbor Branch Oceanographic Institute Foundation, and pledged to continue to leverage its considerable assets to support the Harbor Branch Oceanographic Institute, a research institute within Florida Atlantic University ("HBOI").

### Our Mission Today

The mission of the Foundation is to support the HBOI. The Foundation provides funding and support for research and education in marine sciences and ocean engineering. Our goal is to support HBOI as it increases understanding of oceans and coastal areas through exploration and scientific investigation.

### Our Investment Approach

The Foundation's Investment Policy has an objective to earn the highest possible total return (capital appreciation and income return) consistent with prudent levels of risk. 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 an annual spending policy of up to five percent (5%), based on a three-year rolling average of the market value. Therefore, the desired minimum rate of return is equal to the Consumer Price Index ("CPI") plus 500 basis points (5%) on an annualized basis. In light of this return requirement, the portfolio should be 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.

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Management's Discussion and Analysis

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The spending policy reflects the fundamental objective of preserving and enhancing the resources of the Foundation, both at present and in the future. Current spending and the long term objectives of preserving and enhancing the investments are balanced by considerations given to reasonable expectations of investment returns, gift contributions, operating expenses and inflation. The spending policy rate is to be up to five percent (5%) of the investments, calculated on a rolling three-year average of the market value.

### Grant-making

The Foundation has been diligent in fulfilling its mission with a long history of providing grants and other funding totaling over \$41,000,000 since 2007 to HBOI.

In FY15, the Grants Committee, confirmed by the Board of Directors, determined to focus its funding to HBOI as follows:

- To support the goals of a Harbor Branch Oceanographic Institute Strategic Plan
- To fund high impact projects or initiatives
- To provide maximum visibility and raise the profile of HBOI
- To be used to maximize or leverage Discretionary Fund grant dollars to HBOI to obtain funds from other funding sources
- To fund projects that may not meet the criteria or have the opportunity for timely funding from other funding sources, including FAU

In FY18, the Grants Committee confirmed a preference away from multi-year grants. Instead, future grants will be one-year only; in certain cases these may have the intention of being rolling, with any subsequent "renewal" based on evaluation and available spendable.

The Foundation's Board of Directors retains sole discretion over grant-making to HBOI. This ensures the Foundation retains the necessary oversight over the distribution of funds, which are to be used to further its mission of supporting meaningful oceanographic research at HBOI. Through an established grant-making process and timeline, the Foundation invites grant proposals from HBOI for Discretionary Grants. These proposals are reviewed by staff for completeness and compliance and then forwarded to the Grants Committee for their consideration and any recommendation to the full Board. The Foundation staff, in conjunction with External Reviewers and an SLP Review Committee, approves Specialty License Plate grants using established grant-making process and timeline.

The Foundation's grant awards are conditional, which means they are made based on HBOI and FAU's agreement to, and fulfillment of, specific conditions relating to the use of the funds and for the purpose for which they are granted as codified in Funding Letters.

**Discretionary Grants** are made subject to an annual available spendable amount as calculated by the Foundation's Investment Policy and less previously made multi-year grant commitments expected to be paid out in any given year and projected operational expenses.

In addition, the Foundation's **Specialty License Plate** ("SLP") program focuses on four key areas to further oceanographic research and preserve the environment. User fees from the purchase of these plates are used to fund vetted projects along with some grants to others, a marketing budget to promote each plate, and certain administration fees, all allowed by legislative statute.



# Harbor Branch Oceanographic Institute Foundation, Inc.

## Management's Discussion and Analysis

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The four plates include:

**Save our Seas** (“SOS”) Specialty License Plate: Enacted in 2007, research conducted as a result of funding from the **Save our Seas** specialty license plate has focused on scientific research and education on marine plants and animals and coastal oceanography in state marine waters; and collecting and analyzing data on marine habitats among other things.

**Aquaculture** (“AQUA”) Specialty License Plate: Enacted in 2004, funding generated by the **Aquaculture** specialty license plate goes toward promoting research of aquaculture and advancing technology for use by Florida farmers to challenge the current 91 percent of the seafood consumed in the US originating abroad.

**Protect Wild Dolphins** (“PWD”) Specialty License Plate: Enacted in 1998, the **Protect Wild Dolphins** specialty license plate allows researchers to study the wild dolphins in the Indian River Lagoon, which, for 20 years, has provided invaluable insight into the ecosystem. Florida is part of the Southeastern region stranding network and these programs are critical in helping Florida wild dolphins.

**Protect Florida Whales** (“PFW”) Specialty License Plate: Enacted in 2002, proceeds generated by the **Protect Florida Whales** specialty license plate go toward a stranding response team and educational efforts. Florida is part of the Southeastern region stranding network and these programs are critical in helping Florida whales.

### The FY19 Numbers

Discretionary and Specialty License Plate Grants for HBOI totaled payouts of \$3,302,840 for the year ended June 30, 2019.

#### Discretionary Grants

	FY19 Expenses	Original Total Award
New Faculty Hiring	\$ 453,508	\$ 5,481,051
Rewarding Faculty Excellence (Incentives)	143,763	1,465,000
Florida Center for Coastal and Human Health	632,644	650,000
Promoting Faculty Recruitment, Retention and Research Excellence (Salary Support)	486,048	520,000
Preservation of Historical JSL Video Tapes and Data	89,989	89,989
Purchase of a 36 Passenger Pontoon Boat	150,000	150,000
Marilyn Link Memorial Scholarship	2,283	5,000
2018 IRL Fellowship	83,171	102,700
2019 IRL Fellowship	3,481	109,500
2019 IRL Symposium	6,351	—
Special Award	1,624	—
	<b>\$ 2,052,862</b>	<b>\$ 8,573,240</b>

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Management's Discussion and Analysis

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### *Specialty License Plate Grants*

Payments from the Foundation for *Save Our Seas* were made as follows.

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An Innovative Approach to Sponge Community Restoration Principal Investigator Shirley Pomponi, Ph.D.	\$ 11,970
Indian River Lagoon Observatory (IRLO): Ecosystem Function of a Nationally Important Estuary in Transition Principal Investigator Dennis Hanisak, Ph.D.	295,831
Florida Deep-water Marine Biodiversity: Digitization of Submersible Videotapes for Research, Education, and Conservation Principal Investigator John Reed, MS	29,784
Determining new sediment metrics for seagrass restoration monitoring Principal Investigator Dennis Hanisak, Ph.D.	24,383
Improving monitoring and understanding of phytoplankton and harmful algal blooms in the southern Indian River Lagoon Principal Investigator Jim Sullivan, Ph.D.	28,315
Water quality and biological responses of Florida Bay to freshwater discharges from Everglades Principal Investigator Mingshun Jiang, Ph.D.	33,296
Differential Gene and Protein Expression on Triple Negative Breast Cancer Cells Treated with a Marine Natural Compound Principal Investigator Esther Guzman, Ph.D.	16,331
Characterizing polyaromatic hydrocarbons in the Indian River Lagoon Principal Investigator Amy Wright, Ph.D.	26,358
	<hr/> <b>\$ 466,268</b> <hr/>

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Management's Discussion and Analysis

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Payments from the Foundation for *Protect Wild Dolphins* were made as follows:

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Real-time assessment and management of the risk of infectious disease in Florida Wild Dolphins Principal Investigator Greg O'Corry-Crowe, Ph.D.	\$ 24,712
Photo-identification - Update and Expansion of Publications and Scientific Data Dissemination Principal Investigator Marilyn Mazzoil	153,617
Protect Wild Dolphins Stranding Response Principal Investigator Steve Burton, MS	63,553
Photo-Identification - Dolphin Census and Spatiotemporal Trends Principal Investigator Marilyn Mazzoil	301,367
Dolphins as Sentinels for Harmful Algal Bloom Toxins in the Indian River Lagoon: An Interdisciplinary Study Principal Investigator Jim Sullivan, Ph.D.	75,599
	<hr/> \$ 618,848 <hr/>

Payments from the Foundation for *Protect Florida Whales* were made as follows:

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Using Emerging Technologies for Population and Behavioral Ecology Assessment of Florida Whales Principal Investigator Greg O'Corry-Crowe, Ph.D.	\$ 18,055
Exploring Florida Whale Health in a Rapidly Changing Environment Principal Investigator Annie Page-Karjian, DVM, Ph.D.	34,891
	<hr/> \$ 52,946 <hr/>

Payments from the Foundation for *Florida Aquaculture* were made as follows.

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Determining the Market and Nutritional Value for Sea Vegetable Aquaculture Principal Investigator Megan Davis, Ph.D.	\$ 14,281
Advancement of Land-based integrated Multitrophic Aquaculture Principal Investigator Paul Wills, Ph.D.	97,635
	<hr/> \$ 111,916 <hr/>

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Management's Discussion and Analysis

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In FY16, during the audit presentation to the Audit Committee at the October 11, 2016 meeting, the Foundation Board and management discussed the advisability of the practice of providing to FAU SLP funds in advance of an awarded project's use per plate.

At the time of that audit, it was noted over \$2,000,000 in total plate funds were being held as yet unexpended by FAU. It was also noted that after analysis of the past year, there had been at least \$1,000,000 in total plate funds held at any given time. It was discussed rather than forwarding funds upon receipt that these funds remain restricted with the Foundation per plate, which would provide greater transparency, oversight, and, if possible, earn interest at low risk on behalf of each plate. Having the Foundation manage and monitor SLP funds until expended on awarded projects (actual research completed) would be more consistent with addressing possible perception issues as well as ensuring legislative and accounting compliance to protect the integrity of the plate funds.

Funds are now expended only when actually needed. This management mirrors the manner in which the Foundation's Discretionary Grants had been and are paid out, e.g., invoicing for reimbursement as funds are expended rather than forwarding monies as they are received for the plate.

After review by the Audit Committee, Grants Committee and Finance Committee, the Board approved this change in process in November 2016.

In FY18, the Foundation required that funds from the FAU Plate Holding Accounts be transferred to the respective awards already made by the Foundation for the four plates, zeroing each out. At the start of the fiscal year, this table shows the amounts still available to be applied against expenses for the following grants:

SLP Grant		7/1/18	6/30/19	
PWD AWD000052	PWD Stranding Response	\$ 74,357	\$ —	Began Invoicing FY19 Q3 - 3/31/19
PWD AWD000067	Photo-Identification	\$ 16,058	\$ —	Began Invoicing FY19 Q1 - 9/30/18
PFW AWD000079	PFW Stranding Response	\$ 289,088	\$ 181,644	
AQUA AWD001013	IMTA	\$ 117,430	\$ —	Began Invoicing FY19 Q2 - 12/31/18
SOS AWD001022	IRLO	\$ 97,878	\$ —	Began Invoicing FY19 Q2 - 12/31/18

At the end of FY19, only the PFW Stranding project was still working off remaining funds from the FAU PFW Holding Account. This project, running through December 31, 2019, will likely require a return of approximately \$100,000 in unspent funds. These funds will be redeposited into the Foundation's dedicated PFW funds and used to fund future PFW awards.

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Management's Discussion and Analysis

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We would like to thank the Foundation's Board of Directors for their strategic leadership and commitment to the mission of the Foundation. Their volunteer service is reflected in the growth and strength of the Foundation and its assets and the impact the Foundation has made for HBOI. The Foundation's professional staff implements the policies and strategy established by the Board and we are grateful for their dedication.

Respectfully Submitted,



Katha Kissman, President & CEO



Debbie Dutton, Director of Operations

## Financial Statements

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# Harbor Branch Oceanographic Institute Foundation, Inc.

## Statements of Financial Position

<i>June 30,</i>	2019	2018
<b>Assets</b>		
Cash and cash equivalents	\$ 5,469,233	\$ 3,987,597
Contributions receivable	86,375	83,095
Prepaid expenses and other assets	53,028	32,627
Investments	76,511,494	76,410,389
Property and equipment, net	43,573	15,332
<b>Total Assets</b>	<b>\$ 82,163,703</b>	<b>\$ 80,529,040</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 169,798	\$ 86,964
Due to Florida Atlantic University	1,433,027	818,550
<b>Total liabilities</b>	<b>1,602,825</b>	<b>905,514</b>
<b>Commitments and contingencies (Note 8)</b>		
<b>Net assets (deficit):</b>		
Without donor restrictions	48,828	(25,449)
With donor restrictions	80,512,050	79,648,975
<b>Total net assets</b>	<b>80,560,878</b>	<b>79,623,526</b>
<b>Total Liabilities and Net Assets</b>	<b>\$ 82,163,703</b>	<b>\$ 80,529,040</b>

*See accompanying notes to financial statements.*

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Statements of Activities

Year Ended June 30,	2019		2018	
	Without Donor Restrictions	With Donor Restrictions	Without Donor Restrictions	With Donor Restrictions
	Total	Total	Total	Total
<b>Support, gains and other revenues:</b>				
Specialty license plate contributions	\$ 1,633,478	\$ 1,030,128	\$ 420,947	\$ 2,196,656
Investment income	—	2,478,412	—	7,524,162
Fundraising, net of \$28,078 and \$28,557 direct expenses, respectively	—	109,777	—	103,251
Contributions	23,624	2,500	24,218	2,500
Other income	69,487	162,043	67,954	12,800
Net assets released from restrictions	2,919,785	(2,919,785)	2,452,465	(2,452,465)
<b>Total support, gains and other revenues</b>	<b>4,646,374</b>	<b>863,075</b>	<b>2,965,584</b>	<b>7,386,904</b>
<b>Expenses</b>				
<b>Program services:</b>				
Marine and ocean research science	3,887,188	—	2,333,596	—
<b>Supporting services:</b>				
General administration	638,039	—	509,281	—
Fundraising	46,870	—	43,707	—
<b>Total supporting services</b>	<b>684,909</b>	<b>—</b>	<b>552,988</b>	<b>—</b>
<b>Total expenses</b>	<b>4,572,097</b>	<b>—</b>	<b>2,886,584</b>	<b>—</b>
<b>Change in net assets</b>	<b>74,277</b>	<b>863,075</b>	<b>79,000</b>	<b>7,386,904</b>
<b>Net assets (deficit), beginning of year</b>	<b>(25,449)</b>	<b>79,648,975</b>	<b>(104,449)</b>	<b>72,262,071</b>
<b>Net assets (deficit), end of year</b>	<b>\$ 48,828</b>	<b>\$80,512,050</b>	<b>\$ (25,449)</b>	<b>\$ 79,648,975</b>
		<b>\$80,560,878</b>	<b>\$ (25,449)</b>	<b>\$ 79,623,526</b>

See accompanying notes to financial statements.



# Harbor Branch Oceanographic Institute Foundation, Inc.

## Statements of Cash Flows

<i>Year Ended June 30,</i>	2019	2018
<b>Operating activities:</b>		
Change in net assets	\$ 937,352	\$ 7,465,904
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	2,657	2,636
Net unrealized and realized gain on investments	(507,264)	(5,504,279)
Cash provided by (used for):		
Contributions receivable	(3,280)	15,700
Prepaid expenses and other assets	(20,401)	44
Accounts payable and accrued expenses	82,834	(8,941)
Due to Florida Atlantic University	614,477	225,753
<b>Net cash provided by operating activities</b>	<b>1,106,375</b>	<b>2,196,817</b>
<b>Investing activities:</b>		
Proceeds from sale of investments	17,841,044	4,427,337
Purchases of investments	(17,434,885)	(4,210,396)
Purchase of property and equipment	(30,898)	(3,699)
<b>Net cash provided by investing activities</b>	<b>375,261</b>	<b>213,242</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,481,636</b>	<b>2,410,059</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>3,987,597</b>	<b>1,577,538</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 5,469,233</b>	<b>\$ 3,987,597</b>

*See accompanying notes to financial statements.*

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Statement of Functional Expenses

Year Ended June 30, 2019	Program Services		Supporting Services			Total
	Marine and Ocean Research Science	General Administration	Fundraising	Supporting Services	Total	
Discretionary grants to FAU	\$ 2,052,862	\$ —	\$ —	\$ —	\$ —	\$ 2,052,862
Specialty license plate grants to FAU	1,249,978	—	—	—	—	1,249,978
Specialty license plate distributions to others	5,000	—	—	—	—	5,000
Administrative fee to FAU	91,580	—	—	—	—	91,580
Professional services	49,824	313,374	—	313,374	—	363,198
Salaries and related expenses	162,286	185,968	14,511	200,479	—	362,765
Marketing	201,741	—	—	—	—	201,741
Insurance	28,176	32,287	2,519	34,806	—	62,982
Promotion and printing	4,255	4,255	12,766	17,021	—	21,276
Travel	7,185	5,748	1,437	7,185	—	14,370
Equipment	7,370	58,957	7,370	66,327	—	73,697
Taxes	—	3,857	—	3,857	—	3,857
Materials and supplies	879	7,035	879	7,914	—	8,793
Computer and website	12,142	1,736	3,469	5,205	—	17,347
Dues and subscriptions	—	6,394	1,596	7,990	—	7,990
Rent and utilities	11,791	13,512	1,054	14,566	—	26,357
Depreciation	1,189	1,362	106	1,468	—	2,657
Other expenses	930	3,554	1,163	4,717	—	5,647
<b>Total</b>	<b>\$ 3,887,188</b>	<b>\$ 638,039</b>	<b>\$ 46,870</b>	<b>\$ 684,909</b>	<b>\$ 4,572,097</b>	<b>\$ 4,572,097</b>

See accompanying notes to financial statements.

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Statement of Functional Expenses

Year Ended June 30, 2018	Program Services		Supporting Services			Total
	Marine and Ocean Research Science	General Administration	Fundraising	Supporting Services	Total	
Discretionary grants to FAU	\$ 1,748,299	\$ —	\$ —	\$ —	\$ —	\$ 1,748,299
Specialty license plate grants to FAU	100,333	—	—	—	—	100,333
Specialty license plate distributions to others	5,000	—	—	—	—	5,000
Administrative fee to FAU	90,014	—	—	—	—	90,014
Professional services	41,445	268,328	—	—	268,328	309,773
Salaries and related expenses	149,328	165,116	20,894	—	186,010	335,338
Marketing	142,002	—	—	—	—	142,002
Insurance	24,435	26,607	3,258	—	29,865	54,300
Promotion and printing	3,581	3,581	10,742	—	14,323	17,904
Travel	6,196	4,957	1,239	—	6,196	12,392
Equipment	205	1,640	205	—	1,845	2,050
Taxes	—	4,027	—	—	4,027	4,027
Materials and supplies	511	4,091	511	—	4,602	5,113
Computer and website	6,289	899	1,797	—	2,696	8,985
Dues and subscriptions	—	6,920	1,730	—	8,650	8,650
Rent and utilities	12,455	13,563	1,661	—	15,224	27,679
Depreciation	1,186	1,292	158	—	1,450	2,636
Other expenses	2,317	8,260	1,512	—	9,772	12,089
<b>Total</b>	<b>\$ 2,333,596</b>	<b>\$ 509,281</b>	<b>\$ 43,707</b>	<b>\$ 552,988</b>	<b>\$ 2,886,584</b>	

See accompanying notes to financial statements.

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Notes to Financial Statements

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### 1. Nature of Organization and Summary of Significant Accounting Policies

#### *Organization*

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

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 fund (see Note 4) and certain other assets and remains a separate 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.

#### *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.

#### *Contributions Receivable*

Contributions receivable represent specialty license plate monies due from the State of Florida. The Foundation considers these amounts to be fully collectible and therefore has not recorded an allowance for doubtful accounts. Amounts becoming uncollectible will be charged to operations when that determination is made.

#### *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 restricted by donors and is included in the statements of activities as increases or decreases in net assets with donor restrictions and is shown net of investment management fees.

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 an annual spending policy of up to 5 percent, based on a three year rolling average of the market value.

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Notes to Financial Statements

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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. Mutual funds in the form of domestic and international equities both large and small capitalization, and fixed income as well as alternative investments in the form of hedge funds have been determined to be acceptable vehicles for investments. Additional asset classes and style strategies may be incorporated into the investment philosophy in the future.

### *Property and Equipment, Net*

Property and equipment are stated at cost less accumulated depreciation. Donated property and equipment is recorded at fair value at the date of donation. 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. Maintenance and repairs are charged to expense as incurred; significant renewals and betterments are capitalized. Depreciation is provided for property 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 and equipment and land held for investment (included in investments), 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 discounted cash flows. There was no impairment of long-lived assets during 2019 and 2018.

### *Due to FAU*

Amount due to FAU includes discretionary and research funding grants payable to FAU Harbor Branch for expenditures that met the conditions during the year. Discretionary grants are approved by the Foundation's Board of Directors to help fund certain new faculty, provide faculty incentives, salary support, research projects, fellowships, and certain operational supports. Amounts due to FAU related to discretionary grants at June 30, 2019 and 2018 were \$931,308 and \$586,358, respectively.

FAU Harbor Branch is the primary research grantee of the specialty license plate program. As of June 30, 2019 and 2018, amounts due to FAU related to this program were \$412,427 and \$122,770, respectively.

In addition, during 2018, the Foundation received \$109,422 of a pass-through grant in which the donor specified HBOI as the beneficiary. The Foundation accounts for this as an agency transaction and is therefore not reflected as revenue or expense in the accompanying statements of activities. The grant is conditional upon the quarterly submission of required deliverables. During 2019, certain of the conditions of the grant had been met and the Foundation remitted \$20,130 to FAU Harbor Branch. As of June 30, 2019 and 2018, \$89,292 and \$109,422 is included in the amount due to FAU.

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Notes to Financial Statements

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### ***Net Assets***

#### ***Net Assets Without Donor Restrictions***

Net assets without donor restrictions represents funds that are available without restriction for carrying out the Foundation's objectives.

#### ***Net Assets With Donor Restrictions***

Net assets with donor restrictions consist of assets whose use is limited by donor-imposed time and/or purpose restrictions. When a restriction expires, donor restricted net assets are reclassified to net assets without donor restrictions and reported in the accompanying statements of activities as net assets released from restrictions. If a restricted contribution is fulfilled in the same year in which the contribution is received, the Foundation reports the support as net assets without donor restrictions.

Amounts received that are to be maintained by the Foundation in perpetuity are reported as contributions with donor restrictions.

### ***Contribution Revenue***

Contributions, including unconditional promises to give, are recorded at fair value when made. All contributions are available for unrestricted use unless specifically restricted by the donor. Contributions to be received in future periods greater than one year are generally discounted to their present value in the year the contribution is made. Conditional promises to give are not recognized until they become unconditional, that is, when the condition on which they depend are substantially met.

### ***Functional Allocation of Expenses***

The accompanying financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of the Foundation. These expenses include rent, utilities, insurance and depreciation, which are allocated based on total payroll allocations. Salaries and related payroll expenses are allocated among functional categories based on the estimated proportion of each employee's time spent relative to each function. Costs of other categories were allocated based on estimates of time and effort.

### ***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 Statutes. The Foundation did not realize or report any unrelated business income which would be subject to federal or state income taxes.

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Notes to Financial Statements

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The Foundation identifies and evaluates uncertain tax positions, if any, and recognizes the impact of uncertain tax positions for which there is a less than more-likely-than-not probability of the position being upheld when reviewed by the relevant taxing authority. Such positions are deemed to be unrecognized tax benefits and a corresponding liability is established on the statements of financial position. The Foundation has not recognized a liability for uncertain tax positions. 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. The Foundation's tax years subject to examination by the Internal Revenue Service generally remain open for three years from the date of filing.

### *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 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 instruments 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 2 that are observable for the asset or liability, either directly or indirectly, including quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in markets that are not active; inputs other than quoted prices that are observable for the asset or liability (e.g., interest rates); and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

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

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

Fair value estimates discussed herein are based upon certain market assumptions and pertinent information available to management. The respective carrying value of certain on-balance-sheet financial instruments approximates their fair values due to the short-term nature of these instruments. These financial instruments include cash and cash equivalents, contributions receivable, accounts payable and accrued expenses and due to FAU.

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Notes to Financial Statements

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The Foundation's Level 1 financial assets consist of investments as identified in Note 2 and are valued based on quoted market prices. These investments are valued on a daily basis in an active market.

There are no Level 2 or 3 financial instruments.

### *Accounting Pronouncements Issued but Not Yet Adopted*

#### *Revenue*

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (ASU 2014-09), which supersedes nearly all existing revenue recognition guidance under U.S. GAAP. The core principle of ASU 2014-09 is to recognize revenues when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled for those goods or services. ASU 2014-09 defines a five step process to achieve this core principle and, in doing so, more judgment and estimates may be required within the revenue recognition process than are required under existing U.S. GAAP.

The standard is effective for annual periods beginning after December 15, 2018, using either of the following transition methods: (i) a full retrospective approach reflecting the application of the standard in each prior reporting period with the option to elect certain practical expedients, or (ii) a retrospective approach with the cumulative effect of initially adopting ASU 2014-09 recognized at the date of adoption (which includes additional footnote disclosures). The new standard allows for early adoption for annual periods beginning after December 15, 2016. The Foundation is currently evaluating the impact of its pending adoption of ASU 2014-09 on its financial statements and has not yet determined the method by which it will adopt the standard.

#### *Contributions Received and Contributions Made*

In June 2018 the FASB issued ASU 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The new standard clarifies and improves guidance about whether a transfer of assets is a contribution or an exchange transaction, as well as clarifying how an entity determines whether a resource provider is participating in an exchange transaction by evaluating whether the resource provider is receiving commensurate value in return for the resources transferred. The new standard is effective for fiscal periods beginning after December 15, 2018, using either of the following transition methods: (i) a modified prospective in the first set of financial statements following the effective date to agreements that are either not completed as of the effective date or entered into after the effective date, or (ii) a full retrospective approach reflecting the application of the standard in each prior reporting period in the financial statements. Early adoption is permitted. Management is currently evaluating the impact of this ASU on its financial statements.



# Harbor Branch Oceanographic Institute Foundation, Inc.

## Notes to Financial Statements

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### *Accounting Pronouncement Adopted*

Effective July 1, 2018, the Foundation adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958) and Health Care Entities (Topic 954) - Presentation of Financial Statements of Not-for-Profit Entities*. The ASU amends the current reporting model for nonprofit organizations and enhances their required disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring the use of the placed in service approach to recognize the expirations of restrictions on gifts used to acquire or construct long-lived assets absent explicit donor stipulations otherwise, (d) requiring that all nonprofits present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (e) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (f) presenting investment return net of external and direct expenses, and (g) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of nonprofit financial statements.

Implementation of ASU 2016-14 did not require reclassification or restatement of any opening balances related to the period presented. The Foundation’s net assets previously reported as temporarily restricted are now reported as net assets with donor restrictions. Likewise, the Foundation’s net assets previously reported as unrestricted are now reported as net assets without donor restrictions. The Foundation did not have any permanently restricted net assets.

### *Reclassifications*

Certain items have been reclassified in the 2018 financial statements to conform to the 2019 presentation.

## 2. Investments

The fair value of investments includes the following:

<i>June 30,</i>	2019	2018
<b>Cash equivalents</b>	<b>\$ 90,001</b>	<b>\$ 51,400</b>
<b>Land held for investment</b>	<b>691,553</b>	<b>691,553</b>
<b>Level 1 investments:</b>		
Fixed income mutual funds:		
Short term	16,999,733	8,515,036
Long term	9,017,400	8,387,713
Equity mutual funds:		
Domestic large cap	29,668,711	32,810,970
Domestic small cap	10,506,354	12,027,390
International	9,537,742	12,602,086
Alternative - hedge fund	—	1,324,241
<b>Total Level 1 investments</b>	<b>75,729,940</b>	<b>75,667,436</b>
<b>Total investments</b>	<b>\$ 76,511,494</b>	<b>\$ 76,410,389</b>

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Notes to Financial Statements

Investment income is comprised of the following:

<i>Year Ended June 30,</i>	2019	2018
Interest and dividends	\$ 2,045,425	\$ 2,098,883
Net realized/unrealized gains	507,264	5,504,279
Investment Fees	(74,277)	(79,000)
	<b>\$ 2,478,412</b>	<b>\$ 7,524,162</b>

“Cash equivalents” refer to cash holdings in the Investment Portfolio, per the investment policy. “Cash equivalents” held in the investment account represent investment in the US Government Money Market Fund and Bank Deposit Program account. The US Government Money Market Fund invests exclusively in high-quality, short-term securities, which are issued and guaranteed by the US government or US government agencies. The fund held in the Bank Deposit Program represents proceeds from investment sales that have not been reinvested. The investment policy allows for investments in highly liquid securities as part of the investment objectives. The cash equivalents held in the investment account will not be used for operations and are presented separately from cash and cash equivalents in the accompanying statements of financial position.

“Cash and cash equivalents” presented in the accompanying statement of financial position as of June 30, 2019 refer to cash on hand held in Specialty License Plate (“SLP”) Money Market Accounts per specialty license plate (*Protect Wild Dolphins* - \$2,032,551; *Protect Florida Whales* - \$792,860; *Aquaculture* - \$648,094; *Save Our Seas* - \$1,575,654) and in bank accounts (PNC-Operating - \$206,771; Wells Fargo-SLP - \$212,803) and petty cash of \$500.

“Cash and cash equivalents” presented in the accompanying statement of financial position as of June 30, 2018 refer to cash on hand held in SLP Money Market Accounts per specialty license plate (*Protect Wild Dolphins* - \$1,470,599; *Protect Florida Whales* - \$528,317; *Aquaculture* - \$455,551; *Save Our Seas* - \$1,211,243) and in bank accounts (PNC-Operating - \$218,873; Wells Fargo-SLP - \$102,514) and petty cash of \$500.

### 3. Property and Equipment

Property and equipment are comprised of the following:

<i>June 30,</i>	<i>Useful Life</i>	2019	2018
Buildings and building improvements	10-40 years	\$ 30,898	\$ 27,375
Furniture and equipment	7 years	27,375	—
Software	15 years	23,699	23,699
Land improvements	5-50 years	250,445	250,445
		<b>332,417</b>	<b>301,519</b>
<b>Less accumulated depreciation</b>		<b>(288,844)</b>	<b>(286,187)</b>
		<b>\$ 43,573</b>	<b>\$ 15,332</b>

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Notes to Financial Statements

### 4. Net Assets With Donor Restrictions and Releases from Restrictions

Net assets with donor restrictions are available as follows:

<i>June 30,</i>	<b>2019</b>	<b>2018</b>
J. Seward Johnson, Sr. Charitable Trust Endowment Fund	\$ 70,724,410	\$ 71,058,645
Seward Johnson Trust Fund for Oceanography	4,851,522	4,869,508
Specialty License Plate Program	4,808,436	3,616,265
2019 Indian River Lagoon Graduate Research Fellows Program	127,682	104,557
	<b>\$ 80,512,050</b>	<b>\$ 79,648,975</b>

Net assets were released from restrictions from the following sources:

<i>Year Ended June 30,</i>	<b>2019</b>	<b>2018</b>
J. Seward Johnson, Sr. Charitable Trust Endowment Fund	\$ 2,651,624	\$ 2,233,149
Seward Johnson Trust Fund for Oceanography	181,509	152,869
2019 Indian River Lagoon Graduate Research Fellows Program	86,652	66,447
	<b>\$ 2,919,785</b>	<b>\$ 2,452,465</b>

#### *Seward Johnson Funds*

The J. Seward Johnson, Sr. Charitable Trust Endowment Fund (the "Fund") is a donor-restricted term 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 with donor restrictions. The Foundation's annual expenditures from the Fund are limited to five percent of the annual average fair market value of the Fund and are recorded as net assets released from restrictions in the statements of activities. The investment income, including gains, losses, dividends and interest earned on the balance of the Fund, is included in the statements of activities as with donor restrictions.

The Seward Johnson Trust Fund for Oceanography (the "SJ Fund") is a donor-restricted fund and is not an endowment 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 statements of activities as with donor restrictions. Under certain circumstances, the principal of the SJ Fund may be used at the discretion of the Foundation.

The Foundation has an annual spending policy for its investments of up to five percent based on a three year rolling average of the market value.

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Notes to Financial Statements

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Changes in the Foundation's endowment net assets with donor restrictions for the years ended June 30, 2019 and 2018 are as follows:

	J. Seward Johnson, Sr. Charitable Trust Endowment Fund
Endowment net assets at June 30, 2017	\$ 66,252,256
Contributions	2,500
Interest and dividends	1,885,411
Net realized gain on investments	982,461
Net unrealized gain on investments	4,169,166
Distributions	(2,233,149)
Endowment net assets at June 30, 2018	71,058,645
Interest and dividends	1,840,270
Net realized gain on investments	4,701,943
Net unrealized loss on investments	(4,227,513)
Distributions	(2,648,935)
Endowment net assets at June 30, 2019	\$ 70,724,410

The Fund is a donor-restricted term endowment that is classified as net assets with donor restrictions until the term expires and is used in accordance with the donor's restrictions on use. The State of Florida enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) effective June 30, 2009. UPMIFA establishes law for the management and investment of donor-restricted endowment funds. The Board of Directors of the Foundation has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds unless there are explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as net assets with donor restrictions (a) the original value of gifts donated to all donor-restricted endowments, (b) the original value of any subsequent gifts to donor-restricted endowments, and (c) the original value of accumulations to donor-restricted permanent endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Notes to Financial Statements

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UPMIFA permits the Foundation to appropriate for expenditure or accumulate so much of a donor-restricted term endowment fund as it determines is prudent for the uses, benefits, purposes, and duration for which the endowment fund is established. In making its determination to appropriate or accumulate, the Foundation must act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and it must consider, if relevant, the following factors:

- The duration and preservation of the endowment fund
- The purposes of the Foundation and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policy of the Foundation

### 5. Retirement Plan

The Foundation established a 401(k) Profit Sharing Plan and Trust (the “Plan”) effective January 1, 2012. In FY19, the Plan was changed to a Safe Harbor 401(k) plan. Employees must be 21 years of age to participate and become eligible immediately upon employment. The Plan provides for up to a 4 percent dollar for dollar match on employee contributions and 100 percent vesting on employer matching contributions after three years of service. Total employer contributions to the Plan for the years ended June 30, 2019 and 2018, were \$16,344 and \$11,350, respectively, and are included in salaries and related expenses in the statements of functional expenses.

### 6. Financial Assets and Liquidity Resources

As of June 30, 2019, financial assets and liquidity resources available within one year for general expenditure, such as operating expenses, were as follows:

<i>June 30,</i>	<b>2019</b>
Cash and cash equivalents	\$ 5,469,233
Investments	3,627,862
Contributions receivable	86,375
<b>Total financial assets available to management for general expenditure within one year</b>	<b>\$ 9,183,470</b>

The assets of the Foundation’s investment portfolio are invested according to the Foundation’s adopted investment policies and using the services of an outside investment consultant. The Foundation’s investment policy statement has an annual spending rate from its investments of up to five percent of the prior three year rolling average market value. This annual spending rate was approved by the Foundation’s Board of Directors and can be modified as considered necessary through a board resolution. As part of the Foundation’s liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. In addition, the Foundation invests cash in excess of daily requirements through the asset allocation within the investment portfolio.

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Notes to Financial Statements

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### 7. 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. While such accounts may at times exceed federally insured limits, the Foundation has policies in place to move excess as soon as possible and has not experienced any losses on such accounts.

The Foundation has significant investments in mutual funds and exchange traded 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 with input by the Foundation's Finance Committee. 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.

### 8. Commitments and Contingencies

#### *Specialty License Plates*

Under Florida statute, the purpose of the specialty license plate program is to raise funds for a particular cause and on behalf of a legislatively dictated organization. Each specialty license plate requires an annual use fee which is a volunteer purchase. The specialty license plates administered by the Foundation are: Aquaculture, Protect Wild Dolphins, Protect Florida Whales, and Save Our Seas. FAU Harbor Branch is the primary research sub-recipient of the Foundation. The Foundation also stewards a state-allowed marketing budget and directly oversees marketing responsibilities for the plates.

The Foundation is subject to audit examination by the State of Florida to determine compliance with 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 that would be disallowed, if any, would not have a material adverse impact on the Foundation.

#### *Legal - The Foundation v. FAU*

At a special board meeting held March 30, 2017, the Board of Directors of the Foundation resolved that its officers were authorized to direct independent legal counsel to file a complaint for declaratory relief seeking assistance from the court to determine that certain actions and demands by FAU were an inappropriate exercise of its rights under the December 2007 Memorandum of Understanding ("MOU") between the two parties and that FAU had anticipatorily breached its contractual obligations to the Foundation. Following the adoption of Resolution 2017-1 at that meeting, a complaint was filed by the Foundation in the Circuit Court of the Nineteenth Judicial Circuit in and for St. Lucie County, Florida.

In September 2017, the original judge assigned to the case recused himself due to possible conflicts of interest. In-person mediation was held December 20, 2017, followed by continued negotiations between the parties through the mediator. The case did not settle, and the mediator declared an impasse.

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Notes to Financial Statements

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FAU filed a motion for partial summary judgment, in which FAU requests a legal ruling in advance of trial that FAU has the right to control the Foundation's budget. The Foundation opposed FAU's motion, arguing that FAU had no such right under the terms of the MOU. The Court scheduled a hearing on FAU's motion for summary judgment for December 6, 2018. At that hearing, the second assigned judge recused himself due to possible conflicts of interest.

In April 2019, the Foundation was notified the assigned judge was being appointed Chief Judge, and therefore rotating off the case effective July 1, 2019.

In May 2019, the Foundation broadened the initial complaint to add Count II to include a claim that FAU had committed an anticipatory breach of its obligations under the MOU entered into in December of 2007.

In June 2019, FAU filed a motion to dismiss Count II of the Foundation's Amended Complaint. The hearing regarding FAU's motion to dismiss was held on September 25, 2019. The Court denied the motion with respect to FAU's argument that the Foundation failed to state a claim for breach of the MOU as a matter of law. The Court granted the motion, in part, to require the Foundation to provide additional factual allegations to support its claim.

Litigation continues, and the parties are engaging in the discovery process. No trial date has been set.

### *Environmental Contingencies and Legal*

The Foundation had previously been involved in claims relating to possible contamination of soil and groundwater. This contamination is primarily the result of the storage of oil tanks. All issues with regard to this are now resolved. The Foundation may also be subject to claims and legal proceedings which arise in the ordinary course of business. 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 activities or cash flows of the Foundation.

In 1997, the then Harbor Branch Oceanographic Institution organized with other potentially responsible parties (the "Group") in a Florida Petroleum Reprocessors Superfund Site PRP Group for the purpose of addressing environmental response costs in connection with a used oil recycling facility located in Broward County, Florida. The Group agreed to share expenses on a pro-rata basis associated with resolving alleged liability and to fund remedial design/remedial action as may be needed. The Foundation's pro-rata share of future costs is currently expected to be around 1.7% of clean-up costs, including, without limitation, fees and costs incurred. In 2016, the Group projected it has raised enough funds to pay for implementation of remedy. When FAU obtained Harbor Branch Oceanographic Institute assets in 2007, the Harbor Branch Oceanographic Institute Foundation agreed to retain responsibility for participation in the Group. To date, while the Foundation may be subject to claims and legal proceedings which arise in the ordinary course of business, the Foundation has satisfied its financial obligations to the Group for work already completed or underway at the site. 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 activities or cash flows of the Foundation.

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Notes to Financial Statements

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The Group received a status report in February 2019. Periodic sampling of groundwater is the main component of the monitored natural attenuation remedy for the FPR site. Under the approved protocol with EPA, the Group is required to conduct groundwater sampling, both on and off site, every three years. The last groundwater sampling for the FPR site was reported in July 2018. The next round of groundwater sampling is scheduled to occur in 2021.

In the status report, \$522,000 was reported in the Group's escrow account; there are unknown FPR oversight costs for which EPA will bill at some point, but it was reported that these appeared to be adequate funds for the foreseeable future. The Foundation estimates its potential additional liability at 1.7% of a possible \$1,000,000.

### *General Legal*

The Foundation may be subject to claims and legal proceedings which arise in the ordinary course of business. 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 activities or cash flows of the Foundation.

### *Research*

The Foundation has committed finite grants subject to specified terms to help fund the addition of certain new faculty, provide faculty incentives, provide salary support, research projects, fellowships, and certain operational support at FAU Harbor Branch. The total expected commitment remaining at June 30, 2019 is \$2,272,201. This research funding is conditional upon the recipient performing specified services. These grant commitments have not been reflected in the accompanying financial statements since the conditions for performance have not been met.

## **9. Related Party Transactions**

The law firm of a non-voting board member of the Foundation provides legal services to the Foundation. Payments to the law firm for the years ended June 30, 2019 and 2018 were \$42,723 and \$32,528, respectively.

## **10. Subsequent Events**

The Foundation has evaluated events and transactions occurring subsequent to June 30, 2019 as of October 2, 2019, which is the date the financial statements were available to be issued. Subsequent events occurring after October 2, 2019 have not been evaluated by management. No material events have occurred since June 30, 2019 that require recognition or disclosure in the financial statements, except for the decision of the Finance Committee at its July 2019 meeting during its annual review of the Investment Policy. The Committee discussed and concluded the expected rate of return on the investment portfolio should be adjusted downward based on the fact that the equity market is at an all-time high and interest rates are at the lower end of a secular declining trend. Although the Committee does not have a negative outlook, market volatility and valuations need to be considered in forecasting the projected spendable. Therefore, following discussion, the motion to modify the Investment Policy Statement as follows passed unanimously:

- to reduce the investment return objective from 5% plus CPI to 4.5% plus CPI; and
- to reduce the spendable from 5% to 4.5% annually



## Supplementary Information

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## Independent Auditor's Report on Supplementary Information

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

Our audits of the financial statements included in the preceding section of this report were conducted for the purpose of forming an opinion on those statements as a whole. The supplementary information presented in the following section of this report is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*BDO USA, LLP*

Certified Public Accountants  
October 2, 2019

## Harbor Branch Oceanographic Institute Foundation, Inc.

### Schedule of Specialty License Plate Revenue and Expenses Year Ended June 30, 2019

<i>Plate</i>	Total Revenue by Plate	Expenses					Total Expenses by Plate
		FAU Harbor Branch Research Grants	Florida Aquaculture Association Distribution	4% FAU Admin Fee	3% HBOIF Admin Fee	Marketing Expense	
Protect Wild Dolphins	\$ 1,082,801	\$ 618,848	\$ —	\$ 37,681	\$ 32,484	\$ 78,720	\$ 767,733
Protect Florida Whales	367,411	52,946	—	12,574	12,247	33,364	111,131
Aquaculture	320,017	111,917	5,000	10,752	10,668	25,926	164,263
Save Our Seas	893,377	466,268	—	30,573	29,779	63,731	590,351
	<b>\$ 2,663,606</b>	<b>\$ 1,249,979</b>	<b>\$ 5,000</b>	<b>\$ 91,580</b>	<b>\$ 85,178</b>	<b>\$ 201,741</b>	<b>\$ 1,633,478</b>

*See accompanying note to schedule of specialty license plate revenue and expenses.*

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Note to Schedule of Specialty License Plate Revenue and Expenses Year Ended June 30, 2019

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### 1. Note to Schedule

Under Florida Statute (Title XXIII Motor Vehicles, Chapter 320, Motor Vehicle Licenses) the annual use fees generated by the four specialty license plates shall be distributed to the Harbor Branch Oceanographic Institute Foundation, Inc. (the "Foundation"), to be used as follows:

#### PROTECT WILD DOLPHINS:

- Up to 15 percent of the funds received by the Foundation, may be expended for administrative costs directly associated with the operations of the institution.
- Up to 10 percent of the funds distributed may be used by the Foundation, for continuing promotion and marketing of the license plate.
- The remainder of the funds must be used to collect, analyze, and archive scientific data regarding the wild dolphin population in Florida waters; provide care and assistance to stranded wild dolphins; distribute information to the scientific community, federal, state, and local government agencies, educational institutions, and the public for the purpose of protecting and preserving wild dolphins; individually identify wild dolphins through a photographic identification program; and advance the research technology associated with tracking and categorizing wild dolphins.

#### PROTECT FLORIDA WHALES:

- Ten percent of the funds shall be distributed to the Wyland Foundation, Inc. and used specifically to conduct educational programs in this state which promote conservation of Florida marine mammals. These distributions were not included in specialty license plate revenues and expenses since the Foundation acts as an agent of the funds and has no discretion over the amount to be distributed.
- Up to 15 percent of the funds received by the Foundation may be used for administrative costs directly associated with the Harbor Branch Oceanographic Institution's Marine Mammal Research and Conservation program and this specialty license plate funding.
- Up to 10 percent of the funds may be used by the Foundation for continuing promotion and marketing of the license plate.
- The remainder of the funds shall be used to collect, analyze, and archive scientific data regarding whale populations that inhabit, utilize, or migrate in state waters; provide care and assistance to stranded whales; construct and maintain a Harbor-Branch-based teaching marine mammal hospital; train veterinary students in the rescue, medical and rehabilitation treatment, and release and post-release monitoring of stranded whales; distribute information for the purpose of protecting and preserving whales; identify whale populations; conduct scientific research through genetic, telemetry, bioacoustical, and photographic identification research programs; advance the research technology associated with tracking, monitoring, and categorizing whales; develop methods of monitoring whale movements; and provide for methods of early-warning detection systems and advance notification that will help prevent accidental boat strikes in state waters.

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Note to Schedule of Specialty License Plate Revenue and Expenses Year Ended June 30, 2019

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### AQUACULTURE:

- Ten percent of the funds shall be distributed to the Guy Harvey Research Institute of the Nova Southeastern University Oceanographic Center to conduct outreach and education regarding aquaculture in the state. These distributions were not included in specialty license plate revenues and expenses since the Foundation acts as an agent of the funds and has no discretion over the amount to be distributed.
- Up to 15 percent of the funds may be used for administrative costs directly associated with the Foundation's aquaculture programs and administrative costs associated with the Aquaculture license plate.
- Up to 10 percent of the funds may be used by the Foundation for continuing promotion and marketing of the license plate.
- The remaining funds shall be used to conduct scientific research on environmentally responsible and sustainable methods of farming freshwater and saltwater organisms such as fish, shellfish, and crustaceans for food; biomedical species for pharmaceutical and nutraceutical compounds; and marine ornamentals for the aquarium trade. These funds shall also be used to expand the institution's educational programs that include secondary school field experiences, college degree programs, and intensive courses in order to further the objective of increasing aquaculture's contribution to the state's economy.

### SAVE OUR SEAS:

- Ten percent of the funds shall be distributed to the Guy Harvey Research Institute of the Nova Southeastern University Oceanographic Center to conduct fisheries and shark research in the state. These distributions were not included in specialty license plate revenues and expenses since the Foundation acts as an agent of the funds and has no discretion over the amount to be distributed.
- Up to 15 percent of the funds may be used for administrative costs directly associated with the institution.
- Up to 10 percent of the funds may be used for continuing promotion and marketing of the license plate.
- The remaining funds shall be used to conduct scientific research and education on marine plants and animals and coastal oceanography in state marine waters; to collect and analyze long-term data sets on the state's critical marine habitats; to determine changes in populations and communities of marine organisms and their impacts on the use of the state's marine resources; to maintain reference collections of scientific specimens and photographic archives of the state's marine plants and animals; and to conduct scientific conferences of relevance to the state's marine resources and their management, utilization, and conservation.

**Reports Required by *Government Auditing Standards*  
and Florida Single Audit Act**

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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.  
Fort Pierce, Florida

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Harbor Branch Oceanographic Institute Foundation, Inc. (the “Foundation”), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 2, 2019.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Foundation’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Foundation’s internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*BDO USA, LLP*

Certified Public Accountants  
October 2, 2019





## **Independent Auditor’s Report on Compliance for each of the Major State Projects and Report on Internal Control Over Compliance Required by Chapter 10.650, Rules of the Auditor General**

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

### **Report on Compliance for Each Major State Project**

We have audited Harbor Branch Oceanographic Institute Foundation, Inc.’s (the “Foundation”) compliance with the types of compliance requirements described in the State of Florida’s *Department of Financial Services State Projects Compliance Supplement* that could have a direct and material effect on each of the Foundation’s major state projects for the year ended June 30, 2019. The Foundation’s major state projects are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

### ***Management’s Responsibility***

Management is responsible for compliance with state statutes, regulations, and the terms and conditions of its state awards applicable to its state projects.

### ***Auditor’s Responsibility***

Our responsibility is to express an opinion on compliance for each of the Foundation’s major state projects based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of 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 on compliance for each of the major state projects. However, our audit does not provide a legal determination of the Foundation’s compliance.

### ***Opinion on Each Major State Project***

In our opinion, the Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major state projects for the year ended June 30, 2019.



## Report on Internal Control Over Compliance

Management of the Foundation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Foundation's internal control over compliance with the types of requirements that could have a direct and material effect on each of the major state projects to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each of the major state projects 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.

*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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state project will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state project that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the State of Florida, Chapter 10.650, Rules of the Auditor General. Accordingly, this report is not suitable for any other purpose.

*BDO USA, LLP*

Certified Public Accountants  
October 2, 2019

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Schedule of Expenditures of State Financial Assistance

State Agency/State Project	State CSFA No.	Provided to Legislatively- Required Recipients and SLP Grantees	Total Expenditures
<b>Florida Department of Highway Safety and Motor Vehicles:</b>			
Protect Wild Dolphins License Plate Project	76.011	\$ 656,529	\$ 767,733
Protect Florida Whales License Plate Project	76.072	65,519	151,954
Florida Aquaculture License Plate Project	76.080	122,669	199,819
Save Our Seas License Plate Project	76.085	496,841	689,616
<b>Total expenditures of state financial assistance</b>		<b>\$ 1,341,558</b>	<b>\$ 1,809,122</b>

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

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Note to Schedule of Expenditures of State Financial Assistance

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### 1. Basis of Presentation

The accompanying schedule of expenditures of state financial assistance (the "Schedule") 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.

# Harbor Branch Oceanographic Institute Foundation, Inc.

## Schedule of Findings and Questioned Costs - State Financial Assistance

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### SECTION I - SUMMARY OF AUDITOR'S RESULTS

#### Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP      Unmodified

Internal control over financial reporting:

- Material weakness(es) identified?       Yes       No
- Significant deficiency(ies) identified?       Yes       None Reported

Noncompliance material to financial statements noted?       Yes       No

#### State Projects

Type of auditor's report issued on compliance for major projects      Unmodified

Internal control over major projects:

- Material weaknesses identified?       Yes       No
- Significant deficiencies identified?       Yes       None Reported

Any audit findings disclosed that are required to be reported in accordance with Chapter 10.656?       Yes       No

Identification of major projects:

#### State Projects:

#### CSFA Number

Florida Department of Highway Safety and Motor Vehicles:	
Protect Wild Dolphins License Plate Project	76.011
Protect Florida Whales License Plate Project	76.072
Florida Aquaculture License Plate Project	76.080

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

### SECTION II - FINANCIAL STATEMENT FINDINGS

There were no findings related to the financial statements which are required to be reported in accordance with generally accepted government auditing standards.

### SECTION III - FINDINGS AND QUESTIONED COSTS - MAJOR STATE PROJECTS

There were no findings and questioned costs for the state projects (as defined in Chapter 10.656) that are required to be reported.

### SECTION IV - OTHER ISSUES

No management letter is required because there were no findings required to be reported in the management letter.

No Summary Schedule of Prior Audit Findings is required because there were no prior audit findings related to state projects.