



**AUDIT REPORT**

**FINANCIAL AND FEDERAL AWARD  
COMPLIANCE EXAMINATION**

**FOR THE YEAR ENDED JUNE 30, 2016**

# NATIONAL MARINE SANCTUARY FOUNDATION

## CONTENTS

	<b>PAGE NO.</b>
I. Financial Section	
Financial Statements for the Years Ended June 30, 2016 and 2015, Including the Schedule of Expenditures of Federal Awards and Schedule of Findings and Questioned Costs	I-(1 - 21)
II. 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	II-(1 - 2)
III. Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by <i>Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)</i>	III-(1 - 2)

# **FINANCIAL STATEMENTS**



**FOR THE YEARS ENDED  
JUNE 30, 2016 AND 2015**

# NATIONAL MARINE SANCTUARY FOUNDATION

## CONTENTS

	<b>PAGE NO.</b>
INDEPENDENT AUDITOR'S REPORT	I-(3 - 4)
EXHIBIT A - Statements of Financial Position, as of June 30, 2016 and 2015	I-5
EXHIBIT B - Statements of Activities and Changes in Net Assets, for the Years Ended June 30, 2016 and 2015	I-(6 - 7)
EXHIBIT C - Statements of Cash Flows, for the Years Ended June 30, 2016 and 2015	I-8
NOTES TO FINANCIAL STATEMENTS	I-(9 - 16)
SUPPLEMENTAL INFORMATION	
SCHEDULE 1 - Schedule of Expenditures of Federal Awards, for the Year Ended June 30, 2016	I-(17 - 18)
SCHEDULE 2 - Schedule of Findings and Questioned Costs, for the Year Ended June 30, 2016	I-(19 - 21)



### INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
National Marine Sanctuary Foundation  
Silver Spring, Maryland

#### Report on the Financial Statements

We have audited the accompanying financial statements of the National Marine Sanctuary Foundation (NMSF), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and changes in net assets and cash flows 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 NMSF as of June 30, 2016 and 2015, 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.

4550 MONTGOMERY AVENUE • SUITE 650 NORTH • BETHESDA, MARYLAND 20814  
(301) 951-9090 • FAX (301) 951-3570 • WWW.GRFCA.COM

---

MEMBER OF CPAMERICA INTERNATIONAL, AN AFFILIATE OF HORWATH INTERNATIONAL  
MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

### Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenditures of Federal Awards on pages I-(17 - 18), as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, 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.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2016 on our consideration of NMSF'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 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 NMSF's internal control over financial reporting and compliance.



October 17, 2016

## NATIONAL MARINE SANCTUARY FOUNDATION

STATEMENTS OF FINANCIAL POSITION  
AS OF JUNE 30, 2016 AND 2015

## ASSETS

	<u>2016</u>	<u>2015</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,417,991	\$ 1,706,456
Investments	5,420,629	5,762,435
Accounts receivable	611,863	88,184
Grants receivable	574,439	823,983
Pledges receivable	30,000	45,000
Prepaid expenses	<u>20,933</u>	<u>324</u>
Total current assets	<u>8,075,855</u>	<u>8,426,382</u>
<b>FIXED ASSETS</b>		
Equipment	370,019	354,319
Software	<u>6,703</u>	<u>6,703</u>
	376,722	361,022
Less: Accumulated depreciation and amortization	<u>(361,422)</u>	<u>(252,416)</u>
Net fixed assets	<u>15,300</u>	<u>108,606</u>
<b>OTHER ASSETS</b>		
Deposits	<u>8,600</u>	<u>6,665</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 8,099,755</u></b>	<b><u>\$ 8,541,653</u></b>

## LIABILITIES AND NET ASSETS

<b>CURRENT LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 340,387	\$ 488,828
Accrued salaries and related benefits	177,633	27,299
Refundable advances	<u>16,901</u>	<u>21,329</u>
Total current liabilities	<u>534,921</u>	<u>537,456</u>
<b>NET ASSETS</b>		
Unrestricted	4,852,462	5,856,140
Temporarily restricted	<u>2,712,372</u>	<u>2,148,057</u>
Total net assets	<u>7,564,834</u>	<u>8,004,197</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 8,099,755</u></b>	<b><u>\$ 8,541,653</u></b>

**NATIONAL MARINE SANCTUARY FOUNDATION**  
**STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>REVENUE</b>			
Grants	\$ 7,791,688	\$ 1,429,996	\$ 9,221,684
Contributions	723,043	-	723,043
Miscellaneous revenue	254,376	-	254,376
Investment (loss) income	(129,881)	-	(129,881)
Net assets released from donor restrictions	<u>845,674</u>	<u>(845,674)</u>	<u>-</u>
Total revenue	<u>9,484,900</u>	<u>584,322</u>	<u>10,069,222</u>
<b>EXPENSES</b>			
Program Services	<u>8,653,312</u>	<u>-</u>	<u>8,653,312</u>
Supporting Services:			
Management and General	1,752,902	-	1,752,902
Fundraising	<u>82,364</u>	<u>-</u>	<u>82,364</u>
Total supporting services	<u>1,835,266</u>	<u>-</u>	<u>1,835,266</u>
Total expenses	<u>10,488,578</u>	<u>-</u>	<u>10,488,578</u>
Changes in net assets before other item	(1,003,678)	584,322	(419,356)
<b>OTHER ITEM</b>			
Cancellation of donor funding	<u>-</u>	<u>(20,007)</u>	<u>(20,007)</u>
Changes in net assets	(1,003,678)	564,315	(439,363)
Net assets at beginning of year	<u>5,856,140</u>	<u>2,148,057</u>	<u>8,004,197</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 4,852,462</u></b>	<b><u>\$ 2,712,372</u></b>	<b><u>\$ 7,564,834</u></b>



<u>2015</u>		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 8,695,763	\$ 1,164,116	\$ 9,859,879
792,738	72,485	865,223
101,242	-	101,242
135,454	-	135,454
<u>1,331,910</u>	<u>(1,331,910)</u>	<u>-</u>
<u>11,057,107</u>	<u>(95,309)</u>	<u>10,961,798</u>
<u>9,895,954</u>	<u>-</u>	<u>9,895,954</u>
1,082,746	-	1,082,746
<u>52,980</u>	<u>-</u>	<u>52,980</u>
<u>1,135,726</u>	<u>-</u>	<u>1,135,726</u>
<u>11,031,680</u>	<u>-</u>	<u>11,031,680</u>
25,427	(95,309)	(69,882)
<u>-</u>	<u>-</u>	<u>-</u>
25,427	(95,309)	(69,882)
<u>5,830,713</u>	<u>2,243,366</u>	<u>8,074,079</u>
<b><u>\$ 5,856,140</u></b>	<b><u>\$ 2,148,057</u></b>	<b><u>\$ 8,004,197</u></b>

**NATIONAL MARINE SANCTUARY FOUNDATION**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2016 AND 2015**

	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Changes in net assets	\$ (439,363)	\$ (69,882)
Adjustments to reconcile changes in net assets to net cash used by operating activities:		
Depreciation and amortization	109,006	109,392
Unrealized loss on investments	154,688	633,203
Realized gain on sale of investments	(2,015)	(719,824)
(Increase) decrease in:		
Accounts receivable	(523,679)	31,271
Grants receivable	249,544	(366,524)
Pledges receivable	15,000	35,460
Prepaid expenses	(20,609)	103,266
Deposits	(1,935)	-
Increase (decrease) in:		
Accounts payable and accrued expenses	(148,441)	231,752
Accrued salaries and related benefits	150,334	5,140
Refundable advances	(4,428)	(73,224)
Net cash used by operating activities	<u>(461,898)</u>	<u>(79,970)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of equipment	(15,700)	-
Purchases of investments	(787,113)	(4,987,439)
Proceeds from sale of investments	<u>976,246</u>	<u>5,113,607</u>
Net cash provided by investing activities	<u>173,433</u>	<u>126,168</u>
Net (decrease) increase in cash and cash equivalents	(288,465)	46,198
Cash and cash equivalents at beginning of year	<u>1,706,456</u>	<u>1,660,258</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 1,417,991</u></b>	<b><u>\$ 1,706,456</u></b>

# NATIONAL MARINE SANCTUARY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

#### Organization -

The National Marine Sanctuary Foundation (NMSF) is a non-profit organization, incorporated under the Nonprofit Corporation Act of the Michigan Corporation, Securities and Land Development Bureau on July 31, 2000, and is located in Silver Spring, Maryland. The mission of NMSF is to enhance national marine sanctuaries in their goal to protect essential U.S. marine areas and to ensure a healthy ocean.

#### Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

#### New accounting pronouncements -

In 2015, Accounting Standards Update (ASU) 2015-07 was issued by the Financial Accounting Standards Board. ASU 2015-07 removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. ASU 2015-07 becomes effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with an option of early implementation. NMSF has elected early implementation of these standards. Previously reported financial information has been restated to present this information on a comparative basis.

#### Cash and cash equivalents -

NMSF considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents and excluding money market funds held by investment managers in the amount of \$127,053 and \$72,991 for the years ended June 30, 2016 and 2015, respectively.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000. At times during the year, NMSF maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

#### Investments -

Investments are recorded at their readily determinable fair value. Realized and unrealized gains and losses are included in investment income in the Statements of Activities and Changes in Net Assets.

#### Accounts, grants and pledges receivable -

Accounts, grants and pledges receivable are reported at their outstanding balance, which approximates fair value. Management considers all amounts to be fully collectible within one year. Accordingly, an allowance for doubtful accounts has not been established.

#### Fixed assets -

Fixed assets in excess of \$5,000 are capitalized and stated at cost. Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years. The cost of maintenance and repairs is recorded as expenses are incurred.

# NATIONAL MARINE SANCTUARY FOUNDATION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

#### Income taxes -

NMSF is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. NMSF is not a private foundation.

#### Uncertain tax positions -

For the years ended June 30, 2016 and 2015, NMSF has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

#### Net asset classification -

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of NMSF and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of NMSF and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statements of Activities and Changes in Net Assets as net assets released from restrictions.

#### Contributions and grants -

Unrestricted and temporarily restricted contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Temporarily restricted contributions and grants received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

NMSF receives funding under cooperative agreements from the U.S. Government for direct and indirect program costs. This funding is subject to restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants are considered exchange transactions and are recorded as unrestricted income to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements.

Grants receivable represents amounts due from the U.S. Government for reimbursable expenses incurred in accordance with the cooperative agreements. Grant funding received in advance of incurring the related expenses is recorded as a refundable advance.

#### Use of estimates -

The preparation of the 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 at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NATIONAL MARINE SANCTUARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**  
(Continued)

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statements of Activities and Changes in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Investment risks and uncertainties -

NMSF invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks.

Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported changes in net assets.

Fair value measurement -

NMSF adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. NMSF accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

2. **INVESTMENTS**

Investments consisted of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Money market funds	\$ 127,053	\$ 72,991
Corporate and Government bonds	2,073,447	2,287,319
Equities	3,130,961	3,402,125
Hedge funds and private equities	<u>89,168</u>	<u>-</u>
<b>TOTAL INVESTMENTS</b>	<b><u>\$ 5,420,629</u></b>	<b><u>\$ 5,762,435</u></b>

Regarding the hedge funds and private equities that were held by NMSF, there were no uncalled commitments or restrictions with respect to liquidity as of June 30, 2016.

**NATIONAL MARINE SANCTUARY FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**2. INVESTMENTS (Continued)**

Included in investment (loss) income are the following:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 22,792	\$ 48,833
Unrealized loss	(154,688)	(633,203)
Realized gain	<u>2,015</u>	<u>719,824</u>
<b>TOTAL INVESTMENT (LOSS) INCOME</b>	<b><u>\$ (129,881)</u></b>	<b><u>\$ 135,454</u></b>

**3. UNRESTRICTED NET ASSETS**

Board designated net assets consisted of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Ocean Activities Trust Fund	\$ 4,766,499	\$ 4,974,785
Sanctuary Site Accounts	356,596	395,184
Strategic Plan Implementation	85,000	85,000
Operational Reserve	<u>(355,633)</u>	<u>401,171</u>
<b>TOTAL UNRESTRICTED NET ASSETS</b>	<b><u>\$ 4,852,462</u></b>	<b><u>\$ 5,856,140</u></b>

**4. TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets consisted of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Channel Islands Programs	\$ 15,664	\$ 15,664
Cordell Bank NMS Programs	3,920	3,920
Fagatele Bay NMS Programs	151,456	226,299
Florida Keys Coral Restoration	843,126	725,366
Flower Garden Banks NMS Programs	920,978	451,619
International Capacity (GIZ)	9,701	18,355
Maritime Heritage	2,180	3,352
Monterey Bay Program	13,418	13,418
MPAAS Conferences	2,865	2,865
Ocean for Life	7,711	47,857
Olympic Coast NMS Program	25,012	25,012
Sea Turtle Convention	135,452	97,938
Sirio Pharma	208,963	216,346
Southwest Fisheries Science Center OSV Funds	2,807	2,807
Stellwagen Bank NMS Programs	214,928	262,937
Thank You Ocean	-	27,002
Vessel Speed Reduction	7,300	7,300
Other Programs	<u>146,891</u>	<u>-</u>
<b>TOTAL TEMPORARILY RESTRICTED NET ASSETS</b>	<b><u>\$ 2,712,372</u></b>	<b><u>\$ 2,148,057</u></b>

**NATIONAL MARINE SANCTUARY FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**5. NET ASSETS RELEASED FROM RESTRICTIONS**

The following temporarily restricted net assets were released from donor restrictions by incurring expenses, which satisfied the restricted purposes specified by the donors:

	<u>2016</u>	<u>2015</u>
2d International Conference on Marine Mammal Protected Areas	\$ -	\$ 74,596
Channel Islands Programs	-	13,237
CRM Learning Program	-	8,418
Fagatele Bay NMS Programs	74,843	75,223
Florida Keys Coral Restoration	40,143	114,377
Flower Garden Banks NMS Programs	380,641	382,108
Hawaiian Islands NMS Programs	-	919
International Capacity (GIZ)	38,996	2,503
Maritime Heritage	1,172	563
Monterey Bay NMS Exploration Center at Santa Cruz	-	9,507
Ocean for Life	40,146	43,663
Sea Turtle Convention	90,517	221,675
Sirio Pharma	7,381	47,655
Stellwagen Bank NMS Programs	96,360	149,829
Thank You Ocean	6,996	109,937
Vessel Speed Reduction	-	77,700
Other Programs	<u>68,479</u>	<u>-</u>
<b>TOTAL NET ASSETS RELEASED FROM RESTRICTIONS</b>	<b><u>\$ 845,674</u></b>	<b><u>\$ 1,331,910</u></b>

**6. LEASE COMMITMENTS**

On July 31, 2014, NMSF entered into a lease agreement for office space in Silver Spring, Maryland. The lease is for a six and one-half year term, with a commencement date of October 1, 2014 and an expiration date of March 31, 2021.

During 2016, NMSF was also under a lease agreement for the Mokupapapa Discovery Center, located in Hawaii. The initial lease was for a twelve-month period that expired September 30, 2015. All terms of this agreement were continued on a month-to-month basis until the lease agreement was formally renewed for a four year and ten-month term, effective March 1, 2016 and expiring December 31, 2020.

The following is a schedule of future minimum rental payments:

<u>Year Ending June 30.</u>	
2017	\$ 320,525
2018	323,250
2019	326,042
2020	328,904
2021	<u>195,805</u>
	<b><u>\$ 1,494,526</u></b>

Rent expense for the years ended June 30, 2016 and 2015 totaled \$368,612 and \$317,223, respectively.

## NATIONAL MARINE SANCTUARY FOUNDATION

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016 AND 2015

#### 7. ECONOMIC DEPENDENCY

Approximately 77% and 79% of NMSF's total revenue for the years ended June 30, 2016 and 2015, respectively, was derived from grants awarded directly by agencies of the United States Government. NMSF has no reason to believe that relationships with these agencies will be discontinued in the foreseeable future. However, any interruption of these relationships (i.e., the failure to renew grant agreements or withholding of funds) would adversely affect NMSF's ability to finance ongoing operations.

#### 8. CONTINGENCY

NMSF receives grants from various agencies of the United States Government. For fiscal years through June 30, 2015, such grants were subject to audit under the provisions of OMB Circular A-133. Beginning for fiscal year ended June 30, 2016, such grants are subject to audit under the provisions of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits. Audits in accordance with the applicable provisions have been completed for all required fiscal years through 2016. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

#### 9. RELATED PARTIES

During 2016, one of NMSF's Board members was employed as the President of SeaWeb. NMSF recorded expenses of \$120,405 and \$65,636 to SeaWeb for grants authorized by the Board of Trustees during 2016 and 2015, respectively. As of June 30, 2016 and 2015, no amounts were due to SeaWeb. This individual resigned as the President of SeaWeb during the year, and their term on NMSF's Board of Directors was completed in June 2016.

Also during 2016, one of NMSF's Board members was employed as the President of the Sea Research Foundation. NMSF recorded expenses of \$31,000 and \$44,401 to the Sea Research Foundation for grants and consulting fees authorized by the Board of Trustees during 2016 and 2015, respectively. As of June 30, 2016 and 2015, no amounts were due to the Sea Research Foundation. This individual resigned from the NMSF Board of Directors in October 2015.

Neither individual noted above had any role in the decision-making process for the awarding of the above-mentioned grants and consulting fees, and the grants awarded required periodic reporting back to NMSF on how the funds were expended. These organizations will continue to receive funding in fiscal year 2017, but their leadership is no longer serving on the NMSF Board of Directors.

#### 10. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, NMSF has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.



**NATIONAL MARINE SANCTUARY FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**10. FAIR VALUE MEASUREMENT (Continued)**

Investments recorded in the Statements of Financial Position are categorized based on the inputs to valuation techniques as follows:

**Level 1.** These are investments where values are based on unadjusted quoted prices for identical assets in an active market NMSF has the ability to access.

**Level 2.** These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

**Level 3.** These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at June 30, 2016 and 2015.

- *Money market funds* - Fair value is equal to the reported net asset value of the fund.
- *Corporate and Government bonds* - Fair value is based upon current yields available on comparable securities of issuers with similar ratings, the security's terms and conditions, and interest rate and credit risk.
- *Equities* - Valued at the closing price reported on the active market in which the individual securities or funds are traded.
- *Hedge funds and private equities* - Do not have a readily determinable fair value. The fair values used are generally determined by the general partner or management of the entity and are based on appraisals or other estimates that require varying degrees of judgment. Inputs used in determining fair value may include the cost and recent activity concerning the underlying investments in the funds or partnerships. Net asset value is the ultimate relevant measure, and thus, has not been assigned a level within the fair value hierarchy.

The table below summarizes, by level within the fair value hierarchy, NMSF's investments as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total June 30, 2016</u>
<b>Asset Class:</b>				
Money market funds	\$ 127,053	\$ -	\$ -	\$ 127,053
Corporate and Government bonds	-	2,073,447	-	2,073,447
Equities	<u>3,130,961</u>	<u>-</u>	<u>-</u>	<u>3,130,961</u>
Total investments, at fair value	<u>3,258,014</u>	<u>2,073,447</u>	<u>-</u>	<u>5,331,461</u>
Hedge funds and private equities, measured at net asset value	<u>-</u>	<u>-</u>	<u>-</u>	<u>89,168</u>
<b>TOTAL INVESTMENTS</b>	<b><u>\$ 3,258,014</u></b>	<b><u>\$ 2,073,447</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 5,420,629</u></b>

**NATIONAL MARINE SANCTUARY FOUNDATION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016 AND 2015**

**10. FAIR VALUE MEASUREMENT (Continued)**

The table below summarizes, by level within the fair value hierarchy, NMSF's investments as of June 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total June 30, 2015</u>
<b>Asset Class:</b>				
Money market funds	\$ 72,991	\$ -	\$ -	\$ 72,991
Corporate and Government bonds	-	2,287,319	-	2,287,319
Equities	<u>3,402,125</u>	<u>-</u>	<u>-</u>	<u>3,402,125</u>
Total investments, at fair value	<u>3,475,116</u>	<u>2,287,319</u>	<u>-</u>	<u>5,762,435</u>
 Hedge funds and private equities, measured at net asset value	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 <b>TOTAL INVESTMENTS</b>	 <b><u>\$3,475,116</u></b>	 <b><u>\$ 2,287,319</u></b>	 <b><u>\$ -</u></b>	 <b><u>\$ 5,762,435</u></b>

**11. RETIREMENT PLAN**

NMSF provides retirement benefits to its employees through a 403(b) plan covering all eligible employees. The plan was originally effective January 1, 2009, but was amended and restated effective September 15, 2015. The plan is funded by employee contributions, pursuant to a salary reduction agreement. Employer contributions are discretionary. For the year ended June 30, 2016, NMSF's contributions to the plan totaled \$33,319. For the year ended June 30, 2015, NMSF did not make any contributions to the plan.

**12. SUBSEQUENT EVENTS**

In preparing these financial statements, NMSF has evaluated events and transactions for potential recognition or disclosure through October 17, 2016, the date the financial statements were issued.

## **SUPPLEMENTAL INFORMATION**

## NATIONAL MARINE SANCTUARY FOUNDATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016

<u>Federal Granting Agency and Program Title</u>	<u>Pass- Through Entity</u>	<u>Pass-Through Identification Number</u>	<u>CFDA Number</u>	<u>Grant Number</u>	<u>Passed Through to Sub- Recipients</u>	<u>Total Federal Expenditures</u>
<b>United States Department of Commerce - National Oceanic and Atmospheric Administration:</b>						
NOAA Mission-Related Education Awards	N/A	N/A	11.008	NA14SEC 0080007	\$ -	\$ 159,034
Subtotal 11.008					-	<b>159,034</b>
Ocean Exploration	N/A	N/A	11.011	NA14OAR 0110257	159,900	298,927
Ocean Exploration	N/A	N/A	11.011	NA15OAR 0110150	174,400	211,494
Subtotal 11.011					<b>334,300</b>	<b>510,421</b>
Marine Sanctuary Program	N/A	N/A	11.429	NA13NOS 4290130	-	44,485
Marine Sanctuary Program	N/A	N/A	11.429	NA14NOS 4290112	179,114	1,921,394
Marine Sanctuary Program	N/A	N/A	11.429	NA15NOS 4290117	153,374	4,118,373
Subtotal 11.429					<b>332,488</b>	<b>6,084,252</b>
Unallied Management Projects	N/A	N/A	11.454	NA13NMF 4540234	489,334	974,730
Subtotal 11.454					<b>489,334</b>	<b>974,730</b>
Congressionally Identified Awards and Projects	N/A	N/A	11.469	NA15NMF 4690240	-	16,830
Subtotal 11.469					-	<b>16,830</b>
Cultural Resources Toolkit	N/A	N/A	11.463/ 15.633	0308.13.0 40289	-	1,421
Subtotal 11.463/15.633					-	<b>1,421</b>
<b>United States Department of the Interior - Fish and Wildlife Service:</b>						
Marine Turtle Conservation Fund	N/A	N/A	15.645	F14AC00 197	-	10,781
Marine Turtle Conservation Fund	N/A	N/A	15.645	F14AP003 95	-	4,452
Marine Turtle Conservation Fund	N/A	N/A	15.645	F15AP006 44	-	28,619
Subtotal 15.645					-	<b>43,852</b>

NATIONAL MARINE SANCTUARY FOUNDATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2016

Federal Granting Agency and Program Title	Pass- Through Entity	Pass-Through Identification Number	CFDA Number	Grant Number	Passed Through to Sub- Recipients	Total Federal Expenditures
<b>United States Environmental Protection Agency:</b>						
Youth Engagement, Education, and Employment Programs	National Environmental Education Foundation	N/A	15.676	N/A	\$ -	\$ 727
Youth Engagement, Education, and Employment Programs	National Environmental Education Foundation	N/A	15.676	N/A	-	421
Subtotal 15.676					-	1,148
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>					<b>\$ 1,156,122</b>	<b>\$ 7,791,688</b>

**Note 1. Basis of Presentation**

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the Federal award activity of NMSF under programs of the Federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of NMSF, it is not intended to and does not present the financial position, changes in net assets or cash flows of NMSF.

**Note 2. Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the Schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years. NMSF has not elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

**NATIONAL MARINE SANCTUARY FOUNDATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

**Section I - Summary of Auditor's Results**

**Financial Statements**

1). Type of auditor's report issued on whether the financial statements audited were prepared in accordance with GAAP on the accrual basis of accounting: Unmodified

2). Internal control over financial reporting:

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

3). Noncompliance material to financial statements noted?  Yes  No

**Federal Awards**

4). Internal control over major federal programs:

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

5). Type of auditor's report issued on compliance for major federal programs: Unmodified

6). Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  Yes  No

7). Identification of major federal programs:

<u>Name of Federal Program</u>	<u>CFDA Number</u>
Ocean Exploration	11.011
Marine Sanctuary Program	11.429

8). Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

9). Auditee qualified as a low-risk auditee?  Yes  No

NATIONAL MARINE SANCTUARY FOUNDATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016

Section II - Financial Statement Findings

**Finding 2016-001: Reconciliation of Asset and Liability Accounts / Delay in Audit Process**

**Federal Programs: N/A**

**Criteria:** As stated in 2 CFR 200.303, "The non-Federal entity must establish and maintain effective internal control over the Federal award that provides reasonable assurance that the non-Federal entity is managing the Federal award in compliance with Federal statutes, regulations, and the terms and conditions of the Federal award. These internal controls should be in compliance with guidance in "Standards for Internal Control in the Federal Government" issued by the Comptroller General of the United States or the "Internal Control Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO)."

**Condition:** At the commencement of our audit fieldwork, we noted that many asset and liability accounts (i.e. investments, accounts receivable, grants receivable, accounts payable, accrued expenses, refundable advances, and net asset balances) were not properly reconciled as of June 30, 2016. As a result, a significant amount of time was spent during the audit process reconciling accounts. The most significant accounts that were not reconciled were grants receivable, accrued expenses and net asset balances. These unreconciled balances did not result in audit adjustments, but rather, we received a complete, revised trial balance post-fieldwork. Many of the account balances changed by a material amount between the initial and final trial balances, and the overall result was a fluctuation in the current year change in net assets from a net surplus of \$187,000 to a net deficit of \$385,000 (overall decrease in the current year change in net assets of \$572,000). It should also be noted that a final, complete SEFA and temporarily restricted net assets schedule were not provided until after fieldwork, as well as a new set of asset and liability schedules, resulting in a significant amount of audit work performed post-fieldwork, and ultimately a delay in the audit process.

Our audit procedures consisted of substantive testwork over the asset and liability accounts and reconciliations, whereby individual items within were selected based on an established threshold. Other procedures included analytical procedures. Ultimately, the SEFA was used in the determination of major programs and compliance testwork over major program expenditures.

**Cause:** NMSF did not have the proper internal controls in place to ensure timely and accurate reconciliations of its assets and liability accounts.

**Identification as a Repeat Finding, if Applicable:** N/A

**Context and Effect:** Without timely and accurate reconciliations of assets and liabilities, there exists the potential for undetected errors or misappropriation of funds, as well as internal financial statements that are incomplete, inaccurate and unreliable.

**Questioned Costs:** None noted

**Recommendation:** We recommend all accounts and related schedules be reconciled at the end of each month, and a detailed review be performed on a timely basis. This practice will ensure the completeness, accuracy and reliability of internal financial statements, as well as improved preparedness for the annual audit.

**Views of Responsible Officials and Planned Corrective Actions:** While issues related to the audit prep delay and concerns were relayed to the auditors prior to their arrival, and we attempted to reschedule the audit without success to ensure our board meeting readiness, we understand and agree that this finding was our condition at the start of the audit. The primary reason for this condition was significant staff transition during FY16, which has been remedied. Further, new procedures for monthly and quarterly reconciliation had been put in place by June 30, 2016 but came too late in the year to have a significant effect on the FY16 audit. These procedures will be continued into FY17, have resolved this matter for subsequent audit testing and will resolve the matter for the future.

NATIONAL MARINE SANCTUARY FOUNDATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2016

Section III - Federal Award Findings and Questioned Costs (2 CFR 200.516(a))

Finding 2016-002: Sub-recipient Management and Monitoring

Federal Programs: CFDA 11.011, CFDA 11.429

**Criteria:** As stated in 2 CFR 200.331 part (b), all pass-through entities (i.e. NMSF) must evaluate each subrecipient's risk of noncompliance with Federal statutes, regulations, and the terms and conditions of the subaward for purposes of determining the appropriate subrecipient monitoring procedures to prescribe to each individual subrecipient (i.e. pre-award risk assessment procedures). Our audit work over subrecipient expenditures revealed instances where pre-award risk assessment procedures were not performed. We also noted that these requirements were not incorporated into NMSF's current policies and procedures.

**Condition:** Our audit work over subrecipient expenditures revealed that NMSF did not perform pre-award risk assessment procedures. We also noted that these requirements were not incorporated into NMSF's current policies and procedures.

Our audit procedures consisted of substantive testwork over a sample of subrecipient expenditures that were selected based on a threshold. We consider our sample to be representative of the population.

**Cause:** NMSF did not have appropriate policies and procedures in place to ensure that pre-award risk assessment procedures were performed (and documented).

**Identification as a Repeat Finding, if Applicable:** N/A

**Context and Effect:** NMSF could inadvertently engage in relationships with subrecipients of higher risk without the appropriate level of oversight (monitoring) to ensure that subrecipients are expending funds in accordance with the provisions and terms of the subaward.

**Questioned Costs:** None noted

**Recommendation:** We recommend NMSF update its policies and procedures surrounding subrecipients to incorporate these requirements.

Recommended updates are as follows:

- Establish criteria to be used in the evaluation of the risk of noncompliance associated with the intended subrecipient for the purpose of determining the expected level of oversight during the period of performance. This evaluation should include a scaling system, such as high, moderate or low risk (for example), and the monitoring tools and procedures to be performed at each of these levels (additional training, on-site reviews, types of and frequency of reporting, etc.).
- Although NMSF is currently compliant with 2 CFR 200.331 part (a), which states that all pass-through entities must ensure that every subaward is clearly identified to the subrecipient as a subaward, and that the award documents must include certain data elements from the pass-through entity's award, we noted that this was not included within NMSF's current policies and procedures. To ensure a complete and thorough policy surrounding subrecipient management and monitoring, we further recommend that NMSF also incorporate such requirements into its policies and procedures.

**Views of Responsible Officials and Planned Corrective Actions:** NMSF has flow charted a process to evaluate vendor/subrecipient risk and has been successfully following that process. We will work to create a written procedure that affirms this flowchart process, complies with the guidance and incorporates the auditor's recommendations.



**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**

**Independent Auditor's Report**

To the Board of Trustees  
National Marine Sanctuary Foundation  
Silver Spring, Maryland

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 the National Marine Sanctuary Foundation (NMSF) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise NMSF's basic financial statements, and have issued our report thereon dated October 17, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered NMSF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances, for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of NMSF's internal control. Accordingly, we do not express an opinion on the effectiveness of NMSF'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 NMSF'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs as Finding 2016-001, that we consider to be a significant deficiency.

4550 MONTGOMERY AVENUE · SUITE 650 NORTH · BETHESDA, MARYLAND 20814  
(301) 951-9090 · FAX (301) 951-3570 · WWW.GRFCPA.COM

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether NMSF'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as Finding 2016-001.

### **NMSF's Response to the Finding**

NMSF's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. NMSF's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **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 result 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.



October 17, 2016

# GELMAN, ROSENBERG

## & FREEDMAN

CERTIFIED PUBLIC ACCOUNTANTS



### REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY TITLE 2 U.S. CODE OF FEDERAL REGULATIONS (CFR) PART 200, UNIFORM ADMINISTRATIVE REQUIREMENTS, COST PRINCIPLES, AND AUDIT REQUIREMENTS FOR FEDERAL AWARDS (UNIFORM GUIDANCE)

#### Independent Auditor's Report

To the Board of Trustees  
National Marine Sanctuary Foundation  
Silver Spring, Maryland

#### **Report on Compliance for Each Major Federal Program**

We have audited the National Marine Sanctuary Foundation's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of NMSF's major federal programs for the year ended June 30, 2016. NMSF's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

#### **Management's Responsibility**

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

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of NMSF's major federal programs 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 *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance 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 federal program occurred. An audit includes examining, on a test basis, evidence about NMSF'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 major federal program. However, our audit does not provide a legal determination of NMSF's compliance.

#### **Opinion on Each Major Federal Program**

In our opinion, NMSF complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

4550 MONTGOMERY AVENUE • SUITE 650 NORTH • BETHESDA, MARYLAND 20814  
(301) 951-9090 • FAX (301) 951-3570 • WWW.GRFCPA.COM

---

MEMBER OF CPAMERICA INTERNATIONAL, AN AFFILIATE OF HORWATH INTERNATIONAL  
MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

## Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as Finding 2016-002. Our opinion on each major federal program is not modified with respect to this matter.

NMSF's response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. NMSF's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

## Report on Internal Control Over Compliance

Management of NMSF 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 NMSF's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 NMSF'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 federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program 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 federal program 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a certain deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as Findings 2016-002, that we consider to be a significant deficiency.

NMSF's response to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. NMSF's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on it.

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 Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

