



**NATIONAL
MARINE
SANCTUARY
FOUNDATION**

AUDIT REPORT

**FINANCIAL AND FEDERAL AWARD
COMPLIANCE EXAMINATION**

FOR THE YEAR ENDED JUNE 30, 2018

NATIONAL MARINE SANCTUARY FOUNDATION

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FINANCIAL STATEMENTS



**FOR THE YEARS ENDED
JUNE 30, 2018 AND 2017**

NATIONAL MARINE SANCTUARY FOUNDATION

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GELMAN, ROSENBERG

& FREEDMAN

CERTIFIED PUBLIC ACCOUNTANTS



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 (the Foundation), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets, functional expenses 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 the Foundation as of June 30, 2018 and 2017, 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.

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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-(20 - 21), 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 September 25, 2018, 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 this 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. This 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.



September 25, 2018

NATIONAL MARINE SANCTUARY FOUNDATION

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2018 AND 2017

ASSETS

	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 3,469,264	\$ 2,033,025
Investments	5,495,601	6,044,478
Accounts receivable	165,323	161,459
Grants receivable	241,481	1,251,273
Pledges receivable	-	30,000
Advances	-	228,648
Prepaid expenses	<u>30,230</u>	<u>29,459</u>
Total current assets	<u>9,401,899</u>	<u>9,778,342</u>
FIXED ASSETS		
Equipment	601,452	484,161
Software	<u>6,703</u>	<u>6,703</u>
	608,155	490,864
Less: Accumulated depreciation and amortization	<u>(414,227)</u>	<u>(380,677)</u>
Net fixed assets	<u>193,928</u>	<u>110,187</u>
OTHER ASSETS		
Deposits	<u>8,600</u>	<u>8,600</u>
TOTAL ASSETS	<u>\$ 9,604,427</u>	<u>\$ 9,897,129</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 466,710	\$ 972,253
Accrued salaries and related benefits	<u>255,774</u>	<u>169,890</u>
Total current liabilities	<u>722,484</u>	<u>1,142,143</u>
NET ASSETS		
Unrestricted	5,188,030	5,466,789
Temporarily restricted	<u>3,693,913</u>	<u>3,288,197</u>
Total net assets	<u>8,881,943</u>	<u>8,754,986</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,604,427</u>	<u>\$ 9,897,129</u>

NATIONAL MARINE SANCTUARY FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Grants	\$ 7,784,077	\$ 1,480,789	\$ 9,264,866
Contributions	1,179,889	-	1,179,889
Miscellaneous revenue	269,746	-	269,746
Investment income	393,851	549	394,400
Net assets released from donor restrictions	<u>1,075,622</u>	<u>(1,075,622)</u>	<u>-</u>
Total support and revenue	<u>10,703,185</u>	<u>405,716</u>	<u>11,108,901</u>
EXPENSES			
Program Services	<u>8,460,748</u>	<u>-</u>	<u>8,460,748</u>
Supporting Services:			
Management and General	1,987,408	-	1,987,408
Fundraising	<u>533,788</u>	<u>-</u>	<u>533,788</u>
Total supporting services	<u>2,521,196</u>	<u>-</u>	<u>2,521,196</u>
Total expenses	<u>10,981,944</u>	<u>-</u>	<u>10,981,944</u>
Changes in net assets before other item	(278,759)	405,716	126,957
OTHER ITEM			
Cancellation of donor funding	<u>-</u>	<u>-</u>	<u>-</u>
Changes in net assets	(278,759)	405,716	126,957
Net assets at beginning of year	<u>5,466,789</u>	<u>3,288,197</u>	<u>8,754,986</u>
NET ASSETS AT END OF YEAR	<u>\$ 5,188,030</u>	<u>\$ 3,693,913</u>	<u>\$ 8,881,943</u>

NATIONAL MARINE SANCTUARY FOUNDATION

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2017</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Grants	\$ 9,179,456	\$ 1,632,592	\$ 10,812,048
Contributions	1,139,126	-	1,139,126
Miscellaneous revenue	344,959	-	344,959
Investment income	756,963	-	756,963
Net assets released from donor restrictions	<u>1,054,587</u>	<u>(1,054,587)</u>	<u>-</u>
Total support and revenue	<u>12,475,091</u>	<u>578,005</u>	<u>13,053,096</u>
EXPENSES			
Program Services	<u>9,591,679</u>	<u>-</u>	<u>9,591,679</u>
Supporting Services:			
Management and General	1,647,908	-	1,647,908
Fundraising	<u>621,177</u>	<u>-</u>	<u>621,177</u>
Total supporting services	<u>2,269,085</u>	<u>-</u>	<u>2,269,085</u>
Total expenses	<u>11,860,764</u>	<u>-</u>	<u>11,860,764</u>
Changes in net assets before other item	614,327	578,005	1,192,332
OTHER ITEM			
Cancellation of donor funding	<u>-</u>	<u>(2,180)</u>	<u>(2,180)</u>
Changes in net assets	614,327	575,825	1,190,152
Net assets at beginning of year,	<u>4,852,462</u>	<u>2,712,372</u>	<u>7,564,834</u>
NET ASSETS AT END OF YEAR	<u>\$ 5,466,789</u>	<u>\$ 3,288,197</u>	<u>\$ 8,754,986</u>

NATIONAL MARINE SANCTUARY FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018

	Supporting Services			Total Supporting Services	Total Expenses
	Program Services	Management and General	Fundraising		
Salaries	\$ 1,662,575	\$ 1,088,467	\$ 94,634	\$ 1,183,101	\$ 2,845,676
Payroll taxes and benefits	523,575	257,016	31,139	288,155	811,730
Accounting and audit	-	41,009	-	41,009	41,009
Advertising and promotion	31,083	91	-	91	31,174
Conferences, conventions and meetings	359,693	35,274	337,104	372,378	732,071
Consulting fees	1,198,847	93,546	11,838	105,384	1,304,231
Contractual expenses	283,156	-	-	-	283,156
Depreciation and amortization	33,462	88	-	88	33,550
Equipment, rental and maintenance	158,655	7,547	214	7,761	166,416
Exhibits and kiosks	222,033	-	-	-	222,033
Information technology	102,597	195,965	12,266	208,231	310,828
In-kind contributions	23,941	4,852	-	4,852	28,793
Insurance	-	3,528	-	3,528	3,528
Legal fees	2,250	18,889	518	19,407	21,657
Occupancy	216,971	125,392	-	125,392	342,363
Office expenses	145,010	7,983	1,220	9,203	154,213
Other expenses	232,396	59,009	5,643	64,652	297,048
Printing and reproduction	118,937	14,876	12,186	27,062	145,999
Subgrants	2,251,955	-	-	-	2,251,955
Travel	512,656	33,276	23,826	57,102	569,758
Vessel operations	261,133	-	-	-	261,133
Video/media production	119,823	600	3,200	3,800	123,623
TOTAL	\$ 8,460,748	\$ 1,987,408	\$ 533,788	\$ 2,521,196	\$ 10,981,944

NATIONAL MARINE SANCTUARY FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

	Supporting Services			Total Supporting Services	Total Expenses
	Program Services	Management and General	Fundraising		
Salaries	\$ 1,158,915	\$ 840,097	\$ 70,586	\$ 910,683	\$ 2,069,598
Payroll taxes and benefits	360,301	124,458	23,238	147,696	507,997
Accounting and audit	15	55,147	-	55,147	55,162
Advertising and promotion	18,045	3,215	-	3,215	21,260
Conferences, conventions and meetings	561,683	61,754	455,605	517,359	1,079,042
Consulting fees	1,081,732	88,074	22,000	110,074	1,191,806
Contractual expenses	1,672,712	21,998	-	21,998	1,694,710
Depreciation and amortization	19,744	(489)	-	(489)	19,255
Equipment, rental and maintenance	173,770	33,613	-	33,613	207,383
Exhibits and kiosks	270,442	-	-	-	270,442
Information technology	43,804	106,481	9,887	116,368	160,172
In-kind contributions	8,903	-	4,015	4,015	12,918
Insurance	-	5,233	-	5,233	5,233
Legal fees	-	23,281	-	23,281	23,281
Occupancy	222,389	119,840	-	119,840	342,229
Office expenses	123,680	9,092	1,283	10,375	134,055
Other expenses	202,808	96,780	1,995	98,775	301,583
Printing and reproduction	92,498	2,900	12,029	14,929	107,427
Subgrants	2,602,812	-	-	-	2,602,812
Travel	427,684	52,543	17,497	70,040	497,724
Vessel operations	421,565	-	-	-	421,565
Video/media production	128,177	3,891	3,042	6,933	135,110
TOTAL	\$ 9,591,679	\$ 1,647,908	\$ 621,177	\$ 2,269,085	\$ 11,860,764

NATIONAL MARINE SANCTUARY FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 126,957	\$ 1,190,152
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	33,550	19,255
Unrealized gain on investments	(303,136)	(661,391)
Realized loss sales of investments	13,720	-
(Increase) decrease in:		
Accounts receivable	(3,864)	(31,368)
Grants receivable	1,009,792	(676,834)
Pledges receivable	30,000	-
Advances	228,648	253,124
Prepaid expenses	(771)	(8,526)
(Decrease) increase in:		
Accounts payable and accrued expenses	(505,543)	631,866
Accrued salaries and related benefits	85,884	(7,743)
Refundable advances	-	(16,901)
Net cash provided by operating activities	<u>715,237</u>	<u>691,634</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(117,291)	(114,142)
Purchases of investments	(104,413)	(827,324)
Proceeds from sales/maturities of investments	<u>942,706</u>	<u>864,866</u>
Net cash provided (used) by investing activities	<u>721,002</u>	<u>(76,600)</u>
Net increase in cash and cash equivalents	1,436,239	615,034
Cash and cash equivalents at beginning of year	<u>2,033,025</u>	<u>1,417,991</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,469,264</u>	<u>\$ 2,033,025</u>
SUPPLEMENTAL INFORMATION:		
Donated Stocks	<u>\$ 29,788</u>	<u>\$ -</u>

NATIONAL MARINE SANCTUARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The National Marine Sanctuary Foundation (the Foundation) is a not-for-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 the Foundation is to enhance national marine sanctuaries in their goal to protect essential United States 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 the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Not-for-Profit Entities*.

Cash and cash equivalents -

The Foundation 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 amounts of \$100,941 and \$304,627 for the years ended June 30, 2018 and 2017, 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, the Foundation 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. Interest, dividends, unrealized and realized gains and losses are included in investment income, net of investment management fees, in the Statements of Activities and Changes in Net Assets.

Accounts, grants and pledges receivable -

Accounts, grants and pledges receivable are reported at their net realizable value, 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 as incurred. Depreciation and amortization expense during the years ended June 30, 2018 and 2017 totaled \$33,550 and \$19,255, respectively.

Income taxes -

The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

NATIONAL MARINE SANCTUARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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

Income taxes (continued) -

Accordingly, no provision for income taxes has been made in the accompanying financial statements. The Foundation is not a private foundation.

Uncertain tax positions -

For the years ended June 30, 2018 and 2017, the Foundation 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 support and revenue received without donor-imposed restrictions. These net assets are available for the operations of the Foundation and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include support and revenue subject to donor-imposed stipulations that will be met by the actions of the Foundation 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 donor restrictions.

Grants and contributions -

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

The Foundation receives funding under cooperative agreements from the United States 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 United States 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.

NATIONAL MARINE SANCTUARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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

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.

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 -

The Foundation 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 -

The Foundation 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. The Foundation accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

The Foundation also adopted the provisions of FASB Accounting Standards Update (ASU) 2015-07, *Fair Value Measurement* (Topic 820). The ASU removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the NAV per share practical expedient. It also removes the requirement to make certain disclosures for all investments valued using NAV as a practical expedient.

New accounting pronouncements (not yet adopted) -

In August 2016, the FASB issued ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities.

NATIONAL MARINE SANCTUARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

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

New accounting pronouncements (not yet adopted) (continued) -

The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Statements of Activities and Changes in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of the Foundation's financial statements, it is not expected to alter the Foundation's reported financial position.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year; thus, the effective date is years beginning after December 15, 2018. Early adoption is permitted. The Foundation has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Statements of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for private entities for years beginning after December 15, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

The Foundation plans to adopt the new ASUs at the respective required implementation dates.

2. INVESTMENTS

Investments consisted of the following as of June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Money market funds	\$ 100,941	\$ 304,627
Corporate and government bonds	2,064,850	1,928,253
Equities	3,274,802	3,752,904
Hedge funds and private equities	<u>55,008</u>	<u>58,694</u>
TOTAL INVESTMENTS	<u>\$ 5,495,601</u>	<u>\$ 6,044,478</u>

Regarding the hedge funds and private equities that were held by the Foundation, there were no uncalled commitments or restrictions with respect to liquidity as of June 30, 2018 and 2017.

NATIONAL MARINE SANCTUARY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

2. INVESTMENTS (Continued)

Included in investment income are the following:

	2018	2017
Interest and dividends	\$ 105,169	\$ 95,690
Unrealized gain on investments	303,136	661,391
Realized loss on sales of investments	(13,720)	-
Investment management fees	(185)	(118)
TOTAL INVESTMENT INCOME	\$ 394,400	\$ 756,963

3. UNRESTRICTED NET ASSETS

Board designated net assets consisted of the following as of June 30, 2018 and 2017:

	2018	2017
Operational Activities Fund, including Community Service Payment (CSP) Fund	\$ 4,589,790	\$ 5,019,273
Sanctuary Site Accounts	598,240	447,516
TOTAL UNRESTRICTED NET ASSETS	\$ 5,188,030	\$ 5,466,789

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following as of June 30, 2018 and 2017:

	2018	2017
Bo Li	\$ 233,665	\$ 313,426
Brico Fund	21,000	-
Channel Islands Programs	15,664	72,864
Ciner	29,448	92,000
Cordell Bank NMS Programs	3,920	3,920
Fagatele Bay NMS Programs	439,651	453,905
Florida Keys Coral Restoration	750,013	854,212
Flower Garden Banks NMS Programs	394,502	449,853
Gray's Reef	716,556	564,031
Hawaii Chapter	-	1,403
Hawaiian Islands NMS Programs	7,485	445
International Capacity	57,950	55,616
Monterey Bay Program	3,520	13,418
Ocean for Life	9,461	16,772
Olympic Coast NMS Programs	23,649	23,762
Other Programs	120,027	-
Sea Turtle Convention	623	11,357
Sirio Pharma	76,523	207,257
Southwest Fisheries Science Center OSV Funds	-	2,807
Stellwagen Bank NMS Programs	165,114	151,149
Yuh Fa Fisheries	625,142	-
TOTAL TEMPORARILY RESTRICTED NET ASSETS	\$ 3,693,913	\$ 3,288,197

NATIONAL MARINE SANCTUARY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

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:

	2018	2017
Bo Li	\$ 79,762	\$ 38,574
Capitol Hill Ocean Week (CHOW)	10,000	-
Channel Islands Programs	142,200	125,228
Ciner	62,552	15,000
Cordell Bank NMS Programs	-	1,985
Fagatele Bay NMS Programs	14,359	97,609
Florida Keys Coral Restoration	3,437	22,910
Flower Garden Banks NMS Programs	55,404	214,923
Gray's Reef	121,723	36,000
Hawaii Chapter	1,100	7,398
Hawaiian Islands NMS Programs	960	17,152
International Capacity	59,901	29,834
Monterey Bay Program	13,898	-
Ocean for Life	7,311	21,326
Olympic Coast NMS Programs	20,110	1,250
Other Programs	60,539	93,406
Sea Turtle Convention	120,232	184,917
Sirio Pharma	130,734	1,706
Southwest Fisheries Science Center OSV Funds	2,807	-
Stellwagen Bank NMS Programs	168,593	138,069
Vessel Speed Reduction	-	7,300
	\$ 1,075,622	\$ 1,054,587

6. LEASE COMMITMENTS

The Foundation is under 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.

The Foundation is also under a lease agreement for space in the Mokuapapapa Discovery Center, located in Hawaii. The lease is for a four year and ten-month term, with a commencement date of March 1, 2016 and an expiration date of December 31, 2020.

The following is a schedule of future minimum rental payments:

Year Ending June 30,	
2019	\$ 326,042
2020	328,904
2021	195,805
	\$ 850,751

NATIONAL MARINE SANCTUARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018 AND 2017

6. LEASE COMMITMENTS (Continued)

Rent expense for the years ended June 30, 2018 and 2017 totaled \$342,363 and \$342,229, respectively.

7. ECONOMIC DEPENDENCY

Approximately 70% of the Foundation's total support and revenue for the years ended June 30, 2018 and 2017 was derived from grants awarded directly by agencies of the United States Government. The Foundation 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 the Foundation's ability to finance ongoing operations.

8. CONTINGENCY

The Foundation receives grants from various agencies of the United States Government. 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 (Uniform Guidance)*. 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 2018. 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. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, the Foundation 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.

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 the Foundation 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.

NATIONAL MARINE SANCTUARY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

9. FAIR VALUE MEASUREMENT (Continued)

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used as of June 30, 2018 and 2017.

- *Money market funds* - Valued at the daily closing price as reported by the fund. The money market fund is an open-end fund that is registered with the Securities and Exchange Commission (SEC). This fund is required to publish its daily net asset value (NAV) and to transact at that price. The money market fund is deemed to be actively traded.
- *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.

The Foundation uses NAV per share, or its equivalent, as a practical expedient. Certain alternative investments that are measured at fair value using NAV (or its equivalent) as a practical expedient have not been categorized in the fair value hierarchy; however, the fair value amounts presented in the tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the accompanying Statements of Financial Position.

Following is a description of those alternative investments:

- *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. NAV 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 or measured at NAV, the Foundation's investments as of June 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total June 30, 2018</u>
Asset Class:				
Money market funds	\$ 100,941	\$ -	\$ -	\$ 100,941
Corporate and government bonds	-	2,064,850	-	2,064,850
Equities	<u>3,274,802</u>	<u>-</u>	<u>-</u>	<u>3,274,802</u>
Total investments, at fair value	3,375,743	2,064,850	-	5,440,593
Hedge funds and private equities, measured at NAV for practical expedient	<u>-</u>	<u>-</u>	<u>-</u>	<u>55,008</u>
TOTAL INVESTMENTS	<u>\$ 3,375,743</u>	<u>\$ 2,064,850</u>	<u>\$ -</u>	<u>\$ 5,495,601</u>

NATIONAL MARINE SANCTUARY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

9. FAIR VALUE MEASUREMENT (Continued)

The table below summarizes, by level within the fair value hierarchy or measured at NAV, the Foundation's investments as of June 30, 2017:

Asset Class:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total June 30, 2017</u>
Money market funds	\$ 304,627	\$ -	\$ -	\$ 304,627
Corporate and government bonds	-	1,928,253	-	1,928,253
Equities	<u>3,752,904</u>	<u>-</u>	<u>-</u>	<u>3,752,904</u>
Total investments, at fair value	4,057,531	1,928,253	-	5,985,784
Hedge funds and private equities, measured at NAV for practical expedient	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,694</u>
TOTAL INVESTMENTS	<u>\$ 4,057,531</u>	<u>\$ 1,928,253</u>	<u>\$ -</u>	<u>\$ 6,044,478</u>

10. RETIREMENT PLAN

The Foundation 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. The Foundation's contributions to the Plan for the years ended June 30, 2018 and 2017 totaled \$49,333 and \$39,565, respectively, and are included in payroll taxes and benefits in the accompanying Statements of Functional Expenses.

11. SUBSEQUENT EVENTS

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through September 25, 2018, 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, 2018

Federal Granting Agency and Program Title	Pass-Through Entity	Pass-Through Identification Number	CFDA Number	Grant Number	Passed Through to Subrecipients	Total Federal Expenditures
United States Department of Commerce - National Oceanic and Atmospheric Administration:						
NOAA Mission-Related Education Awards	N/A	N/A	11.008	NA14SEC0080007	\$ (21,324)	\$ 146,868
Ocean Exploration	N/A	N/A	11.011	NA15OAR0110150	58,200	298,813
Ocean Exploration	N/A	N/A	11.011	NA17OAR0110335	-	54,859
Subtotal 11.011					58,200	353,672
Marine Sanctuary Program	N/A	N/A	11.429	NA16NOS4290169	92,144	2,076,329
Marine Sanctuary Program	N/A	N/A	11.429	NA17NOS4290190	1,116,760	3,955,491
Subtotal 11.429					1,208,904	6,031,820
Unallied Management Projects	N/A	N/A	11.454	NA13NMF4540234	553,383	1,132,779
Congressionally Identified Awards and Projects	N/A	N/A	11.469	NA15NMF4690240	-	93,004
Subtotal United States Department of Commerce - National Oceanic and Atmospheric Administration:					1,799,163	7,758,143
United States Department of the Interior - Fish and Wildlife Service:						
Marine Turtle Conservation Fund	N/A	N/A	15.645	F16AP00631	-	5,970
Marine Turtle Conservation Fund	N/A	N/A	15.645	F17AP00394	-	19,964
Subtotal 15.645 and United States Department of the Interior - Fish and Wildlife Service					-	25,934
TOTAL EXPENDITURES OF FEDERAL AWARDS					\$ 1,799,163	\$ 7,784,077

NATIONAL MARINE SANCTUARY FOUNDATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the Federal award activity of the Foundation under programs of the United States Government for the year ended June 30, 2018. Information on the 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)*. The Schedule presents only a selected portion of the operations of the Foundation; accordingly, it is not intended to and does not present the financial position, changes in net assets or cash flows of the Foundation.

Note 2. Summary of Significant Accounting Policies

Expenditures on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the 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. The Foundation has 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, 2018

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:

Program Title	CFDA Number
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, 2018**

Section II - Financial Statement Findings

There were no reportable findings.

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

There were no reportable findings.



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 (the Foundation) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements, and have issued our report thereon dated September 25, 2018.

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 opinions 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 Foundation'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.

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MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

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.

A handwritten signature in cursive script that reads "Gelman Rosenberg & Friedman".

September 25, 2018

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 (the 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 the Foundation's major federal programs for the year ended June 30, 2018. The Foundation'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 the Foundation'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 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 major federal program. However, our audit does not provide a legal determination of the Foundation's compliance.

Opinion on Each Major Federal Program

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 each of its major federal programs for the year ended June 30, 2018.

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



September 25, 2018