



**NATIONAL
MARINE
SANCTUARY
FOUNDATION**

AUDIT REPORT

**FINANCIAL AND FEDERAL AWARD
COMPLIANCE EXAMINATION**

FOR THE SIX MONTHS ENDED DECEMBER 31, 2018

NATIONAL MARINE SANCTUARY FOUNDATION

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FINANCIAL STATEMENTS



FOR THE SIX MONTHS ENDED DECEMBER 31, 2018

NATIONAL MARINE SANCTUARY FOUNDATION

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CPAs & ADVISORS

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 statement of financial position as of December 31, 2018, and the related statements of activities and change in net assets, functional expenses and cash flows for the six months 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2018, and the change in its net assets and its cash flows for the six months then ended in accordance with accounting principles generally accepted in the United States of America.

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-(18 - 19), 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 August 27, 2019, on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of 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.



August 27, 2019

NATIONAL MARINE SANCTUARY FOUNDATION

STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2018

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 3,267,011
Investments	4,769,544
Accounts receivable	57,228
Grants receivable	172,401
Prepaid expenses	<u>88,580</u>
Total current assets	<u>8,354,764</u>

FIXED ASSETS

Equipment	623,437
Software	<u>6,703</u>
	630,140
Less: Accumulated depreciation and amortization	<u>(441,045)</u>
Net fixed assets	<u>189,095</u>

OTHER ASSETS

Deposits	<u>8,600</u>
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TOTAL ASSETS **\$ 8,552,459**

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued expenses	\$ 312,675
Deferred event revenue	27,500
Accrued salaries and related benefits	241,319
Refundable advances	<u>125,595</u>
Total current liabilities	<u>707,089</u>

NET ASSETS

Without donor restrictions:	
Undesignated	649,748
Board designated	<u>3,766,359</u>
Total without donor restrictions	4,416,107
With donor restrictions	<u>3,429,263</u>
Total net assets	<u>7,845,370</u>

TOTAL LIABILITIES AND NET ASSETS **\$ 8,552,459**

NATIONAL MARINE SANCTUARY FOUNDATION
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2018

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Grants	\$ 3,367,824	\$ 456,222	\$ 3,824,046
Contributions	376,100	-	376,100
Miscellaneous revenue	81,165	-	81,165
Investment (loss) income, net	(165,041)	290	(164,751)
Net assets released from donor restrictions	<u>721,162</u>	<u>(721,162)</u>	<u>-</u>
Total support and revenue	<u>4,381,210</u>	<u>(264,650)</u>	<u>4,116,560</u>
EXPENSES			
Program Services	<u>3,960,689</u>	<u>-</u>	<u>3,960,689</u>
Supporting Services:			
Management and General	1,029,399	-	1,029,399
Fundraising	<u>163,045</u>	<u>-</u>	<u>163,045</u>
Total supporting services	<u>1,192,444</u>	<u>-</u>	<u>1,192,444</u>
Total expenses	<u>5,153,133</u>	<u>-</u>	<u>5,153,133</u>
Change in net assets	(771,923)	(264,650)	(1,036,573)
Net assets at beginning of period	<u>5,188,030</u>	<u>3,693,913</u>	<u>8,881,943</u>
NET ASSETS AT END OF PERIOD	<u>\$ 4,416,107</u>	<u>\$ 3,429,263</u>	<u>\$ 7,845,370</u>

NATIONAL MARINE SANCTUARY FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE SIX MONTHS ENDED DECEMBER 31, 2018

	Supporting Services				Total Expenses
	Program Services	Management and General	Fundraising	Total Supporting Services	
Salaries	\$ 935,291	\$ 489,454	\$ 78,088	\$ 567,542	\$ 1,502,833
Payroll taxes and benefits	289,063	127,531	25,769	153,300	442,363
Accounting and audit	-	37,927	-	37,927	37,927
Advertising and promotion	4,769	-	-	-	4,769
Conferences, conventions and meetings	113,580	14,960	30,870	45,830	159,410
Consulting fees	536,242	175,830	18,000	193,830	730,072
Depreciation and amortization	26,818	-	-	-	26,818
Equipment, rental and maintenance	113,160	4,453	-	4,453	117,613
Exhibits and kiosks	83,827	-	-	-	83,827
Information technology	25,530	72,886	4,520	77,406	102,936
Insurance	-	2,794	-	2,794	2,794
Legal fees	1,980	4,464	131	4,595	6,575
Occupancy	123,345	62,872	-	62,872	186,217
Office expenses	67,843	4,208	1,584	5,792	73,635
Other expenses	338,666	14,672	814	15,486	354,152
Printing and reproduction	32,823	5,111	2,208	7,319	40,142
Subgrants	819,607	-	-	-	819,607
Travel	189,844	12,145	1,061	13,206	203,050
Vessel operations	163,839	-	-	-	163,839
Video/media production	94,462	92	-	92	94,554
TOTAL	\$ 3,960,689	\$ 1,029,399	\$ 163,045	\$ 1,192,444	\$ 5,153,133

NATIONAL MARINE SANCTUARY FOUNDATION
STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED DECEMBER 31, 2018

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (1,036,573)
Adjustments to reconcile changes in net assets to net cash used by operating activities:	
Depreciation and amortization	26,818
Unrealized loss on investments	233,395
Realized gain sales of investments	(5,336)
Decrease (increase) in:	
Accounts receivable	108,095
Grants receivable	69,080
Prepaid expenses	(58,350)
(Decrease) increase in:	
Accounts payable and accrued expenses	(154,035)
Deferred event revenue	27,500
Accrued salaries and related benefits	(14,455)
Refundable advances	<u>125,595</u>
Net cash used by operating activities	<u>(678,266)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of fixed assets	(21,985)
Purchases of investments	(1,329,928)
Proceeds from sales/maturities of investments	<u>1,827,926</u>
Net cash provided by investing activities	<u>476,013</u>
Net decrease in cash and cash equivalents	(202,253)
Cash and cash equivalents at beginning of period	<u>3,469,264</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 3,267,011</u>

NATIONAL MARINE SANCTUARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

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 Foundation is a leading voice for U.S. protected waters, working with communities to conserve and expand those special places for a healthy ocean, coasts, and Great Lakes. Working together, we safeguard species and the places they call home and preserve America's maritime resources.

The Foundation changed their year-end from June 30 to December 31, effective for the six months ended December 31, 2018.

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 Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The ASU was adopted during the six months ended December 31, 2018 and applied retrospectively.

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 \$1,343,318 for the six months ended December 31, 2018.

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 (loss) income, net of investment management fees, in the Statement of Activities and Change in Net Assets.

Accounts and grants receivable -

Accounts and grants 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 are incurred. Depreciation and amortization expense during the six months ended December 31, 2018 totaled \$26,818.

NATIONAL MARINE SANCTUARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

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

Income taxes -

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Beginning January 1, 2018, it is subject to unrelated business income taxes on qualified transportation fringe benefits provided to its employees. The amount of the tax for the six months ended December 31, 2018 totaled \$2,642, and is reflected under "Payroll taxes and benefits" in the Statement of Functional Expenses. The Foundation is not a private foundation.

Uncertain tax positions -

For the six months ended December 31, 2018, 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 -

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions are recorded as "net assets without donor restrictions". Assets restricted solely through the actions of the Board are referred to as Board designated and are also reported as net assets without donor restrictions.
- **Net Assets With Donor Restrictions** - Contributions restricted by donors (or certain grantors) are reported as increases in "net assets with donor restrictions", depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities and Change in Net Assets as net assets released from donor restrictions. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue without donor restrictions when the assets are placed in service.

Grants and contributions -

Grants and contributions are recorded as revenue in the year notification is received from the donor. Grants and contributions with donor restrictions are recognized as without donor restrictions only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions; such funds in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying financial statements. Grant funding received in advance of incurring the related expenses is recorded as "net assets with donor restrictions".

The Foundation receives awards under grants and contracts from the U.S. and foreign governments, international organizations and other sources for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such awards are recorded as revenue "without donor restrictions" to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements.

NATIONAL MARINE SANCTUARY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

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

Grants and contributions (continued) -

Grant funding received under grants and contracts from the U.S. and foreign governments, international organizations and other sources for direct and indirect program costs in advance of incurring the related expenses is recorded as refundable advances.

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.

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 Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses directly attributed to a specific functional area of the Foundation are reported as direct expenses to the programmatic area and those expenses that benefit more than one function are allocated on a basis of estimated time and effort or other reasonable basis.

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.

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.

NATIONAL MARINE SANCTUARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018

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

New accounting pronouncements (not yet adopted) -

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). 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 fiscal 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 June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional. The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous GAAP. The ASU recommends application on a modified prospective basis; however, retrospective application is permitted. The Foundation has not yet decided on a transition method. The ASU is effective for fiscal years beginning after December 15, 2018.

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 Statement 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 December 31, 2018:

Money market funds	\$ 1,343,318
Corporate and Government bonds	1,176,285
Equities	2,208,350
Hedge funds and private equities	<u>41,591</u>
TOTAL INVESTMENTS	<u>\$ 4,769,544</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 December 31, 2018.

NATIONAL MARINE SANCTUARY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

2. INVESTMENTS (Continued)

Included in investment loss are the following:

Interest and dividends	\$ 63,441
Unrealized loss on investments	(233,395)
Realized gain on sales of investments	5,336
Investment management fees	<u>(133)</u>
 TOTAL INVESTMENT LOSS	 <u>\$ (164,751)</u>

3. NET ASSETS WITHOUT RESTRICTIONS

As of December 31, 2018, net assets without donor restrictions have been designated by the Board of Trustees for the following purposes:

Operational Activities Fund, including Community Service Payment (CSP) Fund	<u>\$ 3,766,359</u>
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4. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at December 31, 2018:

Subject to expenditure for specified purpose:	
Bo Li	\$ 233,665
Channel Islands Programs	18,304
Ciner	29,448
Cordell Bank NMS Programs	3,920
Fagatele Bay NMS Programs	428,576
Florida Keys Coral Restoration	927,096
Flower Garden Banks NMS Programs	304,894
Gray's Reef	413,917
Hawaiian Islands NMS Programs	7,485
International Capacity	42,126
Monterey Bay Program	3,520
Ocean for Life	9,461
Olympic Coast Capital Campaign	15,000
Olympic Coast Capital Campaign	54,432
Other Programs	136,184
Sea Turtle Convention	22,433
Sirio Pharma	39,869
Stellwagen Bank NMS Programs	113,664
Yuh Fa Fisheries	<u>625,269</u>
 TOTAL NET ASSETS WITH DONOR RESTRICTIONS	 <u>\$ 3,429,263</u>

NATIONAL MARINE SANCTUARY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

5. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

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

Purpose restrictions accomplished:	
Brico Fund	\$ 21,000
Channel Islands Programs	360
Fagatele Bay NMS Programs	11,129
Florida Keys Coral Restoration	39,153
Flower Garden Banks NMS Programs	89,635
Gray's Reef	302,723
International Capacity	15,825
Olympic Coast Capital Campaign	14,552
Other Programs	18,232
Sea Turtle Convention	94,849
Sirio Pharma	36,654
Stellwagen Bank NMS Programs	<u>77,050</u>
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	<u>\$ 721,162</u>

6. LIQUIDITY AND AVAILABILITY

Financial assets available for use for general expenditures within one year of the Statement of Financial Position date comprise the following at December 31, 2018:

Cash and cash equivalents	\$ 3,267,011
Investments	4,769,544
Accounts receivable	57,228
Grants receivable	<u>172,401</u>
Subtotal financial assets available within one year	8,266,184
Less: Donor restricted funds	(3,429,263)
Less: Board designated funds	<u>(3,766,358)</u>

**FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR
GENERAL EXPENDITURES WITHIN ONE YEAR** **\$ 1,070,563**

The National Marine Sanctuary Foundation derives most of its revenue from grants awarded directly by agencies of the United States Government. These are annual commitments that the Foundation uses to support marine conservation programs. The Foundation has a policy to structure its financial assets to be available and liquid as its obligations become due. As of December 31, 2018, the Foundation has financial assets equal to approximately five months of operating expenses, which is calculated based upon supporting expenses only and does not include program expenses which are mostly supported by Federal awards that the Foundation receives to provide public education and outreach programs. In addition, the Board-designated Operational Activities Funds, which was \$3,766,359 as of December 31, 2018, is a fund that may be drawn down upon in the event of financial distress or an immediate liquidity need which results from events outside the typical life cycle and can convert financial assets to cash for settling financial liabilities.

NATIONAL MARINE SANCTUARY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

7. 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 Mokupapapa 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:

<u>Years Ending December 31,</u>	
2019	\$ 327,476
2020	330,374
2021	<u>30,255</u>
	<u>\$ 688,105</u>

Rent expense for the six months ended December 31, 2018 totaled \$186,217.

8. ECONOMIC DEPENDENCY

Approximately 82% of the Foundation's total support and revenue for the six months ended December 31, 2018 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.

9. 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.

10. 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.

NATIONAL MARINE SANCTUARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2018

10. FAIR VALUE MEASUREMENT (Continued)

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 Statement 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.

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 December 31, 2018.

- *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 Statement 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.

NATIONAL MARINE SANCTUARY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018**

10. 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 December 31, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Investments Measured at NAV</u>	<u>Total December 31, 2018</u>
Asset Class:					
Money market funds	\$ 1,343,318	\$ -	\$ -	\$ -	\$ 1,343,318
Corporate and Government bonds	-	1,176,285	-	-	1,176,285
Equities	<u>2,208,350</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,208,350</u>
Total investments, at fair value	3,551,668	1,176,285	-	-	4,727,953
Hedge funds and private equities	<u>-</u>	<u>-</u>	<u>-</u>	41,591	<u>41,591</u>
TOTAL INVESTMENTS	<u>\$ 3,551,668</u>	<u>\$ 1,176,285</u>	<u>\$ -</u>	<u>\$ 41,591</u>	<u>\$ 4,769,544</u>

11. 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 reinstated 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 six months ended December 31, 2018 totaled \$28,979 and is included in payroll taxes and benefits in the accompanying Statement of Functional Expenses.

12. SUBSEQUENT EVENTS

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through August 27, 2019, the date the financial statements were issued.

SUPPLEMENTAL INFORMATION

NATIONAL MARINE SANCTUARY FOUNDATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE SIX MONTHS ENDED DECEMBER 31, 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:						
Ocean Exploration	N/A	N/A	11.011	NA17OAR0110335	\$ 183,110	\$ 376,316
Marine Sanctuary Program	N/A	N/A	11.429	NA17NOS4290190	288,534	2,516,508
Unallied Management Projects	N/A	N/A	11.454	NA18NMF4540003	265,000	440,799
Congressionally Identified Awards and Projects	N/A	N/A	11.469	NA15NMF4690240	-	29,449
Subtotal United States Department of Commerce - National Oceanic and Atmospheric Administration					736,644	3,363,072
United States Department of the Interior - Fish and Wildlife Service:						
Marine Turtle Conservation Fund	N/A	N/A	15.645	F17AP00394	-	4,752
Subtotal 15.645 and United States Department of the Interior - Fish and Wildlife Service					-	4,752
TOTAL EXPENDITURES OF FEDERAL AWARDS					\$ 736,644	\$ 3,367,824

NATIONAL MARINE SANCTUARY FOUNDATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE SIX MONTHS ENDED DECEMBER 31, 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 six months ended December 31, 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 SIX MONTHS ENDED DECEMBER 31, 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 SIX MONTHS ENDED DECEMBER 31, 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.



CPAs & ADVISORS

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 six months ended December 31, 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 August 27, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Foundation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances, for the purpose of expressing our 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".

August 27, 2019



CPAs & ADVISORS

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 six months ended December 31, 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.

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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 six months ended December 31, 2018.

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.



August 27, 2019