National Marine Sanctuary Foundation

AUDIT REPORT

FINANCIAL AND FEDERAL AWARD COMPLIANCE EXAMINATION

FOR THE YEAR ENDED DECEMBER 31, 2019

NATIONAL MARINE SANCTUARY FOUNDATION

CONTENTS

FINANCIAL STATEMENTS

National
Marine Sanctuary
Foundation

FOR THE YEAR ENDED DECEMBER 31, 2019

NATIONAL MARINE SANCTUARY FOUNDATION

CONTENTS

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, 2019, and the related statements of activities and change in net assets, functional expenses and cash flows for the year 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.

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, 2019, and the change in its net assets and its cash flows for the year 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-(19 - 20), 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 24, 2020, 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.

Gelman Rosenberg & Freedman

August 24, 2020

EXHIBIT A

NATIONAL MARINE SANCTUARY FOUNDATION

STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2019

ASSETS

CURRENT ASSETS	
Cash and cash equivalents	$ 2,333,093
Investments	4,906,353
Accounts receivable	20,961
Grants receivable	510,733
Prepaid expenses	47,831
Total current assets	7,818,971
FIXED ASSETS	
Equipment	689,437
Software	6,703
	696,140
Less: Accumulated depreciation and amortization	(505,304)
Net fixed assets	190,836
OTHER ASSETS	
Deposits	8,600
TOTAL ASSETS	**$ 8,018,407**

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES	
Accounts payable and accrued expenses	$ 339,701
Accrued salaries and related benefits	276,647
Total liabilities	616,348
NET ASSETS	
Without donor restrictions:	
Undesignated	711,184
Board designated	3,585,733
Total without donor restrictions	4,296,917
With donor restrictions	3,105,142
Total net assets	7,402,059
TOTAL LIABILITIES AND NET ASSETS	**$ 8,018,407**

NATIONAL MARINE SANCTUARY FOUNDATION

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Grants	$ 7,823,554	$ 742,148	$ 8,565,702
Contributions	1,422,164	-	1,422,164
Miscellaneous revenue	239,466	-	239,466
Investment income, net	571,641	6,810	578,451
Net assets released from donor restrictions	1,073,079	(1,073,079)	-
Total support and revenue	11,129,904	(324,121)	10,805,783
EXPENSES			
Program Services	8,471,479	-	8,471,479
Supporting Services:			
Management and General	2,079,107	-	2,079,107
Fundraising	698,508	-	698,508
Total supporting services	2,777,615	-	2,777,615
Total expenses	11,249,094	-	11,249,094
Change in net assets	(119,190)	(324,121)	(443,311)
Net assets at beginning of year	4,416,107	3,429,263	7,845,370
NET ASSETS AT END OF YEAR	**$ 4,296,917**	**$ 3,105,142**	**$ 7,402,059**

NATIONAL MARINE SANCTUARY FOUNDATION

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2019

		Supporting Services			
	Program Services	Management and General	Fundraising	Total Supporting Services	Total Expenses
Salaries	$ 2,389,576	$ 952,872	$ 176,044	$ 1,128,916	$ 3,518,492
Payroll taxes and benefits	503,896	200,934	37,123	238,057	741,953
Accounting and audit	-	216,386	-	216,386	216,386
Advertising and promotion	43,239	3,266	8,836	12,102	55,341
Conferences, conventions and meetings	317,597	40,998	342,476	383,474	701,071
Consulting fees	973,017	170,803	60,323	231,126	1,204,143
Depreciation and amortization	64,259	-	-	-	64,259
Equipment, rental and maintenance	237,304	8,411	242	8,653	245,957
Exhibits and kiosks	144,577	-	-	-	144,577
Information technology	58,666	148,151	10,634	158,785	217,451
In-kind contributions	55,237	-	3,896	3,896	59,133
Insurance	6,301	100,208	-	100,208	106,509
Legal fees	3,312	4,642	35	4,677	7,989
Occupancy	237,532	129,498	-	129,498	367,030
Office expenses	173,873	8,597	919	9,516	183,389
Other expenses	118,486	32,058	8,518	40,576	159,062
Printing and reproduction	65,340	21,357	9,300	30,657	95,997
Subgrants	2,018,329	-	-	-	2,018,329
Travel	637,480	40,780	12,662	53,442	690,922
Vessel operations	283,310	-	-	-	283,310
Video/media production	140,148	146	27,500	27,646	167,794
TOTAL	**$ 8,471,479**	**$ 2,079,107**	**$ 698,508**	**$ 2,777,615**	**$ 11,249,094**

See accompanying notes to financial statements.

NATIONAL MARINE SANCTUARY FOUNDATION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	$ (443,311)
Adjustments to reconcile changes in net assets to net cash used by operating activities:	
Depreciation and amortization	64,259
Unrealized gain on investments	(490,690)
Realized gain sales of investments	(10,442)
Receipt of contributed securities	(73,488)
Proceeds from the sale of contributed securities	73,488
Decrease (increase) in:	
Accounts receivable	36,267
Grants receivable	(338,332)
Prepaid expenses	40,748
Increase (decrease) in:	
Accounts payable and accrued expenses	27,030
Deferred event revenue	(27,500)
Accrued salaries and related benefits	35,328
Refundable advances	(125,595)
Net cash used by operating activities	(1,232,238)
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchases of fixed assets	(66,001)
Purchases of investments	(67,062)
Proceeds from sales/maturities of investments	431,383
Net cash provided by investing activities	298,320
Net decrease in cash and cash equivalents	(933,918)
Cash and cash equivalents at beginning of year	3,267,011
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 2,333,093**

See accompanying notes to financial statements.

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.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entitie*s. As such, net assets are reported within two net asset classifications: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories are as follows:

- **Net Assets Without Donor Restrictions** - Net assets available for use in general operations and not subject to donor 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 are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions 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.

New accounting pronouncements adopted -

During 2019, the Foundation early adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended. The ASU provides a framework for recognizing revenue and is intended to improve comparability of revenue recognition practices across for-profit and non-profit entities. Analysis of the various provisions of this standard resulted in no significant changes in the way the Foundation recognized revenue; however, the presentation and disclosures of revenue have been enhanced. The Foundation has elected to opt out of all (or certain) disclosures not required for non-public entities and also elected a modified retrospective approach for implementation.

Also during 2019, the Foundation adopted ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made.* This guidance is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made.

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

New accounting pronouncements adopted (continued) -

Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions, and improve guidance to better distinguish between conditional and unconditional contributions.

The Foundation adopted the ASU using a modified prospective basis.

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 $1,094,521 for the year ended December 31, 2019.

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, which is presented net of investment expenses paid to external investment advisor, 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 year ended December 31, 2019 totaled $64,259.

Income taxes -

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

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

Uncertain tax positions -

For the year ended December 31, 2019, 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.

Grants and contributions -

The majority of the Foundation's revenue is received through contributions and grants from the U.S. Government, corporations and other Foundation entities. Contributions and grants are recognized in the appropriate category of net assets in the period received. The Foundation performs an analysis of the individual contribution and grant to determine if the revenue streams follow the contributions rules or if considered an exchange transaction depending on whether the transaction is reciprocal or nonreciprocal. For contributions and grants qualifying under the contributions rules, revenue is recognized upon notification of the award and satisfaction of all conditions, if applicable. Conditional promises to give are not recognized until the conditions on which they depend are substantially met. Contributions and grants and contracts qualifying as contributions that are unconditional and have 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.

Grants qualifying as conditional contributions contain a right of return and a barrier. Revenue is recognized when the condition or conditions are satisfied. Most grant awards from the United States Government and other entities are for direct and indirect program costs. These transactions are nonreciprocal and classified as conditional and are recognized as contributions when the revenue becomes unconditional. Typically, these agreements also contain a right of return or right of release from obligation provision and the entity has limited discretion over how funds transferred should be spent. As such, the Foundation recognizes revenue for these conditional contributions when the related barrier has been overcome (generally, when qualifying expenditures are incurred). Funds received in advance of the incurrence of qualifying expenditures are recorded as refundable advances. At December 31, 2019 The Foundation had conditional contributions from the federal grant in the amount of approximately $8,237.000 which was not recognized as revenue. Grant funding received under grants and contracts from the U.S. Government 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.

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

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the 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 actual time and effort.

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.

New accounting pronouncement not yet adopted -

FASB issued ASU 2019-01, *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. During 2020, the FASB issued ASU 2020-05 and delayed the implementation date by one year. The ASU is effective for non public entities beginning after December 15, 2021. Early adoption is still permitted. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach or applied at the beginning of the period of adoption recognizing a cumulative-effect adjustment.

The Foundation plans to adopt the new ASU at the required implementation dates and management is currently in the process of evaluating the adoption method and the impact of the new standard on its accompanying financial statements.

2. INVESTMENTS

Investments consisted of the following as of December 31, 2019:

Money market funds	$ 1,094,521
Corporate and Government bonds	1,621,477
Equities	2,146,451
Hedge funds and private equities	43,904
TOTAL INVESTMENTS	**$ 4,906,353**

Included in investment income, net are the following:

Interest and dividends	$ 77,577
Unrealized gain on investments	490,690
Realized gain on sales of investments	10,442
Investment management fees	(258)
TOTAL INVESTMENT INCOME, NET	**$ 578,451**

3. NET ASSETS WITHOUT RESTRICTIONS

As of December 31, 2019, 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	**$ 3,585,733**

4. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at December 31, 2019:

Subject to expenditure for specified purpose:	
Bo Li	$ 223,677
Channel Islands Programs	18,304
Ciner	28,491
Fagatele Bay NMS Programs	321,982
Florida Keys Clean Seas	14,577
Florida Keys Coral Restoration	769,389
Flower Garden Banks NMS Programs	228,994
Gray's Reef	293,104
Hawaiian Islands NMS Programs	30,800
Monterey Bay NMS Program	51,855
National Marine Sanctuary Conservation Program	182,943
Olympic Coast Capital Campaign	9,189
Other Programs	174,493
Sea Turtle Convention	7,289
Sirio Pharma	14,147
Stellwagen Bank NMS Programs	108,155
Yuh Fa Fisheries	627,753
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	**$ 3,105,142**

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:	
Bo Li	$ 9,987
Ciner	957
Cordell Bank NMS Programs	3,920
Fagatele Bay NMS Programs	108,156
Florida Keys Clean Seas	9,885
Florida Keys Coral Restoration	182,296
Flower Garden Banks NMS Programs	76,695
Gray's Reef	123,109
Hawaiian Islands NMS Programs	11,763
International Capacity	42,126
Monterey Bay NMS Program	1,200
Ocean for Life	35,502
National Marine Sanctuary Conservation Program	16,892
Olympic Coast Capital Campaign	55,798
Other Programs	54,391
Sea Turtle Convention	157,736
Sirio Pharma	25,722
Stellwagen Bank NMS Programs	156,508
Yuh Fa Fisheries	436
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	**$ 1,073,079**

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, 2019:

Cash and cash equivalents	$ 2,333,093
Investments	4,906,353
Accounts receivable	20,961
Grants receivable	510,733
Subtotal financial assets available within one year	7,771,140
Less: Donor restricted funds	(3,105,142)
Less: Board designated funds	(3,585,733)
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	**$ 1,080,265**

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, 2019, 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.

6. LIQUIDITY AND AVAILABILITY (Continued)

In addition, the Board designated Operational Activities Funds, which was $3,585,733 as of December 31, 2019, 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.

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:

Years Ending December 31,	
2020	$ 330,374
2021	30,255
	$ 360,629

Occupancy expense for the year ended December 31, 2019 totaled $367,030.

8. ECONOMIC DEPENDENCY

Approximately 72% of the Foundation's total support and revenue for the year ended December 31, 2019 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 2019. 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. 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. There were no changes in the valuation techniques during the year. 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 were no transfers between levels in the fair value hierarchy during the years ended December 31, 2019 and there are no changes in methodology. . Transfers between levels are recorded at the end of the reporting period, if applicable.

- *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.

10. FAIR VALUE MEASUREMENT (Continued)

The table below summarizes, the investments measured at fair value on a recurring basis, by level within the fair value hierarchy and those invested and measured at NAV as a practical expedient as of December 31, 2019.

	Level 1	Level 2	Level 3	Total
Asset Class:				
Money market funds	$ 1,094,521	$ -	$ -	$ 1,094,521
Corporate and Government bonds	-	1,621,477	-	1,621,477
Equities	2,146,451	-	-	2,146,451
Total investments, at fair value	**$ 3,240,972**	**$ 1,621,477**	**$ -**	4,862,449
Alternative Investments:				
Hedge funds and private equities measured at NAV for practical expedient				43,904
TOTAL INVESTMENTS				**$ 4,906,353**

The hedge funds and private equities that were held by the Foundation at NAV had no uncalled commitments or restrictions with respect to liquidity as of December 31, 2019. These investments are organized as a Limited Partnership and its current underlying asset allocation is 61% public equities, 28% fixed income, 8% cash and 1.7% alternative. The managers of the funds have the flexibility to adjust their allocations accordingly.

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 year ended December 31, 2019 totaled $68,023 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 24, 2020, the date the financial statements were issued.

On March 11, 2020, the World Health Organization declared the Coronavirus disease (COVID-19) a global pandemic. As a result of the spread of COVID-19, economic uncertainties have arisen which may negatively impact the Foundation's operations. The overall potential impact is unknown at this time.

On April 18, 2020, the Foundation entered into a two-year promissory note agreement in the amount of $828,100 with a 1% fixed interest rate under the Paycheck Protection Program.

12. SUBSEQUENT EVENTS (Continued)

The promissory note calls for monthly principal and interest payments amortized over the term of the promissory note, unless otherwise forgiven. Under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the promissory note may be forgiven by the Small Business Administration in whole or in part.

SUPPLEMENTAL INFORMATION

NATIONAL MARINE SANCTUARY FOUNDATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019

Federal Granting Agency and Program Title	Pass-Through Entity	Pass-Through Identification Number	CFDA 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	$ 556,549	$ 915,064
Marine Sanctuary Program	N/A	N/A	11.429	711,195	5,698,490
Unallied Management Projects	N/A	N/A	11.454	260,519	823,477
Congressionally Identified Awards and Projects	N/A	N/A	11.469	-	24,195
Coastal Zone Management Administration Awards	N/A	N/A	11.419	272,900	310,114
Subtotal United States Department of Commerce - National Oceanic and Atmospheric Administration				**1,801,163**	**7,771,340**
United States Department of the Interior - Fish and Wildlife Service:					
Marine Turtle Conservation Fund	N/A	N/A	15.645	-	52,214
Subtotal 15.645 and United States Department of the Interior - Fish and Wildlife Service				**-**	**52,214**
TOTAL EXPENDITURES OF FEDERAL AWARDS				**$ 1,801,163**	**$ 7,823,554**

NATIONAL MARINE SANCTUARY FOUNDATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2019

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 December 31, 2019. 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 DECEMBER 31, 2019

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
Unallied Management Projects	11.454
Ocean Exploration	11.011

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 DECEMBER 31, 2019

Section II - Financial Statement Findings

There were no reportable findings.

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

Finding 2019-001: Preparation of the Schedule of Expenditures of Federal Awards

Federal Programs: All Federal Awards

Criteria: The National Marine Sanctuary Foundation is required under 2 CFR § 200.302 to be able to "identify, in its accounts, all federal awards received and expended and the federal programs under which they were received". It is also required to "maintain internal control over federal programs that provide reasonable assurance that the Foundation is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs". Additionally, 2 CFR § 200.302 requires "accurate, current, and complete disclosure of the financial results of each Federal award or program". These requirements are imperative to ensure that all federal programs are properly reported on the Foundation's Schedule of Expenditures of Federal Awards.

Condition: During the current year under audit, the Foundation changed the way that it was recording its direct federal program and program management revenue. As a result, during the preparation of the Schedule of Expenditures of Federal Awards, the program management expenses associated with the program management revenue, which is apportioned to the federal funds was initially unintentionally excluded from the Schedule. This situation is due to the Schedule being provided to the auditors prior to review to ensure that all federal sources of funds are properly identified and included in the Schedule.

Cause: The Foundation reported the program management revenue and expense separately in order to be more transparent in its financial accounting

Effect: The Schedule of Expenditures of Federal Award that the Foundation first provided to the auditors did not include the program management expenses associated with the program management revenue for the federal awards shown on the Schedule in its single audit for the year ended 2019.

Questioned Costs: None identified.

Context: Due to the change in accounting recordation for all federal sources of revenue, the program management expenses associated with the program management revenue was excluded from the Schedule of Expenditures of Federal Awards presented. Upon identification of the issue, management immediately provided a corrected version that included all expenses. This issue appears to be an isolated incident and not systematic in nature.

Identification as a Repeat Finding: This is not a repeat finding

Recommendation: We recommend that the Schedule of Expenditures of Federal Awards be prepared and reviewed and approved prior to submission of the Schedule to the auditors for the annual audit and compliance examination to ensure the schedule is complete and accurate**.**

View of Responsible Official: Prior to the audit, there was a turnover in the Director of Finance at the Foundation and the first submission of the Schedule of Expenditures of Federal Awards mistakenly excluded program management revenue. The program management revenue was appropriately included in other documentation. The Foundation corrected this mistake and provided an updated Schedule. The Foundation hired a Chief Financial Officer in August who will be responsible for reviewing and approving the Schedule prior to submission.

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 December 31, 2019, 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 24, 2020.

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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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.

Gelman Rosenberg & Freedman

August 24, 2020

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 year ended December 31, 2019. 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 December 31, 2019.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as Finding 2019-001. Our opinion on each major Federal program is not modified with respect to these matters.

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

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as Finding 2019-001, that we consider to be a significant deficiency.

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

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.

Gelman Rosenberg & Freedman

August 24, 2020

Corrective Action Plan

In accordance with *Title 2 CFR 200 Uniform Administrative Requirements, Cost Principles and Audit Requirements* under Section 200.511, Audit Findings follow-up, the following details the corrective action plan to be taken for the findings noted in the December 31, 2019 audit.

Federal Award Findings in accordance with 2 CFR 200.516:

Finding #2019-001

Condition: During the current year under audit, the Foundation changed the way that it was recording its direct federal program and program management revenue. As a result, during the preparation of the Schedule of Expenditures of Federal Awards, the program management expenses associated with the program management revenue, which is apportioned to the federal funds was initially unintentionally excluded from the Schedule. This situation is due to the Schedule being provided to the auditors prior to review to ensure that all federal sources of funds are properly identified and included in the Schedule.

Cause: The Foundation reported the program management revenue and expense separately in order to be more transparent in its financial accounting

Effect: The Schedule of Expenditures of Federal Award that the Foundation first provided to the auditors did not include the program management expenses associated with the program management revenue for the federal awards shown on the Schedule in its single audit for the year ended 2019.

Recommendation: We recommend that the Schedule of Expenditures of Federal Awards be prepared and reviewed and approved prior to submission of the Schedule to the auditors for the annual audit and compliance examination to ensure the schedule is complete and accurate.

View of Responsible Official and Planned Corrective Action: Prior to the audit, there was a turnover in the Director of Finance at the Foundation and the first submission of the Schedule of Expenditures of Federal Awards mistakenly excluded program management revenue. The program management revenue was appropriately included in other documentation. The Foundation corrected this mistake and provided an updated Schedule. The Foundation hired a Chief Financial Officer in August who will be responsible for reviewing and approving the Schedule prior to submission.

Anticipated Completion Date: December 31, 2020

Kristen J. Sarri

President and CEO