



National Marine Sanctuary Foundation

AUDIT REPORT

**FINANCIAL AND FEDERAL AWARD
COMPLIANCE EXAMINATION**

FOR THE YEAR ENDED DECEMBER 31, 2020

NATIONAL MARINE SANCTUARY FOUNDATION

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FINANCIAL STATEMENTS



**National
Marine Sanctuary
Foundation**

**FOR THE YEAR ENDED DECEMBER 31, 2020
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2019**

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, 2020, 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.

4550 MONTGOMERY AVENUE · SUITE 800 NORTH · BETHESDA, MARYLAND 20814
(301) 951-9090 · WWW.GRF CPA.COM

MEMBER OF CPAMERICA INTERNATIONAL, AN AFFILIATE OF CROWE GLOBAL
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, 2020, 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.

Report on Summarized Comparative Information

We have previously audited the Foundation's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 24, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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 30, 2021, 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 30, 2021

NATIONAL MARINE SANCTUARY FOUNDATION
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2020
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2019

ASSETS		<u>2020</u>	<u>2019</u>
CURRENT ASSETS			
Cash and cash equivalents	\$	3,080,716	\$ 2,333,093
Investments		4,934,320	4,906,353
Accounts receivable		95,679	20,961
Grants receivable		316,636	510,733
Prepaid expenses		<u>59,182</u>	<u>47,831</u>
Total current assets		<u>8,486,533</u>	<u>7,818,971</u>
FIXED ASSETS			
Equipment		282,959	689,437
Software		<u>-</u>	<u>6,703</u>
		282,959	696,140
Less: Accumulated depreciation and amortization		<u>(153,283)</u>	<u>(505,304)</u>
Net fixed assets		<u>129,676</u>	<u>190,836</u>
OTHER ASSETS			
Deposits		<u>21,202</u>	<u>8,600</u>
TOTAL ASSETS	\$	<u>8,637,411</u>	\$ <u>8,018,407</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$	373,667	\$ 339,701
Accrued salaries and related benefits		<u>313,823</u>	<u>276,647</u>
Total liabilities		<u>687,490</u>	<u>616,348</u>
NET ASSETS			
Without donor restrictions:			
Undesignated		630,622	711,184
Board designated		<u>4,256,727</u>	<u>3,585,733</u>
Total without donor restrictions		4,887,349	4,296,917
With donor restrictions		<u>3,062,572</u>	<u>3,105,142</u>
Total net assets		<u>7,949,921</u>	<u>7,402,059</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>8,637,411</u>	\$ <u>8,018,407</u>

See accompanying notes to financial statements.

NATIONAL MARINE SANCTUARY FOUNDATION
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2020
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2019

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
SUPPORT AND REVENUE				
Grants	\$ 7,539,010	\$ 878,124	\$ 8,417,134	\$ 8,565,702
Contributions	1,768,466	-	1,768,466	1,422,164
Miscellaneous revenue	48,381	-	48,381	239,466
Investment income, net	475,294	987	476,281	578,451
Net assets released from donor restrictions	<u>921,681</u>	<u>(921,681)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>10,752,832</u>	<u>(42,570)</u>	<u>10,710,262</u>	<u>10,805,783</u>
EXPENSES				
Program Services	<u>7,793,429</u>	<u>-</u>	<u>7,793,429</u>	<u>8,471,479</u>
Supporting Services:				
Management and General	1,834,362	-	1,834,362	2,079,107
Fundraising	<u>534,609</u>	<u>-</u>	<u>534,609</u>	<u>698,508</u>
Total supporting services	<u>2,368,971</u>	<u>-</u>	<u>2,368,971</u>	<u>2,777,615</u>
Total expenses	<u>10,162,400</u>	<u>-</u>	<u>10,162,400</u>	<u>11,249,094</u>
Change in net assets	590,432	(42,570)	547,862	(443,311)
Net assets at beginning of year	<u>4,296,917</u>	<u>3,105,142</u>	<u>7,402,059</u>	<u>7,845,370</u>
NET ASSETS AT END OF YEAR	<u>\$ 4,887,349</u>	<u>\$ 3,062,572</u>	<u>\$ 7,949,921</u>	<u>\$ 7,402,059</u>

NATIONAL MARINE SANCTUARY FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2020
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2019

	2020				2019	
	Program Services	Supporting Services		Total Supporting Services	Total Expenses	Total Expenses
		Management and General	Fundraising			
Salaries	\$ 2,586,256	\$ 905,515	\$ 295,094	\$ 1,200,609	\$ 3,786,865	\$ 3,518,492
Payroll taxes and benefits	511,472	180,519	60,173	240,692	752,164	741,953
Accounting and audit	-	173,244	-	173,244	173,244	216,386
Advertising and promotion	15,146	1,823	8,209	10,032	25,178	55,341
Conferences, conventions and meetings	101,851	21,477	72,840	94,317	196,168	701,071
Consulting fees	1,028,102	148,767	38,540	187,307	1,215,409	1,204,143
Depreciation and amortization	61,160	-	-	-	61,160	64,259
Equipment, rental and maintenance	273,965	5,971	-	5,971	279,936	245,957
Exhibits and kiosks	127,582	-	-	-	127,582	144,577
Information technology	104,585	157,540	27,102	184,642	289,227	217,451
In-kind contributions	-	1,000	9,706	10,706	10,706	59,133
Insurance	6,000	4,642	-	4,642	10,642	106,509
Legal fees	2,736	12,239	-	12,239	14,975	7,989
Occupancy	244,866	129,949	-	129,949	374,815	367,030
Office expenses	125,114	9,375	306	9,681	134,795	183,389
Other expenses	107,239	55,123	13,075	68,198	175,437	159,062
Printing and reproduction	22,498	727	3,664	4,391	26,889	95,997
Subgrants	2,082,252	-	-	-	2,082,252	2,018,329
Travel	186,271	11,096	5,818	16,914	203,185	690,922
Vessel operations	53,510	-	-	-	53,510	283,310
Video/media production	152,824	15,355	82	15,437	168,261	167,794
TOTAL	\$ 7,793,429	\$ 1,834,362	\$ 534,609	\$ 2,368,971	\$ 10,162,400	\$ 11,249,094

NATIONAL MARINE SANCTUARY FOUNDATION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2020
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2019

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 547,862	\$ (443,311)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	61,160	64,259
Unrealized gain on investments	(406,089)	(490,690)
Realized gain on sales of investments	(21,100)	(10,442)
Receipt of contributed securities	(10,027)	(73,488)
Proceeds from the sale of contributed securities	10,027	73,488
(Increase) decrease in:		
Accounts receivable	(74,718)	36,267
Grants receivable	194,097	(338,332)
Prepaid expenses	(11,351)	40,748
Deposits	(12,602)	-
Increase (decrease) in:		
Accounts payable and accrued expenses	33,966	27,030
Deferred event revenue	-	(27,500)
Accrued salaries and related benefits	37,176	35,328
Refundable advances	-	(125,595)
Net cash provided (used) by operating activities	<u>348,401</u>	<u>(1,232,238)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	-	(66,001)
Purchases of investments	(53,488)	(67,062)
Proceeds from sales/maturities of investments	<u>452,710</u>	<u>431,383</u>
Net cash provided by investing activities	<u>399,222</u>	<u>298,320</u>
Net increase (decrease) in cash and cash equivalents	747,623	(933,918)
Cash and cash equivalents at beginning of year	<u>2,333,093</u>	<u>3,267,011</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,080,716</u>	<u>\$ 2,333,093</u>

NATIONAL MARINE SANCTUARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

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 Entities*. 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.

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 \$645,306 for the year ended December 31, 2020.

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.

NATIONAL MARINE SANCTUARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

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

Fixed assets -

The Foundation capitalizes all fixed asset expenditures over \$5,000 with a useful life of greater than one year. Fixed assets are depreciated using a three to five year straight line method. Exceptions include (1) equipment purchases funded through a short-duration grant may be expensed in full; and (2) equipment funded through a grant with fewer than five years available may be depreciated at an expedited rate. Depreciation is calculated and recorded on a monthly basis. All fixed asset expenditures under \$5,000 are expensed in the period purchased.

Depreciation and amortization expense during the year ended December 31, 2020 totaled \$61,160.

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.

Uncertain tax positions -

For the year ended December 31, 2020, 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 grants and contributions from the U.S. Government, corporations, and other Foundation entities. These awards are for various activities performed by the Foundation. Grants and contributions are recognized in the appropriate category of net assets in the period received. The Foundation performs an analysis of the individual grant or contribution to determine if the revenue streams follow the contribution rules or if they should be recorded as an exchange transaction depending upon whether the transactions are deemed reciprocal or nonreciprocal under ASU 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*.

For grants and contributions qualifying under the contribution rules, revenue is recognized upon notification of the award and satisfaction of all conditions, if applicable. Contributions and grants 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. Funds in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying financial statements.

Contributions and grants qualifying as conditional contributions contain a right of return from obligation provision that limits the Foundation on how funds transferred should be spent. Additionally, a barrier is present that is related to the purpose of the agreement.

NATIONAL MARINE SANCTUARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

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

Grants and contributions (continued) -

Revenue is recognized when the condition or conditions on which they depend are substantially met. Most grant awards from the U.S. Government and other entities are for direct and indirect program costs. These transactions are nonreciprocal and classified as conditional and are therefore recognized as contributions when the revenue becomes unconditional.

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. For contributions and grants treated as contributions, the Foundation had approximately \$10,215,200 in unrecognized conditional awards as of December 31, 2020.

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 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 follows 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 follows 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, 2020

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

Economic uncertainties -

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.

New accounting pronouncement not yet adopted -

ASU 2019-01, *Leases* (Topic 842) changes the accounting treatment for operating leases by requiring recognition of a lease asset and lease liability at the present value of the lease payments in the Statement of Financial Position and disclosure of 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 date 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, 2020:

Money market funds	\$ 645,306
Corporate and government bonds	1,530,891
Equities	2,693,769
Hedge funds and private equities	<u>64,354</u>
TOTAL INVESTMENTS	<u>\$ 4,934,320</u>

Included in investment income, net are the following:

Interest and dividends	\$ 49,385
Unrealized gain on investments	406,089
Realized gain on sales of investments	21,100
Investment management fees	<u>(293)</u>
TOTAL INVESTMENT INCOME, NET	<u>\$ 476,281</u>

3. **NET ASSETS WITHOUT RESTRICTIONS**

As of December 31, 2020, 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>\$ 4,256,727</u>
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NATIONAL MARINE SANCTUARY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

4. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at December 31, 2020:

Subject to expenditure for specified purpose:	
American Samoa NMS programs	\$ 946,475
Bo Li	110,210
Channel Islands Programs	15,664
CHOW	100,000
Ciner	2,993
Florida Keys Clean Seas	8,189
Florida Keys Coral Restoration	788,533
Flower Garden Banks NMS Programs	205,603
Gray's Reef	290,781
Hawaiian Islands NMS Programs	24,680
Monterey Bay NMS Program	16,044
National Marine Sanctuary Conservation Program	11,399
Olympic Coast Capital Campaign	9,328
Other Programs	196,027
Sea Turtle Convention	34,126
Sirio Pharma	1,862
Stellwagen Bank NMS Programs	<u>300,658</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 3,062,572</u>

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:	
American Samoa NMS programs	\$ 3,867
Bo Li	113,467
Channel Islands Programs	2,640
CHOW	53,851
Ciner	25,498
Florida Keys Clean Seas	6,390
Florida Keys Coral Restoration	104,055
Flower Garden Banks NMS Programs	23,507
Gray's Reef	2,585
Hawaiian Islands NMS Programs	13,600
International Capacity	44,616
Monterey Bay NMS Program	59,807
National Marine Sanctuary Conservation Program	171,544
Olympic Coast Capital Campaign	41,176
Other Programs	88,953
Sea Turtle Convention	82,367
Sirio Pharma	12,285
Stellwagen Bank NMS Programs	<u>71,473</u>
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	<u>\$ 921,681</u>

NATIONAL MARINE SANCTUARY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

6. FUNDING FROM THE PAYCHECK PROTECTION PROGRAM

On April 18, 2020, the Foundation received loan proceeds in the amount of \$828,100 under the Paycheck Protection Program (PPP). Under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), the promissory note must be used for certain expenditures within a 24-week period to ultimately be forgiven by the Small Business Administration. During the year ended December 31, 2020, the Foundation expended and tracked the PPP funds for purposes outlined in the CARES Act guidance and believes they have met all conditions set forth for full forgiveness. Accordingly, under guidance found in FASB ASC 958-605, the Foundation has recognized the PPP funding as a conditional contribution by which all conditions have been met. The Foundation has deemed the forgiveness by the SBA to be highly probable, an administrative task only, and not a barrier to recognition. \$838,100 of grant income is included in contributions on the accompanying Statement of Activities and Change in Net Assets. The PPP funding was forgiven by the SBA in full subsequent to year-end.

7. 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, 2020:

Cash and cash equivalents	\$ 3,080,716
Investments	4,934,320
Accounts receivable	95,679
Grants receivable	<u>316,636</u>
Subtotal financial assets available within one year	8,427,351
Less: Donor restricted funds	(3,062,572)
Less: Board designated funds	<u>(4,256,727)</u>

**FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS
FOR GENERAL EXPENDITURES WITHIN ONE YEAR** **\$ 1,108,052**

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, 2020, the Foundation has financial assets equal to approximately six 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 \$4,256,727 as of December 31, 2020, 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.

8. LEASE COMMITMENTS

The Foundation was under a lease agreement for office space in Silver Spring, Maryland. The lease was for a six and one-half year term, with a commencement date of October 1, 2014 and an expiration date of March 31, 2021. Subsequent to year-end, the Foundation signed an eight year lease agreement for new office space in Silver Spring, Maryland, with a commencement date of April 1, 2021 and an expiration date of March 31, 2029.

NATIONAL MARINE SANCTUARY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

8. LEASE COMMITMENTS (Continued)

Base rent on the new lease is \$12,602 per month, subject to an annual 2.5% escalation. Included in the new lease agreement is a tenant allowance in the amount of \$24,790.

The Foundation was also under a lease agreement for space in the Mokupapapa Discovery Center, located in Hawaii. The lease was for a four year and ten-month term, with a commencement date of March 1, 2016 and an expiration date of December 31, 2020. In January 2021, the Foundation signed a new lease agreement to extend the original lease term in Hawaii. The new lease is a four year and eleven-month term, with a commencement date of May 1, 2021 and an expiration date of March 31, 2026. Base rent under the new lease agreement is \$19,859 per month.

The following is a schedule of future minimum rental payments:

<u>Years Ending December 31,</u>	
2021	\$ 201,728
2022	392,361
2023	396,213
2024	400,160
2025	404,207
Thereafter	<u>627,516</u>
	<u>\$ 2,422,185</u>

Occupancy expense for the year ended December 31, 2020 totaled \$374,815.

9. ECONOMIC DEPENDENCY

Approximately 70% of the Foundation's total support and revenue for the year ended December 31, 2020 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.

10. 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 2020. 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.

NATIONAL MARINE SANCTUARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2020

11. 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 year ended December 31, 2020 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.

NATIONAL MARINE SANCTUARY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020**

11. 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, 2020.

	Level 1	Level 2	Level 3	Total
Asset Class:				
Money market funds	\$ 645,306	\$ -	\$ -	\$ 645,306
Corporate and government bonds	-	1,530,891	-	1,530,891
Equities	2,693,769	-	-	2,693,769
Total investments, at fair value	\$ 3,339,075	\$ 1,530,891	\$ -	4,869,966
Alternative Investments:				
Hedge funds and private equities measured at NAV for practical expedient				64,354
TOTAL INVESTMENTS				\$ 4,934,320

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, 2020. 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.

12. 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, 2020 totaled \$86,519 and is included in payroll taxes and benefits in the accompanying Statement of Functional Expenses.

13. SUBSEQUENT EVENTS

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through August 30, 2021, the date the financial statements were issued.

On February 4, 2021, the Foundation entered into a five-year promissory note agreement in the amount of \$321,267 with a 1% fixed interest rate under the Paycheck Protection Program. 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, 2020

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:					
Mission-Related Education Awards	N/A	N/A	11.008	\$ -	\$ 26,809
Ocean Exploration	N/A	N/A	11.011	40,463	544,685
Coastal Zone Management Administration Awards	N/A	N/A	11.419	613,499	704,655
Marine Sanctuary Program	N/A	N/A	11.429	502,273	5,248,060
Unallied Management Projects	N/A	N/A	11.454	567,800	942,812
Congressionally Identified Awards and Projects	N/A	N/A	11.469	-	41,710
Marine Debris Program	N/A	N/A	11.999	-	4,783
Subtotal United States Department of Commerce - National Oceanic and Atmospheric Administration				1,724,035	7,513,514
United States Department of the Interior - Fish and Wildlife Service:					
Marine Turtle Conservation Fund	N/A	N/A	15.645	-	25,496
Subtotal 15.645 and United States Department of the Interior - Fish and Wildlife Service				-	25,496
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ 1,724,035	\$ 7,539,010

NATIONAL MARINE SANCTUARY FOUNDATION

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2020**

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, 2020. 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, 2020

Section I - Summary of Auditor's Results

Financial Statements

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

2). Internal control over financial reporting:

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

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

Federal Awards

4). Internal control over major federal programs:

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

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

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

7). Identification of major federal programs:

Program Title	CFDA Number
Marine Sanctuary Program	11.429

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

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

NATIONAL MARINE SANCTUARY FOUNDATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2020

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.

Section IV - Prior Year Finding with Current Year Status

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

Federal Programs: All Federal Awards

Condition: 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.

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.

Current Year Status: Implemented. No further action is required.



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 year ended December 31, 2020, 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 30, 2021.

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) as a basis for designing 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.

4550 MONTGOMERY AVENUE · SUITE 800 NORTH · BETHESDA, MARYLAND 20814
(301) 951-9090 · WWW.GRFCPA.COM

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 financial statements. 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 30, 2021



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, 2020. 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.

4550 MONTGOMERY AVENUE · SUITE 800 NORTH · BETHESDA, MARYLAND 20814
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MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION

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, 2020.

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 30, 2021