



**NATIONAL
MARINE
SANCTUARY
FOUNDATION**

AUDIT REPORT

**FINANCIAL AND FEDERAL AWARD
COMPLIANCE EXAMINATION**

FOR THE YEAR ENDED JUNE 30, 2017

NATIONAL MARINE SANCTUARY FOUNDATION

CONTENTS

	PAGE NO.
I. Financial Section	
Financial Statements for the Years Ended June 30, 2017 and 2016, Including the Schedule of Expenditures of Federal Awards and Schedule of Findings and Questioned Costs	I-(1 - 21)
II. Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	II-(1 - 2)
III. Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by <i>Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)</i>	III-(1 - 2)

FINANCIAL STATEMENTS



**FOR THE YEARS ENDED
JUNE 30, 2017 AND 2016**

NATIONAL MARINE SANCTUARY FOUNDATION

CONTENTS

	PAGE NO.
INDEPENDENT AUDITOR'S REPORT	I-(3 - 4)
EXHIBIT A - Statements of Financial Position, as of June 30, 2017 and 2016	I-5
EXHIBIT B - Statements of Activities and Changes in Net Assets, for the Years Ended June 30, 2017 and 2016	I-(6 - 7)
EXHIBIT C - Statements of Cash Flows, for the Years Ended June 30, 2017 and 2016	I-8
NOTES TO FINANCIAL STATEMENTS	I-(9 - 17)
SUPPLEMENTAL INFORMATION	
SCHEDULE 1 - Schedule of Expenditures of Federal Awards, for the Year Ended June 30, 2017	I-(18 - 19)
SCHEDULE 2 - Schedule of Findings and Questioned Costs, for the Year Ended June 30, 2017	I-(20 - 21)



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the National Marine Sanctuary Foundation (the Foundation), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

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

Other 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 October 24, 2017 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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.



October 24, 2017

NATIONAL MARINE SANCTUARY FOUNDATION

STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2017 AND 2016

ASSETS

	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 2,033,025	\$ 1,417,991
Investments	6,044,478	5,420,629
Accounts receivable	161,459	130,091
Grants receivable	1,251,273	574,439
Pledges receivable	30,000	30,000
Advances	228,648	481,772
Prepaid expenses	<u>29,459</u>	<u>20,933</u>
Total current assets	<u>9,778,342</u>	<u>8,075,855</u>
FIXED ASSETS		
Equipment	484,161	370,019
Software	<u>6,703</u>	<u>6,703</u>
	490,864	376,722
Less: Accumulated depreciation and amortization	<u>(380,677)</u>	<u>(361,422)</u>
Net fixed assets	<u>110,187</u>	<u>15,300</u>
OTHER ASSETS		
Deposits	<u>8,600</u>	<u>8,600</u>
TOTAL ASSETS	<u>\$ 9,897,129</u>	<u>\$ 8,099,755</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 972,253	\$ 340,387
Accrued salaries and related benefits	169,890	177,633
Refundable advances	<u>-</u>	<u>16,901</u>
Total current liabilities	<u>1,142,143</u>	<u>534,921</u>
NET ASSETS		
Unrestricted	5,466,789	4,852,462
Temporarily restricted	<u>3,288,197</u>	<u>2,712,372</u>
Total net assets	<u>8,754,986</u>	<u>7,564,834</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 9,897,129</u>	<u>\$ 8,099,755</u>

NATIONAL MARINE SANCTUARY FOUNDATION
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	2017		
	Unrestricted	Temporarily Restricted	Total
REVENUE			
Grants	\$ 9,179,456	\$ 1,632,592	\$ 10,812,048
Contributions	1,139,126	-	1,139,126
Miscellaneous revenue	344,959	-	344,959
Investment income (loss)	757,081	-	757,081
Net assets released from donor restrictions	<u>1,054,587</u>	<u>(1,054,587)</u>	<u>-</u>
Total revenue	<u>12,475,209</u>	<u>578,005</u>	<u>13,053,214</u>
EXPENSES			
Program Services	<u>9,585,679</u>	<u>-</u>	<u>9,585,679</u>
Supporting Services:			
Management and General	1,654,026	-	1,654,026
Fundraising	<u>621,177</u>	<u>-</u>	<u>621,177</u>
Total supporting services	<u>2,275,203</u>	<u>-</u>	<u>2,275,203</u>
Total expenses	<u>11,860,882</u>	<u>-</u>	<u>11,860,882</u>
Changes in net assets before other item	614,327	578,005	1,192,332
OTHER ITEM			
Cancellation of donor funding	<u>-</u>	<u>(2,180)</u>	<u>(2,180)</u>
Changes in net assets	614,327	575,825	1,190,152
Net assets at beginning of year	<u>4,852,462</u>	<u>2,712,372</u>	<u>7,564,834</u>
NET ASSETS AT END OF YEAR	<u>\$ 5,466,789</u>	<u>\$ 3,288,197</u>	<u>\$ 8,754,986</u>

2016		
<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
\$ 7,791,688	\$ 1,429,996	\$ 9,221,684
723,043	-	723,043
254,376	-	254,376
(129,881)	-	(129,881)
<u>845,674</u>	<u>(845,674)</u>	<u>-</u>
<u>9,484,900</u>	<u>584,322</u>	<u>10,069,222</u>
<u>8,653,312</u>	<u>-</u>	<u>8,653,312</u>
1,752,902	-	1,752,902
<u>82,364</u>	<u>-</u>	<u>82,364</u>
<u>1,835,266</u>	<u>-</u>	<u>1,835,266</u>
<u>10,488,578</u>	<u>-</u>	<u>10,488,578</u>
(1,003,678)	584,322	(419,356)
<u>-</u>	<u>(20,007)</u>	<u>(20,007)</u>
(1,003,678)	564,315	(439,363)
<u>5,856,140</u>	<u>2,148,057</u>	<u>8,004,197</u>
<u>\$ 4,852,462</u>	<u>\$ 2,712,372</u>	<u>\$ 7,564,834</u>

NATIONAL MARINE SANCTUARY FOUNDATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 1,190,152	\$ (439,363)
Adjustments to reconcile changes in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	19,255	109,006
Unrealized (gain) loss on investments	(661,391)	154,688
Realized gain on sale of investments	-	(2,015)
(Increase) decrease in:		
Accounts receivable	(31,368)	(41,908)
Grants receivable	(676,834)	249,544
Pledges receivable	-	15,000
Advances	253,124	(481,771)
Prepaid expenses	(8,526)	(20,609)
Deposits	-	(1,935)
Increase (decrease) in:		
Accounts payable and accrued expenses	631,866	(148,441)
Accrued salaries and related benefits	(7,743)	150,334
Refundable advances	<u>(16,901)</u>	<u>(4,428)</u>
Net cash provided (used) by operating activities	<u>691,634</u>	<u>(461,898)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of equipment	(114,142)	(15,700)
Purchases of investments	(827,324)	(787,113)
Proceeds from maturity/sale of investments	<u>864,866</u>	<u>976,246</u>
Net cash (used) provided by investing activities	<u>(76,600)</u>	<u>173,433</u>
Net increase (decrease) in cash and cash equivalents	615,034	(288,465)
Cash and cash equivalents at beginning of year	<u>1,417,991</u>	<u>1,706,456</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,033,025</u>	<u>\$ 1,417,991</u>

NATIONAL MARINE SANCTUARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

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

Basis of presentation -

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

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 \$304,627 and \$127,053 for the years ended June 30, 2017 and 2016, respectively.

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

Investments -

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

Accounts, grants and pledges receivable -

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

Fixed assets -

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

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 years ended June 30, 2017 and 2016, 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.

NATIONAL MARINE SANCTUARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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

Net asset classification -

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

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

Contributions and grants -

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

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

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

Use of estimates -

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Functional allocation of expenses -

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

Investment risks and uncertainties -

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

NATIONAL MARINE SANCTUARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

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

Investment risks and uncertainties (continued) -

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

Reclassification -

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

Fair value measurement -

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

New accounting pronouncements not yet adopted -

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Statements of Activities and Changes in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of the Foundation's financial statements, it is not expected to alter the Foundation's reported financial position.

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year thus the effective date is fiscal years beginning after December 15, 2018. Early adoption is permitted and should be applied retrospectively in the year the ASU is first applied.

NATIONAL MARINE SANCTUARY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

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

New accounting pronouncements not yet adopted (continued) -

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Statements of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for private entities for fiscal years beginning after December 31, 2019. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

2. INVESTMENTS

Investments consisted of the following at June 30, 2017 and 2016:

	2017	2016
Money market funds	\$ 304,627	\$ 127,053
Corporate and Government bonds	1,928,253	2,073,447
Equities	3,752,904	3,130,961
Hedge funds and private equities	58,694	89,168
TOTAL INVESTMENTS	\$ 6,044,478	\$ 5,420,629

Regarding the hedge funds and private equities that were held by the Foundation, there were no uncalled commitments or restrictions with respect to liquidity as of June 30, 2017 and 2016.

Included in investment income (loss) are the following:

	2017	2016
Interest and dividends	\$ 95,690	\$ 22,792
Unrealized gain (loss)	661,391	(154,688)
Realized gain	-	2,015
TOTAL INVESTMENT INCOME (LOSS)	\$ 757,081	\$ (129,881)

3. UNRESTRICTED NET ASSETS

Board designated net assets consisted of the following at June 30, 2017 and 2016:

	2017	2016
Operational Activities Fund	\$ 5,019,273	\$ -
Ocean Activities Trust Fund	-	4,766,499
Sanctuary Site Accounts	447,516	356,596
Strategic Plan Implementation	-	85,000
Operational Reserve	-	(355,633)
TOTAL UNRESTRICTED NET ASSETS	\$ 5,466,789	\$ 4,852,462

To better present the Foundation's unrestricted net assets position, all prior year accounts were consolidated.

NATIONAL MARINE SANCTUARY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Channel Islands Programs	\$ 72,864	\$ 83,092
Cordell Bank NMS Programs	3,920	5,905
Fagatele Bay NMS Programs	453,905	151,456
Florida Keys Coral Restoration	854,212	843,126
Flower Garden Banks NMS Programs	449,853	461,978
Hawaiian Islands NMS Programs	445	17,597
International Capacity	55,616	34,541
Maritime Heritage	-	2,180
Gray's Reef	564,031	-
Monterey Bay Program	13,418	13,418
Ciner	92,000	107,000
Ocean for Life	16,772	7,711
Olympic Coast NMS Program	23,762	25,012
Sea Turtle Convention	11,357	135,452
Sirio Pharma	207,257	208,963
Southwest Fisheries Science Center OSV Funds	2,807	2,807
Stellwagen Bank NMS Programs	151,149	230,628
Hawaii Chapter	1,403	8,800
Vessel Speed Reduction	-	7,300
Bo Li	313,426	352,000
Other Programs	-	13,406
	<u> </u>	<u> </u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	\$ <u>3,288,197</u>	\$ <u>2,712,372</u>

5. NET ASSETS RELEASED FROM RESTRICTIONS

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

	<u>2017</u>	<u>2016</u>
Channel Islands Programs	\$ 125,228	\$ 6,572
Cordell Bank NMS Programs	1,985	2,195
Fagatele Bay NMS Programs	97,609	74,843
Florida Keys Coral Restoration	22,910	40,143
Flower Garden Banks NMS Programs	214,923	289,641
Hawaiian Islands NMS Programs	17,152	10,402
International Capacity	29,834	42,021
Maritime Heritage	-	1,172
Gray's Reef	36,000	-
Ciner	15,000	43,000
Ocean for Life	21,326	40,146
Olympic Coast NMS Program	1,250	-
Sea Turtle Convention	184,917	90,517
Sirio Pharma	1,706	7,382
Thank You Ocean	-	6,996
Stellwagen Bank NMS Programs	138,069	110,660
Hawaii Chapter	7,398	1,200
Vessel Speed Reduction	7,300	-
Bo Li	38,574	48,000
Other Programs	93,406	30,784
	<u> </u>	<u> </u>
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	\$ <u>1,054,587</u>	\$ <u>845,674</u>

NATIONAL MARINE SANCTUARY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

6. LEASE COMMITMENTS

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

During 2017, the Foundation was also under a lease agreement for the Mokupapapa Discovery Center, located in Hawaii. The initial lease was for a twelve-month period that expired September 30, 2015. All terms of this agreement were continued on a month-to-month basis until the lease agreement was formally renewed for a four year and ten-month term, effective March 1, 2016 and expiring December 31, 2020.

The following is a schedule of future minimum rental payments:

<u>Year Ending June 30,</u>	
2018	\$ 323,250
2019	326,042
2020	328,904
2021	<u>195,805</u>
	<u>\$ 1,174,001</u>

Rent expense for the years ended June 30, 2017 and 2016 totaled \$342,229 and \$368,612, respectively.

7. ECONOMIC DEPENDENCY

Approximately 70% and 77% of the Foundation's total revenue for the years ended June 30, 2017 and 2016, respectively, was derived from grants awarded directly by agencies of the United States Government. The Foundation has no reason to believe that relationships with these agencies will be discontinued in the foreseeable future. However, any interruption of these relationships (i.e., the failure to renew grant agreements or withholding of funds) would adversely affect the Foundation's ability to finance ongoing operations.

8. CONTINGENCY

The Foundation receives grants from various agencies of the United States Government. Beginning for fiscal year ended June 30, 2016, such grants are subject to audit under the provisions of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits. Audits in accordance with the applicable provisions have been completed for all required fiscal years through 2017. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

9. RELATED PARTIES

During 2016, one of the Foundation's Board members was employed as the President of SeaWeb. The Foundation recorded expenses of \$0 and \$120,405 to SeaWeb for grants authorized by the Board of Trustees during 2017 and 2016, respectively.

NATIONAL MARINE SANCTUARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

9. RELATED PARTIES (Continued)

As of June 30, 2017 and 2016, no amounts were due to SeaWeb. This individual resigned as the President of SeaWeb during 2016, and their term on the Foundation's Board of Trustees was completed in June 2016.

Also during 2016, one of the Foundation's Board members was employed as the President of the Sea Research Foundation. The Foundation recorded expenses of \$31,067 and \$31,000 to the Sea Research Foundation for grants and consulting fees authorized by the Board of Trustees during 2017 and 2016, respectively. As of June 30, 2017 and 2016, no amounts were due to the Sea Research Foundation. This individual resigned from the Foundation Board of Trustees in October 2015.

Neither individual noted above had any role in the decision-making process for the awarding of the above-mentioned grants and consulting fees, and the grants awarded required periodic reporting back to the Foundation on how the funds were expended. These organizations will continue to receive funding in fiscal year 2018, but their leadership is no longer serving on the Foundation Board of Trustees.

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.

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

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

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

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

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at June 30, 2017 and 2016.

- *Money market funds* - Fair value is equal to the reported net asset value of the fund.
- *Corporate and Government bonds* - Fair value is based upon current yields available on comparable securities of issuers with similar ratings, the security's terms and conditions, and interest rate and credit risk.
- *Equities* - Valued at the closing price reported on the active market in which the individual securities or funds are traded.

NATIONAL MARINE SANCTUARY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

10. FAIR VALUE MEASUREMENT (Continued)

- *Hedge funds and private equities* - Do not have a readily determinable fair value. The fair values used are generally determined by the general partner or management of the entity and are based on appraisals or other estimates that require varying degrees of judgment. Inputs used in determining fair value may include the cost and recent activity concerning the underlying investments in the funds or partnerships. Net asset value is the ultimate relevant measure, and thus, has not been assigned a level within the fair value hierarchy.

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

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

Investments measured at net asset value(1): Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation the fair value hierarchy to the amounts presented in the Statements of Financial Position.

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

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

Investments measured at net asset value(1): Certain investments that are measured at fair value using the net asset value per share (or its equivalent) practical expedient have not been categorized in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation the fair value hierarchy to the amounts presented in the Statements of Financial Position.

NATIONAL MARINE SANCTUARY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

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 restated effective September 15, 2015.

The plan is funded by employee contributions, pursuant to a salary reduction agreement. Employer contributions are discretionary. The Foundation's contributions to the plan for the years ended June 30, 2017 and 2016 totaled \$39,565 and \$33,319, respectively .

12. SUBSEQUENT EVENTS

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through October 24, 2017, the date the financial statements were issued.

SUPPLEMENTAL INFORMATION

NATIONAL MARINE SANCTUARY FOUNDATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

Federal Granting Agency and Program Title	Pass- Through Entity	Pass- Through Identification Number	CFDA Number	Grant Number	Passed Through to Sub- Recipients	Total Federal Expenditures
United States Department of Commerce - National Oceanic and Atmospheric Administration:						
NOAA Mission-Related Education Awards	N/A	N/A	11.008	NA14SEC 0080007	\$ 571,223	\$ 824,632
Subtotal 11.008					<u>571,223</u>	<u>824,632</u>
Ocean Exploration	N/A	N/A	11.011	NA15OAR 0110150	293,392	489,693
Subtotal 11.011					<u>293,392</u>	<u>489,693</u>
Marine Sanctuary Program	N/A	N/A	11.429	NA16NOS 4290169	127,050	3,015,848
Marine Sanctuary Program	N/A	N/A	11.429	NA15NOS 4290117	396,236	3,294,054
Subtotal 11.429					<u>523,286</u>	<u>6,309,902</u>
Unallied Management Projects	N/A	N/A	11.454	NA13NMF 4540234	995,249	1,472,135
Subtotal 11.454					<u>995,249</u>	<u>1,472,135</u>
Congressionally Identified Awards and Projects	N/A	N/A	11.469	NA15NMF 4690240	-	44,812
Subtotal 11.469					<u>-</u>	<u>44,812</u>
United States Department of the Interior - Fish and Wildlife Service:						
Marine Turtle Conservation Fund	N/A	N/A	15.645	F14AC001 97	-	1,612
Marine Turtle Conservation Fund	N/A	N/A	15.645	F15AP003 95	-	4,484
Marine Turtle Conservation Fund	N/A	N/A	15.645	F16AP006 31	-	10,848
Marine Turtle Conservation Fund	N/A	N/A	15.645	F15AP006 44	-	15,017
Subtotal 15.645					<u>-</u>	<u>31,961</u>
United States Environmental Protection Agency:						
Youth Engagement, Education, and Employment Programs	National Environmental Education Foundation	N/A	15.676	N/A	-	3,274
Youth Engagement, Education, and Employment Programs	National Environmental Education Foundation	N/A	15.676	N/A	-	3,047
Subtotal 15.676					<u>-</u>	<u>6,321</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS					<u>\$ 2,383,150</u>	<u>\$ 9,179,456</u>

NATIONAL MARINE SANCTUARY FOUNDATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2017

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 Federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Foundation, 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 reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, or the cost principles contained in *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Foundation has not elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NATIONAL MARINE SANCTUARY FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017

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:

Name of Federal Program	CFDA Number
NOAA Mission-Related Education Awards	11.008
Unallied Management Projects	11.454

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

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

**NATIONAL MARINE SANCTUARY FOUNDATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2017**

Section II - Financial Statement Findings

There were no reportable findings.

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

There were no reportable findings.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the National Marine Sanctuary Foundation (the Foundation) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements, and have issued our report thereon dated October 24, 2017.

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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

October 24, 2017

GELMAN, ROSENBERG

& FREEDMAN

CERTIFIED PUBLIC ACCOUNTANTS



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

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the National Marine Sanctuary Foundation's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Foundation's major federal programs for the year ended June 30, 2017. The Foundation's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Foundation's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance)*. Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Foundation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Foundation's compliance.

Opinion on Each Major Federal Program

In our opinion, the Foundation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

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

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

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.



October 24, 2017