



**National
Marine Sanctuary
Foundation**

AUDIT REPORT

**FINANCIAL AND FEDERAL AWARD
COMPLIANCE EXAMINATION**

FOR THE YEAR ENDED DECEMBER 31, 2021

NATIONAL MARINE SANCTUARY FOUNDATION

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FINANCIAL STATEMENTS



**National
Marine Sanctuary
Foundation**

**FOR THE YEAR ENDED DECEMBER 31, 2021
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2020**

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

Opinion

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, 2021, 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.

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, 2021, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

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

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

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited the Foundation's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 30, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards on pages I-(19 - 20), as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 6, 2022, 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 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. 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.

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

June 6, 2022

NATIONAL MARINE SANCTUARY FOUNDATION
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2021
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2020

ASSETS		<u>2021</u>	<u>2020</u>
CURRENT ASSETS			
Cash and cash equivalents	\$	3,012,496	\$ 3,080,716
Investments		5,206,643	4,934,320
Accounts receivable		336,355	95,679
Grants receivable		729,095	316,636
Prepaid expenses		<u>63,744</u>	<u>59,182</u>
Total current assets		<u>9,348,333</u>	<u>8,486,533</u>
FIXED ASSETS			
Equipment		282,959	282,959
Leasehold improvements		22,455	-
Less: Accumulated depreciation and amortization		<u>(205,845)</u>	<u>(153,283)</u>
Net fixed assets		<u>99,569</u>	<u>129,676</u>
OTHER ASSETS			
Right-of-use assets		2,769,775	-
Deposits		<u>22,005</u>	<u>21,202</u>
Total other assets		<u>2,791,780</u>	<u>21,202</u>
TOTAL ASSETS		<u>\$ 12,239,682</u>	<u>\$ 8,637,411</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Operating lease liabilities	\$	395,329	\$ -
Accounts payable and accrued expenses		925,775	373,667
Accrued salaries and related benefits		<u>385,148</u>	<u>313,823</u>
Total current liabilities		<u>1,706,252</u>	<u>687,490</u>
LONG-TERM LIABILITIES			
Operating lease liabilities, net of current portion		<u>2,503,615</u>	<u>-</u>
Total liabilities		<u>4,209,867</u>	<u>687,490</u>
NET ASSETS			
Without donor restrictions:			
Undesignated		661,742	630,622
Board designated		<u>4,263,880</u>	<u>4,256,727</u>
Total without donor restrictions		4,925,622	4,887,349
With donor restrictions		<u>3,104,193</u>	<u>3,062,572</u>
Total net assets		<u>8,029,815</u>	<u>7,949,921</u>
TOTAL LIABILITIES AND NET ASSETS		<u>\$ 12,239,682</u>	<u>\$ 8,637,411</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, 2021
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2020

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
SUPPORT AND REVENUE				
Grants	\$ 8,212,182	\$ 1,315,691	\$ 9,527,873	\$ 8,417,134
Contributions	1,827,890	-	1,827,890	1,768,466
Miscellaneous revenue	42,055	-	42,055	48,381
Investment income, net	391,136	-	391,136	476,281
Net assets released from donor restrictions	<u>1,274,070</u>	<u>(1,274,070)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>11,747,333</u>	<u>41,621</u>	<u>11,788,954</u>	<u>10,710,262</u>
EXPENSES				
Program Services	<u>8,908,979</u>	<u>-</u>	<u>8,908,979</u>	<u>7,793,429</u>
Supporting Services:				
Management and General	1,932,096	-	1,932,096	1,834,362
Fundraising	<u>867,985</u>	<u>-</u>	<u>867,985</u>	<u>534,609</u>
Total supporting services	<u>2,800,081</u>	<u>-</u>	<u>2,800,081</u>	<u>2,368,971</u>
Total expenses	<u>11,709,060</u>	<u>-</u>	<u>11,709,060</u>	<u>10,162,400</u>
Change in net assets	38,273	41,621	79,894	547,862
Net assets at beginning of year	<u>4,887,349</u>	<u>3,062,572</u>	<u>7,949,921</u>	<u>7,402,059</u>
NET ASSETS AT END OF YEAR	<u>\$ 4,925,622</u>	<u>\$ 3,104,193</u>	<u>\$ 8,029,815</u>	<u>\$ 7,949,921</u>

NATIONAL MARINE SANCTUARY FOUNDATION
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2021
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2020

	2021				2020	
	Program Services	Supporting Services			Total Expenses	Total Expenses
		Management and General	Fundraising	Total Supporting Services		
Salaries	\$ 2,919,463	\$ 1,017,667	\$ 273,044	\$ 1,290,711	\$ 4,210,174	\$ 3,786,865
Payroll taxes and benefits	589,092	198,163	41,464	239,627	828,719	752,164
Accounting and audit	-	119,897	-	119,897	119,897	173,244
Advertising and promotion	5,752	-	5,082	5,082	10,834	25,178
Conferences, conventions and meetings	113,006	28,742	151,894	180,636	293,642	196,168
Consulting fees	1,078,593	92,948	328,472	421,420	1,500,013	1,215,409
Depreciation and amortization	50,597	1,965	-	1,965	52,562	61,160
Equipment, rental and maintenance	328,588	18,397	-	18,397	346,985	279,936
Exhibits and kiosks	381,228	-	-	-	381,228	127,582
Information technology	176,015	225,243	7,873	233,116	409,131	289,227
In-kind contributions	9,810	-	-	-	9,810	10,706
Insurance	7,469	12,774	-	12,774	20,243	10,642
Legal fees	646	12,815	-	12,815	13,461	14,975
Occupancy	298,391	146,211	-	146,211	444,602	374,815
Office expenses	203,490	13,652	327	13,979	217,469	134,795
Other expenses	216,892	27,730	16,104	43,834	260,726	175,437
Printing and reproduction	4,931	1,679	9,911	11,590	16,521	26,889
Subgrants	2,119,114	-	-	-	2,119,114	2,082,252
Travel	131,358	10,294	19,279	29,573	160,931	203,185
Vessel operations	120,077	-	-	-	120,077	53,510
Video/media production	154,467	3,919	14,535	18,454	172,921	168,261
TOTAL	\$ 8,908,979	\$ 1,932,096	\$ 867,985	\$ 2,800,081	\$ 11,709,060	\$ 10,162,400

See accompanying notes to financial statements

NATIONAL MARINE SANCTUARY FOUNDATION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 79,894	\$ 547,862
Adjustments to reconcile changes in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	52,562	61,160
Unrealized gain on investments	(258,983)	(406,089)
Realized gain on sales of investments	(9,727)	(21,100)
Receipt of contributed securities	(10,466)	(10,027)
Proceeds from the sale of contributed securities	10,602	10,027
Change in measurement of operating leases	129,169	-
(Increase) decrease in:		
Accounts receivable	(240,676)	(74,718)
Grants receivable	(412,459)	194,097
Prepaid expenses	(4,562)	(11,350)
Deposits	(803)	(12,602)
Increase in:		
Accounts payable and accrued expenses	552,108	33,965
Accrued salaries and related benefits	<u>71,325</u>	<u>37,176</u>
Net cash (used) provided by operating activities	<u>(42,016)</u>	<u>348,401</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of fixed assets	(22,455)	-
Purchases of investments	(122,423)	(53,488)
Proceeds from sales/maturities of investments	<u>118,674</u>	<u>452,710</u>
Net cash (used) provided by investing activities	<u>(26,204)</u>	<u>399,222</u>
Net (decrease) increase in cash and cash equivalents	(68,220)	747,623
Cash and cash equivalents at beginning of year	<u>3,080,716</u>	<u>2,333,093</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 3,012,496</u>	<u>\$ 3,080,716</u>
SCHEDULE OF NONCASH INVESTING AND FINANCING TRANSACTIONS:		
Right-of-Use Assets	<u>\$ 3,023,599</u>	<u>\$ -</u>
Operating Lease Liabilities for Right-of-Use Assets	<u>\$ 3,046,054</u>	<u>\$ -</u>

NATIONAL MARINE SANCTUARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

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.

New accounting pronouncement adopted -

During 2021, the Foundation early adopted ASU 2019-01, *Leases* (Topic 842) which changed 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. The Foundation applied the new standard at the inception of a new lease that began in 2021 and also the practical expedient package to not reassess at adoption (i) expired or existing contracts for whether they are or contain a lease, (ii) the lease classification of any existing leases or (iii) initial indirect costs for existing leases. See Note 8 for further details.

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 \$540,495 for the year ended December 31, 2021.

NATIONAL MARINE SANCTUARY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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

Cash and cash equivalents (continued) -

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 collectable within one year. Accordingly, an allowance for doubtful accounts has not been established.

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, 2021 totaled \$52,562.

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, 2021, 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 the Foundation entities.

NATIONAL MARINE SANCTUARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

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

Grants and contributions (continued) -

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.

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 \$17,410,000 in unrecognized conditional awards as of December 31, 2021.

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.

NATIONAL MARINE SANCTUARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

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

Functional allocation of expenses (continued) -

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.

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 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* improves generally accepted accounting principles (GAAP) by increasing the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure. The amendments in this Update address certain stakeholders' concerns about the lack of transparency relating to the measurement of contributed nonfinancial assets recognized by NFPs, as well as the amount of those contributions used in an NFP's programs and other activities. The ASU should be applied on a retrospective basis and is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. Early adoption is permitted. The amendment will not change the recognition and measurement requirements for those contributed nonfinancial assets.

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.

NATIONAL MARINE SANCTUARY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

2. INVESTMENTS

Investments consisted of the following as of December 31, 2021:

Money market funds	\$ 540,495
Corporate and government bonds	1,612,456
Equities	2,981,016
Hedge funds and private equities	<u>72,676</u>
TOTAL INVESTMENTS	<u>\$ 5,206,643</u>

Included in investment income, net are the following:

Interest and dividends	\$ 126,746
Unrealized gain on investments	258,983
Realized gain on sales of investments	9,727
Investment management fees	<u>(4,320)</u>
TOTAL INVESTMENT INCOME, NET	<u>\$ 391,136</u>

3. NET ASSETS WITHOUT RESTRICTIONS

As of December 31, 2021, 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>\$ 4,263,880</u>
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4. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following at December 31, 2021:

Subject to expenditure for specified purpose:	
American Samoa NMS Programs	\$ 938,596
Bo Li	64,920
Channel Islands Programs	10,735
California NMS Programs	119,335
Florida Keys NMS Programs	74,489
Florida Keys Buoy Program	8,800
Florida Keys Coral Restoration	552,363
Flower Garden Banks NMS Programs	205,766
Gray's Reef	286,755
Hawaiian Islands NMS Programs	62,752
Monterey Bay NMS Program	56,605
National Marine Sanctuary Conservation Program	197,995
Olympic Coast Capital Campaign	9,328
Other Programs	267,835
Sea Turtle Convention	54,668
Stellwagen Bank NMS Programs	<u>193,251</u>
TOTAL NET ASSETS WITH DONOR RESTRICTIONS	<u>\$ 3,104,193</u>

NATIONAL MARINE SANCTUARY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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	\$ 7,881
Bo Li	45,290
Channel Islands Programs	4,929
California NMS Programs	404,322
Ciner	2,993
Florida Keys Clean Seas	7,471
Florida Keys Coral Restoration	361,032
Gray's Reef	4,026
Hawaiian Islands NMS Programs	50,796
Monterey Bay NMS Program	59,539
National Marine Sanctuary Conservation Program	109,814
Olympic Coast Capital Campaign	3,266
Other Programs	33,780
Sea Turtle Convention	123,091
Sirio Pharma	1,862
Stellwagen Bank NMS Programs	<u>53,978</u>
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	<u>\$ 1,274,070</u>

6. LIQUIDITY AND AVAILABILITY

Financial assets available for use for general expenditures within one year of the Statement of Financial Position date comprise the following at December 31, 2021:

Cash and cash equivalents	\$ 3,012,496
Investments	5,206,643
Accounts receivable	336,355
Grants receivable	<u>729,095</u>
Subtotal financial assets available within one year	9,284,589
Less: Donor restricted funds	(3,104,193)
Less: Board designated funds	<u>(4,263,880)</u>
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	<u>\$ 1,916,516</u>

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.

In addition, the Board designated Operational Activities Funds, which was \$4,263,880 as of December 31, 2021, is a fund that may be drawn down upon in the event of financial distress or an immediate liquidity need which results from events outside the typical life cycle and can convert financial assets to cash for settling financial liabilities.

NATIONAL MARINE SANCTUARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

7. FUNDING FROM THE PAYCHECK PROTECTION PROGRAM

On February 2, 2021, the Foundation received loan proceeds in the amount of \$321,267 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, 2021, 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. \$321,267 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.

8. LEASE COMMITMENTS

The Foundation leases office space under a eight-year agreement, in Silver Spring, Maryland, which originated in April 2021. Base rent is \$151,220 per year, plus a proportionate share of expenses, increasing by a factor of 2.5% per year.

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. The Foundation elected to early implement the ASU and elected the practical expedient package to not reassess at adoption (i) expired or existing contracts for whether they are or contain a lease, (ii) the lease classification of any existing leases or (iii) initial indirect costs for existing leases. The Foundation also elected the practical expedient that allows lessees to choose to not separate lease and non-lease components by class of underlying asset and are applying this expedient to all relevant asset classes. The Foundation adopted the package of practical expedients to not perform any lease reclassification, did not reevaluate embedded leases and did not reassess initial direct costs. As a result, the Foundation recorded a right-of-use asset in the amount of \$1,112,606 net of the landlord allowance of \$24,790. The Foundation recorded an operating lease liability in the amount of \$1,133,561 by calculating the present value using the discount rate of 1.69%.

The Foundation leases office space under a five-year agreement, in Hawaii, which originated in May 2021. Base rent is \$238,305 per year, plus a proportionate share of expenses. As a result the Foundation recorded a right-of-use asset in the amount of \$1,123,721, net of the landlord allowance of \$1,500. The Foundation recorded an operating lease liability in the amount of \$1,125,221 by calculating the present value using the discount rate of 1.63%.

The Foundation leases office space under a ten-year agreement, in South Carolina, which originated in December 2021. Base rent is \$79,750 per year, plus a proportionate share of expenses, increasing by a factor of 3% per year. As a result the Foundation recorded a right-of-use asset in the amount of \$787,272. The Foundation recorded an operating lease liability in the amount of \$787,272 by calculating the present value using the discount rate of 1.43%.

NATIONAL MARINE SANCTUARY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

8. LEASE COMMITMENTS (Continued)

The following is a schedule of the future minimum lease payments:

<u>Year Ending December 31,</u>	
2022	\$ 438,882
2023	476,162
2024	482,508
2025	489,025
2026	316,987
Thereafter	<u>866,956</u>
	3,070,520
Less: Imputed interest	<u>(171,576)</u>
	2,898,944
Less: Current portion	<u>(395,329)</u>
LONG-TERM PORTION	<u>\$ 2,503,615</u>

Occupancy expense for the year ended December 31, 2021 was \$444,602.

9. ECONOMIC DEPENDENCY

Approximately 70% of the Foundation's total support and revenue for the year ended December 31, 2021 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 2021. 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.

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.

NATIONAL MARINE SANCTUARY FOUNDATION

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2021

11. FAIR VALUE MEASUREMENT (Continued)

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. 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, 2021 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.
- *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.

NATIONAL MARINE SANCTUARY FOUNDATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021**

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, 2021.

	Level 1	Level 2	Level 3	Total
Asset Class:				
Money market funds	\$ 540,495	\$ -	\$ -	\$ 540,495
Corporate and government bonds	-	1,612,456	-	1,612,456
Equities	2,981,016	-	-	2,981,016
Total investments, at fair value	\$ 3,521,511	\$ 1,612,456	\$ -	5,133,967
Alternative Investments:				
Hedge funds and private equities measured at NAV for practical expedient				72,676
TOTAL INVESTMENTS				\$ 5,206,643

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, 2021.

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 (the Plan) covering all eligible employees. 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, 2021 totaled \$115,059 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 June 6, 2022, the date the financial statements were issued.

SUPPLEMENTAL INFORMATION

NATIONAL MARINE SANCTUARY FOUNDATION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021

Federal Granting Agency and Program Title	Pass-Through Entity	Pass-Through Identification Number	Assistance Listing 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	\$ -	\$ 27,748
Ocean Exploration	N/A	N/A	11.011	140,601	743,853
Marine Sanctuary Program	N/A	N/A	11.429	479,316	5,337,993
Unallied Management Projects	N/A	N/A	11.454	509,011	981,394
Habitat Conservation	N/A	N/A	11.463	92,660	163,173
Marine Debris Program	N/A	N/A	11.999	-	64,460
Subtotal United States Department of Commerce - National Oceanic and Atmospheric Administration				1,221,588	7,318,621
United States Department of the Interior - Fish and Wildlife Service:					
Marine Turtle Conservation Fund	N/A	N/A	15.645	-	24,072
Subtotal United States Department of the Interior - Fish and Wildlife Service				-	24,072
National Fish and Wildlife Foundation:					
Building Resilience through Community Stewardship of Coral Reefs	Yes	69525	11.473	741,375	814,356
Developing Capacity to Recycle Fishing Debris in The Florida Keys	Yes	72706	11.482	-	36,376
Subtotal National Fish and Wildlife Foundation				741,375	850,732
Environmental Protection Agency:					
Restoring Reefs	N/A	N/A	66.436	-	18,757
Subtotal Environmental Protection Agency				-	18,757
Subtotal United States Department of the Interior				741,375	893,561
TOTAL EXPENDITURES OF FEDERAL AWARDS				\$ 1,962,963	\$ 8,212,182

NATIONAL MARINE SANCTUARY FOUNDATION

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2021**

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, 2021. 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 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, 2021

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:

<u>Program Title</u>	<u>Assistance Listing Number</u>
Unallied Management Projects	11.454
Building Resilience through Community Stewardship of Coral Reefs	11.473

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, 2021**

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 Findings and Questioned Costs With Current Year Status

There were no prior year reportable findings.



CPAs & ADVISORS

**INDEPENDENT AUDITOR'S 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**

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, 2021, and the related notes to the financial statements, which collectively comprise the Foundation's basic financial statements, and have issued our report thereon dated June 6, 2022.

Report on 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

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

Report on 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".

June 6, 2022



CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited the National Marine Sanctuary Foundation's compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the National Marine Sanctuary Foundation's major Federal programs for the year ended December 31, 2021. 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.

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, 2021.

Basis for Opinion on Each Major Federal Program

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)*. Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major Federal program. Our audit does not provide a legal determination of the Foundation's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Foundation's federal programs.

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

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Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Foundation's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Foundation's compliance with the requirements of each major Federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Foundation's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Foundation's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 the Foundation's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Gelman Rosenberg & Freedman

June 6, 2022