ALLIANCE FOR THE CHESAPEAKE BAY, INC.

FINANCIAL REPORT

DECEMBER 31, 2011

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ANDERSON
DAVIS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Alliance for the Chesapeake Bay, Inc.
Annapolis, Maryland

We have audited the accompanying statement of financial position of Alliance for the Chesapeake Bay, Inc. (a nonprofit organization) as of December 31, 2011, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Alliance for the Chesapeake Bay, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Alliance for the Chesapeake Bay, Inc. as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated July 26, 2012, on our consideration of Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic 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.

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The information has been subjected to the auditing procedures applied in the audit of the basic 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 basic financial statements as a whole.

Anderson, Davis & Associates, CPA

Glen Burnie, Maryland
July 26, 2012

ALLIANCE FOR THE CHESAPEAKE BAY, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2011

ASSETS

Current assets	
Cash	$ 166,805
Contributions receivable	10,000
Grants receivable	117,093
Total current assets	293,898
Equipment	
Office equipment	14,638
Less: accumulated depreciation	(14,638)
	-
Other assets	
Long-term contributions receivable	10,000
	10,000
Total assets	$ 303,898

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	$ 44,111
Accrued expenses	54,456
Loans payable	37,910
Total liabilities	136,477
Net assets	
Unrestricted	(319,458)
Temporarily restricted	486,879
	167,421
Total liabilities and net assets	$ 303,898

See independent auditor's report and accompanying notes to financial statements.

ALLIANCE FOR THE CHESAPEAKE BAY, INC.
STATEMENT OF ACTIVITIES
For the year ended December 31, 2011

	Unrestricted	Temporarily Restricted	Total
Revenues and other support:			
Grants and contracts, government	$ -	$ 1,581,958	$ 1,581,958
Grants and contracts, private	-	511,544	511,544
Public support	119,434	-	119,434
Taste of the Chesapeake event	49,789	-	49,789
Investment income, net	(597)	-	(597)
Other income	1,040	-	1,040
Net assets released from restrictions (Note 9):			
Satisfaction of program restrictions	1,920,644	(1,920,644)	-
Total revenues and other support	2,090,310	172,858	2,263,168
Expenses and losses:			
Programs	1,542,413	-	1,542,413
Management and general	401,472	-	401,472
Fundraising	107,797	-	107,797
Total expenses and losses	2,051,682	-	2,051,682
Change in net assets	38,628	172,858	211,486
Net assets, beginning of year	(358,086)	314,021	(44,065)
Net assets, end of year	$ (319,458)	$ 486,879	$ 167,421

See independent auditor's report and accompanying notes to financial statements.

ALLIANCE FOR THE CHESAPEAKE BAY, INC.
STATEMENT OF CASH FLOWS
For the year ended December 31, 2011

Cash flows from operating activities:	
Change in net assets	$ 211,486
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Changes in assets and liabilities:	
Increase in:	
Grants receivable	72,037
Contributions receivable	10,000
Decrease in:	
Accounts payable	(141,850)
Accrued expenses	(18,219)
Net cash provided by operating activities	133,454
Cash flows from financing activities:	
Repayments of loan payable	(56,764)
Net cash used in financing activities	(56,764)
Net increase in cash	76,690
Cash, beginning of year	90,115
Cash, end of year	$ 166,805
Supplementary Information:	
Interest paid	$ 3,491
Taxes paid	$ -

See independent auditor's report and accompanying notes to financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1. **ORGANIZATION AND PURPOSE**

Alliance for the Chesapeake Bay, Inc. (the Organization) was incorporated in Maryland in August 1973 and was formed to serve as a neutral forum where Bay-related issues may be analyzed and considered, for the purpose of providing its membership, responsible officials, and the public with a basis for making informed decisions concerning the management of the resources of the Chesapeake Bay. Alliance for the Chesapeake Bay, Inc. is a nonstock, nonprofit entity.

The Organization's mission statement states:

The Alliance for the Chesapeake Bay, Inc. is a regional non-profit organization that brings together individuals, organizations, businesses, and governments to find collaborative solutions, to build a strong commitment to stewardship, and to deliver innovative, broadly-supported programs that benefit the land, waters, and residents of the Chesapeake Bay watershed.

Founded in 1971, the Alliance for the Chesapeake Bay, Inc. is funded by individuals, businesses, governments, and private foundations. The Alliance maintains offices in Annapolis, MD, Richmond, VA and Camp Hill, PA.

Note 2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

<u>Basis of Accounting</u>
The Organization maintains its financial records and prepares its financial statements on the accrual basis of accounting. Therefore, revenues and related assets are recognized when earned, and expenses and related liabilities are recognized when the obligations are incurred.

<u>Basis of Presentation</u>
Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification. Under these recommendations, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

NOTES TO THE FINANCIAL STATEMENTS

Note 2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations and consist of undesignated funds, which are resources available for the support of the Organization's general operations, and designated funds, or resources designated by the Organization's Board of Directors for a particular use.

Temporarily restricted net assets – Net assets whose use has been limited by donors to a specific time period and/or purpose. When the donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – The principal amounts of gifts which are required by donors to be permanently retained.

The Organization has no permanently restricted net assets.

Cash

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

Income Taxes

The Organization is a nonprofit entity and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, contributions to the Organization are tax deductible under Section 170 of the Internal Revenue Code.

The Organization adopted the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) for Accounting of Uncertainty in Income Taxes without any material effect to the financial statements. These recommendations clarify the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. They also provide guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Organization has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Organization believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on the Organization's financial condition, results of operations or cash flows. Accordingly, the organization has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at December 31, 2008. With few exceptions, The Organization is no longer subject to U.S. Federal, state or local tax examinations by tax authorities for years beginning before January 1, 2008.

Note 2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Donated Services and Goods

The Organization receives a substantial amount of volunteer service hours, for which it maintains records, but management has elected not to record such hours and related dollar amounts in the financial statements due to the difficulty in quantifying such amounts and not meeting U.S. generally accepted accounting principles criteria for recording. Donated items, such as food or other tangible property, are recorded at fair value when received.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Grants Receivable

Grants receivable at December 31, 2011 consist mainly of grants and contracts earned, but not yet received. No allowance for uncollectible accounts has been recorded at December 31, 2011, due to any potential uncollectible amounts determined by management as immaterial.

Allocation of Expenses

The Organization records expenses, both direct and indirect, according to their functional classification as programs, management and general, or fundraising as determined by time recording methods and in accordance with appropriate grants or contracts.

Contributions, Grants, and Support

Contributions and grants received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Organization reports gifts of cash and other assets as restricted support if they are received with donor/grantor stipulations that limit the use of the donated assets, or if they are designated as support for future periods.

When a donor/grantor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

The Organization reports gifts of goods and equipment as unrestricted support unless explicit donor/grantor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Subsequent Events

The Organization has evaluated events and transactions for potential recognition or disclosure through July 26, 2012, the date the financial statements were available to be issued. See Note 12 for potential subsequent event relating to a contingency.

NOTES TO THE FINANCIAL STATEMENTS

Note 3. **PROPERTY AND EQUIPMENT**

Property and equipment is stated at cost. The Organization chooses to capitalize fixed asset additions of $10,000 and greater. Depreciation is provided on the straight-line method over the estimated useful life of the asset. Office equipment is depreciated over a useful life of 5 years. There was no depreciation expense recorded in 2011 as all assets have been fully depreciated.

Note 4. **RETIREMENT PLAN**

The Organization has a 403(b)(7) retirement plan whereby eligible employees can contribute to his or her own custodial account, through salary reduction, with certain limitations, as outlined in the Plan document. The Organization incurred no expense during 2011 related to the Plan.

Note 5. **CONTRIBUTIONS RECEIVABLE**

Management deems contributions receivable to be fully collectible and therefore has not established an allowance for uncollectible contributions. Contributions are due as follows as of December 31, 2011:

Amounts Due In:	
Less Than One Year	$ 10,000
One to Five Years	10,000
More Than Five Years	-
Total	$ 20,000

Note 6. **RENTAL COMMITMENTS**

In October 2010, the Organization entered into a lease agreement to rent office space in Annapolis, Maryland for $4,883 a month, with an annual increase of 3%. The lease expires December 2015. The Organization rents office space in Pennsylvania for $1,000 a month. The lease expired May 2010 and was renewed for 2 years with expiration in May 2012. The Organization also rents office space in Virginia. During 2010, the Organization renewed this lease for an additional three years with lease payments at $1,584 a month with no annual increase. Total rent expense on these leases for 2011 $93,747. Future minimum lease payments are as follows:

2012	$ 66,070
2013	$ 85,344
2014	$ 87,906
2015	$ 90,510

NOTES TO THE FINANCIAL STATEMENTS

Note 7. **OPERATING LEASES**

The Organization leases various office equipment for their three office locations, with these leases expiring on various dates through 2013. Total expense for these leases for 2011 was $4,641. Future minimum lease payments are as follows:

2012	$	8,853
2013	$	144

Note 8. **TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at December 31, 2011 are available for the following purposes:

Various federal, state and private agency programs	$ 486,879

Note 9. **NET ASSETS RELEASED FROM RESTRICTIONS**

During the year ended December 31, 2011, net assets were released from donor/grantor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors/grantors.

Purpose restrictions accomplished:

Various expenses related to performance of federal, state and private agency programs	$ 1,920,644

Note 10. **CONCENTRATION OF REVENUES**

During the years ended December 31, 2011, the Organization recognized revenues from United States Environmental Protection Agency of approximately $1,189,000 for program services performed. This represents 53% of all revenues recognized by the Organization as a whole in 2011.

The Organization receives grants from various agencies of the U.S. Government. Such grants are subject to audit under the provisions of OMB Circular A-133. The ultimate determination of amounts received under the U.S. Government grants is based upon the allowance of costs reported to and accepted by the U.S. Government. Audits in accordance with the provisions of OMB Circular A-133 have been completed for the Organization for all required years through 2011. Until such audits have been accepted by the U.S. Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no additional material liability will result from such audits.

NOTES TO THE FINANCIAL STATEMENTS

Note 11. **LOAN PAYABLE**

The Organization has a line of credit agreement with a bank for an amount up to $115,000. This line of credit is renewable each year by verbal agreement. As of December 31, 2011, the unpaid balance on this line of credit was $37,910. The line of credit is secured by all personal property of the Organization and is payable on demand. Interest is due monthly at prime plus one percent. The interest rate was 5.25% as of December 31, 2011. Total interest expense for the year ended December 31, 2011 was $3,027, which was included with credit card interest charges on the statement of functional expenses.

Note 12. **CONTINGENCY**

In December 2011, the Office of Inspector General (OIG) of the U.S Department of Environmental Protection Agency (EPA) issued a draft report titled *Examination of Costs Claimed Under EPA Cooperative Agreements CB-97324701 Through CB-97324705 Awarded to Alliance for the Chesapeake Bay, Inc.* In this report, EPA has questioned Alliance project costs of approximately $1.3 million relating to procurement and financial management requirements of the Code of Federal Regulations. Alliance for the Chesapeake Bay, Inc. has responded to EPA and the Alliance's management believes it is in compliance with the cooperative agreement requirements. Management of Alliance for the Chesapeake Bay, Inc. believes the OIG will find these costs to be appropriate and there will be no significant financial impact. Any impact resulting from the resolution of this draft report is unknown at the date of issuance of these financial statements, thus not reflected in these financial statements.

SUPPLEMENTARY INFORMATION

ALLIANCE FOR THE CHESAPEAKE BAY, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended December 31, 2011

Federal Direct Grantor/Pass-Through Grantor	*Program or Cluster Title*
U.S. Environmental Protection Agency (EPA):	
Region III	Circuit Rider
Region III	Local Government Advisory Committee Coordination
Region III	Chesapeake Bay Program
Region III	Chesapeake Bay Program Support
National Fish & Wildlife Foundation	Chesapeake Online Network
National Fish & Wildlife Foundation	Stormwater Retreat
National Fish & Wildlife Foundation	Reedy Creek Stewardship
National Fish & Wildlife Foundation	Watershed Forum
National Fish & Wildlife Foundation	Greening of Virginia
DC Department of the Environment	Riversmart Homes Grant
DC Department of the Environment	ARRA - Riversmart Homes Grant
DC Department of the Environment	ARRA - Riversmart Homes Grant
National Fish & Wildlife Foundation	Cedar Run
U.S. Department of the Interior:	
National Fish & Wildlife Foundation	Online Native Plant Guide
National Fish & Wildlife Foundation	Fish Survey Interns
U.S. Department of Agriculture:	
National Fish & Wildlife Foundation	Spatial Land Registry
National Fish & Wildlife Foundation	Brightbill Park
Forest Service	Year of the Forest Outreach
Forest Service	Forestry for the Bay - Phase V
Forest Service	Forestry for the Bay - Phase VI
National Fish & Wildlife Foundation	Urban Tree Canopy
Total Expenditures of Federal Awards	

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Alliance for the Chesapeake Bay, Inc. (the Organization) under programs of the federal government for the year ended December 31, 2011. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments,* and *Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Organization, it is not intended to and does not present the statement of financial position, changes in net assets, or cash flows of the Organization.

Note 2. Summary of Significant Accounting Policies

A. Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles of Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

B. Pass-through entity identifying numbers are presented where available.

Federal CFDA Number	*Pass-Through Entity Number/ Identifying Grant Number*	*Federal Expenditures*
66.466	CB97375801-0	$ 109,867
66.466	CB97375701-0	165,193
66.466	CB97383602	54,406
66.466	CB97324705-0	420,157
66.466	2008-0901-001	13,461
66.466	2010-0912-002	20,000
66.466	2009-0055-020	42,543
66.466	2010-0912-002	16,424
66.466	1544-PO-2	6,745
66.466	09-08-MS4-WPD04	251,189
66.466	09-10-CBWSTM-WPD01	114,322
66.466	11g-11-MS4/BB-ACB/WPD8	90,961
		1,305,268
66.606	2009-0054-026	95,764
15.631	51410-B-J020	29,329
15.631	51410-A-J034	2,713
		32,042
10.678	2007-0081-012	3,366
10.678	2010-0067-012	15,681
10.678	10-DG-11420004	2,821
10.678	06-DG-099	46,090
10.678	06-DG-099	54,300
		122,258
10.683	2008-0059-0027	1,821
		$ 1,557,153

The accompanying notes are an integral part of this schedule.

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*

Board of Directors
Alliance for the Chesapeake Bay, Inc.
Annapolis, Maryland

We have audited the financial statements of Alliance for the Chesapeake Bay, Inc. (a nonprofit organization) as of and for the year ended December 31, 2011, and have issued our report thereon dated July 26, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Alliance for the Chesapeake Bay, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Alliance for the Chesapeake Bay, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Alliance for the Chesapeake Bay, Inc.'s financial statements are free of 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*.

We noted certain matters that we reported to management of Alliance for the Chesapeake Bay, Inc. in a separate letter dated July 26, 2012.

Alliance for the Chesapeake Bay, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Alliance for the Chesapeake Bay, Inc.'s response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Finance Committee, Board of Directors, management and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Davis & Associates, CPA

Glen Burnie, Maryland
July 26, 2012

ANDERSON
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Directors
Alliance for the Chesapeake Bay, Inc.
Annapolis, Maryland

Compliance

We have audited Alliance for the Chesapeake Bay, Inc.'s compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on each of Alliance for the Chesapeake Bay, Inc.'s major federal programs for the year ended December 31, 2011. Alliance for the Chesapeake Bay, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Alliance for the Chesapeake Bay, Inc.'s management. Our responsibility is to express an opinion on Alliance for the Chesapeake Bay, Inc.'s compliance based on our audit.

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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 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 Alliance for the Chesapeake Bay, Inc.'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. Our audit does not provide a legal determination of Alliance for the Chesapeake Bay, Inc.'s compliance with those requirements.

In our opinion, Alliance for the Chesapeake Bay, Inc. complied, in all material respects, with the 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, 2011.

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Internal Control Over Compliance

Management of Alliance for the Chesapeake Bay, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Alliance for the Chesapeake Bay, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 Alliance for the Chesapeake Bay, Inc.'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.

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of findings and questioned costs as item 11-1. 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.

Alliance for the Chesapeake Bay, Inc.'s response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Alliance for the Chesapeake Bay, Inc.'s response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Finance Committee, Board of Directors, management and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Anderson, Davis & Associates, CPA

Glen Burnie, Maryland
July 26, 2012

Alliance for the Chesapeake Bay, Inc.

Summary Schedule of Prior Audit Findings

Year Ended December 31, 2011

<u>Finding 07-1 from fiscal year 2008</u>: Temporarily restricted net assets were not reconciled to the restricted funds job/grant cost system. (Questioned costs - N/A)

Current Status: In 2011, the Organization tracked restricted revenue and expenses on their general ledger in segregated accounts by job/grant. This information was then transferred to a spreadsheet which tracked temporarily restricted net asset activity. This allowed the Organization to track the balance of temporarily restricted net assets throughout the year.

<u>Finding 08-1 from fiscal year 2008</u>: The Organization did not effectively implement internal control procedures to review payroll entries, input and allocations in the restricted funds job/grant cost system. (Questioned costs – N/A).

Current Status: In 2011, payroll entries were entered into the accounting system by accounting staff and reviewed by the Finance Director, resulting in a proper segregation of duties during the year.

<u>Finding 10-1 (Organization-wide):</u>

Summary identification of finding – The Organization did not accurately record payroll transactions in the job/grant cost system and did not create an accurate schedule of federal awards or accounts receivable detail during 2010. The Organization did not reconcile the job/grant cost system or schedule of federal awards to the general ledger.

Current Status: During 2011, the Organization recorded all payroll transactions in the general ledger. There was no longer a job/grant cost system, as all entries were posted in restricted revenue and expense accounts segregated by job/cost on the Organization's general ledger. This process also allowed the Organization to produce an accounts receivable detail at December 31, 2011 which reconciled to the general ledger. The organization also tracked temporarily restricted net assets throughout the year which resulted in producing a schedule of federal awards that reconciled to the general ledger.

Alliance for the Chesapeake Bay, Inc.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2011

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Qualified

Internal control over financial reporting:

Material weaknesses identified? _____yes __X__no

Significant deficiency identified not considered to be material weakness? _____yes __X__none reported

Noncompliance material to financial statements noted? _____yes __X__no

Federal Awards

Internal control over major programs:

Material weaknesses identified? _____yes __X__no

Significant deficiency identified that is not considered to be material weakness? __X__yes _____none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section 510(a)? _____yes __X__no

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
66.466	U.S. Environmental Protection Agency, Region III and ARRA passed through from District of Columbia Department of the Environment

Dollar threshold used to distinguish between Type A and Type B Programs: $300,000

Auditee qualified as low-risk auditee? _____yes __X__no

Alliance for the Chesapeake Bay, Inc.
Schedule of Findings and Questioned Costs (continued)
Year Ended December 31, 2011
Section II - Financial Statement Findings

No current year findings.

Section III - Federal Award Findings and Questioned Costs

Finding 11-1 - Subrecipient Requirements:

Criteria - OMB Circular A-133 *Audits of States, Local Governments and Non-Profit Organizations* establishes subrecipient requirements to be adhered to by organizations receiving federal findings. Per OMB Circular A-133, Section 400(d): A pass through entity must perform the following for the Federal awards it makes to subrecipients:

1. Identify Federal awards made by informing each subrecipient of CFDA title and number, award name and number, award year, if the award is R&D, and name of federal agency. When some of this information is not available, the pass-through entity shall provide the best information available to describe the Federal award.

2. Advice subrecipients of requirements imposed on them by Federal laws, regulations, and the provisions of contracts or grant agreements as well as any supplemental requirements imposed by the pass-through entity.

3. Monitor the activities of subrecipients as necessary to ensure that Federal awards are used for authorized purposes in compliance with laws, regulations, and the provisions of contracts or grant agreements and that performance goals are achieved.

4. Ensure that subrecipients expending $500,000 or more in Federal awards during the subrecipient's fiscal year have met the audit requirements of OMB Circular A-133 for that year.

5. Issue a management decision on audit findings within 6 months after receipt of the subrecipient's audit report and ensure the subrecipient takes appropriate and timely active corrective action.

6. Consider whether subrecipient audits necessitate adjustment of the pass-through entity's own records.

7. Require each subrecipient to permit the pass-through entity and auditors to have access to the records and financial statements as necessary for the pass-through entity to comply with OMB Circular A-133.

Condition – Alliance for the Chesapeake Bay, Inc. awarded subawards to various organizations during 2011. In our review of the Organization's subrecipient award documents, we noted the agreements did not include required award information such as applicable CFDA title and number, award name and number, and the name of the awarding agency or organization. The awards also did not include mention of applicable federal regulations or any required "flow down" clauses from the Organization's grant award. We also found that subrecipient monitoring procedures being performed were not documented to support compliance with subrecipient monitoring requirements.

Questioned costs - No dollar amount can be determined due to no specific instances of material noncompliance found.

Context - Even though this condition exists, no material quantifiable issues of noncompliance found.

Cause - Because Alliance for the Chesapeake Bay, Inc. is a small organization and close communications frequently exist between the parties, subrecipient relationships and subsequent monitoring is more informal.

Effect - The lack of adequate documentation of the subrecipient award and monitoring process does not permit review as required an OMB Circular A-133 Audit.

Recommendation - We recommend the Organization review A-133 requirements related to subrecipient monitoring and ensure that subrecipient documents and monitoring procedures are complete and documented.

Management's Response – Management agrees with finding. See client prepared Corrective Action Plan attached.

Organization: Alliance for the Chesapeake Bay
Audit Firm: Anderson, Davis & Associates CPA, PA
Audit Period: 1/1/2011 to 12/31/2011

Corrective Action Plan

A. Comments on Findings 11-1

The Alliance agrees with the findings and recommendations of the auditor.

B. Actions Taken or Planned

Finding 11-1 - Summary identification of finding - Subaward agreements were not complete with all award information.

The Alliance has completed and is putting into place new policies and procedures which will comply with OMB Circular A-133 section 400(d). Moving forward, all sub-recipient agreements will include the CFDA title and number, award name and number, award year, and the name of the federal agency. The Alliance will advise sub-recipients of requirements imposed on them by the granting agency. We will monitor and document the activities of sub-recipients and will request and keep on file the audit report for each organization. The Alliance will ensure that the sub-recipient takes appropriate and timely active corrective action, if necessary. And we will require each sub-recipient allow the Alliance and our auditors to have access to the records and financial statements as necessary for the Alliance to comply with OMB Circular A-133.

Sincerely,

Al Todd
Executive Director

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