

**ALLIANCE FOR THE CHESAPEAKE
BAY, INC.**

FINANCIAL REPORT

DECEMBER 31, 2016

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of Alliance for the Chesapeake Bay, Inc. (a nonprofit corporation) as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Alliance for the Chesapeake Bay, Inc. as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 12-13 are presented for purposes of additional analysis and are 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.

Anderson, Davis & Associates, CPA

Glen Burnie, Maryland
September 21, 2017

ALLIANCE FOR THE CHESAPEAKE BAY, INC.
STATEMENTS OF FINANCIAL POSITION

December 31, 2016 and 2015

ASSETS

	2016	2015
Current assets		
Cash	\$ 764,853	\$ 174,073
Grants receivable	1,106,366	1,386,873
Prepaid expenses	20,372	10,658
Total current assets	<u>1,891,591</u>	<u>1,571,604</u>
Equipment		
Office equipment	14,638	14,638
Less: accumulated depreciation	<u>(14,638)</u>	<u>(14,638)</u>
	-	-
Total assets	<u>\$ 1,891,591</u>	<u>\$ 1,571,604</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ 188,731	\$ 201,166
Accrued expenses	50,306	108,953
Total liabilities	<u>239,037</u>	<u>310,119</u>
Net assets		
Unrestricted	292,938	10,263
Temporarily restricted	1,359,616	1,251,222
	<u>1,652,554</u>	<u>1,261,485</u>
Total liabilities and net assets	<u>\$ 1,891,591</u>	<u>\$ 1,571,604</u>

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

ALLIANCE FOR THE CHESAPEAKE BAY, INC.
STATEMENT OF ACTIVITIES

For the year ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support:			
Grants and contracts, government	\$ -	\$ 3,757,130	\$ 3,757,130
Grants and contracts, private	-	1,657,012	1,657,012
Public support	499,374	-	499,374
Taste of the Chesapeake event	108,940	-	108,940
Other income	1,200	-	1,200
Investment income, net	191	-	191
Net assets released from restrictions (Note 7):			
Satisfaction of program restrictions	5,305,748	(5,305,748)	-
Total revenues and other support	<u>5,915,453</u>	<u>108,394</u>	<u>6,023,847</u>
 Expenses and losses:			
Programs	4,894,545	-	4,894,545
Management and general	687,901	-	687,901
Fundraising	50,332	-	50,332
Total expenses and losses	<u>5,632,778</u>	<u>-</u>	<u>5,632,778</u>
 Change in net assets	282,675	108,394	391,069
 Net assets, beginning of year	<u>10,263</u>	<u>1,251,222</u>	<u>1,261,485</u>
 Net assets, end of year	<u>\$ 292,938</u>	<u>\$ 1,359,616</u>	<u>\$ 1,652,554</u>

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

ALLIANCE FOR THE CHESAPEAKE BAY, INC.
STATEMENT OF ACTIVITIES

For the year ended December 31, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenues and other support:			
Grants and contracts, government	\$ -	\$ 3,378,659	\$ 3,378,659
Grants and contracts, private	-	1,880,811	1,880,811
Public support	303,400	-	303,400
Taste of the Chesapeake event	119,549	-	119,549
Other Income	5,800	-	5,800
Investment income, net	265	-	265
Net assets released from restrictions (Note 7):			
Satisfaction of program restrictions	4,887,780	(4,887,780)	-
Total revenues and other support	<u>5,316,794</u>	<u>371,690</u>	<u>5,688,484</u>
 Expenses and losses:			
Programs	4,547,516	-	4,547,516
Management and general	681,620	-	681,620
Fundraising	40,050	-	40,050
Total expenses and losses	<u>5,269,186</u>	<u>-</u>	<u>5,269,186</u>
 Change in net assets	47,608	371,690	419,298
 Net assets, beginning of year	<u>(37,345)</u>	<u>879,532</u>	<u>842,187</u>
 Net assets, end of year	<u>\$ 10,263</u>	<u>\$ 1,251,222</u>	<u>\$ 1,261,485</u>

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

ALLIANCE FOR THE CHESAPEAKE BAY, INC.
STATEMENTS OF CASH FLOWS

December 31, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
Change in net assets	\$ 391,069	\$ 419,298
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Changes in assets and liabilities:		
(Increase) decrease in:		
Grants receivable	280,507	(809,650)
Prepaid expenses	(9,714)	(1,472)
Increase (decrease) in:		
Accounts payable	(12,435)	153,276
Accrued expenses	(58,647)	12,168
Net cash provided by (used in) operating activities	<u>590,780</u>	<u>(226,380)</u>
Net increase (decrease) in cash	590,780	(226,380)
Cash, beginning of year	<u>174,073</u>	<u>400,453</u>
Cash, end of year	<u><u>\$ 764,853</u></u>	<u><u>\$ 174,073</u></u>
Supplementary Information:		
Interest paid	<u>\$ -</u>	<u>\$ -</u>
Taxes paid	<u>\$ -</u>	<u>\$ -</u>

See independent auditor's report and accompanying notes to the 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, Maryland; Richmond, Virginia and Camp Hill, Pennsylvania.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

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.

Basis of Presentation

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.

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.

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.

NOTES TO THE FINANCIAL STATEMENTS

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash

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

Cash, in excess, in federally chartered bank: \$514,856

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 effect 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, 2016 and 2015. 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, 2013.

Donated Services and Goods

As required by FASB ASC 958-605-25, *Accounting for Contributions Received and Contributions Made*, donated services include assistance which creates or enhances non-financial assets or requires specialized skills provided by individuals possessing those skills. Those skills would typically need to be purchased if not donated, and are recorded by the Organization at a fair value in the period such services are delivered.

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.

NOTES TO THE FINANCIAL STATEMENTS

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Grants Receivable

Grants receivable at December 31, 2016 and 2015 consist mainly of grants and contracts earned, but not yet received. No allowance for uncollectible accounts has been recorded at December 31, 2016 and 2015, 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 program, 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 September 21, 2017, the date the financial statements were available to be issued.

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 2016 or 2015 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 2016 or 2015 related to the Plan.

NOTES TO THE FINANCIAL STATEMENTS

Note 5. 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 expired December 2015. This lease has been renewed through December 2020 at a rate of \$4,959 a month, with an annual increase of 3%. The Organization rents office space in Pennsylvania for \$1,100 a month. The lease has been renewed through May 2019, and rent increased to \$1,100 starting on the renewal date of June 1, 2016. The Organization also rents office space in Virginia for \$1,979 a month with an annual increase of 3%, set to expire on January 31, 2020.

Total rent expense on these leases for 2016 and 2015 was \$115,313 and \$108,969. During 2015 and 2016, the Organization subleased office space in their Annapolis office. The Organization received approximately \$1,200 and \$5,800 respectively, for 2016 and 2015, in lease payments for the subleased office space, which is recorded in Other Income on the Statement of Activities. Future minimum lease payments are as follows:

2017	\$	100,542
2018	\$	105,619
2019	\$	100,197
2020	\$	69,352

Note 6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets at December 31, 2016 and 2015 are available for the following purposes:

	2016	2015
Various federal, state and private agency programs	<u>\$ 1,359,616</u>	<u>\$ 1,251,222</u>

Note 7. NET ASSETS RELEASED FROM RESTRICTIONS

During the years ended December 31, 2016 and 2015, 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:

	2016	2015
Various expenses related to performance of federal, state and private agency programs	<u>\$ 5,305,748</u>	<u>\$ 4,887,780</u>

Note 8. CONCENTRATION OF REVENUES

During the years ended December 31, 2016 and 2015, the Organization recognized revenues from United States Environmental Protection Agency of approximately \$2,174,035 and \$2,075,648, respectively, for program services performed. This represents 36% and 36% of all revenues recognized by the Organization as a whole in 2016 and 2015, respectively.

NOTES TO THE FINANCIAL STATEMENTS

Note 8. **CONCENTRATION OF REVENUES (continued)**

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 2016. 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.

Note 9. **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, 2016 and 2015, there was no balance or draws on the line of credit. 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 two percent. The interest rate was 6.25% as of December 31, 2016. There was no interest expense for the years ended December 31, 2016 and 2015.

SUPPLEMENTAL INFORMATION

ALLIANCE FOR THE CHESAPEAKE BAY, INC.
SCHEDULE OF FUNCTIONAL EXPENSES

For the year ended December 31, 2016

	<u>Programs</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel costs	\$ 1,555,806	\$ 434,827	\$ 24,490	\$ 2,015,123
Project costs	3,176,755	-	-	3,176,755
Bank fees	-	2,604	-	2,604
Conferences and meetings	-	3,131	-	3,131
Travel	146,559	7,084	-	153,643
Rent	-	115,313	-	115,313
Telephone	10,143	3,699	-	13,842
Insurance	-	18,379	-	18,379
Office supplies, postage and printing	5,282	25,322	8,472	39,076
Miscellaneous	-	1,930	-	1,930
Professional fees and contract labor	-	75,612	-	75,612
Fundraising events	-	-	17,370	17,370
	<u>\$ 4,894,545</u>	<u>\$ 687,901</u>	<u>\$ 50,332</u>	<u>\$ 5,632,778</u>

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

ALLIANCE FOR THE CHESAPEAKE BAY, INC.
SCHEDULE OF FUNCTIONAL EXPENSES

For the year ended December 31, 2015

	<u>Programs</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel costs	\$ 1,551,413	\$ 405,323	\$ 387	\$ 1,957,123
Project costs	2,769,384	-	-	2,769,384
Bank fees	-	3,671	-	3,671
Conferences and meetings	-	2,450	-	2,450
Travel	213,480	5,494	-	218,974
Rent	-	108,969	-	108,969
Telephone	9,704	2,916	-	12,620
Insurance	-	12,260	-	12,260
Office supplies, postage and printing	3,535	48,492	18,365	70,392
Miscellaneous	-	710	-	710
Professional fees and contract labor	-	91,335	-	91,335
Fundraising events	-	-	21,298	21,298
	<u>\$ 4,547,516</u>	<u>\$ 681,620</u>	<u>\$ 40,050</u>	<u>\$ 5,269,186</u>

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