

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

FINANCIAL REPORT

DECEMBER 31, 2018

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**ANDERSON
DAVIS**

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of The Alliance for the Chesapeake Bay, Inc. (a nonprofit corporation) as of December 31, 2018 and 2017, and the related statements of activities, functional expenses, 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 The Alliance for the Chesapeake Bay, Inc. as of December 31, 2018 and 2017, 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.

Anderson, Davis & Associates, CPA

Glen Burnie, Maryland
August 14, 2019

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THE ALLIANCE FOR THE CHESAPEAKE BAY, INC.

STATEMENTS OF FINANCIAL POSITION

December 31, 2018 and 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Current assets		
Cash	\$ 108,339	\$ 430,790
Grants receivable	1,226,380	1,324,023
Prepaid expenses	8,231	10,584
Total current assets	<u>1,342,950</u>	<u>1,765,397</u>
Equipment		
Office equipment	14,638	14,638
Less: accumulated depreciation	<u>(14,638)</u>	<u>(14,638)</u>
	-	-
Total assets	<u>\$ 1,342,950</u>	<u>\$ 1,765,397</u>

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ 647,977	\$ 843,472
Accrued expenses	45,892	35,356
Total liabilities	<u>693,869</u>	<u>878,828</u>
Net assets		
Without donor restrictions	57,662	69,058
With donor restrictions	<u>591,419</u>	<u>817,511</u>
	649,081	886,569
Total liabilities and net assets	<u>\$ 1,342,950</u>	<u>\$ 1,765,397</u>

See Independent Auditor's Report and the Notes to the Financial Statements.

THE ALLIANCE FOR THE CHESAPEAKE BAY, INC.

STATEMENT OF ACTIVITIES

For the year ended December 31, 2018

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenues and other support:			
Grants and contracts, government	\$ -	\$ 4,594,678	\$ 4,594,678
Grants and contracts, private	-	912,687	912,687
Public support	319,651	-	319,651
Taste of the Chesapeake event	142,575	-	142,575
Other income	1,201	-	1,201
Investment income, net	29	-	29
Net assets released from restrictions (Note 7):			
Satisfaction of program restrictions	<u>5,733,457</u>	<u>(5,733,457)</u>	<u>-</u>
Total revenues and other support	<u>6,196,913</u>	<u>(226,092)</u>	<u>5,970,821</u>
 Expenses and losses:			
Programs	5,418,687	-	5,418,687
Management and general	723,399	-	723,399
Fundraising	<u>66,223</u>	<u>-</u>	<u>66,223</u>
Total expenses and losses	<u>6,208,309</u>	<u>-</u>	<u>6,208,309</u>
 Change in net assets	(11,396)	(226,092)	(237,488)
 Net assets, beginning of year	<u>69,058</u>	<u>817,511</u>	<u>886,569</u>
 Net assets, end of year	<u>\$ 57,662</u>	<u>\$ 591,419</u>	<u>\$ 649,081</u>

See Independent Auditor's Report and the Notes to the Financial Statements.

THE ALLIANCE FOR THE CHESAPEAKE BAY, INC.

STATEMENT OF ACTIVITIES

For the year ended December 31, 2017

	<u>Without donor restrictions</u>	<u>With donor restrictions</u>	<u>Total</u>
Revenues and other support:			
Grants and contracts, government	\$ -	\$ 3,814,663	\$ 3,814,663
Grants and contracts, private	-	1,236,835	1,236,835
Public support	147,311	-	147,311
Taste of the Chesapeake event	130,193	-	130,193
Other Income	1,234	-	1,234
Investment income, net	538	-	538
Net assets released from restrictions (Note 7):			
Satisfaction of program restrictions	<u>5,593,603</u>	<u>(5,593,603)</u>	<u>-</u>
Total revenues and other support	<u>5,872,879</u>	<u>(542,105)</u>	<u>5,330,774</u>
 Expenses and losses:			
Programs	5,292,331	-	5,292,331
Management and general	731,967	-	731,967
Fundraising	<u>72,461</u>	<u>-</u>	<u>72,461</u>
Total expenses and losses	<u>6,096,759</u>	<u>-</u>	<u>6,096,759</u>
 Change in net assets	(223,880)	(542,105)	(765,985)
 Net assets, beginning of year	<u>292,938</u>	<u>1,359,616</u>	<u>1,652,554</u>
 Net assets, end of year	<u>\$ 69,058</u>	<u>\$ 817,511</u>	<u>\$ 886,569</u>

See Independent Auditor's Report and the Notes to the Financial Statements.

THE ALLIANCE FOR THE CHESAPEAKE BAY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2018

	<u>Programs</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel costs	\$ 1,654,534	\$ 457,455	\$ 30,206	\$ 2,142,195
Project costs	3,479,289	-	-	3,479,289
Bank fees	-	2,420	-	2,420
Conferences and meetings	-	3,550	-	3,550
Travel	268,441	7,016	-	275,457
Rent and occupancy	-	147,382	-	147,382
Telephone	10,177	3,081	-	13,258
Insurance	-	18,672	-	18,672
Office supplies, postage and printing	6,246	32,996	15,658	54,900
Miscellaneous	-	2,243	-	2,243
Professional fees and contract labor	-	48,584	-	48,584
Fundraising events	-	-	20,359	20,359
	<u>\$ 5,418,687</u>	<u>\$ 723,399</u>	<u>\$ 66,223</u>	<u>\$ 6,208,309</u>

See Independent Auditor's Report and the Notes to the Financial Statements.

THE ALLIANCE FOR THE CHESAPEAKE BAY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended December 31, 2017

	<u>Programs</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Personnel costs	\$ 1,456,466	\$ 486,499	\$ 31,281	\$ 1,974,246
Project costs	3,596,722	-	-	3,596,722
Bank fees	-	3,388	-	3,388
Conferences and meetings	-	4,572	-	4,572
Travel	219,121	9,196	-	228,317
Rent and occupancy	-	117,529	-	117,529
Telephone	10,854	3,548	-	14,402
Insurance	-	15,449	-	15,449
Office supplies, postage and printing	9,168	17,759	14,213	41,140
Miscellaneous	-	1,539	-	1,539
Professional fees and contract labor	-	72,488	-	72,488
Fundraising events	-	-	26,967	26,967
	<u>\$ 5,292,331</u>	<u>\$ 731,967</u>	<u>\$ 72,461</u>	<u>\$ 6,096,759</u>

See Independent Auditor's Report and the Notes to the Financial Statements.

THE ALLIANCE FOR THE CHESAPEAKE BAY, INC.

STATEMENTS OF CASH FLOWS

December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ (237,488)	\$ (765,985)
Adjustments to reconcile change in net assets to net cash used in by operating activities:		
Changes in assets and liabilities:		
(Increase) decrease in:		
Grants receivable	97,643	(217,657)
Prepaid expenses	2,353	9,788
Increase (decrease) in:		
Accounts payable	(195,495)	654,741
Accrued expenses	10,536	(14,950)
Net cash used in operating activities	<u>(322,451)</u>	<u>(334,063)</u>
 Net decrease in cash	 (322,451)	 (334,063)
Cash, beginning of year	<u>430,790</u>	<u>764,853</u>
 Cash, end of year	 <u>\$ 108,339</u>	 <u>\$ 430,790</u>
 Supplementary Information:		
Interest paid	<u>\$ -</u>	<u>\$ -</u>
 Taxes paid	 <u>\$ -</u>	 <u>\$ -</u>

See Independent Auditor's Report and the Notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1. ORGANIZATION AND PURPOSE

The 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. The 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 Organization 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

For the year ended December 31, 2018, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14 — *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. A key change required by ASU 2016-14 are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions.

Net assets without donor restrictions – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the organizations. These net assets may be used at the discretion of the Organization's management and Board of Directors.

Net assets with donor restrictions – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Cash

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. At December 31, 2018, the Organization had no funds in excess of federally insured limits.

NOTES TO THE FINANCIAL STATEMENTS

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2018 and 2017. With few exceptions, the Organization's tax returns remain open for three years for federal and state examination.

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 services would typically need to be purchased if not donated and are recorded by the Organization at their 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.

Grants Receivable

Grants receivable at December 31, 2018 and 2017 consist mainly of grants and contracts earned, but not yet received. No allowance for uncollectible accounts has been recorded at December 31, 2018 and 2017, due to any potential uncollectible amounts determined by management as immaterial.

Functional expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

<u>Expense</u>	<u>Method of Allocation</u>
Salaries and benefits	Time and effort
Office supplies, postage and printing	Time and effort
Travel	Time and effort
Other	Time and effort

NOTES TO THE FINANCIAL STATEMENTS

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

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, net assets with donor restrictions are reclassified to net assets without donor restrictions 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 August 14, 2019 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 2018 or 2017 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 2018 or 2017 related to the Plan.

Note 5. **RENTAL COMMITMENTS**

The Organization leases office space in Annapolis through February 1, 2023 at a rate of \$6,752 a month, with an annual increase of 3%. In August 2017, the Organization entered into a new lease agreement in Pennsylvania. The lease began September 1, 2017. The rate on this lease starts at \$475 per month for September and October 2017. As of November 1, 2017, the rate increases to \$950 a month with an annual increase of 3%, set to expire on October 31, 2020. 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 2018 and 2017 was \$123,920 and \$117,529. During 2018 and 2017, the Organization subleased office space in their Annapolis office. The Organization received approximately \$1,200 and \$1,232 respectively, for 2018 and 2017, in lease payments for the subleased office space, which is recorded in Other Income on the Statements of Activities. Future minimum lease payments are as follows:

2019	\$ 124,554
2020	\$ 98,540
2021	\$ 88,538
2022	\$ 91,194
2023	\$ 7,600

NOTES TO THE FINANCIAL STATEMENTS

Note 6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at December 31, 2018 and 2017 are available for the following purposes:

	<u>2018</u>	<u>2017</u>
Various federal, state and private agency programs	<u>\$ 591,419</u>	<u>\$ 817,511</u>

Note 7. NET ASSETS RELEASED FROM RESTRICTIONS

During the years ended December 31, 2018 and 2017, 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:

	<u>2018</u>	<u>2017</u>
Various expenses related to performance of federal, state and private agency programs	<u>\$ 5,733,457</u>	<u>\$ 5,593,603</u>

Note 8. CONCENTRATION OF REVENUES

During the years ended December 31, 2018 and 2017, the Organization recognized revenues from United States Environmental Protection Agency of approximately \$3,252,766 and \$2,828,155, respectively, for program services performed. This represents 54% and 53% of all revenues recognized by the Organization as a whole in 2018 and 2017, respectively.

The Organization receives grants from various agencies of the U.S. Government. Such grants are subject to audit under the provisions of Uniform Guidance. 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 2018. 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, 2018 and 2017, 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 7.50% as of December 31, 2018. There was no interest expense for the years ended December 31, 2018 and 2017.

NOTES TO THE FINANCIAL STATEMENTS

Note 10. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the Organization's financial assets as of the statement of financial position date, reduced by the amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date.

Financial assets available at year end	
Cash	\$ 108,339
Accounts receivable	1,226,380
Less amounts not available to be used within one year	
Net assets with restrictions	<u>591,419</u>
Financial assets available for general use	<u>\$ 743,300</u>

The financial assets available for general use cover approximately one month of expenses. The majority of the Organization's expenses are program expenses reimbursed through restricted grants.

Note 11. RELATED PARTY TRANSACTIONS

During the period of January 1, 2016 through August 31, 2017, the Organization rented its Pennsylvania office from a company where a Board member was the President and Stockholder. As of September 1, 2017, the Organization rents its Pennsylvania office from a non-related entity.