# ALLIANCE FOR THE CHESAPEAKE BAY, INC.

**FINANCIAL REPORT**

**DECEMBER 31, 2023**

**CONTENTS**

## INDEPENDENT AUDITOR'S REPORT

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

### *Opinion*

We have audited the financial statements of Alliance for the Chesapeake Bay, Inc. (a not-for-profit organization), which comprise the Statements of Financial Position as of December 31, 2023 and 2022, and the related Statements of Activities, Functional Expenses, and Cash Flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Alliance for the Chesapeake Bay, Inc. as of December 31, 2023 and 2022, 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.

### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *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 Alliance for the Chesapeake Bay, Inc. 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 opinions.

### *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 Alliance for the Chesapeake Bay, Inc.'s ability as a going concern for one year after the date that the financial statements are issued.

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### *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. 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 GAAS 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 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 GAAS and *Government 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.
- 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 Alliance for the Chesapeake Bay, Inc.'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.

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 17, 2024 on our consideration of Alliance for the Chesapeake Bay, Inc. '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 Alliance for the Chesapeake Bay, Inc. '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 Alliance for the Chesapeake Bay, Inc. 's internal control over financial reporting and compliance.

Anderson, Davis & Associates, CPA

Glen Burnie, Maryland
September 17, 2024

**THE ALLIANCE FOR THE CHESAPEAKE BAY, INC.**
**STATEMENTS OF FINANCIAL POSITION**
December 31, 2023 and 2022

| | 2023 | 2022 (Restated) |
|---|---|---|
| **ASSETS** | | |
| Current assets | | |
| Cash | $ 2,461,927 | $ 433,667 |
| Investments, fair value | 14,180 | 11,614 |
| Grants receivable | 3,197,670 | 3,439,290 |
| Prepaid expenses | 38,030 | 15,969 |
| Total current assets | 5,711,807 | 3,900,540 |
| Property and equipment | | |
| Office equipment | 14,638 | 14,638 |
| Less: accumulated depreciation and amortization | (14,638) | (14,638) |
| | - | - |
| Other assets | | |
| Investments, endowment | 398,865 | 370,417 |
| Operating right-of-use assets, net of accumulated amortization | 392,180 | 516,636 |
| Total other assets | 791,045 | 887,053 |
| Total assets | $ 6,502,852 | $ 4,787,593 |
| **LIABILITIES AND NET ASSETS** | | |
| Current liabilities | | |
| Accounts payable | $ 427,840 | $ 738,971 |
| Accrued expenses | 286,824 | 284,043 |
| Operating lease liabilities | 115,864 | 116,906 |
| Deferred revenue | 2,132,961 | 829,022 |
| Total current liabilities | 2,963,489 | 1,968,942 |
| Other liabilities | | |
| Operating lease liability, net of current portion | 291,608 | 407,473 |
| Total liabilities | 3,255,097 | 2,376,415 |
| Net assets | | |
| Without donor restrictions | | |
| Operations | 572,913 | 596,608 |
| Board designated net assets | 398,865 | 370,417 |
| | 971,778 | 967,025 |
| With donor restrictions | 2,275,977 | 1,444,153 |
| Total net assets | 3,247,755 | 2,411,178 |
| Total liabilities and net assets | $ 6,502,852 | $ 4,787,593 |

See the 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, 2023

| | Without donor restrictions | With donor restrictions | Total |
|---|---|---|---|
| Revenues and other support: | | | |
| Grants and contracts | $ - | $ 12,598,164 | $ 12,598,164 |
| Public support | 210,962 | - | 210,962 |
| Event income | 146,676 | - | 146,676 |
| Other income | 5,388 | - | 5,388 |
| Investment income, net | 63,571 | - | 63,571 |
| Net assets released from restrictions (Note 10): | | | |
| Satisfaction of program restrictions | 11,766,340 | (11,766,340) | - |
| Total revenues and other support | 12,192,937 | 831,824 | 13,024,761 |
| Expenses: | | | |
| Programs | 10,501,729 | - | 10,501,729 |
| Management and general | 1,500,646 | - | 1,500,646 |
| Fundraising | 185,809 | - | 185,809 |
| Total expenses | 12,188,184 | - | 12,188,184 |
| Change in net assets | 4,753 | 831,824 | 836,577 |
| Net assets, beginning of year (Restated) (Note 15) | 967,025 | 1,444,153 | 2,411,178 |
| Net assets, end of year | $ 971,778 | $ 2,275,977 | $ 3,247,755 |

**THE ALLIANCE FOR THE CHESAPEAKE BAY, INC.**
**STATEMENT OF ACTIVITIES**
For the Year Ended December 31, 2022

| | Without donor restrictions | With donor restrictions | Total |
|---|---|---|---|
| Revenues and other support: | | | |
| Grants and contracts | $ - | $ 10,978,321 | $ 10,978,321 |
| Public support | 321,646 | - | 321,646 |
| Event income | 139,306 | - | 139,306 |
| Other income | 24,614 | - | 24,614 |
| Investment loss, net | (28,401) | - | (28,401) |
| Net assets released from restrictions (Note 10): | | | |
| Satisfaction of program restrictions | 10,667,024 | (10,667,024) | - |
| Total revenues and other support | 11,124,189 | 311,297 | 11,435,486 |
| Expenses: | | | |
| Programs | 9,518,716 | - | 9,518,716 |
| Management and general | 1,696,826 | - | 1,696,826 |
| Fundraising | 108,186 | - | 108,186 |
| Total expenses | 11,323,728 | - | 11,323,728 |
| Change in net assets | (199,539) | 311,297 | 111,758 |
| Net assets, beginning of year | 1,166,564 | 1,132,856 | 2,299,420 |
| Net assets, end of year | $ 967,025 | $ 1,444,153 | $ 2,411,178 |

**THE ALLIANCE FOR THE CHESAPEAKE BAY, INC.**
**STATEMENT OF FUNCTIONAL EXPENSES**
For the Year Ended December 31, 2023

| | Programs | Management and general | Fundraising | Total |
|---|---|---|---|---|
| Personnel costs | $ 3,101,867 | $ 1,083,244 | $ 133,915 | $ 4,319,026 |
| Project costs | 7,193,767 | - | - | 7,193,767 |
| Bank fees | - | 11,597 | - | 11,597 |
| Conferences and meetings | - | 7,339 | 2,595 | 9,934 |
| Travel | 206,095 | 24,012 | 1,947 | 232,054 |
| Rent and occupancy | - | 46,052 | - | 46,052 |
| Telephone and internet | - | 10,790 | - | 10,790 |
| Lease expense | - | 130,849 | - | 130,849 |
| Insurance | - | 35,172 | - | 35,172 |
| Interest | - | 7,017 | - | 7,017 |
| Office supplies, postage, and printing | - | 22,560 | 7,447 | 30,007 |
| Professional fees and contract labor | - | 122,014 | 8,740 | 130,754 |
| Fundraising events | - | - | 31,165 | 31,165 |
| Total expenses | $ 10,501,729 | $ 1,500,646 | $ 185,809 | $ 12,188,184 |

**THE ALLIANCE FOR THE CHESAPEAKE BAY, INC.**
**STATEMENT OF FUNCTIONAL EXPENSES**
For the Year Ended December 31, 2022

| | Programs | Management and general | Fundraising | Total |
|---|---|---|---|---|
| Personnel costs | $ 2,814,982 | $ 948,771 | $ 65,915 | $ 3,829,668 |
| Project costs | 6,508,629 | 26,349 | - | 6,534,978 |
| Bank fees | - | 9,910 | - | 9,910 |
| Conferences and meetings | - | 6,337 | 1,654 | 7,991 |
| Travel | 187,653 | 14,346 | 2,118 | 204,117 |
| Rent and occupancy | - | 162,589 | - | 162,589 |
| Telephone and internet | - | 20,491 | - | 20,491 |
| Lease expense | - | 74,690 | - | 74,690 |
| Insurance | - | 32,384 | - | 32,384 |
| Interest | - | 2,221 | - | 2,221 |
| Office supplies, postage, and printing | - | 31,757 | 7,738 | 39,495 |
| Miscellaneous | - | 5,584 | - | 5,584 |
| Professional fees and contract labor | 7,452 | 356,897 | 8,056 | 372,405 |
| Fundraising events | - | 4,500 | 22,705 | 27,205 |
| Total expenses | $ 9,518,716 | $ 1,696,826 | $ 108,186 | $ 11,323,728 |

**THE ALLIANCE FOR THE CHESAPEAKE BAY, INC.**
**STATEMENTS OF CASH FLOWS**
For the years ended December 31, 2023 and 2022

| | 2023 | 2022 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ 836,577 | $ 111,758 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Realized loss (gain) on investments | 23 | (171) |
| Unrealized (gain) loss on investments | (21,168) | 32,986 |
| Amortization of right of use assets | 124,456 | 74,690 |
| Changes in assets and liabilities: | | |
| Decrease (increase) in: | | |
| Grants receivable | 241,620 | (127,010) |
| Prepaid expenses | (22,061) | 21,349 |
| (Decrease) increase in: | | |
| Accounts payable | (311,131) | 86,304 |
| Accrued expenses | 2,781 | 207,997 |
| Lease liability | (116,907) | (66,947) |
| Deferred revenue | 1,303,939 | (246,333) |
| Net cash provided by operating activities | 2,038,129 | 94,623 |
| Cash flows from investing activities: | | |
| Proceeds from sale of investments | 77,581 | 4,484 |
| Purchases of investments | (87,450) | (419,330) |
| Net cash used in investing activities | (9,869) | (414,846) |
| Cash flows from financing activities: | | |
| Proceeds from line of credit | 500,000 | 115,000 |
| Payments on line of credit | (500,000) | (115,000) |
| Net cash provided by financing activities | - | - |
| Net increase (decrease) in cash | 2,028,260 | (320,223) |
| Cash, beginning of year | 433,667 | 753,890 |
| Cash, end of year | $ 2,461,927 | $ 433,667 |
| Supplementary information: | | |
| Interest paid | $ 7,017 | $ 2,221 |
| Taxes paid | $ - | $ - |
| Acquisition of operating right-of-use asset and recognition of operating lease liability | $ - | $ 587,679 |

See the Independent Auditor's Report and the 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, not-for-profit entity.

The Organization's mission statement states:

> "The Alliance brings together communities, companies, and conservationists to improve our lands and waters."

Founded in 1971, Alliance for the Chesapeake Bay, Inc. is funded by individuals, businesses, governments, and private foundations. The Organization maintains offices in Annapolis, Maryland, Richmond, Virginia, Lancaster, Pennsylvania, and the District of Columbia.

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
The Organization follows the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) No. 2016-14 — *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This provision requires the Organization to classify net assets into two categories according to donor-imposed restrictions: net assets without donor restrictions and 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 organization. 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.

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, 2023, the Organization held $2,211,927 in excess of federally insured limits.

Income Taxes
The Organization is a not-for-profit 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 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.

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

Income Taxes (continued)
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, 2023 and 2022. 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, 2023 and 2022 consist mainly of grants and contracts earned, but not yet received. No allowance for uncollectible accounts has been recorded at December 31, 2023 and 2022, 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:

| Expense | Method of Allocation |
|---|---|
| Salaries and benefits | Time and effort |
| Travel | Time and effort |
| Other | Time and effort |

Revenue Recognition
The Organization follows the FASB's ASU 2014-09*, Revenue from Contracts with Customers (Topic 606)* and ASU 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. These updates require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services and provide guidance in evaluating whether transactions should be accounted for as contributions or exchanges, respectively. In addition, update ASU 2018-08 introduces the concept of barriers in providing additional guidance on identifying conditions that would preclude the recognition of a contribution as revenue.

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

Revenue Recognition (continued)
The Organization recognizes revenue from grants as work progresses on the related mission. The performance obligations are, generally, performed prior to the Organization receiving the funds from related grants; therefore, revenue is recognized in the year in which the work is performed. Revenue received which relates to subsequent years is recorded as deferred revenue in the Statement of Financial Position.

The Organization recognizes contributions when cash, securities, or other assets; an unconditional promise to give; or a notification of a beneficial interest is received. Conditional promises to give–that is, those with a measurable performance or other barrier and a right of return–are not recognized until the conditions on which they depend have been met.

Contributions are considered to be without donor restrictions unless specifically restricted by the donor. Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the Statement of Activities. Revenue received with donor restrictions that are met in the same reporting period is reported as support without donor restrictions and increases net assets without donor restrictions.

Contributions receivable are reported in the Statement of Financial Position at the outstanding contribution balance adjusted for any write-offs and an allowance for potentially uncollectible contributions. The Organization had no contributions receivable for the years ended December 31, 2023 and 2022.

Contributions of assets other than cash are recorded at their estimated fair value at the date of gift. Contributions to be received after one year are discounted at an adjusted risk-free rate of return. Amortization of the discount is recorded as additional contribution revenue and used in accordance with donor-imposed restrictions, if any, on the contributions.

Contributions of cash restricted for the acquisition of long-lived assets are reported as restricted support that increases net assets with donor restrictions. The restrictions are released when the long-lived assets are acquired or placed in service by the Organization. Contributions of property and equipment are recorded as revenue without donor restrictions unless donor stipulations specify how the assets are to be used.

Recently Adopted Accounting Pronouncements
During the year ended December 31, 2022, the Organization adopted FASB ASU No. 2016-02, ASC 842, *Leases,* which requires the recognition of a right-to-use (“ROU”) asset and a lease liability based on the present value of the remaining lease payments. The Organization adopted the standard by applying the new transition alternative (ASU 2018-11) where an entity initially applies the new standard to all existing leases at the adoption date without restatement to prior periods. The Organization elected the package of practical expedients which permits a lessee to not reassess under the new standard its prior conclusions regarding lease identification, lease classification and initial direct costs. The Organization elected to apply the risk-free rate, for all asset classes, to discount lease payments as permitted under ASU 2021-09. As permitted by the standard, the Organization elected, for all asset classes, the short-term lease exemption in which leases with a term of 12 months or less are not recognized on the Statement of Financial Position.

The Organization adopted FASB ASU No. 2020-07, Not-for-Profit Entities (Topic 958): *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. The new guidance requires nonprofit entities to present contributed nonfinancial assets as a separate line item in the Statement of Activities, apart from contributions of cash or other financial assets.

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

Recently Adopted Accounting Pronouncements (continued)
The standard also increases the disclosure requirements around contributed nonfinancial assets, including disaggregating by category the types of contributed nonfinancial assets a nonprofit entity has received. The Organization has no contributed nonfinancial assets for the years ending December 31, 2023 and 2022.

The Organization adopted FASB ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326)*. This standard sets forth a current expected credit loss model ("CECL"), which requires the measurement of credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard requires the application of a current expected credit loss model, which is a new impairment model based on expected losses. Under this model, an entity recognizes an allowance for expected credit losses based on historical experience, current conditions, and forecasted information rather than the previous methodology of delaying recognition of credit losses until it is probable a loss has been incurred. These financial statements have not been affected by the implementation of this standard.

Subsequent Events
The Organization has evaluated events and transactions for potential recognition or disclosure through September 17, 2024, the date the financial statements were available to be issued.

Note 3. **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:

| | 2023 | 2022 |
|---|---|---|
| Financial assets available at year end | | |
| Cash | $ 2,461,927 | $ 433,667 |
| Investments | 413,045 | 382,031 |
| Grants receivable | 3,197,670 | 3,439,290 |
| Total financial assets | 6,072,642 | 4,254,988 |
| Less amounts not available to be used within one year | | |
| Endowments | 398,865 | 370,417 |
| Net assets with donor restrictions | 2,275,977 | 1,444,153 |
| Financial assets available for general use | $ 3,397,800 | $ 2,440,418 |

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

Note 4. **FAIR VALUE AND INVESTMENTS**

The Organization follows the recommendations of FASB in its ASC for Fair Value Measurements for certain financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis. These recommendations define fair value, establish a framework for measuring fair value, and expand financial statement disclosures about fair value measurements.

Fair value is defined as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability.

The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity.

Note 4. **FAIR VALUE AND INVESTMENTS (continued)**

In addition to defining fair value, these recommendations expand the disclosure requirements around fair value and establish a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels, which is determined by the lowest level input that is significant to the fair value measurement in its entirety.

These levels are:

Level 1 – inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.

Level 2 – inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The Organization uses quoted prices in active markets for identical assets or liabilities to determine fair value. This pricing methodology applies to all Level 1 investments. Level 2 investments are quoted based on similar instruments and include money market funds. Level 3 values are based on broker price quotation using valuation models and assumptions.

Assets measured at fair value on a recurring basis at December 31, 2023 are as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Money market funds | $ 73,467 | $ - | $ - | $ 73,467 |
| Common equity | 12,221 | - | - | 12,221 |
| Exchange traded funds | 327,357 | - | - | 327,357 |
| Total | $ 413,045 | $ - | $ - | $ 413,045 |

Assets measured at fair value on a recurring basis at December 31, 2022 are as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Money market funds | $ 142,700 | $ - | $ - | $ 142,700 |
| Common equity | 552 | - | - | 552 |
| Exchange traded funds | 238,779 | - | - | 238,779 |
| Total | $ 382,031 | $ - | $ - | $ 382,031 |

Net investment gain (loss) for the years ended December 31, 2023 and 2022 are as follows:

| | 2023 | 2022 |
|---|---|---|
| Interest and dividend income | $ 10,463 | $ 4,599 |
| Investment fees | (2,324) | (1,734) |
| Realized (loss) gain | (23) | 171 |
| Unrealized gain (loss) | 21,168 | (32,986) |
| Gain (loss) from investments | 29,284 | (29,950) |
| Interest from money market treated as cash equivalent | 34,287 | 1,549 |
| Total, net investment gain (loss) | $ 63,571 | $ (28,401) |

Note 5. **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 2023 or 2022 as all assets have been fully depreciated.

Note 6. **DEFERRED REVENUE**

The following table provides information about significant changes in the contract liabilities for the year ended December 31, 2023:

| | |
|---|---|
| Deferred revenue at December 31, 2021 | $ 1,075,355 |
| Revenue recognized that was included in deferred revenue at the beginning of the year | (1,075,355) |
| Increase in deferred revenue due to cash and contracts received during the year | 829,022 |
| Deferred revenue at December 31, 2022 | 829,022 |
| Revenue recognized that was included in deferred revenue at the beginning of the year | (829,022) |
| Increase in deferred revenue due to cash and contracts received during the year | 2,132,961 |
| Deferred revenue at December 31, 2023 | $ 2,132,961 |

Note 7. **LINE OF CREDIT**

The Organization has a line of credit agreement with a bank for an amount up to $900,000. This line of credit is renewable each year. As of December 31, 2023 and 2022, there was no balance on the line of credit. There were two draws in the year ended December 31, 2023 for a total of $500,000 which was paid in full during the year and a $115,000 draw on the line of credit during the year ended December 31, 2022 that was paid in full during the year. The line of credit is secured by all personal property of the Organization and is payable on demand. Interest is due monthly at the secured overnight financing rate plus three percent.

The interest rate was 8.4% as of December 31, 2023. Interest paid on this line of credit for the year ended December 31, 2023 and 2022 was $7,017 and $2,221, respectively.

Note 8. **DESIGNATION OF NET ASSETS WITHOUT DONOR RESTRICTIONS**

The Board of Directors of the Organization has designated amounts of net assets without donor restriction, which are set aside for specific programs.

The following shows designated net asset without donor restrictions activity for the year ended December 31, 2023:

| | |
|---|---|
| Designated net assets without donor restriction at December 31, 2021 | $ 400,000 |
| Board approved designations | - |
| Investment income, net | (29,583) |
| Releases from designation | - |
| Designated net assets without donor restriction at December 31, 2022 | 370,417 |
| Board approved designations | - |
| Investment gain, net | 28,448 |
| Releases from designation | - |
| Designated net assets without donor restriction at December 31, 2023 | $ 398,865 |

## NOTES TO THE FINANCIAL STATEMENTS

Note 9. **NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions at December 31, 2023 and 2022 are available for the following purposes:

| | 2023 | 2022 |
|---|---|---|
| Various federal, state, and private agency programs | $ 2,275,977 | $ 1,444,153 |

Note 10. **NET ASSETS RELEASED FROM RESTRICTIONS**

During the years ended December 31, 2023 and 2022, 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:

| | 2023 | 2022 |
|---|---|---|
| Various expenses related to performance of federal, State, and private agency programs | $ 11,766,340 | $ 10,667,024 |

Note 11. **CONCENTRATION OF REVENUES**

During the years ended December 31, 2023 and 2022, the Organization recognized revenues from United States Environmental Protection Agency of approximately $7,351,300 and $5,326,891, respectively, for program services performed. This represents 56% and 47% of all revenues recognized by the Organization as a whole in 2023 and 2022, 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 Uniform Guidance have been completed for the Organization for all required years through 2023. 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 12. **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 updated their retirement plan to include an employer match of 4% of employee deferred wages after one year of service during the year ended December 31, 2020. The match expense was $117,826 and $99,641 for the year ended December 31, 2023 and 2022, respectively.

Note 13. **OPERATING LEASES**

During the year ended December 31, 2022, the Organization subleased office space in their Annapolis office. The Organization received approximately $18,000 in lease payments for the subleased office space, which is recorded in other income on the Statements of Activities. Beginning January 1, 2023, the Organization no longer subleases office space.

The Organization leases office space in Annapolis, Lancaster, and Richmond. The rate for the Annapolis office is $4,997 per month and increases 2.5% annually. This lease was consummated in December of 2022 and expires February 1, 2028. The Organization also leases office space in the District of Columbia on a year-to-year basis. Lease expense was $130,849 and $74,690 for the years ended December 31, 2023 and 2022, respectively.

Note 13. **OPERATING LEASES (continued)**

Below are the Organization's costs recognized in the Statement of Activities for the year December 31, 2023, as well as additional quantitative information relating to its leases.

| | | |
|---|---|---|
| Operating lease cost | $ | 130,849 |
| Operating cash flows from operating leases | $ | 123,300 |
| Weight-average remaining lease term (years) – operating leases | | 4.03 |
| Weighted-average discount rate – operating leases | | 1.36% |

Future minimum lease payments are as follows:

| | | |
|---|---|---|
| 2024 | $ | 120,664 |
| 2025 | | 108,935 |
| 2026 | | 111,887 |
| 2027 and beyond | | 75,925 |
| Total lease payments | | 417,411 |
| Less imputed interest | | (9,939) |
| Total lease liabilities | $ | 407,472 |

Note 14. **ENDOWMENT FUNDS**

During the year ended December 31, 2021, the Organization has established a Board-designated endowment to help perpetuate the existence of the Organization and protect against future conditions which may alter its ability to operate. This endowment is a result of an internal designation and not restrictions placed by donors. Accordingly, income earned on investments related to the Board-designated endowment is not restricted and is included in income without donor restrictions.

<u>Interpretation of Relevant Law</u>
The Organization classifies as perpetually restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts donated to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in purpose restricted net assets is classified as time restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA (Uniform Prudent Management of Institutional Funds Act).

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1) The duration and preservation of the fund
2) The purposes of the Organization and the donor-restricted endowment fund
3) General endowment conditions
4) The possible effect of inflation and deflation
5) The expected total return from income and the appreciation of investments
6) Other resources of the Organization
7) The investment policies of the Organization.

Note 14. **ENDOWMENT FUNDS (continued)**

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that current law requires the Organization to retain for a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, deficiencies of this nature are reported in net assets with restrictions. Such deficiencies may result from unfavorable market fluctuations. There is no such deficiency as of December 31, 2023.

Investment Policies

The objectives of the investment policy is to support the mission of the Organization, target an annual growth rate of at least 4-6%, and grow the principal balance of the endowment over time. The intent of investment policy is to have a moderate risk profile, though it is understood that there can be considerable volatility in the shorter term. Funds are to be invested in a diverse manner across industries while considering companies and funds that have stated environmental, social and governance policies that generally align with the mission of the Organization. However, this is a directional but not exclusionary guideline. The Organization would like to match their mission with their investments as much as possible without sacrificing return or increasing volatility.

The Finance Committee of the Board will assist the Organization’s senior staff in providing oversight of the endowment funds. The Finance Committee will report to the Board on the status of investments and any proposed changes to the investment policy. Additionally, the Organization will engage an external Investment Advisor and Investment Custodian to manage the funds in accordance the Organization’s fund objectives.

Policy for the Appropriation of Endowment Assets for Expenditure

The endowment fund is intended to exist in perpetuity and that any distributions from the fund will be at the discretion of the Board of Directors. The amount of annual distributions will follow a formula described within the policy to provide 5% of the endowment balance on an annual basis for projects determined by the Organization’s senior staff. The Board continues to evaluate the balance with future distributions to be made annually based on the Board's discretion.

Endowment net asset composition by type of fund as of December 31, 2023:

| | Without donor restrictions |
|---|---|
| Board-designated endowment funds | $ 400,000 |
| Accumulated investment losses | (1,135) |
| Total funds | $ 398,865 |

Endowment net asset composition by type of fund as of December 31, 2022:

| | Without donor restrictions |
|---|---|
| Board-designated endowment funds | $ 400,000 |
| Accumulated investment losses | (29,583) |
| Total funds | $ 370,417 |

Note 14. **ENDOWMENT FUNDS (continued)**

The Organization had the following changes in endowment net assets for the years ended December 31, 2022 and 2023:

| | Without donor restrictions |
|---|---|
| Endowment net assets, December 31, 2021 | $ 400,000 |
| Investment loss, net | (29,583) |
| Contributions | - |
| Appropriation of endowment for expenditure | - |
| Endowment net assets, December 31, 2022 | $ 370,417 |
| Investment loss, net | 28,448 |
| Contributions | - |
| Appropriation of endowment for expenditure | - |
| Endowment net assets, December 31, 2023 | $ 398,865 |

Note 15. **PRIOR YEAR ADJUSTMENT**

Operating lease expense was found to have been incorrectly calculated resulting in the overstatement of right of use assets and lease liabilities for the year ended December 31, 2022. An adjustment was made to these financials to correct those overstatements the net effect of which are detailed below:

| | Amounts as Previously Reported | Adjustments | Amounts as Restated |
|---|---|---|---|
| Statement of Financial Position | | | |
| Operating right-of-use asset, net of accumulated amortization | 817,082 | (300,446) | 516,636 |
| Operating lease liability | 178,391 | (61,485) | 116,906 |
| Operating lease liability, net of current portion | 651,539 | (244,066) | 407,473 |
| Net assets, without donor restrictions | 961,920 | 5,105 | 967,025 |
| Statement of Activities | | | |
| Management and general expenses | 1,701,931 | (5,105) | 1,696,826 |
| Change in net assets | 106,653 | 5,105 | 111,758 |
| Statement of Functional Expenses | | | |
| Lease expense | 79,795 | (5,105) | 74,690 |
| Statement of Cash Flows | | | |
| Change in net assets | 106,653 | 5,105 | 111,758 |
| Amortization of right-of-use asset | 74,690 | 5,105 | 79,795 |