

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC.

Annual Financial Report

For the Year Ended August 31, 2011



Lovvorn & Kieschnick

CERTIFIED PUBLIC ACCOUNTANTS

LOVVORN & KIESCHNICK, LLP

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COASTAL BEND BAYS AND ESTUARIES PROGRAM, INC.
ANNUAL FINANCIAL REPORT
YEAR ENDED AUGUST 31, 2011

Table of Contents

	Page
Independent Auditor's Report	1
Financial Statements:	
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6
Notes to Financial Statements	7
Single Audit Section:	
Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>	13
Report on Compliance with Requirements That Could Have a Direct and Material Effect on each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	15
Schedule of Findings and Questioned Costs	17
Schedule of Prior Audit Findings	19
Corrective Action Plan	20
Schedule of Expenditures of Federal Awards	21
Notes to Schedule of Expenditures of Federal Awards	22
Schedule of Expenditures of State Awards	23
Notes to Schedule of Expenditures of State Awards	23

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CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

To the Board of Directors
Coastal Bend Bays & Estuaries Program, Inc.
Corpus Christi, Texas

We have audited the accompanying statement of financial position of Coastal Bend Bays & Estuaries Program, Inc. (a nonprofit organization) as of August 31, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization'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 Coastal Bend Bays & Estuaries Program, Inc. as of August 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 February 29, 2012 on our consideration of Coastal Bend Bays & Estuaries Program, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Coastal Bend Bays & Estuaries Program, Inc. taken as a whole. The accompanying schedules of expenditures of federal and state awards are 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 the State of Texas Uniform Grant and Contract Management Standards (UGCMS), 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.

Lorrera + Kischuck, LLP

February 29, 2012

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC.
STATEMENT OF FINANCIAL POSITION
August 31, 2011

ASSETS

Current assets

Cash	\$ 242,761
Cash - restricted (Note 6)	104,109
Short-term Investments - restricted (Note 6)	4,328,443
Prepaid Items	26,135
Grants receivable	<u>646,123</u>

Total current assets 5,347,571

Long term assets

Property and Equipment, net (Note 5)	<u>4,671,590</u>
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Total assets \$ 10,019,161

LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable	\$ 90,004
Accrued expenses	<u>27,432</u>

Total current liabilities 117,436

Net assets

Unrestricted:

Undesignated	526,072
Invested in Property and Equipment	<u>4,671,590</u>
Total Unrestricted	5,197,662

Temporarily restricted (Note 6)	<u>4,704,063</u>
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Total net assets 9,901,725

Total liabilities and net assets \$ 10,019,161

See notes to financial statements.

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC.
STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2011

	Unrestricted	Temporarily Restricted	Total
Public support and revenue			
Federal and State funded grant agreements (Note 2)	\$ -	\$ 2,152,536	\$ 2,152,536
Local government contributions (Note 4)	282,193	-	282,193
Private non-profit corporate contributions	143,566	48,941	192,507
Interest income	7,130	-	7,130
In kind contributions (Note 3)	66,701	-	66,701
Capital contribution - Land Habitat	16,734	-	16,734
Other income	6,047	-	6,047
Net assets released from restrictions (Note 7)	2,284,201	(2,284,201)	-
	<u>2,806,572</u>	<u>(82,724)</u>	<u>2,723,848</u>
Expenses			
Federal and State funded grant agreements (Note 2)	2,149,157	-	2,149,157
Management and General	638,864	-	638,864
In kind contributions (Note 3)	66,701	-	66,701
	<u>2,854,722</u>	<u>-</u>	<u>2,854,722</u>
Change in net assets	(48,150)	(82,724)	(130,874)
Net assets, August 31, 2010	5,245,812	4,786,787	10,032,599
Net assets, August 31, 2011	<u>\$ 5,197,662</u>	<u>\$ 4,704,063</u>	<u>\$ 9,901,725</u>

See notes to financial statements.

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED AUGUST 31, 2011

	Federal and State Funded	In Kind Contributions	Management & General	Total
Personnel				
Salaries	\$ 708,276	\$ -	\$ 2,700	\$ 710,976
Fringe Benefits				
Health and workers compensation insurance	69,462	-	2,000	71,462
Pension plan	61,793	-	-	61,793
Payroll taxes	62,929	-	-	62,929
Total personnel expenses	902,460	-	4,700	907,160
Travel, training, conferences	19,873	-	35,718	55,591
Supplies	52,705	-	22,491	75,196
Contractual	1,036,204	-	477,666	1,513,870
Other expenses				
Advertising	34,264	-	635	34,899
Data Processing	7,777	-	478	8,255
Depreciation	-	-	11,035	11,035
Dues and subscriptions	2,323	5,000	4,560	11,883
Equipment rental	15,165	-	6,068	21,233
Insurance expense	15,850	-	-	15,850
Janitorial	-	2,739	-	2,739
Maintenance	4,930	-	3,953	8,883
Miscellaneous	2,538	-	16,562	19,100
Postage and freight	1,141	-	7	1,148
Printing and duplication	4,066	-	7,153	11,219
Professional services	29,776	600	25,972	56,348
Property Taxes	-	-	6,533	6,533
Registration fees	8,861	-	11,290	20,151
Rent	-	30,000	-	30,000
Security	140	2,449	-	2,589
Telephone and Internet	2,475	445	1,755	4,675
Temporary Staff	8,509	-	550	9,059
Utilities	100	25,468	1,738	27,306
Total expenses	<u>\$ 2,149,157</u>	<u>\$ 66,701</u>	<u>\$ 638,864</u>	<u>\$ 2,854,722</u>

See notes to financial statements.

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED AUGUST 31, 2011

Cash flows from operating activities	
Changes in net assets	\$ (130,874)
Adjustments to reconcile change in net assets to	
net cash flow from operating activities:	
Depreciation	11,035
Income Temporarily Restricted	(1,442)
Donated Property	(16,735)
 (Increase) decrease in operating assets:	
Grants Receivable	191,994
Prepaid Expenses	(15,313)
Cash - Restricted	168,643
Short-term Investments- Restricted	(3,356)
 Increase (decrease) in operating liabilities:	
Accounts payable and other payables	(356,222)
Accrued Expenses	12,747
Deferred Revenue	(14,113)
	<hr/>
Net cash provided by operating activities	(153,636)
 Cash flows from investing activities	
Purchase of Property	(21,387)
Purchase of US Treasury Bills/ MM	(37,393,001)
Sale of US Treasury Bills	37,394,445
	<hr/>
Net cash provided (used) by investing activities	(19,943)
 Cash flows from financing activities	
Income temporarily restricted	<hr/> -
 Net cash provided by financing activities	-
 Net increase in cash	(173,579)
 Cash	
Cash at the beginning of the year	<hr/> 416,340
 Cash at the end of the year	<hr/> <hr/> \$ 242,761

See notes to financial statements.

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Coastal Bend Bays & Estuaries Program, Inc. is a nonprofit Texas corporation chartered in August 1999. The Organization was organized to implement the Coastal Bend Bays Plan, which seeks to ensure that the Coastal Bend bays and estuaries remain a vibrant part of the region's environmental and economic landscape by preserving and enhancing their roles as a recreational resource, international seaport, and habitat for fish and wildlife.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual method of accounting.

Financial Statement Presentation

Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of funding entity-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted net assets - Net assets that are not subject to funding entity-imposed restrictions.

Temporarily restricted net assets - Net assets subject to funding entity-imposed stipulations that may or will be met, either by actions of the Organization and/or passage of time. When a restriction expires, 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 - Net assets subject to funding entity-imposed stipulations that they be maintained permanently by the Organization. Generally, the grantor of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

Contributions

Contributions are recognized as revenue when they are received or unconditionally pledged. All contributions are available for unrestricted use unless specifically restricted by the donor.

Use of Estimates

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

Revenue Accounting

Government grants are recognized as revenue in the period of related expenses. Therefore, unreimbursed expenses are accrued as accounts receivable and excess reimbursements are accrued as a liability, to be refunded to the government.

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2011

Property and Equipment

Property and equipment are stated at cost or donated value. Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Office Buildout Amortization	5
Classroom Structure and Improvements	25
Equipment	5-10

Government Grant Revenues

Substantially all of the Organization's public support and revenues are from various government grants. Federal funds and state funds are provided through the Texas Commission On Environmental Quality, U.S. Fish & Wildlife Service and U.S. Environmental Protection Agency. Local funds are provided by the City of Corpus Christi, Port of Corpus Christi, San Patricio County, City of Portland, City of Ingleside, City of Port Aransas, City of Aransas Pass and Nueces County.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. The cash restricted is not considered to be a cash equivalent for purposes of the statement of cash flows.

Federal Income Tax Accounting

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. However, an annual return must be filed for each calendar year on Form 990, Return of Organization Exempt from Income Tax, to report details of operations and financial position.

Donated Materials, Equipment and Services (In Kind Services)

Donated materials and equipment and donated services are recorded as contributions at their estimated values at the date of receipt.

Concentrations of Credit Risk

Credit risk represents the accounting loss that would be recognized at the reporting date if counterparties failed to completely perform as contracted. Management believes the likelihood of incurring material losses due to concentration of credit risk is remote. The principal financial instruments subject to credit risk are as follows:

The Organization's cash and cash - restricted are deposited with a financial institution (bank). The cash deposited exceeds the FDIC (Federal Deposit Insurance Corporation) insured limits and is not secured by any other collateral.

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2011

Investments

Following is a summary of investments stated a fair value held by the Organization as of August 31, 2011

U.S. Treasury Bills	4,156,078
Certificates of Deposit	172,365
Total Investments	<u>4,328,443</u>

2. FEDERAL AND STATE FUNDED GRANT AGREEMENTS

CBBEP has ongoing grants with the following State and Federal Agencies:

- Texas Commission On Environmental Quality
- Texas General Land Office
- Texas Parks and Wildlife
- United States Fish and Wildlife Service
- United States Environmental Agency Region VI (two grants)
- United States Environmental Agency Region IV (Gulf of Mexico program)

3. IN KIND CONTRIBUTION AGREEMENT

Agreement between the Port of Corpus Christi Authority of Nueces County, Texas (Authority) and the Coastal Bend Bays & Estuaries Program, Inc. (CBBEP). The Authority will provide CBBEP with certain services to support the management and operation of CBBEP. Services provided include office space, office furniture, telephones, and access to the local area network.

4. LOCAL GOVERNMENT CONTRIBUTIONS

As of August 31, 2011 the Organization had received the following contributions from local sources:

City of Corpus Christi	\$ 75,000
Port of Corpus Christi	75,000
Port Industries	75,000
San Patricio County	30,000
San Antonio River Authority	8,693
Nueces County	6,000
City of Port Aransas	5,000
City of Portland	5,000
City of Rockport	<u>2,500</u>
Total Contributions	<u>\$282,193</u>

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2011

5. PROPERTY AND EQUIPMENT

Property and equipment at August 31, 2011 consisted of the following:

Land (Habitat)	\$ 4,582,696
Office Build Out	166,184
Classroom Structure and Improvements	63,683
Equipment	95,491
Total	<u>\$ 4,908,054</u>
Less accumulated depreciation and amortization	<u>(238,739)</u>
Property and equipment, net	<u>\$ 4,671,590</u>

Land (Habitat) – The Coastal Bend Bays & Estuaries Program Inc. acquires real property interests in wetlands and associated uplands to ensure that the real property will be administered for the long-term conservation of such lands and waters and the migratory birds and fish and other wildlife dependent thereon.

Office Build Out – The Port of Corpus Christi Authority of Nueces County, Texas (Authority) contributes office space to the Coastal Bend Bays & Estuaries Program, Inc. (CBBEP) (see note 3). The Authority spent \$166,184 "building out" the office space provided to CBBEP. CBBEP amortized the "build out" over five years. The amortization was complete in 2004.

Conservation Easements – CBBEP holds third-party conservation easements on 983.00 acres of property owned by various local governments. These properties were acquired by local governments for use as parks and protected green space. The conservation easements were donated at no cost to CBBEP in order to satisfy the requirements of the grants used by local governments to purchase the properties. No values have been placed on these easements.

6. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were available for the following purposes as of August 31, 2011:

Court Ordered Condition of Probation (COCP):

In February, 2003, the CBBEP received from the United States District Court for the Southern District of Texas, Corpus Christi Division, funds to develop, in coordination with the TCEQ and the U.S. Environmental Protection Agency (EPA), water quality remediation projects in and around Corpus Christi. Specifically, the CBBEP will implement the COCP project: "Preservation and Enhancement of Wetlands and Wildlife Habitats in the Nueces River Delta." The CBBEP maintains these funds in a separate interest-bearing account used exclusively for such funds. The source of these funds is a result of a felony conviction which required a Company to pay the funds for this project as a condition of probation for a criminal conviction.

\$ 4,417,614

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2011

Shamrock Island Habitat Protection & Enhancement Project

In June, 2004, the CBBEP received monies for the enhancement of colonial waterbird habitat on Shamrock Island in Nueces County, which has experienced significant loss of wetland and rookery habitat due to dredging activities and erosion from waves and ships. This project will satisfy required mitigation for the seagrasses that will be impacted by activities near Packery Channel. Funds are provided by the City of Corpus Christi.

\$ 252,397

Tortuga Dunes

20,000

Kate's Hole

14,052

Total Temporarily Restricted Net Assets

\$ 4,704,063

7. NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses, satisfying the restricted purposes by donors as follows:

Environmental projects funded by federal and state grants	\$ 2,152,536
Private non-profit corporate grant	131,665
Total	<u>\$ 2,284,201</u>

8. RETIREMENT PLAN

Effective September 1, 2010, the Organization established a defined contribution Section 401(k) employee retirement plan. All employees are eligible to participate in the plan immediately upon employment. The Plan requires that the Organization make discretionary contributions in each Plan Year to the Individual Retirement Accounts of all eligible employees. The plan provides that Organization contribute 3% of the gross compensation of all eligible employees and also make matching contributions equal to 100% of the portion of each eligible employee's 401(k) contributions that do not exceed 6% of the employee's eligible pay. For the year ended August 31, 2011 the Organization contributed \$61,793.

9. FAIR VALUE MEASUREMENT

The Organization's assets and liabilities reported at fair value are valued using a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy defines three levels of inputs, giving the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable inputs.

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2011

The Organization uses the following hierarchical disclosure framework:

Level 1 -- Measurement based upon quoted prices for identical assets in an active market as of the reporting date.

Level 2 -- Measurement based upon marketplace inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 -- Measurement based on the Organization's assumptions about a hypothetical marketplace because observable market inputs are not available as of the reporting date.

The Organization uses appropriate valuation techniques based on the available inputs to measure the fair values of its assets and liabilities. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs have the lowest priority.

The following table sets forth by level within the fair value hierarchy, the Organization's assets measured at fair value on a recurring basis as of August 31, 2011:

<u>Investments</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
U.S. Treasury Notes	4,156,078	-	-	4,156,078
Certificates of Deposit	172,365	-	-	172,365
 Total Investments	 4,328,443	 -	 -	 4,328,443

10. SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 29, 2012, the date which the financial statements were available to be issued.



Lovvorn & Kieschnick

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

Report on Internal Control over Financial Reporting and on Compliance And other Matters Based on an Audit of Financial Statements Performed In Accordance with Government Auditing Standards

To The Board of Directors
Coastal Bend Bays and Estuaries Program, Inc.
Corpus Christi, Texas

Members of the Board:

We have audited the basic financial statements of Coastal Bend Bays & Estuaries Program, Inc. (a nonprofit organization) as of and for the year ended August 31, 2011, and have issued our report thereon dated February 29, 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, and the provisions of the State of Texas, *Uniform Grant and Contract Management Standards* (UGCMS).

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Organization'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 the Organization'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 combination of significant 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 would not designed to identify all 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants 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* and UGCMS.

This report is intended solely for the information and use of management, others within the organization, the Board of Directors, the Texas Commission on Environmental Quality, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Lovvorn + Kieschnick, LLP

February 29, 2012



Lovvorn & Kieschnick

CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditor's Report

Report on Compliance with Requirements Applicable That Could Have a Direct and Material Effect on each Major Program and Internal Control Over Compliance In Accordance with OMB Circular A-133

To The Board of Directors
Coastal Bend Bays & Estuaries Program, Inc.
Corpus Christi, Texas

Members of the Board:

Compliance

We have audited Coastal Bend Bays & Estuaries Program, Inc.'s compliance with the types of compliance requirements described in OMB Circular A-133 *Compliance Supplement* and the provisions of the State of Texas *Uniform Grant and Contract Management Standards (UGCMS)* that could have a direct and material effect on each of the Organization's major federal and state programs for the year ended August 31, 2011. The Organization's major federal and state programs are identified in the summary of auditor's result 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 and state programs is the responsibility of the Organization's management. Our responsibility is to express an opinion on the Organization'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*; and the provisions of the State of Texas, *Uniform Grant and Contract Management Standards (UGCMS)*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about Coastal Bend Bays & Estuaries Program, 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 on the Organization's compliance with those requirements.

In our opinion, Coastal Bend Bays & Estuaries Program, Inc. complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended August 31, 2011.

Internal Control Over Compliance

Management of Coastal Bend Bays & Estuaries Program, Inc. is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal and state programs. In planning and performing our audit, we considered the Organization's internal control over compliance with requirements that could have a direct and material effect on a major federal or state 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 the Organization'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 or state 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 or state 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, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, others within the organization, the Board of Directors, the Texas Commission on Environmental Quality, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Lorrain + Kischner LLP

February 29, 2012

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED AUGUST 31, 2011

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X None Reported

Noncompliance material to financial statements noted? _____ Yes X No

2. Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? _____ Yes X 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 section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
66.456	National Estuary Program

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

3. State Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

One or more significant deficiencies identified that are
not considered to be material weaknesses? _____ Yes X 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 State of
Texas Single Audit Circular _____ Yes X No

Identification of major programs:

<u>Grant Number</u>	<u>Name of State Program</u>
582-8-80177	Texas Commission On Environmental Quality
582-10-90448	Texas Commission On Environmental Quality
582-11-90507	Texas Commission On Environmental Quality

Dollar threshold used to distinguish between
type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? X Yes _____ No

B. Financial Statement Findings

NONE

C. Federal/State Award Findings and Questioned Costs

NONE

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED AUGUST 31, 2011

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
N/A - No Prior Findings		

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC.
CORRECTIVE ACTION PLAN
YEAR ENDED AUGUST 31, 2011

<u>Program</u>	<u>Corrective Action Plan</u>
N/A	No Corrective Action Required

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2011

<u>Grantor Agency/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures</u>
U.S. Fish and Wildlife Service			
Direct Programs:			
Habitat and Artificial Reefs	15.630	1448-20181-07-J833	35,518
Habitat and Artificial Reefs	15.630	1448-20181-07-J832	69,833
Habitat and Artificial Reefs	15.630	1448-20181-A-J839	28,105
Habitat and Artificial Reefs	15.630	F11AC00080	24,633
Total CFDA Number 15.630			<u>\$ 158,089</u>
 ARRA - Habitat Enhancement, Restoration & Improv.	15.656	1448--20181-R-J013	\$ 257,958
Pass-Through Program From:			
Texas Parks and Wildlife Department			
Cooperative Endangered Species Conservation Fund	15.615	E125.RL-1	\$ 7,000
 Total U.S. Fish and Wildlife Service			<u>\$ 423,047</u>
U.S. Environmental Protection Agency			
Direct Programs:			
National Estuary Program	66.456	CE-98685806	53,164
National Estuary Program	66.456	CE-98685808	34,742
National Estuary Program	66.456	CE-98685809	80,742
National Estuary Program	66.456	CE-00F21401	534,982
Total CFDA Number 66.456			<u>\$ 703,630</u>
 Total U.S. Environmental Protection Agency			<u>\$ 703,630</u>
U.S. Department of Commerce, National Oceanic and Atmospheric Administration (NOAA)			
Pass-Through Program From:			
Texas GLO - Coastal Management			
Texas Coastal Management Program	11.419	NA08NOS4190458	\$ 25,660
 Total U.S. Department of Commerce, NOAA			<u>\$ 25,660</u>
 Total Federal Financial Assistance			<u><u>\$1,152,337</u></u>

The accompanying notes are an integral part of this schedule.

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2011

Note 1: Federal Assistance Reconciliation

Federal Expenditures per Schedule of Expenditures of Federal Awards	\$ 1,152,337
Less: Capitalization of Assets Purchased	<u>(3,379)</u>
Federal Expenses on Statement of Activities	<u><u>\$ 1,148,958</u></u>

Note 2: Significant Accounting Policies Used In Preparing the Schedule

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Coastal Bend Bays & Esturaries Program, Inc. and is presented on the full accrual basis of accounting. 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. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

COASTAL BEND BAYS & ESTUARIES PROGRAM, INC.
SCHEDULE OF EXPENDITURES OF STATE AWARDS
For the Year Ended August 31, 2011

<u>Grantor Agency/Program Title</u>	<u>Grant Contract Number</u>	<u>Expenditures</u>
Texas Commission On		
Environmental Quality	582-8-80177	56,316
	582-8-80177	130,031
	582-10-90448	170,421
	582-11-90507	643,431
		<u>\$ 1,000,199</u>
Total State Financial Assistance		<u><u>\$ 1,000,199</u></u>

The accompanying notes are an integral part of this schedule.

NOTES TO SCHEDULE OF EXPENDITURES OF STATE AWARDS

Note 1: State Assistance Reconciliation

State Expenditures per Schedule of Expenditures of State Awards	\$ 1,000,199
Capitalization of Assets Purchased - Land	-
State Expenses on Statement of Activities	<u>\$ 1,000,199</u>

Note 2: Significant Accounting Policies Used In Preparing the Schedule

The accompanying schedule of expenditures of state awards includes the state grant activity of Coastal Bend Bays & Esturaries Program, Inc. and is presented on the full accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of State of Texas, UGCMS. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.