

CHESAPEAKE BAY TRUST
FINANCIAL STATEMENTS
JUNE 30, 2016

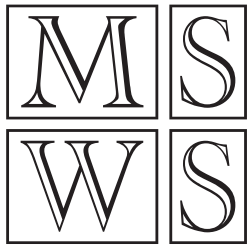


MULLEN SONDBERG WIMBISH & STONE, PA

CERTIFIED PUBLIC ACCOUNTANTS

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MULLEN & SONDBERG
WIMBISH & STONE, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

2553 Housley Road • Suite 200 • Annapolis, Maryland 21401

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Chesapeake Bay Trust
Annapolis, Maryland

Report on the Financial Statements

We have audited the accompanying financial statements of Chesapeake Bay Trust (a non-profit Organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and cash flows for the year 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 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 from material misstatement.

To the Board of Trustees of
Chesapeake Bay Trust

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 Chesapeake Bay Trust as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Chesapeake Bay Trust 2015 financial statements, and our report dated October 29, 2015, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is 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.

To the Board of Trustees of
Chesapeake Bay Trust

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2016, on our consideration of Chesapeake Bay Trust'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 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 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 Chesapeake Bay Trust's internal control over financial reporting and compliance.



MULLEN, SONDBERG, WIMBISH & STONE, P.A.

Annapolis, Maryland
November 30, 2016

Chesapeake Bay Trust
STATEMENT OF FINANCIAL POSITION
June 30, 2016

ASSETS

	2016	2015
Cash and cash equivalents	\$ 1,301,414	\$ 1,368,990
Investments	8,337,658	6,963,941
Interest receivable	18,790	25,348
Federal, state, and local contracts and grants receivable	1,931,244	1,296,103
Contributions receivable	900,764	1,090,809
Other receivables	2,292	464
Prepaid expenses	31,107	20,009
Property and equipment, net	28,714	32,226
Total assets	\$ 12,551,983	\$ 10,797,890

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 56,882	\$ 107,929
Accrued expenses and other liabilities	120,568	7,961
Salaries and benefits payable	120,225	144,724
Deferred revenue	1,588,355	895,731
Total liabilities	1,886,030	1,156,345

NET ASSETS

Unrestricted		
Undesignated	2,939,634	2,571,269
Board designated reserve	5,000,000	5,000,000
Designated approved contracts and awarded grants	2,149,081	1,514,897
Total unrestricted	10,088,715	9,086,166
Temporarily restricted	577,238	555,379
Total net assets	10,665,953	9,641,545
Total liabilities and net assets	\$ 12,551,983	\$ 10,797,890

The accompanying notes are an integral part of these financial statements.

Chesapeake Bay Trust
STATEMENT OF ACTIVITIES
Year Ended June 30, 2016
With Summarized Financial Information for the Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Totals	
			2016	2015
REVENUES, SUPPORT, AND GAINS				
Federal, state and local contracts and grants	\$ 5,928,058	\$ -	\$ 5,928,058	\$ 4,329,253
Contributions				
Chesapeake Bay license plate	3,646,504	-	3,646,504	3,609,808
Tax checkoff	310,578	-	310,578	496,016
Other	310,472	204,135	514,607	703,883
Special events, net of direct expenses of \$25,250 and \$21,000, respectively	64,393	5,000	69,393	93,941
Investment income	288,800	-	288,800	98,398
	10,548,805	209,135	10,757,940	9,331,299
Net assets released from restrictions	187,276	(187,276)	-	-
Total revenues, support, and gains	10,736,081	21,859	10,757,940	9,331,299
EXPENSES				
Program services				
Restoration program	5,124,320	-	5,124,320	4,488,040
Community Stewardship program	1,892,962	-	1,892,962	1,789,280
Environmental Education program	758,684	-	758,684	784,823
Program management	1,166,904	-	1,166,904	1,194,439
Total program services	8,942,870	-	8,942,870	8,256,582
Supporting services				
Management and general	350,429	-	350,429	327,620
Fundraising	440,233	-	440,233	341,523
Total supporting services	790,662	-	790,662	669,143
Total expenses	9,733,532	-	9,733,532	8,925,725
Change in net assets	1,002,549	21,859	1,024,408	405,574
NET ASSETS, BEGINNING OF YEAR	9,086,166	555,379	9,641,545	9,235,971
NET ASSETS, END OF YEAR	\$ 10,088,715	\$ 577,238	\$ 10,665,953	\$ 9,641,545

The accompanying notes are an integral part of these financial statements.

Chesapeake Bay Trust
STATEMENT OF CASH FLOWS
Year Ended June 30, 2016

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,024,408	\$ 405,574
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	11,833	13,537
Unrealized (gain) loss on investments	(99,582)	82,541
Realized gain on investments	(29,756)	(14,905)
(Increase) decrease in operating assets		
Contributions receivable	190,045	(9,352)
Federal, state, and local contracts and grants receivable	(635,141)	51,042
Other receivables	(1,828)	1,884
Interest receivable	6,558	4,160
Prepaid expenses	(11,098)	(3,176)
Increase (decrease) in operating liabilities		
Accounts payable	(51,047)	(707,565)
Accrued expenses and other liabilities	112,607	989
Salaries and benefits payable	(24,499)	16,457
Deferred revenue	692,624	677,412
Net cash provided by operating activities	1,185,124	518,598
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(8,321)	-
Purchases of investments, including reinvestments	(7,972,375)	(3,707,865)
Proceeds from sale and maturity of investments	6,727,996	3,883,751
Net cash (used in) provided by investing activities	(1,252,700)	175,886
Net (decrease) increase in cash and cash equivalents	(67,576)	694,484
Cash and cash equivalents, beginning of year	1,368,990	674,506
Cash and cash equivalents, end of year	\$ 1,301,414	\$ 1,368,990

The accompanying notes are an integral part of these financial statements.

Chesapeake Bay Trust
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 1 - Nature of Organization

Chesapeake Bay Trust (the “Trust”) is a body corporate that was created July 1, 1985, by the General Assembly of the State of Maryland. The Trust was organized for the general benefit of the residents of Maryland and has the statutory mission to solicit and accept gifts, grants, legacies, and endowments for the advancement, restoration, and protection of the water quality, land, and aquatic resources of the Chesapeake Bay.

The Trust is a grant-making organization dedicated to improving the Chesapeake Bay and its rivers through three major programs:

Restoration – encouraging outreach and community engagement activities that increase stewardship ethic of natural resources and on-the-ground restoration activities that demonstrate restoration techniques and engaging residents in the restoration and protection of the Chesapeake Bay and its rivers.

Community Stewardship – increasing public awareness and involvement in activities that restore and promote Maryland’s natural resources.

Environmental Education – striving to advance kindergarten through twelfth grade environmental education through experimental learning, outdoor experiences, and curriculum development.

The Trust’s support comes primarily from proceeds from the State from the sale and renewal of Chesapeake Bay license plates; a Maryland state income tax Check-off and federal, state, local grants, and contributions.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America (GAAP) for not-for-profit organizations.

Comparative Financial Information

The accompanying financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Reclassifications

Certain accounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements.

Chesapeake Bay Trust
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 2 - Summary of Significant Accounting Policies (Cont.)

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the statement of financial position date and the reported amounts of revenues and expenses during the reporting period. Management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. Management believes that the estimates and assumptions are reasonable in circumstances; however, the actual results could differ from those estimates.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Trust considers all highly liquid investments available for current use with an initial maturity of ninety days or less to be cash equivalents.

Revenue Recognition

Revenue is recognized when earned. Payments under cost-reimbursable contracts and grants received in advance are deferred to the applicable period in which the related services are performed or expenditures are incurred, respectively. Contributions are recognized when cash, securities, or other assets, an unconditional promise to give, or notification of a beneficial interest is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Net Assets

Net assets and changes in net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted Net Assets

Unrestricted net assets are resources available to support general operations. Unrestricted board-designated net assets consist of net assets designated by the Board of Trustees to provide income for the Trust, to promote the financial stability and sustainability of the Trust, and to assist the Trust in fulfilling its mission.

Chesapeake Bay Trust
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 2 - Summary of Significant Accounting Policies (Cont.)

Temporarily Restricted Net Assets

Temporarily restricted net assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period.

Support that is restricted by the donor is classified as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is classified as an increase in temporarily or permanently restricted net assets, depending on the nature of the restrictions. 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

Permanently restricted net assets are resources whose use by the organization is limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time. There are no permanently restricted net assets.

In-Kind Contributions

Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received. No significant contributions of such goods and services were received during the years ended June 30, 2016 and 2015.

Property and Equipment

Property and equipment acquisitions are recorded at cost and consist of computers, office equipment, and leasehold improvements that have useful lives ranging from five to fifteen years. Donated property and equipment, if any, are recorded at fair value on the date of donation. The Trust capitalizes individual assets with a cost equal to or greater than \$1,000 and useful life greater than one year and depreciates assets using the straight-line method with half-year depreciation in the year of acquisition.

Allocation of Functional Expenses

The costs of providing various program and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and the supporting services that benefited.

Chesapeake Bay Trust
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 2 - Summary of Significant Accounting Policies (Cont.)

Contributions and Grants Receivable

Management believes the full amount of contributions and grants receivable to be collectible within one year of the statement of financial position date. Therefore, there is no allowance for doubtful accounts.

Advertising

Advertising costs are expensed as incurred and were \$133,066 and \$129,547 for the years ended June 30, 2016 and 2015, respectively.

Income Taxes

The Trust is exempt under Section 501(c)(3) of the Internal Revenue Code and is classified as other than a private foundation. The Trust is exempt from paying federal income tax on any income except unrelated business income. No provision has been made for income taxes as the Trust has had no unrelated business income.

The Trust follows the guidance of ASC 740-10, *Accounting for Uncertainty in Income Taxes*, which clarifies the accounting for the recognition and measurement of the benefits of individual tax positions in the financial statements, including those of non-profit organizations. Tax positions must meet a recognition threshold of more-likely-than-not in order for the benefit of those tax positions to be recognized in the Trust's financial statements.

The Trust analyzes tax positions taken, including those related to the requirements set forth in IRC Sec. 501(c) to qualify as a tax-exempt organization, activities performed by volunteers and board members, the reporting of unrelated business income, and its status as a tax-exempt organization under Maryland state statute. The Trust does not know of any tax benefits arising from uncertain tax positions, and there was no effect on the Trust's financial position or changes in net assets as a result of analyzing its tax positions. Fiscal years ending on or after June 30, 2013, remain subject to examination by federal and state authorities.

Chesapeake Bay Trust
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 3 - Investments

Investments, measured at fair value, are summarized as follows:

	June 30, 2016		
	Cost	Fair Market Value	Unrealized Gain/(Loss)
U.S. Treasury obligations	\$ 1,931,437	\$ 1,996,655	\$ 65,218
U.S. Government agency bonds	34,808	38,380	3,572
Corporate obligations	1,907,013	1,880,857	(26,156)
Mutual funds (bonds)	3,832,766	3,831,914	(852)
Mutual funds (equities)	577,639	589,852	12,213
 Total investments	 \$ 8,283,663	 \$ 8,337,658	 \$ 53,995
	June 30, 2015		
	Cost	Fair Market Value	Unrealized Gain/(Loss)
U.S. Treasury obligations	\$ 2,597,141	\$ 2,613,241	\$ 16,100
U.S. Government agency bonds	294,641	309,531	14,890
Corporate obligations	2,159,775	2,107,445	(52,330)
Mutual funds (bonds)	1,966,114	1,933,724	(32,390)
 Total investments	 \$ 7,017,671	 \$ 6,963,941	 \$ (53,730)

Investment Income

Investment income consisted of the following for the years ended June 30:

	2016	2015
Interest income	\$ 159,462	\$ 166,034
Realized gain on investments	29,756	14,905
Unrealized gain (loss) on investments	99,582	(82,541)
	\$ 288,800	\$ 98,398

Chesapeake Bay Trust
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 4 - Fair Value Measurement

ASC 820-10 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under ASC 820-10 are as follows:

- Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets or liabilities that the Trust has the ability to access at the measurement date.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3: Inputs that are unobservable and supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk. Inputs may include price information, volatility statistics, specific and broad credit data, liquidity statistics, and other factors. A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. However, the determination of what constitutes "observable" requires significant judgment by the Trust. The Trust considers observable data to be market data that is readily available, regularly distributed or updated, reliable and verifiable, not proprietary, and provided by independent sources that are actively involved in the relevant market. The categorization of a financial instrument within the hierarchy is based upon the pricing transparency of the instrument and does not necessarily correspond to the Trust's perceived risk of that instrument.

The Trust has no Level 3 investments. Mutual funds are valued based on the published net asset value per unit at the end of the last trading day of the fiscal year, which is the basis for transactions at that date. Investments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations, or alternative pricing sources supported by observable inputs are classified within Level 2. These include certain U.S. government obligations, bonds, and corporate bonds. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect liquidity and/or non-transferability and are generally based on available market information.

Chesapeake Bay Trust
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 4 - Fair Value Measurement (Cont.)

The tables below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy at June 30:

	2016			
	Level 1	Level 2	Level 3	Total
U.S. Treasury obligations	\$ -	\$ 1,996,655	\$ -	\$ 1,996,655
U.S. Government agency bonds	-	38,380	-	38,380
Corporate obligations	-	1,880,857	-	1,880,857
Mutual funds (bonds)	3,831,914	-	-	3,831,914
Mutual funds (equities)	589,852	-	-	589,852
	\$ 4,421,766	\$ 3,915,892	\$ -	\$ 8,337,658

	2015			
	Level 1	Level 2	Level 3	Total
U.S. Treasury obligations	\$ -	\$ 2,613,241	\$ -	\$ 2,613,241
U.S. Government agency bonds	-	309,531	-	309,531
Corporate obligations	-	2,107,445	-	2,107,445
Mutual funds (bonds)	1,933,724	-	-	1,933,724
	\$ 1,933,724	\$ 5,030,217	\$ -	\$ 6,963,941

Note 5 - Contributions Receivable

Contributions receivable consisted of the following at June 30:

	2016	2015
Bay plate revenue receivable	\$ 654,740	\$ 665,860
Tax check-off revenue receivable	243,524	374,949
Promises to give	2,500	50,000
	\$ 900,764	\$ 1,090,809

Chesapeake Bay Trust
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 6 - Property and Equipment

Property and equipment consisted of the following at June 30:

	Useful Life	2016	2015
Leasehold improvements	15 years	\$ 40,167	\$ 40,167
Furniture and equipment	5 years	83,143	74,822
		123,310	114,989
Less: accumulated depreciation		(94,596)	(82,763)
Net property and equipment		\$ 28,714	\$ 32,226

Depreciation expense for the years ended June 30, 2016 and 2015 was \$11,833 and \$13,537, respectively.

Note 7 - Maryland State Income Tax Check-Off and Bay License Plate Contributions

Maryland taxpayers can elect to make charitable contributions with the filing of their State income tax returns. Such contributions are distributed equally between the Trust and the Wildlife and Heritage Division of Maryland Department of Natural Resources. Contributions revenue allocated to the Trust under this program amounted to \$310,578 and \$496,016 for the years ending June 30, 2016 and 2015, respectively. This program continues through the upcoming fiscal year.

Residents of the State of Maryland may also purchase the Chesapeake Bay commemorative license plates for their vehicle for a total amount of \$20, of which \$10 goes directly to the Trust. Contribution revenue allocated to the Trust under this program amounted to \$556,907 and \$501,559 for the years ended June 30, 2016 and 2015, respectively. In March 2004, the Trust began receiving renewal fees collected by the Maryland Vehicle Administration when the Chesapeake Bay commemorative license plates are renewed. The Trust received \$3,089,597 and \$3,108,249 in plate renewal fees for the years ended June 30, 2016 and 2015, respectively.

Note 8 - Retirement Plan

The Trust employees participate in the Maryland Environmental Services (MES) 401(k) retirement plan. The Trust entered into an Inter-Agency Intra-Departmental agreement with MES whereby MES hires employees to be assigned to the Trust and provides administrative and management services. Salary, benefits, and other costs associated with providing these employees are reimbursed by the Trust. For the years ended June 30, 2016 and 2015, retirement expense was \$69,249 and \$39,935, respectively.

Chesapeake Bay Trust
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 9 - Compensated Absences

Employees accumulate leave based on years of service. Upon termination, employees are reimbursed for annual leave, holiday, and compensatory leave. Employees may be entitled to reimbursement of annual leave up to a maximum of 280 hours plus any annual leave earned and unused in the year up to the date of separation. Employees may also be entitled to reimbursement of compensatory leave up to a maximum of 16 hours. Any remaining hours over the stipulated maximum will be forfeited. As of June 30, 2016 and 2015, accrued compensated absences were \$70,507 and \$77,873, respectively and are included in salaries and benefits payable on the statement of financial position.

Note 10 - Operating Lease Commitments

The Trust leases office space and parking under a cancelable operating lease that terminates on August 31, 2017. Basic annual rent is increased annually by 3% and parking is charged at an additional annual rate of \$1,680 per employee. Rent expense was \$106,576 and \$106,420 for the years ended June 30, 2016 and 2015, respectively.

Future minimum lease payments for the fiscal years ending June 30 are as follows:

2017	\$ 88,385
2018	<u>14,803</u>
	<u>\$ 103,188</u>

Note 11 - Contingency

The Trust receives grants from various agencies of the United States Government. Such grants are subject to audit under the provisions of OMB Circular A-133 and the Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits. Audits in accordance with the provisions of OMB Circular A-133 and the Uniform Guidance have been completed for all required fiscal years through 2016. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

Chesapeake Bay Trust
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 12 - Related Party Transactions

The Trust awarded several grants or contracts in fiscal years 2016 and 2015 to organizations related to the Trust, primarily through common Board membership.

Grants and contracts paid to related parties during the years ended June 30 are as follows:

	2016	2015
South River Federation	\$ 345,479	\$ 106,528
Alliance for the Chesapeake Bay	239,747	150,001
University of MD Center for Environmental Science	219,713	71,474
University of Maryland College Park Foundation	117,293	-
City of Cambridge	100,000	-
University of Maryland, College Park	97,425	70,758
Spa Creek Conservancy	79,528	-
The Low Impact Development Center	78,824	-
Baltimore City Public Schools	75,915	-
Sassafras River Association	67,500	9,990
Maryland Therapeutic Riding, Inc.	67,500	-
Maryland Coastal Bays Program	64,030	-
Harford County Soil & Conservation District	63,810	-
Blue Water Baltimore	58,300	494,407
Midshore Riverkeep Conservancy, Inc.	57,969	-
Baltimore Tree Trust	53,552	258,165
Talbot County Department of Finance	52,650	-
Straughan Environmental Inc.	51,018	-
Anacostia Riverkeeper	41,554	8,306
The Nature Conservancy	34,785	1,250
Wicomico County	33,566	-
Howard County - Director of Finance	32,995	-
National Aquarium in Baltimore	32,750	24,147
Audubon Naturalist Society of Central Atlantic	31,500	-
Pickering Creek Audubon Center	29,489	26,778
Living Classrooms Foundation	25,664	68,558
Harford County, Maryland	25,000	-
Chesapeake Conservation Corps	18,649	25,834
Audubon Naturalist Society	18,431	7,900
Environmental Law Institute	18,000	-
Anacostia Watershed Society	17,699	-
Maryland Department of Natural Resources	16,693	17,468
National Wildlife Federation	16,467	-

Chesapeake Bay Trust
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 12 - Related Party Transactions (Cont.)

	2016	2015
West/Rhode Riverkeeper	14,869	250,587
Chester River Association	8,360	89,661
Salisbury University	8,096	-
Lower Shore Land Trust	6,985	4,554
Anacostia Waterfront Trust	5,000	-
Friends of Jug Bay Wetland	4,815	-
St. Mark School	3,550	3,500
Calvert County Public Schools	3,450	27,000
Carroll County Government	3,065	43,799
Prince George's County Public Schools	-	51,236
Second Chance	-	27,000
	\$ 2,341,685	\$ 1,838,901

A trustee who has an actual or potential conflict of interest with respect to a proposed action or transaction of the Trust is not present during deliberations and does not participate in the decision making of the Trust with respect to such action or transaction. The disinterested members of the Board of Trustees may approve the proposed action or transaction upon finding that it is in the best interest of the Trust.

Note 13 - Board Designated Net Assets

The Trust's Board of Trustees has established a designated reserve of \$5,000,000 to help perpetuate the existence of the Trust and protect against future conditions which may alter its ability to support Chesapeake Bay restoration, community stewardship, and educational projects. This reserve is a result of an internal designation and not restrictions placed by donors. Accordingly, income earned on investments related to the designated reserve is not designated and is used by the Trust to fund annual operating expenses.

The Board of Trustees and management have also designated net assets for approved contracts and awarded grants. At June 30, 2016 and 2015, amounts designated were \$2,149,081 and \$1,514,897, respectively.

Chesapeake Bay Trust
NOTES TO FINANCIAL STATEMENTS
June 30, 2016

Note 14 - Temporarily restricted net assets

Net assets are restricted for the following purposes at June 30:

	2016	2015
PURPOSE RESTRICTIONS		
Community Stewardship program	\$ 546,738	\$ 482,379
Other	25,000	20,000
Restoration program	3,000	3,000
Total purpose restricted net assets	574,738	505,379
 TIME RESTRICTIONS		
Contributions receivable, some of which are also subject to purpose restrictions	2,500	50,000
	\$ 577,238	\$ 555,379

Note 15 - Commitments

At June 30, 2016 and 2015, the Trust has conditionally awarded contracts and grants to organizations in the amounts of \$9,910,904 and \$8,433,487, respectively. These organizations must meet certain criteria to receive the awarded grant funding.

Note 16 - Concentration of Credit Risk

At June 30, 2016 and 2015, and at various times during the fiscal years then ended, the Trust maintained cash balances in excess of the federally insured limit. Accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. The amounts held in excess of FDIC insurance coverage as of June 30, 2016 and 2015, were approximately \$612,000 and \$1,092,000, respectively.

Note 17 - Subsequent Events

Subsequent events and transactions have been evaluated for potential recognition in the financial statements through November 30, 2016, the day the financial statements were available to be issued.

Chesapeake Bay Trust
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2016

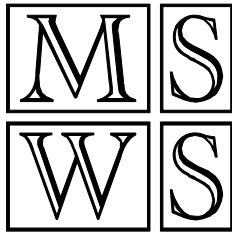
Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number/Pass-through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
U.S. Department of Commerce				
National Oceanic & Atmospheric Administration (NOAA)				
Unallied Management Projects	11.454	NA12NMF4540218	\$177,872	<u>\$208,175</u>
U.S. Department of the Interior				
Fish and Wildlife Service				
Partners for Fish and Wildlife	15.631	F15AC00065		16,163
National Park Service				
Conservation Activities by Youth Service Organizations	15.931	P14AC00870 P15AC00032	6,672 <u>50,857</u>	<u>57,529</u>
Total U.S. Department of the Interior				<u><u>73,692</u></u>
U.S. Environmental Protection Agency				
Office of Water				
Chesapeake Bay Program	66.466	CB-96341401		76,137
Pass-through from National Fish and Wildlife Foundation				
Chesapeake Bay Program	66.466	0600.11.030409/Easygrants #30409		20,379
Pass-through from Maryland Department of Natural Resources				
Chesapeake Bay Program	66.466	*		
			<u>1,013,726</u>	<u>1,574,826</u>
Total U.S. Environmental Protection Agency			<u><u>\$1,191,598</u></u>	<u><u>\$1,953,209</u></u>

Note A - Basis of Presentation: The schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Chesapeake Bay Trust under programs of the federal government for the year ended June 30, 2016. The information in the Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR), Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Chesapeake Bay Trust, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Trust.

Note B - Summary of Significant Accounting Policies: Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited to reimbursement.

Note C- Indirect Cost Rate: The Chesapeake Bay Trust has elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

* Pass-through entity- Maryland Department of Natural Resources. Grant numbers- 14-15-1964 GBG 14201, 14-13-1630-CBG 14201, 14-14-1790-CBG 14201, 14-15-1943CBG 14201, 14-16-2069CBG6601, 14-14-1864 CBG 14201, 14-15-1944CBG 14201, 14-15-2056 CBG 14201, 14-15-1946 CBG 14201, 14-16-2072CBG6601, 14-15-1945 CBG 14201



MULLEN & SONDBERG
WIMBISH & STONE, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

2553 Housley Road • Suite 200 • Annapolis Maryland 21401

INDEPENDENT AUDITOR'S 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 Trustees of
Chesapeake Bay Trust
Annapolis, Maryland

We have audited, in accordance with the 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, the financial statements of Chesapeake Bay Trust (a non-profit Organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 30, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Chesapeake Bay Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Chesapeake Bay Trust's internal control. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency or a combination of deficiencies in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To the Board of Trustees of
Chesapeake Bay Trust

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Chesapeake Bay Trust's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



MULLEN, SONDBERG, WIMBISH & STONE, P.A.

Annapolis, Maryland
November 30, 2016



MULLEN & SONDBERG
WIMBISH & STONE, P.A.
CERTIFIED PUBLIC ACCOUNTANTS

2553 Housley Road • Suite 200 • Annapolis, Maryland 21401

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Trustees of
Chesapeake Bay Trust
Annapolis, Maryland

Report on Compliance for Each Major Program

We have audited Chesapeake Bay Trust's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Chesapeake Bay Trust's major federal programs for the year ended June 30, 2016. Chesapeake Bay Trust's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Chesapeake Bay Trust's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Chesapeake Bay Trust'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 on compliance for each major federal program. However, our audit does not provide a legal determination of Chesapeake Bay Trust's compliance.

To the Board of Trustees of
Chesapeake Bay Trust

Opinion on Each Major Federal Program

In our opinion, Chesapeake Bay Trust complied in all material respects with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

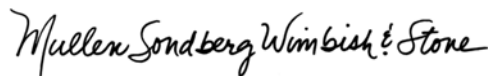
Report on Internal Control Over Compliance

Management of Chesapeake Bay Trust is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Chesapeake Bay Trust's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 Chesapeake Bay Trust's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



MULLEN, SONDBERG, WIMBISH & STONE, P.A.

Annapolis, Maryland
November 30, 2016

Chesapeake Bay Trust
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

SUMMARY OF AUDIT RESULTS:

1. The auditor's report expresses an unmodified opinion on the financial statements of Chesapeake Bay Trust.
2. No significant deficiencies or material weaknesses in internal control were disclosed by the audit of the financial statements.
3. No instances of non-compliance material to the financial statements of Chesapeake Bay Trust were disclosed during the audit.
4. No significant deficiencies or material weaknesses relating to the audit of the major federal award program were disclosed by the audit.
5. The auditor's report on compliance for the major federal award program expresses an unmodified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with 2 CFR Section 200.516(a).
7. The program tested as a major program was EPA – Chesapeake Bay Program – CFDA #66.466.
8. The threshold used for distinguishing between Type A and Type B programs was \$750,000.
9. The Chesapeake Bay Trust qualified as a low-risk auditee.

FINDINGS – FINANCIAL STATEMENT AUDIT:

None

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT:

None