

CHESAPEAKE BAY TRUST
FINANCIAL REPORT
June 30, 2008

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	2-3
FINANCIAL STATEMENTS	
Balance Sheets	4
Statements of Support and Revenue, Expenses and Changes in Fund Balances	5
Statements of Cash Flows	6
Notes to the Financial Statements	7-12



INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Chesapeake Bay Trust
Annapolis, Maryland

We have audited the accompanying balance sheets of Chesapeake Bay Trust (the "Trust") as of June 30, 2008 and 2007, and the related statements of support and revenue, expenses and changes in fund balances, and cash flows for the years then ended. These financial statements are the responsibility of the Trust's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards 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 audits 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Chesapeake Bay Trust as of June 30, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued a report dated August 28, 2008 on our consideration of the Trust's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Anderson, Davis & Associates, CPA

Glen Burnie, Maryland
August 28, 2008



**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
Chesapeake Bay Trust
Annapolis, Maryland

We have audited the financial statements of Chesapeake Bay Trust (the "Trust") as of and for the year ended June 30, 2008, and have issued our report thereon dated August 28, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Trust'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 Trust's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Trust's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Trust's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Trust's financial statements that is more than inconsequential will not be prevented or detected by the Trust's internal control.

To the Board of Trustees

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Trust's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant 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 Trust's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant 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 that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the Trust in separate letter dated August 28, 2008.

This report is intended solely for the information and use of the Board of Trustees and management and others within the organization and is not intended to be, and should not be used by anyone other than these specified parties.

Anderson, Davis & Associates, CPA

Glen Burnie, Maryland
August 28, 2008

CHESAPEAKE BAY TRUST**BALANCE SHEETS**

June 30, 2008 and 2007

Assets

	<u>2008</u>	<u>2007</u>
Cash and cash equivalents	\$ 101,849	\$ 60,254
Investments	8,801,408	8,789,762
Agency funds held for others, investments	15,641	16,108
Agency funds held for others, receivable	28,332	29,730
Contributions receivable	1,028,841	1,054,646
Interest receivable	72,087	88,734
Fixed assets, net	<u>50,036</u>	<u>7,529</u>
Total assets	<u>\$ 10,098,194</u>	<u>\$ 10,046,763</u>

Liabilities and Fund Balances

Liabilities		
Accounts payable	\$ -	\$ 8,500
Salaries payable	46,116	45,419
Grants payable	2,185,137	1,878,185
Deferred revenue	15,641	16,108
Agency funds held for others	<u>15,641</u>	<u>16,108</u>
Total liabilities	<u>2,262,535</u>	<u>1,964,320</u>
Fund Balances		
Unrestricted	2,429,250	2,509,603
Board designated endowment	<u>5,000,000</u>	<u>5,000,000</u>
Total unrestricted	<u>7,429,250</u>	<u>7,509,603</u>
Restricted	<u>406,409</u>	<u>572,840</u>
Total fund balances	<u>7,835,659</u>	<u>8,082,443</u>
Total liabilities and fund balances	<u>\$ 10,098,194</u>	<u>\$ 10,046,763</u>

The notes to the financial statements are an
integral part of these statements.

CHESAPEAKE BAY TRUST
STATEMENTS OF SUPPORT AND REVENUE, EXPENSES
AND CHANGES IN FUND BALANCES

For the years ended June 30, 2008 and 2007

	2008		
	Unrestricted	Restricted	Total
Support and revenue:			
Contributions	\$ 2,900,098	\$ 1,216,675	\$ 4,116,773
Special events, net of direct expenses of \$33,196 and \$70,364 for 2008 and 2007, respectively	64,264	-	64,264
Realized loss on sale of investments	(8,494)	-	(8,494)
Interest and dividends	451,633	-	451,633
Total support and revenue	<u>3,407,501</u>	<u>1,216,675</u>	<u>4,624,176</u>
Expenses:			
Program services:			
Program grants	2,578,056	1,338,596	3,916,652
Program management	808,475	34,630	843,105
Total program services	<u>3,386,531</u>	<u>1,373,226</u>	<u>4,759,757</u>
Supporting services:			
Management and general	287,880	7,600	295,480
Fund-raising	158,945	2,280	161,225
Total supporting services	<u>446,825</u>	<u>9,880</u>	<u>456,705</u>
Total expenses	<u>3,833,356</u>	<u>1,383,106</u>	<u>5,216,462</u>
(Deficit) excess of support and revenue over expenses before net unrealized gain on investments	(425,855)	(166,431)	(592,286)
Net unrealized gain on investments	<u>345,502</u>	<u>-</u>	<u>345,502</u>
(Deficit) excess of support and revenue over expenses after net unrealized gain on investments	(80,353)	(166,431)	(246,784)
Fund balances, beginning of year	<u>7,509,603</u>	<u>572,840</u>	<u>8,082,443</u>
Fund balances, end of year	<u>\$ 7,429,250</u>	<u>\$ 406,409</u>	<u>\$ 7,835,659</u>

2007		
Unrestricted	Restricted	Total
\$ 2,913,364	\$ 1,281,952	\$ 4,195,316
87,763	-	87,763
(1,934)	-	(1,934)
442,883	-	442,883
<u>3,442,076</u>	<u>1,281,952</u>	<u>4,724,028</u>
3,279,886	719,487	3,999,373
926,371	36,013	962,384
<u>4,206,257</u>	<u>755,500</u>	<u>4,961,757</u>
227,593	-	227,593
296,631	28,612	325,243
<u>524,224</u>	<u>28,612</u>	<u>552,836</u>
<u>4,730,481</u>	<u>784,112</u>	<u>5,514,593</u>
(1,288,405)	497,840	(790,565)
79,609	-	79,609
<u>(1,208,796)</u>	<u>497,840</u>	<u>(710,956)</u>
<u>8,718,399</u>	<u>75,000</u>	<u>8,793,399</u>
<u>\$ 7,509,603</u>	<u>\$ 572,840</u>	<u>\$ 8,082,443</u>

The notes to the financial statements are an integral part of these statements.

CHESAPEAKE BAY TRUST
STATEMENTS OF CASH FLOWS
For the years ended June 30, 2008 and 2007

	2008	2007
Cash flows from operating activities:		
Deficit of support and revenue over expenses after net unrealized gain on investments	\$ (246,784)	\$ (710,956)
Adjustments to reconcile deficit of support and revenue over expenses after net unrealized gain on investments to net cash (used in) operating activities:		
Depreciation	5,419	4,702
Unrealized gain on investments	(345,502)	(79,609)
Realized loss on investments	8,494	1,934
Changes in assets and liabilities:		
Decrease (increase) in:		
Agency funds held for others, receivable	1,398	(225)
Contributions receivable	25,805	(218,863)
Interest receivable	16,647	(4,861)
(Decrease) increase in:		
Accounts payable	(8,500)	(688)
Salaries payable	697	10,021
Grants payable	306,952	885,747
Deferred revenue	(467)	1,118
Net cash used in operating activities	(235,841)	(111,680)
Cash flows from investing activities:		
Purchases of investments	(4,834,248)	(5,529,562)
Purchase of fixed assets	(47,927)	(1,592)
Maturities/sales of investments	5,159,611	5,413,171
Net cash provided by (used in) investing activities	277,436	(117,983)
Net (decrease) increase in cash and cash equivalents	41,595	(229,663)
Cash and cash equivalents, beginning of year	60,254	289,917
Cash and cash equivalents, end of year	\$ 101,849	\$ 60,254
Supplementary cash flow information:		
Interest paid	\$ -	\$ -
Income taxes paid	\$ -	\$ -

The notes to the financial statements are an integral part of these statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1. ORGANIZATION AND PURPOSE

The 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 citizens 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.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting:

Pursuant to the Government Accounting Standards Board ("GASB") Staff Paper, *Applicability of GASB Standards*, the Trust has adopted the basis of accounting applicable to government not-for-profit entities. This basis of accounting is defined in GASB Statement Number 29, *The Use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities* (GASB No. 29) as the "AICPA Not-for-Profit model."

GASB No. 29 allows government not-for-profits to use the provisions of the American Institute of Certified Public Accountants Statement of Position ("SOP") Number 78-10, *Accounting Principles and Reporting Practices for Certain Nonprofit Organizations*, modified by all applicable GASB pronouncements and Financial Accounting Standards Board ("FASB") pronouncements issued through November 30, 1989.

Conforming with GASB No. 29 and GASB No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued June 1999, the financial statements of the Trust have been prepared on the accrual basis of accounting in accordance with the provisions of SOP 78-10.

Use of Estimates

The preparation of financial statements in conformity with U.S. 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.

Cash Equivalents:

For purposes of the Statement of Cash Flows, the Trust considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents.

Promises to Give:

Promises to give are not recorded in the financial statements until the contributions are received by the Trust.

NOTES TO THE FINANCIAL STATEMENTS

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Expendable Restricted Resources:

To ensure observance of limitations and restrictions placed on the use of resources available to the Trust, accounts are segregated into restricted and unrestricted funds according to their nature and purpose.

Funds restricted by the donor, grantor, or other outside party for particular operating purposes are deemed to be earned and reported as revenues of the restricted fund when the Trust has incurred expenditures in compliance with the specific restrictions. Such amounts received but not yet earned are reported as deferred revenue, restricted.

Fixed assets:

Fixed assets consist of computers, office equipment, and leasehold improvements, which have a useful life ranging from five to fifteen years and is depreciated using the straight-line depreciation method, with a half-year depreciation in the year of acquisition. The Trust capitalizes individual assets with a cost equal to or greater than \$1,000.

	<u>2008</u>	<u>2007</u>
Cost	\$ 75,322	\$ 40,764
Accumulated depreciation	<u>(25,286)</u>	<u>(33,235)</u>
Fixed assets, net	<u>\$ 50,036</u>	<u>\$ 7,529</u>

Depreciation expense for the years ended June 30, 2008 and 2007 was \$5,419 and \$4,702, respectively.

Cost Allocation:

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of support and revenue, expenses and changes in fund balances. Accordingly, certain costs have been allocated among the programs and the supporting services benefitted.

Grants:

Unconditional grants in excess of \$5,000 are recorded as an expense and liability at the time the Board of Trustees, Grants Review Committee, or Executive Director approves and awards them. Grants up to \$5,000 are recorded as an expense at the time the award is determined by the Executive Director.

NOTES TO THE FINANCIAL STATEMENTS

Note 3. CONCENTRATION OF CREDIT RISK

The Trust has cash deposits with financial institutions, which at times exceed the amount insured by federal agencies and, therefore, bear some risk of loss. To date, the Trust has not experienced any losses as a result of this risk.

Note 4. INVESTMENTS

Investments consisted of the following at June 30,:

	Cost	Market Value	Cost	Market Value
	2008		2007	
Money Market	\$ 10,887	\$ 10,887	\$ 200,422	\$ 200,422
United States Treasury obligations	3,333,958	3,451,169	2,938,054	2,849,488
United States Government Agencies	4,274,611	4,309,510	4,509,354	4,409,466
Corporate Obligations	1,049,606	1,045,483	1,364,737	1,346,494
	\$ 8,669,062	\$ 8,817,049	\$ 9,012,567	\$ 8,805,870

Of the investments carried at market value at June 30, 2008 and 2007, \$15,641 and \$16,108, respectively, were recorded as Agency Funds Held for Others, Investments, on the Balance Sheet. Allowance for appreciation (depreciation) of investments at June 30, 2008 and 2007 was \$147,986 and (\$206,697), respectively. Net realized losses on the sale of investments for the year ended June 30, 2008 and 2007 were (\$8,494) and (\$1,934), respectively.

Note 5. AGENCY FUNDS

The Trust acts as a custodian for certain organizations. The amounts collected and expended on behalf of other organizations are not activities of the Trust. Consequently, the amounts collected and expended on behalf of these organizations are excluded from the accompanying Statements of Support and Revenue, Expenses and Changes in Fund Balances.

Note 6. BOARD DESIGNATED ENDOWMENT

The Trust's Board of Trustees has established a designated endowment 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 and education projects. This endowment is a result of an internal designation and not restrictions placed by donors. Accordingly, income earned on investments related to the designated endowment is not restricted and is included as income in the unrestricted fund.

NOTES TO THE FINANCIAL STATEMENTS

Note 7. RESTRICTED FUND BALANCES

Restricted Fund Balances consist of the following at June 30,:

	<u>2008</u>	<u>2007</u>
Agriculture Initiatives	\$257,250	\$379,566
Urban Greening	-	100,000
DNR Bay Game	-	15,000
Environmental Education Grants	15,159	53,274
Stewardship Grants	45,000	25,000
Land Use	20,000	-
Capacity Building	69,000	-
	<u>\$406,409</u>	<u>\$572,840</u>

Note 8. MARYLAND STATE INCOME TAX CHECK-OFF AND BAY LICENSE PLATE CONTRIBUTIONS

Maryland taxpayers may include unrestricted contributions with their State income tax returns. Such contributions are divided equally between the Trust and the Wildlife and Heritage Division of Maryland Department of Natural Resources. Contributions relating to the Trust amounted to \$566,641 and \$594,597 for years ending June 30, 2008 and 2007, respectively. This program continues through the upcoming fiscal year.

Residents of the State of Maryland may also purchase the special Chesapeake Bay commemorative license plate for their vehicle for a total amount of \$20, of which \$10 goes directly to the Trust. Contributions received from the Bay license plate program amounted to \$639,485 in 2008 and \$692,739 in 2007. In March 2004, the Trust began receiving a portion of renewal fees collected by the Maryland Vehicle Administration when the Bay license plates are renewed. The Trust received \$1,501,725 and \$1,503,140 for plate renewal fees for the years ended June 30, 2008 and 2007, respectively. A portion of such amounts, along with the Maryland State income tax check-off contributions are included in contributions receivable at June 30, 2008 and 2007. The Trust's contract with the State of Maryland expires June 30, 2013.

These types of contributions represented approximately 66% and 67% of total contributions for 2008 and 2007, respectively.

NOTES TO THE FINANCIAL STATEMENTS

Note 9. STATE SUPPORT

The Trust employees participate in either the State of Maryland defined benefit pension plan or the Maryland Environmental Services 401(k) plan and state health insurance benefits program. Pension expense was \$23,356 in 2008 and \$24,517 in 2007. Health insurance benefits were \$38,670 in 2008 and \$35,352 in 2007, the amount charged by the State of Maryland. Information regarding accumulated plan benefits and plan net assets available for benefits relating to the Trust employees is not available because the plan administrator does not provide the information for the Trust portion of the plan.

Note 10. INCOME TAX STATUS

The Trust is exempt from income taxes under section 501(c)(3) of the Internal Revenue Code and is also exempt from excise taxes under Code Section 509(a)(1). Therefore, the accompanying financial statements do not reflect any provision or liability for Federal or State income or excise taxes.

Note 11. OPERATING LEASE COMMITMENTS

The Trust leases office space and parking under a cancelable operating lease expiring August 31, 2012. Rent expense was \$107,419 and \$90,158 in 2008 and 2007, respectively. The Trust also leased office equipment under operating leases, which expire in 2010 and 2012. Expenses relating to this lease were \$4,404 and \$1,786 for 2008 and 2007, respectively. Future minimum lease payments for fiscal years ending June 30 are as follows:

2009	\$ 93,714
2010	\$ 95,491
2011	\$ 97,605
2012	\$100,210
Thereafter	\$ 16,345

NOTES TO THE FINANCIAL STATEMENTS

Note 12. RELATED PARTY TRANSACTIONS

The Trust granted several awards in fiscal years 2008 and 2007 to organizations related to the Trust through Board membership.

Below is a listing of the awards granted:

	<u>2008</u>	<u>2007</u>
Audubon Maryland/DC	\$ -	\$ 31,194
Chesapeake Bay Environmental Center	\$ 15,000	\$ 33,140
Chesapeake Bay Foundation	\$ 162,550	\$ 36,650
Irvine Nature Center	\$ -	\$ 20,000
Living Classrooms Foundation	\$ 4,750	\$ 42,000
Maryland Association for Environmental and Outdoor Educators	\$ -	\$ 7,400
Maryland Center for AgroEcology	\$ -	\$ 24,000
Maryland Department of Agriculture	\$ -	\$ 98,645
Maryland Department of Natural Resources	\$ 22,480	\$ 132,727
Maryland Department of the Environment	\$ 3,500	\$ -
National Aquarium in Baltimore	\$ 12,040	\$ -
NorthBay Environmental Learning Center	\$ 598	\$ -
Oyster Recovery Partnership	\$ 3,609	\$ -
Town of Vienna	\$ 5,000	\$ -
University of MD Center for Environmental Science	\$ 68,513	\$ 166,873

Included in grants payable at June 30, 2008 and 2007 was \$282,345 and \$149,911, respectively, payable to a related party.