

CHESAPEAKE BAY TRUST
FINANCIAL REPORT
June 30, 2009

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**ANDERSON
DAVIS**

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, 2009 and 2008, 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 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Trust's internal control over financial reporting. Accordingly, we express no such opinion. 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, 2009 and 2008 and the results of its changes in fund balances and its cash flows for the years 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 a report dated August 28, 2009 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 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* and should be considered in assessing the results of our audit.

Anderson, Davis & Associates, CPA

Glen Burnie, Maryland
August 28, 2009

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**ANDERSON
DAVIS**

**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, 2009, and have issued our report thereon dated August 28, 2009. 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 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 deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Trust's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, 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.

To the Board of Trustees

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 or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters, not deemed to be violations of provisions of contracts or grant agreements or abuse that have an effect on the financial statements that is less than material but more than inconsequential, that we reported to management of the Trust in separate letter dated August 28, 2009.

This report is intended solely for the information and use of management, the Board of Trustees, 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, 2009

CHESAPEAKE BAY TRUST**BALANCE SHEETS**

June 30, 2009 and 2008

Assets

	<u>2009</u>	<u>2008</u>
Assets		
Cash and cash equivalents	\$ 233,621	\$ 101,849
Investments	8,636,352	8,801,408
Agency funds held for others, investments	17,532	15,641
Agency funds held for others, receivable	29,145	28,332
Contributions receivable	867,827	1,028,841
Interest receivable	64,714	72,087
Fixed assets, net	<u>51,654</u>	<u>50,036</u>
Total assets	<u>\$ 9,900,845</u>	<u>\$ 10,098,194</u>

Liabilities and Fund Balances

Liabilities		
Salaries payable	\$ 61,511	\$ 46,116
Grants payable	2,385,493	2,185,137
Deferred revenue	17,532	15,641
Agency funds held for others	<u>17,532</u>	<u>15,641</u>
Total liabilities	<u>2,482,068</u>	<u>2,262,535</u>
Fund Balances		
Unrestricted	2,063,530	2,429,250
Board designated endowment	<u>5,000,000</u>	<u>5,000,000</u>
Total unrestricted	<u>7,063,530</u>	<u>7,429,250</u>
Restricted	<u>355,247</u>	<u>406,409</u>
Total fund balances	<u>7,418,777</u>	<u>7,835,659</u>
Total liabilities and fund balances	<u>\$ 9,900,845</u>	<u>\$ 10,098,194</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, 2009 and 2008

	2009		
	Unrestricted	Restricted	Total
Support and revenue:			
Contributions	\$ 2,953,788	\$ 1,649,785	\$ 4,603,573
Fundraising income	23,200	-	23,200
Realized loss on sale of investments	(1,496)	-	(1,496)
Interest and dividends	380,684	-	380,684
Total support and revenue	<u>3,356,176</u>	<u>1,649,785</u>	<u>5,005,961</u>
Expenses:			
Program services:			
Program grants	2,385,255	1,627,334	4,012,589
Program management	947,511	52,215	999,726
Total program services	<u>3,332,766</u>	<u>1,679,549</u>	<u>5,012,315</u>
Supporting services:			
Management and general	286,981	14,799	301,780
Fund-raising	247,136	6,599	253,735
Total supporting services	<u>534,117</u>	<u>21,398</u>	<u>555,515</u>
Total expenses	<u>3,866,883</u>	<u>1,700,947</u>	<u>5,567,830</u>
Deficit of support and revenue over expenses before net unrealized gain on investments	(510,707)	(51,162)	(561,869)
Net unrealized gain on investments	<u>144,987</u>	<u>-</u>	<u>144,987</u>
Deficit of support and revenue over expenses after net unrealized gain on investments	(365,720)	(51,162)	(416,882)
Fund balances, beginning of year	<u>7,429,250</u>	<u>406,409</u>	<u>7,835,659</u>
Fund balances, end of year	<u>\$ 7,063,530</u>	<u>\$ 355,247</u>	<u>\$ 7,418,777</u>

2008		
Unrestricted	Restricted	Total
\$ 2,981,883	\$ 1,216,675	\$ 4,198,558
15,675	-	15,675
(8,494)	-	(8,494)
451,633	-	451,633
<u>3,440,697</u>	<u>1,216,675</u>	<u>4,657,372</u>
2,578,056	1,338,596	3,916,652
808,475	34,630	843,105
<u>3,386,531</u>	<u>1,373,226</u>	<u>4,759,757</u>
287,880	7,600	295,480
192,141	2,280	194,421
<u>480,021</u>	<u>9,880</u>	<u>489,901</u>
<u>3,866,552</u>	<u>1,383,106</u>	<u>5,249,658</u>
(425,855)	(166,431)	(592,286)
345,502	-	345,502
(80,353)	(166,431)	(246,784)
<u>7,509,603</u>	<u>572,840</u>	<u>8,082,443</u>
<u>\$ 7,429,250</u>	<u>\$ 406,409</u>	<u>\$ 7,835,659</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, 2009 and 2008

	2009	2008
Cash flows from operating activities:		
Deficit of support and revenue over expenses after net unrealized gain on investments	\$ (416,882)	\$ (246,784)
Adjustments to reconcile deficit of support and revenue over expenses after net unrealized gain on investments to net cash used in operating activities:		
Depreciation	7,694	5,419
Unrealized gain on investments	(144,987)	(345,502)
Realized loss on investments	1,496	8,494
Changes in assets and liabilities:		
Decrease (increase) in:		
Agency funds held for others, receivable	(813)	1,398
Contributions receivable	161,014	25,805
Interest receivable	7,373	16,647
(Decrease) increase in:		
Accounts payable	-	(8,500)
Salaries payable	15,395	697
Grants payable	200,356	306,952
Deferred revenue	1,891	(467)
Net cash used in operating activities	(167,463)	(235,841)
Cash flows from investing activities:		
Purchases of investments	(3,300,961)	(4,834,248)
Purchase of fixed assets	(9,312)	(47,927)
Maturities/sales of investments	3,609,508	5,159,611
Net cash provided by investing activities	299,235	277,436
Net increase in cash and cash equivalents	131,772	41,595
Cash and cash equivalents, beginning of year	101,849	60,254
Cash and cash equivalents, end of year	\$ 233,621	\$ 101,849
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:

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.

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. Restricted resources are used first when expenditures qualify for either unrestricted or restricted purposes.

NOTES TO THE FINANCIAL STATEMENTS

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 are recorded at cost and consist of computers, office equipment, and leasehold improvements, which have a useful life ranging from five to fifteen years and are 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>2009</u>	<u>2008</u>
Cost	\$ 82,434	\$ 75,322
Less: Accumulated depreciation	30,780	25,286
Fixed assets, net	<u>\$51,654</u>	<u>\$ 50,036</u>

Depreciation expense for the years ended June 30, 2009 and 2008 was \$7,694 and \$5,419, 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.

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

The Trust has adopted SFAS No. 157 Fair Value Measurements for the year ended June 30, 2009 for certain financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. SFAS No. 157 defines fair value, establishes a framework for measuring fair value, and expands financial statement disclosures about fair value measurements.

NOTES TO THE FINANCIAL STATEMENTS

Note 4. INVESTMENTS (continued)

SFAS No. 157 defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing

In addition to defining fair value, SFAS No. 157 expands the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels, which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

- Level 1 – Inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.
- Level 2 – Inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 – Inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

The Trust uses quoted prices in active markets for identical assets or liabilities to determine fair value. This pricing methodology applies to all Level 1 investments.

Assets measured at fair value on a recurring basis at June 30, 2009 are as follows:

	Level 1	Level 2	Level 3	Total
Money Markets	\$ 317,421	\$ -	-	\$ 317,421
U.S. Treasury obligations	3,258,748	-	-	3,258,748
U.S. Government Agencies	3,839,958	-	-	3,839,958
Corporate obligations	1,237,757	-	-	1,237,757
	<u>\$ 8,653,884</u>	<u>\$ -</u>	<u>-</u>	<u>\$ 8,653,884</u>

Assets measured at fair value on a recurring basis at June 30, 2008 are as follows:

	Level 1	Level 2	Level 3	Total
Money Markets	\$ 10,887	\$ -	-	\$ 10,887
U.S. Treasury obligations	3,451,169	-	-	3,451,169
U.S. Government Agencies	4,309,510	-	-	4,309,510
Corporate obligations	1,045,483	-	-	1,045,483
	<u>\$ 8,817,049</u>	<u>\$ -</u>	<u>-</u>	<u>\$ 8,817,049</u>

NOTES TO THE FINANCIAL STATEMENTS

Note 4. **INVESTMENTS (continued)**

Net investment income is as follows for the years ended June 30,:

	2009	2008
Interest and dividend income	\$ 380,684	\$ 451,633
Net realized loss on sales of investments	(1,496)	(8,494)
Unrealized gain on investments	144,987	345,502
	\$ 524,175	\$ 788,641

Of the investments carried at market value at June 30, 2009 and 2008, \$17,532 and \$15,641, respectively, were recorded as Agency Funds Held for Others, Investments, on the Balance Sheet. Allowance for appreciation of investments at June 30, 2009 and 2008 was \$292,973 and \$147,986, 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. **RESTRICTED FUND BALANCES**

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

	2009	2008
Agriculture Initiatives	\$287,104	\$257,250
Oyster Recovery	14,094	-
Environmental Education Grants	-	15,159
Stewardship Grants	45,000	45,000
Land Use	9,049	20,000
Capacity Building	-	69,000
	\$355,247	\$406,409

Note 7. **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 \$581,013 and \$566,641 for years ending June 30, 2009 and 2008, respectively. This program continues through the upcoming fiscal year.

NOTES TO THE FINANCIAL STATEMENTS

Note 7. **MARYLAND STATE INCOME TAX CHECK-OFF AND BAY LICENSE PLATE CONTRIBUTIONS (continued)**

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 \$545,763 and \$639,485 for the years ended June 30, 2009 and 2008, respectively. 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 \$1,629,340 and \$1,501,725 for plate renewal fees for the years ended June 30, 2009 and 2008, respectively. A portion of such amounts, along with the Maryland State income tax check-off contributions are included in contributions receivable at June 30, 2009 and 2008. The Trust's contract with the State of Maryland expires June 30, 2013.

These types of contributions represented approximately 60% and 64% of total contributions for 2009 and 2008, respectively.

Note 8. **STATE SUPPORT**

The Trust employees participate in the Maryland Environmental Services 401(k) plan and state health insurance benefits program. Pension expense was \$38,695 and \$23,356 for the years ended June 30, 2009 and 2008. Health insurance benefits were \$39,933 and \$38,670 for the years ended June 30, 2009 and 2008, respectively, the amount charged by the State of Maryland.

Note 9. **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 10. **OPERATING LEASE COMMITMENTS**

The Trust leases office space and parking under a cancelable operating lease expiring August 31, 2012. Rent expense was \$110,835 and \$107,419 for the years ended June 30, 2009 and 2008, respectively. The Trust also leased office equipment under operating leases, which expire in 2010 and 2012. Expenses relating to this lease were \$5,295 and \$4,404 for the years ended June 30, 2009 and 2008, respectively. Future minimum lease payments for fiscal years ending June 30 are as follows:

2010	\$ 95,491
2011	\$ 97,605
2012	\$100,210
2013	\$ 16,345

NOTES TO THE FINANCIAL STATEMENTS

Note 11. RELATED PARTY TRANSACTIONS

The Trust granted several awards in fiscal years 2009 and 2008 to organizations related to the Trust through Board membership.

Below is a listing of the awards granted:

	<u>2009</u>	<u>2008</u>
Chesapeake Bay Environmental Center	\$ -	\$ 15,000
Chesapeake Bay Foundation	\$ 227,844	\$ 162,550
Living Classrooms Foundation	\$ 3,000	\$ 4,750
Maryland Department of Natural Resources	\$ 7,370	\$ 22,480
Maryland Department of the Environment	\$ -	\$ 3,500
National Aquarium in Baltimore	\$ 45,000	\$ 12,040
NorthBay Environmental Learning Center	\$ -	\$ 598
Oyster Recovery Partnership	\$ 36,000	\$ 3,609
Town of Vienna	\$ 4,000	\$ 5,000
University of MD Center for Environmental Science	\$ 58,469	\$ 68,513
West/Rhode Riverkeeper	\$ 134,547	\$ -
Friends of Sligo Creek	\$ 9,995	\$ -
The Park School	\$ 20,000	\$ -
Washington College Center For Environment And Society	\$ 30,000	\$ -
West River United Methodist Church	\$ 89,600	\$ -
University of Maryland College Park Foundation	\$ 10,000	\$ -

Included in grants payable at June 30, 2009 and 2008 was \$398,139 and \$282,345, respectively, payable to related parties.

A Trustee who has an actual or potential conflict of interest with respect to a proposed action or transaction of the Trust does not participate in any way in, nor is present during, the deliberations and 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 12. SUBSEQUENT EVENTS

In preparing these financial statements, the Trust has evaluated events and transactions for potential recognition or disclosure through August 28, 2009, the date the financial statements were available to be issued.

NOTES TO THE FINANCIAL STATEMENTS

Note 13. GRANTS PAYABLE

Some Trust grant awards are for projects that continue over a multi-year time period or for projects that are contingent upon a future action that may delay payment of the award for more than one year. In those cases, the awarded amount may remain in the grants payable account for more than one year. Grants Payable are expected to be paid as follow for the years ending June 30,:

	2009	2008
Current portion	\$2,228,384	\$1,474,765
Long-term portion	157,109	710,372
Total	<u>\$2,385,493</u>	<u>\$2,185,137</u>

Note 14. BOARD DESIGNATED ENDOWMENT

Interpretation of Relevant Law

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.

Investment Policies

The objective of the portfolio should be pursued as a long-term goal designed to maximize the returns without exposure to undue risk. In order to meet its needs, the investment strategy of the portfolio is to emphasize total return. Specifically, long-term growth of principal with the possibility of short-term volatility tolerated in as much as it is consistent with the volatility of a comparable market index and preservation of purchasing power are intended.

The portfolio is expected to meet or exceed the Barclays Intermediate Government/Credit Bond Index and shall exceed the rate of inflation as measured by the Consumer Price Index by 2% after all portfolio expenses.

The following types of investments are allowable:

- U.S. Treasury bills, notes, and bonds
- U.S. agency debt obligations including government sponsored enterprises
- Corporate debt obligations rated at least BBB-/BAA3, P1, or A1 by Moody's and Standard & Poor's
- Taxable, tax-exempt, and tax-advantaged Maryland municipal debt obligations
- SEC-registered money market funds with the same investment guidelines
- Repurchase agreements collateralized at a minimum of 102% with one of the following: U.S. Treasury bills, notes, bonds, or U.S. agency debt obligations
- Asset-backed and mortgage-backed securities rated AAA by Moody's or Standard & Poor's

NOTES TO THE FINANCIAL STATEMENTS

Note 14. BOARD DESIGNATED ENDOWMENT (continued)

Policy for the Appropriation of Endowment Assets for Expenditure

Income from the endowment is unrestricted and is used for general operations of the Trust.

Endowment net asset composition by Type of Fund as of June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Board-designated endowment funds	\$ 5,000,000	\$ -	\$ -
Total funds	<u>\$ 5,000,000</u>	<u>\$ -</u>	<u>\$ -</u>

Changes in Endowment Net Assets for the Year Ended June 30, 2009:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets, beginning of year	\$ 5,000,000	\$ -	\$ -
Investment return			
Investment income	218,310	-	-
Net appreciation	<u>82,288</u>	<u>-</u>	<u>-</u>
Total investment return	300,598	-	-
Contributions	-	-	-
Appropriation of endowment for expenditure	<u>(300,598)</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 5,000,000</u>	<u>\$ -</u>	<u>\$ -</u>

Endowment net asset composition by Type of Fund as of June 30, 2008:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Board-designated endowment funds	\$ 5,000,000	\$ -	\$ -
Total funds	<u>\$ 5,000,000</u>	<u>\$ -</u>	<u>\$ -</u>

NOTES TO THE FINANCIAL STATEMENTS

Note 14. BOARD DESIGNATED ENDOWMENT (continued)

Changes in Endowment Net Assets for the Year Ended June 30, 2008:

	Unrestricted	Temporarily Restricted	Permanently Restricted
Endowment net assets, beginning of year	\$ 5,000,000	\$ -	\$ -
Investment return			
Investment income	256,738	-	-
Net appreciation	191,578	-	-
Total investment return	448,316	-	-
Contributions	-	-	-
Appropriation of endowment for expenditure	(448,316)	-	-
Endowment net assets, end of year	\$ 5,000,000	\$ -	\$ -