

CHESAPEAKE BAY TRUST
FINANCIAL REPORT
June 30, 2010

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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, 2010 and 2009, 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 balance sheets of Chesapeake Bay Trust as of June 30, 2010 and 2009 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 20, 2010 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 20, 2010



**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 as of and for the year ended June 30, 2010 and have issued our report thereon dated August 20, 2010. 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 Chesapeake Bay 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 Chesapeake Bay Trust's internal control over financial reporting. Accordingly, we do not express an opinion of the effectiveness of Chesapeake Bay 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 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.

Our consideration of the 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 Chesapeake Bay 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*.

Chesapeake Bay Trust's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Chesapeake Bay Trust's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Board of Trustees, others within the Organization, General Assembly of the State of Maryland, and federal awarding agencies and pass-through entities, 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 20, 2010

CHESAPEAKE BAY TRUST**BALANCE SHEETS**

June 30, 2010 and 2009

Assets

| | <u>2010</u> | <u>2009</u> |
|---|---------------------|---------------------|
| Assets | | |
| Cash and cash equivalents | \$ 619,634 | \$ 233,621 |
| Prepaid expenses | 4,272 | - |
| Investments | 7,374,923 | 8,636,352 |
| Agency funds held for others, investments | 10,899 | 17,532 |
| Agency funds, receivable | 55,245 | 29,145 |
| Contributions and grants receivable | 1,434,809 | 867,827 |
| Interest receivable | 43,601 | 64,714 |
| Fixed assets, net | <u>58,605</u> | <u>51,654</u> |
| Total assets | <u>\$ 9,601,988</u> | <u>\$ 9,900,845</u> |

Liabilities and Fund Balances

| | | |
|-------------------------------------|---------------------|---------------------|
| Liabilities | | |
| Accounts payable | \$ 2,080 | \$ - |
| Salaries payable | 99,752 | 61,511 |
| Grants payable | 2,560,560 | 2,385,493 |
| Deferred revenue | 10,899 | 17,532 |
| Agency funds held for others | <u>10,899</u> | <u>17,532</u> |
| Total liabilities | <u>2,684,190</u> | <u>2,482,068</u> |
| Fund Balances | | |
| Unrestricted | 1,976,043 | 2,063,530 |
| Board designated endowment | <u>5,000,000</u> | <u>5,000,000</u> |
| Total unrestricted | <u>6,976,043</u> | <u>7,063,530</u> |
| Restricted | <u>(58,245)</u> | <u>355,247</u> |
| Total fund balances | <u>6,917,798</u> | <u>7,418,777</u> |
| Total liabilities and fund balances | <u>\$ 9,601,988</u> | <u>\$ 9,900,845</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, 2010 and 2009

| | 2010 | | |
|---|---------------------|--------------------|---------------------|
| | Unrestricted | Restricted | Total |
| Support and revenue: | | | |
| Contributions | \$ 3,600,508 | \$ 2,647,997 | \$ 6,248,505 |
| Fundraising income | 20,300 | - | 20,300 |
| Realized gain (loss) on sale of investments | 251,170 | - | 251,170 |
| Interest and dividends | 341,721 | - | 341,721 |
| Total support and revenue | <u>4,213,699</u> | <u>2,647,997</u> | <u>6,861,696</u> |
| Expenses: | | | |
| Program services: | | | |
| Program grants | 2,726,449 | 2,938,418 | 5,664,867 |
| Program management | 868,757 | 86,246 | 955,003 |
| Total program services | <u>3,595,206</u> | <u>3,024,664</u> | <u>6,619,870</u> |
| Supporting services: | | | |
| Management and general | 298,704 | 25,754 | 324,458 |
| Fund-raising | 315,500 | 11,071 | 326,571 |
| Total supporting services | <u>614,204</u> | <u>36,825</u> | <u>651,029</u> |
| Total expenses | <u>4,209,410</u> | <u>3,061,489</u> | <u>7,270,899</u> |
| Excess (deficit) of support and revenue over expenses before net unrealized (loss) gain on investments | 4,289 | (413,492) | (409,203) |
| Net unrealized (loss) gain on investments | <u>(91,776)</u> | <u>-</u> | <u>(91,776)</u> |
| Deficit of support and revenue over expenses after net unrealized (loss) gain on investments | (87,487) | (413,492) | (500,979) |
| Fund balances, beginning of year | <u>7,063,530</u> | <u>355,247</u> | <u>7,418,777</u> |
| Fund balances, end of year | <u>\$ 6,976,043</u> | <u>\$ (58,245)</u> | <u>\$ 6,917,798</u> |

| 2009 | | |
|---------------------|-------------------|---------------------|
| Unrestricted | Restricted | Total |
| \$ 2,953,788 | \$ 1,649,785 | \$ 4,603,573 |
| 23,200 | - | 23,200 |
| (1,496) | - | (1,496) |
| <u>380,684</u> | <u>-</u> | <u>380,684</u> |
| <u>3,356,176</u> | <u>1,649,785</u> | <u>5,005,961</u> |
| 2,385,255 | 1,627,334 | 4,012,589 |
| <u>947,511</u> | <u>52,215</u> | <u>999,726</u> |
| <u>3,332,766</u> | <u>1,679,549</u> | <u>5,012,315</u> |
| 286,981 | 14,799 | 301,780 |
| <u>247,136</u> | <u>6,599</u> | <u>253,735</u> |
| <u>534,117</u> | <u>21,398</u> | <u>555,515</u> |
| <u>3,866,883</u> | <u>1,700,947</u> | <u>5,567,830</u> |
| (510,707) | (51,162) | (561,869) |
| <u>144,987</u> | <u>-</u> | <u>144,987</u> |
| (365,720) | (51,162) | (416,882) |
| <u>7,429,250</u> | <u>406,409</u> | <u>7,835,659</u> |
| <u>\$ 7,063,530</u> | <u>\$ 355,247</u> | <u>\$ 7,418,777</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, 2010 and 2009

| | 2010 | 2009 |
|---|--------------|--------------|
| Cash flows from operating activities: | | |
| Deficit of support and revenue over expenses after net unrealized (loss) gain on investments | \$ (500,979) | \$ (416,882) |
| Adjustments to reconcile deficit of support and revenue over expenses after net unrealized (loss) gain on investments to net cash used in operating activities: | | |
| Depreciation | 7,840 | 7,694 |
| Unrealized loss (gain) on investments | 91,776 | (144,987) |
| Realized (gain) loss on investments | (251,170) | 1,496 |
| Changes in assets and liabilities: | | |
| (Increase) decrease in: | | |
| Agency funds, receivable | (26,100) | (813) |
| Contributions and grants receivable | (566,982) | 161,014 |
| Interest receivable | 21,113 | 7,373 |
| Prepaid expenses | (4,272) | - |
| Increase (decrease) in: | | |
| Accounts payable | 2,080 | - |
| Salaries payable | 38,241 | 15,395 |
| Grants payable | 175,067 | 200,356 |
| Deferred revenue | (6,633) | 1,891 |
| Net cash used in operating activities | (1,020,019) | (167,463) |
| Cash flows from investing activities: | | |
| Purchases of investments | (8,239,174) | (3,300,961) |
| Purchase of fixed assets | (14,791) | (9,312) |
| Maturities/sales of investments | 9,659,997 | 3,609,508 |
| Net cash provided by investing activities | 1,406,032 | 299,235 |
| Net increase in cash and cash equivalents | 386,013 | 131,772 |
| Cash and cash equivalents, beginning of year | 233,621 | 101,849 |
| Cash and cash equivalents, end of year | \$ 619,634 | \$ 233,621 |
| 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 an initial 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. Restricted resources are used first when expenditures qualify for either unrestricted or restricted purposes.

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. When amounts are received but not yet earned, they 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>2010</u> | <u>2009</u> |
|--------------------------------|------------------|------------------|
| Cost | \$ 75,295 | \$ 82,434 |
| Less: Accumulated depreciation | 16,690 | 30,780 |
| Fixed assets, net | <u>\$ 58,605</u> | <u>\$ 51,654</u> |

Depreciation expense for the years ended June 30, 2010 and 2009 was \$7,840 and \$7,694, 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:

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.

Subsequent Events:

Management has evaluated events and transactions for potential recognition or disclosure through August 20, 2010, the date that the financial statements were available to be issued.

Contributions and grants receivable:

Management believes the full amount of contributions and grants receivable to be collectible within one year of the balance sheet date. Thus, there is no allowance for doubtful accounts.

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. At June 30, 2010, the Trust's cash account exceeded the federally insured limits by \$369,534.

Note 4. INVESTMENTS

The Trust follows the recommendations of the Financial Accounting Standards Board's Accounting Standards Codification in measuring its investments on a recurring basis. In addition to defining fair value, these recommendations expand the disclosure requirements around fair value measurements and establish a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels, which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

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

The 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, 2010 are as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---------------------------|---------------------|-------------|-------------|---------------------|
| Money Markets | \$ 2,744,412 | \$ - | \$ - | \$ 2,744,412 |
| U.S. Treasury obligations | 2,364,632 | - | - | 2,364,632 |
| U.S. Government Agencies | 1,567,605 | - | - | 1,567,605 |
| Corporate obligations | 709,173 | - | - | 709,173 |
| | <u>\$ 7,385,822</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 7,385,822</u> |

NOTES TO THE FINANCIAL STATEMENTS

Note 4. INVESTMENTS (continued)

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> |

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

| | 2010 | 2009 |
|--|-------------------|-------------------|
| Interest and dividend income | \$ 341,721 | \$ 380,684 |
| Net realized gain (loss) on sales of investments | 251,170 | (1,496) |
| Unrealized (loss) gain on investments | (91,776) | 144,987 |
| | <u>\$ 501,115</u> | <u>\$ 524,175</u> |

Of the investments carried at market value at June 30, 2010 and 2009, \$10,899 and \$17,532, respectively, were recorded as Agency Funds Held for Others, Investments, on the Balance Sheets. Allowance for appreciation of investments at June 30, 2010 and 2009 was \$196,667 and \$292,973, respectively. Investment fees were \$18,291 and \$21,245 and are grouped with unrestricted management and general expenses on the Statements of Support and Revenue, Expenses and Changes in Fund Balances for the years ended June 30, 2010 and 2009, 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.

NOTES TO THE FINANCIAL STATEMENTS

Note 6. RESTRICTED FUND BALANCES

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

| | <u>2010</u> | <u>2009</u> |
|------------------------------|--------------------|------------------|
| CBFN Agriculture Initiatives | \$148,996 | \$287,104 |
| CBFN Land Use | 9,049 | 9,049 |
| CBFN Management | 10,647 | - |
| Oyster Recovery | 6,153 | 14,094 |
| Stewardship Grants | 20,000 | 45,000 |
| Watershed Assistance | 54,100 | - |
| Living Shorelines | (295,200) | - |
| Headwaters | (56,400) | - |
| ARRA Fund | 44,410 | - |
| | <u>(\$ 58,245)</u> | <u>\$355,247</u> |

Grants to be awarded by the Trust are recognized in expense and grants payable upon Board approval. The Trust takes this action sometimes prior to receiving related grantor funding, thus the Trust is reimbursed later and a negative restricted fund balance is temporarily carried.

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 \$528,634 and \$581,013 for years ending June 30, 2010 and 2009, 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 \$599,949 and \$545,763 for the years ended June 30, 2010 and 2009, 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 \$2,358,635 and \$1,629,340 for plate renewal fees for the years ended June 30, 2010 and 2009, respectively. A portion of such amounts, along with the Maryland State income tax check-off contributions is included in contributions receivable at June 30, 2010 and 2009. The Trust's contract with the State of Maryland expires June 30, 2013.

These types of contributions represented approximately 56% and 60% of total contributions for the years ended June 30, 2010 and 2009, respectively.

NOTES TO THE FINANCIAL STATEMENTS

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 \$36,292 and \$38,695 for the years ended June 30, 2010 and 2009. Health insurance benefits were \$58,220 and \$39,933 for the years ended June 30, 2010 and 2009, 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 \$105,992 and \$110,835 for the years ended June 30, 2010 and 2009, respectively. The Trust also leased office equipment under operating leases, which expire in 2012. Expenses relating to this lease were \$5,464 and \$5,295 for the years ended June 30, 2010 and 2009, respectively. Future minimum lease payments for fiscal years ending June 30 are as follows:

| | |
|------|-----------|
| 2011 | \$ 97,605 |
| 2012 | \$100,210 |
| 2013 | \$ 16,345 |

Note 11. 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 follows for the years ended June 30,:

| | 2010 | 2009 |
|-------------------|--------------------|--------------------|
| Current portion | \$2,405,224 | \$2,228,384 |
| Long-term portion | 155,336 | 157,109 |
| Total | <u>\$2,560,560</u> | <u>\$2,385,493</u> |

NOTES TO THE FINANCIAL STATEMENTS

Note 12. RELATED PARTY TRANSACTIONS

The Trust granted several awards in fiscal years 2010 and 2009 to organizations related to the Trust through Board membership.

Below is a listing of the awards granted:

| | <u>2010</u> | <u>2009</u> |
|---|-------------|-------------|
| Adkins Arboretum | \$ 5,000 | \$ - |
| Chesapeake Bay Foundation | \$ - | \$ 227,844 |
| Friends of Sligo Creek | \$ - | \$ 9,995 |
| Living Classrooms Foundation | \$ - | \$ 3,000 |
| Maryland Department of Natural Resources | \$ 6,096 | \$ 7,370 |
| National Aquarium in Baltimore | \$ 4,000 | \$ 45,000 |
| Oyster Recovery Partnership | \$ - | \$ 36,000 |
| The Park School | \$ - | \$ 20,000 |
| Shady Side Rural Heritage Society, Inc. | \$ 21,570 | \$ - |
| Smithsonian Environmental Research Center | \$ 45,000 | \$ - |
| South River Federation | \$ 97,250 | \$ - |
| Town of Vienna | \$ - | \$ 4,000 |
| Washington College Center For Environment And Society | \$ - | \$ 30,000 |
| West/Rhode Riverkeeper | \$ 38,886 | \$ 134,547 |
| West River United Methodist Church | \$ - | \$ 89,600 |
| University of Maryland College Park Foundation | \$ - | \$ 10,000 |
| University of MD Center for Environmental Science | \$ 133,284 | \$ 58,469 |

Included in grants payable at June 30, 2010 and 2009 was \$176,305 and \$398,139, 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 13. 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.

NOTES TO THE FINANCIAL STATEMENTS

Note 13. BOARD DESIGNATED ENDOWMENT (continued)

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.

Target returns are expected to fall between Barclays U.S. Intermediate Government Bond Index and Barclays Intermediate Government/Credit Bond Fund Index and shall exceed the rate of inflation as measured by the Consumer Price Index by 2% after all portfolio expenses. The overall investment portfolio of the Trust must have a rating of at least AA.

The following types of investments are allowable:

- U.S. Treasury bills, notes, and bonds
- Bonds or obligations including the political subdivisions or units of the State of Maryland
- U.S. agency debt obligations including government sponsored enterprises
- Corporate debt obligations rated at least BBB/BAA3 by Moody's and Standard & Poor's
- Asset-backed and mortgage-backed securities rated AAA by Moody's or Standard & Poor's

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, 2010:

| | Unrestricted | Temporarily Restricted | Permanently Restricted |
|-------------------------------------|--------------|---------------------------|---------------------------|
| Board-designated endowment funds | \$ 5,000,000 | \$ - | \$ - |
| Total funds | \$ 5,000,000 | \$ - | \$ - |

Changes in Endowment Net Assets for the Year Ended June 30, 2010:

NOTES TO THE FINANCIAL STATEMENTS

Note 13. **BOARD DESIGNATED ENDOWMENT (continued)**

| | <u>Unrestricted</u> | <u>Temporarily Restricted</u> | <u>Permanently Restricted</u> |
|---|---------------------|-----------------------------------|-----------------------------------|
| Endowment net assets, beginning of year | \$ 5,000,000 | \$ - | \$ - |
| Investment return | | | |
| Investment income | 213,425 | - | - |
| Net appreciation | <u>99,551</u> | <u>-</u> | <u>-</u> |
| Total investment return | 312,976 | - | - |
| Contributions | - | - | - |
| Appropriation of endowment for expenditure | <u>(312,976)</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, 2009:

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