

CHESAPEAKE BAY TRUST, INC.
FINANCIAL STATEMENTS
JUNE 30, 2011

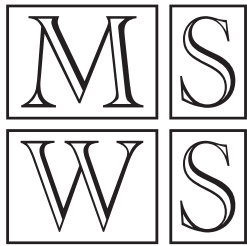


MULLEN SONDBERG WIMBISH & STONE, PA

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 Directors of
Chesapeake Bay Trust, Inc.
Annapolis, Maryland

We have audited the accompanying statement of financial position of Chesapeake Bay Trust, Inc. (a non-profit organization) as of June 30, 2011, and the related statements of activities and cash flows for the year 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 audit. The financial statements of Chesapeake Bay Trust, Inc. as of June 30, 2010, were audited by other auditors whose report dated August 20, 2010, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chesapeake Bay Trust, Inc. as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

To the Board of Directors of
Chesapeake Bay Trust, Inc.
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In accordance with *Government Auditing Standards*, we have also issued our report, dated October 20, 2011, on our consideration of Chesapeake Bay Trust, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal controls over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and 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.



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

Annapolis, Maryland
October 20, 2011

Chesapeake Bay Trust, Inc.
STATEMENT OF FINANCIAL POSITION
June 30, 2011

	ASSETS	
	2011	2010
CURRENT ASSETS		
Cash and cash equivalents	\$ 294,236	\$ 619,634
Investments	7,572,458	7,385,821
Contributions and grants receivable	1,652,478	1,448,310
Agency funds receivable	-	55,245
Interest receivable	38,280	43,601
Prepaid expenses	4,090	4,272
	9,561,542	9,556,883
PROPERTY AND EQUIPMENT		
Net of accumulated depreciation	54,756	58,605
	\$ 9,616,298	\$ 9,615,488
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 366,224	\$ 449,912
Accrued salaries and related liabilities	101,563	99,752
Deferred revenue	56,947	161,012
Agency funds held for others	-	10,899
	524,734	721,575
NET ASSETS, as restated		
Unrestricted	3,899,939	3,593,374
Unrestricted - board designated endowment	5,000,000	5,000,000
Temporarily restricted	191,625	300,539
	9,091,564	8,893,913
	\$ 9,616,298	\$ 9,615,488

The accompanying notes are an integral part of these financial statements

Chesapeake Bay Trust, Inc.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2011
With Summarized Financial Information for the Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Totals	
			2011	2010
REVENUES, GAINS AND OTHER SUPPORT				
Grants	\$ 2,477,991	\$ -	\$ 2,477,991	\$ 2,467,329
Contributions	4,736,251	98,347	4,834,598	3,723,708
Fundraising income	66,410	-	66,410	75,050
Investment income, net	191,796	-	191,796	501,115
	<u>7,472,448</u>	<u>98,347</u>	<u>7,570,795</u>	<u>6,767,202</u>
Net assets released from restrictions	<u>207,261</u>	<u>(207,261)</u>	<u>-</u>	<u>-</u>
Total revenues, gains and other support	7,679,709	(108,914)	7,570,795	6,767,202
EXPENSES:				
Program services:				
Program grants	5,555,827	-	5,555,827	5,792,422
Program management	1,139,896	-	1,139,896	997,499
Total program services	<u>6,695,723</u>	<u>-</u>	<u>6,695,723</u>	<u>6,789,921</u>
Supporting services:				
Management and general	319,669	-	319,669	274,164
Fundraising	357,752	-	357,752	291,891
Total supporting services	<u>677,421</u>	<u>-</u>	<u>677,421</u>	<u>566,055</u>
Total expenses	<u>7,373,144</u>	<u>-</u>	<u>7,373,144</u>	<u>7,355,976</u>
Change in net assets	306,565	(108,914)	197,651	(588,774)
NET ASSETS, BEGINNING OF YEAR, as restated	<u>8,593,374</u>	<u>300,539</u>	<u>8,893,913</u>	<u>9,482,687</u>
NET ASSETS, END OF YEAR	<u>\$ 8,899,939</u>	<u>\$ 191,625</u>	<u>\$ 9,091,564</u>	<u>\$ 8,893,913</u>

The accompanying notes are an integral part of these financial statements

Chesapeake Bay Trust, Inc.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2011

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 197,651	\$ (588,774)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	9,317	7,840
Unrealized loss on investments	43,170	91,776
Realized gain on investments	(10,290)	(251,170)
(Increase) decrease in operating assets:		
Agency funds receivable	55,245	(26,100)
Contributions and grants receivable	(204,168)	(360,673)
Interest receivable	5,321	21,113
Prepaid expenses	182	(4,272)
Increase (decrease) in operating liabilities:		
Accounts payable	(83,688)	2,080
Accrued salaries and related liabilities	1,811	38,241
Deferred revenue	(104,065)	49,920
Agency funds held for others	(10,899)	-
	<u>(100,413)</u>	<u>(1,020,019)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investments, including reinvestments	(8,000,644)	(8,239,174)
Proceeds from sale and maturity of investments	7,781,127	9,659,997
Purchase of furniture and equipment	(5,468)	(14,791)
	<u>(224,985)</u>	<u>1,406,032</u>
Net cash provided (used) by investing activities		
	<u>(224,985)</u>	<u>1,406,032</u>
Net increase (decrease) in cash and cash equivalents	(325,398)	386,013
Cash and cash equivalents, beginning of year	<u>619,634</u>	<u>233,621</u>
Cash and cash equivalents, end of year	<u>\$ 294,236</u>	<u>\$ 619,634</u>

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

Chesapeake Bay Trust, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1 - Summary of Significant Accounting Policies

Nature and Organization

The Chesapeake Bay Trust, Inc. (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.

Financial Statement Presentation

The Trust follows Financial Accounting Standards Board (FASB) Accounting Standards Codification Subtopic 958-205, *Not-for-Profit Entities: Presentation of Financial Statements* (ASC 958-205) and reports information regarding its financial position and activities in three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

In prior years, financial statement presentation followed the American Institute of Certified Public Accountants Statement of Position (SOP) Number 78-10, *Accounting principles and reporting Practices for Certain Nonprofit Organizations*. Management has determined that ASC 958-205 is the appropriate standard for the Trust. Accordingly, certain prior year captions and classifications have been changed in the accompanying financial statements.

The 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 accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Trust's financial statements for the year ended June 30, 2010, from which the summarized information was derived.

Basis of Accounting

The financial statements are presented on the accrual basis of accounting; consequently, revenue is recorded when earned and expenses are recorded when incurred.

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, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1 - Summary of Significant Accounting Policies (Cont.)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America 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. 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

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor-imposed restrictions. Support that is restricted by the donor is reported 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 reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Property and Equipment

Property and equipment acquisitions 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 method, with half-year depreciation in the year of acquisition. The Trust capitalizes individual assets with a cost equal to or greater than \$1,000.

Functional Expenses

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

Chesapeake Bay Trust, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 1 - 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.

Income Taxes

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, 2008 remain subject to examination by federal and state authorities.

Note 2 - Concentration of Cash Balances

At various times during the year, the Trust maintained cash-in-bank balances in excess of the federally insured limit of \$250,000. Amounts held in non-interest-bearing transaction accounts from December 31, 2010 through December 31, 2012 are fully insured under the provisions of Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act which provides unlimited deposit insurance coverage for non-interest-bearing transaction accounts. As of June 30, 2011 and 2010, amounts in excess of the insured limit were approximately \$-0- and \$369,500, respectively.

Chesapeake Bay Trust, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 3 - Investments

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

	June 30, 2011		
	Cost	Fair Market Value	Unrealized Gain/(Loss)
Money markets	\$ 67,888	\$ 67,888	\$ -
U.S. Treasury obligations	2,693,532	2,810,363	116,831
U.S. Government agency bonds	1,016,993	1,074,947	57,954
Corporate obligations	3,648,265	3,619,260	(29,005)
	<u>\$ 7,426,678</u>	<u>\$ 7,572,458</u>	<u>\$ 145,780</u>
	June 30, 2010		
	Cost	Fair Market Value	Unrealized Gain/(Loss)
Money markets	\$ 2,744,412	\$ 2,744,412	\$ -
U.S. Treasury obligations	2,198,386	2,364,632	166,246
U.S. Government agency bonds	1,491,706	1,567,604	75,898
Corporate obligations	754,651	709,173	(45,478)
	<u>\$ 7,189,155</u>	<u>\$ 7,385,821</u>	<u>\$ 196,666</u>

Note 4 - Fair Value Measurements

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.

Chesapeake Bay Trust, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 4 - Fair Value Measurements (Cont.)

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 that market data, which 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.

Investments whose values are based on quoted market prices in active markets, and are, therefore classified with Level 1, includes active listed money market funds.

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, which are generally based on available market information.

The table below presents the balances of assets measured at fair value on a recurring basis by level within the hierarchy at June 30, 2011 and 2010:

June 30, 2011	Level 1	Level 2	Level 3	Total
Money markets	\$ 67,888	\$ -	\$ -	\$ 67,888
U.S. Treasury obligations	-	2,810,363	-	2,810,363
U.S. Government agency bonds	-	1,074,947	-	1,074,947
Corporate bonds	-	3,619,260	-	3,619,260
	\$ 67,888	\$ 7,504,570	\$ -	\$ 7,572,458
June 30, 2010	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 agency bonds	-	1,567,604	-	1,567,604
Corporate bonds	-	709,173	-	709,173
	\$ 2,744,412	\$ 4,641,409	\$ -	\$ 7,385,821

Chesapeake Bay Trust, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 5 - Contributions and Grants Receivable

Contributions and grants receivable consisted of the following at June 30:

	2011	2010
Bayplate revenue receivable	\$ 699,976	\$ 369,730
Tax checkoff revenue receivable	517,584	522,000
Grants receivable	434,918	556,580
	\$ 1,652,478	\$ 1,448,310

Note 6 - Property and Equipment

Property and equipment consisted of the following at June 30:

	Useful Life	2011	2010
Leasehold improvements	15 years	\$ 40,167	\$ 40,167
Furniture and equipment	5 years	40,596	35,128
		80,763	75,295
Less: accumulated depreciation		26,007	16,690
Net property and equipment		\$ 54,756	\$ 58,605

Depreciation expense for the years ended June 30, 2011 and 2010 was \$9,317 and \$7,840, 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 \$517,584 and \$528,634 for the years ending June 30, 2011 and 2010, respectively. This program continues through the upcoming fiscal year.

Chesapeake Bay Trust, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 7 - Maryland State Income Tax Check-Off and Bay License Plate Contributions (Cont.)

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. Contribution revenue allocated to the Trust under this program amounted to \$777,792 and \$599,949 for the years ended June 30, 2011 and 2010, respectively. In March 2004, the Trust began receiving a portion of renewal fees collected by the Maryland Vehicle Administration when the Chesapeake Bay commemorative license plates are renewed. The Trust received \$3,253,760 and \$2,358,635 in plate renewal fees for the years ended June 30, 2011 and 2010, respectively. The Trust's contract with the State of Maryland under this program expires June 30, 2012.

Note 8 - State of Maryland Support

The Trust employees participate in the Maryland Environmental Services 401(k) plan and state health insurance benefits program. Pension expense was \$52,139 and \$36,292 for the years ended June 30, 2011 and 2010, respectively.

Note 9 - Investment Income

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

	<u>2011</u>	<u>2010</u>
Interest income	\$ 224,676	\$ 341,721
Realized gain on investments	10,290	251,170
Unrealized loss on investments	<u>(43,170)</u>	<u>(91,776)</u>
	<u>\$ 191,796</u>	<u>\$ 501,115</u>

Note 10 - Compensated Absences

As of June 30, 2011 and 2010 the Trust accrued \$62,747 and \$55,314, respectively, in compensated absences. Employees accrue leave based on years of service. Comp time leave may be accumulated up to a maximum of sixteen hours after which remaining days will be forfeited. Annual leave has no maximum accumulation.

Note 11 - Operating Lease Commitments

The Trust leases office space and parking under a cancelable operating lease expiring August 31, 2012. Rent expense was \$117,835 and \$105,992 for the years ended June 30, 2011 and 2010, respectively. The Trust also leases office equipment under operating leases, which expire in 2012. Expenses relating to these leases were \$4,779 and \$5,464 for the years ended June 30, 2011 and 2010, respectively. Future minimum lease payments for the fiscal years ending June 30, 2012 and 2013 are \$100,210 and \$16,345, respectively.

Chesapeake Bay Trust, Inc.
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2011

Note 12 - 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. 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 have been completed for all required fiscal years through 2011. 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.

Note 13 - Related Party Transactions

The Trust granted several awards in fiscal years 2011 and 2010 to organizations related to the Trust through Board membership. Grants awarded to related parties during the years ended June 30, 2010 and 2011 are as follows:

	2011	2010
University of MD Center for Environmental Science	\$ 197,635	\$ 133,284
Metropolitan Washington Council of Governments	67,500	-
Living Classrooms of the National Capital Region	25,000	-
West/Rhode Riverkeeper	24,623	38,886
Maryland Department of Natural Resources	15,535	6,096
Harry R. Hughes Center for Agro Ecology	14,300	-
National Wildlife Federation	13,771	-
Neighborhood Design Center	5,000	-
Adkins Arboretum	-	5,000
National Aquarium in Baltimore	-	4,000
Shady Side Rural Heritage Society, Inc.	-	21,570
Smithsonian Environmental Research Center	-	45,000
South River Federation	-	97,250

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.

Chesapeake Bay Trust, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 14 - Temporarily restricted net assets

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

	2011	2010
Agriculture grants	\$ 87,591	\$ 210,843
CBFN management	25,866	10,647
Capacity building grants	24,250	-
Stormwater grants	21,549	9,049
Stewardship grants	20,000	20,000
Private grants	12,319	-
FOI restoration	50	-
Fisheries grants	-	50,000
	\$ 191,625	\$ 300,539

Note 15 - 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 educational 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 Return Objectives, Risk Parameters and Strategies: 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.

Chesapeake Bay Trust, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 15 - Board Designated Endowment (Cont.)

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

Spending Policy: The payout rate from the Trust's endowment should provide a stable, predictable level of spending and should achieve a proper balance between present and future needs. Income from the endowment is unrestricted and is used for general operations of the Trust.

Endowment net asset composition by net asset category as of June 30, 2011:

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

Changes in endowment net assets for the year ended June 30, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets, beginning of year	\$ 5,000,000	\$ -	\$ -
Investment return:			
Investment income	202,224	-	-
Net appreciation (depreciation)	(62,575)	-	-
Contributions	-	-	-
Appropriation of endowment net assets for expenditure	<u>(139,649)</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 5,000,000</u>	<u>\$ -</u>	<u>\$ -</u>

Chesapeake Bay Trust, Inc.
NOTES TO FINANCIAL STATEMENTS
June 30, 2011

Note 16 – Restatements

Subsequent to the issuance of its 2010 financial statements, management identified certain errors and as a result, the Trust has restated its 2010 financial statements as explained below.

In prior years, grant awards were recorded and accrued when the grants were approved by the Board of Directors and not in the year the grants were actually awarded under the terms and criteria of the specific grant agreements. In addition, unexpended grant revenues were incorrectly reported as increases in temporarily restricted net assets. The unexpended grants funds should have been reported as deferred revenues.

The correction of these errors resulted in the following restatements:

	<u>As Previously Reported</u>	<u>Restatement Adjustments</u>	<u>As Restated</u>
Net assets at July 1, 2009	\$ 7,418,777	\$ 2,063,910	\$ 9,482,687
Change in net assets for the year ended June 30, 2010	<u>(500,979)</u>	<u>(87,795)</u>	<u>(588,774)</u>
Net assets at June 30, 2010	<u>\$ 6,917,798</u>	<u>\$ 1,976,115</u>	<u>\$ 8,893,913</u>

Note 13 – Commitments

At June 30, 2011, the Trust has conditionally committed approximately \$1,700,000 of grants to agencies. These agencies must apply and meet certain criteria to receive the grants awarded.

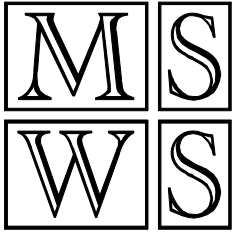
Note 18 – Subsequent Events

Subsequent events and transactions have been evaluated for potential recognition in the financial statements through October 20, 2011, the day the financial statements were available to be issued.

Chesapeake Bay Trust, Inc.
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2011

Federal Grantor/Pass-Through Grantor/Program Title*	CFDA #	Program	Federal Expenditures
U.S. Environmental Protection Agency			
ARRA Water Quality State Revolving Fund (WQSRF)			
Maryland Department of the Environment	66.458	ARRA WQSRF - Shady Cove Green Grant	\$ 717,789
Maryland Department of the Environment	66.458	ARRA WQSRF - Southdown Shores Green Grant	4,836
Maryland Department of the Environment	66.458	ARRA WQSRF - Oxford Lab Green Grant	504
Maryland Department of the Environment	66.458	ARRA WQSRF - Berrywood Green Grant	377
Maryland Department of the Environment	66.458	ARRA WQSRF - Annapolis Landing Green Grant	314
Maryland Department of the Environment	66.458	ARRA WQSRF - Franklin Manor Green Grant	189
Pass through to subrecipient			
Maryland Department of the Environment	66.458	ARRA WQSRF - Town of Edmonston Green Grant	284,129
Watershed Assistance Grant Program			
Maryland Department of Natural Resources	66.466	14-09-1314-CBG-4192	200,000
Maryland Department of Natural Resources	66.466	14-10-1314-CBG-7731	20,000
U.S. Department of Commerce			
National Oceanic & Atmospheric Administration	11.457	B-WET Mini-Grants Program	1,253
National Oceanic & Atmospheric Administration	11.463	Habitat Conservation	429,034
National Oceanic & Atmospheric Administration	11.454	Unallied Science Program	79,905
U.S. Department of Interior			
U.S. Fish and Wildlife Service	15.630	Chesapeake Bay Strategic Planning and Implementation	27,600
U.S. Department of Agriculture			
U.S. Forest Service	10.675	Urban and Community Forestry	<u>100,000</u>
			<u><u>\$ 1,865,930</u></u>

* The schedule of expenditures of federal awards includes the federal grant activity of the Trust and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



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

2553 Housley Road • Suite 200 • Annapolis Maryland 21401

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
Chesapeake Bay Trust, Inc.
Annapolis, Maryland

We have audited the financial statements of Chesapeake Bay Trust, Inc. as of and for the year ended June 30, 2011, and have issued our report thereon dated October 20, 2011. 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, Inc.'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, Inc.'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 Directors of
Chesapeake Bay Trust, Inc.
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Chesapeake Bay Trust, Inc.'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*.

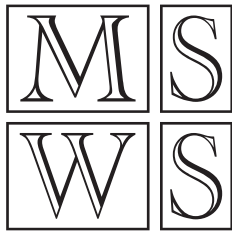
We noted certain other matters that we reported to management of Chesapeake Bay Trust, Inc. in a separate letter dated October 20, 2011.

This report is intended solely for the information and use of the Board of Directors, management, 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.



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

Annapolis, Maryland
October 20, 2011



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

2553 Housley Road • Suite 200 • Annapolis, Maryland 21401

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors of
Chesapeake Bay Trust, Inc.
Annapolis, Maryland

Compliance

We have audited the financial statements of Chesapeake Bay Trust, Inc.,'s (a non-profit organization) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Chesapeake Bay Trust, Inc.'s major federal programs for the year ended June 30, 2011. Chesapeake Bay Trust, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Chesapeake Bay Trust, Inc.'s management. Our responsibility is to express an opinion on Chesapeake Bay Trust, Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-profit Organizations*. Those standards and OMB Circular A-133 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, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Chesapeake Bay Trust, Inc.'s compliance with those requirements.

To the Board of Directors of
Chesapeake Bay Trust, Inc.
Page 2

In our opinion, Chesapeake Bay Trust, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each major federal program for the year ended June 30, 2011.

Internal Control over Compliance

Management of Chesapeake Bay Trust, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Chesapeake Bay Trust, Inc.'s internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Chesapeake Bay Trust, Inc.'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.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, others within the Organization, 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.



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

Annapolis, Maryland
October 20, 2011

Chesapeake Bay Trust, Inc.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2011

SUMMARY OF AUDIT RESULTS:

1. The auditor's report expresses an unqualified opinion on the financial statements of Chesapeake Bay Trust, Inc.
2. No significant deficiencies relating to the audit of the financial statements are reported in this report.
3. No instances of noncompliance material to the financial statements of Chesapeake Bay Trust, Inc. were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in this report.
5. The auditor's report on compliance for the major federal award programs expresses an unqualified opinion on all major federal programs.
6. There are no audit findings that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
7. The programs tested as major programs include EPA ARRA Stimulus – CFDA # 66.458 and NOAA Habitat Restoration – CFDA # 11.463.
8. The threshold used for distinguishing between Type A and Type B programs was \$300,000.
9. Chesapeake Bay Trust, Inc. qualified as a low-risk auditee.

FINDINGS – FINANCIAL STATEMENT AUDIT:

None

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT:

None

Chesapeake Bay Trust, Inc.
SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2011

Environmental Protection Agency

ARRA 66.458

Finding 2010-1

Condition: Incorrect hourly rates and benefits were calculated and used in submitting for reimbursement of personnel administration and inspection costs of projects awarded to the Trust from Maryland Department of the Environment.

Recommendation: Hours, hourly rates and benefits for each employee included in the calculation of reimbursement requests should be reviewed for accuracy and compared to timesheet and payroll information.

Current status: Management has implemented procedures to address this issue.