

**THE CHESAPEAKE BAY TRUST**  
**FINANCIAL STATEMENTS**  
**JUNE 30, 2012**



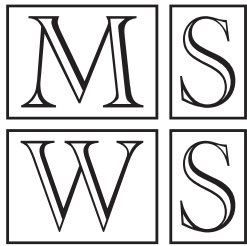
**MULLEN SONDBERG WIMBISH & STONE, PA**  

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**CERTIFIED PUBLIC ACCOUNTANTS**

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
The Chesapeake Bay Trust  
Annapolis, Maryland

We have audited the accompanying statement of financial position of the Chesapeake Bay Trust (a non-profit organization) as of June 30, 2012, 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 prior year summarized comparative information has been derived from the Trust's June 30, 2011 financial statements and, in our report dated October 20, 2011 we 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 the Chesapeake Bay Trust as of June 30, 2012, 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  
The Chesapeake Bay Trust  
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In accordance with *Government Auditing Standards*, we have also issued our report, dated October 18, 2012, on our consideration of the Chesapeake Bay Trust'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 on page 16 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 18, 2012

The Chesapeake Bay Trust  
STATEMENT OF FINANCIAL POSITION  
June 30, 2012

ASSETS		2012	2011
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$	296,221	\$ 294,236
Investments		7,946,296	7,572,458
Contributions and grants receivable		1,972,626	1,652,478
Interest receivable		36,584	38,280
Prepaid expenses		13,384	4,090
Total current assets		10,265,111	9,561,542
<b>PROPERTY AND EQUIPMENT</b>			
Net of accumulated depreciation		75,777	54,756
Total assets	\$	10,340,888	\$ 9,616,298
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES</b>			
Accounts payable	\$	995,857	\$ 804,287
Accrued salaries and related liabilities		125,450	101,563
Deferred revenue		7,988	56,947
Total current liabilities		1,129,295	962,797
<b>NET ASSETS, as restated</b>			
Unrestricted		3,830,493	3,461,876
Unrestricted - board designated operating reserve		5,000,000	5,000,000
Temporarily restricted		381,100	191,625
Total net assets		9,211,593	8,653,501
Total liabilities and net assets	\$	10,340,888	\$ 9,616,298

The accompanying notes are an integral part of these financial statements

Chesapeake Bay Trust  
STATEMENT OF ACTIVITIES  
Year Ended June 30, 2012  
With Summarized Financial Information for the Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Totals	
			2012	2011
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Grants	\$ 1,502,034	\$ -	\$ 1,502,034	\$ 2,477,991
Contributions	4,674,965	254,600	4,929,565	4,518,620
Fundraising income	64,365	-	64,365	66,410
Investment income, net	379,819	-	379,819	191,796
	<u>6,621,183</u>	<u>254,600</u>	<u>6,875,783</u>	<u>7,254,817</u>
Net assets released from restrictions	65,125	(65,125)	-	-
	<u>6,686,308</u>	<u>189,475</u>	<u>6,875,783</u>	<u>7,254,817</u>
<b>EXPENSES:</b>				
Program services:				
Program grants	4,244,691	-	4,244,691	5,555,827
Program management	1,257,000	-	1,257,000	1,139,896
	<u>5,501,691</u>	<u>-</u>	<u>5,501,691</u>	<u>6,695,723</u>
Supporting services:				
Management and general	336,080	-	336,080	319,669
Fundraising	479,920	-	479,920	357,752
	<u>816,000</u>	<u>-</u>	<u>816,000</u>	<u>677,421</u>
Total expenses	<u>6,317,691</u>	<u>-</u>	<u>6,317,691</u>	<u>7,373,144</u>
Change in net assets	368,617	189,475	558,092	(118,327)
NET ASSETS, BEGINNING OF YEAR, as restated	<u>8,461,876</u>	<u>191,625</u>	<u>8,653,501</u>	<u>8,771,828</u>
NET ASSETS, END OF YEAR	<u>\$ 8,830,493</u>	<u>\$ 381,100</u>	<u>\$ 9,211,593</u>	<u>\$ 8,653,501</u>

The accompanying notes are an integral part of these financial statements

Chesapeake Bay Trust  
STATEMENT OF CASH FLOWS  
Year Ended June 30, 2012

	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 558,092	\$ (118,327)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	13,730	9,317
Unrealized (gain) loss on investments	(163,918)	43,170
Realized (gain) loss on investments	5,678	(10,290)
(Increase) decrease in operating assets:		
Agency funds receivable	-	55,245
Contributions and grants receivable	(320,148)	(204,168)
Interest receivable	1,696	5,321
Prepaid expenses	(9,294)	182
Increase (decrease) in operating liabilities:		
Accounts payable	191,570	232,290
Accrued salaries and related liabilities	23,887	1,811
Deferred revenue	(48,959)	(104,065)
Agency funds held for others	-	(10,899)
	<u>252,334</u>	<u>(100,413)</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments, including reinvestments	(5,034,272)	(8,000,644)
Proceeds from sale and maturity of investments	4,818,674	7,781,127
Purchase of furniture and equipment	(34,751)	(5,468)
	<u>(250,349)</u>	<u>(224,985)</u>
 Net increase (decrease) in cash and cash equivalents	1,985	(325,398)
 Cash and cash equivalents, beginning of year	<u>294,236</u>	<u>619,634</u>
 Cash and cash equivalents, end of year	<u>\$ 296,221</u>	<u>\$ 294,236</u>

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

Chesapeake Bay Trust  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

Note 1 - Summary of Significant Accounting Policies

Nature and Organization

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.

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.

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.



Chesapeake Bay Trust  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

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

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.

Allocation of 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.

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

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

The Trust analyzes tax positions taken, including those related to the requirements set forth in IRC Sec. 501(c) to qualify as a tax exempt organization, activities performed by volunteers and board members, the reporting of unrelated business income, and its status as a tax-exempt organization under Maryland state statute. The Trust does not know of any tax benefits arising from uncertain tax positions and there was no effect on the Trust's financial position or changes in net assets as a result of analyzing its tax positions. Fiscal years ending on or after June 30, 2009 remain subject to examination by federal and state authorities.

Chesapeake Bay Trust  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

Note 2 - Investments

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

	June 30, 2012		
	Cost	Fair Market Value	Unrealized Gain/(Loss)
Money markets	\$ 42,611	\$ 42,611	\$ -
U.S. Treasury obligations	2,471,872	2,716,322	244,450
U.S. Government agency bonds	578,430	636,068	57,638
Corporate obligations	4,549,650	4,551,296	1,646
<b>Total investments</b>	<b>\$ 7,642,562</b>	<b>\$ 7,946,296</b>	<b>\$ 303,734</b>

	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)
<b>Total investments</b>	<b>\$ 7,426,678</b>	<b>\$ 7,572,458</b>	<b>\$ 145,780</b>

Note 3 - Fair Value Measurement

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

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

Chesapeake Bay Trust  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

Note 3 - Fair Value Measurement (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, include 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 traced 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, 2012 and 2011:

<u>June 30, 2012</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money markets	\$ 42,611	\$ -	\$ -	\$ 42,611
U.S. Treasury obligations	-	2,716,322	-	2,716,322
U.S. Government agency bonds	-	636,068	-	636,068
Corporate bonds	-	4,551,296	-	4,551,296
	<u>\$ 42,611</u>	<u>\$ 7,903,686</u>	<u>\$ -</u>	<u>\$ 7,946,296</u>
<u>June 30, 2011</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
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
	<u>\$ 67,888</u>	<u>\$ 7,504,570</u>	<u>\$ -</u>	<u>\$ 7,572,458</u>

Chesapeake Bay Trust  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

Note 4 - Contributions and Grants Receivable

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

	2012	2011
Bayplate revenue receivable	\$ 664,910	\$ 699,976
Tax checkoff revenue receivable	385,769	517,584
Grants receivable	921,947	434,918
	\$ 1,972,626	\$ 1,652,478

Note 5 - Property and Equipment

Property and equipment consisted of the following at June 30:

	Useful Life	2012	2011
Leasehold improvements	15 years	\$ 40,167	\$ 40,167
Furniture and equipment	5 years	75,347	40,596
		115,514	80,763
Less: accumulated depreciation		39,737	26,007
Net property and equipment		\$ 75,777	\$ 54,756

Depreciation expense for the years ended June 30, 2012 and 2011 was \$13,730 and \$9,317, respectively.

Note 6 - 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 \$499,899 and \$517,584 for the years ending June 30, 2012 and 2011, respectively. This program continues through the upcoming fiscal year.

The Chesapeake Bay Trust  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

Note 6 - 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 \$458,188 and \$461,814 for the years ended June 30, 2012 and 2011, 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 \$3,208,677 and \$3,253,760 in plate renewal fees for the years ended June 30, 2012 and 2011, respectively.

Note 7 - State of Maryland Support

The Trust employees participate in the Maryland Environmental Services 401(k) retirement plan and Maryland state health insurance benefits program. Retirement expense was \$53,877 and \$52,139 for the years ended June 30, 2012 and 2011, respectively.

Note 8 - Investment Income

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

	2012	2011
Interest income	\$ 221,579	\$ 224,676
Relized gain (loss) on investments	(5,678)	10,290
Unrealized gain (loss) on investments	163,918	(43,170)
	\$ 379,819	\$ 191,796

Note 9 - Compensated Absences

As of June 30, 2012 and 2011 the Trust accrued \$58,424 and \$62,747, 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 may be accrued to a maximum of 280 hours, after which remaining hours will be forfeited.

The Chesapeake Bay Trust  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

Note 10 - Operating Lease Commitments

The Trust leases office space and parking under a cancelable operating lease. During the year the lease was re-negotiated, decreasing monthly rent payments and extending the agreement through August 31, 2017. Rent expense was \$124,704 and \$117,835 for the years ended June 30, 2012 and 2011, respectively. The Trust also leases office equipment under operating leases, which expire in 2012. Expenses relating to these leases were \$7,496 and \$4,779 for the years ended June 30, 2012 and 2011, respectively.

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

2013	\$ 82,025
2014	80,885
2015	83,311
2016	85,811
2017	88,385
Thereafter	<u>14,803</u>

Note 11 - Contingency

The Trust receives grants from various agencies of the United States Government. Such grants are subject to audit under the provisions of OMB Circular A-133. 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 2012. 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 12 - Related Party Transactions

The Trust awarded several grants or contracts in fiscal years 2012 and 2011 to organizations related to the Trust, primarily through common Board membership.

The Chesapeake Bay Trust  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

Note 12 - Related Party Transactions (Cont.)

Grants or contracts awarded to related parties during the years ended June 30 are as follows:

	<u>2012</u>	<u>2011</u>
West/Rhode Riverkeeper	\$ 110,350	\$ 24,623
Maryland Department of Agriculture	100,000	-
University of MD Center for Environmental Science	90,760	197,635
Anacostia Watershed Society	59,430	-
Smithsonian Environmental Research Center	41,931	-
Adkins Arboretum	30,000	-
Maryland Department of Natural Resources	25,000	15,535
Metropolitan Washington Council of Governments	-	67,500
Living Classrooms of the National Capital Region	-	25,000
Harry R. Hughes Center for Agro Ecology	-	14,300
National Wildlife Federation	-	13,771
Neighborhood Design Center	-	5,000

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 - Temporarily restricted net assets

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

	<u>2012</u>	<u>2011</u>
Capacity building grants	\$ 261,150	\$ 24,250
Agriculture grants	47,910	87,591
CBFN management	23,122	25,866
Chesapeake Conservation Corps	15,000	-
Private grants	12,319	12,319
Stewardship grants	10,000	20,000
Stormwater grants	9,049	21,549
Watershed assistance grants	2,500	-
FOI restoration	50	50
	<u>\$ 381,100</u>	<u>\$ 191,625</u>

The Chesapeake Bay Trust  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

Note 14 - Board Designated Operating Reserve

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

Note 15 – Restatements

Subsequent to the issuance of its 2011 financial statements, management was notified by the Maryland Vehicle Administration (MVA) that they had overpaid the Trust for Chesapeake Bay commemorative license plate registrations and renewals by a total of \$438,063. The Trust was required to refund this amount to the MVA and as a result, the Trust has restated its 2011 financial statements as explained below.

The correction of this overpayment resulted in the following restatements:

	<u>As Previously Reported</u>	<u>Restatement Adjustments</u>	<u>As Restated</u>
Net assets at July 1, 2010	\$ 8,893,913	\$ (122,085)	\$ 8,771,828
Change in net assets for the year ended June 30, 2011	<u>197,651</u>	<u>(315,978)</u>	<u>(118,327)</u>
Net assets at June 30, 2011	<u>\$ 9,091,564</u>	<u>\$ (438,063)</u>	<u>\$ 8,653,501</u>



The Chesapeake Bay Trust  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2012

Note 16 – Commitments

At June 30, 2012, the Trust has conditionally awarded approximately \$2,850,000 of grants to organizations. These organizations must meet certain criteria to receive the awarded grant funding.

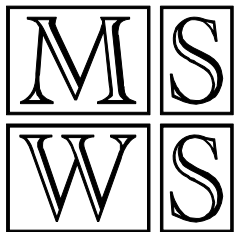
Note 17 – Subsequent Events

Subsequent events and transactions have been evaluated for potential recognition in the financial statements through October 18, 2012, the day the financial statements were available to be issued.

The Chesapeake Bay Trust  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
Year Ended June 30, 2012

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	\$ 56,700
ARRA Water Quality State Revolving Fund (WQSRF) Maryland Department of the Environment	66.458	Living Shoreline Grant	209,446
Green Jobs initiative Maryland Department of the Environment	U00P1400932	Green Streets Grant	137,000
Environmental Education	66.951	Capacity Building	948
Watershed Assistance Grant Program Maryland Department of Natural Resources	66.466	14-09-1314-CBG-4192	166,000
U.S. Department of Commerce			
National Oceanic & Atmospheric Administration	11.463	Habitat Conservation	247,862
National Oceanic & Atmospheric Administration	11.454	Unallied Science Program	95,329
U.S. Department of Interior			
U.S. Fish and Wildlife Service	15.630	Chesapeake Bay Strategic Planning and Implementation	33,596
U.S. Department of Agriculture			
U.S. Department of Labor		Green Jobs (2010)	<u>43,900</u>
			<u>\$ 990,781</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

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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  
The Chesapeake Bay Trust  
Annapolis, Maryland

We have audited the financial statements of the Chesapeake Bay Trust as of and for the year ended June 30, 2012, and have issued our report thereon dated October 18, 2012. 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 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 the Chesapeake Bay 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 Directors of  
The Chesapeake Bay Trust  
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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*.

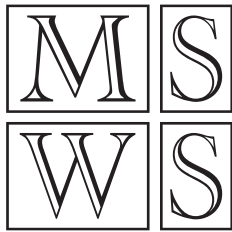
We noted certain other matters that we reported to management of the Chesapeake Bay Trust in a separate letter dated October 18, 2012.

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 18, 2012



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

2553 Housley Road • Suite 200 • Annapolis, Maryland 21401

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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  
The Chesapeake Bay Trust  
Annapolis, Maryland

Compliance

We have audited the financial statements of the Chesapeake Bay Trust'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 the Chesapeake Bay Trust's major federal programs for the year ended June 30, 2012. The Chesapeake Bay Trust's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Chesapeake Bay Trust's management. Our responsibility is to express an opinion on the Chesapeake Bay Trust'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 the Chesapeake Bay Trust's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Chesapeake Bay Trust's compliance with those requirements.

In our opinion, the Chesapeake Bay Trust 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, 2012.


Internal Control over Compliance

Management of the Chesapeake Bay Trust 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 the Chesapeake Bay Trust'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 the Chesapeake Bay Trust's internal control over compliance.

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

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 18, 2012

The Chesapeake Bay Trust  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2012

**SUMMARY OF AUDIT RESULTS:**

1. The auditor's report expresses an unqualified opinion on the financial statements of the Chesapeake Bay Trust
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 the Chesapeake Bay Trust 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, EPA Clean Water State Revolving Funds – CFDA # 66.458 and NOAA Environmental Education for the Bay – CFDA # 11.454.
8. The threshold used for distinguishing between Type A and Type B programs was \$300,000.
9. The Chesapeake Bay Trust qualified as a low-risk auditee.

**FINDINGS – FINANCIAL STATEMENT AUDIT:**

None

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT:**

None