



**CHESAPEAKE BAY TRUST**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**JUNE 30, 2017 AND 2016**

## TABLE OF CONTENTS

	<u>Page Numbers</u>
Independent Auditor's Report.....	1-2
Statements of Financial Position .....	3
Statements of Activities .....	4-5
Statements of Cash Flows .....	6
Notes to Financial Statements .....	7-17
Supplementary Information:	
Schedule of Expenditures of Federal Awards .....	18
Notes to Schedule of Expenditures of Federal Awards .....	19
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	20-21
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance .....	22-23
Schedule of Findings and Questioned Costs .....	24-25

## **Independent Auditor's Report**

To the Board of Trustees  
Chesapeake Bay Trust

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Chesapeake Bay Trust (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### Independent Auditor's Report (Continued)

#### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chesapeake Bay Trust as of June 30, 2017, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Other Matters**

##### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis 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.

#### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2017, on our consideration of Chesapeake Bay Trust's internal control over financial reporting and on 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* in considering Chesapeake Bay Trust's internal control over financial reporting and compliance.

#### **Prior Period Financial Statements**

The financial statements of Chesapeake Bay Trust as of June 30, 2016 were audited by other auditors whose report dated November 30, 2016 expressed an unmodified opinion on those statements.

*Gross, Mendelsohn & Associates, P.A.*

Baltimore, Maryland  
November 29, 2017

**CHESAPEAKE BAY TRUST**  
**Statements of Financial Position**  
**June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 1,839,856	\$ 68,955
Federal, state and local grants and contracts receivable	2,362,820	1,931,244
Contributions receivable	499,097	900,764
Interest receivable	23,456	18,790
Other receivables	-	2,292
Investments	8,285,733	9,570,117
Prepaid expenses	37,244	31,107
Total Current Assets	<u>13,048,206</u>	<u>12,523,269</u>
<b>Non-Current Assets</b>		
Property and equipment, net of accumulated depreciation	<u>43,689</u>	<u>28,714</u>
<b>Total Assets</b>	<u><u>\$ 13,091,895</u></u>	<u><u>\$ 12,551,983</u></u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 359,756	\$ 172,018
Salaries and benefits payable	124,225	120,225
Deferred revenue	1,654,464	827,229
Deferred rent	838	5,432
Total Current Liabilities	<u>2,139,283</u>	<u>1,124,904</u>
<b>Non-Current Liabilities</b>		
Deferred revenue	<u>96,259</u>	<u>761,126</u>
<b>Total Liabilities</b>	<u>2,235,542</u>	<u>1,886,030</u>
<b>Commitments and Contingencies (Notes 10, 12 and 13)</b>		
<b>Net Assets</b>		
Unrestricted		
Undesignated	3,285,197	2,939,634
Board designated reserve	5,000,000	5,000,000
Designated approved contracts and awarded grants	<u>2,138,256</u>	<u>2,149,081</u>
Total Unrestricted	<u>10,423,453</u>	<u>10,088,715</u>
Temporarily restricted	<u>432,900</u>	<u>577,238</u>
Total Net Assets	<u>10,856,353</u>	<u>10,665,953</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 13,091,895</u></u>	<u><u>\$ 12,551,983</u></u>

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

**CHESAPEAKE BAY TRUST**  
**Statements of Activities**  
**For the Years Ended June 30, 2017 and 2016**

	<b>2017</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>Revenue, Support and Gains</b>			
Federal, state and local grants and contracts	\$ 7,597,210	\$ -	\$ 7,597,210
Contributions			
Chesapeake Bay license plate	3,544,505	-	3,544,505
State tax check-off	294,421	-	294,421
Other	258,708	273,207	531,915
Special events	105,137	-	105,137
Investment income	263,496	-	263,496
Net assets released from restrictions:			
Satisfaction of program restrictions	417,545	(417,545)	-
Total Revenue, Support and Gains	<u>12,481,022</u>	<u>(144,338)</u>	<u>12,336,684</u>
<b>Expenses</b>			
Program services			
Restoration program	6,900,934	-	6,900,934
Community Stewardship program	2,557,707	-	2,557,707
Environmental Education program	685,601	-	685,601
Program management	1,016,782	-	1,016,782
Total Program Services	<u>11,161,024</u>	<u>-</u>	<u>11,161,024</u>
Supporting services			
Management and general	538,396	-	538,396
Fundraising	446,864	-	446,864
Total Supporting Services	<u>985,260</u>	<u>-</u>	<u>985,260</u>
Total Expenses	<u>12,146,284</u>	<u>-</u>	<u>12,146,284</u>
<b>Change in Net Assets</b>	<b>334,738</b>	<b>(144,338)</b>	<b>190,400</b>
<b>Net Assets at Beginning of Year</b>	<b>10,088,715</b>	<b>577,238</b>	<b>10,665,953</b>
<b>Net Assets at End of Year</b>	<b><u>\$ 10,423,453</u></b>	<b><u>\$ 432,900</u></b>	<b><u>\$ 10,856,353</u></b>

**CHESAPEAKE BAY TRUST**  
**Statements of Activities (Continued)**  
**For the Years Ended June 30, 2017 and 2016**

	<b>2016</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>Revenue, Support and Gains</b>			
Federal, state and local grants and contracts	\$ 5,952,858	\$ -	\$ 5,952,858
Contributions			
Chesapeake Bay license plate	3,646,504	-	3,646,504
State tax check-off	310,578	-	310,578
Other	285,672	204,135	489,807
Special events	89,643	5,000	94,643
Investment income	288,800	-	288,800
Net assets released from restrictions:			
Satisfaction of program restrictions	187,276	(187,276)	-
<b>Total Revenue, Support and Gains</b>	<b>10,761,331</b>	<b>21,859</b>	<b>10,783,190</b>
<b>Expenses</b>			
Program services			
Restoration program	5,124,320	-	5,124,320
Community Stewardship program	1,892,962	-	1,892,962
Environmental Education program	758,684	-	758,684
Program management	1,166,904	-	1,166,904
<b>Total Program Services</b>	<b>8,942,870</b>	<b>-</b>	<b>8,942,870</b>
Supporting services			
Management and general	375,679	-	375,679
Fundraising	440,233	-	440,233
<b>Total Supporting Services</b>	<b>815,912</b>	<b>-</b>	<b>815,912</b>
<b>Total Expenses</b>	<b>9,758,782</b>	<b>-</b>	<b>9,758,782</b>
<b>Change in Net Assets</b>	<b>1,002,549</b>	<b>21,859</b>	<b>1,024,408</b>
<b>Net Assets at Beginning of Year</b>	<b>9,086,166</b>	<b>555,379</b>	<b>9,641,545</b>
<b>Net Assets at End of Year</b>	<b>\$ 10,088,715</b>	<b>\$ 577,238</b>	<b>\$ 10,665,953</b>

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

**CHESAPEAKE BAY TRUST**  
**Statements of Cash Flows**  
**Years Ended June 30, 2017 and 2016**

	<u>2017</u>	<u>2016</u>
<b>Cash Flows From Operating Activities</b>		
Change in net assets	\$ 190,400	\$ 1,024,408
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	10,605	11,833
Unrealized gain on investments	(138,372)	(99,582)
Realized loss (gain) on investments	57,078	(29,756)
Changes in operating assets and liabilities:		
Federal, state and local grants and contracts receivable	(431,576)	(635,141)
Contributions receivable	401,667	190,045
Interest receivable	(4,666)	6,558
Other receivables	2,292	(1,828)
Prepaid expenses	(6,137)	(11,098)
Accounts payable and accrued expenses	187,738	63,580
Salaries and benefits payable	4,000	(24,499)
Deferred revenue	162,368	692,624
Deferred rent	(4,594)	(2,020)
Net Cash Provided by Operating Activities	<u>430,803</u>	<u>1,185,124</u>
<b>Cash Flows From Investing Activities</b>		
Purchase of property and equipment	(25,580)	(8,321)
Purchase of investments	(4,009,911)	(7,972,375)
Proceeds from sale of investments	5,375,589	6,014,525
Net Cash Provided by (Used in) Investing Activities	<u>1,340,098</u>	<u>(1,966,171)</u>
<b>Net Increase (Decrease) in Cash</b>	<b>1,770,901</b>	<b>(781,047)</b>
<b>Cash - Beginning of Year</b>	<u>68,955</u>	<u>850,002</u>
<b>Cash - End of Year</b>	<u>\$ 1,839,856</u>	<u>\$ 68,955</u>

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



**CHESAPEAKE BAY TRUST**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

**Note 1: Nature of Organization**

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 State). The Trust was organized for the general benefit of the residents 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.

The Trust is a grant-making organization dedicated to improving the Chesapeake Bay and its rivers through three major programs:

Restoration: encouraging outreach and community engagement activities that increase stewardship ethic of natural resources and on-the-ground restoration activities that demonstrate techniques and engaging residents in the restoration and protection of the Chesapeake Bay and its rivers.

Community Stewardship: increasing public awareness and involvement in activities that restore and promote Maryland's natural resources.

Environmental Education: striving to advance kindergarten through twelfth grade environmental education through experimental learning, outdoor experiences and curriculum development.

The Trust's support comes primarily from the following sources: proceeds from the State from the sale and renewal of Chesapeake Bay license plates; a Maryland state income tax check-off; and federal, state and local grants and contributions.

**Note 2: Summary of Significant Accounting Policies**

The accounting and reporting policies of the Trust conform to accounting principles generally accepted in the United States of America (GAAP). Following is a description of the most significant of those policies:

Basis of Accounting: The financial statements are prepared on the accrual basis of accounting in accordance with GAAP for not-for-profit organizations.

Use of Estimates: The preparation of financial statements in conformity with GAAP 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 revenue and expenses during the reporting period. Management evaluates the estimates and assumptions based upon historical experience and various other factors and circumstances. Management believes that the estimates and assumptions are reasonable under the circumstances; however the actual results could differ from those estimates.

Cash and Cash Equivalents: The Trust classifies certain investments which are readily convertible to cash and which have a maturity date of three months or less when purchased as cash and cash equivalents. Cash and cash equivalents designated and held for investment purposes are included in investments and are not considered cash and cash equivalents for cash flow purposes.

**CHESAPEAKE BAY TRUST**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

**Note 2: Summary of Significant Accounting Policies (Continued)**

Federal, State and Local Grants and Contracts Receivable: Federal, state and local grants and contracts receivable represents amounts due from grantors on cost reimbursement grants and contracts. All grants and contracts receivable are considered fully collectible at June 30, 2017 and 2016.

Contributions Receivable: Contributions receivable are unconditional promises to give that are recorded as contributions when the promise is received. The allowance for uncollectible contributions receivable is determined based on management's evaluation of the collectability of individual promises. As of June 30, 2017 and 2016, no allowance for uncollectible contributions receivable has been established as management believes that all contributions receivable will be collected within one year of the statement of financial position date.

Investments: Investments with readily determinable fair values are reported at fair value in the statements of financial position. Investments, whose fair values are not readily determinable, are recorded at cost. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Realized and unrealized gains and losses on investments for the year are reported in the statements of activities as part of investment income.

Property and Equipment: Property and equipment is stated at cost or, if donated, at fair market value at the date of the gift, less accumulated depreciation. Expenditures for maintenance and routine repairs are charged to expense as incurred; expenditures for improvements and major repairs that materially extend the useful lives of fixed assets are capitalized. It is the Trust's policy to capitalize all property acquisitions in excess of \$1,000 having useful lives of more than one year. Depreciation is computed using the straight-line method, with half-year depreciation in the year of acquisition, over the estimated useful lives of the assets as follows:

Leasehold improvements	15 years
Furniture and equipment	5-7 years

Deferred Revenue: Deferred revenue represents funds received in advance under cost-reimbursement grants and contracts. Funds received in advance are deferred to the applicable period in which the expenditures are incurred or the related services are performed, respectively.

Deferred Rent: The Trust leases office space, as described in Note 10, which require lease payment provisions with fixed annual increases. In accordance with GAAP, the total rent commitment is to be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is recorded as deferred rent.

**CHESAPEAKE BAY TRUST**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

**Note 2: Summary of Significant Accounting Policies (Continued)**

Net Assets: Net assets and changes in net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Unrestricted net assets are resources available to support general operations. Unrestricted board designated net assets consist of net assets designated by the Board of Trustees to provide income for the Trust, to promote the financial stability and sustainability of the Trust and to assist the Trust in fulfilling its mission.

Temporarily restricted net assets are resources that are restricted by a donor for use for a particular purpose or in a particular future period. Support that is restricted by a donor is classified 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 classified as an increase in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently restricted net assets are resources whose use by the Trust is limited by donor-imposed restrictions that neither expire by being used in accordance with a donor's restriction nor by the passage of time. There are no permanently restricted net assets.

Revenue Recognition: Revenue is recognized when earned. Grants and contracts revenue is recognized when the qualifying costs are incurred for cost reimbursement grants or when the service is provided for contracts.

Contributions: Contributions, including unconditional promises to give, are recognized when received. Contribution received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

In-Kind Contributions: Contributed goods are recorded at fair value at the date of donation. Donated professional services are recorded at the respective fair values of the services received. No significant contributions of such goods and services were received during the years ended June 30, 2017 and 2016. The Trust benefits from personal services provided by a substantial number of unpaid volunteers. Those volunteers have donated significant amounts of time and services to the Trust. However, the services provided do not meet the criteria for recognition in the financial statements. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by individuals with those skills, and would otherwise be purchased by the Trust.

**CHESAPEAKE BAY TRUST**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

**Note 2: Summary of Significant Accounting Policies (Continued)**

Advertising: Advertising costs are charged to operations when incurred. The Trust had no significant direct-response advertising. Advertising expense for the years ended June 30, 2017 and 2016 totaled \$109,411 and \$133,066, respectively.

Allocation of Functional Expenses: The costs of providing various program and other activities have been summarized on a functional allocation basis in the statements of activities. Management and general expenses include those expenses that are not directly identifiable with any other specific function but that provide for the overall support and mission of the Trust.

Income Taxes: The Trust has been recognized by the Internal Revenue Service (IRS) as a tax-exempt organization, as defined by Section 501(c)(3) of the Internal Revenue Code (IRC), that is publicly supported and, therefore, not a private foundation. Income that is not related to exempt purposes, less applicable deductions, is subject to federal and state income taxes. The Trust had no unrelated business income for the year ended June 30, 2017 and 2016. Accordingly, no provision for income taxes is reflected in these statements.

The Trust's federal exempt organization tax returns are subject to examination by the IRS, generally for a period of three years after the returns are filed.

Reclassifications: Certain amounts previously reported in the financial statements for the year ended June 30, 2016 have been reclassified to conform to the financial statement presentation for the year ended June 30, 2017.

**Note 3: Contributions Receivable**

Contributions receivable consisted of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Chesapeake Bay license plate revenue receivable	\$ 334,640	\$ 654,740
Tax check-off revenue receivable	164,409	243,524
Promises to give	48	2,500
	<u>\$ 499,097</u>	<u>\$ 900,764</u>

**CHESAPEAKE BAY TRUST**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

**Note 4: Investments**

A summary of the investment portfolio at June 30, 2017 and 2016 is as follows:

	2017		2016	
	Fair Value	Cost	Fair Value	Cost
Mutual funds, equities	\$ 2,104,977	\$ 1,866,418	\$ 589,852	\$ 577,639
U.S. Treasury obligations	2,073,594	2,103,891	1,996,655	1,931,437
Corporate obligations	1,809,985	1,867,256	1,880,857	1,907,013
Exchange traded funds	1,192,564	1,140,637	-	-
Municipal bonds	578,375	579,453	-	-
Mutual funds, bonds	312,780	315,940	3,831,914	3,832,766
Money market funds	194,256	194,256	1,232,459	1,232,459
U.S. Government agency bonds	19,202	16,845	38,380	34,808
	<u>\$ 8,285,733</u>	<u>\$ 8,084,696</u>	<u>\$ 9,570,117</u>	<u>\$ 9,516,122</u>

Investment income for the years ended June 30, 2017 and 2016 consisted of the following:

	2017	2016
Interest income	\$ 182,202	\$ 159,462
Realized (loss) gain on investments	(57,078)	29,756
Unrealized gain on investments	138,372	99,582
	<u>\$ 263,496</u>	<u>\$ 288,800</u>

**Note 5: Fair Value Measurement**

GAAP establishes a framework for measuring fair value. The framework provides 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 are as follows:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

**CHESAPEAKE BAY TRUST**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

**Note 5: Fair Value Measurement (Continued)**

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs. The valuation techniques used by the Trust include the following:

Money Market Funds: Valued at original cost, which equals fair value.

Mutual Funds and Exchange Traded Funds: Mutual funds are valued at the last sales price reported in the active market in which the individual fund is traded. Exchange traded funds are valued at the time of bid.

U.S. Treasury Obligations, U.S. Government Agency Bonds, Municipal Bonds and Corporate Obligations: Valued using inputs such as benchmark yields, reported trades, broker/dealer quotes and issuer spreads.

In determining the appropriate levels, the Trust performs a detailed analysis of the assets and liabilities that are subject to fair value measurements.

The tables below represent the assets measured at fair value on a recurring basis by level within the hierarchy, as of June 30, 2017 and 2016:

	Total	Level 1	Level 2	Level 3
<u>June 30, 2017</u>				
Mutual funds, equities	\$ 2,104,977	\$ 2,104,977	\$ -	\$ -
U.S. Treasury obligations	2,073,594	-	2,073,594	-
Corporate obligations	1,809,985	-	1,809,985	-
Exchange traded funds	1,192,564	1,192,564	-	-
Municipal bonds	578,375	-	578,375	-
Mutual funds, bonds	312,780	312,780	-	-
Money market funds	194,256	194,256	-	-
U.S. Government agency bonds	19,202	-	19,202	-
	<u>\$ 8,285,733</u>	<u>\$ 3,804,577</u>	<u>\$ 4,481,156</u>	<u>\$ -</u>
<u>June 30, 2016</u>				
Mutual funds, equities	\$ 589,852	\$ 589,852	\$ -	\$ -
U.S. Treasury obligations	1,996,655	-	1,996,655	-
Corporate obligations	1,880,857	-	1,880,857	-
Mutual funds, bonds	3,831,914	3,831,914	-	-
Money market funds	1,232,459	1,232,459	-	-
U.S. Government agency bonds	38,380	-	38,380	-
	<u>\$ 9,570,117</u>	<u>\$ 5,654,225</u>	<u>\$ 3,915,892</u>	<u>\$ -</u>

**CHESAPEAKE BAY TRUST**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

**Note 6: Property and Equipment**

Property and equipment consisted of the following:

	2017	2016
Leasehold improvements	\$ 40,167	\$ 40,167
Furniture and equipment	108,723	83,143
	148,890	123,310
Less accumulated depreciation	(105,201)	(94,596)
	\$ 43,689	\$ 28,714

Depreciation expense for the years ended June 30, 2017 and 2016 was \$10,605 and \$11,833, respectively.

**Note 7: Compensated Absences**

Employees accumulate leave based on years of service. Upon termination, employees are reimbursed for annual leave, holiday and compensatory leave. Employees may be entitled to reimbursement of annual leave up to a maximum of 280 hours plus any annual leave earned and unused in the year up to the date of separation. Employees may also be entitled to reimbursement of compensatory leave up to a maximum of 16 hours. Any remaining hours over the stipulated maximum will be forfeited. As of June 30, 2017 and 2016, accrued compensated absences were \$87,152 and \$70,507, respectively, and are included in salaries and benefits payable on the statements of financial position. See Note 11 for the Inter-Agency Agreement.

**Note 8: Net Assets**

Board Designated Net Assets: The Trust's Board of Trustees has established a designated 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, community stewardship 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 designated and is used by the Trust to fund annual operating expenses.

The Board of Trustees and management have also designated net assets for approved contracts and awarded grants. At June 30, 2017 and 2016, amounts designated were \$2,138,256 and \$2,149,081, respectively.

**CHESAPEAKE BAY TRUST**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

**Note 8: Net Assets (Continued)**

Temporarily Restricted Net Assets: The Trust has several temporarily restricted funds, which may be fully expendable but only for the purpose established by the respective donors. Temporarily restricted net assets were available for the following purposes as of June 30, 2017 and 2016:

	2016	Current Year Activity		2017
		Released From		
		Contributions	Restrictions	
Community stewardship program	\$ 546,738	\$ 270,707	\$ (412,045)	\$ 405,400
Environmental education	-	2,500	-	2,500
Restoration program	3,000	-	(3,000)	-
Other programs	25,000	-	-	25,000
Time restrictions	2,500	-	(2,500)	-
	<u>\$ 577,238</u>	<u>\$ 273,207</u>	<u>\$ (417,545)</u>	<u>\$ 432,900</u>
	2015	Prior Year Activity		2016
		Released From		
		Contributions	Restrictions	
Community stewardship program	\$ 482,379	\$ 204,135	\$ (139,776)	\$ 546,738
Restoration program	3,000	-	-	3,000
Other programs	20,000	5,000	-	25,000
Time restrictions	50,000	-	(47,500)	2,500
	<u>\$ 555,379</u>	<u>\$ 209,135</u>	<u>\$ (187,276)</u>	<u>\$ 577,238</u>

**Note 9: Maryland State Income Tax Check-Off and Chesapeake Bay License Plate Contributions**

Maryland taxpayers can elect to make charitable contributions with the filing of their State income returns. Such contributions are distributed equally between the Trust and the Wildlife and Heritage Division of Maryland Department of Natural Resources. Contributions allocated to the Trust under this program amounted to \$294,421 and \$310,578 for the years ended June 30, 2017 and 2016, respectively. This program continues through the upcoming fiscal year.

Residents of the State may also purchase the Chesapeake Bay commemorative license plates for their vehicle for a total amount of \$20, of which \$10 goes directly to the Trust. Contributions allocated to the Trust under this program amounted to \$464,695 and \$556,907 for the years ended June 30, 2017 and 2016, respectively. The Trust also receives the renewal fees collected by the Maryland Vehicle Administration when the Chesapeake Bay commemorative license plates are renewed. The Trust received \$3,079,810 and \$3,089,597 in plate renewal fees for the years ended June 30, 2017 and 2016, respectively.



**CHESAPEAKE BAY TRUST**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

**Note 10: Lease Commitment**

The Trust leases office and parking space under a cancelable lease which currently expires on August 31, 2018. Basic annual rent is increased annually by 3%. The Trust also incurs \$140 per month per employee for parking. The lease can be terminated with a 90 days written notice to the landlord subject to a termination fee as defined in the lease agreement. Future minimum annual lease payments for each of the fiscal years subsequent to June 30, 2017 are as follows:

Year ending June 30,	
2018	\$ 91,037
2019	<u>15,247</u>
Total	<u>\$ 106,284</u>

Total rent expense under this lease for the years ended June 30, 2017 and 2016 was \$107,856 and \$106,576, respectively.

**Note 11: Inter-Agency Agreement**

The Trust entered into an Inter-Agency Agreement with the Maryland Environmental Services (MES) whereby MES hires employees, who are assigned to the Trust, to provide administrative and management services. Under this agreement, the Trust has agreed to fully reimburse MES for all salaries, benefits and other employee related costs associated with providing these employees. This agreement can be terminated by either party at any time upon a thirty day written notice.

**Note 12: Retirement Plan**

As part of the Inter-Agency Agreement, the employees assigned to the Trust participate in the MES 401(k) retirement plan (the Plan). Under the terms of the Plan, employees are eligible to participate in the Plan upon hire if they are a full-time or part-time employee working at least 1,000 hours per year, as defined in the MES employee handbook. Participating employees may elect to contribute pre-tax dollars into the plan not to exceed the maximum contribution allowable under applicable provisions of the IRC. Employees are automatically enrolled in the plan with a minimum 3% employee deferral that increases 1% annually until a maximum of 6% is reached. Employees can change or opt out of the automatic increase at any time. The Trust makes matching employer contributions to the Plan for participating employees equal to a minimum of 3% of gross payroll earnings with a maximum up to 6% depending on each employee's deferral percentage. Total retirement expense for the years ended June 30, 2017 and 2016 was \$53,843 and \$69,249, respectively.

**Note 13: Contract and Grant Commitments**

At June 30, 2017 and 2016, the Trust has conditionally awarded contracts and grants to organizations in the amounts of \$10,778,785 and \$9,910,904, respectively. These organizations must meet certain criteria to receive the awarded grant and/or contract funding.

**CHESAPEAKE BAY TRUST**  
**Notes to Financial Statements**  
**June 30, 2017 and 2016**

**Note 14: Related Party Transactions**

The Trust awarded several grants or contracts during the years ended June 30, 2017 and 2016 to organizations related to the Trust, primarily through common board membership. A trustee who has an actual or potential conflict of interest with respect to a proposed action or transaction of the Trust is not present during deliberations and does not participate in the 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 concluding that it is in the best interest of the Trust.

Grants and contracts paid to related parties during the years ended June 30, 2017 and 2016 are as follows:

	2017	2016
Scenic Rivers Land Trust, Inc.	\$ 505,065	\$ -
Anacostia Watershed Society	481,000	17,699
South River Federation	259,077	345,479
Alliance for the Chesapeake Bay	250,470	239,747
City of Cambridge	249,560	100,000
University of Maryland Center for Environmental Science	187,628	219,713
Midshore Riverkeeper Conservancy	187,450	57,969
Blue Water Baltimore	150,750	58,300
Chesapeake Bay Foundation	84,281	-
The Low Impact Development Center	77,471	78,824
Talbot County Department of Finance	67,500	52,650
National Aquarium in Baltimore	64,520	32,750
Harford County Soil & Conservation District	51,640	63,810
Anacostia Waterfront Trust	48,200	5,000
West/Rhode Riverkeeper	48,000	14,869
Straughan Environmental	34,880	51,018
Annapolis Roads Property Owner	23,854	-
Waterkeepers Chesapeake	18,186	-
Wicomico County	9,430	33,566
Sassafras River Association	7,490	67,500
Spa Creek Conservancy	7,307	79,528
Maryland Coastal Bays Program	6,975	64,030
The Nature Conservancy	5,518	34,785
Howard County - Director of Finance	2,889	32,995
Maryland Department of Natural Resources	2,245	16,693
Calvert County Public Schools	1,763	3,450
HeimLantz	150	-
University of Maryland College Park Foundation	-	117,293
University of Maryland, College Park	-	97,425
Baltimore City Public Schools	-	75,915
Maryland Therapeutic Riding	-	67,500
Baltimore Tree Trust	-	53,552
Anacostia Riverkeeper	-	41,554
Audubon Naturalist Society of Central Atlantic	-	31,500
Pickering Creek Audubon Center	-	29,489
Living Classrooms Foundation	-	25,664
Harford County, Maryland	-	25,000
Chesapeake Conservation Corps	-	18,649
Audubon Naturalist Society	-	18,431
Environmental Law Institute	-	18,000
National Wildlife Foundation	-	16,467
Chester River Association	-	8,360
Salisbury University	-	8,096
Lower Shore Land Trust	-	6,985
Friends of Jug Bay Wetland	-	4,815
St. Mark School	-	3,550
Carroll County Government	-	3,065
	<u>\$ 2,833,299</u>	<u>\$ 2,341,685</u>
Total		

**CHESAPEAKE BAY TRUST**  
**Notes to Financial Statements**  
**June 30, 2016 and 2015**

**Note 15: Certain Significant Risks and Uncertainties**

Concentration of Credit Risk: The Trust maintains its cash balances at various financial institutions. Periodically during the year, the Trust's cash balances may exceed federally insured limits. The Trust has not experienced any losses in such accounts and believes it is not exposed to significant risk on cash balances.

Investments: The Trust invests in a professionally managed portfolio that may contain U.S. Treasury obligations, U.S. Government agency bonds, corporate obligations, mutual funds and other investments. Such investments are exposed to various risks such as interest rate, market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risks in the near term could materially affect investment balances and the amounts reported in the financial statements.

**Note 16: Subsequent Events**

In preparing these financial statements, the Trust has evaluated events and transactions for the potential recognition or disclosure through November 29, 2017, the date the financial statements were available to be issued. During the period from July 1, 2017 through November 29, 2017, the Trust did not have any material recognizable subsequent events.

**CHESAPEAKE BAY TRUST**  
**SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2017**

**CHESAPEAKE BAY TRUST**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2017**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Number/ Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures (Allowable)
<b>U.S. Department of Agriculture</b>				
Forest Service Urban and Community Forestry Program	10.675	10-DG-11420004-135	\$ 6,226	<u>\$ 6,226</u>
<b>U.S. Department of Commerce</b>				
National Oceanic & Atmospheric Administration (NOAA) Unallied Management Projects	11.454	NA12NMF4540218	167,557	<u>204,468</u>
<b>U.S. Department of the Interior</b>				
Fish and Wildlife Service Partners for Fish and Wildlife	15.631	F15AC01034 & F16AC01223		19,689
National Park Service Conservation Activities by Youth Service Organizations	15.931	P15AC00032, P15AC00851 & P16AC01498		<u>43,743</u>
<b>Total U.S. Department of the Interior</b>				<u>63,432</u>
<b>U.S. Environmental Protection Agency</b>				
Office of Water Chesapeake Bay Program	66.466	CB-96341401		776,270
Passed through National Fish and Wildlife Foundation Chesapeake Bay Program	66.466	0600.11.030409		135,465
Passed through Maryland Department of Natural Resources Chesapeake Bay Program	66.466	*	1,270,905	<u>1,322,963</u>
<b>Total U.S. Environmental Protection Agency</b>				<u>2,234,698</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 1,444,688</u>	<u>\$ 2,508,824</u>

\* Pass-through entity - Maryland Department of Natural Resources. Grant numbers:

- 14-15-1964 GBG 14201
- 14-13-1630-CBG 14201
- 14-14-1790-CBG-14201
- 14-15-1943 CBG 14201
- 14-16-2069-CBG-6601
- 14-17-2186-CBG-6601
- 14-14-1864-CBG-14201
- 14-15-1946-CBG-14201
- 14-16-2072-CBG-6601
- 14-17-2188-CBG-6601

See accompanying notes to Schedule of Expenditures of Federal Awards.

**CHESEAPEAKE BAY TRUST**  
**Notes to Schedule of Expenditures of Federal Awards**  
**June 30, 2017**

**Note A: Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant award activity of Chesapeake Bay Trust under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Chesapeake Bay Trust, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Chesapeake Bay Trust.

**Note B: Summary of Significant Accounting Policies**

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

**Note C: Indirect Cost Rate**

Chesapeake Bay Trust has elected to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

**Independent Auditor's 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

We have audited, in accordance with the 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, the financial statements of Chesapeake Bay Trust, (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report dated November 29, 2017.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Chesapeake Bay Trust's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of Chesapeake Bay Trust's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Independent Auditor's 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 (Continued)**

**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*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Gross, Mendelsohn & Associates, P.A.*

Baltimore, Maryland  
November 29, 2017



**Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by The Uniform Guidance**

To the Board of Trustees  
Chesapeake Bay Trust

**Report on Compliance for Each Major Federal Program**

We have audited Chesapeake Bay Trust's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Chesapeake Bay Trust's major federal programs for the year ended June 30, 2017. 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.

**Management's Responsibility**

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to its federal programs.

**Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Chesapeake Bay Trust's major federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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'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 on compliance for each major federal program. However, our audit does not provide a legal determination of Chesapeake Bay Trust's compliance.

**Opinion on Each Major Federal Program**

In our opinion, Chesapeake Bay Trust complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

**Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by The Uniform Guidance (Continued)**

**Report on Internal Control Over Compliance**

Management of Chesapeake Bay Trust is responsible for establishing and maintaining effective internal control over the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Chesapeake Bay Trust's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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'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. A *significant deficiency in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Gross, Mendelson & Associates, P.A.*

Baltimore, Maryland  
November 29, 2017

**CHESAPEAKE BAY TRUST**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2017**

**Summary of Auditor's Results**

1. The auditor's report expresses an unmodified opinion on the financial statements of Chesapeake Bay Trust.
2. No significant deficiencies or material weaknesses relating to the audit of the financial statements are reported in the Independent Auditor's 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*.
3. No instances of noncompliance material to the financial statements of Chesapeake Bay Trust which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies or material weaknesses related to internal control over major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for Chesapeake Bay Trust expresses an unmodified opinion of all major federal award programs.
6. There are no audit findings that are required to be reported in accordance with 2 CFR section 200.516(a).
7. The program tested as a major program was the U.S. Environmental Protection Agency Chesapeake Bay Program (CFDA #66.466).
8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. Chesapeake Bay Trust qualified as a low-risk auditee as defined by the Uniform Guidance.

**CHESAPEAKE BAY TRUST**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2017**

**Findings – Financial Statement Audit**

None.

**Findings and Questioned Costs – Major Federal Award Program Audit**

None.

**Summary Schedule of Prior Audit Findings**

None.

