

**CHESAPEAKE BAY TRUST
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
JUNE 30, 2021 AND 2020**

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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, 2021 and 2020, and the related statements of activities, functional expenses 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the 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, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audits were 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 October 28, 2021, 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 solely 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 the effectiveness of Chesapeake Bay Trust's 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.

Gross, Mendelson & Associates, P. A.

Baltimore, Maryland
October 28, 2021

CHESAPEAKE BAY TRUST
Statements of Financial Position
June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 4,159,171	\$ 707,713
Federal, state and local grants and awards receivable	1,997,734	2,285,856
Contributions receivable, net (current)	1,252,729	535,092
Interest receivable	15,986	18,889
Income taxes receivable	9,483	11,099
Other receivables	32,888	31,512
Investments, current	10,803,769	12,809,325
Prepaid expenses	48,992	54,880
Total Current Assets	<u>18,320,752</u>	<u>16,454,366</u>
Non-Current Assets		
Property and equipment, net of accumulated depreciation	<u>3,098,182</u>	3,146,003
Other Assets		
Investments, non-current	287,323	4,750
Contributions receivable, net (non-current)	124,081	7,478
Total Other Assets	<u>411,404</u>	<u>12,228</u>
Total Assets	<u><u>\$ 21,830,338</u></u>	<u><u>\$ 19,612,597</u></u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable and accrued expenses	\$ 454,093	\$ 885,047
Salaries and benefits payable	263,333	227,235
Deferred revenue	2,203,285	2,489,954
Current maturities of long-term debt	79,843	69,474
Total Current Liabilities	<u>3,000,554</u>	<u>3,671,710</u>
Non-Current Liabilities		
Deferred revenue	913,971	862,329
Mortgage payable, net of current portion	1,690,002	1,775,085
Long-term debt	29,716	277,476
Total Non-Current Liabilities	<u>2,633,689</u>	<u>2,914,890</u>
Total Liabilities	<u>5,634,243</u>	<u>6,586,600</u>
Commitments and Contingencies (Notes 7, 8, 14, 15, and 16)		
Net Assets		
Without donor restrictions:		
Undesignated	8,259,089	5,748,445
Board designated reserve	5,025,000	5,025,000
Designated approved contracts and awarded grants	1,915,201	1,803,242
Total Without Donor Restrictions	<u>15,199,290</u>	<u>12,576,687</u>
With donor restrictions	996,805	449,310
Total Net Assets	<u>16,196,095</u>	<u>13,025,997</u>
Total Liabilities and Net Assets	<u><u>\$ 21,830,338</u></u>	<u><u>\$ 19,612,597</u></u>

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

CHESAPEAKE BAY TRUST
Statements of Activities
Years Ended June 30, 2021 and 2020

	2021		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support and Gains			
Federal, state and local grants and awards	\$ 10,183,069	\$ -0-	\$ 10,183,069
Contributions:			
Chesapeake Bay license plate	3,371,747	-0-	3,371,747
State tax check-off	549,764	-0-	549,764
Other	494,674	909,062	1,403,736
Special events, net of direct benefits to donors	79,205	-0-	79,205
Merchandise sales, net of cost of goods sold	2,987	-0-	2,987
Net investment return	2,189,364	-0-	2,189,364
Rental income	-0-	-0-	-0-
Net assets released from restrictions:			
Satisfaction of program restrictions	361,567	(361,567)	-0-
Total Revenue, Support and Gains	<u>17,232,377</u>	<u>547,495</u>	<u>17,779,872</u>
Expenses			
Program services:			
Restoration program	8,301,764	-0-	8,301,764
Community Stewardship program	3,246,097	-0-	3,246,097
Environmental Education program	605,138	-0-	605,138
Program management	1,219,650	-0-	1,219,650
Total Program Services	<u>13,372,649</u>	<u>-0-</u>	<u>13,372,649</u>
Supporting services:			
Management and general	477,336	-0-	477,336
Fundraising	759,789	-0-	759,789
Total Supporting Services	<u>1,237,125</u>	<u>-0-</u>	<u>1,237,125</u>
Total Expenses	<u>14,609,774</u>	<u>-0-</u>	<u>14,609,774</u>
Change in Net Assets	2,622,603	547,495	3,170,098
Net Assets at Beginning of Year	<u>12,576,687</u>	<u>449,310</u>	<u>13,025,997</u>
Net Assets at End of Year	<u>\$ 15,199,290</u>	<u>\$ 996,805</u>	<u>\$ 16,196,095</u>

CHESAPEAKE BAY TRUST
Statements of Activities (Continued)
Years Ended June 30, 2021 and 2020

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
Revenue, Support and Gains			
Federal, state and local grants and awards Contributions	\$ 8,906,466	\$ -0-	\$ 8,906,466
Chesapeake Bay license plate	3,442,920	-0-	3,442,920
State tax check-off	306,041	-0-	306,041
Other	445,958	553,327	999,285
Special events, net of direct benefit to donors	-0-	-0-	-0-
Merchandise, net of cost of goods sold	6,333	-0-	6,333
Net investment return	745,149	-0-	745,149
Rental income	11,209	-0-	11,209
Net assets released from restrictions:			
Satisfaction of program restrictions	378,540	(378,540)	-0-
Total Revenue, Support and Gains	14,242,616	174,787	14,417,403
Expenses			
Program services			
Restoration program	7,084,962	-0-	7,084,962
Community Stewardship program	2,968,935	-0-	2,968,935
Environmental Education program	869,616	-0-	869,616
Program management	1,148,161	-0-	1,148,161
Total Program Services	12,071,674	-0-	12,071,674
Supporting services			
Management and general	634,514	-0-	634,514
Fundraising	678,882	-0-	678,882
Total Supporting Services	1,313,396	-0-	1,313,396
Total Expenses	13,385,070	-0-	13,385,070
Change in Net Assets	857,546	174,787	1,032,333
Net Assets at Beginning of Year	11,719,141	274,523	11,993,664
Net Assets at End of Year	\$ 12,576,687	\$ 449,310	\$ 13,025,997

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

CHESAPEAKE BAY TRUST
Statements of Functional Expenses
Years Ended June 30, 2021 and 2020

	2021					
	Program Services	Management and General	Fundraising	Cost of Direct Benefits to Donors	Cost of Goods Sold	Total
Personnel expenses:						
Salaries	\$ 753,493	\$ 294,376	\$ 302,478	\$ -0-	\$ -0-	\$ 1,350,347
Payroll taxes	69,683	27,224	27,973	-0-	-0-	124,880
Retirement	40,388	15,778	16,212	-0-	-0-	72,378
Other fringe benefits	84,383	32,967	33,874	-0-	-0-	151,224
Total personnel expenses	<u>947,947</u>	<u>370,345</u>	<u>380,537</u>	<u>-0-</u>	<u>-0-</u>	<u>1,698,829</u>
Programmatic initiatives (grants and other programs)	12,152,999	-0-	-0-	-0-	-0-	12,152,999
Development	-0-	-0-	167,065	10,714	-0-	177,779
Professional fees	73,582	28,747	29,538	-0-	-0-	131,867
Marketing and communication	-0-	-0-	103,115	-0-	-0-	103,115
Depreciation and amortization	46,574	18,195	18,696	-0-	-0-	83,465
Information technology	44,112	17,234	17,708	-0-	-0-	79,054
Interest	43,162	16,863	17,327	-0-	-0-	77,352
Staff development	14,010	5,474	5,624	-0-	-0-	25,108
Insurance	10,842	4,236	4,352	-0-	-0-	19,430
Office expense	10,130	3,957	4,067	-0-	-0-	18,154
Dues and memberships	8,928	3,488	3,584	-0-	-0-	16,000
Utilities	8,270	3,230	3,321	-0-	-0-	14,821
Cost of goods sold, merchandise	-0-	-0-	-0-	-0-	11,764	11,764
Telecommunications	4,645	1,814	1,865	-0-	-0-	8,324
Repairs and maintenance	3,490	1,364	1,401	-0-	-0-	6,255
Office supplies	2,181	1,695	875	-0-	-0-	4,751
Meetings and conferences	1,180	460	474	-0-	-0-	2,114
Travel expenses	569	223	229	-0-	-0-	1,021
Bank and merchant fees	28	11	11	-0-	-0-	50
Income tax expense (recovery)	-0-	-0-	-0-	-0-	-0-	-0-
Strategic initiatives	-0-	-0-	-0-	-0-	-0-	-0-
Organizational support	-0-	-0-	-0-	-0-	-0-	-0-
Real estate taxes	-0-	-0-	-0-	-0-	-0-	-0-
Building management fees	-0-	-0-	-0-	-0-	-0-	-0-
Total Expenses	<u>13,372,649</u>	<u>477,336</u>	<u>759,789</u>	<u>10,714</u>	<u>11,764</u>	<u>14,632,252</u>
Less: Cost of goods sold, netted with merchandise sales in the statements of activities	-0-	-0-	-0-	-0-	(11,764)	(11,764)
Less: Cost of direct benefits to donors netted with special events revenue in the statements of activities	-0-	-0-	-0-	(10,714)	-0-	(10,714)
Total Expenses reported in the statements of activities	<u>\$ 13,372,649</u>	<u>\$ 477,336</u>	<u>\$ 759,789</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 14,609,774</u>

CHESAPEAKE BAY TRUST
Statements of Functional Expenses (Continued)
Years Ended June 30, 2021 and 2020

	2020				
	Program Services	Management and General	Fundraising	Cost of Goods Sold	Total
Personnel expenses:					
Salaries	\$ 685,459	\$ 378,048	\$ 244,620	\$ -0-	\$ 1,308,127
Payroll taxes	61,440	33,886	21,927	-0-	117,253
Retirement	35,759	19,723	12,762	-0-	68,244
Other fringe benefits	69,273	38,207	24,722	-0-	132,202
Total personnel expense	851,931	469,864	304,031	-0-	1,625,826
Programmatic initiatives (grants and other programs)	10,923,508	-0-	-0-	-0-	10,923,508
Development	-0-	-0-	161,225	-0-	161,225
Professional fees	64,188	35,402	22,907	-0-	122,497
Marketing and communication	-0-	-0-	111,856	-0-	111,856
Depreciation and amortization	38,645	21,313	13,791	-0-	73,749
Information technology	46,502	25,647	16,595	-0-	88,744
Interest	44,193	24,374	15,771	-0-	84,338
Staff development	10,672	5,886	3,808	-0-	20,366
Insurance	9,670	5,333	3,451	-0-	18,454
Office expense	27,023	14,900	9,641	-0-	51,564
Dues and memberships	10,022	5,527	3,577	-0-	19,126
Utilities	7,811	4,309	2,787	-0-	14,907
Cost of goods sold, merchandise	-0-	-0-	-0-	13,626	13,626
Telecommunications	2,663	1,469	951	-0-	5,083
Repairs and maintenance	1,303	717	463	-0-	2,483
Office supplies	2,879	1,588	1,028	-0-	5,495
Meetings and conferences	6,346	3,500	2,265	-0-	12,111
Travel expenses	7,221	3,982	2,577	-0-	13,780
Bank and merchant fees	422	233	151	-0-	806
Strategic initiatives	200	14,885	-0-	-0-	15,085
Organizational support	12,224	1,400	490	-0-	14,114
Real estate taxes	4,251	2,345	1,517	-0-	8,113
Building management fees	-0-	1,425	-0-	-0-	1,425
Income tax expense (recovery)	-0-	(9,585)	-0-	-0-	(9,585)
Total Expenses	12,071,674	634,514	678,882	13,626	13,398,696
Less: Cost of goods sold, netted with merchandise sales in the statements of activities	-0-	-0-	-0-	(13,626)	(13,626)
Less: Cost of direct benefits to donors netted with special events revenue in the statements of activities	-0-	-0-	-0-	-0-	-0-
Total Expenses reported in the statements of activities	<u>\$ 12,071,674</u>	<u>\$ 634,514</u>	<u>\$ 678,882</u>	<u>\$ -0-</u>	<u>\$ 13,385,070</u>

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

CHESAPEAKE BAY TRUST
Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 3,170,098	\$ 1,032,333
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	74,053	73,044
Amortization (Noncash interest expense)	9,412	705
Non-cash government grant (PPP loan)	(277,476)	-0-
Unrealized gain on investments	(1,275,065)	(97,581)
Realized gain on investments	(735,211)	(402,641)
Changes in operating assets and liabilities:		
Federal, state and local grants and awards receivable	288,122	(516,236)
Contributions receivable	(834,240)	356,572
Interest receivable	2,903	1,619
Income taxes receivable	1,616	(12,358)
Other receivables	(1,376)	(16,181)
Prepaid expenses	5,888	(15,471)
Accounts payable and accrued expenses	(430,954)	262,904
Salaries and benefits payable	36,098	66,567
Deferred revenue	(235,027)	(687,932)
Net Cash Provided by (Used in) Operating Activities	<u>(201,159)</u>	<u>45,344</u>
Cash Flows from Investing Activities		
Purchase of property and equipment	(26,232)	(26,408)
Purchase of investments	(3,520,732)	(6,074,473)
Proceeds from sale of investments	7,253,991	3,212,340
Tenant security deposit liability refunded	-0-	(4,800)
Net Cash Provided by (Used in) Investing Activities	<u>3,707,027</u>	<u>(2,893,341)</u>
Cash Flows from Financing Activities		
Principal payments on mortgage payable	(73,851)	(66,864)
Deferred financing costs	(10,275)	-0-
Proceeds from long-term debt	29,716	277,476
Net Cash Provided by (Used in) Investing Activities	<u>(54,410)</u>	<u>210,612</u>
Net Increase (Decrease) in Cash and Cash Equivalents	3,451,458	(2,637,385)
Cash and Cash Equivalents - Beginning of Year	<u>707,713</u>	<u>3,345,098</u>
Cash and Cash Equivalents - End of Year	<u>\$ 4,159,171</u>	<u>\$ 707,713</u>
Supplemental Disclosures of Cash Flow Information:		
Interest paid	<u>\$ 77,352</u>	<u>\$ 84,338</u>
Income taxes paid	<u>\$ -0-</u>	<u>\$ 2,009</u>

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

CHESAPEAKE BAY TRUST
Notes to Financial Statements
June 30, 2021 and 2020

Note 1: Nature of Organization and Summary of Significant Accounting Policies

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.

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, support 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.

Federal, State and Local Grants and Awards Receivable: Federal, state and local grants and awards receivable represents amounts due from grantors on cost reimbursement grants and awards. All grants and awards receivable are considered fully collectible at June 30, 2021 and 2020.

CHESAPEAKE BAY TRUST
Notes to Financial Statements
June 30, 2021 and 2020

Note 1: Nature of Organization and Summary of Significant Accounting Policies (Continued)

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. Management has recorded an allowance for uncollectible contributions receivable of \$22,147 and \$-0- as of June 30, 2021 and 2020, respectively.

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:

Building and improvements	40 years
Furniture and equipment	5-7 years
Leasehold improvements	15 years

Deferred Financing Costs: Deferred financing costs represent the costs incurred to obtain financing (see Note 7) which are being amortized on a straight-line basis over the term of the applicable debt obligation and charged to interest expense. GAAP requires that the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method. Under GAAP, debt issuance costs related to the recognized debt liability are required to be presented in the statements of financial position as a direct reduction from the carrying amount of the debt liability. In December 2020, the Trust refinanced the mortgage and incurred financing costs of \$10,275. As a result of this refinancing, the Trust wrote off the remaining unamortized deferred financing costs of \$8,640 related to the original mortgage. Total amortization of deferred financing costs for the years ended June 30, 2021 and 2020 was \$9,412 and \$705, respectively. As of June 30, 2021 and 2020, the accumulated amortization of deferred financing costs was \$419 and \$1,586, respectively.

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

CHESAPEAKE BAY TRUST
Notes to Financial Statements
June 30, 2021 and 2020

Note 1: Nature of Organization and Summary of Significant Accounting Policies (Continued)

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

Net Assets without Donor Restrictions: Net assets available for use in general operations and not subject to donor restrictions. The governing board has designated, from net assets without donor restrictions, net assets for a reserve for future needs.

Net Assets with Donor Restrictions: Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Revenue Recognition: The Trust derives revenue primarily from grants and awards, contributions, special events, merchandise sales, net investment return and rental income. Special events, merchandise sales, investment income and rental income are recognized as revenue when earned. Grants and awards revenue is recognized when the qualifying costs are incurred for cost reimbursement grants or when the service is provided for awards. Contributions, including unconditional promises to give, are recognized when received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Contributions: Contributions received are recorded without donor restrictions or with donor restriction support depending on the existence and/or nature of any donor restrictions.

Recognition of Donor Restrictions: All donor-restricted support is reported as an increase in net assets with donor restrictions. Upon the expiration of a temporary restriction, net assets with donor restrictions are reclassified to net assets without donor restrictions in the statements of activities.

In-Kind Contributions: Contributed goods are recorded at fair value at the date of donation. 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. The Trust received in-kind donated auction items of \$22,860 and in-kind consulting services of \$2,205 during the year ended June 30, 2021. The Trust received in-kind consulting services of \$1,158 during the year ended June 30, 2020.

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, 2021 and 2020

Note 1: Nature of Organization and Summary of Significant Accounting Policies (Continued)

Functional Allocation of Expenses: The costs of providing various programs and other support activities have been summarized on a functional basis in the statements of activities and by natural classification in the statements of functional expenses. Costs that can be identified with specific programs or support services are allocated directly. Costs that cannot be specifically identified with a particular function and that benefit more than one functional category are allocated based on estimates of time and effort.

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, 2021 and 2020 totaled \$80,180 and \$90,405, respectively, and is included in marketing and communication on the statements of functional expenses.

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, 2021. The Trust's unrelated business income for the year ended June 30, 2020 was related to rental income. In addition, due to the year 2020 repeal of the tax law that had assessed a tax on the amount of parking paid on behalf of employees, the Trust was entitled to a refund of any taxes paid. This tax refund was recorded in the year ended June 30, 2020. Federal and state income tax expense (recovery) was \$-0- and \$(9,585) for the years ended June 30, 2021 and 2020.

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.

Recently Issued Accounting Pronouncements: The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-02, *Leases* which will be effective for fiscal years beginning after December 15, 2021. The distinction between finance leases and operating leases is substantially similar to the distinction between capital leases and operating leases in the previous guidance for leases. Lessor accounting is also largely unchanged. For lessees, leases under both categories will be reported on the statements of financial position as a depreciable right-to-use asset and a related liability to make lease payments. The asset and liability should be initially measured at the present value of the lease payments, including payments to be made in optional periods only if the lessee is reasonably certain exercise and option to extend the lease or not to exercise an option to terminate the lease. The assets will be depreciated and the liability will be reduced by lease payments. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election not to recognize lease assets and liabilities. Management has elected not to early adopt this standard and will assess the future impact of leases on the financial statements.

Reclassifications: Certain amounts previously reported in the 2020 financial statements have been reclassified to conform to financial statement presentation for the year ended June 30, 2021.

Subsequent Events: In preparing these financial statements, the Trust has evaluated events and transactions for the potential recognition or disclosure through October 28, 2021, the date the financial statements were available to be issued. During the period from July 1, 2021 through October 28, 2021, the Trust did not have any material reportable subsequent events.

CHESAPEAKE BAY TRUST
Notes to Financial Statements
June 30, 2021 and 2020

Note 2: Liquidity and Availability of Funds

A summary of the financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the statements of financial position date consisted of the following:

	2021	2020
Cash and cash equivalents	\$ 4,159,171	\$ 707,713
Federal, state and local grants and awards receivable	1,997,734	2,285,856
Contributions receivable, current	1,252,729	535,092
Interest receivable	15,986	18,889
Income taxes receivable	9,483	11,099
Other receivables	32,888	31,512
Investments, current	10,803,769	12,809,325
Less: Net assets without donor restrictions, board designated reserve	(5,025,000)	(5,025,000)
Less: Amounts not available within one year (long term deferred revenue)	(913,971)	(862,329)
Financial Assets Available for General Expenditure	<u>\$ 12,332,789</u>	<u>\$ 10,512,157</u>

As part of the Trust's liquidity management plan, the Trust invests cash in excess of daily requirements in short-term investments and money market funds. The Board of Trustees (the Board) of the Trust has designated certain investments to be held for future operations of the Trust (see Note 10). Even though there is no intent of the Board to remove this designation, the Board could make these amounts available, as necessary. The amount designated for future operations and not included within the liquidity calculation as of June 30, 2021 and 2020 was \$5,025,000.

Note 3: Contributions Receivable

Contributions receivable consisted of the following at June 30, 2021 and 2020:

	2021	2020
Chesapeake Bay license plate revenue receivable	\$ 940,690	\$ 394,020
Tax check-off revenue receivable	229,395	138,378
Promises to give (capital campaign)	154,805	10,000
Promises to give (endowment)	66,670	-0-
Promises to give (other)	8,127	172
Total contributions receivable before net present value and allowance for uncollectible promises to give adjustments	<u>\$ 1,399,687</u>	<u>\$ 542,570</u>

CHESAPEAKE BAY TRUST
Notes to Financial Statements
June 30, 2021 and 2020

Note 3: Contributions Receivable (Continued)

	2021	2020
Receivables in less than one year	\$ 1,276,854	\$ 535,092
Receivables in one to five years	122,833	7,478
Total unconditional promises to give	1,399,687	542,570
Less: Discount to net present value (0.46% effective rate)	(730)	-0-
Less: Allowance for uncollectible promises to give	(22,147)	-0-
Total contributions receivable, net	1,376,810	542,570
Less: Long-term and restricted contributions receivable, net	124,081	7,478
Contributions receivable, (current), net	<u>\$ 1,252,729</u>	<u>\$ 535,092</u>

Note 4: Investments

The Trust's investment portfolio at June 30, 2021 and 2020 consisted of the following:

	2021		2020	
	Fair Value	Cost	Fair Value	Cost
Mutual funds, equities	\$ 5,682,564	\$ 3,974,361	\$ 4,777,419	\$ 4,029,834
Corporate obligations	1,349,102	1,368,982	1,603,712	1,564,782
Exchange traded funds	1,256,947	758,724	523,180	482,405
U.S. Treasury obligations	1,227,653	1,189,486	882,867	792,765
U.S. Government agency bonds	691,495	675,429	306,374	281,845
Municipal bonds	520,203	501,444	540,157	522,229
Money market funds	363,128	363,128	4,180,366	4,180,366
	<u>\$ 11,091,092</u>	<u>\$ 8,831,554</u>	<u>\$ 12,814,075</u>	<u>\$ 11,854,226</u>
Investments, non-current, held for endowment fund	\$ 287,323		\$ 4,750	
Investments, current	<u>10,803,769</u>		<u>12,809,325</u>	
Total Investments	<u>\$ 11,091,092</u>		<u>\$ 12,814,075</u>	

Net investment return for the years ended June 30, 2021 and 2020 consisted of the following:

	2021	2020
Interest income	\$ 209,885	\$ 277,780
Realized gain on investments	735,211	402,641
Unrealized gain on investments	1,275,065	97,581
Investment expenses	(30,797)	(32,853)
	<u>\$ 2,189,364</u>	<u>\$ 745,149</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.

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.

CHESAPEAKE BAY TRUST
Notes to Financial Statements
June 30, 2021 and 2020

Note 5: Fair Value Measurement (Continued)

The tables below represent the assets measured at fair value on a recurring basis by level within the hierarchy, as of June 30, 2021 and 2020:

	Total	Level 1	Level 2	Level 3
<u>June 30, 2021</u>				
Mutual funds, equities	\$ 5,682,564	\$ 5,682,564	\$ -0-	\$ -0-
Corporate obligations	1,349,102	-0-	1,349,102	-0-
Exchange traded funds	1,256,947	1,256,947	-0-	-0-
U.S. Treasury obligations	1,227,653	-0-	1,227,653	-0-
U.S. Government agency bonds	691,495	-0-	691,495	-0-
Municipal bonds	520,203	-0-	520,203	-0-
Money market funds	363,128	363,128	-0-	-0-
	<u>\$ 11,091,092</u>	<u>\$ 7,302,639</u>	<u>\$ 3,788,453</u>	<u>\$ -0-</u>
<u>June 30, 2020</u>				
Mutual funds, equities	\$ 4,777,419	\$ 4,777,419	\$ -0-	\$ -0-
Money market funds	4,180,366	4,180,366	-0-	-0-
Corporate obligations	1,603,712	-0-	1,603,712	-0-
U.S. Treasury obligations	882,867	-0-	882,867	-0-
Municipal bonds	540,157	-0-	540,157	-0-
Exchange traded funds	523,180	523,180	-0-	-0-
U.S. Government agency bonds	306,374	-0-	306,374	-0-
	<u>\$ 12,814,075</u>	<u>\$ 9,480,965</u>	<u>\$ 3,333,110</u>	<u>\$ -0-</u>

Note 6: Property and Equipment

Property and equipment consisted of the following:

	2021	2020
Land	\$ 618,900	\$ 618,900
Building and improvements	2,634,321	2,594,830
Furniture and equipment	102,453	96,737
Construction in progress	-0-	24,692
	<u>3,355,674</u>	<u>3,335,159</u>
Less: Accumulated depreciation	<u>(257,492)</u>	<u>(189,156)</u>
	<u>\$ 3,098,182</u>	<u>\$ 3,146,003</u>

Depreciation expense for the years ended June 30, 2021 and 2020 was \$74,053 and \$73,044, respectively.

CHESAPEAKE BAY TRUST
Notes to Financial Statements
June 30, 2021 and 2020

Note 7: Mortgage Payable

Mortgage payable consisted of the following as of June 30, 2021 and 2020:

	2021	2020
Mortgage payable to Sandy Spring Bank	\$ 1,779,701	\$ 1,853,550
Less: Unamortized deferred financing costs	9,856	8,991
Note payable, net	1,769,845	1,844,559
Less: Current maturities	79,843	69,474
Mortgage payable, net of current maturities	<u>\$ 1,690,002</u>	<u>\$ 1,775,085</u>

On March 28, 2018, the Trust entered into a mortgage with Sandy Spring Bank in the amount of \$2,000,000 to purchase property. The mortgage is payable in monthly principal and interest payments of \$12,600. Interest was calculated at a fixed per annum rate of 4.39%. The mortgage is scheduled to mature on March 28, 2033. The mortgage is subject to prepayment penalties and fees at varying rates if the mortgage is paid in whole or in part prior to the maturity date. The mortgage is secured by a first lien on the property located in Annapolis, Maryland.

On December 31, 2020, the Trust refinanced the mortgage with Sandy Spring Bank. The new mortgage agreement reduced the per annum interest rate to 3.99%. The new agreement did not change any other terms of the mortgage.

The aggregate annual maturities of the mortgage payable and the amortization of unamortized deferred financing costs for each of the years subsequent to June 30, 2021 are as follows:

Year ending June 30,	Mortgage Payable	Deferred Financing Costs	Total
2022	\$ 80,682	\$ (839)	\$ 79,843
2023	84,007	(839)	83,168
2024	87,295	(839)	86,456
2025	91,067	(839)	90,228
2026	94,820	(839)	93,981
Thereafter	1,341,830	(5,661)	1,336,169
	<u>\$ 1,779,701</u>	<u>\$ (9,856)</u>	<u>\$ 1,769,845</u>

Interest expense for the years ended June 30, 2021 and 2020 was \$77,352 and \$84,338, respectively, which does not include the amortization of deferred financing costs of \$9,412 and \$705, respectively.

CHESAPEAKE BAY TRUST
Notes to Financial Statements
June 30, 2021 and 2020

Note 8: Long-Term Debt

The Trust applied for and received funds in the amount of \$307,192 under the Paycheck Protection Program (PPP), which was created as a result of the coronavirus pandemic. The proceeds were considered a forgivable loan, assuming certain qualified expenses, primarily payroll related expenses, were incurred during the period of eight-weeks to 24-weeks, commencing on the date of the loan agreement (April 19, 2020). Any portion of this loan that did not qualify for forgiveness was subject to an interest rate of 1%. The original loan document required monthly principal installments plus interest over an eighteen-month period commencing on December 19, 2020 with a maturity date of April 19, 2022. However, the repayment of principal period was extended until 10 months after the periods of eight-weeks to 24-weeks. During the year ended June 30, 2020, the Trust determined the PPP loan was overfunded by \$29,716 and returned these funds to the bank. Therefore at June 30, 2020, this PPP loan balance was \$277,476.

During the loan forgiveness process in fiscal 2021, the bank and the Trust determined there were qualifying expenditures to support the additional funding of \$29,716 and therefore the bank returned these funds to the Trust. The Trust applied for and received 100% forgiveness of the original proceeds of \$277,476 on March 1, 2021, and therefore, this loan forgiveness of \$277,476 has been recognized as grant revenue during the year ended June 30, 2021. The additional \$29,716 that was received has been presented as a debt obligation as of June 30, 2021 on the statements of financial position. Subsequent to year end, the Trust applied for and received full forgiveness of the \$29,716.

Note 9: Compensated Absences

Employees accumulate leave based on years of service. Upon termination, employees are paid for annual leave, holiday and compensatory leave. Employees may be entitled to be paid for annual leave up to a maximum of 75 days plus any annual leave earned and unused in the year up to the date of separation. Employees may also be entitled to be paid for compensatory leave. Any remaining hours over the stipulated maximum will be forfeited. As of June 30, 2021 and 2020, accrued compensated absences were \$191,741 and \$168,132, respectively, and are included in salaries and benefits payable on the statements of financial position. See Note 14 for the Inter-Agency Agreement.

CHESAPEAKE BAY TRUST
Notes to Financial Statements
June 30, 2021 and 2020

Note 10: Net Assets Without Donor Restrictions

Board Designated Reserve: The Trust's Board 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.

Per the Board approved gift acceptance policy, any future unrestricted bequests received by the Trust will be added to the board designated reserve.

Net assets under the board designated reserve consisted of the following as of June 30, 2021 and 2020:

	2021	2020
Operating reserve, general	\$ 5,000,000	\$ 5,000,000
Operating reserve, bequests	25,000	25,000
	<u>\$ 5,025,000</u>	<u>\$ 5,025,000</u>

Approved Contracts and Awarded Grants: The Board of Trustees and management have also designated net assets for approved contracts and awarded grants. At June 30, 2021 and 2020, amounts designated were \$1,915,201 and \$1,803,242, respectively.

Note 11: Net Assets with Donor Restrictions

The Trust has several restricted funds, some which may be expended but only for the purpose specified by the respective donors. Net assets with donor restrictions were available for the following purposes as of June 30, 2021:

	2020	Current Year Activity		2021
		Contributions	Released From Restrictions	
Subject to expenditure for a specified purpose:				
Community stewardship program	\$ 262,415	\$ 293,627	\$ (286,900)	\$ 269,142
Environmental education	171,667	1,000	(74,667)	98,000
Building campaign	10,478	272,079	-0-	282,557
	<u>444,560</u>	<u>566,706</u>	<u>(361,567)</u>	<u>649,699</u>
Subject to spending policy or appropriation:				
Endowment fund	4,750	342,356	-0-	347,106
	<u>\$ 449,310</u>	<u>\$ 909,062</u>	<u>\$ (361,567)</u>	<u>\$ 996,805</u>

CHESAPEAKE BAY TRUST
Notes to Financial Statements
June 30, 2021 and 2020

Note 11: Net Assets with Donor Restrictions (Continued)

Net assets with donor restrictions were available for the following purposes as of June 30, 2020:

	2019	Prior Year Activity		2020
		Contributions	Released From Restrictions	
Subject to expenditure for a specified purpose:				
Community stewardship program	\$ 138,523	\$ 389,099	\$ (265,207)	\$ 262,415
Environmental education	135,000	150,000	(113,333)	171,667
Building campaign	-0-	10,478	-0-	10,478
	<u>273,523</u>	<u>549,577</u>	<u>(378,540)</u>	<u>444,560</u>
Subject to spending policy or appropriation:				
Endowment fund	1,000	3,750	-0-	4,750
	<u>\$ 274,523</u>	<u>\$ 553,327</u>	<u>\$ (378,540)</u>	<u>\$ 449,310</u>

The Trust's net assets with donor restrictions subject to spending policy or appropriation is comprised of an endowment fund, of which the original principal of the fund may not be expended. The income earned on the endowment fund, including appreciation, is expendable but only for the purpose established by the respective donors. If no purpose is stipulated by the donor, the income earned is considered available for use as determined by the Trust.

FASB issued guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The State of Maryland has enacted UPMIFA. This guidance also requires additional disclosures about an organization's endowment funds (both donor-restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The board of trustees of the Trust has interpreted the Maryland Uniform Prudent Management of Institutional Funds Act (MUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Trust classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

Note 11: Net Assets with Donor Restrictions (Continued)

The remaining portion of the donor-restricted endowment fund that is not classified as net assets with donor restrictions, that are perpetual in nature, is classified as net assets with donor restrictions that are temporary in nature until those amounts are appropriated for expenditure by the Trust in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Trust considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment fund, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, and (6) other resources of the Trust.

Investment Return Objectives, Risk Parameters and Strategies

The Trust has adopted investment and spending policies, approved by the board of trustees, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment fund while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of not more than 5%, while growing the funds if possible. Therefore, the Society expects its endowment assets, over time, to produce an average annual rate of return that is higher than the inflation rate in order to maintain the purchasing power of the endowment fund. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund. Investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy

The Trust has a policy of appropriating for distribution each year not more than 5% of a rolling three-year average of the endowment fund's fair value. In establishing this policy, the Trust considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Trust expects the current spending policy to allow its endowment fund to grow. This is consistent with the Trust's objective is to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Note 12: 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 \$549,764 and \$306,041 for the years ended June 30, 2021 and 2020, 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 \$609,134 and \$586,379 for the years ended June 30, 2021 and 2020, 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 \$2,762,613 and \$2,856,541 in plate renewal fees during the years ended June 30, 2021 and 2020, respectively.

CHESAPEAKE BAY TRUST
Notes to Financial Statements
June 30, 2021 and 2020

Note 13: Rental Income

The Trust assumed lease agreements with two tenants at the time it purchased its building. Both leases were terminated effective August 31, 2019. Rental income for all leases was \$11,209 for the year ended June 30, 2020.

Note 14: 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 15: 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, 2021 and 2020 was \$72,378 and \$68,244, respectively.

Note 16: Contract and Grant Commitments

At June 30, 2021 and 2020, the Trust has conditionally awarded contracts and grants to organizations in the amounts of \$11,998,781 and \$13,312,387, respectively. These organizations must meet certain criteria to receive the awarded grant and/or contract funding.

Note 17: Related Party Transactions

The Trust awarded several grants or contracts during the years ended June 30, 2021 and 2020 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.

CHESAPEAKE BAY TRUST
Notes to Financial Statements
June 30, 2021 and 2020

Note 18: Conditional Grants

The Trust has received conditional grants from various sources in the amount of \$39,101,028, which can only be earned by incurring qualifying expenses under the respective grant programs. As of June 30, 2021, the Trust has earned \$25,358,766 of these grants which have been recognized as revenue during the year ended June 30, 2021. The outstanding balance of these conditional grants was \$13,742,262 as of June 30, 2021, which will be recognized as revenue when the conditions of the grants have been met.

Note 19: Other Matters

Cash and Cash Equivalents: 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.

Investment Risk: 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 would materially affect investment balances and the amounts reported in the financial statements.

National Health Emergency: In March 2020, the President of the United States declared a national emergency due to a viral pandemic. The declaration of the national emergency and similar declarations made by various states, and the outbreak of the virus itself, has had far reaching social, economic, and financial impacts on the country going forward. The pandemic continues and at this time, the impact on the operations and financial status of the Trust cannot be determined.

CHESAPEAKE BAY TRUST
SUPPLEMENTARY INFORMATION
JUNE 30, 2021 AND 2020

CHESAPEAKE BAY TRUST
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Assistance Listing	Grant Number/ Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures (Allowable)
U.S. Department of Commerce				
National Oceanic & Atmospheric Administration (NOAA) Chesapeake Bay Studies	11.457	NA17NMF4570275 NA20NMF4570230	\$ 98,024	\$ 118,023
U.S. Department of the Interior				
National Park Service Youth and Veteran Organizations Conservation Activities	15.931	P15AC00032: P19AC00691 P20AC00319: P20AC00393	-0-	82,661
U.S. Environmental Protection Agency				
Chesapeake Bay Program	66.466	CB-96341401	146,179	1,032,583
	66.466	CB-96367101	196,558	236,874
	66.466	CB-96374201		49,475
Passed through National Fish and Wildlife Foundation Chesapeake Bay Program	66.466	0600.20.070304	275,603	665,723
Passed through Maryland Department of the Environment Chesapeake Bay Program	66.466	U00P9400832	1,912,291	1,935,222
Passed through Maryland Department of Natural Resources Chesapeake Bay Program	66.466	*	489,960	505,113
Total U.S. Environmental Protection Agency			<u>3,020,591</u>	<u>4,424,990</u>
Total Expenditures of Federal Awards			<u>\$ 3,118,615</u>	<u>\$ 4,625,674</u>

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

- 14-17-2188 CBG 6601
- 14-19-2491 CBG 8501
- 14-19-2553 CBG 8501
- 14-20-2703 CBG 8501
- 14-20-2704 CBG 8501
- 14-21-2811 CBG 8501
- 14-18-2298 CBG 6601

CHESEAPEAKE BAY TRUST
Notes to Schedule of Expenditures of Federal Awards
June 30, 2021

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, 2021. 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, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report dated October 28, 2021.

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) as a basis for designing 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 financial statements. 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
October 28, 2021

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, 2021. 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* (CFR) 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, 2021.

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 compliance with 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
October 28, 2021

CHESAPEAKE BAY TRUST
Schedule of Findings and Questioned Costs
Year Ended June 30, 2021

Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Chesapeake Bay Trust were prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).
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 (Assistance Listing #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 (Continued)
Year Ended June 30, 2021

Findings - Financial Statement Audit

None.

Findings and Questioned Costs - Major Federal Award Program Audit

None.

Summary Schedule of Prior Audit Findings

None.

