

**CHESAPEAKE BAY TRUST**  
**FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2022 AND 2021**

## TABLE OF CONTENTS

	<u>Page Numbers</u>
Independent Auditor's Report.....	1-3
Statements of Financial Position .....	4
Statements of Activities .....	5-6
Statements of Functional Expenses.....	7-8
Statements of Cash Flows .....	9-10
Notes to Financial Statements .....	11-25
Supplementary Information:	
Schedule of Expenditures of Federal Awards .....	26
Notes to Schedule of Expenditures of Federal Awards .....	27
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> .....	28-29
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.....	30-32
Schedule of Findings and Questioned Costs .....	33-34

## **Independent Auditor's Report**

To the Board of Trustees  
Chesapeake Bay Trust

### **Report on the Audit of the Financial Statements**

#### ***Opinion***

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, 2022 and 2021, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements present fairly, in all material respects, the financial position of Chesapeake Bay Trust as of June 30, 2022 and 2021, 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.

#### ***Basis for Opinion***

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Chesapeake Bay Trust and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Chesapeake Bay Trust's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

## **Independent Auditor's Report (Continued)**

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Chesapeake Bay Trust's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Chesapeake Bay Trust's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

**Independent Auditor's Report (Continued)**

***Supplementary 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 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 schedule of expenditures of federal awards 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 22, 2022, 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, Mendelsohn & Associates, P.A.*

Baltimore, Maryland  
October 22, 2022

**CHESAPEAKE BAY TRUST**  
**Statements of Financial Position**  
**June 30, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and cash equivalents	\$ 2,005,134	\$ 4,159,171
Federal, state and local grants and awards receivable	2,364,992	1,997,734
Contributions receivable, net (current)	821,132	1,252,729
Interest receivable	14,457	15,986
Income taxes receivable	-0-	9,483
Other receivables	30,599	32,888
Investments, current	13,765,300	10,803,769
Prepaid expenses and other assets	133,365	48,992
Total Current Assets	<u>19,134,979</u>	<u>18,320,752</u>
<b>Non-Current Assets</b>		
Property and equipment, net of accumulated depreciation	<u>3,052,772</u>	<u>3,098,182</u>
<b>Other Assets</b>		
Investments, non-current	406,707	287,323
Contributions receivable, net (non-current)	55,197	124,081
Total Other Assets	<u>461,904</u>	<u>411,404</u>
<b>Total Assets</b>	<u><u>\$ 22,649,655</u></u>	<u><u>\$ 21,830,338</u></u>
<b>Liabilities and Net Assets</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses	\$ 755,621	\$ 454,093
Salaries and benefits payable	206,967	263,333
Deferred revenue	2,224,730	2,203,285
Current maturities of long-term debt	83,168	79,843
Total Current Liabilities	<u>3,270,486</u>	<u>3,000,554</u>
<b>Non-Current Liabilities</b>		
Deferred revenue	1,843,484	913,971
Mortgage payable, net of current portion	1,606,816	1,690,002
Deferred revenue (PPP loan)	-0-	29,716
Total Non-Current Liabilities	<u>3,450,300</u>	<u>2,633,689</u>
<b>Total Liabilities</b>	<u>6,720,786</u>	<u>5,634,243</u>
<b>Commitments and Contingencies (Notes 7, 8, 13, 14, and 15)</b>		
<b>Net Assets</b>		
Without donor restrictions:		
Undesignated	7,125,222	8,259,089
Board designated reserve	5,025,000	5,025,000
Designated approved contracts and awarded grants	2,167,779	1,915,201
Total Without Donor Restrictions	<u>14,318,001</u>	<u>15,199,290</u>
With donor restrictions	1,610,868	996,805
Total Net Assets	<u>15,928,869</u>	<u>16,196,095</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$ 22,649,655</u></u>	<u><u>\$ 21,830,338</u></u>

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

**CHESAPEAKE BAY TRUST**  
**Statements of Activities**  
**Years Ended June 30, 2022 and 2021**

	2022		
	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenue, Support and Gains</b>			
Federal, state and local grants and awards	\$ 9,283,444	\$ -0-	\$ 9,283,444
Contributions:			
Chesapeake Bay license plate	3,457,297	-0-	3,457,297
State tax check-off	440,516	-0-	440,516
Other	513,242	1,133,666	1,646,908
Special events, net of direct benefits to donors	172,199	-0-	172,199
Gifts-in-kind	24,323	-0-	24,323
Merchandise sales, net of cost of goods sold	5,001	-0-	5,001
Net investment return	(1,478,993)	-0-	(1,478,993)
Net assets released from restrictions:			
Satisfaction of program restrictions	519,603	(519,603)	-0-
Total Revenue, Support and Gains	12,936,632	614,063	13,550,695
<b>Expenses</b>			
Program services:			
Restoration program	6,686,163	-0-	6,686,163
Community Stewardship program	3,660,628	-0-	3,660,628
Environmental Education program	704,552	-0-	704,552
Program management	1,502,419	-0-	1,502,419
Total Program Services	12,553,762	-0-	12,553,762
Supporting services:			
Management and general	510,675	-0-	510,675
Fundraising	753,484	-0-	753,484
Total Supporting Services	1,264,159	-0-	1,264,159
Total Expenses	13,817,921	-0-	13,817,921
<b>Change in Net Assets</b>	(881,289)	614,063	(267,226)
<b>Net Assets at Beginning of Year</b>	15,199,290	996,805	16,196,095
<b>Net Assets at End of Year</b>	\$ 14,318,001	\$ 1,610,868	\$ 15,928,869

**CHESAPEAKE BAY TRUST**  
**Statements of Activities (Continued)**  
**Years Ended June 30, 2022 and 2021**

	<b>2021</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>Revenue, Support and Gains</b>			
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 benefit to donors	54,320	-0-	54,320
Gifts-in-kind	25,132	-0-	25,132
Merchandise, net of cost of goods sold	2,987	-0-	2,987
Net investment return	2,189,364	-0-	2,189,364
Net assets released from restrictions:			
Satisfaction of program restrictions	361,567	(361,567)	-0-
<b>Total Revenue, Support and Gains</b>	<b>17,232,624</b>	<b>547,495</b>	<b>17,780,119</b>
<b>Expenses</b>			
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
<b>Total Program Services</b>	<b>13,372,649</b>	<b>-0-</b>	<b>13,372,649</b>
Supporting services			
Management and general	477,336	-0-	477,336
Fundraising	760,036	-0-	760,036
<b>Total Supporting Services</b>	<b>1,237,372</b>	<b>-0-</b>	<b>1,237,372</b>
<b>Total Expenses</b>	<b>14,610,021</b>	<b>-0-</b>	<b>14,610,021</b>
<b>Change in Net Assets</b>	<b>2,622,603</b>	<b>547,495</b>	<b>3,170,098</b>
<b>Net Assets at Beginning of Year</b>	<b>12,576,687</b>	<b>449,310</b>	<b>13,025,997</b>
<b>Net Assets at End of Year</b>	<b>\$ 15,199,290</b>	<b>\$ 996,805</b>	<b>\$ 16,196,095</b>

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



**CHESAPEAKE BAY TRUST**  
**Statements of Functional Expenses**  
**Years Ended June 30, 2022 and 2021**

	2022					
	Program Services	Management and General	Fundraising	Cost of Direct Benefits to Donors	Cost of Goods Sold	Total
Personnel expenses:						
Salaries	\$ 952,169	\$ 323,644	\$ 287,683	\$ -0-	\$ -0-	\$ 1,563,496
Payroll taxes	88,168	29,968	26,639	-0-	-0-	144,775
Retirement	51,280	17,430	15,494	-0-	-0-	84,204
Other fringe benefits	108,498	36,879	32,781	-0-	-0-	178,158
Total personnel expenses	1,200,115	407,921	362,597	-0-	-0-	1,970,633
Programmatic initiatives (grants and other programs)	11,051,343	-0-	-0-	-0-	-0-	11,051,343
Development	-0-	-0-	174,263	86,606	-0-	260,869
Marketing and communication	-0-	-0-	125,288	-0-	-0-	125,288
Professional fees	73,008	24,816	22,058	-0-	-0-	119,882
Information technology	62,033	21,085	18,743	-0-	-0-	101,861
Depreciation and amortization	44,957	15,281	13,583	-0-	-0-	73,821
Interest	43,081	14,644	13,016	-0-	-0-	70,741
Staff development	17,135	5,824	5,177	-0-	-0-	28,136
Utilities	12,669	4,306	3,828	-0-	-0-	20,803
Insurance	12,586	4,278	3,803	-0-	-0-	20,667
Dues and memberships	9,744	3,312	2,944	-0-	-0-	16,000
Office expense	10,135	3,445	3,062	-0-	-0-	16,642
Cost of goods sold, merchandise	-0-	-0-	-0-	-0-	15,951	15,951
Telecommunications	5,836	1,983	1,763	-0-	-0-	9,582
Office supplies	3,456	1,175	1,044	-0-	-0-	5,675
Travel expenses	2,622	891	793	-0-	-0-	4,306
Internal culture swag	2,146	729	648	-0-	-0-	3,523
Repairs and maintenance	1,730	588	522	-0-	-0-	2,840
Meetings and conferences	1,123	382	339	-0-	-0-	1,844
Bank and merchant fees	43	15	13	-0-	-0-	71
Total Expenses	12,553,762	510,675	753,484	86,606	15,951	13,920,478
Less: Cost of goods sold, netted with merchandise sales in the statements of activities	-0-	-0-	-0-	-0-	(15,951)	(15,951)
Less: Cost of direct benefits to donors netted with special events revenue in the statements of activities	-0-	-0-	-0-	(86,606)	-0-	(86,606)
Total Expenses reported in the statements of activities	\$ 12,553,762	\$ 510,675	\$ 753,484	\$ -0-	\$ -0-	\$ 13,817,921

**CHESAPEAKE BAY TRUST**  
**Statements of Functional Expenses (Continued)**  
**Years Ended June 30, 2022 and 2021**

	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 expense	947,947	370,345	380,537	-0-	-0-	1,698,829
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
Marketing and communication	-0-	-0-	103,362	-0-	-0-	103,362
Professional fees	73,582	28,747	29,538	-0-	-0-	131,867
Information technology	44,112	17,234	17,708	-0-	-0-	79,054
Depreciation and amortization	46,574	18,195	18,696	-0-	-0-	83,465
Interest	43,162	16,863	17,327	-0-	-0-	77,352
Staff development	14,010	5,474	5,624	-0-	-0-	25,108
Utilities	8,270	3,230	3,321	-0-	-0-	14,821
Insurance	10,842	4,236	4,352	-0-	-0-	19,430
Dues and memberships	8,928	3,488	3,584	-0-	-0-	16,000
Office expense	10,130	3,957	4,067	-0-	-0-	18,154
Cost of goods sold, merchandise	-0-	-0-	-0-	-0-	11,764	11,764
Telecommunications	4,645	1,814	1,865	-0-	-0-	8,324
Office supplies	2,181	1,695	875	-0-	-0-	4,751
Travel expenses	569	223	229	-0-	-0-	1,021
Internal culture swag	-0-	-0-	-0-	-0-	-0-	-0-
Repairs and maintenance	3,490	1,364	1,401	-0-	-0-	6,255
Meetings and conferences	1,180	460	474	-0-	-0-	2,114
Bank and merchant fees	28	11	11	-0-	-0-	50
Total Expenses	13,372,649	477,336	760,036	10,714	11,764	14,632,499
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	\$ 13,372,649	\$ 477,336	\$ 760,036	\$ -0-	\$ -0-	\$ 14,610,021

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

**CHESAPEAKE BAY TRUST**  
**Statements of Cash Flows**  
**Years Ended June 30, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
<b>Cash Flows from Operating Activities</b>		
Change in net assets	\$ (267,226)	\$ 3,170,098
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	72,982	74,053
Amortization (Noncash interest expense)	839	9,412
Non-cash government grant (PPP loan)	(29,716)	(277,476)
Unrealized gain on investments	2,381,928	(1,275,065)
Realized gain on investments	(606,205)	(735,211)
Donated stock contributions	(58,762)	(32,279)
Changes in operating assets and liabilities:		
Federal, state and local grants and awards receivable	(367,258)	288,122
Contributions receivable	500,481	(834,240)
Interest receivable	1,529	2,903
Income taxes receivable	9,483	1,616
Other receivables	2,289	(1,376)
Prepaid expenses and other assets	(84,373)	5,888
Accounts payable and accrued expenses	280,451	(430,954)
Salaries and benefits payable	(56,366)	36,098
Deferred revenue	950,958	(235,027)
Net Cash Provided by (Used in) Operating Activities	<u>2,731,034</u>	<u>(233,438)</u>
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(6,495)	(26,232)
Purchase of investments	(8,175,390)	(3,520,732)
Proceeds from sale of investments	3,377,514	7,286,270
Net Cash Provided by (Used in) Investing Activities	<u>(4,804,371)</u>	<u>3,739,306</u>
<b>Cash Flows from Financing Activities</b>		
Principal payments on mortgage payable	(80,700)	(73,851)
Deferred financing costs	-0-	(10,275)
Proceeds from long-term debt	-0-	29,716
Net Cash Used in Investing Activities	<u>(80,700)</u>	<u>(54,410)</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>(2,154,037)</b>	<b>3,451,458</b>
<b>Cash and Cash Equivalents - Beginning of Year</b>	<u><b>4,159,171</b></u>	<u><b>707,713</b></u>
<b>Cash and Cash Equivalents - End of Year</b>	<u><u><b>\$ 2,005,134</b></u></u>	<u><u><b>\$ 4,159,171</b></u></u>

**CHESAPEAKE BAY TRUST**  
**Statements of Cash Flows (Continued)**  
**Years Ended June 30, 2022 and 2021**

	<u>2022</u>	<u>2021</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Interest paid	<u>\$ 70,741</u>	<u>\$ 77,352</u>
Noncash Investing and Financing Activities:		
Acquisitions of property	\$ 27,572	\$ 26,232
Less property-related accounts payable	<u>(21,077)</u>	<u>-0-</u>
Cash paid for acquisitions of property (included in cash flows from investing activities)	<u>\$ 6,495</u>	<u>\$ 26,232</u>

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

**CHESAPEAKE BAY TRUST**  
**Notes to Financial Statements**  
**June 30, 2022 and 2021**

**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, 2022 and 2021.

**CHESAPEAKE BAY TRUST**  
**Notes to Financial Statements**  
**June 30, 2022 and 2021**

**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 \$12,749 and \$22,147 as of June 30, 2022 and 2021, 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, 2022 and 2021 was \$839 and \$9,412, respectively. As of June 30, 2022 and 2021, the accumulated amortization of deferred financing costs was \$1,258 and \$419, 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, 2022 and 2021**

**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.

Gifts-in-Kind (Donated Commodities): Donated commodities, which include auction items, are recorded at their estimated fair market value on the date of receipt. The Trust received donated auction items of \$16,395 and \$22,860 for the years ended June 30, 2022 and 2021, respectively, which were used in its fundraising event.

Gifts-in-Kind (Donated Services and Advertising): 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. Donated services are valued at a comparable fair market value billing rates times the number of hours provided. Donated advertising is valued at the standard fair market value for such advertising. The Trust received donated consulting services of \$4,875 and 2,272 for the years ended June 30, 2022 and 2021, respectively, which were allocated among the functional classification of expenses. The Trust also received donated advertising of \$1,553 and donated design services of \$1,500 for the year ended June 30, 2022 which were used in its fundraising activities.

A substantial number of unpaid volunteers have made significant contributions of their time and services to the Trust. The value of this contributed time is not recorded as a contribution in these financial statements since the recognition criteria was not met.

**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, 2022 and 2021 totaled \$103,236 and \$80,180, 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 years ended June 30, 2022 and 2021. Accordingly, no provision for income taxes is reflected in these financial 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.

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 to exercise an 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 any leases on the financial statements.

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958), Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* which is effective for fiscal years beginning after June 15, 2021. This ASU requires that contributed nonfinancial assets be reported as a separate line item in the statement of operations and changes in net assets, as well as disclose the disaggregation of the contributed nonfinancial assets recognized by type, whether they are monetized or utilized during the reporting period, and if utilized, the programs or other activities in which these contributed nonfinancial assets were used. Management has elected this standard and accordingly, all gifts-in-kind and donated services are separately reported with the required disclosures.

Reclassifications: Certain amounts previously reported in the 2021 financial statements have been reclassified to conform to financial statement presentation for the year ended June 30, 2022.



**CHESAPEAKE BAY TRUST**  
**Notes to Financial Statements**  
**June 30, 2022 and 2021**

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

Subsequent Events: In preparing these financial statements, the Trust has evaluated events and transactions for the potential recognition or disclosure through October 22, 2022, the date the financial statements were available to be issued. During the period from July 1, 2022 through October 22, 2022, the Trust did not have any material reportable subsequent events.

**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:

	2022	2021
Cash and cash equivalents	\$ 2,005,134	\$ 4,159,171
Federal, state and local grants and awards receivable	2,364,992	1,997,734
Contributions receivable, current	821,132	1,252,729
Interest receivable	14,457	15,986
Income taxes receivable	-0-	9,483
Other receivables	30,599	32,888
Investments, current	13,765,300	10,803,769
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)	(1,843,484)	(913,971)
Financial Assets Available for General Expenditure	<u>\$ 12,133,130</u>	<u>\$ 12,332,789</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, 2022 and 2021 was \$5,025,000.

**Note 3: Contributions Receivable**

Contributions receivable consisted of the following at June 30, 2022 and 2021:

	2022	2021
Chesapeake Bay license plate revenue receivable	\$ 557,657	\$ 940,690
Tax check-off revenue receivable	202,686	229,395
Promises to give (capital campaign)	76,856	154,805
Promises to give (endowment)	50,644	66,670
Promises to give (other)	3,742	8,127
Total contributions receivable before net present value and allowance for uncollectible promises to give adjustments	<u>\$ 891,585</u>	<u>\$ 1,399,687</u>

**CHESAPEAKE BAY TRUST**  
**Notes to Financial Statements**  
**June 30, 2022 and 2021**

**Note 3: Contributions Receivable (Continued)**

	2022	2021
Receivables in less than one year	\$ 842,335	\$ 1,276,854
Receivables in one to five years	49,250	122,833
Total unconditional promises to give	891,585	1,399,687
Less: Discount to net present value (2.99% effective rate)	(2,507)	(730)
Less: Allowance for uncollectible promises to give	(12,749)	(22,147)
Total contributions receivable, net	876,329	1,376,810
Less: Long-term and restricted contributions receivable, net	55,197	124,081
Contributions receivable, (current), net	<u>\$ 821,132</u>	<u>\$ 1,252,729</u>

**Note 4: Investments**

The Trust's investment portfolio at June 30, 2022 and 2021 consisted of the following:

	2022		2021	
	Fair Value	Cost	Fair Value	Cost
Money market funds	\$ 4,780,492	\$ 4,780,492	\$ 363,128	\$ 363,128
Mutual funds, equities	4,618,999	4,552,239	5,682,564	3,974,361
Exchange traded funds	1,505,079	1,389,361	1,256,947	758,724
U.S. Treasury obligations	1,325,242	1,428,907	1,227,653	1,189,486
Corporate obligations	1,189,817	1,324,982	1,349,102	1,368,982
U.S. Government agency bonds	461,875	507,851	691,495	675,429
Municipal bonds	290,503	290,863	520,203	501,444
	<u>\$ 14,172,007</u>	<u>\$ 14,274,695</u>	<u>\$ 11,091,092</u>	<u>\$ 8,831,554</u>
Investments, non-current, held for endowment fund	\$ 406,707		\$ 287,323	
Investments, current	<u>13,765,300</u>		<u>10,803,769</u>	
Total Investments	<u>\$ 14,172,007</u>		<u>\$ 11,091,092</u>	

Net investment return for the years ended June 30, 2022 and 2021 consisted of the following:

	2022	2021
Interest income	\$ 329,651	\$ 209,885
Realized gain on investments	606,205	735,211
Unrealized gain (loss) on investments	(2,381,928)	1,275,065
Investment expenses	(32,921)	(30,797)
	<u>\$ (1,478,993)</u>	<u>\$ 2,189,364</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, 2022 and 2021**

**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, 2022 and 2021:

	Total	Level 1	Level 2	Level 3
<u>June 30, 2022</u>				
Money market funds	\$ 4,780,492	\$ 4,780,492	\$ -0-	\$ -0-
Mutual funds, equities	4,618,999	4,618,999	-0-	-0-
Exchange traded funds	1,505,079	1,505,079	-0-	-0-
U.S. Treasury obligations	1,325,242	-0-	1,325,242	-0-
Corporate obligations	1,189,817	-0-	1,189,817	-0-
U.S. Government agency bonds	461,875	-0-	461,875	-0-
Municipal bonds	290,503	-0-	290,503	-0-
	<u>\$ 14,172,007</u>	<u>\$ 10,904,570</u>	<u>\$ 3,267,437</u>	<u>\$ -0-</u>
	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>

**Note 6: Property and Equipment**

Property and equipment consisted of the following:

	2022	2021
Land	\$ 618,900	\$ 618,900
Building and improvements	2,634,321	2,634,321
Furniture and equipment	107,613	102,453
Construction in progress	21,077	-0-
	<u>3,381,911</u>	<u>3,355,674</u>
Less: Accumulated depreciation	<u>(329,139)</u>	<u>(257,492)</u>
	<u>\$ 3,052,772</u>	<u>\$ 3,098,182</u>

Depreciation expense for the years ended June 30, 2022 and 2021 was \$72,982 and \$74,053, respectively.

**CHESAPEAKE BAY TRUST**  
**Notes to Financial Statements**  
**June 30, 2022 and 2021**

**Note 7: Mortgage Payable**

Mortgage payable consisted of the following as of June 30, 2022 and 2021:

	2022	2021
Mortgage payable to Sandy Spring Bank	\$ 1,699,001	\$ 1,779,701
Less: Unamortized deferred financing costs	9,017	9,856
Note payable, net	1,689,984	1,769,845
Less: Current maturities	83,168	79,843
Mortgage payable, net of current maturities	<u>\$ 1,606,816</u>	<u>\$ 1,690,002</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, 2022 are as follows:

Year ending June 30,	Mortgage Payable	Deferred Financing Costs	Total
2023	\$ 84,007	\$ (839)	\$ 83,168
2024	87,295	(839)	86,456
2025	91,067	(839)	90,228
2026	94,820	(839)	93,981
2027	98,728	(839)	97,889
Thereafter	1,243,084	(4,822)	1,238,262
	<u>\$ 1,699,001</u>	<u>\$ (9,017)</u>	<u>\$ 1,689,984</u>

Interest expense for the years ended June 30, 2022 and 2021 was \$70,741 and \$77,352, respectively, which does not include the amortization of deferred financing costs of \$839 and \$9,412, respectively.

**CHESAPEAKE BAY TRUST**  
**Notes to Financial Statements**  
**June 30, 2022 and 2021**

**Note 8: Deferred Revenue (Paycheck Protection Program Loan)**

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 of \$277,476 was reflected as deferred revenue.

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 deferred revenue as of June 30, 2021 on the statements of financial position.

The Trust applied for and received 100% forgiveness of the additional \$29,716 on August 22, 2021, and therefore, this loan forgiveness of \$29,716 has been recognized as grant revenue during the year ended June 30, 2022.

**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, 2022 and 2021, accrued compensated absences were \$193,416 and \$191,741, respectively, and are included in salaries and benefits payable on the statements of financial position. See Note 13 for the Inter-Agency Agreement.

**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.

**CHESAPEAKE BAY TRUST**  
**Notes to Financial Statements**  
**June 30, 2022 and 2021**

**Note 10: Net Assets Without Donor Restrictions (Continued)**

Net assets under the board designated reserve consisted of the following as of June 30, 2022 and 2021:

	2022	2021
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, 2022 and 2021, amounts designated were \$2,167,779 and \$1,915,201, 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, 2022:

	2021	Current Year Activity		2022
		Contributions	Released From Restrictions	
Subject to expenditure for a specified purpose:				
Community stewardship program	\$ 279,121	\$ 845,282	\$ (409,690)	\$ 714,713
Environmental education	98,000	150,000	(109,913)	138,087
Building campaign	272,578	35,059	-0-	307,637
	<u>649,699</u>	<u>1,030,341</u>	<u>(519,603)</u>	<u>1,160,437</u>
Subject to spending policy or appropriation:				
Endowment fund	347,106	103,325	-0-	450,431
	<u>\$ 996,805</u>	<u>\$ 1,133,666</u>	<u>\$ (519,603)</u>	<u>\$ 1,610,868</u>

**CHESAPEAKE BAY TRUST**  
**Notes to Financial Statements**  
**June 30, 2022 and 2021**

**Note 11: Net Assets with Donor Restrictions (Continued)**

Net assets with donor restrictions were available for the following purposes as of June 30, 2021:

	2020	Prior Year Activity		2021
		Contributions	Released From Restrictions	
Subject to expenditure for a specified purpose:				
Community stewardship program	\$ 262,415	\$ 303,606	\$ (286,900)	\$ 279,121
Environmental education	171,667	1,000	(74,667)	98,000
Building campaign	10,478	262,100	-0-	272,578
	<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>

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.

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.



**Note 11: Net Assets with Donor Restrictions (Continued)**

*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 \$440,516 and \$549,764 for the years ended June 30, 2022 and 2021, 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 \$592,192 and \$609,134 for the years ended June 30, 2022 and 2021, 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 \$2,865,105 and \$2,762,613 in plate renewal fees during the years ended June 30, 2022 and 2021, respectively.

**Note 13: 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.

**CHESAPEAKE BAY TRUST**  
**Notes to Financial Statements**  
**June 30, 2022 and 2021**

**Note 14: 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 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, 2022 and 2021 was \$84,204 and \$72,378, respectively.

**Note 15: Contract and Grant Commitments**

At June 30, 2022 and 2021, the Trust has conditionally awarded contracts and grants to organizations in the amounts of \$13,257,809 and \$11,998,781, respectively. These organizations must meet certain criteria to receive the awarded grant and/or contract funding.

**Note 16: Related Party Transactions**

The Trust awarded several grants or contracts during the years ended June 30, 2022 and 2021 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.

**Note 17: Conditional Grants and Appropriations**

The Trust has received conditional grants from various sources in the amount of \$53,202,563, which can only be earned by incurring qualifying expenses under the respective grant programs. As of June 30, 2022, the Trust has earned \$35,007,867 of these grants which have been recognized as revenue during the current and prior years. The outstanding balance of these conditional grants was \$18,194,696 as of June 30, 2022, which will be recognized as revenue when the conditions of the grants have been met.

During the year ended June 30, 2022, the Trust signed a Memorandum of Agreement with the Maryland Department of the Environment to administer the Urban Trees Program. The goal of this program is to plant 5,000,000 sustainable trees that are native to Maryland, with 10% focused in urban underserved areas, by year ended June 30, 2031. The Trust received \$10,000,000 in July 2022, with additional funds to be appropriated in the Maryland State budget each subsequent year until May 2027.

**CHESAPEAKE BAY TRUST**  
**Notes to Financial Statements**  
**June 30, 2022 and 2021**

**Note 18: 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.

Construction Commitment: The Trust has entered into a contract with an Architect firm related to the planned renovations of the building. The expected fees under this contract are expected to be approximately \$252,000.

**CHESAPEAKE BAY TRUST**  
**SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2022 AND 2021**

**CHESAPEAKE BAY TRUST**  
**Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2022**

<b>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</b>	<b>Federal Assistance Listing</b>	<b>Grant Number/ Pass-Through Entity Identifying Number</b>	<b>Passed Through to Subrecipients</b>	<b>Total Federal Expenditures (Allowable)</b>
<b>U.S. Department of Commerce</b>				
National Oceanic & Atmospheric Administration (NOAA) Chesapeake Bay Studies	11.457	NA17NMF4570275 NA20NMF4570230	\$ 168,026	\$ 217,611
Passed through Chesapeake Research Consortium, Inc. Chesapeake Bay Studies	11.457	CBTNRCS20-20	-0-	7,000
Total Chesapeake Bay Studies			168,026	224,611
<b>U.S. Department of the Interior</b>				
National Park Service Youth and Veteran Organizations Conservation Activities	15.931	P20AC00393	-0-	94,725
<b>U.S. Environmental Protection Agency</b>				
Chesapeake Bay Program	66.466	CB-96341401 CB-96367101 CB-96374201	11,221 216,975 -0-	417,839 333,769 606,145
Passed through National Fish and Wildlife Foundation Chesapeake Bay Program	66.466	0600.20.070304 0603.18.063218	627,428	1,141,053
Passed through Maryland Department of Natural Resources Chesapeake Bay Program	66.466	*	1,323,242	1,380,688
Passed through Maryland Department of the Environment Chesapeake Bay Program	66.466	UOOP9400832	686,332	707,559
Passed through District of Columbia Department of Energy & Environment Chesapeake Bay Program	66.466	652981	86,389	95,000
Total Chesapeake Bay Program			2,951,587	4,682,053
Passed through Maryland Department of Natural Resources Chesapeake Bay Program Implementation, Regulatory/Accountability and Monitoring Grants	66.964	14-22-3009 CBG 9001	327,299	327,299
<b>Total U.S. Environmental Protection Agency</b>			3,278,886	5,009,352
<b>Total Expenditures of Federal Awards</b>			<u>\$ 3,446,912</u>	<u>\$ 5,328,688</u>

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

14-19-2553 CBG 8501  
14-20-2704 CBG 8501  
14-21-2811 CBG 8501  
14-21-2812 CBG 8501  
14-22-2998 CBG 8501

**CHESEAPEAKE BAY TRUST**  
**Notes to Schedule of Expenditures of Federal Awards**  
**June 30, 2022**

**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, 2022. 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, 2022, 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 22, 2022.

**Report on 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 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)**

**Report on 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 22, 2022



**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**

***Opinion on Each Major Federal Program***

We have audited Chesapeake Bay Trust's compliance with the types of compliance requirements identified as subject to audit 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, 2022. 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.

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, 2022.

***Basis for Opinion on Each Major Federal Program***

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). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Chesapeake Bay Trust and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Chesapeake Bay Trust's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Chesapeake Bay Trust's federal programs.

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

***Auditor's Responsibilities for the Audit of Compliance***

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Chesapeake Bay Trust's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Chesapeake Bay Trust's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Chesapeake Bay Trust's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Chesapeake Bay Trust's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances 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 Chesapeake Bay Trust's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

**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**

*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 Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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, Mendelsohn & Associates, P.A.*

Baltimore, Maryland  
October 22, 2022

**CHESAPEAKE BAY TRUST**  
**Schedule of Findings and Questioned Costs**  
**Year Ended June 30, 2022**

**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 programs tested as major programs were the National Oceanic & Atmospheric Administration (NOAA) Chesapeake Bay Studies (Assistance Listing #11.457) and 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, 2022**

**Findings - Financial Statement Audit**

None.

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

None.

**Summary Schedule of Prior Audit Findings**

None.

