

FINANCIAL STATEMENTS



CHESAPEAKE BAY FOUNDATION

Saving a National Treasure

**FOR THE YEAR ENDED JUNE 30, 2015
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2014**

CHESAPEAKE BAY FOUNDATION, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Chesapeake Bay Foundation, Inc.
Annapolis, Maryland

We have audited the accompanying financial statements of the Chesapeake Bay Foundation, Inc. (the Foundation), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2015, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

4550 MONTGOMERY AVENUE · SUITE 650 NORTH · BETHESDA, MARYLAND 20814
(301) 951-9090 · FAX (301) 951-3570 · WWW.GRF CPA.COM

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Report on Summarized Comparative Information

We have previously audited the Foundation's 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 14, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Summary of Conservation and Scenic Easements on page 30, which is the responsibility of management, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and, accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in cursive script that reads "Gelman Rosenberg & Freedman".

December 16, 2015

CHESAPEAKE BAY FOUNDATION, INC.
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2015
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2014

ASSETS

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 10,450,712	\$ 8,409,496
Investments (Notes 2 and 17)	55,313,607	56,209,935
Accounts receivable, less allowance for doubtful accounts of \$4,014 and \$4,344 for 2015 and 2014, respectively (Note 3)	1,494,899	1,531,772
Note receivable (Note 4)	88,732	90,618
Pledges receivable, net of allowance for doubtful accounts of \$136,818 and \$172,655 for 2015 and 2014, respectively (Notes 5 and 14)	11,628,547	14,673,914
Prepaid, deposits and other assets	685,359	954,491
Deferred financing cost, net of accumulated amortization of \$30,656 and \$10,332 for 2015 and 2014, respectively (Notes 8 and 9)	124,324	144,648
Property and equipment, net of accumulated depreciation and amortization of \$15,907,313 and \$14,821,429 for 2015 and 2014, respectively (Note 6)	<u>30,484,837</u>	<u>26,761,282</u>
TOTAL ASSETS	<u>\$110,271,017</u>	<u>\$108,776,156</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Loan payable (Note 8)	\$ 5,049,742	\$ 732,742
Bonds payable (Note 9)	5,379,056	5,878,076
Accounts payable and accrued expenses	1,705,662	3,230,092
Deferred income	515,244	418,561
Liability under split interest agreements	878,611	905,373
Interest rate swap obligation (Notes 10 and 17)	<u>744,069</u>	<u>880,893</u>
Total liabilities	<u>14,272,384</u>	<u>12,045,737</u>

NET ASSETS

Unrestricted	31,088,547	28,688,043
Temporarily restricted (Note 11)	20,271,121	23,414,541
Permanently restricted (Note 18)	<u>44,638,965</u>	<u>44,627,835</u>
Total net assets	<u>95,998,633</u>	<u>96,730,419</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$110,271,017</u>	<u>\$108,776,156</u>

CHESAPEAKE BAY FOUNDATION, INC.

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2015
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2014**

	2015			2014	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Total
REVENUE					
Membership contributions	\$ 4,579,738	\$ -	\$ -	\$ 4,579,738	\$ 4,673,323
Grants and gifts (Notes 14 and 15)	8,835,922	6,157,526	-	14,993,448	20,235,205
Education contracts and tuition	1,125,462	-	-	1,125,462	1,204,874
Investment income (Note 2)	588,317	2,100,907	-	2,689,224	2,283,173
Donated goods and services (Note 16)	1,070,141	-	-	1,070,141	1,807,514
Other (Note 15)	1,373,768	-	-	1,373,768	476,601
Net assets released from donor restrictions (Note 11)	<u>10,723,794</u>	<u>(10,723,794)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	<u>28,297,142</u>	<u>(2,465,361)</u>	<u>-</u>	<u>25,831,781</u>	<u>30,680,690</u>
EXPENSES					
Program Services:					
Environmental Education	6,191,494	-	-	6,191,494	6,404,143
Environmental Protection and Restoration	10,771,586	-	-	10,771,586	11,602,781
Communications	<u>3,031,303</u>	<u>-</u>	<u>-</u>	<u>3,031,303</u>	<u>3,498,193</u>
Total program services	<u>19,994,383</u>	<u>-</u>	<u>-</u>	<u>19,994,383</u>	<u>21,505,117</u>
Support Services:					
General and Administrative	2,280,081	-	-	2,280,081	2,138,630
Fundraising	<u>3,404,722</u>	<u>-</u>	<u>-</u>	<u>3,404,722</u>	<u>3,394,420</u>
Total support services	<u>5,684,803</u>	<u>-</u>	<u>-</u>	<u>5,684,803</u>	<u>5,533,050</u>
Total expenses	<u>25,679,186</u>	<u>-</u>	<u>-</u>	<u>25,679,186</u>	<u>27,038,167</u>
Change in net assets before capital (deductions) additions	<u>2,617,956</u>	<u>(2,465,361)</u>	<u>-</u>	<u>152,595</u>	<u>3,642,523</u>
CAPITAL (DEDUCTIONS) ADDITIONS					
Investment (loss) return, net (Note 2)	(353,736)	(678,059)	130	(1,031,665)	4,751,708
Income recovery on sale of debt financed property	-	-	-	-	11,472
Grants and gifts (Note 14)	-	-	11,000	11,000	18,343
Donated property (Note 16)	-	-	-	-	70,000
(Loss) gain on sale/transfer of property	(540)	-	-	(540)	8,825
Unrealized gain on interest rate swap (Note 10)	<u>136,824</u>	<u>-</u>	<u>-</u>	<u>136,824</u>	<u>57,146</u>
Total capital (deductions) additions	<u>(217,452)</u>	<u>(678,059)</u>	<u>11,130</u>	<u>(884,381)</u>	<u>4,917,494</u>
Change in net assets	2,400,504	(3,143,420)	11,130	(731,786)	8,560,017
Net assets at beginning of year	<u>28,688,043</u>	<u>23,414,541</u>	<u>44,627,835</u>	<u>96,730,419</u>	<u>88,170,402</u>
NET ASSETS AT END OF YEAR	<u>\$ 31,088,547</u>	<u>\$ 20,271,121</u>	<u>\$ 44,638,965</u>	<u>\$ 95,998,633</u>	<u>\$ 96,730,419</u>

CHESAPEAKE BAY FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2014

	2015			
	Program Services			
	Environmental	Environmental		Total
	Education	Protection and	Communications	Program
	Education	Restoration	Communications	Services
Salaries	\$ 2,335,512	\$ 3,919,228	\$ 1,051,377	\$ 7,306,117
Fringe benefits (Note 13)	919,300	1,512,838	416,683	2,848,821
Supplies	446,005	344,194	51,036	841,235
Restoration supplies	1,645	207,779	-	209,424
Telephone	47,781	76,126	15,330	139,237
Postage and shipping	112,744	209,549	131,405	453,698
Occupancy and utilities (Notes 6, 10 and 12)	481,538	834,348	139,259	1,455,145
Equipment rental, leasing, repairs and maintenance	254,764	144,785	28,815	428,364
Printing and publications	117,177	255,271	167,298	539,746
Dues and subscriptions	1,651	27,827	16,110	45,588
Travel	192,454	181,156	13,484	387,094
Meetings and seminars	92,093	104,649	14,883	211,625
Outside services	58,494	130,818	141,366	330,678
Professional fees	254,660	931,911	331,165	1,517,736
Restoration fees	-	331,199	-	331,199
Personnel recruitment	-	-	-	-
Miscellaneous	19,779	47,410	1,414	68,603
Mailing preparation	35,050	61,380	17,160	113,590
Insurance	147,701	128,529	13,823	290,053
List rentals	37,858	65,862	18,535	122,255
Depreciation and amortization - other (Note 6)	199,794	146,114	14,108	360,016
Subrecipients	-	559,480	-	559,480
Donated goods and services (Note 16)	<u>294,112</u>	<u>305,165</u>	<u>378,833</u>	<u>978,110</u>
Sub-total	6,050,112	10,525,618	2,962,084	19,537,814
Allocation of management and general	<u>141,382</u>	<u>245,968</u>	<u>69,219</u>	<u>456,569</u>
TOTAL	<u>\$ 6,191,494</u>	<u>\$ 10,771,586</u>	<u>\$ 3,031,303</u>	<u>\$ 19,994,383</u>

					2014
<u>Support Services</u>					
<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Support Services</u>	<u>Total Expenses</u>	<u>Total Expenses</u>	
\$ 1,528,520	\$ 1,194,664	\$ 2,723,184	\$ 10,029,301	\$ 10,547,751	
590,308	476,767	1,067,075	3,915,896	4,040,388	
71,078	75,724	146,802	988,037	625,775	
-	-	-	209,424	199,072	
12,133	11,195	23,328	162,565	184,323	
2,252	225,279	227,531	681,229	780,923	
265,665	86,041	351,706	1,806,851	1,480,132	
30,614	52,167	82,781	511,145	349,818	
2,382	255,479	257,861	797,607	902,418	
3,463	5,278	8,741	54,329	53,364	
28,670	23,866	52,536	439,630	470,647	
56,627	112,928	169,555	381,180	295,528	
50,747	154,431	205,178	535,856	362,737	
70,496	382,408	452,904	1,970,640	2,328,878	
-	-	-	331,199	509,815	
36,122	-	36,122	36,122	12,673	
1,307	8,100	9,407	78,010	42,361	
-	89,180	89,180	202,770	229,823	
32,218	22,386	54,604	344,657	299,715	
-	57,535	57,535	179,790	193,639	
18,370	14,941	33,311	393,327	379,358	
-	-	-	559,480	941,515	
<u>13,424</u>	<u>78,607</u>	<u>92,031</u>	<u>1,070,141</u>	<u>1,807,514</u>	
2,814,396	3,326,976	6,141,372	25,679,186	27,038,167	
<u>(534,315)</u>	<u>77,746</u>	<u>(456,569)</u>	<u>-</u>	<u>-</u>	
<u>\$ 2,280,081</u>	<u>\$ 3,404,722</u>	<u>\$ 5,684,803</u>	<u>\$ 25,679,186</u>	<u>\$ 27,038,167</u>	

CHESAPEAKE BAY FOUNDATION, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (731,786)	\$ 8,560,017
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,109,924	916,863
Unrealized gain on interest rate swap	(136,824)	(57,146)
Loss (gain) on sale of property and equipment	540	(8,825)
Donated property	-	(70,000)
Capital additions - permanently restricted contributions	(11,000)	(18,343)
Change in the discount of long-term pledges receivable	(319,756)	(328,782)
Change in allowance for doubtful accounts	(36,167)	(23,719)
Unrealized loss (gain) on investments	2,984,041	(3,468,858)
Realized gains on investments	(4,133,620)	(2,809,690)
Change in value of split interest agreements	(26,762)	47,113
(Increase) decrease in:		
Accounts receivable	37,203	(521,128)
Pledges receivable	3,400,960	2,280,107
Prepays, deposits and other assets	269,132	(249,687)
Increase (decrease) in:		
Accounts payable and accrued expenses	(1,524,430)	1,794,034
Deferred income	96,683	32,603
Income taxes payable on sale of debt financed property	-	(1,043,062)
Net cash provided by operating activities	<u>978,138</u>	<u>5,031,497</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net proceeds from sale of investments	2,045,907	1,175,630
Purchases of property and equipment	(4,816,195)	(5,552,611)
Proceeds from sale of property and equipment	2,500	-
Proceeds from note receivable	1,886	1,613
Capitalized bond costs	-	(154,980)
Net cash used by investing activities	<u>(2,765,902)</u>	<u>(4,530,348)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital additions - permanently restricted contributions	11,000	18,343
Decrease in cash held for bond sinking fund	-	324,916
Extinguishments/retirement of bonds payable	-	(6,195,000)
Payments on bonds payable	(499,020)	(316,924)
Issuance of bond payable	-	6,195,000
Proceeds on loan payable	4,817,000	2,413,434
Payments on loan payable	(500,000)	(1,680,692)
Proceeds from split interest agreements	-	53,354
Payments made on split interest agreements	-	(117,586)
Net cash provided by financing activities	<u>3,828,980</u>	<u>694,845</u>

CHESAPEAKE BAY FOUNDATION, INC.

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2014

	<u>2015</u>	<u>2014</u>
Net increase in cash and cash equivalents	\$ 2,041,216	\$ 1,195,994
Cash and cash equivalents at beginning of year	<u>8,409,496</u>	<u>7,213,502</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 10,450,712</u>	<u>\$ 8,409,496</u>
 SUPPLEMENTAL INFORMATION		
Interest Paid	<u>\$ 342,147</u>	<u>\$ 311,545</u>
Taxes Paid	<u>\$ -</u>	<u>\$ 1,047,968</u>

CHESAPEAKE BAY FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The Chesapeake Bay Foundation, Inc. (the Foundation) is a non-profit organization, incorporated in the State of Maryland in March 1966. Its principal sources of funds are contributions received directly from the public and grants received from individuals, foundations, governments, and corporations for environmental education, environmental protection, and land management and conservation programs relating to the Chesapeake Bay Region.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended June 30, 2014, from which the summarized information was derived.

Cash and cash equivalents -

The Foundation considers all cash and other highly liquid investments, including certificates of deposit with maturities of three months or less, and excluding cash and cash equivalents held by investment managers, to be cash equivalents.

At times during the year, the Foundation maintains a portion of its cash balances at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) limits. Management believes the risk in these situations to be minimal.

Investments -

The Foundation invests in shares held in individual securities or investment funds which include bonds, stocks, investment trusts, money market funds held for investment purposes, limited partnerships, and a non-domestic professional fund. Investment fund managers trade in various domestic and foreign financial markets, which carry a certain amount of risk of loss. Investments are stated at fair value based on quoted market prices at the reporting date, or in absence of such quoted market price, a reasonable estimate of fair value as approved by management. Unrealized and realized gains and losses are included in investment (loss) return and investment income in the Statement of Activities and Change in Net Assets.

The fair value of financial instruments is determined by reference to various market data and other valuation techniques as appropriate. Credit risk from financial instruments relates to the possibility that invested assets within a particular industry segment may experience loss due to market conditions. The Foundation has diversified its financial instruments to help ensure that no one industry segment represents a significant concentration of risk.

Although management uses its best judgment at estimating fair value of the underlying assets for its investments, there are inherent limitations in any valuation technique. Therefore, the value is not necessarily indicative of the amount that could be realized in a current transaction. Future events will also affect the estimates of fair value, and the effect of such events on the estimates of fair value could be material.

Financial instruments with off-balance sheet risk -

In the course of trading activities entered into by the Foundation's various investment fund managers, certain financial instruments with off-balance sheet risk were acquired in order to structure the portfolio transactions to economically match the investment objectives of the funds and to hedge market risk. The exposure to credit risk associated with non-performance of any of these types of financial instruments is typically limited to the value of such investments reported as assets in the Statement of Financial Position.

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**
(Continued)

Accounts and pledges receivable -

Accounts receivable are recorded at their net realizable value, which approximates fair value. Pledges receivable that are expected to be collected in future years are recorded at fair value, measured as the present value of their future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in grants and gifts revenue. Conditional promises to give are not included as support until the conditions are substantially met. The allowance for doubtful accounts is determined based upon an annual review of account balances, including the age of the balance and the historical experience with the customer and donor.

Deferred financing costs -

Deferred financing costs represent loan issuance and bond issuance costs and other costs related to the construction of the Brock Environmental Center and the acquisition of the Bay Ridge Facility (Notes 8 and 9). Deferred financing costs are being amortized over the respective lives of the loan and bonds.

Property and equipment -

Property and equipment are stated at acquisition cost or fair market value at the date of donation, less accumulated depreciation. Property and equipment are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to thirty years. The cost of maintenance and repairs is recorded as expenses are incurred. The Foundation has established \$5,000 as its threshold for capitalization.

Land is stated at acquisition cost, fair market value, or if fair market value is not available, at assessment value, at the date of donation. The land is used for educational, conservation, and operating purposes.

Impairment of long-lived assets -

Management reviews asset carrying amounts whenever events or circumstances indicate that such carrying amounts may not be recoverable. When considered impaired, the carrying amount of the assets is reduced, by a charge to Statement of Activities and Change in Net Assets, to its current fair value.

Split interest agreements -

A split interest agreement is a trust or other arrangements initiated by donors under which the Foundation receives benefits that are shared with either the donor or third party beneficiaries. The Foundation is the beneficiary of several split interest agreements. The Foundation's interest in these split interest agreements is reported as a contribution in the year received at its net present value. For the years ended June 30, 2015 and 2014, liabilities under split interest agreements totaled \$878,611 and \$905,373, respectively.

Net asset classification -

The net assets of the Foundation are reported in three self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of the Foundation and include both internally designated and undesignated resources.

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION**
(Continued)

Net asset classification (continued) -

- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of the Foundation and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions.
- **Permanently restricted net assets** represent funds restricted by the donor to be maintained in-perpetuity by the Foundation.

Contributions and grants -

Contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Such contributions and grants received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

The Foundation receives funding under grants and contracts from the U.S. Government for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants are considered exchange transactions and are recorded as unrestricted grant revenue to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements.

Grants and support receivable represents amounts due from funding organizations for reimbursable expenses incurred in accordance with the grant agreements. Grant funding received in advance of incurring the related expenses is recorded as a refundable advance.

Donated goods and services -

Contributions of goods or services are recognized when they are received if the goods or services either (a) create or enhance nonfinancial assets, or (b) require specialized skills, and are provided by individuals possessing those skills, and would typically need to be purchased if not donated. These amounts are shown as revenue and expenses on the Statement of Activities and Change in Net Assets.

Income taxes -

The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation is not a private foundation. The Foundation is required to report unrelated business income to the Internal Revenue Service and the appropriate state taxing authorities. The Foundation reports unrelated business income associated with its investments and is reporting the tax on a sale of debt financed investment property which occurred in the year ending June 30, 2012.

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Income taxes (continued) -

The Foundation has recorded income tax recovery in the amount of \$4,590 and \$11,472 for the years ended June 30, 2015 and 2014, respectively, as follows:

	<u>2015</u>	<u>2014</u>
Income recovery on sale of debt financed property	\$ -	\$ 11,472
Other unrelated business income tax recovery included as a reduction to miscellaneous expenses in the accompanying Statement of Functional Expenses	<u>4,590</u>	<u>-</u>
TOTAL INCOME TAX RECOVERY	\$ <u>4,590</u>	\$ <u>11,472</u>

Federal and state income tax refunds of \$1,500 and \$8,911 were outstanding and included in accounts payable in the Statement of Financial Position as of June 30, 2015 and 2014, respectively.

Uncertain tax positions -

For the years ended June 30, 2015 and 2014, the Foundation has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

The Federal Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the Internal Revenue Service, generally for three years after it is filed.

Use of estimates -

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Fair value measurement -

The Foundation adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. The Foundation accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and support services benefited.

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION
(Continued)

Joint costs -

For fiscal years 2015 and 2014, the Foundation incurred joint costs of \$2,279,581 and \$2,499,805, respectively, for educational materials, membership and support services. These costs were allocated as follows:

	<u>2015</u>	<u>2014</u>
Environmental Education	\$ 502,964	\$ 523,164
Environmental Protection and Restoration	875,027	947,856
Communications	246,247	285,768
Fundraising	<u>655,343</u>	<u>743,017</u>
TOTAL JOINT COSTS INCURRED	<u>\$ 2,279,581</u>	<u>\$ 2,499,805</u>

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported changes in net assets.

2. INVESTMENTS

At June 30, 2015 and 2014, investments at readily determinable fair values, consisted of the following:

	<u>2015</u>	<u>2014</u>
Equity securities	\$ 20,721,597	\$ 24,529,255
International equity securities	3,726,419	5,242,067
Partnerships/Alternative investments	18,764,364	16,710,344
Corporate bonds and other agencies	2,613,649	2,693,971
Beneficial interest in perpetual trust	<u>2,924,350</u>	<u>2,924,350</u>
Sub-total investments	48,750,379	52,099,987
Cash and cash equivalents held by investment managers	<u>6,563,228</u>	<u>4,109,948</u>
TOTAL INVESTMENTS	<u>\$ 55,313,607</u>	<u>\$ 56,209,935</u>

Under the terms of certain agreements for several alternative investments, the Foundation is obligated to remit additional funding periodically as capital calls are exercised. As of June 30, 2015 and 2014, the Foundation has uncalled commitments of \$560,771 and \$1,398,770, respectively.

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

2. INVESTMENTS (Continued)

Alternative investments are comprised of the following at June 30, 2015 and 2014:

Investment Type	Amount		Liquidity
	2015	2014	
Domestic/U.S. Limited Partnerships	\$ 1,239,782	\$ 1,347,491	None until dissolution or winding up of partnership.
Domestic/U.S. Limited Partnerships	1,874,300	1,000,000	100 days notice
Domestic/U.S. Alternative Trusts	3,190,917	-	Month end
Domestic/U.S. Limited Partnerships	12,428,420	11,869,132	Last day of each quarter.
Hedge Funds	<u>30,945</u>	<u>2,493,721</u>	Last day of each quarter.
ALTERNATIVE INVESTMENTS	<u>\$18,764,364</u>	<u>\$16,710,344</u>	

Included in the investment balance at June 30, 2015 and 2014 are investments related to certain split-interest agreements in the amounts of \$970,538 and \$1,112,186, respectively.

The investment portfolio includes \$36,428,383 and \$36,412,049 of permanently restricted endowment investments at June 30, 2015 and 2014, respectively (see Note 18).

The Foundation follows the Uniform Prudent Management Institutional Funds Act (UPMIFA). As such, endowment earnings not yet authorized for spending are shown as temporarily restricted net assets. If, in a given year, there are deficiencies in any endowment fund, unrestricted net assets will cover the deficiencies.

It is the policy of the Foundation to spend on operations 5% of a twelve quarter trailing average of the sum of accumulated investments, including endowment fund investments. This 5% amount is shown in the revenue section of the Statement of Activities and Change in Net Assets. Investment income that exceeds this target and all losses in a given year are considered non-operating items and are included in the capital additions (deductions) section of the Statement of Activities and Change in Net Assets, as "Investment (loss) return, net".

Investment return for the years ended June 30, 2015 and 2014 consisted of the following:

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 507,980	\$ 756,333
Unrealized (loss) gain	(2,984,041)	3,468,858
Realized gains	<u>4,133,620</u>	<u>2,809,690</u>
Total investment return	1,657,559	7,034,881
Less: Investment income used for operations	<u>(2,689,224)</u>	<u>(2,283,173)</u>
NET INVESTMENT (LOSS) RETURN	<u>\$ (1,031,665)</u>	<u>\$ 4,751,708</u>

CHESAPEAKE BAY FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

3. ACCOUNTS RECEIVABLE

Accounts receivable are stated at their carrying value, which approximates fair value, and are due within one year. The allowance for doubtful accounts is determined based upon an annual review of account balances, including the age of the balance and the historical experience with the customer. Accounts receivable consisted of the following at June 30, 2015 and 2014, respectively:

	2015	2014
Federal and state receivables	\$ 537,279	\$ 1,371,289
Non-Federal and state receivables	961,634	164,827
Total accounts receivable	1,498,913	1,536,116
Less: Allowance for doubtful accounts	(4,014)	(4,344)
NET ACCOUNTS RECEIVABLE	\$ 1,494,899	\$ 1,531,772

4. NOTE RECEIVABLE

On July 20, 1998, the Foundation loaned \$135,000 to the Rappahannock Tribe, Inc. (the Tribe). The loan was collateralized by the Tribe's property. The note bears interest at a rate of 7.5% annually, with interest payable monthly. The note was due on July 1, 1999; however, the note has been extended every year and is now due July 1, 2016. Only monthly payments of interest are to be made by the Tribe until maturity. The amounts outstanding at June 30, 2015 and 2014 were \$88,732 and \$90,618, respectively.

5. PLEDGES RECEIVABLE

As of June 30, 2015 and 2014, contributors to the Foundation have made written promises to give totaling \$13,878,169 and \$17,279,129, respectively. Pledges due in more than one year have been recorded at the present value of the estimated cash flows, using a discount rate ranging from 2% to 7%. The allowance for doubtful accounts is determined based upon an annual review of account balances, including the age of the balance and the historical experience with the donor. Pledges are due as follows at June 30, 2015 and 2014:

	2015	2014
Less than one year	\$ 3,854,870	\$ 4,597,553
One to five years	4,713,723	6,888,768
Beyond five years	5,309,576	5,792,808
Total pledges	13,878,169	17,279,129
Less: Discount to net present value	(2,112,804)	(2,432,560)
Less: Allowance for doubtful accounts	(136,818)	(172,655)
NET PLEDGES RECEIVABLE	\$ 11,628,547	\$ 14,673,914

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

6. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Land	\$ 11,734,840	\$ 11,645,983
Building and improvements	26,258,175	16,163,695
Furniture and equipment	3,463,806	3,041,420
Boats	4,003,386	3,984,795
Vehicles	617,609	614,995
Construction in progress	297,334	6,114,823
Art	<u>17,000</u>	<u>17,000</u>
Total property and equipment	46,392,150	41,582,711
Less: Accumulated depreciation and amortization	<u>(15,907,313)</u>	<u>(14,821,429)</u>
NET PROPERTY AND EQUIPMENT	<u>\$ 30,484,837</u>	<u>\$ 26,761,282</u>

The amount of property and equipment (at cost or fair market value at date of donation) that cannot be sold by the Foundation due to donor restrictions is \$8,155,524 at June 30, 2015 and 2014 (see Note 18).

Depreciation and amortization expense for the years ended June 30, 2015 and 2014 totaled \$1,109,924 and \$916,863, respectively. Of these amounts, \$716,570 and \$537,505 is included in occupancy expense, and \$393,354 and \$379,358 is included in depreciation and amortization expense in the accompanying Statement of Functional Expenses for the years ended June 30, 2015 and 2014, respectively.

7. LINE OF CREDIT

The Foundation obtained an unsecured \$1,000,000 line of credit with Capital One, effective October 1, 2013 (the "Line of Credit"). The Line of Credit is renewable annually, and subsequent to year end, the Line of Credit was extended for an additional year through January 29, 2016. There was no outstanding balance on the line of credit for the years ended June 30, 2015 and 2014.

8. LOAN PAYABLE

The Chesapeake Bay Foundation's Brock Environmental Center is a 10,200 square foot facility located at Pleasure House Point in Virginia Beach, Virginia. It sits on land once slated for heavy development that is now saved in perpetuity. The Brock Center provides a collaborative workspace for all of the Foundation's Virginia Beach program staff, the local Lynnhaven River NOW environmental group, a partner group of the Foundation, and the City of Virginia Beach Parks and Recreation.

CHESAPEAKE BAY FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

8. LOAN PAYABLE (Continued)

The building is also a venue for expanded environmental education programs for decision makers, students, teachers and volunteers, serves as a lasting demonstration site for restoration projects, and provides meeting space for local nonprofit groups. The facility is one of the most sustainable buildings in the world. The facility earned the U.S. Green Building Council's LEED Platinum Certification and expects to obtain the International Living Building Institute's Living Building Challenge Certification.

The construction of the facility was completed on October 31, 2014, and staff began to move into the facility in mid-December 2014. Environmental programs, tours, and volunteer activities began in January 2015.

On October 1, 2013, the Foundation obtained a variable rate taxable loan in the amount of \$8,300,000 from Capital One in connection with the development of the Brock Environmental Center (the "Taxable Loan"). The Taxable Loan is unsecured, and is structured as a "draw down facility" and payments are interest only through maturity. The entire unpaid balance, together with all accrued and unpaid interest, shall be due and payable in full on the maturity date of October 1, 2020. The total amount of the loan outstanding as of June 30, 2015 and 2014 was \$5,049,742 and \$732,742, respectively.

Total interest of \$14,937 was capitalized and included in the buildings and improvements account for the period ending June 30, 2015. Additionally, financing costs totaling \$67,560, related to obtaining the taxable loan, were capitalized and are being amortized over the life of the taxable loan. At June 30, 2015 and 2014, accumulated amortization for the taxable loan financing costs totaled \$16,086 and \$4,263, respectively.

Additionally, the agreements for the Loan payable and Bonds payable (discussed in Note 9) contain various covenants, which among other things, require the Foundation to maintain certain financial ratios and submit various financial reports throughout their fiscal year. For the years ended June 30, 2015 and 2014, the Foundation was in compliance with the debt covenants. As of the date of this report, the Foundation was in compliance with all debt covenants.

9. BONDS PAYABLE

In December 2000, the Foundation moved into its U.S. Green Building Council LEED Platinum headquarters, a facility named the Philip Merrill Environmental Center, which is widely recognized as one of the most environmentally innovative buildings in the world. The facility includes a two story, 30,000 square foot "green" office building and common meeting centers for internal and external groups. Since moving into the Merrill Center, much of the site has been and continues to be restored with native plants.

During fiscal year 2014, the "Variable Rate Economic Development Revenue Bonds, Series 1998" which were used to finance the acquisition, construction and equipping a portion of the Phillip Merrill Environmental Center, were refinanced with the related bond sinking fund extinguished and capitalized costs fully amortized. As described further below, no amount of the 1998 Bonds was outstanding as of June 30, 2014.

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

9. **BONDS PAYABLE (Continued)**

On October 1, 2013, the Maryland Economic Development Corporation (MEDCO) issued an Economic Development Refunding Revenue Bond, The Chesapeake Bay Foundation Project, 2013 Series (the "2013 Series Bonds") in the amount of \$6,195,000 for the benefit of the Foundation. Proceeds of the 2013 Series Bonds were used to refinance MEDCO's outstanding 1998 Series Bonds, noted above. The 2013 Series Bonds were purchased by Capital One, N.A. ("Capital One"). Principal and interest on the 2013 Series Bonds are due monthly based on a mortgage style amortization structure. The final maturity date of the Series 2013 Bonds is October 1, 2023. Financing costs related to the issuance of the 2013 Series Bonds in the amount of \$87,420, were capitalized and are being amortized over the life of the bonds. At June 30, 2015 and 2014, accumulated amortization for the bond financing costs totaled \$14,570 and \$6,069, respectively.

To mitigate the effect of fluctuations in interest rates, the Foundation has hedged these bonds using the interest rate swap agreement described in Note 10. The bond agreements, among other provisions, require the Foundation to meet certain financial ratio tests. For the years ended June 30, 2015 and 2014, the Foundation was in compliance with all bond covenants.

As of June 30, 2015 and 2014, the outstanding principal of the bond payable totaled \$5,379,056 and \$5,878,076, respectively.

Principal payments are due as follows:

<u>Year Ending June 30,</u>	
2016	\$ 524,936
2017	554,735
2018	585,406
2019	616,824
2020	652,423
Thereafter	<u>2,444,732</u>
BONDS PAYABLE	<u>\$ 5,379,056</u>

The Foundation incurred interest expense on the bonds totaling \$302,698 and \$311,545 for the years ended June 30, 2015 and 2014, respectively, which is included in occupancy and utilities expense within the Statement of Functional Expenses.

10. **INTEREST RATE SWAP**

The bonds discussed in Note 9 include interest payments based on the Securities Industry and Financial Markets Association ("SIFMA") Index, formerly the Bond Market Association (BMA). As a means to reduce its exposure to volatility in the variable rate index, the Foundation entered into certain interest rate swap agreements. The intention of the swap agreement is to synthetically fix the interest rate on the bonds.

CHESAPEAKE BAY FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

10. INTEREST RATE SWAP (Continued)

The Foundation had an interest rate swap agreement (the "Wells Fargo Swap"), which was terminated on September 27, 2013 in connection with the issuance of the 2013 Series Bonds. The market value of the Wells Fargo Swap, at the time of termination, was embedded in the new Swap provided by Capital One Bank, N.A. (the "Capital One Swap"). Under the Capital One Swap, the Foundation pays a fixed rate of 4.52% and receives a floating rate equal to 78% of 1-Month LIBOR. The Capital One Swap hedges 100% of the outstanding amount of the 2013 Series Bonds and provides the Foundation with a synthetic fixed rate cost of capital through the maturity of the 2013 Series Bonds on October 1, 2023. For the years ended June 30, 2015 and 2014, the outstanding notional amount of the Capital One Swap was \$5,379,056 and \$5,878,076, respectively.

As of June 30, 2015 and 2014, the Capital One Swap had a negative fair value of \$744,069 and \$880,893, respectively, which is reflected as a liability in the financial statements.

As of June 30, 2015 and 2014, the Foundation was not exposed to credit risk because the respective swaps had a negative fair value. The Foundation is only exposed to credit risk if the swap has a positive fair value. In addition, since the swap agreements were executed to the maturity of the underlying bonds, there is no rollover risk.

The swaps expose the Foundation to basis risk should the actual rate on the Foundation's bonds exceed the respective Index (LIBOR Index and SIFMA Index for the years ended June 30, 2015 and 2014, respectively). Since the Foundation's bonds are based upon the respective Index, there is relatively little basis risk. Should the Foundation terminate the Capital One Swap prior to maturity, the Foundation will either receive or pay a termination payment. This payment is equal to the fair value of the Capital One Swap at the time it is terminated.

11. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2015 and 2014:

	2015	2014
Program Restricted:		
Environmental Education	\$ 1,208,491	\$ 1,604,558
Environmental Protection and Restoration	9,171,735	11,367,043
Communications	-	90,000
Property and Equipment	645,646	186,461
Other	23,786	73,238
Total program restricted	11,049,658	13,321,300
Time Restricted	<u>9,221,463</u>	<u>10,093,241</u>
TEMPORARILY RESTRICTED NET ASSETS	\$ 20,271,121	\$ 23,414,541

The Foundation is the recipient of several charitable remainder unitrusts that are administered by third parties. Under the terms of these trusts, payments of income are made from the trusts to the donors or other specified parties over the terms of the trusts. Upon the termination of the trusts, the remaining net assets will be transferred to the Foundation for its unrestricted use.

CHESAPEAKE BAY FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

11. TEMPORARILY RESTRICTED NET ASSETS (Continued)

Accumulated investment earnings from permanently restricted endowed funds included within temporarily restricted net assets as of June 30, 2015 and 2014 are as follows:

	2015	2014
With purpose restrictions	\$ 4,323,880	\$ 4,631,222
Time restriction	2,056,435	2,382,120
ACCUMULATED ENDOWMENT EARNINGS INCLUDED IN TEMPORARILY RESTRICTED NET ASSETS	\$ 6,380,315	\$ 7,013,342

Temporarily restricted net assets released from donor restrictions by incurring expenses, which satisfied the restricted purposes specified by the donors or the passage of time are as follows:

	2015	2014
Donor Restrictions:		
Environmental Education	\$ 1,409,902	\$ 1,383,019
Environmental Protection and Restoration	6,432,807	7,642,688
Communications	90,000	180,000
Property and Equipment	190,564	2,142,701
Other	88,076	119,603
Total donor restrictions	8,211,349	11,468,011
Time Restricted	2,512,445	2,014,743
NET ASSETS RELEASED FROM RESTRICTIONS	\$ 10,723,794	\$ 13,482,754

12. LEASE COMMITMENT

The Foundation leases office space, equipment, and distribution facilities under noncancellable leases expiring at various dates.

Certain lease agreements call for escalation of rental payments based upon increases in operating costs of the lessor and increases in consumer price indices. Additionally, some of the leases include renewal options ranging from three months to three years.

The minimum rental payments under these noncancellable leases for future fiscal years are as follows:

<u>Year Ending June 30,</u>		
2016	\$	323,720
2017		325,131
2018		203,590
2019		108,255
2020		27,929
Thereafter		2,753
	\$	991,378

CHESAPEAKE BAY FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

12. LEASE COMMITMENT (Continued)

Rent expense for the years ended June 30, 2015 and 2014 totaled \$281,173 and \$277,134, respectively. Rent expense is included in occupancy and utilities in the Statement of Functional Expenses.

13. DEFINED CONTRIBUTION RETIREMENT BENEFIT PLAN

Retirement benefits are available for substantially all regular, full-time Foundation personnel, through direct payments by the Foundation to the Plan administrators. For these employees, the Foundation matches the employee's voluntary contribution up to four percent. For the years ended June 30, 2015 and 2014, the Foundation made contributions in the amounts of \$383,982 and \$397,422, respectively.

14. RELATED PARTY

For the years ended June 30, 2015 and 2014, the Foundation received gross contributions and grants in the amounts of \$2,832,775 and \$3,785,946, respectively, from Trustees, Executive Management, and their associated companies. Net amounts due under pledges receivable from related parties totaled \$2,549,296 and \$2,565,247 as of June 30, 2015 and 2014, respectively.

15. CONTINGENCIES

The Foundation receives grants from various agencies of the United States Government. Such grants are subject to audit under the provisions of OMB Circular A-133. The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits. Audits in accordance with the provisions of OMB Circular A-133 have been completed for all required fiscal years through 2015. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

Various lawsuits and other contingent liabilities arise in the ordinary course of the Foundation's activities. While the final outcome of these legal actions cannot be determined at this time, management is of the opinion that the ultimate liability, if any, from the final resolution of these matters will not have a material effect on the Foundation's financial statements. During the year ended June 30, 2015, the Foundation received a settlement in the amount of \$800,000 related to previous year's litigation, which is included in Other revenue in the Statement of Activities and Change in Net Assets.

16. DONATED GOODS, SERVICES AND PROPERTY

During the years ended June 30, 2015 and 2014, the Foundation was the beneficiary of donated goods and services, which allow the Foundation to provide greater resources toward various programs. To properly reflect total program expenses, donations totaling \$1,070,141 and \$1,807,514 have been included in revenue and expense for the years ended June 30, 2015 and 2014, respectively, which included \$875,000 and \$1,477,600 of in-kind public service announcements for the years ended June 30, 2015 and 2014.

In addition, the Foundation was the beneficiary of donated property and equipment totaling \$70,000 for the year ended June 30, 2014. These assets were capitalized at their fair value and the income is recognized in the Statement of Activities and Change in Net Assets. There was no donated property and equipment received during the year ended June 30, 2015.

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

17. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, the Foundation has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market the Foundation has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies or classifications used at June 30, 2015.

- *Equity/International Equity* - Valued at the closing price reported on the active market in which the individual securities are traded.
- *Partnerships/Alternative investments* - These instruments do not have a readily determinable fair value. The fair values used are generally determined by the general partner or management of the entity and are based on appraisals or other estimates that require varying degrees of judgment. Inputs used in determining fair value may include the cost and recent activity concerning the underlying investments in the funds or partnerships.
- *Corporate bonds and other agencies* - Fair value is based upon current yields available on comparable securities of issuers with similar ratings, the security's terms and conditions, and interest rate and credit risk.
- *Beneficial interest in perpetual trust* - Valued at the present value of discounted cash flows of the trust investment value into perpetuity.
- *Cash and cash equivalents held by investment managers* - Fair value is equal to the reported net asset value of the fund.
- *Interest rate swap obligations* - Fair value is derived from quotes from a dealer or broker, where available. Models used in valuing such agreements consider the contractual terms of and specific risks inherent in the instrument, and inputs used typically include yield curve, instrument volatility, prepayment rates and assumptions concerning nonperformance risk.

CHESAPEAKE BAY FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

17. FAIR VALUE MEASUREMENT (Continued)

The tables below summarize, by level within the fair value hierarchy, the Foundation's investments as of June 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total June 30, 2015</u>
Asset Class:				
Equity securities	\$ 20,721,597	\$ -	\$ -	\$ 20,721,597
International equity securities	3,726,419	-	-	3,726,419
Partnerships/Alternative investments	-	-	18,764,364	18,764,364
Corporate bonds and other agencies	2,613,649	-	-	2,613,649
Beneficial interest in perpetual trust	-	2,924,350	-	2,924,350
Cash and cash equivalents held by investment managers	<u>6,563,228</u>	<u>-</u>	<u>-</u>	<u>6,563,228</u>
Total Investments	<u>\$ 33,624,893</u>	<u>\$ 2,924,350</u>	<u>\$ 18,764,364</u>	<u>\$ 55,313,607</u>
Liability:				
Interest Rate Swap Obligation	<u>\$ -</u>	<u>\$ 744,069</u>	<u>\$ -</u>	<u>\$ 744,069</u>

The tables below summarize, by level within the fair value hierarchy, the Foundation's investments as of June 30, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total June 30, 2014</u>
Asset Class:				
Equity securities	\$ 24,507,005	\$ 22,250	\$ -	\$ 24,529,255
International equity securities	5,242,067	-	-	5,242,067
Partnerships/Alternative investments	-	-	16,710,344	16,710,344
Corporate bonds and other agencies	2,693,971	-	-	2,693,971
Beneficial interest in perpetual trust	-	2,924,350	-	2,924,350
Cash and cash equivalents held by investment managers	<u>4,109,948</u>	<u>-</u>	<u>-</u>	<u>4,109,948</u>
Total Investments	<u>\$ 36,552,991</u>	<u>\$ 2,946,600</u>	<u>\$ 16,710,344</u>	<u>\$ 56,209,935</u>
Liability:				
Interest Rate Swap Obligation	<u>\$ -</u>	<u>\$ 880,893</u>	<u>\$ -</u>	<u>\$ 880,893</u>

Level 3 Financial Assets

Following is the change in fair value of the Foundation's assets using significant unobservable inputs (Level 3) for the year ended June 30, 2015:

	<u>Domestic/ U.S. Limited Partnership</u>	<u>Domestic/ U.S. Limited Partnership</u>	<u>Domestic/ U.S. Limited Partnership</u>	<u>Trusts</u>	<u>Hedge Funds</u>	<u>Total</u>
Beginning balance	\$ 1,347,491	\$ 1,000,000	\$ 11,869,132	\$ -	\$ 2,493,721	\$ 16,710,344
Unrealized (loss) gain	(79,528)	74,300	(467,343)	-	(441,225)	(913,796)
Realized gain	221,255	-	942,586	-	426,594	1,590,435
Earned income	50,548	(10,134)	80,093	-	(633)	119,874
Purchases (sales)	<u>(299,984)</u>	<u>810,134</u>	<u>3,952</u>	<u>3,190,917</u>	<u>(2,447,512)</u>	<u>1,257,507</u>
BALANCE AS OF JUNE 30, 2015	<u>\$ 1,239,782</u>	<u>\$ 1,874,300</u>	<u>\$ 12,428,420</u>	<u>\$ 3,190,917</u>	<u>\$ 30,945</u>	<u>\$ 18,764,364</u>

CHESAPEAKE BAY FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

17. FAIR VALUE MEASUREMENT (Continued)

Following is the change in fair value of the Foundation's assets using significant unobservable inputs (Level 3) for the year ended June 30, 2014 :

	<u>Domestic/ U.S. Limited Partnership</u>	<u>Domestic/ U.S. Limited Partnership</u>	<u>Domestic/ U.S. Limited Partnership</u>	<u>Hedge Funds</u>	<u>Total</u>
Beginning balance	\$ 1,420,734	\$ -	\$ 9,847,858	\$ 5,259,381	\$ 16,527,973
Unrealized (loss) gain	(111,315)	-	1,867,984	(633,079)	1,123,590
Realized gain	341,859	-	114,549	576,346	1,032,754
Earned income	(186)	-	35,077	(1,006)	33,885
Purchases (sales)	<u>(303,601)</u>	<u>1,000,000</u>	<u>3,664</u>	<u>(2,707,921)</u>	<u>(2,007,858)</u>
BALANCE AS OF JUNE 30, 2014	<u>\$ 1,347,491</u>	<u>\$ 1,000,000</u>	<u>\$ 11,869,132</u>	<u>\$ 2,493,721</u>	<u>\$ 16,710,344</u>

The amount of total gains or losses included in net unrestricted net assets attributable to the change in unrealized gains or losses relating to assets still held at the reporting date was a loss of \$913,796 for the year ended June 30, 2015 and a gain of \$1,123,590 for the year ended June 30, 2014.

As of June 30, 2015, the Foundation's individual investment funds which exceed 5% of net assets are:

<u>Name of Investment</u>	<u>Type of Investment</u>	<u>Fair Value</u>	<u>Fair Value as a % of Net Assets</u>
DF Dent	Equity	\$ 8,011,795	8%
Acacia Partners	Partnerships/Alternative investments	\$ 6,655,295	7%
Restricted Short-Term Investments	Cash and cash equivalents	\$ 6,181,556	7%
Multi-strategy Fund for Institutional Investors	Partnerships/Alternative investments	\$ 5,773,125	6%
T Rowe Price Equity Income Fund	Equity	\$ 5,242,253	5%

As of June 30, 2014, the Foundation's individual investment funds which exceed 5% of net assets are:

<u>Name of Investment</u>	<u>Type of Investment</u>	<u>Fair Value</u>	<u>Fair Value as a % of Net Assets</u>
DF Dent	Equity	\$ 7,194,545	7%
Acacia Partners	Partnerships/Alternative investments	\$ 6,112,772	6%
Multi-strategy Fund for Institutional Investors	Partnerships/Alternative investments	\$ 5,756,360	6%
T Rowe Price Equity Income Fund	Equity	\$ 5,353,927	6%
Cypress Asset Management	Equity	\$ 5,014,511	5%

CHESAPEAKE BAY FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

18. ENDOWMENT

The Foundation's endowment consists of several individual funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Board of Trustees to function as an endowment. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on existence or absence of donor imposed restrictions. The Board of Trustees has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, the Foundation classifies as permanently restricted net assets (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 in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA. (See Note 11, total endowments funds classified as temporarily restricted net assets.)

In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- The investment policies of the organization.

Permanently restricted net assets are invested in-perpetuity, the income of which is restricted to the following:

	2015	2014
Environmental Education	\$ 9,244,188	\$ 9,239,488
Environmental Protection and Restoration	13,074,325	13,074,325
Property and equipment	8,155,524	8,155,524
General operating	<u>14,164,928</u>	<u>14,158,498</u>
PERMANENTLY RESTRICTED NET ASSETS	<u>\$ 44,638,965</u>	<u>\$ 44,627,835</u>

Permanently restricted net assets consists of the following:

	2015	2014
Investments	\$ 36,428,383	\$ 36,412,049
Property and equipment	8,155,524	8,155,524
Pledge receivables, net of discount	51,858	60,262
Due from operations	<u>3,200</u>	<u>-</u>
PERMANENTLY RESTRICTED NET ASSETS	<u>\$ 44,638,965</u>	<u>\$ 44,627,835</u>

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

18. ENDOWMENT (Continued)

Endowment net asset composition by type of fund as of June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ (657,265)	\$ 6,380,315	\$ 44,638,965	\$ 50,362,015
Board-Designated Endowment Funds	<u>874,592</u>	<u>-</u>	<u>-</u>	<u>874,592</u>
TOTAL FUNDS	<u>\$ 217,327</u>	<u>\$ 6,380,315</u>	<u>\$ 44,638,965</u>	<u>\$ 51,236,607</u>

Changes in endowment net assets for the year ended June 30, 2015:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ <u>373,914</u>	\$ <u>7,013,342</u>	\$ <u>44,627,835</u>	\$ <u>52,015,091</u>
Interest and dividends	5,023	445,945	9	450,977
Net appreciation of investments	<u>19,628</u>	<u>881,563</u>	<u>121</u>	<u>901,312</u>
Total investment return	<u>24,651</u>	<u>1,327,508</u>	<u>130</u>	<u>1,352,289</u>
Contributions	-	-	11,000	11,000
Appropriation of endowment assets for expenditure	(40,866)	(2,100,907)	-	(2,141,773)
Other changes:				
Transfer of net assets	<u>(140,372)</u>	<u>140,372</u>	<u>-</u>	<u>-</u>
ENDOWMENT NET ASSETS, END OF YEAR	<u>\$ 217,327</u>	<u>\$ 6,380,315</u>	<u>\$ 44,638,965</u>	<u>\$ 51,236,607</u>

Endowment net asset composition by type of fund as of June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ (516,893)	\$ 7,013,342	\$ 44,627,835	\$ 51,124,284
Board-Designated Endowment Funds	<u>890,807</u>	<u>-</u>	<u>-</u>	<u>890,807</u>
TOTAL FUNDS	<u>\$ 373,914</u>	<u>\$ 7,013,342</u>	<u>\$ 44,627,835</u>	<u>\$ 52,015,091</u>

CHESAPEAKE BAY FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

18. ENDOWMENT (Continued)

Changes in endowment net assets for the year ended June 30, 2014:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ (357,750)	\$ 4,205,601	\$ 44,470,597	\$ 48,318,448
Interest and dividends	12,315	654,373	14,628	681,316
Net depreciation of investments	<u>104,616</u>	<u>4,552,812</u>	<u>124,267</u>	<u>4,781,695</u>
Total investment return	<u>116,931</u>	<u>5,207,185</u>	<u>138,895</u>	<u>5,463,011</u>
Contributions	-	-	18,343	18,343
Appropriation of endowment assets for expenditure	(39,245)	(1,745,466)	-	(1,784,711)
Other changes:				
Transfer of net assets	<u>653,978</u>	<u>(653,978)</u>	<u>-</u>	<u>-</u>
ENDOWMENT NET ASSETS, END OF YEAR	<u>\$ 373,914</u>	<u>\$ 7,013,342</u>	<u>\$ 44,627,835</u>	<u>\$ 52,015,091</u>

Funds with Deficiencies -

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain into perpetuity. In accordance with GAAP, deficiencies of this nature that are reported in unrestricted net assets were \$657,265 and \$516,893 as of June 30, 2015 and 2014, respectively. These deficiencies resulted from unfavorable market fluctuations occurring after the investment of permanently restricted contributions and the appropriation for certain programs that were deemed prudent by the Board of Trustees.

Return Objectives and Risk Parameters -

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in-perpetuity or for a donor-specified period(s). Under this policy, as approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce results that exceed a blended index of the Standard & Poor's 500 Index and the Barclays Aggregate Bond Index while assuming a moderate level of investment risk. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 8% annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives -

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based and partnerships/alternative investments to achieve its long-term return objectives within prudent risk constraints.

CHESAPEAKE BAY FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

18. ENDOWMENT (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy -

The Foundation has a policy of appropriating for distribution each year 5% of a twelve quarter trailing average of the sum of accumulated investments for each fund. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its endowment to grow. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in-perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

19. SUBSEQUENT EVENTS

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through December 16, 2015, the date the financial statements were issued.

SUPPLEMENTAL INFORMATION

CHESAPEAKE BAY FOUNDATION, INC.**SUMMARY OF CONSERVATION AND SCENIC EASEMENTS
FOR INFORMATION PURPOSES ONLY (UNAUDITED)
FOR THE YEAR ENDED JUNE 30, 2015**

The Chesapeake Bay Foundation, Inc. (the Foundation) holds conservation and scenic easements on various properties in the Chesapeake Bay region that are designed to prohibit the property owner, his successor, heirs, or assignees from developing or altering the property in any way inconsistent with the easement. The Foundation has responsibility for enforcing the specific provisions of each easement, which are primarily obtained by donation. The following is a description of easements held at June 30, 2015.

Maryland

- Approximately 45 acres along the Tavern Creek in Kent County, Maryland
- Approximately 70 acres along the Southeast Creek in Queen Anne's County, Maryland

Virginia

- Approximately 1 acre along the Smarts Creek/Potomac River in Westmoreland County, Virginia
- Approximately 2 acres along the Pamunkey River in King William County, Virginia
- Approximately 20 acres along Middle River in Augusta County, Virginia
- Approximately 20 acres along Brush Creek in Frederick County, Virginia
- Approximately 32 acres along the Dragon Run in Middlesex County, Virginia
- Approximately 37 acres along the Jordan River in Rappahannock County, Virginia
- Approximately 39 acres along the Totuskey Creek in Richmond County, Virginia
- Approximately 72 acres near Piscataway Creek in King and Queen and Essex Counties, Virginia
- Approximately 72 acres along the Chesapeake Bay in Northumberland County, Virginia
- Approximately 94 acres along Barnes Creek in Northumberland County, Virginia
- Approximately 118 acres along Mountain Run in Orange County, Virginia
- Approximately 150 acres along Garden Creek and the Chesapeake Bay in Mathews County, Virginia