

## **FINANCIAL STATEMENTS**



**CHESAPEAKE BAY FOUNDATION**

*Saving a National Treasure*

**FOR THE YEAR ENDED JUNE 30, 2019  
WITH SUMMARIZED FINANCIAL  
INFORMATION FOR 2018**

**CHESAPEAKE BAY FOUNDATION, INC.**

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CPAs & ADVISORS

## 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, 2019, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### 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, 2019, 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.

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### **Report on Summarized Comparative Information**

We have previously audited the Foundation's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated January 15, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, 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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2019 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.



December 11, 2019

## CHESAPEAKE BAY FOUNDATION, INC.

**STATEMENT OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2019**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018**

**ASSETS**

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 10,983,007	\$ 10,789,575
Investments	63,015,285	61,792,667
Accounts receivable, net	806,285	810,911
Note receivable	-	82,635
Pledges receivable, net	12,943,327	12,356,999
Prepays, deposits and other assets	819,479	672,257
Property and equipment, net	<u>30,135,325</u>	<u>30,320,433</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>118,702,708</u></b>	<b>\$ <u>116,825,477</u></b>

**LIABILITIES AND NET ASSETS****LIABILITIES**

Loan payable	\$ -	\$ 327,222
Bonds payable	3,059,272	3,667,355
Accounts payable and accrued expenses	1,885,152	2,315,171
Deferred income	1,208,962	1,199,252
Liability under split interest agreements	825,936	1,000,796
Interest rate swap obligation	<u>219,546</u>	<u>241,824</u>
Total liabilities	<u>7,198,868</u>	<u>8,751,620</u>

**NET ASSETS**

Without donor restrictions	34,235,332	36,942,897
With donor restrictions	<u>77,268,508</u>	<u>71,130,960</u>
Total net assets	<u>111,503,840</u>	<u>108,073,857</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ <u>118,702,708</u></b>	<b>\$ <u>116,825,477</u></b>

## CHESAPEAKE BAY FOUNDATION, INC.

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2019  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018**

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>REVENUE</b>				
Membership contributions	\$ 5,135,451	\$ -	\$ 5,135,451	\$ 5,072,052
Grants and gifts	9,154,694	12,092,592	21,247,286	21,404,411
Education contracts and tuition	1,040,240	-	1,040,240	1,074,109
Investment distribution	679,453	2,384,961	3,064,414	2,932,582
Donated goods and services	945,763	-	945,763	1,247,581
Other	1,055,923	-	1,055,923	879,980
Net assets released from donor restrictions	<u>9,402,966</u>	<u>(9,402,966)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>27,414,490</u>	<u>5,074,587</u>	<u>32,489,077</u>	<u>32,610,715</u>
<b>EXPENSES</b>				
Program Services:				
Environmental Education	7,148,576	-	7,148,576	6,640,495
Environmental Protection and Restoration	13,296,252	-	13,296,252	12,149,253
Strategic Communications	<u>3,538,930</u>	<u>-</u>	<u>3,538,930</u>	<u>3,087,239</u>
Total program services	<u>23,983,758</u>	<u>-</u>	<u>23,983,758</u>	<u>21,876,987</u>
Support Services:				
General and Administrative	2,355,652	-	2,355,652	2,350,913
Fundraising	<u>4,030,524</u>	<u>-</u>	<u>4,030,524</u>	<u>3,866,862</u>
Total support services	<u>6,386,176</u>	<u>-</u>	<u>6,386,176</u>	<u>6,217,775</u>
Total expenses	<u>30,369,934</u>	<u>-</u>	<u>30,369,934</u>	<u>28,094,762</u>
Change in net assets before capital additions	<u>(2,955,444)</u>	<u>5,074,587</u>	<u>2,119,143</u>	<u>4,515,953</u>
<b>CAPITAL ADDITIONS</b>				
Investment gain and distributions, net	239,531	1,051,213	1,290,744	3,601,116
Grants and gifts	-	11,748	11,748	15,730
(Loss) gain on sale of property and equipment	(13,930)	-	(13,930)	120,219
Unrealized gain on interest rate swap	<u>22,278</u>	<u>-</u>	<u>22,278</u>	<u>196,343</u>
Total capital additions	<u>247,879</u>	<u>1,062,961</u>	<u>1,310,840</u>	<u>3,933,408</u>
Change in net assets	(2,707,565)	6,137,548	3,429,983	8,449,361
Net assets at beginning of year	<u>36,942,897</u>	<u>71,130,960</u>	<u>108,073,857</u>	<u>99,624,496</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 34,235,332</u></b>	<b><u>\$ 77,268,508</u></b>	<b><u>\$ 111,503,840</u></b>	<b><u>\$ 108,073,857</u></b>

See accompanying notes to financial statements.

## CHESAPEAKE BAY FOUNDATION, INC.

**STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2019  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018**

	<b>2019</b>			
	<b>Program Services</b>			
	<b>Environmental Education</b>	<b>Environmental Protection and Restoration</b>	<b>Strategic Communications</b>	<b>Total Program Services</b>
Salaries	\$ 3,004,020	\$ 5,213,922	\$ 1,469,250	\$ 9,687,192
Fringe benefits	1,206,831	2,077,264	595,575	3,879,670
Telephone	45,403	62,910	8,890	117,203
Outside services	167,245	373,166	73,736	614,147
Occupancy and utilities	379,388	816,803	95,906	1,292,097
Equipment rental, leasing, repairs and maintenance	375,509	303,835	84,294	763,638
Publications and subscriptions	1,562	20,296	30,395	52,253
Membership and dues	5,474	41,266	2,685	49,425
Postage and shipping	119,906	228,455	105,069	453,430
Printing	132,346	258,769	112,622	503,737
Travel	163,414	253,229	15,125	431,768
Meetings and seminars	103,501	155,994	30,321	289,816
Personnel recruitment	4,303	6,129	1,456	11,888
Professional fees	277,794	1,035,563	485,858	1,799,215
Subrecipients	14,699	295,886	-	310,585
Restoration fees	-	399,460	-	399,460
Miscellaneous	22,365	63,483	2,619	88,467
Banking and interest expense	48,790	72,073	35,238	156,101
Insurance	170,460	137,171	16,003	323,634
Supplies	359,800	901,113	42,600	1,303,513
Donated goods and services	300,997	308,505	296,997	906,499
Depreciation and amortization	244,769	270,960	34,291	550,020
<b>TOTAL</b>	<b>\$ 7,148,576</b>	<b>\$ 13,296,252</b>	<b>\$ 3,538,930</b>	<b>\$ 23,983,758</b>

CHESAPEAKE BAY FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2019  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018

	2019 (Continued)			2018	
	Support Services				
	General and Administrative	Fundraising	Total Support Services	Total Expenses	Total Expenses
Salaries	\$ 1,016,832	\$ 1,419,592	\$ 2,436,424	\$12,123,616	\$ 10,884,832
Fringe benefits	418,905	572,236	991,141	4,870,811	4,279,311
Telephone	10,809	12,632	23,441	140,644	138,968
Outside services	32,054	397,031	429,085	1,043,232	1,237,574
Occupancy and utilities	61,712	71,886	133,598	1,425,695	1,360,764
Equipment rental, leasing, repairs and maintenance	87,036	107,660	194,696	958,334	609,419
Publications and subscriptions	128	3,116	3,244	55,497	38,986
Membership and dues	3,508	11,840	15,348	64,773	88,451
Postage and shipping	2,102	223,585	225,687	679,117	520,228
Printing	629	266,212	266,841	770,578	957,725
Travel	70,402	34,189	104,591	536,359	640,087
Meetings and seminars	36,219	130,150	166,369	456,185	239,552
Personnel recruitment	4,854	2,468	7,322	19,210	29,554
Professional fees	326,872	549,767	876,639	2,675,854	2,626,311
Subrecipients	-	-	-	310,585	410,531
Restoration fees	-	-	-	399,460	342,821
Miscellaneous	6,471	3,556	10,027	98,494	69,963
Banking and interest expense	129,433	21,226	150,659	306,760	359,636
Insurance	51,757	23,581	75,338	398,972	343,215
Supplies	39,125	99,669	138,794	1,442,307	1,091,794
Donated goods and services	6,975	32,289	39,264	945,763	1,247,581
Depreciation and amortization	49,829	47,839	97,668	647,688	577,459
<b>TOTAL</b>	<b>\$ 2,355,652</b>	<b>\$ 4,030,524</b>	<b>\$ 6,386,176</b>	<b>\$30,369,934</b>	<b>\$ 28,094,762</b>



## CHESAPEAKE BAY FOUNDATION, INC.

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2019  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018**

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 3,429,983	\$ 8,449,361
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	1,476,126	1,395,570
Unrealized gain on interest rate swap	(22,278)	(196,343)
Loss (gain) on sale of property and equipment	13,930	(120,219)
Capital additions - permanently restricted contributions	(11,748)	(15,730)
Change in the discount of long-term pledges receivable	(57,798)	7,449
Change in allowance for doubtful accounts, accounts receivable	(1,095)	(728)
Change in allowance for doubtful accounts, pledges	15,684	21,846
Unrealized (gain) loss on investments	(2,851,053)	494,906
Realized gains on investments	(859,576)	(6,168,530)
Change in value of split interest agreements	75,221	35,552
Decrease (increase) in:		
Accounts receivable	5,721	(49,780)
Pledges receivable	(544,213)	(3,213,986)
Prepays, deposits and other assets	(147,222)	165,326
(Decrease) increase in:		
Accounts payable and accrued expenses	(430,020)	239,215
Deferred income	9,710	172,092
Liability under split interest agreements	<u>(155,492)</u>	<u>(27,986)</u>
Net cash (used) provided by operating activities	<u>(54,120)</u>	<u>1,188,015</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net sales of investments	2,488,011	1,639,098
Purchases of property and equipment	(1,324,443)	(683,984)
Proceeds from sale of property and equipment	50,757	150,048
Proceeds from note receivable	<u>82,635</u>	<u>2,187</u>
Net cash provided by investing activities	<u>1,296,960</u>	<u>1,107,349</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Capital additions - permanently restricted contributions	11,748	15,730
Payments on bonds payable	(616,825)	(585,406)
Payments on loan payable	(349,742)	(1,100,000)
Proceeds from split interest agreements	-	263,812
Payments made on split interest agreements	<u>(94,589)</u>	<u>(84,361)</u>
Net cash used by financing activities	<u>(1,049,408)</u>	<u>(1,490,225)</u>

## CHESAPEAKE BAY FOUNDATION, INC.

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2019  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2018

	<u>2019</u>	<u>2018</u>
Net increase in cash and cash equivalents	\$ 193,432	\$ 805,139
Cash and cash equivalents at beginning of year	<u>10,789,575</u>	<u>9,984,436</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ <u>10,983,007</u></b>	<b>\$ <u>10,789,575</u></b>
 <b>SUPPLEMENTAL INFORMATION</b>		
Interest Paid	<b>\$ <u>206,182</u></b>	<b>\$ <u>247,458</u></b>

**CHESAPEAKE BAY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**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 Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*. The ASU was adopted during the year ended June 30, 2019 and applied retrospectively.

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, 2018, 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.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to a limit of \$250,000. At times during the year, the Foundation maintains cash balances in excess of the FDIC insurance 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, and limited partnerships. 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, which is presented net of investment expenses paid to external investment advisors 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.

**CHESAPEAKE BAY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

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

Investments (continued) -

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.

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 7 and 8). Deferred financing costs are being amortized over the respective lives of the loan and bonds. Deferred financing costs are shown net of loan and bonds payable on the accompanying Statement of Financial Position.

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 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.

The cost of maintenance and repairs is recorded as expenses are incurred.

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

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

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, 2019 and 2018, liabilities under split interest agreements totaled \$825,936 and \$1,000,796, respectively.

Net asset classification -

Net assets, revenues, 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 are recorded as "net assets without donor restrictions". Assets restricted solely through the actions of the Board are referred to as Board Designated and are also reported as net assets without donor restrictions.
- **Net Assets With Donor Restrictions** - Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in "net assets with donor restrictions", depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities and Change in Net Assets as net assets released from donor restrictions. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as revenue without donor restrictions when the assets are placed in service.

Contributions, grants and gifts -

Contributions, grants and gifts are recorded as revenue in the year notification is received from the donor. Contributions, grants and gifts with donor restrictions are recognized as "without donor restrictions" only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions; such funds in excess of expenses incurred are shown as net assets with donor restrictions in the accompanying financial statements. Contributions, grants and gifts received in advance of incurring the related expenses are recorded as "net assets with donor restrictions".

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

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

Contributions, grants and gifts (continued) -

The Foundation receives awards under grants and contracts from the U.S. government and other sources 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 awards are recorded as revenue "without donor restrictions" to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements. Awards received under grants and contracts from the U.S. and foreign governments, international organizations and other sources for direct and indirect program costs (in which the claimed costs are deemed conditional until accepted by the donor) in advance of incurring the related expenses are recorded as refundable advances. Grants and support receivable represents amounts due from funding organizations in accordance with the terms and conditions outlined in grant agreements.

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 non-financial 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 has recorded income tax expense (recovery) of \$0 and \$(4,270) for the years ended June 30, 2019 and 2018, respectively, as follows:

	<u>2019</u>	<u>2018</u>
<b>Other Unrelated Business Income Tax (Recovery)</b>		
<b>Included as an Addition to Miscellaneous</b>		
<b>Expenses in the Accompanying Statement of</b>		
<b>Functional Expenses</b>	\$ <u>-</u>	\$ <u>(4,270)</u>

As of June 30, 2019 and 2018 there were net operating loss carryforwards of approximately \$32,416 and \$1,008 respectively.

Uncertain tax positions -

For the years ended June 30, 2019 and 2018, 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.

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

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

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 supporting services benefited. Expenses directly attributed to a specific functional area of the Foundation are reported as direct expenses to the programmatic area and those expenses that benefit more than one function are allocated on a basis of estimated time and effort or other reasonable basis.

Joint costs -

For fiscal years 2019 and 2018, the Foundation incurred joint costs of \$2,656,108 and \$2,541,532, respectively, for educational materials, membership and support services. These costs were allocated as follows:

	<u>2019</u>	<u>2018</u>
Environmental Education	\$ 591,972	\$ 578,482
Environmental Protection and Restoration	1,101,060	1,058,373
Strategic Communications	293,058	268,942
Fundraising	<u>670,018</u>	<u>635,735</u>
<b>TOTAL JOINT COSTS INCURRED</b>	<b><u>\$ 2,656,108</u></b>	<b><u>\$ 2,541,532</u></b>

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. The reclassifications are primarily due to the adoption of ASU 2016-14, as discussed above, which requires two classifications of net assets from the previously presented three classes.

**CHESAPEAKE BAY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

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

Reclassification (continued) -

As a result of the adoption, underwater endowments which were included in unrestricted net assets for the fiscal year ended June 30, 2018 in the amount of \$736,516 were reclassified to net assets with donor restrictions. Net assets previously classified as of June 30, 2018 as unrestricted net assets in the amount of \$36,206,381 are now classified as "net assets without donor restrictions". As a result of the underwater endowment reclassification, "net assets without donor restrictions" as of June 30, 2018 now total \$36,942,897. Net assets previously classified as temporarily restricted net assets and permanently restricted net assets in the amount of \$25,446,564 and \$46,420,912, respectively, are now classified as "net assets with donor restrictions". As a result of the underwater endowment reclassification, "net assets with donor restrictions" as of June 30, 2018 now total \$71,130,960.

New accounting pronouncements not yet adopted -

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606). This ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by one year; thus, the effective date is for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Foundation has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its financial statements.

In June 2018, the FASB issued ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*, which is intended to clarify and improve current guidance about whether a transfer of assets is an exchange transaction or a contribution. The amendments in this ASU provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional or unconditional. The amendments in this ASU could result in more grants and contracts being accounted for as contributions than under previous GAAP. The ASU recommends application on a modified prospective basis; however, retrospective application is permitted. The Foundation has not yet decided on a transition method. This ASU is effective for fiscal years beginning after December 15, 2018.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Statement of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for private entities beginning after December 15, 2020. Early adoption is permitted. The ASU should be applied at the beginning of the earliest period presented using a modified retrospective approach.

The Foundation plans to adopt the new ASUs at the respective required implementation dates.



CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

2. INVESTMENTS

At June 30, 2019 and 2018, investments at readily determinable fair values, consisted of the following:

	<u>2019</u>	<u>2018</u>
Equity securities	\$ 19,990,790	\$ 17,538,994
International equity securities	3,490,337	3,528,166
Partnerships/alternative investments	24,737,363	24,405,512
Corporate bonds and other agencies	7,693,277	7,721,367
U.S. Government obligations	3,120	-
Beneficial interest in perpetual trust	<u>3,223,517</u>	<u>3,223,517</u>
Sub-total investments	59,138,404	56,417,556
Cash and cash equivalents held by investment managers	<u>3,876,881</u>	<u>5,375,111</u>
<b>TOTAL INVESTMENTS</b>	<b><u>\$ 63,015,285</u></b>	<b><u>\$ 61,792,667</u></b>

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, 2019 and 2018, the Foundation has uncalled commitments of \$2,841,078 and \$1,119,717, respectively.

Alternative investments are comprised of the following at June 30, 2019 and 2018:

<u>Investment Type</u>	<u>Net Asset Value</u>		<u>Uncalled Commitments</u>		<u>Liquidity</u>
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	
Domestic/U.S. Limited Partnerships	\$ 873,508	\$ 1,390,074	\$ 1,484,828	\$ 1,119,717	None until dissolution or winding up of partnership.
Domestic/U.S. Limited Partnerships	410,842	610,324	-	-	100 days notice
Domestic/U.S. Alternative Trusts	5,117,872	4,435,671	-	-	Month end
Domestic/U.S. Limited Partnerships	<u>18,335,141</u>	<u>17,969,443</u>	<u>1,356,250</u>	<u>-</u>	Last day of each quarter.
<b>ALTERNATIVE INVESTMENTS</b>	<b><u>\$ 24,737,363</u></b>	<b><u>\$ 24,405,512</u></b>	<b><u>\$ 2,841,078</u></b>	<b><u>\$ 1,119,717</u></b>	

Domestic / US Limited Partnerships – Includes investments in both Global Equity Composite funds, such as small and large cap funds as well emerging markets and global core funds. Also includes Private Equity investments, which include both LBO and venture equity investments.

Domestic / US Alternative Trusts – Includes investments in low volatility US equity funds.

**CHESAPEAKE BAY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**2. INVESTMENTS (Continued)**

Included in the investment balance at June 30, 2019 and 2018 are investments related to certain split-interest agreements in the amounts of \$1,080,060 and \$1,389,023, respectively.

The investment portfolio includes \$38,343,425 and \$38,242,495 of endowment investments and contributions invested in perpetuity at June 30, 2019 and 2018, 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 net assets with donor restrictions. Deficiencies in any endowment funds are shown net of accumulated investment earnings and are included in net assets with donor restrictions.

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, 2019 and 2018 consisted of the following:

	<b>2019</b>	<b>2018</b>
Interest and dividends	\$ 874,930	\$ 1,027,929
Investment fees	(230,400)	(167,855)
Unrealized gain (loss)	2,851,053	(494,906)
Realized gains	859,576	6,168,530
Total investment return	4,355,159	6,533,698
Less: Investment distribution for operations	(3,064,414)	(2,932,582)
<b>INVESTMENT GAIN AND DISTRIBUTIONS, NET</b>	<b>\$ 1,290,745</b>	<b>\$ 3,601,116</b>

**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, 2019 and 2018, respectively:

	<b>2019</b>	<b>2018</b>
Federal and state receivables	\$ 698,506	\$ 668,701
Non-Federal and state receivables	108,808	144,334
Total accounts receivable	807,314	813,035
Less: Allowance for doubtful accounts	(1,029)	(2,124)
<b>NET ACCOUNTS RECEIVABLE</b>	<b>\$ 806,285</b>	<b>\$ 810,911</b>

**CHESAPEAKE BAY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**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 was extended every year and the principal was fully repaid in July 2018. The amount outstanding at June 30, 2018 was \$82,635.

**5. PLEDGES RECEIVABLE**

As of June 30, 2019 and 2018, contributors to the Foundation have made written promises to give totaling \$14,141,956 and \$13,597,742, 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 1.8% to 4.8%. 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, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Less than one year	\$ 2,533,522	\$ 4,024,431
One to five years	6,951,911	4,666,787
Beyond five years	4,656,523	4,906,524
Total pledges	14,141,956	13,597,742
Less: Discount to net present value	(1,058,101)	(1,115,899)
Less: Allowance for doubtful accounts	(140,528)	(124,844)
<b>NET PLEDGES RECEIVABLE</b>	<b>\$ 12,943,327</b>	<b>\$ 12,356,999</b>

**6. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at June 30, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Land	\$ 11,734,840	\$ 11,734,840
Building and improvements	27,291,203	27,157,219
Furniture and equipment	6,245,182	5,858,189
Boats	4,511,698	4,480,974
Vehicles	633,189	607,963
Construction in progress	707,406	111,683
Art	17,000	17,000
Total property and equipment	51,140,518	49,967,868
Less: Accumulated depreciation and amortization	(21,005,193)	(19,647,435)
<b>NET PROPERTY AND EQUIPMENT</b>	<b>\$ 30,135,325</b>	<b>\$ 30,320,433</b>

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, 2019 and 2018 (see Note 18).

**CHESAPEAKE BAY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**6. PROPERTY AND EQUIPMENT (Continued)**

Depreciation and amortization expense for the years ended June 30, 2019 and 2018 totaled \$1,476,126 and \$1,395,570, respectively. Of these amounts, \$828,438 and \$818,111 is included in occupancy expense, and \$647,688 and \$577,459 is included in depreciation and amortization expense in the accompanying Statement of Functional Expenses for the years ended June 30, 2019 and 2018, respectively.

**7. 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 Environmental 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.

The Brock Environmental Center 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 Brock Environmental Center is one of the most sustainable buildings in the world. The facility earned both the U.S. Green Building Council's LEED Platinum Certification and the International Living Building Institute's Living Building Challenge Certification.

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 Foundation does not expect any additional draw downs on the loan. The Taxable Loan had an initial maturity date of October 1, 2020. During the year ended June 30, 2019, the outstanding balance was paid in full. The total amount of the loan outstanding as of June 30, 2018 was \$327,222.

Total interest of \$14,937 was capitalized and included in the buildings and improvements account for the year 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, 2018, accumulated amortization for the Taxable Loan financing costs totaled \$45,040. The remaining amortization was recorded at the time the loan was paid off.

Additionally, the agreements for the loan payable and bonds payable (discussed in Note 8) contain various covenants, which among other things, require the Foundation to maintain certain financial ratios and submit various financial reports throughout their fiscal year.

Interest expense for the years ended June 30, 2019 and 2018 was \$11,768 and \$33,120, respectively, which is included in occupancy and utilities expense within the Statement of Functional Expenses.

**CHESAPEAKE BAY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**7. LOAN PAYABLE (Continued)**

As of June 30, 2019 and 2018, the outstanding balance of the loan payable is as follows:

	<b>2019</b>	<b>2018</b>
Loan principal payable	\$ -	\$ 349,742
Less: Deferred financing costs, net of accumulated depreciation of \$0 and \$45,040, respectively	-	(22,520)
<b>NET LOAN PAYABLE</b>	<b>\$ -</b>	<b>\$ 327,222</b>

**8. 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 (Merrill 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 Merrill 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.

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 Bank, 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, 2019 and 2018, accumulated amortization for the bond financing costs totaled \$49,538 and \$40,796, 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 9. The bond agreements, among other provisions, require the Foundation to meet certain financial ratio tests.

As of June 30, 2019 and 2018, the outstanding balance of the bond payable is as follows:

	<b>2019</b>	<b>2018</b>
Bond principal payable	\$ 3,097,154	\$ 3,713,979
Less: Deferred financing costs, less accumulated amortization of \$49,538 and \$40,796, respectively	(37,882)	(46,624)
<b>NET BONDS PAYABLE</b>	<b>\$ 3,059,272</b>	<b>\$ 3,667,355</b>

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

8. **BONDS PAYABLE (Continued)**

Principal payments are due as follows:

<u>Year Ending June 30,</u>	
2020	\$ 652,423
2021	687,925
2022	726,002
2023	766,135
2024	<u>264,669</u>
<b>BONDS PAYABLE</b>	<b>\$ <u>3,097,154</u></b>

The Foundation incurred interest expense on the bonds totaling \$194,414 and \$214,338 for the years ended June 30, 2019 and 2018, respectively, which is included in occupancy and utilities expense within the Statement of Functional Expenses.

9. **INTEREST RATE SWAP**

The bonds discussed in Note 8 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.

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, 2019 and 2018, the outstanding notional amount of the Capital One Swap was \$3,097,154 and \$3,713,979, respectively. As of June 30, 2019 and 2018, the Capital One Swap had a negative fair value of \$219,546 and \$241,824, respectively, which is reflected as a liability in the financial statements.

The swaps expose the Foundation to basis risk should the actual rate on the Foundation's bonds exceed the LIBOR Index for the years ended June 30, 2019 and 2018. Since the Foundation's bonds are based upon the LIBOR 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.

**CHESAPEAKE BAY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**10. NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions consisted of the following at June 30, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
<b>Program Restricted:</b>		
Environmental Education	\$ 722,090	\$ 356,784
Environmental Protection and Restoration	14,207,782	10,595,862
Property and Equipment	1,405,138	367,580
Other	19,201	17,201
Total program restricted	16,354,211	11,337,427
Time Restricted	14,403,510	13,372,621
Perpetually Restricted	46,510,787	46,420,912
<b>NET ASSETS WITH DONOR RESTRICTIONS</b>	<b>\$ 77,268,508</b>	<b>\$ 71,130,960</b>

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 general operations.

Accumulated investment earnings from perpetually restricted endowed funds included within net assets with donor restrictions as of June 30, 2019 and 2018 are as follows:

	<b>2019</b>	<b>2018</b>
With purpose restrictions	\$ 6,537,481	\$ 5,969,700
Time restriction	3,977,202	3,554,913
<b>ACCUMULATED ENDOWMENT EARNINGS INCLUDED IN NET ASSETS WITH DONOR RESTRICTIONS</b>	<b>\$ 10,514,683</b>	<b>\$ 9,524,613</b>

Net assets released from donor restrictions by incurring expenses, which satisfied the restricted purposes specified by the donors or the passage of time as of June 30, 2019 and 2018 are as follows:

	<b>2019</b>	<b>2018</b>
<b>Donor Restrictions:</b>		
Environmental Education	\$ 1,078,119	\$ 1,072,213
Environmental Protection and Restoration	5,065,211	5,891,964
Strategic Communications	31,500	-
Property and Equipment	685,113	571,701
Other	4,625	23,425
Total donor restrictions	6,864,568	7,559,303
<b>Time Restrictions:</b>		
Passage of time	2,306,999	2,155,145
Passage of time (death of donors)	231,399	332,198
Total time restrictions	2,538,398	2,487,343
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<b>\$ 9,402,966</b>	<b>\$ 10,046,646</b>

**CHESAPEAKE BAY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**11. LIQUIDITY AND AVAILABILITY**

Financial assets available for use for general expenditures within one year of the Statement of Financial Position date comprise the following:

	<b>2019</b>	<b>2018</b>
Cash and cash equivalents	\$ 10,983,007	\$ 10,789,575
Investments	63,015,285	61,792,667
Accounts receivable	806,285	810,911
Note receivable	-	82,635
Pledges receivable	12,943,327	12,356,999
Subtotal financial assets available within one year	87,747,904	85,832,787
Less: Donor restricted funds	(77,268,508)	(71,130,960)
Less: Board designated funds	(1,024,098)	(974,071)
<b>FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR</b>	<b>\$ 9,455,298</b>	<b>\$ 13,727,756</b>

The Foundation has a policy to structure its financial assets to be available and liquid as its obligations become due. As of June 30, 2019 and 2018, the Foundation had financial assets equal to approximately four and six months of operating expenses, respectively. The Foundation is substantially supported by restricted contributions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, the Foundation must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year.

**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:

<b><u>Year Ending June 30, 2019</u></b>	
2020	\$ 376,673
2021	259,201
2022	201,623
2023	115,739
2024	60,746
Thereafter	1,231
	<b>\$ 1,015,213</b>

Rent expense for the years ended June 30, 2019 and 2018 totaled \$284,737 and \$256,794, respectively. Rent expense is included in occupancy and utilities in the Statement of Functional Expenses.



**CHESAPEAKE BAY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**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, 2019 and 2018, the Foundation made contributions in the amounts of \$421,194 and \$414,208, respectively.

**14. RELATED PARTY**

For the years ended June 30, 2019 and 2018, the Foundation received gross contributions and grants in the amounts of \$5,624,301 and \$7,857,944, respectively, from Trustees and Executive Management. Net amounts due under pledges receivable from related parties totaled \$5,071,645 and \$4,348,455 as of June 30, 2019 and 2018, respectively.

**15. CONTINGENCIES**

The Foundation receives grants from various agencies of the United States Government. For the fiscal year ended June 30, 2019, such grants are subject to audit under the provisions of *Title 2 U.S. Code of Federal Regulations (CFR) Part 200 Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. 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 applicable provisions have been completed for all required fiscal years through 2019. 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.

**16. DONATED GOODS, SERVICES AND PROPERTY**

During the years ended June 30, 2019 and 2018, the Foundation was the beneficiary of donated goods and services, which allowed the Foundation to provide greater resources toward various programs. To properly reflect total program expenses, donations totaling \$945,763 and \$1,247,581 have been included in revenue and expense for the years ended June 30, 2019 and 2018, respectively, which included \$890,990 and \$1,150,000 of in-kind public service announcements for the years ended June 30, 2019 and 2018, respectively.

**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.

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

17. FAIR VALUE MEASUREMENT (Continued)

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, 2019 and 2018.

- *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. Fair value for these instruments is measured using the net asset value per share practical expedient, in accordance with ASU 2015-07.
- *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.
- *U.S. Government obligations* - Valued at the closing price reported on the active market in which the individual securities are traded.
- *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.

The Foundation uses net asset value (NAV) per share, or its equivalent, as a practical expedient. Certain alternative investments that are measured at fair value using NAV (or its equivalent) as a practical expedient have not been categorized in the fair value hierarchy; however, the fair value amounts presented in the tables are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

17. FAIR VALUE MEASUREMENT (Continued)

Following is a description of those alternative investments:

The table below summarizes, by level within the fair value hierarchy and those invested and measured at NAV for practical expedient as of June 30, 2019:

Asset Class:	Level 1	Level 2	Level 3	Investments Measured in NAV	Total June 30, 2019
Equity securities	\$ 19,990,790	\$ -	\$ -	\$ -	\$ 19,990,790
International equity securities	3,490,337	-	-	-	3,490,337
Partnerships/alternative investments	-	-	-	24,737,363	24,737,363
Corporate bonds and other agencies	7,693,277	-	-	-	7,693,277
Beneficial interest in perpetual trust	-	3,223,517	-	-	3,223,517
U.S. Government obligations	3,120	-	-	-	3,120
Cash and cash equivalents held by investment managers	<u>3,876,881</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,876,881</u>
<b>TOTAL INVESTMENTS</b>	<b>\$ <u>35,054,405</u></b>	<b>\$ <u>3,223,517</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>24,737,363</u></b>	<b>\$ <u>63,015,285</u></b>
<b>Liability:</b>					
Interest Rate Swap Obligation	<u>\$ -</u>	<u>\$ 219,546</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 219,546</u>

For the year ended June 30, 2019, there were no transfers between levels. Transfers between levels are recorded at the end of the reporting period, if applicable.

The table below summarizes, by level within the fair value hierarchy and those invested and measured at NAV for practical expedient as of June 30, 2018:

Asset Class:	Level 1	Level 2	Level 3	Investments Measured in NAV	Total June 30, 2018
Equity securities	\$ 17,538,994	\$ -	\$ -	\$ -	\$ 17,538,994
International equity securities	3,528,166	-	-	-	3,528,166
Partnerships/alternative investments	-	-	-	24,405,512	24,405,512
Corporate bonds and other agencies	7,721,367	-	-	-	7,721,367
Beneficial interest in perpetual trust	-	3,223,517	-	-	3,223,517
Cash and cash equivalents held by investment managers	<u>5,375,111</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,375,111</u>
<b>TOTAL INVESTMENTS</b>	<b>\$ <u>34,163,638</u></b>	<b>\$ <u>3,223,517</u></b>	<b>\$ <u>-</u></b>	<b>\$ <u>24,405,512</u></b>	<b>\$ <u>61,792,667</u></b>
<b>Liability:</b>					
Interest Rate Swap Obligation	<u>\$ -</u>	<u>\$ 241,824</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 241,824</u>

For the year ended June 30, 2018, there were no transfers between levels. Transfers between levels are recorded at the end of the reporting period, if applicable.

**CHESAPEAKE BAY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**18. ENDOWMENT**

The Foundation's endowment consists of donor-restricted endowment funds and funds designated by the Board of Trustees to function as endowments. As required by GAAP, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions. The Board of Trustees has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as allowing the Foundation to appropriate for expenditures or accumulate so much of an endowment fund as the Foundation determines is prudent for the uses, benefits, purposes and duration for which the endowment fund is established, subject to the intent of the donor as expressed in the gift instrument. Unless stated otherwise in the gift instrument, the assets in an endowment fund shall be donor-restricted assets until appropriated for expenditure by the Board of Trustees. As a result of this interpretation, the Foundation has not changed the way net assets held in perpetuity are classified. See Note 1 for further information on net asset classification.

The remaining portion of the donor-restricted net assets is classified as accumulated endowment earnings included in net assets with donor restrictions until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by UPMIFA (see Note 10, total endowments funds classified as net assets with donor restrictions.)

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.

Endowment net assets are invested in-perpetuity, the income of which is restricted to the following at June 30, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Environmental education	\$ 10,659,224	\$ 10,572,218
Environmental protection and restoration	13,514,767	13,514,767
Property and equipment	8,155,524	8,155,524
General operating	14,181,272	14,178,403
<b>ENDOWMENT NET ASSETS</b>	<b>\$ 46,510,787</b>	<b>\$ 46,420,912</b>

Endowment net assets consists of the following at June 30, 2019 and 2018:

	<b>2019</b>	<b>2018</b>
Investments	\$ 38,343,425	\$ 38,242,495
Property and equipment	8,155,524	8,155,524
Pledge receivables, net of discount	11,838	22,893
<b>ENDOWMENT NET ASSETS</b>	<b>\$ 46,510,787</b>	<b>\$ 46,420,912</b>

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018

18. ENDOWMENT (Continued)

Endowment net asset composition by type of fund as of June 30, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board Designated Endowment Funds	\$ 1,024,098	\$ -	\$ 1,024,098
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	46,510,787	46,510,787
Accumulated investment earnings	<u>-</u>	<u>10,514,683</u>	<u>10,514,683</u>
<b>TOTAL ENDOWMENT FUNDS</b>	<b><u>\$ 1,024,098</u></b>	<b><u>\$ 57,025,470</u></b>	<b><u>\$ 58,049,568</u></b>

Changes in endowment net assets for the year ended June 30, 2019:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 974,071	\$ 55,945,525	\$ 56,919,596
Investment return, net	72,181	3,453,158	3,525,339
Contributions	25,000	11,748	36,748
Appropriation of endowment assets for expenditure	<u>(47,154)</u>	<u>(2,384,961)</u>	<u>(2,432,115)</u>
<b>ENDOWMENT NET ASSETS, END OF YEAR</b>	<b><u>\$ 1,024,098</u></b>	<b><u>\$ 57,025,470</u></b>	<b><u>\$ 58,049,568</u></b>

Endowment net asset composition by type of fund as of June 30, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board Designated Endowment Funds	\$ 974,071	\$ -	\$ 974,071
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	46,420,912	46,420,912
Accumulated investment earnings	<u>-</u>	<u>9,524,613</u>	<u>9,524,613</u>
<b>TOTAL ENDOWMENT FUNDS</b>	<b><u>\$ 974,071</u></b>	<b><u>\$ 55,945,525</u></b>	<b><u>\$ 56,919,596</u></b>

Changes in endowment net assets for the year ended of June 30, 2018:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 913,277	\$ 53,136,551	\$ 54,049,828
Investment return, net	107,194	5,102,628	5,209,822
Contributions	-	15,730	15,730
Appropriation of endowment assets for expenditure	<u>(46,400)</u>	<u>(2,309,384)</u>	<u>(2,355,784)</u>
<b>ENDOWMENT NET ASSETS, END OF YEAR</b>	<b><u>\$ 974,071</u></b>	<b><u>\$ 55,945,525</u></b>	<b><u>\$ 56,919,596</u></b>

**CHESAPEAKE BAY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2019 AND 2018**

**18. ENDOWMENT (Continued)**

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 organization to retain as a fund of perpetual duration. Deficiencies of this nature exist in donor-restricted endowment funds, which together have an original gift value of \$1,997,513 and \$1,919,387, and a deficiency of \$787,518 and \$736,516 as of June 30, 2019 and June 30, 2018, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new contributions for donor-restricted endowment funds and continued appropriations for certain programs that was deemed prudent by the Board of Directors.

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.

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 11, 2019, 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, 2019**

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, 2019.

**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
- Approximately 209 acres along the Pocomoke River in Somerset 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