

# FINANCIAL STATEMENTS



**CHESAPEAKE BAY FOUNDATION**

*Saving a National Treasure*

**FOR THE YEAR ENDED JUNE 30, 2020  
WITH SUMMARIZED FINANCIAL  
INFORMATION FOR 2019**

**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, 2020, 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, 2020, 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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MEMBER OF THE AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' PRIVATE COMPANIES PRACTICE SECTION**

## Report on Summarized Comparative Information

We have previously audited the Foundation's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 11, 2019. Those financial statements were audited 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. In accordance with Government Auditing Standards, we had 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. This 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. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2019, 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.



December 9, 2020

## CHESAPEAKE BAY FOUNDATION, INC.

**STATEMENT OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2020**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2019**

**ASSETS**

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 15,598,295	\$ 10,983,007
Investments	63,530,119	63,015,285
Accounts receivable, net	814,672	806,285
Pledges receivable, net	15,873,467	12,943,327
Prepays, deposits and other assets	719,980	819,479
Property and equipment, net	<u>29,758,308</u>	<u>30,135,325</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 126,294,841</u></b>	<b><u>\$ 118,702,708</u></b>

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

Bonds payable	\$ 2,415,591	\$ 3,059,272
Accounts payable and accrued expenses	1,508,723	1,885,152
Deferred income	1,360,724	1,208,962
Liability under split interest agreements	870,039	825,936
Interest rate swap obligation	<u>183,867</u>	<u>219,546</u>
Total liabilities	<u>6,338,944</u>	<u>7,198,868</u>

**NET ASSETS**

Without donor restrictions	36,073,929	34,235,332
With donor restrictions	<u>83,881,968</u>	<u>77,268,508</u>
Total net assets	<u>119,955,897</u>	<u>111,503,840</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 126,294,841</u></b>	<b><u>\$ 118,702,708</u></b>

## CHESAPEAKE BAY FOUNDATION, INC.

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2020  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2019**

	2020			2019
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>REVENUE</b>				
Membership contributions	\$ 5,515,035	\$ -	\$ 5,515,035	\$ 5,135,451
Grants and gifts	11,478,749	15,075,167	26,553,916	21,247,286
Education contracts and tuition	811,539	-	811,539	1,040,240
Investment distribution	740,612	2,731,778	3,472,390	3,064,414
Donated goods and services	1,393,936	-	1,393,936	945,763
Other	779,001	-	779,001	1,055,923
Net assets released from donor restrictions	<u>11,302,429</u>	<u>(11,302,429)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>32,021,301</u>	<u>6,504,516</u>	<u>38,525,817</u>	<u>32,489,077</u>
<b>EXPENSES</b>				
Program Services:				
Environmental Education	6,895,836	-	6,895,836	7,148,576
Environmental Protection and Restoration	13,723,623	-	13,723,623	13,296,252
Strategic Communications	<u>3,364,628</u>	<u>-</u>	<u>3,364,628</u>	<u>3,538,930</u>
Total program services	<u>23,984,087</u>	<u>-</u>	<u>23,984,087</u>	<u>23,983,758</u>
Support Services:				
General and Administrative	2,338,289	-	2,338,289	2,355,652
Fundraising	<u>4,013,170</u>	<u>-</u>	<u>4,013,170</u>	<u>4,030,524</u>
Total support services	<u>6,351,459</u>	<u>-</u>	<u>6,351,459</u>	<u>6,386,176</u>
Total expenses	<u>30,335,546</u>	<u>-</u>	<u>30,335,546</u>	<u>30,369,934</u>
Change in net assets before capital additions	<u>1,685,755</u>	<u>6,504,516</u>	<u>8,190,271</u>	<u>2,119,143</u>
<b>CAPITAL ADDITIONS</b>				
Investment gain and distributions, net	116,433	84,228	200,661	1,290,744
Grants and gifts	-	24,716	24,716	11,748
Gain (loss) on sale of property and equipment	730	-	730	(13,930)
Unrealized gain on interest rate swap	<u>35,679</u>	<u>-</u>	<u>35,679</u>	<u>22,278</u>
Total capital additions	<u>152,842</u>	<u>108,944</u>	<u>261,786</u>	<u>1,310,840</u>
Change in net assets	1,838,597	6,613,460	8,452,057	3,429,983
Net assets at beginning of year	<u>34,235,332</u>	<u>77,268,508</u>	<u>111,503,840</u>	<u>108,073,857</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 36,073,929</u></b>	<b><u>\$ 83,881,968</u></b>	<b><u>\$ 119,955,897</u></b>	<b><u>\$ 111,503,840</u></b>

**CHESAPEAKE BAY FOUNDATION, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2020**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2019**

	<b>2020</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	\$ 3,145,190	\$ 5,587,580	\$ 1,536,895	\$ 10,269,665
Fringe benefits	1,273,651	2,240,276	618,262	4,132,189
Telephone	40,356	52,811	7,008	100,175
Outside services	153,134	330,474	65,187	548,795
Occupancy and utilities	344,018	842,106	94,465	1,280,589
Equipment rental, leasing, repairs and maintenance	317,125	301,960	111,115	730,200
Publications and subscriptions	3,060	37,706	19,065	59,831
Membership and dues	4,176	23,257	1,623	29,056
Postage and shipping	99,164	238,494	80,953	418,611
Printing	174,252	373,509	113,490	661,251
Travel	130,536	160,816	6,203	297,555
Meetings and seminars	88,869	107,572	19,982	216,423
Personnel recruitment	5,290	7,398	1,873	14,561
Professional fees	181,376	883,369	270,152	1,334,897
Subrecipients	3,963	192,517	-	196,480
Restoration fees	-	337,342	-	337,342
Miscellaneous	22,696	34,978	1,043	58,717
Banking and interest expense	37,102	53,846	28,462	119,410
Insurance	175,878	137,571	14,788	328,237
Supplies	191,921	815,534	43,669	1,051,124
Donated goods and services	278,416	699,760	296,725	1,274,901
Depreciation and amortization	225,663	264,747	33,668	524,078
<b>TOTAL</b>	<b>\$ 6,895,836</b>	<b>\$ 13,723,623</b>	<b>\$ 3,364,628</b>	<b>\$ 23,984,087</b>

CHESAPEAKE BAY FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2020  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2019

	2020 (Continued)			2019	
	Support Services		Total Support Services	Total Expenses	Total Expenses
General and Administrative	Fundraising				
Salaries	\$ 1,078,752	\$ 1,569,411	\$ 2,648,163	\$ 12,917,828	\$ 12,123,616
Fringe benefits	436,309	639,384	1,075,693	5,207,882	4,870,811
Telephone	10,200	10,293	20,493	120,668	140,644
Outside services	29,100	192,502	221,602	770,397	1,043,232
Occupancy and utilities	98,433	57,663	156,096	1,436,685	1,425,695
Equipment rental, leasing, repairs and maintenance	115,722	98,001	213,723	943,923	958,334
Publications and subscriptions	562	4,311	4,873	64,704	55,497
Membership and dues	4,980	9,340	14,320	43,376	64,773
Postage and shipping	1,155	172,390	173,545	592,156	679,117
Printing	558	312,845	313,403	974,654	770,578
Travel	24,872	20,091	44,963	342,518	536,359
Meetings and seminars	41,564	211,301	252,865	469,288	456,185
Personnel recruitment	3,585	2,797	6,382	20,943	19,210
Professional fees	235,704	455,777	691,481	2,026,378	2,675,854
Subrecipients	-	-	-	196,480	310,585
Restoration fees	-	-	-	337,342	399,460
Miscellaneous	2,231	12,318	14,549	73,266	98,494
Banking and interest expense	141,702	16,949	158,651	278,061	306,760
Insurance	40,198	20,007	60,205	388,442	398,972
Supplies	25,595	50,947	76,542	1,127,666	1,442,307
Donated goods and services	-	119,035	119,035	1,393,936	945,763
Depreciation and amortization	47,067	37,808	84,875	608,953	647,688
<b>TOTAL</b>	<b>\$ 2,338,289</b>	<b>\$ 4,013,170</b>	<b>\$ 6,351,459</b>	<b>\$ 30,335,546</b>	<b>\$ 30,369,934</b>



## CHESAPEAKE BAY FOUNDATION, INC.

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2020  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2019**

	<u>2020</u>	<u>2019</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 8,452,057	\$ 3,429,983
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization	1,428,379	1,476,126
Unrealized gain on interest rate swap	(35,679)	(22,278)
(Gain) loss on sale of property and equipment	(730)	13,930
Capital additions - permanently restricted contributions	(24,716)	(11,748)
Change in the discount of long-term pledges receivable	(263,655)	(57,798)
Change in allowance for doubtful accounts, accounts receivable	(280)	(1,095)
Change in allowance for doubtful accounts, pledges	23,576	15,684
Unrealized loss (gain) on investments	302,918	(2,851,053)
Realized gains on investments	(3,633,778)	(859,576)
Change in value of split interest agreements	77,282	75,221
(Increase) decrease in:		
Accounts receivable	(8,107)	5,721
Pledges receivable	(2,690,061)	(544,213)
Prepays, deposits and other assets	99,499	(147,222)
(Decrease) increase in:		
Accounts payable and accrued expenses	(376,429)	(430,020)
Deferred income	151,762	9,710
Liability under split interest agreements	<u>35,575</u>	<u>(155,492)</u>
Net cash provided (used) by operating activities	<u>3,537,613</u>	<u>(54,120)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net sales of investments	2,816,026	2,488,011
Purchases of property and equipment	(1,042,620)	(1,324,443)
Proceeds from sale of property and equipment	730	50,757
Proceeds from note receivable	<u>-</u>	<u>82,635</u>
Net cash provided by investing activities	<u>1,774,136</u>	<u>1,296,960</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Capital additions - permanently restricted contributions	24,716	11,748
Payments on bonds payable	(652,423)	(616,825)
Payments on loan payable	-	(349,742)
Payments made on split interest agreements	<u>(68,754)</u>	<u>(94,589)</u>
Net cash used by financing activities	<u>(696,461)</u>	<u>(1,049,408)</u>
Net increase in cash and cash equivalents	4,615,288	193,432
Cash and cash equivalents at beginning of year	<u>10,983,007</u>	<u>10,789,575</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 15,598,295</u></b>	<b><u>\$ 10,983,007</u></b>

CHESAPEAKE BAY FOUNDATION, INC.

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2020  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2019

	<u>2020</u>	<u>2019</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Interest Paid	\$ <u>156,390</u>	\$ <u>206,182</u>

**CHESAPEAKE BAY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**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 of Not-for-Profit Entities*. As such, net assets are reported within two net asset classifications: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories are 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. Board Designated net assets represents board endowments included in Note 16.
- **Net Assets With Donor Restrictions** - Net assets may be subject to donor-imposed stipulations that are more restrictive than The Foundation mission and purpose. Some donor imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor imposed restrictions are released when the restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both. 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.

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, 2019, from which the summarized information was derived.

New accounting pronouncement adopted -

During 2020, the Foundation adopted ASU 2018-08, Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. This guidance is intended to clarify and improve the scope and the accounting guidance for contributions received and contributions made. Key provisions in this guidance include clarification regarding the accounting for grants and contracts as exchange transactions or contributions, and improve guidance to better distinguish between conditional and unconditional contributions. The Foundation adopted the ASU using a modified prospective basis.

**CHESAPEAKE BAY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

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

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 to be cash equivalents. The total amount of cash and cash equivalents included in investment portfolios for the years ended June 30, 2020 and 2019 were \$6,935,484 and \$3,876,881, respectively.

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.

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.

**CHESAPEAKE BAY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

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

Accounts and pledges receivable (continued) -

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 bond issuance costs and other costs related to the acquisition of the Bay Ridge Facility (Note 6). Deferred financing costs are being amortized over the respective life of the bonds. Deferred financing costs are shown net of 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.

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, 2020 and 2019, liabilities under split interest agreements totaled \$870,039 and \$825,936, respectively.

Contributions, grants and gifts -

The majority of the Foundation's revenue is received through contributions as well as contracts and grants from the U.S. government, organizations and other entities. Contributions and grants are recognized in the appropriate category of net assets in the period received.

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019

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

Contributions, grants and gifts (continued) -

The Foundation performs an analysis of the individual contribution, grant and contract to determine if the revenue streams follow the contribution rules or if they should be recorded as an exchange transaction depending upon whether the transactions are deemed reciprocal or nonreciprocal.

For contributions and grants and contracts qualifying under the contribution rules, revenue is recognized upon notification of the award and satisfaction of all conditions, if applicable. Conditional promises to give are not recognized until the conditions on which they depend are substantially met.

Contributions and grants and contracts qualifying as contributions that are unconditional that have 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.

Grant and contract agreements qualifying as conditional contributions contain a right of return and a barrier. Revenue is recognized when the condition or conditions are satisfied. Most grants and contract awards from the United States Government and other entities are for direct and indirect program costs. These transactions are nonreciprocal and classified as conditional and are recognized as contributions when the revenue becomes unconditional. Typically, these agreements also contain a right of return or right of release from obligation provision and the entity has limited discretion over how funds transferred should be spent. As such, the Foundation recognizes revenue for these conditional contributions when the related barrier has been overcome (generally, when qualifying expenditures are incurred). Funds received in advance of the incurrence of qualifying expenditures are recorded as refundable advances. For contributions and grants and contracts treated as contributions, the Foundation had approximately \$2,349,966 and \$2,348,200 in unrecognized conditional awards as of June 30, 2020 and 2019, respectively. There were no refundable advances as of June 30, 2020 and 2019.

Education contracts and tuition -

The Foundation's education department is responsible for leading students, teachers, and adults in hands-on, on-the-water, environmental education experiences about the Bay, through various courses for students and educators throughout Maryland, Virginia, Pennsylvania, and the District of Columbia. Revenue from education contracts and tuitions are recognized at the time the event occurs. Revenue received in advance are recorded as deferred revenue within the Statement of Financial Position.

Deferred revenue consisted of the following as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Contracts	\$ 1,081,264	1,028,542
Events	203,080	154,575
Education and tuition	<u>76,380</u>	<u>25,845</u>
<b>TOTAL DEFERRED REVENUE</b>	<b><u>\$ 1,360,724</u></b>	<b><u>\$ 1,208,962</u></b>

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019

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

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.

As of June 30, 2019 there was a net operating loss carryforward of approximately \$32,416. For the year ended June 30, 2020, the Foundation owed approximately \$2,000 in federal and state taxes.

Uncertain tax positions -

For the years ended June 30, 2020 and 2019, 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.

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.

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019

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

Functional allocation of expenses (continued) -

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 time and effort (such as salaries and benefits) as well as square footage (such as depreciation, office and occupancy) or other reasonable basis.

Joint costs -

For fiscal years 2020 and 2019, the Foundation incurred joint costs of \$3,502,194 and \$2,656,108, respectively, for educational materials, membership and support services. These costs were allocated as follows:

	<u>2020</u>	<u>2019</u>
Environmental Education	\$ 790,770	\$ 591,972
Environmental Protection and Restoration	1,578,318	1,101,060
Strategic Communications	386,957	293,058
Fundraising	<u>746,149</u>	<u>670,018</u>
<b>TOTAL JOINT COSTS INCURRED</b>	<b><u>\$ 3,502,194</u></b>	<b><u>\$ 2,656,108</u></b>

Economic uncertainties -

On March 11, 2020, the World Health Organization declared the Coronavirus disease (COVID-19) a global pandemic. As a result of the spread of COVID-19, economic uncertainties have arisen which may negatively impact The Foundation's operations. The overall potential impact is unknown at this time.

New accounting pronouncement not yet adopted -

FASB issued Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), as amended. The ASU provides a framework for recognizing revenue and is intended to improve comparability of revenue recognition practices across for-profit and non-profit entities. During 2020, the FASB delayed the implementation date under ASU 2020-05 for an additional year. Organizations may elect to adopt the guidance for annual reporting periods beginning after December 15, 2019 and for interim periods within annual reporting periods beginning after December 15, 2020. Early adoption is still permitted.

FASB issued ASU 2019-01, *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. During 2020, the FASB issued ASU 2020-05 and delayed the implementation date by one year. The ASU is effective for non public entities beginning after December 15, 2021. Early adoption is still permitted. The ASU can be applied at the beginning of the earliest period presented using a modified retrospective approach or applied at the beginning of the period of adoption recognizing a cumulative-effect adjustment.

The Foundation plans to adopt the new ASUs at the required implementation dates and management is currently in the process of evaluating the adoption method and the impact of the new standard on its accompanying financial statements.



**CHESAPEAKE BAY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**2. INVESTMENTS**

At June 30, 2020 and 2019, investments at readily determinable fair values, consisted of the following:

	<b>2020</b>	<b>2019</b>
Equity securities	\$ 21,810,728	\$ 19,990,790
International equity securities	2,681,284	3,490,337
Partnerships/alternative investments	21,025,436	24,737,363
Corporate bonds and other agencies	7,850,725	7,693,277
U.S. Government obligations	2,945	3,120
Beneficial interest in perpetual trust	<u>3,223,517</u>	<u>3,223,517</u>
Sub-total investments	56,594,635	59,138,404
Cash and cash equivalents held by investment managers	<u>6,935,484</u>	<u>3,876,881</u>
<b>TOTAL INVESTMENTS</b>	<b><u>\$ 63,530,119</u></b>	<b><u>\$ 63,015,285</u></b>

Included in the investment balance at June 30, 2020 and 2019 are investments related to certain split-interest agreements in the amounts of \$1,049,548 and \$1,080,060, respectively.

The investment portfolio includes \$38,380,082 and \$38,343,425 of endowment investments and contributions invested in perpetuity at June 30, 2020 and 2019, respectively (see Note 16).

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 section of the Statement of Activities and Change in Net Assets, as "Investment gain and distributions, net".

Investment return for the years ended June 30, 2020 and 2019 consisted of the following:

	<b>2020</b>	<b>2019</b>
Interest and dividends	\$ 578,725	\$ 874,929
Investment fees	(236,534)	(230,400)
Unrealized (loss) gain	(302,918)	2,851,053
Realized gains	<u>3,633,778</u>	<u>859,576</u>
Total investment return	3,673,051	4,355,158
Less: Investment distribution for operations	<u>(3,472,390)</u>	<u>(3,064,414)</u>
<b>INVESTMENT GAIN AND DISTRIBUTIONS, NET</b>	<b><u>\$ 200,661</u></b>	<b><u>\$ 1,290,744</u></b>

**CHESAPEAKE BAY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**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, 2020 and 2019, respectively:

	<b>2020</b>	<b>2019</b>
Federal and state receivables	\$ 552,733	\$ 698,506
Non-Federal and state receivables	262,688	108,808
Total accounts receivable	815,421	807,314
Less: Allowance for doubtful accounts	(749)	(1,029)
<b>NET ACCOUNTS RECEIVABLE</b>	<b>\$ 814,672</b>	<b>\$ 806,285</b>

**4. PLEDGES RECEIVABLE**

As of June 30, 2020 and 2019, contributors to the Foundation have made written promises to give totaling \$16,832,017 and \$14,141,956, 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, 2020 and 2019:

	<b>2020</b>	<b>2019</b>
Less than one year	\$ 4,355,145	\$ 2,533,522
One to five years	8,421,032	6,951,911
Beyond five years	4,055,840	4,656,523
Total pledges	16,832,017	14,141,956
Less: Discount to net present value	(794,446)	(1,058,101)
Less: Allowance for doubtful accounts	(164,104)	(140,528)
<b>NET PLEDGES RECEIVABLE</b>	<b>\$ 15,873,467</b>	<b>\$ 12,943,327</b>

**5. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at June 30, 2020 and 2019:

	<b>2020</b>	<b>2019</b>
Land	\$ 11,787,140	\$ 11,734,840
Building and improvements	27,408,117	27,291,203
Furniture and equipment	6,392,320	6,245,182
Boats	4,836,963	4,511,698
Vehicles	638,799	633,189
Construction in progress	1,083,465	707,406
Art	17,000	17,000
Total property and equipment	52,163,804	51,140,518
Less: Accumulated depreciation and amortization	(22,405,496)	(21,005,193)
<b>NET PROPERTY AND EQUIPMENT</b>	<b>\$ 29,758,308</b>	<b>\$ 30,135,325</b>

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019

5. PROPERTY AND EQUIPMENT (Continued)

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, 2020 and 2019 (see Note 16). Depreciation expense for the years ended June 30, 2020 and 2019 totaled \$1,419,637 and \$1,444,865, respectively. Of these amounts, \$819,426 and \$828,438 is included in occupancy expense, and \$600,211 and \$616,427 is included in depreciation and amortization expense in the accompanying Statement of Functional Expenses for the years ended June 30, 2020 and 2019, respectively.

6. 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. Amortization expense for the years ended June 30, 2020 and 2019 totaled \$8,742 and \$8,741, respectively, and is included in depreciation and amortization expense in the accompanying Statement of Functional Expenses. At June 30, 2020 and 2019, accumulated amortization for the bond financing costs totaled \$58,280 and \$49,538, 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 7. The bond agreements, among other provisions, require the Foundation to meet certain financial ratio tests.

As of June 30, 2020 and 2019, the outstanding balance of the bond payable is as follows:

	<u>2020</u>	<u>2019</u>
Bond principal payable	\$ 2,444,731	\$ 3,097,154
Less: Deferred financing costs, less accumulated amortization of \$58,280 and \$49,538, respectively	<u>(29,140)</u>	<u>(37,882)</u>
<b>NET BONDS PAYABLE</b>	<b><u>\$ 2,415,591</u></b>	<b><u>\$ 3,059,272</u></b>

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019

6. **BONDS PAYABLE (Continued)**

Principal payments are due as follows:

**Year Ending June 30,**

2021	\$ 687,925
2022	726,002
2023	766,135
2024	<u>264,669</u>

**BONDS PAYABLE** **\$ 2,444,731**

The Foundation incurred interest expense on the bonds totaling \$156,390 and \$194,414 for the years ended June 30, 2020 and 2019, respectively, which is included in occupancy and utilities expense within the Statement of Functional Expenses.

7. **INTEREST RATE SWAP**

The bonds discussed in Note 6 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, 2020 and 2019, the outstanding notional amount of the Capital One Swap was \$2,444,731 and \$3,097,154, respectively. As of June 30, 2020 and 2019, the Capital One Swap had a negative fair value of \$183,867 and \$219,546, 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, 2020 and 2019. 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, 2020 AND 2019

8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
<b>Program Restricted:</b>		
Environmental Education	\$ 664,504	\$ 722,090
Environmental Protection and Restoration	19,186,167	14,207,782
Property and Equipment	2,260,600	1,405,138
Other	<u>29,943</u>	<u>19,201</u>
Total program restricted	22,141,214	16,354,211
Time Restricted	15,205,148	14,403,510
Perpetually Restricted	<u>46,535,606</u>	<u>46,510,787</u>
<b>NET ASSETS WITH DONOR RESTRICTIONS</b>	<b><u>\$ 83,881,968</u></b>	<b><u>\$ 77,268,508</u></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, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
With purpose restrictions	\$ 6,779,989	\$ 6,537,481
Time restriction	<u>4,107,642</u>	<u>3,977,202</u>
<b>ACCUMULATED ENDOWMENT EARNINGS INCLUDED IN NET ASSETS WITH DONOR RESTRICTIONS</b>	<b><u>\$ 10,887,631</u></b>	<b><u>\$ 10,514,683</u></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, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
<b>Donor Restrictions:</b>		
Environmental Education	\$ 810,735	\$ 1,078,119
Environmental Protection and Restoration	7,076,463	5,065,211
Strategic Communications	-	31,500
Property and Equipment	963,236	685,113
Other	<u>4,259</u>	<u>4,625</u>
Total donor restrictions	<u>8,854,693</u>	<u>6,864,568</u>
<b>Time Restrictions:</b>		
Passage of time	2,471,832	2,306,999
Passage of time (death of donors)	<u>(24,096)</u>	<u>231,399</u>
Total time restrictions	<u>2,447,736</u>	<u>2,538,398</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<b><u>\$ 11,302,429</u></b>	<b><u>\$ 9,402,966</u></b>

**CHESAPEAKE BAY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**8. NET ASSETS WITH DONOR RESTRICTIONS (Continued)**

Accumulated investment earnings released from net assets with donor restrictions as of June 30, 2020 and 2019 are as follows:

	<b>2020</b>	<b>2019</b>
Purpose restrictions	\$ 1,594,404	\$ 1,535,256
Passage of time	882,402	849,705
<b>ACCUMULATED ENDOWMENT EARNINGS RELEASED FROM NET ASSETS WITH DONOR RESTRICTIONS</b>	<b>\$ 2,476,806</b>	<b>\$ 2,384,961</b>

**9. 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>2020</b>	<b>2019</b>
Cash and cash equivalents	\$ 15,598,295	\$ 10,983,007
Investments	63,530,119	63,015,285
Accounts receivable	814,672	806,285
Pledges receivable	15,873,467	12,943,327
Subtotal financial assets available within one year	95,816,553	87,747,904
Less: Donor restricted funds	(83,881,968)	(77,268,508)
Less: Board designated funds	(1,033,015)	(1,024,098)
<b>FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR</b>	<b>\$ 10,901,570</b>	<b>\$ 9,455,298</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, 2020 and 2019, 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.

**10. 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.

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019

10. LEASE COMMITMENT (Continued)

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

Year Ending June 30, 2020

2021	\$ 357,319
2022	300,610
2023	138,265
2024	73,199
2025	13,903
Thereafter	<u>3,191</u>
	<u>\$ 886,487</u>

Rent expense for the years ended June 30, 2020 and 2019 totaled \$289,823 and \$284,737, respectively. Rent expense is included in occupancy and utilities in the Statement of Functional Expenses.

11. 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, 2020 and 2019, the Foundation made contributions in the amounts of \$498,167 and \$421,194, respectively.

12. RELATED PARTY

For the years ended June 30, 2020 and 2019, the Foundation received gross contributions and grants in the amounts of \$8,468,505 and \$5,624,301, respectively, from Trustees and Executive Management. Net amounts due under pledges receivable from related parties totaled \$7,220,760 and \$5,071,645 as of June 30, 2020 and 2019, respectively.

13. CONTINGENCIES

The Foundation receives grants from various agencies of the United States Government. For the fiscal year ended June 30, 2020, 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 2020. 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.

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019

**13. CONTINGENCIES (Continued)**

For the year ended June 30, 2020, the Foundation did not exceed the \$750,000 threshold of Federal expenditures which would require an audit under the provisions of 2 (CFR) Part 200 Uniform Guidance.

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.

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

During the years ended June 30, 2020 and 2019, 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 \$1,393,936 and \$945,763 have been included in revenue and expense for the years ended June 30, 2020 and 2019, respectively, which included \$814,000 and \$890,990 of in-kind public service announcements for the years ended June 30, 2020 and 2019, respectively.

**15. 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, 2020 and 2019.

- *Equity/International equity* - Valued at the closing price reported on the active market in which the individual securities are traded.



CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019

15. FAIR VALUE MEASUREMENT (Continued)

- *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.

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, 2020:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total June 30, 2020</u>
<b>Asset Class:</b>				
Equity securities	\$ 21,810,728	\$ -	\$ -	\$ 21,810,728
International equity securities	2,681,284	-	-	2,681,284
Corporate bonds and other agencies	7,850,725	-	-	7,850,725
Beneficial interest in perpetual trust	-	3,223,517	-	3,223,517
U.S. Government obligations	2,945	-	-	2,945
Cash and cash equivalents held by investment managers	<u>6,935,484</u>	<u>-</u>	<u>-</u>	<u>6,935,484</u>
Sub-total	<u>39,281,166</u>	<u>3,223,517</u>	<u>-</u>	<u>42,504,683</u>
Alternative investments measured at NAV, per practical expedient				<u>21,025,436</u>
<b>TOTAL INVESTMENTS</b>				<b><u>\$ 63,530,119</u></b>
<b>Liability:</b>				
Interest Rate Swap Obligation	<u>\$ -</u>	<u>\$ 183,867</u>	<u>\$ -</u>	<u>\$ -</u>

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019

15. FAIR VALUE MEASUREMENT (Continued)

For the year ended June 30, 2020, 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, 2019:

	Level 1	Level 2	Level 3	Total June 30, 2019
<b>Asset Class:</b>				
Equity securities	\$ 19,990,790	\$ -	\$ -	\$ 19,990,790
International equity securities	3,490,337	-	-	3,490,337
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>3,876,881</u>
Sub-total	<u>35,054,405</u>	<u>3,223,517</u>	<u>-</u>	<u>38,277,922</u>
Alternative investments measured at NAV, per practical expedient				<u>24,737,363</u>
<b>TOTAL INVESTMENTS</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>

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.

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, 2020 and 2019, the Foundation has uncalled commitments of \$3,366,581 and \$2,841,078, respectively.

Alternative investments are comprised of the following at June 30, 2020 and 2019:

Investment Type	Net Asset Value		Uncalled Commitments		Liquidity
	2020	2019	2020	2019	
Domestic/U.S. Limited Partnerships	\$ 820,269	\$ 873,508	\$ 1,184,081	\$ 1,484,828	None until dissolution or winding up of partnership.
Domestic/U.S. Limited Partnerships	407,960	410,842	-	-	100 days notice
Domestic/U.S. Alternative Equity	5,113,666	5,117,872	-	-	Month end
Domestic/U.S. Limited Partnerships	<u>14,683,541</u>	<u>18,335,141</u>	<u>2,182,500</u>	<u>1,356,250</u>	Last day of each quarter.
<b>ALTERNATIVE INVESTMENTS</b>	<b><u>\$ 21,025,436</u></b>	<b><u>\$ 24,737,363</u></b>	<b><u>\$ 3,366,581</u></b>	<b><u>\$ 2,841,078</u></b>	

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019

15. FAIR VALUE MEASUREMENT (Continued)

Following is a description of those alternative investments:

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 Equity – Includes investments in low volatility US equity funds.

16. 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 8, 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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Environmental education	\$ 10,682,974	\$ 10,659,224
Environmental protection and restoration	13,514,767	13,514,767
Property and equipment	8,155,524	8,155,524
General operating	<u>14,182,341</u>	<u>14,181,272</u>
<b>ENDOWMENT NET ASSETS</b>	<b><u>\$ 46,535,606</u></b>	<b><u>\$ 46,510,787</u></b>

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019

16. ENDOWMENT (Continued)

Endowment net assets consists of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Investments	\$ 38,380,082	\$ 38,343,425
Property and equipment	8,155,524	8,155,524
Pledge receivables, net of discount	<u>-</u>	<u>11,838</u>
<b>ENDOWMENT NET ASSETS</b>	<b><u>\$ 46,535,606</u></b>	<b><u>\$ 46,510,787</u></b>

Endowment net asset composition by type of fund as of June 30, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Board Designated Endowment Funds	\$ 1,033,015	\$ -	\$ 1,033,015
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	46,535,606	46,535,606
Accumulated investment earnings	<u>-</u>	<u>10,887,631</u>	<u>10,887,631</u>
<b>TOTAL ENDOWMENT FUNDS</b>	<b><u>\$ 1,033,015</u></b>	<b><u>\$ 57,423,237</u></b>	<b><u>\$ 58,456,252</u></b>

Changes in endowment net assets for the year ended June 30, 2020:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,024,098	\$ 57,025,470	\$ 58,049,568
Investment return, net	58,255	2,849,856	2,908,111
Contributions	-	24,716	24,716
Appropriation of endowment assets for expenditure	<u>(49,338)</u>	<u>(2,476,805)</u>	<u>(2,526,143)</u>
<b>ENDOWMENT NET ASSETS, END OF YEAR</b>	<b><u>\$ 1,033,015</u></b>	<b><u>\$ 57,423,237</u></b>	<b><u>\$ 58,456,252</u></b>

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>

**CHESAPEAKE BAY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**16. ENDOWMENT (Continued)**

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

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
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	(47,154)	(2,384,961)	(2,432,115)
<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>

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 \$1,997,513, and a deficiency of \$778,001 and \$787,518 as of June 30, 2020 and June 30, 2019, 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.

**CHESAPEAKE BAY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2020 AND 2019**

**16. ENDOWMENT (Continued)**

Spending Policy and How the Investment Objectives Relate to Spending Policy (continued) -

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.

**17. SUBSEQUENT EVENTS**

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through December 9, 2020, 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, 2020**

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, 2020.

**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