

# FINANCIAL STATEMENTS



**CHESAPEAKE BAY FOUNDATION**

*Saving a National Treasure*

**FOR THE YEAR ENDED JUNE 30, 2021  
WITH SUMMARIZED FINANCIAL  
INFORMATION FOR 2020**

**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, 2021, 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.

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## 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, 2021, 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.

## Report on Summarized Comparative Information

We have previously audited the Foundation's 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 9, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 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 15, 2021 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 15, 2021

## CHESAPEAKE BAY FOUNDATION, INC.

**STATEMENT OF FINANCIAL POSITION**  
**AS OF JUNE 30, 2021**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2020**

**ASSETS**

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 16,244,877	\$ 15,598,295
Investments	76,257,134	63,530,119
Accounts receivable, net	979,221	814,672
Pledges receivable, net	11,963,812	15,873,467
Prepays, deposits and other assets	928,570	719,980
Property and equipment, net	<u>30,887,854</u>	<u>29,758,308</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 137,261,468</u></b>	<b><u>\$ 126,294,841</u></b>

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

Bonds payable	\$ 1,736,408	\$ 2,415,591
Accounts payable and accrued expenses	2,229,552	1,508,723
Deferred revenue	1,482,112	1,360,724
Liability under split interest agreements	867,813	870,039
Interest rate swap obligation	<u>89,465</u>	<u>183,867</u>
Total liabilities	<u>6,405,350</u>	<u>6,338,944</u>

**NET ASSETS**

Without donor restrictions	42,059,259	36,073,929
With donor restrictions	<u>88,796,859</u>	<u>83,881,968</u>
Total net assets	<u>130,856,118</u>	<u>119,955,897</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 137,261,468</u></b>	<b><u>\$ 126,294,841</u></b>

## CHESAPEAKE BAY FOUNDATION, INC.

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2021  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2020**

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
<b>REVENUE</b>				
Membership contributions	\$ 5,895,654	\$ -	\$ 5,895,654	\$ 5,515,035
Grants and gifts	10,801,924	6,204,790	17,006,714	26,553,916
Education contracts and tuition	160,275	-	160,275	811,539
Investment distribution	693,853	2,874,351	3,568,204	3,472,390
Donated goods and services	219,102	-	219,102	1,191,697
Other	879,437	-	879,437	779,001
Net assets released from donor restrictions	<u>14,067,939</u>	<u>(14,067,939)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>32,718,184</u>	<u>(4,988,798)</u>	<u>27,729,386</u>	<u>38,323,578</u>
<b>EXPENSES</b>				
Program Services:				
Environmental Education	6,075,737	-	6,075,737	6,895,836
Environmental Protection and Restoration	14,381,167	-	14,381,167	13,521,378
Strategic Communications	<u>2,903,322</u>	<u>-</u>	<u>2,903,322</u>	<u>3,364,628</u>
Total program services	<u>23,360,226</u>	<u>-</u>	<u>23,360,226</u>	<u>23,781,842</u>
Support Services:				
General and Administrative	2,376,640	-	2,376,640	2,338,295
Fundraising	<u>3,688,317</u>	<u>-</u>	<u>3,688,317</u>	<u>4,013,170</u>
Total support services	<u>6,064,957</u>	<u>-</u>	<u>6,064,957</u>	<u>6,351,465</u>
Total expenses	<u>29,425,183</u>	<u>-</u>	<u>29,425,183</u>	<u>30,133,307</u>
Change in net assets before capital additions	3,293,001	(4,988,798)	(1,695,797)	8,190,271
<b>CAPITAL ADDITIONS</b>				
Investment gain and distributions, net	2,751,717	9,625,418	12,377,135	200,661
Grants and gifts	-	278,271	278,271	24,716
(Loss) gain on sale of property and equipment	(153,790)	-	(153,790)	730
Unrealized gain on interest rate swap	<u>94,402</u>	<u>-</u>	<u>94,402</u>	<u>35,679</u>
Total capital additions	<u>2,692,329</u>	<u>9,903,689</u>	<u>12,596,018</u>	<u>261,786</u>
Change in net assets	5,985,330	4,914,891	10,900,221	8,452,057
Net assets at beginning of year	<u>36,073,929</u>	<u>83,881,968</u>	<u>119,955,897</u>	<u>111,503,840</u>
<b>NET ASSETS AT END OF YEAR</b>	<b><u>\$ 42,059,259</u></b>	<b><u>\$ 88,796,859</u></b>	<b><u>\$ 130,856,118</u></b>	<b><u>\$ 119,955,897</u></b>

**CHESAPEAKE BAY FOUNDATION, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2021**  
**WITH SUMMARIZED FINANCIAL INFORMATION FOR 2020**

	<b>2021</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	\$ 2,974,322	\$ 5,364,145	\$ 1,382,805	\$ 9,721,272
Fringe benefits	1,395,360	2,492,525	655,427	4,543,312
Telephone	33,728	44,640	5,580	83,948
Outside services	126,603	444,707	54,209	625,519
Occupancy and utilities	347,731	893,652	109,327	1,350,710
Equipment rental, leasing, repairs and maintenance	236,176	321,312	122,790	680,278
Publications and subscriptions	2,082	26,165	13,058	41,305
Membership and dues	5,253	26,782	2,241	34,276
Postage and shipping	94,483	278,592	72,512	445,587
Printing	104,586	267,713	83,515	455,814
Travel	22,825	58,535	1,573	82,933
Meetings and seminars	8,769	8,942	1,617	19,328
Personnel recruitment	5,459	9,078	1,760	16,297
Professional fees	160,710	547,050	289,195	996,955
Subrecipients	-	764,908	-	764,908
Restoration fees	-	270,048	-	270,048
Miscellaneous	13,521	39,016	559	53,096
Banking and interest expense	34,007	49,568	26,180	109,755
Insurance	183,035	131,196	10,267	324,498
Supplies	105,625	1,813,119	35,179	1,953,923
Donated goods and services	3,321	213,244	-	216,565
Depreciation and amortization	218,141	316,230	35,528	569,899
<b>TOTAL</b>	<b>\$ 6,075,737</b>	<b>\$ 14,381,167</b>	<b>\$ 2,903,322</b>	<b>\$ 23,360,226</b>

CHESAPEAKE BAY FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES  
FOR THE YEAR ENDED JUNE 30, 2021  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2020

	2021 (Continued)			2020	
	Support Services		Total Support Services	Total Expenses	Total Expenses
General and Administrative	Fundraising				
Salaries	\$ 1,094,977	\$ 1,548,862	\$ 2,643,839	\$ 12,365,111	\$ 12,917,828
Fringe benefits	509,510	729,856	1,239,366	5,782,678	5,207,882
Telephone	6,106	8,206	14,312	98,260	120,668
Outside services	39,246	195,194	234,440	859,959	770,397
Occupancy and utilities	97,327	68,874	166,201	1,516,911	1,436,685
Equipment rental, leasing, repairs and maintenance	132,631	100,763	233,394	913,672	943,923
Publications and subscriptions	5,099	19,233	24,332	65,637	64,704
Membership and dues	4,177	9,662	13,839	48,115	43,376
Postage and shipping	581	182,540	183,121	628,708	592,156
Printing	311	196,215	196,526	652,340	974,654
Travel	815	2,822	3,637	86,570	342,518
Meetings and seminars	4,291	706	4,997	24,325	469,288
Personnel recruitment	3,226	2,796	6,022	22,319	20,943
Professional fees	234,761	515,867	750,628	1,747,583	2,026,378
Subrecipients	-	-	-	764,908	196,480
Restoration fees	-	-	-	270,048	337,342
Miscellaneous	32	2,168	2,200	55,296	73,266
Banking and interest expense	127,229	19,183	146,412	256,167	278,061
Insurance	29,639	13,763	43,402	367,900	388,442
Supplies	36,045	26,381	62,426	2,016,349	1,127,666
Donated goods and services	-	2,537	2,537	219,102	1,191,697
Depreciation and amortization	50,637	42,689	93,326	663,225	608,953
<b>TOTAL</b>	<b>\$ 2,376,640</b>	<b>\$ 3,688,317</b>	<b>\$ 6,064,957</b>	<b>\$ 29,425,183</b>	<b>\$ 30,133,307</b>



## CHESAPEAKE BAY FOUNDATION, INC.

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2021  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2020**

	<u>2021</u>	<u>2020</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 10,900,221	\$ 8,452,057
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,478,927	1,428,379
Unrealized gain on interest rate swap	(94,402)	(35,679)
Loss (gain) on sale of property and equipment	153,790	(730)
Capital additions - permanently restricted contributions	(278,271)	(24,716)
Change in the discount of long-term pledges receivable	(347,801)	(263,655)
Change in allowance for doubtful accounts, accounts receivable	(749)	(280)
Change in allowance for doubtful accounts, pledges	(40,612)	23,576
Unrealized (gain) loss on investments	(9,812,626)	302,918
Realized gains on investments	(5,560,376)	(3,633,778)
Change in value of split interest agreements	76,065	77,282
(Increase) decrease in assets:		
Accounts receivable	(163,800)	(8,107)
Pledges receivable	4,298,068	(2,690,061)
Prepays, deposits and other assets	(208,590)	99,499
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	720,829	(376,429)
Deferred income	121,388	151,762
Liability under split interest agreements	(1,964)	35,575
Net cash provided by operating activities	<u>1,240,097</u>	<u>3,537,613</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net sales of investments	2,645,987	2,816,026
Purchases of property and equipment	(2,832,177)	(1,042,620)
Proceeds from sale of property and equipment	<u>78,656</u>	<u>730</u>
Net cash (used) provided by investing activities	<u>(107,534)</u>	<u>1,774,136</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Capital additions - permanently restricted contributions	278,271	24,716
Payments on bonds payable	(687,925)	(652,423)
Payments made on split interest agreements	<u>(76,327)</u>	<u>(68,754)</u>
Net cash used by financing activities	<u>(485,981)</u>	<u>(696,461)</u>
Net increase in cash and cash equivalents	646,582	4,615,288
Cash and cash equivalents at beginning of year	<u>15,598,295</u>	<u>10,983,007</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b><u>\$ 16,244,877</u></b>	<b><u>\$ 15,598,295</u></b>

CHESAPEAKE BAY FOUNDATION, INC.

STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2021  
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2020

SUPPLEMENTAL INFORMATION	<u>2021</u>	<u>2020</u>
Interest Paid	\$ <u>117,594</u>	\$ <u>156,390</u>

# CHESAPEAKE BAY FOUNDATION, INC.

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2021 AND 2020

### 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, 2020, from which the summarized information was derived.

#### New accounting pronouncement adopted -

During 2021, the Foundation adopted 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. Analysis of the various provisions of this standard resulted in no significant changes in the way the Foundation recognized revenue; however, the presentation and disclosures of revenue have been enhanced.

#### 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.

**CHESAPEAKE BAY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

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

Cash and cash equivalents (continued) -

The total amount of cash and cash equivalents included in investment portfolios for the years ended June 30, 2021 and 2020 were \$8,187,464 and \$6,935,484, 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. Amortization of the discounts is included in grants and gifts revenue.

**CHESAPEAKE BAY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

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

Accounts and pledges receivable (continued) -

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 -

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, 2021 and 2020, liabilities under split interest agreements totaled \$867,813 and \$870,039, respectively.

Revenue recognition -

Membership 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, 2021 AND 2020

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

Revenue recognition (continued) -

Membership 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 under ASU 2018-08, Not-for-Profit Entities (Topic 958): Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made.

For membership contributions, grants and contracts qualifying under the contribution rules, revenue is recognized upon notification of the award and satisfaction of all conditions, if applicable. Membership contributions, 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, grants and contracts treated as contributions, the Foundation had approximately \$2,729,674 and \$2,349,966 in unrecognized conditional awards as of June 30, 2021 and 2020, respectively. There were no refundable advances as of June 30, 2021 and 2020.

Membership contributions, which are recognized upon receipt, consist of contributions designed to provide resources to support the general mission of the Foundation. Membership contributions include member benefits that are a series of distinct obligations. There are some benefits received that are individual distinct obligations such as *Save the Bay* Magazine, discounted rates to online store and on Bay Discovery trips; however, they are immaterial in nature to the contract and thus are included with the general member benefits.

Education contracts and tuition -

Grants and contracts classified as exchange transactions follow ASU 2014-09, Revenue from Contracts With Customers and are recorded as revenue at a point in time when the performance obligations are met. The Foundation has elected to opt out of all (or certain) disclosures not required for nonpublic entities. Transaction price is based on cost.

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.

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020

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

Revenue recognition (continued) -

Education contracts and tuition (continued) -

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, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Carbon offsets	\$ 862,288	999,667
Events	464,930	203,080
Education and tuition	57,465	76,380
Other	<u>97,429</u>	<u>81,597</u>
<b>TOTAL DEFERRED REVENUE</b>	<b><u>\$ 1,482,112</u></b>	<b><u>\$ 1,360,724</u></b>

Donated goods and services -

Contributions of goods or services are recognized at their fair value 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. In addition, volunteers have donated significant amounts of their time to the Foundation; these donated services would typically need to be purchased if not donated however they are not reflected in the financial statements since these services do not meet the criteria for recognition as contributed services.

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.

Uncertain tax positions -

For the years ended June 30, 2021 and 2020, 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.

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020

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

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 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 2021 and 2020, the Foundation incurred joint costs of \$3,109,218 and \$3,502,194, respectively, for educational materials, membership and support services. These costs were allocated as follows:

	<u>2021</u>	<u>2020</u>
Environmental Education	\$ 615,945	\$ 790,770
Environmental Protection and Restoration	1,504,561	1,578,318
Strategic Communications	294,336	386,957
Fundraising	<u>694,376</u>	<u>746,149</u>
<b>TOTAL JOINT COSTS INCURRED</b>	<b><u>\$ 3,109,218</u></b>	<b><u>\$ 3,502,194</u></b>

New accounting pronouncements not yet adopted -

ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* improves generally accepted accounting principles (GAAP) by increasing the transparency of contributed nonfinancial assets for not-for-profit (NFP) entities through enhancements to presentation and disclosure.

The amendments in this ASU address certain stakeholders' concerns about the lack of transparency relating to the measurement of contributed nonfinancial assets recognized by NFPs, as well as the amount of those contributions used in a NFP's programs and other activities. The ASU should be applied on a retrospective basis and is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. Early adoption is permitted. The amendment will not change the recognition and measurement requirements for those contributed nonfinancial assets.



CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020

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

New accounting pronouncements not yet adopted (continued) -

ASU 2019-01, *Leases* (Topic 842) changes the accounting treatment for operating leases by requiring recognition of a lease asset and lease liability at the present value of the lease payments in the Statement of Financial Position and disclosure of 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 for fiscal years 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 date and management is currently in the process of evaluating the adoption method and the impact of the new standard on its accompanying financial statements.

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. Management has been monitoring the impact on the Foundation's operations and will continue to do so as the pandemic continues to evolve over time however any future impact is unknown at this time.

2. INVESTMENTS

At June 30, 2021 and 2020, investments at readily determinable fair values, consisted of the following:

	<u>2021</u>	<u>2020</u>
Equity securities	\$ 24,935,733	\$ 21,810,728
International equity securities	3,673,453	2,681,284
Partnerships/alternative investments	26,377,819	21,025,436
Corporate bonds and other agencies	9,854,929	7,850,725
U.S. Government obligations	4,219	2,945
Beneficial interest in perpetual trust	<u>3,223,517</u>	<u>3,223,517</u>
Sub-total investments	68,069,670	56,594,635
Cash and cash equivalents held by investment managers	<u>8,187,464</u>	<u>6,935,484</u>
<b>TOTAL INVESTMENTS</b>	<b><u>\$ 76,257,134</u></b>	<b><u>\$ 63,530,119</u></b>

Included in the investment balance at June 30, 2021 and 2020 are investments related to certain split-interest agreements in the amounts of \$1,174,696 and \$1,049,548, respectively.

The investment portfolio includes \$38,952,662 and \$38,380,082 of endowment investments and contributions invested in perpetuity at June 30, 2021 and 2020, respectively (see Note 16).

**CHESAPEAKE BAY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

**2. INVESTMENTS (Continued)**

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, 2021 and 2020 consisted of the following:

	<b>2021</b>	<b>2020</b>
Interest and dividends	\$ 819,008	\$ 578,725
Investment fees	(246,671)	(236,534)
Unrealized gain (loss)	9,812,626	(302,918)
Realized gains	5,560,376	3,633,778
Total investment return	15,945,339	3,673,051
Less: Investment distribution for operations	(3,568,204)	(3,472,390)
<b>INVESTMENT GAIN AND DISTRIBUTIONS, NET</b>	<b>\$ 12,377,135</b>	<b>\$ 200,661</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, 2021 and 2020, respectively:

	<b>2021</b>	<b>2020</b>
Federal and state receivables	\$ 796,368	\$ 552,733
Non-Federal and state receivables	182,853	262,688
Total accounts receivable	979,221	815,421
Less: Allowance for doubtful accounts	-	(749)
<b>NET ACCOUNTS RECEIVABLE</b>	<b>\$ 979,221</b>	<b>\$ 814,672</b>

**4. PLEDGES RECEIVABLE**

As of June 30, 2021 and 2020, contributors to the Foundation have made written promises to give totaling \$12,533,949 and \$16,832,017, 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 0.6% to 4.3%. 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.

**CHESAPEAKE BAY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

**4. PLEDGES RECEIVABLE (Continued)**

Pledges are due as follows at June 30, 2021 and 2020:

	<b>2021</b>	<b>2020</b>
Less than one year	\$ 3,364,306	\$ 4,355,145
One to five years	5,713,803	8,421,032
Beyond five years	3,455,840	4,055,840
Total pledges	12,533,949	16,832,017
Less: Discount to net present value	(446,645)	(794,446)
Less: Allowance for doubtful accounts	(123,492)	(164,104)
<b>NET PLEDGES RECEIVABLE</b>	<b>\$ 11,963,812</b>	<b>\$ 15,873,467</b>

**5. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following at June 30, 2021 and 2020:

	<b>2021</b>	<b>2020</b>
Land	\$ 11,577,763	\$ 11,787,140
Building and improvements	30,206,008	27,408,117
Furniture and equipment	6,496,928	6,392,320
Boats	4,787,470	4,836,963
Vehicles	737,936	638,799
Construction in progress	284,419	1,083,465
Art	17,000	17,000
Total property and equipment	54,107,524	52,163,804
Less: Accumulated depreciation and amortization	(23,219,670)	(22,405,496)
<b>NET PROPERTY AND EQUIPMENT</b>	<b>\$ 30,887,854</b>	<b>\$ 29,758,308</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, 2021 and 2020 (see Note 16). Depreciation expense for the years ended June 30, 2021 and 2020 totaled \$1,470,185 and \$1,419,637, respectively. Of these amounts, \$815,702 and \$819,426 is included in occupancy expense, and \$654,483 and \$600,211 is included in depreciation and amortization expense in the accompanying Statement of Functional Expenses for the years ended June 30, 2021 and 2020, 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.

**CHESAPEAKE BAY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

**6. BONDS PAYABLE (Continued)**

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, 2021 and 2020 totaled \$8,742 and \$8,742, respectively, and is included in depreciation and amortization expense in the accompanying Statement of Functional Expenses. At June 30, 2021 and 2020, accumulated amortization for the bond financing costs totaled \$67,022 and \$58,280, 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, 2021 and 2020, the outstanding balance of the bond payable is as follows:

	<b>2021</b>	<b>2020</b>
Bond principal payable	\$ 1,756,806	\$ 2,444,731
Less: Unamortized deferred financing costs	(20,398)	(29,140)
<b>NET BONDS PAYABLE</b>	<b>\$ 1,736,408</b>	<b>\$ 2,415,591</b>

Principal payments are due as follows:

<b>Year Ending June 30,</b>	
2022	\$ 726,002
2023	766,135
2024	264,669
<b>BONDS PAYABLE</b>	<b>\$ 1,756,806</b>

The Foundation incurred interest expense on the bonds totaling \$117,594 and \$156,390 for the years ended June 30, 2021 and 2020, 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, 2021 AND 2020

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, 2021 and 2020, the outstanding notional amount of the Capital One Swap was \$1,756,806 and \$2,444,731, respectively. As of June 30, 2021 and 2020, the Capital One Swap had a negative fair value of \$89,465 and \$183,867, 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, 2021 and 2020. 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.

8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at June 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
<b>Program Restricted:</b>		
Environmental Education	\$ 375,912	\$ 664,504
Environmental Protection and Restoration	15,748,155	19,186,167
Property and Equipment	936,977	2,260,600
Other	<u>47,316</u>	<u>29,943</u>
Total program restricted	17,108,360	22,141,214
Time restricted	24,580,313	15,205,148
Perpetually restricted	<u>47,108,186</u>	<u>46,535,606</u>
<b>NET ASSETS WITH DONOR RESTRICTIONS</b>	<b><u>\$ 88,796,859</u></b>	<b><u>\$ 83,881,968</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.

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020

8. NET ASSETS WITH DONOR RESTRICTIONS (Continued)

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, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
With purpose restrictions	\$ 12,327,705	\$ 6,779,989
Time restriction	<u>7,985,491</u>	<u>4,107,642</u>
<b>ACCUMULATED ENDOWMENT EARNINGS INCLUDED IN NET ASSETS WITH DONOR RESTRICTIONS</b>	<b><u>\$ 20,313,196</u></b>	<b><u>\$ 10,887,631</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, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
<b>Donor Restrictions:</b>		
Environmental Education	\$ 1,095,613	\$ 810,735
Environmental Protection and Restoration	7,815,814	7,076,463
Property and Equipment	2,458,906	963,236
Other	<u>10,524</u>	<u>4,259</u>
Total donor restrictions	<u>11,380,857</u>	<u>8,854,693</u>
<b>Time Restrictions:</b>		
Passage of time	2,689,046	2,471,832
Passage of time (death of donors)	<u>(1,964)</u>	<u>(24,096)</u>
Total time restrictions	<u>2,687,082</u>	<u>2,447,736</u>
<b>NET ASSETS RELEASED FROM RESTRICTIONS</b>	<b><u>\$ 14,067,939</u></b>	<b><u>\$ 11,302,429</u></b>

Accumulated investment earnings released from net assets with donor restrictions as of June 30, 2021 and 2020 are as follows:

	<u>2021</u>	<u>2020</u>
Purpose restrictions	\$ 1,664,455	\$ 1,594,404
Passage of time	<u>962,996</u>	<u>882,402</u>
<b>ACCUMULATED ENDOWMENT EARNINGS RELEASED FROM NET ASSETS WITH DONOR RESTRICTIONS</b>	<b><u>\$ 2,627,451</u></b>	<b><u>\$ 2,476,806</u></b>

**CHESAPEAKE BAY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

**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>2021</b>	<b>2020</b>
Cash and cash equivalents	\$ 16,244,877	\$ 15,598,295
Investments	76,257,134	63,530,119
Accounts receivable	979,221	814,672
Pledges receivable	11,963,812	15,873,467
Subtotal financial assets available within one year	105,445,044	95,816,553
Less: Donor restricted funds	(88,796,859)	(83,881,968)
Less: Board designated funds	(1,251,627)	(1,033,015)
<b>FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR</b>	<b>\$ 15,396,558</b>	<b>\$ 10,901,570</b>

The Foundation has a policy to structure its financial assets to be available and liquid as its obligations become due. 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.

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

<u>Year Ending June 30,</u>		
2022	\$	297,628
2023		178,113
2024		124,694
2025		69,184
2026		60,817
Thereafter		29,352
	<b>\$</b>	<b>759,788</b>

Rent expense for the years ended June 30, 2021 and 2020 totaled \$313,325 and \$289,823, 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, 2021 AND 2020**

**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, 2021 and 2020, the Foundation made contributions in the amounts of \$498,730 and \$498,167, respectively.

**12. RELATED PARTY**

For the years ended June 30, 2021 and 2020, the Foundation received gross contributions and grants in the amounts of \$4,622,822 and \$8,468,505, respectively, from Trustees and Executive Management. Net amounts due under pledges receivable from related parties totaled \$4,542,270 and \$7,220,760 as of June 30, 2021 and 2020, respectively.

**13. CONTINGENCIES**

The Foundation receives grants from various agencies of the United States Government. For the fiscal year ended June 30, 2021, 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 2021. 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. 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, 2021 and 2020, 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 \$219,102 and \$1,191,697 have been included in revenue and expense for the years ended June 30, 2021 and 2020, respectively, which included \$0 and \$814,000 of in-kind public service announcements for the years ended June 30, 2021 and 2020, 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.



CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020

15. FAIR VALUE MEASUREMENT (Continued)

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, 2021 and 2020.

- *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, 2021 AND 2020**

**15. FAIR VALUE MEASUREMENT (Continued)**

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, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total June 30, 2021</u>
<b>Asset Class:</b>				
Equity securities	\$ 24,935,733	\$ -	\$ -	\$ 24,935,733
International equity securities	3,673,453	-	-	3,673,453
Corporate bonds and other agencies	9,764,498	-	90,431	9,854,929
Beneficial interest in perpetual trust	-	3,223,517	-	3,223,517
U.S. Government obligations	4,219	-	-	4,219
Cash and cash equivalents held by investment managers	<u>8,187,464</u>	<u>-</u>	<u>-</u>	<u>8,187,464</u>
Sub-total	<u>46,565,367</u>	<u>3,223,517</u>	<u>90,431</u>	<u>49,879,315</u>
Alternative investments measured at NAV, per practical expedient				<u>26,377,819</u>
<b>TOTAL INVESTMENTS</b>				<b><u>\$ 76,257,134</u></b>
<b>Liability:</b>				
Interest Rate Swap Obligation	<u>\$ -</u>	<u>\$ 89,465</u>	<u>\$ -</u>	<u>\$ -</u>

For the year ended June 30, 2021, 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, 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, 2021 AND 2020**

**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.

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, 2021 and 2020, the Foundation has uncalled commitments of \$3,815,300 and \$3,366,581, respectively.

Alternative investments are comprised of the following at June 30, 2021 and 2020:

<u>Investment Type</u>	<u>Net Asset Value</u>		<u>Uncalled Commitments</u>		<u>Liquidity</u>
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	
Domestic/U.S. Limited Partnerships	\$ 1,085,394	\$ 820,269	\$ 1,056,521	\$ 1,184,081	None until dissolution or winding up of partnership.
Domestic/U.S. Limited Partnerships	199,276	407,960	-	-	100 days notice
Domestic/U.S. Alternative Equity	5,489,416	5,113,666	-	-	Month end
Domestic/U.S. Limited Partnerships	<u>19,603,733</u>	<u>14,683,541</u>	<u>2,758,779</u>	<u>2,182,500</u>	Last day of each quarter.
<b>ALTERNATIVE INVESTMENTS</b>	<b>\$ <u>26,377,819</u></b>	<b>\$ <u>21,025,436</u></b>	<b>\$ <u>3,815,300</u></b>	<b>\$ <u>3,366,581</u></b>	

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.

**CHESAPEAKE BAY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

**16. ENDOWMENT (Continued)**

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, 2021 and 2020:

	<b>2021</b>	<b>2020</b>
Environmental education	\$ 11,106,906	\$ 10,682,974
Environmental protection and restoration	13,514,766	13,514,767
Property and equipment	8,155,524	8,155,524
General operating	14,330,990	14,182,341
<b>ENDOWMENT NET ASSETS</b>	<b>\$ 47,108,186</b>	<b>\$ 46,535,606</b>

Endowment net assets consists of the following at June 30, 2021 and 2020:

	<b>2021</b>	<b>2020</b>
Investments	\$ 38,952,662	\$ 38,380,082
Property and equipment	8,155,524	8,155,524
<b>ENDOWMENT NET ASSETS</b>	<b>\$ 47,108,186</b>	<b>\$ 46,535,606</b>

Endowment net asset composition by type of fund as of June 30, 2021:

	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
Board Designated Endowment Funds	\$ 1,251,627	\$ -	\$ 1,251,627
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	47,108,186	47,108,186
Accumulated investment earnings	-	20,313,196	20,313,196
<b>TOTAL ENDOWMENT FUNDS</b>	<b>\$ 1,251,627</b>	<b>\$ 67,421,382</b>	<b>\$ 68,673,009</b>

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020

16. ENDOWMENT (Continued)

Changes in endowment net assets for the year ended June 30, 2021:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,033,015	\$ 57,423,237	\$ 58,456,252
Investment return, net	271,211	12,347,325	12,618,536
Contributions	-	278,271	278,271
Appropriation of endowment assets for expenditure	<u>(52,599)</u>	<u>(2,627,451)</u>	<u>(2,680,050)</u>
<b>ENDOWMENT NET ASSETS, END OF YEAR</b>	<b><u>\$ 1,251,627</u></b>	<b><u>\$ 67,421,382</u></b>	<b><u>\$ 68,673,009</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 of 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>

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 \$2,282,357 and \$1,997,513, and a deficiency of \$815,250 and \$778,001 as of June 30, 2021 and June 30, 2020, respectively. These deficiencies resulted from unfavorable market fluctuations that occurred after the investment of new contributions for donor-restricted endowment funds and continued appropriates for certain programs that was deemed prudent by the Board of Directors.

**CHESAPEAKE BAY FOUNDATION, INC.**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2021 AND 2020**

**16. ENDOWMENT (Continued)**

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.

**17. SUBSEQUENT EVENTS**

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through December 15, 2021, 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, 2021**

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, 2021.

**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 2 acres along the Pamunkey River in King William 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\*

*\*This easement covers at least 140 acres and "likely substantially more" per the language in the survey included in the deed exhibits. The Foundation has chosen to use a round "150 acres" for this schedule.*