

FINANCIAL STATEMENTS



CHESAPEAKE BAY FOUNDATION

Saving a National Treasure

**FOR THE YEAR ENDED JUNE 30, 2022
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2021**

CHESAPEAKE BAY FOUNDATION, INC.

CONTENTS

	PAGE NO.
INDEPENDENT AUDITOR'S REPORT	2 - 4
EXHIBIT A - Statement of Financial Position, as of June 30, 2022, with Summarized Financial Information for 2021	5
EXHIBIT B - Statement of Activities and Change in Net Assets, for the Year Ended June 30, 2022, with Summarized Financial Information for 2021	6
EXHIBIT C - Statement of Functional Expenses, for the Year Ended June 30, 2022, with Summarized Financial Information for 2021	7 - 8
EXHIBIT D - Statement of Cash Flows, for the Year Ended June 30, 2022, with Summarized Financial Information for 2021	9
NOTES TO FINANCIAL STATEMENTS	10 - 29
SUPPLEMENTAL INFORMATION	
SCHEDULE 1 - Summary of Conservation and Scenic Easements for Information Purposes Only (Unaudited), for the Year Ended June 30, 2022	30



CPAs & ADVISORS

INDEPENDENT AUDITOR'S REPORT

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

Opinion

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, 2022, 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.

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, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Foundation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists.

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The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Foundation's ability to continue as a going concern for a reasonable period of time.

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

Report on Summarized Comparative Information

We have previously audited the Foundation's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 15, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Information Included in the Foundation's Annual Report

Management is responsible for the other information included in the Foundation's annual report. The annual report does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information contained in the report, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Supplementary Information

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 9, 2022, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Foundation's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Foundation's internal control over financial reporting and compliance.

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

December 9, 2022

CHESAPEAKE BAY FOUNDATION, INC.

STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2022
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2021

ASSETS

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 19,849,111	\$ 16,244,877
Investments	64,006,090	76,257,134
Accounts receivable, net	874,450	979,221
Pledges receivable, net	10,563,478	11,963,812
Prepays, deposits and other assets	682,240	928,570
Property and equipment, net	<u>29,771,750</u>	<u>30,887,854</u>
TOTAL ASSETS	<u>\$ 125,747,119</u>	<u>\$ 137,261,468</u>

LIABILITIES AND NET ASSETS**LIABILITIES**

Bonds payable	\$ 1,019,147	\$ 1,736,408
Accounts payable and accrued expenses	1,767,716	2,229,552
Deferred revenue	1,061,294	1,482,112
Liability under split interest agreements	641,702	867,813
Interest rate swap obligation	<u>14,781</u>	<u>89,465</u>
Total liabilities	<u>4,504,640</u>	<u>6,405,350</u>

NET ASSETS

Without donor restrictions	39,093,810	42,059,259
With donor restrictions	<u>82,148,669</u>	<u>88,796,859</u>
Total net assets	<u>121,242,479</u>	<u>130,856,118</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 125,747,119</u>	<u>\$ 137,261,468</u>

CHESAPEAKE BAY FOUNDATION, INC.

**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2022
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2021**

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUE				
Grants and gifts	\$ 12,292,291	\$ 10,401,850	\$ 22,694,141	\$ 17,006,714
Membership contributions	6,156,937	-	6,156,937	5,895,654
Investment distribution	845,555	3,023,061	3,868,616	3,568,204
Other	1,196,292	-	1,196,292	879,437
Donated goods and services	298,101	-	298,101	219,102
Education contracts and tuition	258,810	-	258,810	160,275
Net assets released from donor restrictions	<u>11,661,306</u>	<u>(11,661,306)</u>	<u>-</u>	<u>-</u>
Total revenue	<u>32,709,292</u>	<u>1,763,605</u>	<u>34,472,897</u>	<u>27,729,386</u>
EXPENSES				
Program Services:				
Environmental Education	7,048,792	-	7,048,792	6,075,737
Environmental Protection and Restoration	14,749,135	-	14,749,135	14,381,167
Strategic Communications	<u>3,309,331</u>	<u>-</u>	<u>3,309,331</u>	<u>2,903,322</u>
Total program services	<u>25,107,258</u>	<u>-</u>	<u>25,107,258</u>	<u>23,360,226</u>
Support Services:				
General and Administrative	2,656,443	-	2,656,443	2,376,640
Fundraising	<u>4,300,171</u>	<u>-</u>	<u>4,300,171</u>	<u>3,688,317</u>
Total support services	<u>6,956,614</u>	<u>-</u>	<u>6,956,614</u>	<u>6,064,957</u>
Total expenses	<u>32,063,872</u>	<u>-</u>	<u>32,063,872</u>	<u>29,425,183</u>
Change in net assets before capital additions	645,420	1,763,605	2,409,025	(1,695,797)
CAPITAL ADDITIONS				
Investment (loss) gain and distributions, net	(2,702,264)	(10,616,375)	(13,318,639)	12,377,135
Grants and gifts	-	2,204,580	2,204,580	278,271
Loss on sale of property and equipment	(983,289)	-	(983,289)	(153,790)
Unrealized gain on interest rate swap	<u>74,684</u>	<u>-</u>	<u>74,684</u>	<u>94,402</u>
Total capital additions	<u>(3,610,869)</u>	<u>(8,411,795)</u>	<u>(12,022,664)</u>	<u>12,596,018</u>
Change in net assets	(2,965,449)	(6,648,190)	(9,613,639)	10,900,221
Net assets at beginning of year	<u>42,059,259</u>	<u>88,796,859</u>	<u>130,856,118</u>	<u>119,955,897</u>
NET ASSETS AT END OF YEAR	<u>\$ 39,093,810</u>	<u>\$ 82,148,669</u>	<u>\$ 121,242,479</u>	<u>\$ 130,856,118</u>

See accompanying notes to financial statements.

CHESAPEAKE BAY FOUNDATION, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2021

	2022			
	Program Services			
	Environmental Education	Environmental Protection and Restoration	Strategic Communications	Total Program Services
Salaries	\$ 2,861,689	\$ 5,626,224	\$ 1,411,415	\$ 9,899,328
Fringe benefits	1,283,762	2,544,632	649,161	4,477,555
Professional fees	385,434	837,322	404,973	1,627,729
Occupancy and utilities	900,510	960,485	151,019	2,012,014
Supplies	251,476	1,663,525	65,939	1,980,940
Outside services	141,816	458,768	64,392	664,976
Equipment rental, leasing, repairs and maintenance	310,790	323,888	116,877	751,555
Postage and shipping	107,395	359,096	100,765	567,256
Depreciation and amortization	220,337	326,700	37,047	584,084
Printing	106,746	244,051	115,962	466,759
Subrecipients	10,307	499,830	-	510,137
Insurance	237,642	165,164	14,402	417,208
Donated goods and services	15,774	158,836	114,464	289,074
Meetings and seminars	42,150	28,415	6,594	77,159
Travel	85,483	126,772	4,078	216,333
Banking and interest expense	18,696	27,284	14,376	60,356
Restoration fees	-	230,936	-	230,936
Telephone	30,720	35,790	6,523	73,033
Miscellaneous	13,388	50,075	6,764	70,227
Membership and dues	9,513	31,498	3,895	44,906
Publications and subscriptions	2,278	30,778	16,095	49,151
Personnel recruitment	12,886	19,066	4,590	36,542
TOTAL	\$ 7,048,792	\$ 14,749,135	\$ 3,309,331	\$ 25,107,258

CHESAPEAKE BAY FOUNDATION, INC.

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2022
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2021

	2022 (Continued)			2021	
	Support Services			Total Expenses	Total Expenses
	General and Administrative	Fundraising	Total Support Services		
Salaries	\$ 1,177,864	\$ 1,638,435	\$ 2,816,299	\$12,715,627	\$12,365,111
Fringe benefits	535,428	745,476	1,280,904	5,758,459	5,782,678
Professional fees	204,228	507,871	712,099	2,339,828	1,747,583
Occupancy and utilities	140,717	94,997	235,714	2,247,728	1,516,911
Supplies	41,905	57,068	98,973	2,079,913	2,016,349
Outside services	33,149	426,612	459,761	1,124,737	859,959
Equipment rental, leasing, repairs and maintenance	161,157	142,200	303,357	1,054,912	913,672
Postage and shipping	646	184,384	185,030	752,286	628,708
Depreciation and amortization	65,640	43,417	109,057	693,141	663,225
Printing	327	214,720	215,047	681,806	652,340
Subrecipients	-	-	-	510,137	764,908
Insurance	49,355	19,868	69,223	486,431	367,900
Donated goods and services	-	9,026	9,026	298,100	219,102
Meetings and seminars	33,619	149,066	182,685	259,844	24,325
Travel	11,391	13,848	25,239	241,572	86,570
Banking and interest expense	162,572	10,411	172,983	233,339	256,167
Restoration fees	-	-	-	230,936	270,048
Telephone	9,564	8,759	18,323	91,356	98,260
Miscellaneous	11,176	3,785	14,961	85,188	55,296
Membership and dues	5,988	13,123	19,111	64,017	48,115
Publications and subscriptions	1,633	10,245	11,878	61,029	65,637
Personnel recruitment	10,084	6,860	16,944	53,486	22,319
TOTAL	\$ 2,656,443	\$ 4,300,171	\$ 6,956,614	\$32,063,872	\$29,425,183

CHESAPEAKE BAY FOUNDATION, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2022
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2021**

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (9,613,639)	\$ 10,900,221
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	1,603,688	1,478,927
Unrealized gain on interest rate swap	(74,684)	(94,402)
Loss on sale of property and equipment	983,289	153,790
Capital additions - permanently restricted contributions	(2,204,580)	(278,271)
Change in the discount of long-term pledges receivable	(50,975)	(347,801)
Change in allowance for doubtful accounts, accounts receivable	-	(749)
Change in allowance for doubtful accounts, pledges	(13,740)	(40,612)
Unrealized loss (gain) on investments	15,632,545	(9,812,626)
Realized gain on investments	(4,174,166)	(5,560,376)
Change in value of split interest agreements	(120,171)	76,065
Decrease (increase) in assets:		
Accounts receivable	104,771	(163,800)
Pledges receivable	1,465,049	4,298,068
Prepays, deposits and other assets	246,330	(208,590)
(Decrease) increase in liabilities:		
Accounts payable and accrued expenses	(461,836)	720,829
Deferred revenue	(420,818)	121,388
Liability under split interest agreements	(34,200)	(1,964)
Net cash provided by operating activities	<u>2,866,863</u>	<u>1,240,097</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net sales of investments	792,665	2,645,987
Purchases of property and equipment	(1,462,930)	(2,832,177)
Proceeds from sale of property and equipment	<u>800</u>	<u>78,656</u>
Net cash used by investing activities	<u>(669,465)</u>	<u>(107,534)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital additions - permanently restricted contributions	2,204,580	278,271
Payments on bonds payable	(726,004)	(687,925)
Payments made on split interest agreements	<u>(71,740)</u>	<u>(76,327)</u>
Net cash provided (used) by financing activities	<u>1,406,836</u>	<u>(485,981)</u>
Net increase in cash and cash equivalents	3,604,234	646,582
Cash and cash equivalents at beginning of year	<u>16,244,877</u>	<u>15,598,295</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ <u>19,849,111</u>	\$ <u>16,244,877</u>
SUPPLEMENTAL INFORMATION		
Interest Paid	\$ <u>79,465</u>	\$ <u>117,594</u>

See accompanying notes to financial statements.

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

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 17.
- **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, 2021, from which the summarized information was derived.

New accounting pronouncement adopted -

During the year ended June 30, 2022, the Foundation adopted ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, which 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 Update 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 was adopted retrospectively and did not change the recognition and measurement requirements for those contributed nonfinancial assets.

CHESAPEAKE BAY FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

**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, 2022 and 2021 were \$7,027,966 and \$8,187,464, 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) 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.

CHESAPEAKE BAY FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

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

Accounts and pledges receivable (continued) -

The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in grants and gifts revenue.

Conditional promises to give are not included as support until the conditions are substantially met. The allowance for doubtful accounts is determined based upon an annual review of account balances, including the age of the balance and the historical experience with the customer and donor.

Deferred financing costs -

Deferred financing costs represent bond issuance costs and other costs related to the acquisition of the Bay Ridge Facility (Note 7). 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, 2022 and 2021, liabilities under split interest agreements totaled \$641,702 and \$867,813, 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.

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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

Revenue recognition (continued) -

Membership contributions, grants and gifts (continued) -

Contributions and grants are recognized in the appropriate category of net assets in the period received. 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 \$2,725,579 and \$2,729,674 in unrecognized conditional awards as of June 30, 2022 and 2021, respectively. There were no refundable advances as of June 30, 2022 and 2021.

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.

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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

Revenue recognition (continued) -

Education contracts and tuition (continued) -

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 tuition 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, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Carbon offsets	\$ 570,106	862,288
Events	312,475	464,930
Education and tuition	92,620	57,465
Other	<u>86,093</u>	<u>97,429</u>
TOTAL DEFERRED REVENUE	<u>\$ 1,061,294</u>	<u>\$ 1,482,112</u>

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 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, 2022 and 2021, the Foundation has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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

Use of estimates -

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

Fair value measurement -

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

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses directly attributed to a specific functional area of the Foundation are reported as direct expenses to the programmatic area and those expenses that benefit more than one function are allocated on a basis of 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 2022 and 2021, the Foundation incurred joint costs of \$2,589,249 and \$2,414,841, respectively, for educational materials, membership and support services. These costs were allocated as follows:

	<u>2022</u>	<u>2021</u>
Environmental Education	\$ 515,427	\$ 438,833
Environmental Protection and Restoration	1,078,497	1,071,931
Strategic Communications	241,987	209,701
Fundraising	<u>753,338</u>	<u>694,376</u>
TOTAL JOINT COSTS INCURRED	<u>\$ 2,589,249</u>	<u>\$ 2,414,841</u>

New accounting pronouncement not yet adopted -

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.

CHESAPEAKE BAY FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

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

New accounting pronouncement not yet adopted (continued) -

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 ASU 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.

2. INVESTMENTS

At June 30, 2022 and 2021, investments at readily determinable fair values, consisted of the following:

	2022	2021
Equity securities	\$ 22,343,232	\$ 24,635,733
International equity securities	2,690,522	3,673,453
Partnerships/alternative investments	19,240,082	26,677,819
Corporate bonds and other agencies	9,085,055	9,854,929
U.S. Government obligations	4,836	4,219
Beneficial interest in perpetual trust	3,614,397	3,223,517
Sub-total investments	56,978,124	68,069,670
Cash and cash equivalents held by investment managers	7,027,966	8,187,464
TOTAL INVESTMENTS	\$ 64,006,090	\$ 76,257,134

Included in the investment balance at June 30, 2022 and 2021 are investments related to certain split-interest agreements in the amounts of \$910,707 and \$1,174,696, respectively.

The investment portfolio includes \$41,157,408 and \$38,952,662 of endowment investments and contributions invested in perpetuity at June 30, 2022 and 2021, respectively (see Note 17).

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 (loss) gain and distributions, net".

CHESAPEAKE BAY FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

2. INVESTMENTS (Continued)

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

	2022	2021
Interest and dividends	\$ 2,263,849	\$ 819,008
Investment fees	(255,493)	(246,671)
Unrealized (loss) gain	(15,632,545)	9,812,626
Realized gains	4,174,166	5,560,376
Total investment (loss) return	(9,450,023)	15,945,339
Less: Investment distribution for operations	(3,868,616)	(3,568,204)
INVESTMENT (LOSS) GAIN AND DISTRIBUTIONS, NET	\$ (13,318,639)	\$ 12,377,135

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. As of June 30, 2022 and 2021 the allowance for doubtful accounts was zero. Accounts receivable consisted of the following at June 30, 2022 and 2021, respectively:

	2022	2021
Federal and state receivables	\$ 658,131	\$ 796,368
Non-Federal and state receivables	216,319	182,853
NET ACCOUNTS RECEIVABLE	\$ 874,450	\$ 979,221

4. PLEDGES RECEIVABLE

As of June 30, 2022 and 2021, contributors to the Foundation have made written promises to give totaling \$11,068,900 and \$12,533,949, 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.

Pledges are due as follows at June 30, 2022 and 2021:

	2022	2021
Less than one year	\$ 4,240,576	\$ 3,364,306
One to five years	2,477,592	5,713,803
Beyond five years	4,350,732	3,455,840
Total pledges	11,068,900	12,533,949
Less: Discount to net present value	(395,670)	(446,645)
Less: Allowance for doubtful accounts	(109,752)	(123,492)
NET PLEDGES RECEIVABLE	\$ 10,563,478	\$ 11,963,812

CHESAPEAKE BAY FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

5. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30, 2022 and 2021:

	2022	2021
Land	\$ 11,655,297	\$ 11,577,763
Building and improvements	30,301,744	30,206,008
Furniture and equipment	5,510,610	6,496,928
Boats	4,794,508	4,787,470
Vehicles	804,879	737,936
Construction in progress	489,638	284,419
Art	17,000	17,000
Total property and equipment	53,573,676	54,107,524
Less: Accumulated depreciation and amortization	(23,801,926)	(23,219,670)
NET PROPERTY AND EQUIPMENT	\$ 29,771,750	\$ 30,887,854

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, 2022 and 2021 (see Note 17). Depreciation expense for the years ended June 30, 2022 and 2021 totaled \$1,594,946 and \$1,470,185, respectively. Of these amounts, \$910,547 and \$815,702 is included in occupancy expense, and \$684,399 and \$654,483 is included in depreciation and amortization expense in the accompanying Statement of Functional Expenses for the years ended June 30, 2022 and 2021, respectively.

6. LINE OF CREDIT

The Foundation obtained a \$2,000,000 line of credit with Capital One, effective September 1, 2022 (the "Line of Credit"). The line of credit expires on December 31, 2023. There were no draws on the line of credit and no outstanding balance as of and for the year ended June 30, 2022.

7. 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.

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

7. **BONDS PAYABLE (Continued)**

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, 2022 and 2021 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, 2022 and 2021, accumulated amortization for the bond financing costs totaled \$75,764 and \$67,022, 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 8. The bond agreements, among other provisions, require the Foundation to meet certain financial ratio tests.

As of June 30, 2022 and 2021, the outstanding balance of the bond payable is as follows:

	<u>2022</u>	<u>2021</u>
Bond principal payable	\$ 1,030,803	\$ 1,756,806
Less: Unamortized deferred financing costs	<u>(11,656)</u>	<u>(20,398)</u>
NET BONDS PAYABLE	<u>\$ 1,019,147</u>	<u>\$ 1,736,408</u>

Principal payments are due as follows:

<u>Year Ending June 30,</u>	
2023	\$ 766,135
2024	<u>264,668</u>
BONDS PAYABLE	<u>\$ 1,030,803</u>

The Foundation incurred interest expense on the bonds totaling \$79,465 and \$117,594 for the years ended June 30, 2022 and 2021, respectively, which is included in occupancy and utilities expense within the Statement of Functional Expenses.

8. **INTEREST RATE SWAP**

The bonds discussed in Note 7 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").

CHESAPEAKE BAY FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

8. INTEREST RATE SWAP (Continued)

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, 2022 and 2021, the outstanding notional amount of the Capital One Swap was \$1,030,803 and \$1,756,806, respectively. As of June 30, 2022 and 2021, the Capital One Swap had a negative fair value of \$14,781 and \$89,465, 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, 2022 and 2021. 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.

9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consisted of the following at June 30, 2022 and 2021:

	2022	2021
Program Restricted:		
Environmental Education	\$ 291,558	\$ 375,912
Environmental Protection and Restoration	17,211,984	15,748,155
Property and Equipment	730,074	936,977
Other	108,309	47,316
Total program restricted	18,341,925	17,108,360
Time restricted	14,493,812	24,580,313
Perpetually restricted	49,312,932	47,108,186
NET ASSETS WITH DONOR RESTRICTIONS	\$ 82,148,669	\$ 88,796,859

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, 2022 and 2021 are as follows:

	2022	2021
With purpose restrictions	\$ 6,356,616	\$ 12,327,705
Time restriction	3,778,383	7,985,491
ACCUMULATED ENDOWMENT EARNINGS INCLUDED IN NET ASSETS WITH DONOR RESTRICTIONS	\$ 10,134,999	\$ 20,313,196

CHESAPEAKE BAY FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

9. NET ASSETS WITH DONOR RESTRICTIONS (Continued)

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, 2022 and 2021 are as follows:

	2022	2021
Donor Restrictions:		
Environmental Education	\$ 890,364	\$ 1,095,613
Environmental Protection and Restoration	6,938,192	7,815,814
Property and Equipment	395,908	2,458,906
Other	685,507	10,524
Total donor restrictions	8,909,971	11,380,857
Time Restrictions:		
Passage of time	2,751,335	2,687,082
NET ASSETS RELEASED FROM RESTRICTIONS	\$ 11,661,306	\$ 14,067,939

Accumulated investment earnings released from net assets with donor restrictions as of June 30, 2022 and 2021 are as follows:

	2022	2021
Purpose restrictions	\$ 1,805,020	\$ 1,658,568
Passage of time	975,580	968,883
ACCUMULATED ENDOWMENT EARNINGS RELEASED FROM NET ASSETS WITH DONOR RESTRICTIONS	\$ 2,780,600	\$ 2,627,451

10. LIQUIDITY AND AVAILABILITY

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

	2022	2021
Cash and cash equivalents	\$ 19,849,111	\$ 16,244,877
Investments	64,006,090	76,257,134
Accounts receivable	874,450	979,221
Pledges receivable	10,563,478	11,963,812
Subtotal financial assets available within one year	95,293,129	105,445,044
Less: Donor restricted funds	(82,148,669)	(88,796,859)
Less: Board designated funds	(1,030,456)	(1,251,627)
FINANCIAL ASSETS AVAILABLE TO MEET CASH NEEDS FOR GENERAL EXPENDITURES WITHIN ONE YEAR	\$ 12,114,004	\$ 15,396,558

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.

CHESAPEAKE BAY FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

10. LIQUIDITY AND AVAILABILITY (Continued)

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. In the event of an unanticipated liquidity need, the Foundation also could draw upon \$2,000,000 of available line of credit (as further discussed in Note 6).

11. 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>	
2023	\$ 264,970
2024	193,602
2025	106,478
2026	60,817
2027	<u>29,352</u>
	<u>\$ 655,219</u>

Rent expense for the years ended June 30, 2022 and 2021 totaled \$226,345 and \$313,325, respectively. Rent expense is included in occupancy and utilities in the Statement of Functional Expenses.

12. DEFINED CONTRIBUTION RETIREMENT BENEFIT PLAN

Retirement benefits are available for substantially all regular, full-time 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, 2022 and 2021, the Foundation made contributions in the amounts of \$498,675 and \$498,730, respectively.

13. RELATED PARTY

For the years ended June 30, 2022 and 2021, the Foundation received gross contributions and grants in the amounts of \$4,332,919 and \$4,622,822, respectively, from Trustees and Executive Management. Net amounts due under pledges receivable from related parties totaled \$2,490,770 and \$4,542,270 as of June 30, 2022 and 2021, respectively.

14. CONTINGENCIES

The Foundation receives grants from various agencies of the United States Government.

CHESAPEAKE BAY FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

14. CONTINGENCIES (Continued)

For the fiscal year ended June 30, 2022, 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 2022. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

Various lawsuits and other contingent liabilities arise in the ordinary course of the Foundation's activities. While the final outcome of these legal actions cannot be determined at this time, management is of the opinion that the ultimate liability, if any, from the final resolution of these matters will not have a material effect on the Foundation's financial statements.

15. DONATED GOODS, SERVICES AND PROPERTY

During the years ended June 30, 2022 and 2021, the Foundation was the beneficiary of donated goods and services, which allowed the Foundation to provide greater resources toward various programs. There were no donor-imposed restrictions associated with the donated goods and services. If the donated value is greater than \$500, documentation from the donor is provided to support the fair market value estimate. Documentation used to support the value includes: a vendor invoice, letter signed by the donor attesting to the value, or a published catalog or web page with a similar item. For donated staff time as it relates to Federal or state grants and partner organizations, other organizations provide the Foundation with reporting from their accounting or tracking systems showing salary and fringe coded to the Foundation grants for which they are providing "match" assistance.

To properly reflect total program expenses, the following donations have been included in revenue and expense for the years ended June 30, 2022 and 2021:

	2022	2021
Donated Goods	\$ 29,130	\$ 47,642
Warehouse Rental	24,075	-
Advertising	114,464	-
Staff Time	117,526	75,449
Other Services	12,906	96,011
TOTAL DONATED GOODS, SERVICES AND PROPERTY	\$ 298,101	\$ 219,102

The following programs have benefited from these donated goods and services:

	2022	2021
Environmental Education	\$ 15,774	\$ 3,321
Environmental Protection and Restoration	158,836	213,244
Strategic Communications	114,465	-
Fundraising	9,026	2,537
TOTAL PROGRAMS BENEFITED	\$ 298,101	\$ 219,102

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

16. 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, 2022 and 2021.

- *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.

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

16. FAIR VALUE MEASUREMENT (Continued)

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, 2022:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total June 30, 2022</u>
Asset Class:				
Equity securities	\$ 22,343,232	\$ -	\$ -	\$ 22,343,232
International equity securities	2,690,522	-	-	2,690,522
Corporate bonds and other agencies	9,085,055	-	-	9,085,055
Beneficial interest in perpetual trust	-	3,614,397	-	3,614,397
U.S. Government obligations	4,836	-	-	4,836
Cash and cash equivalents held by investment managers	<u>7,027,966</u>	<u>-</u>	<u>-</u>	<u>7,027,966</u>
Sub-total	<u>41,151,611</u>	<u>3,614,397</u>	<u>-</u>	<u>44,766,008</u>
Alternative investments measured at NAV, per practical expedient	<u>-</u>	<u>-</u>	<u>-</u>	<u>19,240,082</u>
TOTAL INVESTMENTS	<u>\$ 41,151,611</u>	<u>\$ 3,614,397</u>	<u>\$ -</u>	<u>\$ 64,006,090</u>
Liability:				
Interest Rate Swap Obligation	<u>\$ -</u>	<u>\$ 14,781</u>	<u>\$ -</u>	<u>\$ -</u>

For the year ended June 30, 2022, 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, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total June 30, 2021</u>
Asset Class:				
Equity securities	\$ 24,635,733	\$ -	\$ -	\$ 24,635,733
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>46,265,367</u>	<u>3,223,517</u>	<u>90,431</u>	<u>49,579,315</u>
Alternative investments measured at NAV, per practical expedient	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,677,819</u>
TOTAL INVESTMENTS	<u>\$ 46,265,367</u>	<u>\$ 3,223,517</u>	<u>\$ 90,431</u>	<u>\$ 76,257,134</u>
Liability:				
Interest Rate Swap Obligation	<u>\$ -</u>	<u>\$ 89,465</u>	<u>\$ -</u>	<u>\$ -</u>

CHESAPEAKE BAY FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

16. FAIR VALUE MEASUREMENT (Continued)

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.

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, 2022 and 2021, the Foundation has uncalled commitments of \$4,826,134 and \$3,832,800, respectively.

Alternative investments are comprised of the following at June 30, 2022 and 2021:

<u>Investment Type</u>	<u>Net Asset Value</u>		<u>Uncalled Commitments</u>		<u>Liquidity</u>
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	
Domestic/U.S. Limited Partnerships	\$ 1,169,096	\$ 1,385,394	\$ 3,169,727	\$ 2,274,021	None until dissolution or winding up of partnership.
Domestic/U.S. Limited Partnerships	73,470	199,276	-	-	100 days notice
Domestic/U.S. Alternative Equity	-	5,489,416	-	-	Month end
Domestic/U.S. Limited Partnerships	<u>17,997,516</u>	<u>19,603,733</u>	<u>1,656,407</u>	<u>1,558,779</u>	Last day of each quarter.
ALTERNATIVE INVESTMENTS	<u>\$ 19,240,082</u>	<u>\$ 26,677,819</u>	<u>\$ 4,826,134</u>	<u>\$ 3,832,800</u>	

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.

17. 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, 2022 AND 2021**

17. 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 9, 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, 2022 and 2021:

	2022	2021
Environmental education	\$ 11,116,905	\$ 11,106,906
Environmental protection and restoration	13,905,647	13,514,766
Property and equipment	8,155,524	8,155,524
General operating	16,134,856	14,330,990
ENDOWMENT NET ASSETS	\$ 49,312,932	\$ 47,108,186

Endowment net assets consists of the following at June 30, 2022 and 2021:

	2022	2021
Investments	\$ 41,157,408	\$ 38,952,662
Property and equipment	8,155,524	8,155,524
ENDOWMENT NET ASSETS	\$ 49,312,932	\$ 47,108,186

Endowment net asset composition by type of fund as of June 30, 2022:

	Without Donor Restrictions	With Donor Restrictions	Total
Board Designated Endowment Funds	\$ 1,030,456	\$ -	\$ 1,030,456
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	-	49,312,932	49,312,932
Accumulated investment earnings	-	10,134,999	10,134,999
TOTAL ENDOWMENT FUNDS	\$ 1,030,456	\$ 59,447,931	\$ 60,478,387

CHESAPEAKE BAY FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

17. ENDOWMENT (Continued)

Changes in endowment net assets for the year ended June 30, 2022:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 1,251,627	\$ 67,421,382	\$ 68,673,009
Investment loss, net	(165,418)	(7,397,430)	(7,562,848)
Contributions	-	2,204,579	2,204,579
Appropriation of endowment assets for expenditure	<u>(55,753)</u>	<u>(2,780,600)</u>	<u>(2,836,353)</u>
ENDOWMENT NET ASSETS, END OF YEAR	<u>\$ 1,030,456</u>	<u>\$ 59,447,931</u>	<u>\$ 60,478,387</u>

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

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
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	<u>-</u>	<u>20,313,196</u>	<u>20,313,196</u>
TOTAL ENDOWMENT FUNDS	<u>\$ 1,251,627</u>	<u>\$ 67,421,382</u>	<u>\$ 68,673,009</u>

Changes in endowment net assets for the year ended of 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>
ENDOWMENT NET ASSETS, END OF YEAR	<u>\$ 1,251,627</u>	<u>\$ 67,421,382</u>	<u>\$ 68,673,009</u>

Funds with Deficiencies -

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the 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 \$4,143,955 and \$2,282,537, and a deficiency of \$1,358,366 and \$815,250 as of June 30, 2022 and June 30, 2021, 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.

CHESAPEAKE BAY FOUNDATION, INC.

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021**

17. 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.

18. SUBSEQUENT EVENTS

In preparing these financial statements, the Foundation has evaluated events and transactions for potential recognition or disclosure through December 9, 2022, 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, 2022**

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, 2022.

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.*