CHESAPEAKE CONSERVANCY, INC.

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

As of and for the Years Ended December 31, 2017 and 2016

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

TABLE OF CONTENTS

REPORT OF INDEPENDENT AUDITOR 1-2

FINANCIAL STATEMENTS
- Statements of Financial Position 3
- Statements of Activities and Changes in Net Assets 4
- Statements of Cash Flows 5
- Notes to the Financial Statements 6-14

SUPPLEMENTARY INFORMATION
- Report of Independent Auditor on Supplementary Information 15
- Schedules of Functional Expenses 16

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

To the Board of Directors
Chesapeake Conservancy, Inc.
Annapolis, Maryland

We have audited the accompanying financial statements of Chesapeake Conservancy, Inc., which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to 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 audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chesapeake Conservancy, Inc. as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As disclosed in Note 10 to the financial statements, Chesapeake Conservancy, Inc. changed its method of reporting temporarily restricted contributions whose restrictions are satisfied in the same period in which they are received. Our opinion is not modified with respect to this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated June 11, 2018 on our consideration of Chesapeake Conservancy, Inc.'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 Chesapeake Conservancy, Inc.'s internal control over financial reporting and compliance.

Cherry Bekaert LLP

Bethesda, Maryland
June 11, 2018

CHESAPEAKE CONSERVANCY, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2017 AND 2016

	2017	2016
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,160,873	$ 2,542,700
Grants and other receivables	772,520	547,305
Pledges	35,273	33,500
Prepaid expenses	35,798	30,473
Total Current Assets	3,004,464	3,153,978
Property and equipment, net of accumulated depreciation of $118,320 ($79,706 in 2016)	82,594	90,211
Other Assets:		
Long-term pledges	66,500	-
Donated artwork	19,200	-
Security deposit	6,212	6,212
Investments	1,212,717	1,016,004
Land	1,060,000	-
Total Other Assets	2,364,629	1,022,216
Total Assets	$ 5,451,687	$ 4,266,405
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	$ 162,890	$ 126,444
Accrued expenses	24,460	32,842
Total Current Liabilities	187,350	159,286
Net Assets:		
Unrestricted:		
Operations	1,707,676	646,090
Board designated	378,792	560,224
Total Unrestricted	2,086,468	1,206,314
Temporarily restricted	2,027,869	1,750,805
Permanently restricted	1,150,000	1,150,000
Total Net Assets	5,264,337	4,107,119
Total Liabilities and Net Assets	$ 5,451,687	$ 4,266,405

CHESAPEAKE CONSERVANCY, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017					2016				
	Unrestricted					Unrestricted				
		Board	Temporarily	Permanently			Board	Temporarily	Permanently	
	Operations	Designated	Restricted	Restricted	Total	Operations	Designated	Restricted	Restricted	Total
Revenues and Other Support:										
Contributions and grants	$ 1,883,701	$ -	$ 750,082	$ -	$ 2,633,783	$ 719,879	$ -	$ 430,435	$ -	$ 1,150,314
Government grants	1,435,477	-	86,000	-	1,521,477	1,679,321	-	70,000	-	1,749,321
Contract income	403,058	-	-	-	403,058	28,770	-	-	-	28,770
Investment and other income	5,726	-	197,051	-	202,777	149,073	-	49,290	-	198,363
Net assets released from restrictions	756,069	-	(756,069)	-	-	1,564,862	-	(1,564,862)	-	-
Total Revenues and Other Support	4,484,031	-	277,064	-	4,761,095	4,141,905	-	(1,015,137)	-	3,126,768
Expenses:										
Program services	2,741,516	-	-	-	2,741,516	3,198,139	-	-	-	3,198,139
Management and general	487,771	-	-	-	487,771	554,824	-	-	-	554,824
Fundraising	374,590	-	-	-	374,590	358,454	-	-	-	358,454
Total Expenses	3,603,877	-	-	-	3,603,877	4,111,417	-	-	-	4,111,417
Change in net assets before transfers	880,154		277,064	-	1,157,218	30,488	-	(1,015,137)	-	(984,649)
Transfers	181,432	(181,432)	-	-	-	-	-	-	-	-
Change in net assets	1,061,586	(181,432)	277,064	-	1,157,218	30,488	-	(1,015,137)	-	(984,649)
Net assets, beginning of year	646,090	560,224	1,750,805	1,150,000	4,107,119	615,602	560,224	2,765,942	1,150,000	5,091,768
Net assets, end of year	$ 1,707,676	$ 378,792	$ 2,027,869	$ 1,150,000	$ 5,264,337	$ 646,090	$ 560,224	$ 1,750,805	$ 1,150,000	$ 4,107,119

CHESAPEAKE CONSERVANCY, INC.
STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 1,157,218	$ (984,649)
Adjustments to reconcile change in net assets to net cash flows (used in) provided by operating activities:		
Depreciation	38,614	30,618
Investment management fees	1,884	-
Loss on disposal of property and equipment	-	6,053
Net realized and unrealized gain on investments	(198,158)	(35,250)
Noncash donations	(1,090,650)	-
Decrease (increase) in operating assets:		
Grants and other receivables	(225,215)	232,074
Pledges	(68,273)	1,692,300
Prepaid expenses	(5,325)	9,357
Increase (decrease) in operating liabilities:		
Accounts payable	36,446	(26,761)
Accrued expenses	(8,382)	13,472
Net cash flows (used in) provided by operating activities	(361,841)	937,214
Cash flows from investing activities:		
Sale of investments	70,800	112,466
Purchase of investments	(71,239)	(19,338)
Sale of donated property	-	14,396
Purchase of property and equipment	(19,547)	(52,116)
Net cash flows (used in) provided by investing activities	(19,986)	55,408
Net (decrease) increase in cash and cash equivalents	(381,827)	992,622
Cash and cash equivalents, beginning of year	2,542,700	1,550,078
Cash and cash equivalents, end of year	$ 2,160,873	$ 2,542,700

The accompanying notes to the financial statements are an integral part of these statements.

Note 1—Summary of significant accounting policies

Nature of Operations – Chesapeake Conservancy, Inc. (the "Conservancy") (formerly Friends of the John Smith Chesapeake Trail, Inc.) is a nonprofit organization located in Annapolis, Maryland. The Conservancy was incorporated under the laws of the state of Maryland on January 31, 2008. The Conservancy's purpose is to ensure conservation, stewardship, access, and enjoyment of the Chesapeake's iconic landscapes and waterways and its cultural and historic assets, highlighted by the Captain John Smith Chesapeake National Historic Trail and the Chesapeake Gateways and Watertrails Network.

Basis of Presentation – The financial statements of the Conservancy have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. The Conservancy presents information regarding its financial position and activities according to three classes of net assets described as follows:

> *Unrestricted* – All resources over which the governing Board has discretionary control. The governing Board of the Conservancy may elect to designate such resources for specific purposes. This designation may be removed at the Board's discretion.
>
> *Temporarily Restricted Net Assets* – Resources accumulated through donations or grants for specific operating or capital purposes. Such resources will become unrestricted when the requirements of the donor or grantee have been satisfied through expenditure for the specified purpose of the program or through the passage of time.
>
> *Permanently Restricted Net Assets* – Resources accumulated through donations or grants that are subject to a restriction that neither expires by passage of time nor can be fulfilled or otherwise removed by actions of the Conservancy. Donor contributions to be used for loan capital are recorded by the Conservancy as permanently restricted. The funds are used to provide financing for various projects. The loan capital is replenished as the loan principal is repaid. In the event that a note receivable funded by permanently restricted contributions becomes uncollectible, the Conservancy writes off the uncollectible amount against the permanently restricted net assets via a transfer to unrestricted net assets. These net assets include the original value of the gift plus any subsequent additions.

Classifications of Net Assets – The Conservancy’s net assets consisted of unrestricted net assets of $2,086,468 ($1,206,314 as of December 31, 2016), temporarily restricted net assets of $2,027,869 ($1,750,805 as of December 31, 2016), and permanently restricted net assets of $1,150,000 as of December 31, 2017 and 2016.

Cash and Cash Equivalents – Cash and cash equivalents consist of checking accounts with original maturity of three months or less.

Note 1—Summary of significant accounting policies (continued)

Fair Value Measurements – For cash and short-term investments, receivables, pledges and payables, the carrying amount is a reasonable estimate of fair value. Equity and fixed income investments held for investment purposes are carried at market value, which approximates fair value. Market values for these investments are based on quoted prices in an active market or dealer quotes for identical assets or liabilities (Level 1 inputs).

Fair value standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

> Level 1 – Inputs to the valuation methodology are quoted prices available in active markets for identical investments as of the reporting date. The type of investments included in Level 1 includes money market funds, and unrestricted securities listed in active markets. The Conservancy does not adjust the quoted price for these investments, even in situations where the Conservancy holds a large position.
>
> Level 2 – Inputs to the valuation methodology are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date. At this time, the Conservancy does not hold any investments which would be included in this category.
>
> Level 3 – Inputs to the valuation methodology are unobservable and significant to the overall fair value measurement. The inputs into the determination of fair value require significant management judgment or estimation. The Conservancy does not hold any investments in this category.

A financial instrument's level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The Conservancy's investment in stock and bond funds at fair value is valued at Level 1.

Grants and Other Receivables – Receivables are carried at the original invoice amount, less an estimate for doubtful receivables, based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by regularly evaluating individual receivables, identifying troubled accounts, and considering historical experience. Receivables are written off when determined to be uncollectible. Recoveries of receivables previously written off are recorded when received. There was no allowance for doubtful accounts at December 31, 2017 or 2016.

Pledges – Unconditional pledges are recognized as revenue in the period when a written pledge is received. Conditional pledges are recognized when the conditions on which they depend are substantially met. Pledges are carried at fair value. Management reviews all outstanding pledges on a monthly basis. Management determines the allowance for doubtful pledges by regularly evaluating individual pledges and considering the prior history of the donor and proven collectability of past donations. Pledges are written off when deemed uncollectible. Recoveries of pledges previously written off are recorded when received. There was no allowance for pledges at December 31, 2017 or 2016.

Note 1—Summary of significant accounting policies (continued)

Donated Assets – Donated assets are recorded as contributions at their estimated fair values at the date of donation.

Investments – Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values based on quoted prices in active markets (all Level 1 measurements) in the statements of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized. Investments at fair market value consisted of stock and bond funds.

Property and Equipment – Property and equipment are stated at cost. Depreciation is provided for using the straight-line method over the estimated useful lives of the respective assets, ranging from three to five years. When assets are sold or disposed of, the cost and corresponding accumulated depreciation are removed from the books with any gain or loss recognized currently. The Conservancy capitalizes all furniture and equipment with a cost greater than $500. Depreciation expense for the years ended December 31, 2017 and 2016 was $38,614 and $30,618, respectively.

Revenue Recognition – Contributions and grants received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and nature of any donor restrictions. Contributions and grants may include actual gifts or promises to give. Such contributions are considered to be available for unrestricted use unless specifically restricted by the donor or grantor. Contributions of assets other than cash are recorded at their fair value on the date of the gift. Restricted contributions whose restrictions are satisfied in the same period received are reported as unrestricted support in the period received. For cost-reimbursable government grants, the Conservancy reports that support as unrestricted. Revenue from contracts is recognized as the service is completed.

Allocation of Expenses – The costs of the Conservancy's various programs and activities are summarized on a functional basis in the statements of activities and changes in net assets. Accordingly, certain supporting management and general costs have been allocated among the programs and supporting services benefited.

Contributed Services and Gifts-in-Kind – Contributions of donated services that create or enhance non-financial assets, or that require specialized skills and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. The Conservancy received contributed services valued at $886 during 2017 ($3,900 in 2016). Gifts-in-kind include contributions of furniture and equipment and are recorded at fair value in the period received. Furniture and equipment with a fair value greater than $500 is included in property and equipment. Gifts-in-kind of $1,090,700 were received during 2017 (none in 2016) and were included in contributions and grants on the statements of activities. Of this amount, $1,060,000 is recorded as land, $11,450 is recorded as property and equipment, $19,200 is recorded as donated artwork on the statements of financial position.

Income Taxes – The Conservancy is exempt from federal income taxation under Section 501(c)(3) and is a publicly supported organization under Section 509 (a)(1) of the Internal Revenue Code. The Conservancy is also exempt from taxation in the state of Maryland. However, the Conservancy is required to report unrelated business income to the Internal Revenue Service and the state of Maryland. For the years ended December 31, 2017 and 2016, there was no unrelated business income.

Note 1—Summary of significant accounting policies (continued)

Accounting for Uncertainty in Income Taxes – The Conservancy accounts for the effect of any uncertain tax positions based on a more-likely-than-not threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax provision is estimated based on a "cumulative probability assessment" that aggregates the estimated tax liability for all uncertain tax positions. The Conservancy has identified its tax status as a tax-exempt entity as its only significant tax position; however, the Conservancy has determined that such tax position does not result in an uncertainty requiring recognition. The Conservancy is not currently under examination by any taxing jurisdiction. The Conservancy's federal and state tax returns are generally open for examination for three years following the date filed.

Use of Estimates – The preparation of 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 and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications – Certain reclassifications have been made to the 2016 financial statement presentation to correspond to the current year's format. Total net assets and change in net assets are unchanged due to these reclassifications.

Subsequent Events – The Conservancy has evaluated subsequent events through June 11, 2018, the date on which the financial statements were available to be issued.

Significant New Accounting Standards Not Yet Adopted – In August 2016, FASB issued ASU 2016-14, Presentation of Financial Statements of Not-for-Profit Entities (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the statements of activities and changes in net assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of the Conservancy's financial statements, it is not expected to alter the Conservancy's reported financial position. The Conservancy has elected to defer implementation until the applicable required date.

Note 2—Property and equipment

Property and equipment consist of the following:

	December 31, 2017	December 31, 2016
Cost:		
Software	$ 34,958	$ 19,958
Furniture and fixtures	98,032	98,031
Equipment	67,924	51,928
Total cost	200,914	169,917
Accumulated depreciation	(118,320)	(79,706)
Net property and equipment	$ 82,594	$ 90,211

Depreciation expense for the years ended December 31, 2017 and 2016 was $38,614 and $30,618, respectively.

Note 3—Investments

The following table sets forth by level, within the fair value hierarchy, the Conservancy's investments at fair value as of December 31, 2017 and 2016:

	Investments at Fair Value as of December 31, 2017			
	Level 1	Level 2	Level 3	Total
Investments in equity fund	$ 821,674	$ -	$ -	$ 821,674
Investments in fixed income fund	306,440	-	-	306,440
Cash and cash equivalents	84,603	-	-	84,603
Total investments at fair value	$ 1,212,717	$ -	$ -	$ 1,212,717

	Investments at Fair Value as of December 31, 2016			
	Level 1	Level 2	Level 3	Total
Investments in equity fund	$ 722,202	$ -	$ -	$ 722,202
Investments in fixed income fund	288,940	-	-	288,940
Cash and cash equivalents	4,862	-	-	4,862
Total investments at fair value	$ 1,016,004	$ -	$ -	$ 1,016,004

Investment income consisted of the following:

	December 31, 2017	December 31, 2016
Interest and dividends	$ 19,141	$ 5,933
Realized and unrealized gains	179,017	35,250
Total investment income	$ 198,158	$ 41,183

Note 4—Temporarily restricted net assets

Temporarily restricted net assets at December 31, 2017 and 2016 consisted of the following:

	2017	2016
Restricted by the passage of time	$ 88,000	$ -
Connect people to the Chesapeake and its Great Rivers	54,856	120,370
Expand and Build on the Success of the Conservation Innovation Center (CIC)	64,592	17,184
Conserve Landscapes, Rivers, and Special Places in the Chesapeake Bay Region	1,820,421	1,613,251
Total temporarily restricted net assets	$ 2,027,869	$ 1,750,805

Note 5—Board designated and permanently restricted net assets

Board designated and permanently restricted net assets at December 31, 2017 and 2016 consisted of the following:

	2017			
	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Total
Operating Reserve	$ 378,792	$ -	$ -	$ 378,792
Douglas Revolving Fund	-	-	150,000	150,000
Endowment	-	-	1,000,000	1,000,000
Total	$ 378,792	$ -	$ 1,150,000	$ 1,528,792

	2016			
	Unrestricted Board Designated	Temporarily Restricted	Permanently Restricted	Total
Operating Reserve	$ 450,224	$ -	$ -	$ 450,224
Douglas Revolving Fund	110,000	-	150,000	260,000
Endowment	-	-	1,000,000	1,000,000
Total	$ 560,224	$ -	$ 1,150,000	$ 1,710,224

The Operating Reserve has been established to insure the Conservancy has resources available for future needs. The Douglas Revolving Fund has been established to provide approved loans for various projects. Contributions to and uses of the unrestricted portion of these funds are determined by the finance committee. The Endowment Fund of $1,000,000 was received in November 26, 2013 to establish the Chesapeake Fellowship Fund, designed to further the mission of the Conservancy.

Note 5—Board designated and permanently restricted net assets (continued)

Interpretation of Relevant Law – The Board of Directors of the Conservancy has interpreted the enacted version of the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Conservancy classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets if there is a purpose restriction tied to the endowment. In accordance with UPMIFA, the Conservancy considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

a. The duration and preservation of the fund
b. The purposes of the organization and the donor-restricted endowment fund
c. General economic conditions
d. The possible effects of inflation and deflation
e. The expected total return from income and the appreciation of investments
f. Other resources of the organization
g. The investment policies of the organization

Return Objective and Risk Parameters – The Conservancy's objective is to earn a respectable, long-term, risk-adjusted total rate of return to support the designated programs. The Conservancy recognizes and accepts that pursuing a respectable rate of return involves risk and potential volatility. The generation of current income will be a secondary consideration. The Conservancy targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints. The Conservancy has established a policy portfolio, or normal asset allocation. While the policy portfolio can be adjusted from time to time, it is designed to serve for long-time horizons based upon long-term expected returns. The Conservancy has a preference for simple investment structures which will have lower cost, easier oversight, and less complexity for internal financial management and auditing.

Spending Policy – The Conservancy will appropriate for expenditure in its annual budget a percentage of the endowment assets. There may be times when the Conservancy may opt not to take the maximum spending rate, but rather reinvest some of the annual return.

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 Conservancy to retain as a fund of perpetual duration. In accordance with generally accepted accounting principles, there were no material deficiencies of this nature reported in unrestricted net assets as of December 31, 2017 or 2016.

Note 5—Board designated and permanently restricted net assets (continued)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, January 1, 2016	$ 73,882	$ -	$ 1,000,000	$ 1,073,882
Investment return:				
Investment income	5,933	-	-	5,933
Net realized and unrealized gains	41,541	-	-	41,541
Total investment return	47,474	-	-	47,474
Investment management fees	(370)	-	-	(370)
Appropriation for expenditure	(105,029)	-	-	(105,029)
Endowment net assets, December 31, 2016	15,957	-	1,000,000	1,015,957
Investment return:				
Investment income	19,066	-	-	19,066
Net realized and unrealized gains	178,944	-	-	178,944
Total investment return	198,010	-	-	198,010
Investment management fees	(1,372)	-	-	(1,372)
Appropriation for expenditure	-	-	-	-
Endowment net assets, December 31, 2017	$ 212,595	$ -	$ 1,000,000	$ 1,212,595

Note 6—Program services descriptions

The following program expenses are included in the accompanying financial statements at December 31:

	2017	2016
Connect people to the Chesapeake and its Great Rivers	$ 141,133	$ 234,755
Expand and Build on the Success of the Conservation Innovation Center (CIC)	866,597	1,111,917
Conserve Landscapes, Rivers, and Special Places in the Chesapeake Bay Region	1,126,635	1,731,078
Communications	244,014	106,145
Restore Landscapes, Rivers, and Habitats in the Chesapeake Bay Region	363,137	14,244
	$ 2,741,516	$ 3,198,139

Note 7—Employee retirement plan

The Conservancy established a Simple IRA Retirement Plan that covers all eligible employees. The Conservancy will match employee contributions dollar-for-dollar up to 3% of employee compensation. In addition, the Conservancy will match dollar-for-dollar up to 2% of employee compensation to a Roth IRA. For the years ended December 31, 2017 and 2016, employer contributions totaled $56,189 and $53,202, respectively.

Note 8—Commitment

In February 2016, the Conservancy renewed its lease and entered into an agreement for additional office space from March 2016 through February 2019. Monthly rental payments are $12,895 with no annual rent escalations.

Future minimum lease commitments are as follows:

Years Ending December 31,		
2018	$	154,737
2019		25,790
	$	180,527

Rent and parking expense for the years ended December 31, 2017 and 2016 was $159,354 and $166,135, respectively.

Note 9—Concentrations

Financial instruments which potentially subject the Conservancy to concentrations of credit risk consist of two cash accounts. Cash balances, at times, may exceed insured limits set by the Federal Deposit Insurance Corporation ("FDIC") up to $250,000, for the years ended December 31, 2017 and 2016. As of December 31, 2017, the Conservancy's cash balances in excess of FDIC insured amounts totaled $1,469,033 ($2,059,927 as of December 31, 2016). The Conservancy places its temporary cash investments with high-credit quality financial institutions and believes there is no significant concentration of credit risk.

During 2017, the Conservancy had two funders that accounted for 42% of revenue and other support (three funders accounted for 67% during 2016). A non-cash donation of $1,060,000 was included in the 2017 revenue concentration. Additionally, three funders made up 38% of pledges and other receivables as of December 31, 2017 (four funders made up 83% of pledges and other receivables as of December 31, 2016).

During 2017, the Conservancy had two contractors that accounted for 36% of contracted services (four contractors accounted for 63% of contracted services during 2016). Additionally, two contractors made up 49% of accounts payable as of December 31, 2017 (one contractor made up 30% as of December 31, 2016).

Note 10—Change in accounting principle

In 2017, the Conservancy changed its method of reporting temporarily restricted contributions whose restrictions are satisfied in the same period in which they are received. In prior years, the Conservancy reported these amounts as both temporarily restricted contributions and net assets released from restrictions in equal offsetting amounts under the temporarily restricted column of the statement of activities.

As a result of the change in accounting principle, the Conservancy now reports these amounts as unrestricted contributions on the statement of activities. The management of the Conservancy believes this provides a more accurate picture of their operations.

If applied retrospectively, temporarily restricted revenue and support and net assets released from restrictions for 2016, which were previously reported in offsetting amounts of $3,272,953, would have been reported in offsetting amounts of $1,564,862. As such, there is no change to beginning net assets.

SUPPLEMENTARY INFORMATION

Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor on Supplementary Information

To the Board of Directors
Chesapeake Conservancy, Inc.
Annapolis, Maryland

We have audited the financial statements of Chesapeake Conservancy, Inc. as of and for the years ended December 31, 2017 and 2016, and have issued our report thereon dated June 11, 2018, which expressed an unmodified opinion on those financial statements. Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of functional expenses for the years ended December 31, 2017 and 2016 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Cherry Bekaert LLP

Bethesda, Maryland
June 11, 2018

CHESAPEAKE CONSERVANCY, INC.
SCHEDULES OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2017 AND 2016

	2017				2016			
	Program	Management and General	Fundraising	Total	Program	Management and General	Fundraising	Total
Salaries and benefits	$ 1,408,629	$ 262,319	$ 265,984	$ 1,936,932	$ 1,231,732	$ 309,172	$ 217,675	$ 1,758,579
Contract services	1,059,960	1,788	18,567	1,080,315	1,749,016	-	9,300	1,758,316
Professional services	10,890	116,266	8,166	135,322	4,969	113,768	1,688	120,425
Contributions	1,925	-	-	1,925	4,163	100	-	4,263
Conferences and meetings	6,969	19,850	818	27,637	4,861	42,484	1,087	48,432
Office	21,864	22,282	11,340	55,486	18,333	25,454	16,739	60,526
Rent	115,931	21,586	21,837	159,354	119,605	25,276	21,254	166,135
Telephone and utilities	7,756	2,063	1,063	10,882	7,300	1,611	801	9,712
Travel and meals	40,628	6,258	2,589	49,475	31,663	687	3,437	35,787
Depreciation expense	13,374	25,041	199	38,614	2,124	28,494	-	30,618
Contributed contract services	-	886	-	886	-	-	3,900	3,900
Printing and copying	13,468	6,981	2,304	22,753	17,169	5,363	8,891	31,423
Insurance	8,024	2,451	896	11,371	6,413	1,415	704	8,532
Land carrying costs	29,427	-	-	29,427	-	-	-	-
Bad debt	-	-	1,000	1,000	-	-	-	-
Special events	2,671	-	39,827	42,498	791	1,000	72,978	74,769
Total Expenses	$ 2,741,516	$ 487,771	$ 374,590	$ 3,603,877	$ 3,198,139	$ 554,824	$ 358,454	$ 4,111,417