CHESAPEAKE CONSERVANCY, INC.

FINANCIAL STATEMENTS

As of and for the Years Ended December 31, 2018 and 2017

And Report of Independent Auditor

Cherry Bekaert LLP
CPAs & Advisors

CHESAPEAKE CONSERVANCY, INC.

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Cherry Bekaert LLP
CPAs & Advisors

Report of Independent Auditor

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

Report on the Financial Statements

We have audited the accompanying financial statements of Chesapeake Conservancy, Inc., which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related statement of functional expenses for the year ended December 31, 2018 and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended, and its functional expenses for the year ended December 31, 2018, in accordance with accounting principles generally accepted in the United States of America.

Changes in Financial Statement Presentation

As discussed in Note 1 to the financial statements, Chesapeake Conservancy, Inc. adopted Accounting Standards Update ("ASU") 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The ASU has been applied retrospectively to all periods presented with the exception of the statement of functional expenses and disclosure of liquidity and availability of resources, which have been implemented prospectively as allowed under the provisions of ASU 2016-14. Our opinion is not modified with respect to this matter.

As discussed in Note 11 to the financial statements. Chesapeake Conservancy, Inc. elected to early adopt Accounting Standards Update ("ASU") 2016-02, Topic 842: *Leases*. 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 May 16, 2019 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

Tysons Corner, Virginia
May 16, 2019

CHESAPEAKE CONSERVANCY, INC.
STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

	2018	(Restated) 2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,857,179	$ 2,160,873
Grants and other receivables	1,433,952	772,520
Pledges	105,022	35,273
Prepaid expenses	39,860	35,798
Total Current Assets	3,436,013	3,004,464
Property and equipment, net of accumulated depreciation of $152,729 ($118,320 in 2017)	51,830	82,594
Other Assets:		
Right-to-use assets	489,393	129,585
Long-term pledges, net	130,059	66,500
Donated artwork	19,200	19,200
Security deposit	6,212	6,212
Investments	1,249,713	1,212,717
Land	1,060,000	1,060,000
Total Other Assets	2,954,577	2,494,214
Total Assets	$ 6,442,420	$ 5,581,272
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	$ 128,649	$ 162,890
Accrued expenses	31,231	24,460
Lease liability, current	142,841	110,982
Total Current Liabilities	302,721	298,332
Other Liabilities:		
Lease liability	346,552	18,603
Total Liabilities	649,273	316,935
Net Assets:		
Without donor restrictions:		
Operations	1,669,389	1,707,676
Board designated	432,611	378,792
Total without donor restrictions	2,102,000	2,086,468
With donor restrictions:		
Subject to purpose restrictions	2,351,546	1,939,869
Subject to passage of time	189,601	88,000
Endowments	1,150,000	1,150,000
Total with donor restrictions	3,691,147	3,177,869
Total Net Assets	5,793,147	5,264,337
Total Liabilities and Net Assets	$ 6,442,420	$ 5,581,272

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

CHESAPEAKE CONSERVANCY, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018				(Restated) 2017			
	Without Donor Restrictions		With Donor Restrictions		Without Donor Restrictions		With Donor Restrictions	
	Operations	Board Designated	With Donor Restrictions	Total	Operations	Board Designated	With Donor Restrictions	Total
Revenues and Other Support:								
Contributions and grants	$ 313,530	$ -	$ 1,585,508	$ 1,899,038	$ 1,883,701	$ -	$ 750,082	$ 2,633,783
Government grants	1,558,385	-	20,000	1,578,385	1,435,477	-	86,000	1,521,477
Contract income	302,320	-	-	302,320	403,058	-	-	403,058
Investment and other income	553,001	-	(15,703)	537,298	5,726	-	197,051	202,777
Net assets released from restrictions	1,076,527	-	(1,076,527)	-	756,069	-	(756,069)	-
Total Revenues and Other Support	3,803,763	-	513,278	4,317,041	4,484,031	-	277,064	4,761,095
Expenses:								
Program services	2,924,522	-	-	2,924,522	2,741,516	-	-	2,741,516
Management and general	475,261	-	-	475,261	487,771	-	-	487,771
Fundraising	388,448	-	-	388,448	374,590	-	-	374,590
Total Expenses	3,788,231	-	-	3,788,231	3,603,877	-	-	3,603,877
Change in net assets before transfers	15,532	-	513,278	528,810	880,154	-	277,064	1,157,218
Transfers	(53,819)	53,819	-	-	181,432	(181,432)	-	-
Change in net assets	(38,287)	53,819	513,278	528,810	1,061,586	(181,432)	277,064	1,157,218
Net assets, beginning of year	1,707,676	378,792	3,177,869	5,264,337	646,090	560,224	2,900,805	4,107,119
Net assets, end of year	$ 1,669,389	$ 432,611	$ 3,691,147	$ 5,793,147	$ 1,707,676	$ 378,792	$ 3,177,869	$ 5,264,337

CHESAPEAKE CONSERVANCY, INC.
STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2018

	Program	Management and General	Fundraising	Total
Salaries and benefits	$ 1,461,876	$ 225,071	$ 269,955	$ 1,956,902
Contract services	1,235,009	-	26,039	1,261,048
Professional services	4,093	108,927	10,139	123,159
Contributions	-	1,000	-	1,000
Conferences and meetings	9,342	4,509	1,118	14,969
Office	21,711	33,314	10,516	65,541
Rent	115,272	18,180	21,285	154,737
Telephone and utilities	9,122	1,568	1,182	11,872
Travel and meals	34,648	2,157	3,065	39,870
Depreciation expense	14,106	20,162	141	34,409
Contributed contract services	-	51,748	-	51,748
Printing and copying	6,273	4,974	6,234	17,481
Insurance	9,818	2,476	1,157	13,451
Land carrying costs	-	958	-	958
Bad debt	3,252	217	5	3,474
Special events	-	-	37,612	37,612
Total Expenses	$ 2,924,522	$ 475,261	$ 388,448	$ 3,788,231

CHESAPEAKE CONSERVANCY, INC.
STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	(Restated) 2017
Cash flows from operating activities:		
Change in net assets	$ 528,810	$ 1,157,218
Adjustments to reconcile change in net assets to net cash flows used in operating activities:		
Depreciation	34,409	38,614
Investment management fees	2,896	1,884
Loss on disposal of property and equipment	4,500	-
Net realized and unrealized loss (gain) on investments	81,358	(198,158)
Noncash donations	-	(1,090,650)
Decrease (increase) in operating assets:		
Grants and other receivables	(661,432)	(225,215)
Pledges	(133,308)	(68,273)
Prepaid expenses	(4,062)	(5,325)
Increase (decrease) in operating liabilities:		
Accounts payable	(34,241)	36,446
Accrued expenses	6,771	(8,382)
Net cash flows used in operating activities	(174,299)	(361,841)
Cash flows from investing activities:		
Proceeds from sale of investments	62,450	70,800
Purchase of investments	(183,700)	(71,239)
Purchase of property and equipment	(8,145)	(19,547)
Net cash flows used in investing activities	(129,395)	(19,986)
Net decrease in cash and cash equivalents	(303,694)	(381,827)
Cash and cash equivalents, beginning of year	2,160,873	2,542,700
Cash and cash equivalents, end of year	$ 1,857,179	$ 2,160,873
Noncash activities:		
Acquisition of right-of-use asset	$ (359,808)	$ -
Lease liability recognized	$ 359,808	$ -

Note 1—Nature of operations and 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 conserve and restore the natural and cultural resources of the Chesapeake Bay watershed for the enjoyment, education, and inspiration of this and future generations. The Conservancy serves as a catalyst for change, advancing strong public and private partnerships, developing and using new technology, and empowering environmental stewardship.

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 two classes of net assets described as follows:

> *Net assets without donor restrictions* – Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Conservancy. These net assets may be used at the discretion of the Conservancy's management and board of directors. The Conservancy has chosen to provide further classification information about net assets without donor restrictions on the statements of financial position. The sub classifications are as follows:
>
> > *Operations* – Represents the cumulative net assets without donor restrictions excluding those net assets designated for specific activities.
> >
> > *Board-designated* – Represents resources set aside by the board of directors to be used for specific activities within guidelines established by the board.
>
> *Net assets with donor restrictions* – Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Conservancy or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

Revenue is reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restriction. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets are reported as reclassifications from net assets with donor restrictions to net assets without donor restrictions. 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.

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

Note 1—Nature of operations and 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 deemed necessary at December 31, 2018 or 2017.

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 deemed necessary at December 31, 2018 or 2017.

Note 1—Nature of operations and 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, 2018 and 2017 was $34,409 and $38,614, respectively.

Functional Expenses – The costs of providing program and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis.

The expenses that are allocated include the following:

Expense	Method of Allocation
Salaries and benefits	Time and effort
Rent	Full Time Equivalent
Telephone	Full Time Equivalent
Insurance	Total Expenses

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 $51,749 during 2018 ($886 in 2017). 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 $1,090,650 were received during the year ended December 31, 2017 (none in 2018) 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, 2018 and 2017, there was no unrelated business income.

Note 1—Nature of operations and 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.

Subsequent Events – The Conservancy has evaluated subsequent events through May 16, 2019, the date on which the financial statements were available to be issued.

Significant New Accounting Standards Not Yet Adopted – In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* (Topic 606) ("ASU 2014-09"). ASU 2014-09 outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new revenue recognition model provides a five-step analysis in determining when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, *Revenue from Contracts with Customers* (Topic 606)*: Deferral of Effective Date* ("ASU 2015-14"). The amendments in ASU 2015-14 defer the effective date of ASU 2014-09 for all entities by one year. The standard will be effective for non-public entities for annual reporting periods beginning after December 15, 2018 and interim periods within annual reporting periods beginning after December 15, 2019. Early adoption is permitted, beginning after December 15, 2016. Organizations may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09. The Conservancy has is currently evaluating the effect the standard will have on the financial statements.

New Accounting Pronouncement – On August 18, 2016, FASB issued ASU 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Conservancy has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented with the exception of the statement of functional expenses and the disclosure of liquidity and availability of resources, which have been implemented prospectively as allowed under the provisions of ASU 2016-14.

In February 2016, the FASB issued ASU 2016-02, topic 842: *Leases*, which requires organizations to recognize lease assets and lease liabilities on the statement of financial position and disclose key information about leasing arrangements. The Conservancy elected to early adopt this standard, which was implemented retrospectively.

Note 1—Nature of operations and summary of significant accounting policies (continued)

For any operating leases, a right-of-use asset and a lease liability are recognized which are initially measured at the present value of the future lease payments in the statements of financial position. Rent expense is recognized on a straight-line basis on the statements of activities and changes in net assets. The Conservancy has elected to not apply the requirements of the standard to leases which have a term of less than 12 months.

Note 2—Liquidity and availability

The following reflects Chesapeake Conservancy's financial assets as of the statement of financial position as of December 31, 2018, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the statement of financial position date. Amounts not available include amounts set aside in a board-designated operating reserve that could be drawn upon if the governing board approved that action. However, amounts already appropriated from donor-restricted for general expenditures within one year of the statement of financial position date have not been subtracted as unavailable.

Financial assets at year-end:	
Cash and cash equivalents	$ 1,857,179
Investments	1,249,713
Grants, pledges and other receivables	1,538,974
Prepaid expenses	39,860
Total financial assets	4,685,726
Less amounts not available to be used for general expenditures within one year:	
Assets subject to contractual or donor restriction	2,481,605
Assets subject to board designations	432,611
Endowments	1,150,000
Total financial assets not available to be used within one year	4,064,216
Financial assets available to meet general expenditures within one year	$ 621,510

The Conservancy has certain donor-restricted assets which are available for general expenditure within one year in the normal course of operations. Accordingly, these assets have been included in the qualitative information above for financial assets to meet general expenditures within one year. The Conservancy's assets subject to donor restriction limited to purposes which are not in the normal general expenditures, such as land acquisitions, are excluded from the assets available to meet general expenditures within one year. The board policy to draw earnings from the donor-restricted endowment of $1 million will remove $55,396 from the endowment account in early 2019 to fund general operations. Additionally, board-designated assets are designated for an operating reserve as well as a revolving loan fund. These assets limited to use, which are more fully described in Notes 6 and 7 are not available for general expenditure within the next year. However, $432,611 of the total assets subject to board designations could be drawn upon if the governing Board approved that action.

Note 3—Property and equipment

Property and equipment consist of the following:

	December 31, 2018	December 31, 2017
Cost:		
Software	$ 34,958	$ 34,958
Furniture and fixtures	98,032	98,032
Equipment	71,569	67,924
Total cost	204,559	200,914
Accumulated depreciation	(152,729)	(118,320)
Net property and equipment	$ 51,830	$ 82,594

Depreciation expense for the years ended December 31, 2018 and 2017 was $34,409 and $38,614, respectively.

Note 4—Investments

The following table sets forth by level, within the fair value hierarchy, the Conservancy's investments at fair value as of December 31, 2018 and 2017:

	Investments at Fair Value as of December 31, 2018			
	Level 1	Level 2	Level 3	Total
Investments in equity fund	$ 729,516	$ -	$ -	$ 729,516
Investments in fixed income fund	321,594	-	-	321,594
Cash and cash equivalents	198,603	-	-	198,603
Total investments at fair value	$ 1,249,713	$ -	$ -	$ 1,249,713

	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

Investment income consisted of the following:

	December 31, 2018	December 31, 2017
Interest and dividends	$ 22,641	$ 19,141
Realized and unrealized gains (losses)	81,358	179,017
Total investment (loss) income	$ 103,999	$ 198,158

Note 5—Board designated net assets

Certain net assets without donor restrictions at December 31, 2018 and 2017 have been designated by the board of directors for the following purposes:

	2018	2017
Operating Reserve	$ 432,611	$ 378,792

The Operating Reserve has been established to ensure the Conservancy has resources available for future needs.

Note 6—Net assets with donor restrictions

Net assets with donor restrictions at December 31, 2018 and 2017 have been restricted by the donors for the following purposes:

	2018	2017
Subject to passage of time:		
Contributions receivable	$ 189,601	$ 88,000
Subject to purpose restriction:		
Chesapeake Public Access and Programming	35,535	54,856
Data Driven Environmental Planning	748,718	64,592
Chesapeake Land Conservation	1,567,293	1,820,421
Endowments:		
Douglas Revolving Fund	150,000	150,000
Chesapeake Fellowship Fund	1,000,000	1,000,000
Total net assets with donor restrictions	$ 3,691,147	$ 3,177,869

Note 7—Endowments

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 Chesapeake Fellowship Fund of $1,000,000 was received in November 26, 2013 to further the mission of the Conservancy.

Note 7—Endowments (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 net assets without restrictions as of December 31, 2018 or 2017.

Note 7—Endowments (continued)

As of December 31, 2018 and 2017, the Conservancy had the following endowment net asset composition:

	December 31, 2018		
	Without donor restrictions	With donor restrictions	Total
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	$ -	$ 1,150,000	$ 1,150,000
Accumulated investment gains	95,192	-	95,192
Endowment net assets, December 31, 2018	$ 95,192	$ 1,150,000	$ 1,245,192

	December 31, 2017		
	Without donor restrictions	With donor restrictions	Total
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	$ -	$ 1,150,000	$ 1,150,000
Accumulated investment gains	212,595	-	212,595
Endowment net assets, December 31, 2017	$ 212,595	$ 1,150,000	$ 1,362,595

Changes in endowment net assets for the years ended December 31, 2018 and 2017 are as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, December 31, 2016	$ 15,957	$ 1,150,000	$ 1,165,957
Investment income, net	196,638	-	196,638
Appropriation for expenditure	-	-	-
Endowment net assets, December 31, 2017	212,595	1,150,000	1,362,595
Investment loss, net	(56,255)	-	(56,255)
Appropriation for expenditure	(61,148)	-	(61,148)
Endowment net assets, December 31, 2018	$ 95,192	$ 1,150,000	$ 1,245,192

Note 8—Program services descriptions

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

	2018	2017
Chesapeake Public Access and Programming	$ 75,960	$ 141,133
Data Driven Environmental Planning	981,102	866,597
Chesapeake Land Conservation	1,275,100	1,126,635
Chesapeake Gateways Communications	156,395	244,014
Applied Precision Restoration	435,965	363,137
	$ 2,924,522	$ 2,741,516

Note 9—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 year ended December 31, 2017, employer contributions totaled $56,189.

In 2018, the Conservancy established a 403(b) defined contribution plan covering all eligible employees. The Conservancy will match employee contributions dollar-for-dollar up to 5% of employee compensation. For the year ended December 31, 2018, employer contributions totaled $68,330.

Note 10—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. As of December 31, 2018, the Conservancy’s cash balances in excess of FDIC insured amounts totaled $1,284,241. The Conservancy places its temporary cash investments with high-credit quality financial institutions and believes there is no significant concentration of credit risk.

During 2018, the Conservancy had two funders that accounted for 29% of revenue and other support (two funders accounted for 42% during 2017). 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, 2018 (three funders made up 38% of pledges and other receivables as of December 31, 2017).

During 2018, the Conservancy had six contractors that accounted for 48% of contracted services (two contractors accounted for 36% of contracted services during 2017). Additionally, one contractor made up 42% of accounts payable as of December 31, 2018 (two contractors made up 49% as of December 31, 2017).

Note 11—Operating leases

The Conservancy leases office space under agreements with monthly rents ranging from $9,300 to $13,800 through February 2022.

Below are the Conservancy's costs recognized in the statements of activities and changes in net assets for the years ended December 31, 2018 and 2017, as well as additional qualitative information relating to its leases.

	2018	2017
Operating lease cost	$ 111,754	$ 111,754
Operating cash flows from operating leases	111,754	111,754
Right-to-use assets obtained in exchange for new operating lease liabilities	470,790	-
Weighted-average remaining lease term (years) - operating leases	3.05	1.17
Weighted-average discount rate - operating leases	2.40%	0.98%

The future minimum rental payments required under operating leases that have initial or remaining non-cancellable lease terms in excess of one year are as follows:

Years Ending December 31,	
2019	$ 133,723
2020	162,856
2021	165,721
2022	27,700
	490,000
Less amounts representing imputed interest	(19,210)
Plus amounts under agreements with remaining terms of less than one year	18,603
	$ 489,393
Lease liability, current	$ 142,841
Lease liability, noncurrent	346,552
	$ 489,393

Rent expense was $154,737 and $159,354 for the years ended December 31, 2018 and 2017, respectively.

Note 12—Change in Accounting Principle

As mentioned in Note 1, effective January 1, 2018, the Conservancy elected to early adopt Accounting Standards Update ("ASU") 2016-02, Topic 842: *Leases* and thus implemented the standard retrospectively. As a result, the 2017 statement of financial position was restated to report a right-to-use asset and lease liability in the amount of $129,585. No changes to the 2017 statement of activities and changes in net assets was necessary. In addition, there was no adjustment made to net assets.