CHESAPEAKE CONSERVANCY, INC.

FINANCIAL REPORT

DECEMBER 31, 2019

CONTENTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Chesapeake Conservancy, Inc.
Annapolis, Maryland

We have audited the accompanying statement of financial position of Chesapeake Conservancy, Inc. (a nonprofit corporation) as of December 31, 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chesapeake Conservancy, Inc. as of December 31, 2019, and the changes 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.

Other Matter

The financial statements of Chesapeake Conservancy, Inc. for the year ended December 31, 2018, were audited by another auditor who expressed an unmodified opinion on those statements on May 16, 2019.

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Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 1, 2020 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.

Anderson, Davis & Associates, CPA

Glen Burnie, Maryland
July 1, 2020

CHESAPEAKE CONSERVANCY, INC.
STATEMENTS OF FINANCIAL POSITION
December 31, 2019 and 2018

ASSETS

	2019	2018
Current assets:		
Cash and cash equivalents	$ 1,555,499	$ 1,707,179
Grants and other receivables	2,046,720	1,433,952
Contributions receivable	75,350	105,022
Prepaid expenses	44,600	39,860
Total current assets	3,722,169	3,286,013
Property and equipment, net of accumulated depreciation of $124,516 and $152,729 in 2019 and 2018, respectively	39,923	51,830
Other assets:		
Right-to-use assets	346,552	489,393
Contributions receivable, net of current portion	81,462	130,059
Donated artwork	19,200	19,200
Security deposit	6,212	6,212
Cash and cash equivalents - restricted in perpetuity	150,000	150,000
Investments	1,267,285	1,249,713
Land	1,060,000	1,060,000
Total other assets	2,930,711	3,104,577
Total assets	$ 6,692,803	$ 6,442,420

LIABILITIES AND NET ASSETS

	2019	2018
Current liabilities:		
Accounts payable	$ 28,293	$ 128,649
Accrued expenses	38,402	31,231
Lease liability	156,078	142,841
Total liabilities	222,773	302,721
Other liabilities:		
Lease liability	190,474	346,552
Total liabilities	413,247	649,273
Net assets:		
Without donor restrictions:		
Operations	1,660,527	1,669,389
Board designated	432,611	432,611
Total without donor restrictions	2,093,138	2,102,000
With donor restrictions:		
Subject to purpose restrictions	2,913,680	2,351,546
Subject to passage of time	122,738	189,601
Restricted in perpetuity	1,150,000	1,150,000
Total with donor restrictions	4,186,418	3,691,147
Total net assets	6,279,556	5,793,147
Total liabilities and net assets	$ 6,692,803	$ 6,442,420

See Independent Auditor's Report and the Notes to the Financial Statements.

CHESAPEAKE CONSERVANCY, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2019

	Without donor restrictions			
	Operations	Board Designated	With donor restrictions	Total
Revenues and other support:				
Contributions and grants	$ 908,168	$ -	$ 3,223,689	$ 4,131,857
Government grants	2,046,189	-	229,000	2,275,189
Contract income	210,507	-	-	210,507
Investment and other income	1,094	-	227,410	228,504
Net assets released from restrictions	3,184,828	-	(3,184,828)	-
Total revenues and other support	6,350,786	-	495,271	6,846,057
Expenses and losses:				
Program Services	5,349,849	-	-	5,349,849
Management and general	726,584	-	-	726,584
Fundraising	283,215	-	-	283,215
Total expenses and losses	6,359,648	-	-	6,359,648
Change in net assets	(8,862)	-	495,271	486,409
Net assets, beginning of year	1,669,389	432,611	3,691,147	5,793,147
Net assets, end of year	$ 1,660,527	$ 432,611	$ 4,186,418	$ 6,279,556

See Independent Auditor's Report and the Notes to the Financial Statements.

CHESAPEAKE CONSERVANCY, INC.
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2018

	Without donor restrictions			
	Operations	Board Designated	With donor restrictions	Total
Revenues and other support:				
Contributions and grants	$ 313,530	$ -	$ 1,585,508	$ 1,899,038
Government grants	1,558,385	-	20,000	1,578,385
Contract income	302,320	-	-	302,320
Investment and other income	553,001	-	(15,703)	537,298
Net assets released from restrictions	1,076,527	-	(1,076,527)	-
Total revenues and other support	3,803,763	-	513,278	4,317,041
Expenses and losses:				
Program Services	2,924,522	-	-	2,924,522
Management and general	475,261	-	-	475,261
Fundraising	388,448	-	-	388,448
Total expenses and losses	3,788,231	-	-	3,788,231
Change in net assets before transfers	15,532	-	513,278	528,810
Transfers	(53,819)	53,819	-	-
Change in net assets	(38,287)	53,819	513,278	528,810
Net assets, beginning of year	1,707,676	378,792	3,177,869	5,264,337
Net assets, end of year	$ 1,669,389	$ 432,611	$ 3,691,147	$ 5,793,147

See Independent Auditor's Report and the Notes to the Financial Statements.

CHESAPEAKE CONSERVANCY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2019

	Programs	Management and General	Fundraising	Total
Salaries and benefits	$ 1,881,545	$ 329,176	$ 229,535	$ 2,440,256
Contract services	3,166,291	500	4,491	3,171,282
Professional services	2,500	94,666	-	97,166
Contributions	1,750	2,155	-	3,905
Conferences and meetings	10,162	10,960	1,293	22,415
Office	46,760	53,727	9,739	110,226
Rent	131,557	21,419	15,239	168,215
Telephone and utilities	13,697	2,300	680	16,677
Travel and meals	46,381	8,875	631	55,887
Depreciation expense	13,421	7,355	-	20,776
Contributed contract services	-	167,866	-	167,866
Printing and copying	20,661	13,758	2,569	36,988
Insurance	12,555	2,159	638	15,352
Land carrying costs	-	613	-	613
Loss on disposal of fixed assets	-	4,439	-	4,439
Bad debt	-	6,316	-	6,316
Special events	2,569	300	18,400	21,269
	$ 5,349,849	$ 726,584	$ 283,215	$ 6,359,648

See Independent Auditor's Report and the Notes to the Financial Statements.

CHESAPEAKE CONSERVANCY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018

	Programs	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
	$ 2,924,522	$ 475,261	$ 388,448	$ 3,788,231

See Independent Auditor's Report and the Notes to the Financial Statements.

CHESAPEAKE CONSERVANCY, INC.
STATEMENTS OF CASH FLOWS
December 31, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	$ 486,409	$ 528,810
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	20,776	34,409
Investment management fees	2,276	2,896
Loss on disposal of property and equipment	4,439	4,500
Net realized and unrealized (gain) loss on investments	(205,044)	81,358
Changes in assets and liabilities:		
(Increase) decrease in:		
Grants and other receivables	(612,768)	(661,432)
Pledges	78,269	(133,308)
Prepaid expenses	(4,740)	(4,062)
Increase (decrease) in:		
Accounts payable	(100,356)	(34,241)
Accrued expenses	7,171	6,771
Net cash used in operating activities	(323,568)	(174,299)
Cash flows from investing activities:		
Proceeds from sale of investments	458,252	62,450
Purchase of investments	(273,056)	(183,700)
Purchase of property and equipment	(13,308)	(8,145)
Net cash provided by (used in) investing activities	171,888	(129,395)
Net decrease in cash, cash equivalents and restricted cash	(151,680)	(303,694)
Cash, cash equivalents and restricted cash, beginning of year	1,857,179	2,160,873
Cash, cash equivalents and restricted cash, end of year	$ 1,705,499	$ 1,857,179
Supplementary Information:		
Interest paid	$ -	$ -
Taxes paid	$ -	$ -
Noncash activities:		
Acquisition of right-of-use asset	$ -	$ (359,808)
Lease liability recognized	$ -	$ 359,808

See Independent Auditor's Report and the Notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

Note 1. **ORGANIZATION AND PURPOSE**

Chesapeake Conservancy, Inc. (the "Conservancy") (formerly Friends of the John Smith Chesapeake Trail, Inc.) is a nonprofit Conservancy 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.

Note 2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting

The Conservancy maintains its financial records and prepares its financial statements on the accrual basis of accounting. Therefore, revenues and related assets are recognized when earned, and expenses and related liabilities are recognized when the obligations are incurred.

Basis of Presentation

During the year ended December 31, 2018, the Conservancy adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14 — *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This 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 between not-for-profit entities. A key change required by ASU 2016-14 are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions.

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 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, where by the donor has stipulated the funds be maintained in perpetuity.

Cash, Cash Equivalents and Restricted Cash

The Conservancy considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statements of financial position that sum to the total of the same such amounts shown in the statements of cash flows as of December 31,:

	2019	2018
Cash and cash equivalents	$ 1,555,499	$ 1,707,179
Restricted cash	150,000	150,000
Cash, cash equivalents and restricted cash	$ 1,705,499	$ 1,857,179

Note 2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Cash, Cash Equivalents and Restricted Cash (continued)
Amounts included in restricted cash represent the balance of the Douglas Revolving Loan fund which was established to provide approved loans for various projects.

Income Taxes
The Conservancy is a nonprofit entity and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Therefore, contributions to the Conservancy are tax deductible under Section 170 of the Internal Revenue Code. 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, 2019 and 2018, there was no unrelated business income.

The Conservancy follows the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) for Accounting of Uncertainty in Income Taxes. These recommendations clarify the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. They also provide guidance on de-recognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Income tax benefits are recognized for income tax positions taken or expected to be taken in a tax return, only when it is determined that the income tax position will more-likely-than-not be sustained upon examination by taxing authorities. The Conservancy has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Conservancy believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Conservancy's financial condition, results of operations or cash flows. Accordingly, the Conservancy has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at December 31, 2019 and 2018. With few exceptions, the Conservancy's tax returns remain open for three years for federal and state examination.

Donated Services and Goods
As required by FASB ASC 958-605-25, *Accounting for Contributions Received and Contributions Made*, donated services include assistance which creates or enhances non-financial assets or requires specialized skills provided by individuals possessing those skills. Those services would typically need to be purchased if not donated and are recorded by the Conservancy at their fair value in the period such services are delivered. Donated goods are recorded as contributions at their estimated fair values at the date of donation.

Fair Value Measurements
For cash and short-term investments, receivables 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.

Note 2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Fair Value Measurements (continued)

> 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.

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 statement 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 net assets with donor restrictions if the income was restricted by donors. Investments at fair market value consisted of stock and bond funds.

Market Value Risk
The Conservancy invests funds in a professionally managed portfolio. Such investments are exposed to market and credit risks. The Conservancy's investments may be subject to significant fluctuations in fair value. As a result, the investment balances reported in the accompanying financial statements may not be reflective of the portfolio's value during subsequent periods.

Grants and Other Receivables
Grants receivable at December 31, 2019 and 2018 consist mainly of grants and contracts earned or unconditionally promised, but not yet received. No allowance for uncollectible accounts has been recorded at December 31, 2019 and 2018, due to any potential uncollectible amounts determined by management as immaterial.

Contributions Receivable
Unconditional promises to give are recognized as revenue in the period when a written unconditional promise is received. Conditional promises are recognized when the conditions on which they depend are substantially met. Contributions receivable are carried at fair value. Management reviews all outstanding receivables on a monthly basis. Management determines the allowance for doubtful contributions receivable by regularly evaluating individual balances and considering the prior history of the donor and proven collectability of past donations. Balances are written off when deemed uncollectible. Recoveries of balances previously written off are recorded when received. There was no allowance for doubtful contributions receivable deemed necessary at December 31, 2019 or 2018.

Estimates
The preparation of financial statements in conformity with generally accepted accounting principles accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue Recognition
The Conservancy recognizes revenue from exchange transactions as the related work is accomplished. Funds relating to exchange transactions are never received in advance of work being completed. Grants and donations with donor restrictions received in advance of the accomplishment of the restricted purpose are recorded as revenue and net assets with donor restrictions.

Note 2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Functional Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of functional expenses. 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	Time and effort
Telephone and utilities	Time and effort
Insurance	Total expenses

Contributions, Grants, and Support

Contributions and grants received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. The Conservancy reports gifts of cash and other assets as restricted support if they are received with donor/grantor stipulations that limit the use of the donated assets, or if they are designated as support for future periods.

When a donor/grantor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without The Conservancy reports cost reimbursable government grants as support without donor restrictions. Revenue from contracts is recognized as the service is completed.

The Conservancy reports gifts of goods and equipment as unrestricted support unless explicit donor/grantor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

Reclassification

Certain 2018 amounts have been reclassified to conform with 2019 presentation.

Subsequent Events

The Conservancy has evaluated events and transactions for potential recognition or disclosure through July 1, 2020 the date the financial statements were available to be issued.

New Accounting Pronouncements

On May 28, 2014, Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The update 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. The new model requires 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. ASU 2019-09 is effective for fiscal years beginning after December 15, 2018. Additionally, in June 2018, FASB issued Accounting Standards Update (ASU) 2018-08, *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made,* with the stated purpose of providing guidance in evaluating whether transactions should be accounted for as contributions or exchanges. In addition, the update introduces the concept of barriers in providing additional guidance on identifying conditions that would preclude the recognition of a contribution as revenue. Analysis of various provisions of these standards resulted in no significant changes in the way the Conservancy recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

Note 2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

New Accounting Pronouncements (continued)
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.

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 during 2018.

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 3. **LIQUIDITY AND AVAILABILITY**

The following reflects the Conservancy's financial assets as of the statement of financial position date, 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.

	2019	2018
Financial assets available at year end:		
Cash, cash equivalents and restricted cash	$ 1,705,499	$ 1,857,179
Investments	1,267,285	1,249,713
Grants, contributions and other receivables	2,203,532	1,538,974
Total financial assets	5,176,316	4,645,866
Less amounts not available to be used for general expenditure within one year:		
Assets subject to contractual or donor restriction	3,036,418	2,481,605
Assets subject to Board designations	432,611	432,611
Restricted in perpetuity	1,150,000	1,150,000
Total financial assets not available to be used within one year	4,619,029	4,064,216
Financial assets available to meet general expenditures within one year	$ 557,287	$ 581,650

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 $59,000 from the endowment account in early 2020 to fund general operations. Additionally, Board-designated assets are designated for an operating reserve. 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 4. **PROPERTY AND EQUIPMENT**

Property and equipment are stated at cost. The Conservancy capitalizes all furniture and equipment with a cost greater than $5,000. Depreciation is provided on the straight-line method over the estimated useful life 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. Depreciation expense for the years ended December 31, 2019 and 2018 was $20,776 and $34,409, respectively.

Property and equipment consist of the following:

	2019	2018
Software	$ 30,000	$ 34,958
Furniture and fixtures	58,492	98,032
Equipment	75,947	71,569
Total cost	164,439	204,559
Accumulated depreciation	(124,516)	(152,729)
Net property and equipment	$ 39,923	$ 51,830

Note 5. **INVESTMENTS**

Assets measured at fair value on a recurring basis at December 31, 2019 are as follows:

	Level 1	Level 2	Level 3	Total
Investments in equity fund	$ 878,286	$ -	$ -	$ 878,286
Investments in fixed income fund	339,551	-	-	339,551
Cash and cash equivalents	49,448	-	-	49,448
Total investments at fair value	$ 1,267,285	$ -	$ -	$ 1,267,285

Assets measured at fair value on a recurring basis at December 31, 2018 are as follows:

	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

Investment income consisted of the following at December 31,:

	2019	2018
Interest and dividends	$ 25,003	$ 25,537
Investment expenses	(2,276)	(2,896)
Realized and unrealized gains	205,044	81,358
Total investment income	$ 227,771	$ 103,999

Note 6. **BOARD DESIGNATED NET ASSETS**

Certain net assets without donor restrictions at December 31, 2019 and 2018 have been designated by the Board of Directors for the following purposes:

	2019	2018
Operating Reserve – resources for future needs	$ 432,611	$ 432,611

Note 7. **NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions at December 31, 2019 are available for the following purposes:

	2019	2018
Subject to passage of time:		
Contributions receivable	$ 122,738	$ 189,601
Subject to purpose restriction:		
Chesapeake public access programming	374,932	35,535
Data driven environmental planning	444,744	748,718
Chesapeake land conservation	1,973,266	1,567,293
Infrastructure investment	120,738	-
Restricted in perpetuity:		
Douglas Revolving Fund	150,000	150,000
Chesapeake Fellowship Fund endowment	1,000,000	1,000,000
Total net assets with donor restrictions	$ 4,186,418	$ 3,691,147

Note 8. **ENDOWMENTS**

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

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 net assets with donor restrictions (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 restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. 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.

Note 8. **ENDOWMENTS (continued)**

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, 2019 or 2018.

As of December 31, 2019, the Conservancy had the following endowment net asset composition:

	Without donor restrictions	With donor restrictions	Total
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	$ -	$ 1,000,000	$1,000,000
Accumulated investment gains	-	267,206	267,206
Endowment net assets, December 31, 2019	$ -	$ 1,267,206	$1,267,206

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

	Without donor restrictions	With donor restrictions	Total
Original donor-restricted gift amount and amounts required to be maintained in perpetuity by donor	$ -	$ 1,000,000	$ 1,000,000
Accumulated investment gains	-	95,192	95,192
Endowment net assets, December 31, 2018	$ -	$ 1,095,192	$ 1,095,192

Changes in endowment net assets for the year ended December 31, 2019 are as follows:

	Without donor restrictions	With donor restrictions	Total
Endowment net assets, December 31, 2017	$ -	$ 1,212,595	$ 1,212,595
Investment loss, net	-	(56,255)	(56,255)
Appropriation for expenditure	-	(61,148)	(61,148)
Endowment net assets, December 31, 2018	-	1,095,192	1,095,192
Investment income, net	-	227,410	227,410
Appropriation for expenditure	-	(55,396)	(55,396)
Endowment net assets, December 31, 2019	$ -	$ 1,267,206	$ 1,267,206

Note 9. **PROGRAM SERVICES DESCRIPTIONS**

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

	2019	2018
Chesapeake public access and programming	$ 38,797	$ 75,960
Data driven environmental planning	1,595,185	1,417,067
Chesapeake land conservation	3,632,041	1,275,100
Chesapeake gateways communications	83,826	156,395
	$ 5,349,849	$ 2,924,522

Note 10. **RETIREMENT PLAN**

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, 2019 and 2018, employer contributions totaled $80,437 and $68,330, respectively.

Note 11. **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, 2019, the Conservancy’s cash balances in excess of FDIC insured amounts totaled $1,198,999. The Conservancy places its temporary cash investments with high credit quality financial institutions and believes there is no significant concentration of credit risk.

During 2019 and 2018, the Conservancy had two funders that accounted for 48% and 29% of revenue and other support, respectively. During 2019 and 2018, three funders made up 58% and 38% of combined promises, grants and other receivables, respectively.

During 2019, the Conservancy had two contractors that accounted for 77% of contracted services. During 2018, the Conservancy had six contractors that accounted for 48% of contracted services. Additionally, one contractor made up 42% of accounts payable as of December 31, 2018.

Note 12. **OPERATING LEASES**

The Conservancy leases office space under an agreement with monthly rents ranging from $13,372 to $13,849 through February 2022.

Below are the Conservancy’s costs recognized in the statements of activities for the years ended December 31, 2019 and 2018, as well as additional qualitative information relating to its leases.

	2019	2018
Operating lease cost	$ 152,349	$ 111,754
Operating cash flows from operating leases	152,349	111,754
Right-to-use assets obtained in exchange for new operating lease liabilities	-	470,790
Weighted-average remaining lease term (years) – operating leases	2.17	3.05
Weighted-average discount rate – operating leases	2.46%	2.40%

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,	
2020	$ 162,856
2021	165,721
2022	27,700
	356,277
Less amounts representing imputed interest	(9,725)
	$ 346,552
Lease liability, current	$ 156,078
Lease liability, noncurrent	190,474
	$ 346,552

Note 12. **OPERATING LEASES (continued)**

Total rent expense on these leases was $168,215 and $154,737 for the years ended December 31, 2019 and 2018, respectively.

Note 13. **SUBSEQUENT EVENTS**

On March 11, 2020, the World Health Organization declared a novel strain of coronavirus disease (“COVID-19”) a pandemic. The extent of COVID-19’s effect on the Conservancy’s operational and financial performance will depend on future developments, including the duration, spread and intensity of the pandemic, all of which are uncertain and difficult to predict considering the rapidly evolving landscape. As a result, it is not currently possible to ascertain the overall impact of COVID-19 on the Conservancy.

On April 15, 2020, the Conservancy obtained approval for a $393,937 loan under the Paycheck Protection Program created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration. The loan accrues interest at 1% but payments are not required to begin for six months after funding of the loan. The Conservancy is eligible for forgiveness up to 100% of the loan, upon meeting certain requirements. The loan is uncollateralized and is fully guaranteed by the Federal government.