RESTORE AMERICA'S ESTUARIES

AUDIT REPORT

FINANCIAL AND FEDERAL AWARD COMPLIANCE EXAMINATION

FOR THE YEAR ENDED DECEMBER 31, 2011

RESTORE AMERICA'S ESTUARIES

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FOR THE YEAR ENDED DECEMBER 31, 2011
WITH SUMMARIZED FINANCIAL
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GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Restore America's Estuaries
Arlington, Virginia

We have audited the accompanying statement of financial position of Restore America's Estuaries (RAE) as of December 31, 2011, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of RAE's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from RAE's financial statements for the year ended December 31, 2010 and, in our report dated May 16, 2011, we expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of RAE's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of RAE as of December 31, 2011, and its change in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 6, 2012 on our consideration of RAE'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Gelman Rosenberg & Freedman

April 6, 2012

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RESTORE AMERICA'S ESTUARIES

STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2011
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2010

ASSETS

	2011	2010
CURRENT ASSETS		
Cash and cash equivalents	$ 159,170	$ 518,962
Investments (Note 2)	209,718	333,221
Accounts receivable	26,245	11,771
Grants receivable	139,273	344,481
Prepaid expenses	11,023	945
Total current assets	545,429	1,209,380
OTHER ASSETS		
Deposits	4,151	4,151
Investments, net of current portion (Note 2)	624,294	485,242
Total other assets	628,445	489,393
TOTAL ASSETS	**$ 1,173,874**	**$ 1,698,773**

LIABILITIES AND NET ASSETS

	2011	2010
CURRENT LIABILITIES		
Accounts payable	$ 126,268	$ 329,683
Accrued vacation	35,413	28,004
Deferred revenue	1,695	10,000
Total current liabilities	163,376	367,687
LONG-TERM LIABILITIES		
Deferred rent (Note 6)	19,132	18,815
Total liabilities	182,508	386,502
NET ASSETS		
Unrestricted	981,112	1,155,090
Temporarily restricted (Note 5)	10,254	157,181
Total net assets	991,366	1,312,271
TOTAL LIABILITIES AND NET ASSETS	**$ 1,173,874**	**$ 1,698,773**

See accompanying notes to financial statements.

RESTORE AMERICA'S ESTUARIES

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2011
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2010

	2011			2010
	Unrestricted	Temporarily Restricted	Total	Total
REVENUE				
Government grants (Notes 8 and 9)	$ 2,685,330	$ -	$ 2,685,330	$ 2,412,875
Grants and contributions (Note 10)	242,285	11,000	253,285	387,113
Conference	98,531	-	98,531	855,552
Investment income (Note 2)	15,197	-	15,197	15,728
Other revenue	-	-	-	5,595
Net assets released from donor restrictions (Note 5)	157,927	(157,927)	-	-
Total revenue	3,199,270	(146,927)	3,052,343	3,676,863
EXPENSES				
Program Services	3,233,783	-	3,233,783	3,293,860
Lobbying	279	-	279	4,029
Total program services	3,234,062	-	3,234,062	3,297,889
Supporting Services:				
General and Administrative	43,504	-	43,504	39,976
Fundraising	95,682	-	95,682	83,644
Total supporting services	139,186	-	139,186	123,620
Total expenses	3,373,248	-	3,373,248	3,421,509
Change in net assets	(173,978)	(146,927)	(320,905)	255,354
Net assets at beginning of year	1,155,090	157,181	1,312,271	1,056,917
NET ASSETS AT END OF YEAR	**$ 981,112**	**$ 10,254**	**$ 991,366**	**$ 1,312,271**

See accompanying notes to financial statements.

RESTORE AMERICA'S ESTUARIES

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2011
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2010

	2011		
	Program Services		
	Program Services	Lobbying	Total Program Services
Member support - Subgrants (Note 10)	$ 2,124,377	$ -	$ 2,124,377
Payroll-related costs (Note 7)	763,240	-	763,240
Marketing and advertising	2,464	-	2,464
Professional fees	96,136	-	96,136
National conference	24,030	-	24,030
Printing, reproduction and supplies	14,386	-	14,386
Postage and delivery	2,235	-	2,235
Communications	14,666	-	14,666
Meetings, conference and staff development	18,364	-	18,364
Office-related expense (Note 6)	84,235	-	84,235
Travel	88,227	279	88,506
Business-related costs	1,423	-	1,423
TOTAL	**$ 3,233,783**	**$ 279**	**$ 3,234,062**

				2010
Supporting Services				
General and Administrative	**Fundraising**	**Total Supporting Services**	**Total Expenses**	**Total Expenses**
$ -	$ -	$ -	$ 2,124,377	$ 1,836,332
11,050	87,063	98,113	861,353	833,302
-	1,500	1,500	3,964	2,944
24,805	340	25,145	121,281	161,489
-	-	-	24,030	382,193
-	157	157	14,543	6,669
-	181	181	2,416	2,056
-	-	-	14,666	15,812
288	2,017	2,305	20,669	11,612
1,733	45	1,778	86,013	84,619
1,742	-	1,742	90,248	75,192
3,886	4,379	8,265	9,688	9,289
$ 43,504	**$ 95,682**	**$ 139,186**	**$ 3,373,248**	**$ 3,421,509**

See accompanying notes to financial statements.

RESTORE AMERICA'S ESTUARIES

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2011
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2010

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (320,905)	$ 255,354
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Unrealized gain	(2,452)	(3,783)
(Increase) decrease in:		
Accounts receivable	(14,474)	(6,321)
Grants receivable	205,208	(230,466)
Prepaid expenses	(10,078)	14,582
(Decrease) increase in:		
Accounts payable	(203,415)	301,506
Accrued vacation	7,409	7,644
Deferred revenue	(8,305)	(26,550)
Settlement trust	-	(163,430)
Deferred rent	317	2,239
Net cash (used) provided by operating activities	(346,695)	150,775
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(205,097)	(210,970)
Maturity of investments	192,000	202,000
Net cash used by investing activities	(13,097)	(8,970)
Net (decrease) increase in cash and cash equivalents	(359,792)	141,805
Cash and cash equivalents, including restricted cash, at beginning of year	518,962	377,157
CASH AND CASH EQUIVALENTS	**$ 159,170**	**$ 518,962**

See accompanying notes to financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Restore America's Estuaries (RAE) was originally founded in 1995 as a joint project of eleven nonprofit, 501(c)(3), community-based conservation partners, working to save our coastal heritage. RAE's founding organizations cover nearly all the coastal regions of the United States and are working to protect and preserve the San Francisco, Chesapeake, Tampa, Narragansett, and Galveston Bays; the Long Island and Puget Sounds; the Gulf of Maine; the Hudson/Raritan and North Carolina coastal estuaries; and the Louisiana Bayou.

RAE's mission is to preserve the nation's network of estuaries by protecting and restoring the land and waters essential to the richness and diversity of life amidst these great coastal waters where the rivers meet the sea. To this end, RAE seeks to secure the protection and restoration of estuary habitat in America's more than 100 estuary systems.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with RAE's financial statements for the year ended December 31, 2010, from which the summarized information was derived.

Cash and cash equivalents -

RAE considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

At times during the year, RAE maintains cash balances at financial institutions in excess of the Federal Deposit Insurance Corporation (FDIC) limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their readily determinable fair value. Realized and unrealized gains and losses are included in investment income in the Statement of Activities and Change in Net Assets.

Accounts and grants receivable -

Accounts and grants receivable are stated at their net realizable value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Fixed assets -

Fixed assets in excess of $5,000 are capitalized and stated at cost. Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to five years. The cost of maintenance and repairs is recorded as expenses are incurred.

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

Income taxes -

RAE is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. RAE is not a private foundation.

Uncertain tax positions -

In June 2006, the Financial Accounting Standards Board (FASB) released FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes. For the year ended December 31, 2011, RAE has documented its consideration of FASB ASC 740-10 and determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements. The Federal Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the Internal Revenue Service, generally for three years after it is filed.

Deferred revenue -

Deferred revenue consists of conference and meeting registrations. RAE recognizes conference and meeting revenue when the related event has occurred.

Net asset classification -

The net assets are reported in two self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of RAE and include both internally designated and undesignated resources.

- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of RAE and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions.

Grants and contributions-

Unrestricted and temporarily restricted contributions and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Temporarily restricted contributions and grants received in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

RAE receives funding under grants from the U.S. Government for direct and indirect program costs. This funding is subject to contractual restrictions, which must be met through incurring qualifying expenses for particular programs. Accordingly, such grants are considered exchange transactions and are recorded as unrestricted income to the extent that related expenses are incurred in compliance with the criteria stipulated in the grant agreements.

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

Grants and contributions (continued) -

Grants receivable represents amounts due from funding organizations for reimbursable expenses incurred in accordance with the grant agreements. Grant funding received in advance of incurring the related expenses is recorded as a refundable advance.

Use of estimates -

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

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Risks and uncertainties -

RAE invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Fair value measurements -

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

2. INVESTMENTS

Investments consisted of the following at December 31, 2011:

	Fair Value
Certificates of deposit	$ 829,576
Money market	4,436
TOTAL INVESTMENTS	**$ 834,012**

2. INVESTMENTS (Continued)

Included in investment income are the following at December 31, 2011:

Interest	$ 12,745
Unrealized gain	2,452
TOTAL INVESTMENT INCOME	**$ 15,197**

3. FAIR VALUE MEASUREMENTS

In accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, RAE has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument. Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market RAE has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at December 31, 2011.

- *Money Market Funds* - Fair value is equal to the reported net asset value of the fund.
- *Certificates of Deposit* - Generally valued at original cost plus accrued interest, which approximates fair value.

The table below summarizes, by level within the fair value hierarchy, RAE's investments as of December 31, 2011:

	Level 1	**Level 2**	**Level 3**	**Total**
Asset Category:				
Certificates of deposit	$ -	$ 829,576	$ -	$ 829,576
Money market	4,436	-	-	4,436
TOTAL	**$ 4,436**	**$ 829,576**	**$ -**	**$ 834,012**

4. LINE OF CREDIT

RAE has two $20,000 lines of credit with Wachovia Bank. At December 31, 2011, amounts borrowed under these agreements bear interest at the bank's prime rate plus 25.99% and 21.99%, respectively. The lines are secured by cash and investments held in accounts at the same financial institution. As of December 31, 2011, there were no outstanding balances on either line.

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2011:

Carbon Project	**$ 10,254**

The following temporarily restricted net assets were released from donor restrictions by incurring expenses (or through the passage of time) which satisfied the restricted purposes specified by the donors:

Bayou Segnette Cypress Plantings Project	$ 80,000
National Tidal Wetlands Greenhouse Gas Offset Protocol Project	70,000
Gulf Oil Spill Contributions	7,181
Carbon Project	746
	$ 157,927

6. LEASE COMMITMENTS

On October 12, 2007, RAE entered into a 60-month lease, which expires on December 31, 2012. The lease calls for a 3% increase each year in rental expense, and a pro-rata share of the operating expenses and real estate taxes. In July 2009, RAE extended the current term of the lease by an additional 36-months.

Accounting principles generally accepted in the United States of America require that the total rent commitment should be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is recorded as a deferred rent liability in the Statement of Financial Position.

The following is a schedule of the future minimum lease payments:

Year Ended December 31,	
2012	$ 67,967
2013	70,006
2014	72,106
2015	74,269
	$ 284,348

Rent expense for the year ended December 31, 2011 was $77,102, and is included in office-related expenses in the Statement of Functional Expenses. The deferred rent liability was $19,132 at December 31, 2011.

7. RETIREMENT PLAN

RAE provides retirement benefits to its employees through a defined contribution plan covering all full-time employees with one year of eligible experience. RAE contributes 6.50% of gross wages. Contributions to the plan during the year ended December 31, 2011 totaled $39,463.

8. CONCENTRATION OF REVENUE

Approximately 88% of RAE's revenue for the year ended December 31, 2011 was derived from grants awarded by agencies of the Unites States Government. RAE has no reason to believe that relationships with these agencies will be discontinued in the foreseeable future. However, any interruption of these relationships (i.e., the failure to renew grant agreements or withholding of funds) would adversely affect RAE's ability to finance ongoing operations.

9. CONTINGENCY

RAE receives grants from various agencies of the United States Government. Such grants are subject to audit under the provisions of OMB Circular A-133. The ultimate determination of amounts received under the United States Government grants is based upon the allowance of costs reported to and accepted by the United States Government as a result of the audits. Audits in accordance with the provisions of OMB Circular A-133 have been completed for all required fiscal years through 2011. Until such audits have been accepted by the United States Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no material liability will result from such audits.

At December 31, 2011, RAE had $1,661,519 committed to its member affiliates for future periods. These commitments are contingent upon future funding and fulfillment of the terms of their agreements.

10. RELATED PARTY

RAE receives contributions from member affiliates for support of advocacy programs. The President, CEO, or other comparable position of these affiliates are members of RAE's Board of Directors. During the year ended December 31, 2011, RAE received $49,500. In addition, RAE paid subgrants to the member affiliates totaling $2,124,377.

11. SUBSEQUENT EVENTS

In preparing these financial statements, RAE has evaluated events and transactions for potential recognition or disclosure through April 6, 2012, the date the financial statements were issued.

GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL FINANCIAL INFORMATION

To the Board of Directors
Restore America's Estuaries
Arlington, Virginia

Our report on our audit of the basic financial statements of Restore America's Estuaries appears on page I-3. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedules of Expenditures of Federal Awards and Findings and Questioned Costs are presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Gelman Rosenberg & Freedman

April 6, 2012

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RESTORE AMERICA'S ESTUARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2011

Federal Granting Agency and Program Title	CFDA Number	Award Number	Expenditures
National Oceanic and Atmospheric Administration:			
Habitat Conservation	11.463	NA07NMF4630141	$ 866,749
Restoring Coastal Communities	11.463	NA10NMF4630090	1,694,512
Subtotal CFDA 11.463			**2,561,261**
United States Fish and Wildlife Service	16.630	94300-1-0035	25,000
United States Fish and Wildlife Service	15.630	98210-7-J020	58,084
United States Fish and Wildlife Service	15.630	80211-9-J101	29,000
Subtotal CFDA 15.630			**112,084**
United States Department of Agriculture:			
NRCS -Carbon	10.902	68-3A75-9-117	11,985
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$ 2,685,330**

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the Federal grant activity of RAE under programs of the Federal government for the year ended December 31, 2011. The information in the Schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of RAE, it is not intended to and does not present the financial position, changes in net assets or cash flows of RAE.

Note 2. Summary of Significant Accounting Policies

Expenditures reported in the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Note 3. Subrecipients

Of the Federal expenditures presented in the Schedule, RAE provided Federal awards to subrecipients as follows:

Program Name	CFDA	Amount Provided to Subrecipients Expenditures
National Oceanic and Atmospheric Administration	11.463	$ 1,926,728

RESTORE AMERICA'S ESTUARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011

Section I - Summary of Auditor's Results

Financial Statements

1). Type of auditor's report issued: **Unqualified**

2). Internal control over financial reporting:

- Material weakness(es) identified? ☐ **Yes** ☒ **No**
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ **Yes** ☒ **None Reported**

3). Noncompliance material to financial statements noted? ☐ **Yes** ☒ **No**

Federal Awards

4). Internal control over major programs:

- Material weakness(es) identified? ☐ **Yes** ☒ **No**
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ **Yes** ☒ **None Reported**

5). Type of auditor's report issued on compliance for major programs: **Unqualified**

6). Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? ☐ **Yes** ☒ **No**

7). Identification of major programs:

Federal Program Title	CFDA Number	Award Numbers	Expenditures
Habitat Conservation	11.463	NA07NMF4630141	$ 866,749
Restoring Coastal Communities	11.463	NA10NMF4630090	$ 1,694,512

8). Dollar threshold used to distinguish between Type A and Type B programs: **$300,000**

9). Auditee qualified as a low-risk auditee? ☒ **Yes** ☐ **No**

RESTORE AMERICA'S ESTUARIES

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2011**

Section II - Financial Statement Findings

There were no reportable findings.

Section III - Federal Award Findings and Questioned Costs (Circular A-133, Section .510)

There were no reportable findings.

Section IV - Prior Year Findings

There were no prior year findings.

GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Independent Auditor's Report

To the Board of Directors
Restore America's Estuaries
Arlington, Virginia

We have audited the financial statements of Restore America's Estuaries (RAE) as of and for the year ended December 31, 2011, and have issued our report thereon dated April 6, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the RAE is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered RAE's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RAE's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of RAE's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether RAE's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted certain matters that we reported to management of RAE in a separate letter dated April 6, 2012.

This report is intended solely for the information and use of management, the Board of Directors, others within Restore America's Estuaries, and Federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Gelman Rosenberg & Freedman

April 6, 2012

GELMAN, ROSENBERG & FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Restore America's Estuaries
Arlington, Virginia

Compliance

We have audited Restore America Estuaries (RAE) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of RAE's major federal programs for the year ended December 31, 2011. RAE's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of RAE's management. Our responsibility is to express an opinion on RAE's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about RAE's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on RAE's compliance with those requirements.

In our opinion, RAE complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2011.

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Internal Control Over Compliance

Management of RAE is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered RAE's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of RAE's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Gelman Rosenberg & Freedman

April 6, 2012