RESTORE AMERICA'S ESTUARIES

AUDIT REPORT

FINANCIAL AND FEDERAL AWARD COMPLIANCE EXAMINATION

FOR THE YEAR ENDED DECEMBER 31, 2012

RESTORE AMERICA'S ESTUARIES

CONTENTS

FINANCIAL STATEMENTS

RESTORE AMERICA'S ESTUARIES

FOR THE YEAR ENDED DECEMBER 31, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011

RESTORE AMERICA'S ESTUARIES

CONTENTS

GELMAN, ROSENBERG
& FREEDMAN
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Restore America's Estuaries (RAE) (a non-profit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities and change in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

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 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 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 RAE as of December 31, 2012, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

4550 MONTGOMERY AVENUE · SUITE 650 NORTH · BETHESDA, MARYLAND 20814
(301) 951-9090 · FAX (301) 951-3570 · WWW.GRFCPA.COM

Report on Summarized Comparative Information

We have previously audited RAE's 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 6, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Expenditures of Federal Awards on page I-16, as required by Office of Management and Budget Circular A-133, A*udits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated May 20, 2013 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 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 RAE's internal control over financial reporting and compliance.

Gelman Rosenberg & Freedman

Bethesda, Maryland
May 20, 2013

RESTORE AMERICA'S ESTUARIES

STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011

ASSETS

	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	$ 155,914	$ 159,170
Investments (Notes 2 and 3)	441,720	209,718
Accounts receivable	44,274	26,245
Grants receivable	71,500	139,273
Prepaid expenses	1,720	11,023
Total current assets	715,128	545,429
OTHER ASSETS		
Deposits	4,151	4,151
Investments, net of current portion (Notes 2 and 3)	400,543	624,294
Total other assets	404,694	628,445
TOTAL ASSETS	**$ 1,119,822**	**$ 1,173,874**

LIABILITIES AND NET ASSETS

	2012	2011
CURRENT LIABILITIES		
Accounts payable	$ 27,702	$ 126,268
Accrued vacation	40,154	35,413
Deferred revenue	-	1,695
Deferred rent (Note 6)	2,128	-
Total current liabilities	69,984	163,376
LONG-TERM LIABILITIES		
Deferred rent, net of current portion (Note 6)	-	19,132
Total liabilities	69,984	182,508
NET ASSETS		
Unrestricted	1,024,838	981,112
Temporarily restricted (Note 5)	25,000	10,254
Total net assets	1,049,838	991,366
TOTAL LIABILITIES AND NET ASSETS	**$ 1,119,822**	**$ 1,173,874**

RESTORE AMERICA'S ESTUARIES

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011

	2012			2011
	Unrestricted	Temporarily Restricted	Total	Total
REVENUE				
Government grants (Notes 8 and 9)	$ 2,449,292	$ -	$ 2,449,292	$ 2,685,330
Government contracts (Note 8)	117,209	-	117,209	21,493
Grants and contributions (Notes 8 and 10)	381,256	25,000	406,256	231,792
Conference	580,991	-	580,991	98,531
Investment income (Note 2)	7,996	-	7,996	15,197
Net assets released from donor restrictions (Note 5)	10,254	(10,254)	-	-
Total revenue	3,546,998	14,746	3,561,744	3,052,343
EXPENSES				
Program Services	3,386,470	-	3,386,470	3,233,783
Lobbying	-	-	-	279
Total program services	3,386,470	-	3,386,470	3,234,062
Supporting Services:				
General and Administrative	43,108	-	43,108	43,504
Fundraising	73,694	-	73,694	95,682
Total supporting services	116,802	-	116,802	139,186
Total expenses	3,503,272	-	3,503,272	3,373,248
Change in net assets	43,726	14,746	58,472	(320,905)
Net assets at beginning of year	981,112	10,254	991,366	1,312,271
NET ASSETS AT END OF YEAR	$ 1,024,838	$ 25,000	$ 1,049,838	$ 991,366

See accompanying notes to financial statements.

RESTORE AMERICA'S ESTUARIES

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011

	2012					2011
		Supporting Services				
	Program Services	General and Administrative	Fundraising	Total Supporting Services	Total Expenses	Total Expenses
Member support - subgrants (Note 10)	$ 1,989,910	$ -	$ -	$ -	$ 1,989,910	$ 2,124,377
Payroll - related costs (Note 7)	786,005	8,344	66,347	74,691	860,696	861,353
Marketing and advertising	60	-	-	-	60	3,964
Professional fees	84,845	25,656	170	25,826	110,671	121,281
National conference	351,681	-	-	-	351,681	24,030
Printing, reproduction and supplies	12,847	105	-	105	12,952	14,543
Postage and delivery	2,471	-	19	19	2,490	2,416
Communications	12,087	874	-	874	12,961	14,666
Meetings, conference and staff development	28,865	49	1,956	2,005	30,870	20,669
Office - related expense (Note 6)	69,273	1,873	90	1,963	71,236	86,013
Travel	47,926	2,571	17	2,588	50,514	90,248
Business - related costs	500	3,636	5,095	8,731	9,231	9,688
TOTAL	**$ 3,386,470**	**$ 43,108**	**$ 73,694**	**$ 116,802**	**$ 3,503,272**	**$ 3,373,248**

See accompanying notes to financial statements.

RESTORE AMERICA'S ESTUARIES

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2012
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 58,472	$ (320,905)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Unrealized loss (gain)	3,240	(2,452)
(Increase) decrease in:		
Accounts receivable	(18,029)	(14,474)
Grants receivable	67,773	205,208
Prepaid expenses	9,303	(10,078)
(Decrease) increase in:		
Accounts payable	(98,566)	(203,415)
Accrued vacation	4,741	7,409
Deferred revenue	(1,695)	(8,305)
Deferred rent	(17,004)	317
Net cash provided (used) by operating activities	8,235	(346,695)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(11,491)	(205,097)
Maturity of investments	-	192,000
Net cash used by investing activities	(11,491)	(13,097)
Net decrease in cash and cash equivalents	(3,256)	(359,792)
Cash and cash equivalents at beginning of year	159,170	518,962
CASH AND CASH EQUIVALENTS AT END OF YEAR	**$ 155,914**	**$ 159,170**

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, 2011, 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. Cash held for long term purposes is being recorded as investments in the on the Statement of Financial Position.

Through December 31, 2012, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") provided temporary unlimited deposit insurance coverage for non-interest bearing transaction accounts at all Federal Deposit Insurance Corporation (FDIC) insured depository institutions (the "Dodd-Frank Deposit Insurance Provision"). RAE maintained a portion of its cash balance at a financial institution in a non-interest bearing account; thereby, all of this cash balance was protected by the FDIC under this Act. Beginning January 1, 2013, funds deposited in non-interest bearing accounts will no longer receive unlimited deposit insurance coverage. Bank deposit accounts at one institution will be insured by the FDIC up to a limit of $250,000.

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.

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

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.

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, 2012, 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.

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

Grants and contributions (continued) -

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 and contracts 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 and contracts 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 and contract agreements.

Grants and contracts receivable represents amounts due from funding organizations for reimbursable expenses incurred in accordance with the grant and contract agreements. Grant and contract 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 measurement -

RAE adopted the provisions of FASB ASC 820, *Fair Value Measurement*.

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

Fair value measurement (continued) -

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.

Reclassification -

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation. These reclassifications had no effect on the previously reported changes in net assets.

2. INVESTMENTS

Investments consisted of the following at December 31, 2012:

	Fair Value
Certificates of deposit	$ 731,916
Money market	1,120
Fixed income	109,227
TOTAL INVESTMENTS	**$ 842,263**

Included in investment income are the following at December 31, 2012:

Interest	$ 11,236
Unrealized loss	(3,240)
TOTAL INVESTMENT INCOME	**$ 7,996**

3. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, 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.

3. FAIR VALUE MEASUREMENT (Continued)

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, 2012.

- *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.
- *Fixed income* - Valued at the closing price reported on the active market in which the individual securities are traded.

The table below summarizes, by level within the fair value hierarchy, RAE's investments as of December 31, 2012:

	Level 1	Level 2	Level 3	Total
Asset Category:				
Certificates of deposit	$ -	$ 731,916	$ -	$ 731,916
Money market	1,120	-	-	1,120
Fixed income	109,227	-	-	109,227
TOTAL	**$ 110,347**	**$ 731,916**	**$ -**	**$ 842,263**

4. LINE OF CREDIT

RAE has a $20,000 line of credit with Wells Fargo Bank. At December 31, 2012, amounts borrowed under this agreement bears interest at the bank’s prime rate plus 6.75%. The line is secured by cash and investments held in accounts at the same financial institution. As of December 31, 2012, there were no outstanding balance on the line.

5. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2012:

Wetlands Restoration	**$ 25,000**

5. TEMPORARILY RESTRICTED NET ASSETS (Continued)

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:

Carbon Project	**$ 10,254**

6. LEASE COMMITMENTS

On October 12, 2007, RAE entered into a 60-month lease, which expired on December 31, 2012. The lease called 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. Due to the landlord selling their building, RAE was forced to vacate the premises by March 31, 2013.

On March 11, 2013, RAE signed a new 60-month lease that commences on April 1, 2013. The lease calls for a 2.75% increase each year in rental expense, and a pro-rata share of the operating expenses and real estate taxes.

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 Ending December 31,	
2013	$ 57,568
2014	54,525
2015	56,024
2016	57,565
2017	59,148
Thereafter	14,887
	$ 299,717

Rent expense for the year ended December 31, 2012 was $64,780, and is included in office-related expenses in the Statement of Functional Expenses. The deferred rent liability was $2,128 at December 31, 2012.

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, 2012 totaled $35,422.

8. CONCENTRATION OF REVENUE

Approximately 72% of RAE's revenue for the year ended December 31, 2012 was derived from grants and contracts 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 2012. 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, 2012, RAE had $1,699,665 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, 2012, RAE received $49,500. In addition, RAE paid subgrants to the member affiliates totaling $1,989,910.

11. SUBSEQUENT EVENTS

In preparing these financial statements, RAE has evaluated events and transactions for potential recognition or disclosure through May 20, 2013, the date the financial statements were issued.

SUPPLEMENTAL INFORMATION

RESTORE AMERICA'S ESTUARIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012

Federal Granting Agency and Program Title	CFDA Number	Award Number	Expenditures
National Oceanic and Atmospheric Administration**:**			
Habitat Conservation	11.463	NA07NMF4630141	$ 242,379
Restoring Coastal Communities	11.463	NA10NMF4630090	2,188,330
Subtotal CFDA 11.463			**2,430,709**
United States Fish and Wildlife Service	15.630	98210-7-J020	1,249
United States Fish and Wildlife Service	15.630		17,334
Subtotal CFDA 15.630			**18,583**
TOTAL EXPENDITURES OF FEDERAL AWARDS			**$ 2,449,292**

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, 2012. 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
National Oceanic and Atmospheric Administration	11.463	$ 1,853,810

RESTORE AMERICA'S ESTUARIES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012

Section I - Summary of Auditor's Results

Financial Statements

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

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: **Unmodified**

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	$ 242,379
Restoring Coastal Communities	11.463	NA10NMF4630090	$ 2,188,330

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, 2012**

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.

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, in accordance with the 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, the financial statements of Restore America's Estuaries (RAE) as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise RAE's basic financial statements, and have issued our report thereon dated May 20, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered RAE's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances, for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of RAE's internal control. Accordingly, we do not express an opinion on the effectiveness of RAE's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of RAE's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

4550 MONTGOMERY AVENUE · SUITE 650 NORTH · BETHESDA, MARYLAND 20814
(301) 951-9090 · FAX (301) 951-3570 · WWW.GRFCPA.COM

Compliance and Other Matters

As part of obtaining reasonable assurance about whether RAE's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Gelman Rosenberg & Freedman

Bethesda, Maryland
May 20, 2013

**REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND
REPORT ON INTERNAL CONTROL OVER COMPLIANCE**

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited Restore America's Estuaries's (RAE) compliance with the types of compliance requirements described in the *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, 2012. RAE's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of RAE's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of RAE's compliance.

4550 MONTGOMERY AVENUE · SUITE 650 NORTH · BETHESDA, MARYLAND 20814
(301) 951-9090 · FAX (301) 951-3570 · WWW.GRFCPA.COM

Opinion on Each Major Federal Program

In our opinion, RAE complied, in all material respects, with the types of 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, 2012.

Report on Internal Control Over Compliance

Management of RAE is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered RAE's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Gelman Rosenberg & Freedman

Bethesda, Maryland
May 20, 2013