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<th>Page</th>
</tr>
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<td></td>
<td>1-2</td>
</tr>
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### FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Alliance for the Chesapeake Bay, Inc.
Annapolis, Maryland

Report on the Financial Statements

We have audited the accompanying statement of financial position of Alliance for the Chesapeake Bay, Inc. (a nonprofit organization) as of December 31, 2012, and the related statements of activities 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 Alliance for the Chesapeake Bay, Inc. as of December 31, 2012, 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 Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits 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 August 21, 2013, on our consideration of Alliance for the Chesapeake Bay, 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 or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Alliance for the Chesapeake Bay, Inc.'s internal control over financial reporting and compliance.

Anderson, Davis & Associates, CPA

Glen Burnie, Maryland
August 21, 2013
ALLIANCE FOR THE CHESAPEAKE BAY, INC.
STATEMENT OF FINANCIAL POSITION
December 31, 2012

ASSETS

Current assets
Cash $ 229,196
Grants receivable 215,629
Prepaid expenses 9,392
Total current assets 454,217

Equipment
Office equipment 14,638
Less: accumulated depreciation (14,638)
Total assets $ 454,217

LIABILITIES AND NET ASSETS

Current liabilities
Accounts payable $ 116,173
Accrued expenses 69,964
Total liabilities 186,137

Net assets
Unrestricted (240,250)
Temporarily restricted 508,330
268,080

Total liabilities and net assets $ 454,217

See independent auditor's report and accompanying notes to the financial statements.
### ALLIANCE FOR THE CHESAPEAKE BAY, INC.
#### STATEMENT OF ACTIVITIES
For the year ended December 31, 2012

<table>
<thead>
<tr>
<th></th>
<th>Unrestricted</th>
<th>Temporarily Restricted</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenues and other support:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants and contracts, government</td>
<td>$</td>
<td>$ 1,884,700</td>
<td>$ 1,884,700</td>
</tr>
<tr>
<td>Grants and contracts, private</td>
<td>-</td>
<td>794,754</td>
<td>794,754</td>
</tr>
<tr>
<td>Public support</td>
<td>152,987</td>
<td>-</td>
<td>152,987</td>
</tr>
<tr>
<td>Taste of the Chesapeake event</td>
<td>75,220</td>
<td>-</td>
<td>75,220</td>
</tr>
<tr>
<td>Investment loss, net</td>
<td>(75)</td>
<td>-</td>
<td>(75)</td>
</tr>
<tr>
<td><strong>Net assets released from restrictions (Note 7):</strong></td>
<td>2,658,003</td>
<td>(2,658,003)</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total revenues and other support</strong></td>
<td>2,886,135</td>
<td>21,451</td>
<td>2,907,586</td>
</tr>
</tbody>
</table>

| **Expenses and losses:** |              |                        |        |
| Programs                | 2,281,900    | -                       | 2,281,900 |
| Management and general  | 472,720      | -                       | 472,720 |
| Fundraising             | 52,307       | -                       | 52,307 |
| **Total expenses and losses** | 2,806,927 | -                       | 2,806,927 |

| **Change in net assets** | | | |
| Change in net assets     | 79,208       | 21,451                  | 100,659 |

| **Net assets, beginning of year** | | | |
| Net assets, beginning of year | (319,458) | 486,879 | 167,421 |

| **Net assets, end of year** | | | |
| Net assets, end of year | $ (240,250) | $ 508,330 | $ 268,080 |

See independent auditor's report and accompanying notes to the financial statements.

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ALLIANCE FOR THE CHESAPEAKE BAY, INC.
STATEMENT OF CASH FLOWS
For the year ended December 31, 2012

Cash flows from operating activities:
Change in net assets $ 100,659
Adjustments to reconcile change in net assets to net cash provided by operating activities:
Changes in assets and liabilities:
(Increase) decrease in:
Contributions receivable 20,000
Grants receivable (98,536)
Prepaid expenses (9,392)
Increase in:
Accounts payable 72,062
Accrued expenses 15,508
Net cash provided by operating activities 100,301

Cash flows from financing activities:
Repayments of loan payable (37,910)
Net cash used in financing activities (37,910)

Net increase in cash 62,391
Cash, beginning of year 166,805
Cash, end of year $ 229,196

Supplementary Information:
Interest paid $ -
Taxes paid $ -

See independent auditor's report and accompanying notes to the financial statements.

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NOTES TO THE FINANCIAL STATEMENTS

Note 1. ORGANIZATION AND PURPOSE

Alliance for the Chesapeake Bay, Inc. (the Organization) was incorporated in Maryland in August 1973 and was formed to serve as a neutral forum where Bay-related issues may be analyzed and considered, for the purpose of providing its membership, responsible officials, and the public with a basis for making informed decisions concerning the management of the resources of the Chesapeake Bay. Alliance for the Chesapeake Bay, Inc. is a nonstock, nonprofit entity.

The Organization’s mission statement states:

The Alliance for the Chesapeake Bay, Inc. is a regional non-profit organization that brings together individuals, organizations, businesses, and governments to find collaborative solutions, to build a strong commitment to stewardship, and to deliver innovative, broadly-supported programs that benefit the land, waters, and residents of the Chesapeake Bay watershed.

Founded in 1971, the Alliance for the Chesapeake Bay, Inc. is funded by individuals, businesses, governments, and private foundations. The Alliance maintains offices in Annapolis, Maryland, Richmond, Virginia, and Camp Hill, Pennsylvania.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting
The Organization 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
Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification. Under these recommendations, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations and consist of undesignated funds, which are resources available for the support of the Organization’s general operations, and designated funds, or resources designated by the Organization’s Board of Directors for a particular use.

Temporarily restricted net assets – Net assets whose use has been limited by donors to a specific time period and/or purpose. When the donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – The principal amounts of gifts which are required by donors to be permanently retained.

The Organization has no permanently restricted net assets.
NOTES TO THE FINANCIAL STATEMENTS

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Income Taxes
The Organization 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 Organization are tax deductible under Section 170 of the Internal Revenue Code.

The Organization adopted the recommendations of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) for Accounting of Uncertainty in Income Taxes without any material effect to the financial statements. 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 Organization has analyzed tax positions taken for filing with the Internal Revenue Service and all state jurisdictions where it operates. The Organization 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 Organization's financial condition, results of operations or cash flows. Accordingly, the Organization has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at December 31, 2012.

Donated Services and Goods
The Organization receives a substantial amount of volunteer service hours, for which it maintains records, but management has not recorded such hours and related dollar amounts in the financial statements due to such amounts not meeting U.S. generally accepted accounting principles criteria for recording. Donated items, such as food or other tangible property, are recorded at fair value when received.

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.

Grants Receivable
Grants receivable at December 31, 2012 consist mainly of grants and contracts earned, but not yet received. No allowance for uncollectible accounts has been recorded at December 31, 2012, due to any potential uncollectible amounts determined by management as immaterial.
Allocation of Expenses
The Organization records expenses, both direct and indirect, according to their functional
classification as programs, management and general, or fundraising as determined by time
recording methods and in accordance with appropriate grants or contracts.

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 Organization 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, temporarily restricted net assets are reclassified to
unrestricted net assets and reported in the statement of activities as net assets released from
restrictions.

The Organization 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.

Subsequent Events
The Organization has evaluated events and transactions for potential recognition or
disclosure through August 21, 2013, the date the financial statements were available to be
issued.

In December 2011, the Office of Inspector General (OIG) of the U.S Department of
Environmental Protection Agency (EPA) issued a draft report titled Examination of Costs
Claimed Under EPA Cooperative Agreements CB-97324701 Through CB-97324705 Awarded
to Alliance for the Chesapeake Bay, Inc. In this report, EPA questioned Alliance project costs
of approximately $1.3 million relating to procurement and financial management requirements
of the Code of Federal Regulations.

The Alliance completed its work with EPA Region III, to resolve all issues raised in EPA OIG
Audit Report No. 12-4-0720 (described above). A reimbursement payment of $10,149
relating to a grant that closed in 2010 will be made to the EPA Finance Center and the
Alliance has agreed to make certain revisions in its procurement and internal policies and
procedures guidance. As a result, the Alliance will not file an objection to the final resolution
and the matter is expected to be closed by the end of August 2013 and such payment is to be
recorded in Alliance's financial statements at that time.

Note 3. PROPERTY AND EQUIPMENT

Property and equipment is stated at cost. The Organization chooses to capitalize fixed asset
additions of $10,000 and greater. Depreciation is provided on the straight-line method over
the estimated useful life of the asset. Office equipment is depreciated over a useful life of 5
years. There was no depreciation expense recorded in 2012 as all assets have been fully
depreciated.
Note 4. **RETIREMENT PLAN**

The Organization has a 403(b)(7) retirement plan whereby eligible employees can contribute to his or her own custodial account, through salary reduction, with certain limitations, as outlined in the Plan document. The Organization incurred no expense during 2012 related to the Plan.

Note 5. **RENTAL COMMITMENTS**

In October 2010, the Organization entered into a lease agreement to rent office space in Annapolis, Maryland for $4,883 a month, with an annual increase of 3%. The lease expires December 2015. The Organization rents office space in Pennsylvania for $1,000 a month. The lease has been renewed through May 2016, and rent increases to $1,100 starting on the renewal date of June 1, 2013. The Organization also rents office space in Virginia for $1,584 a month with no annual increase, set to expire in October 31, 2013.

Total rent expense on these leases for 2012 was $88,693. Future minimum lease payments are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>$113,880</td>
</tr>
<tr>
<td>2014</td>
<td>$101,106</td>
</tr>
<tr>
<td>2015</td>
<td>$103,710</td>
</tr>
<tr>
<td>2016</td>
<td>$  5,500</td>
</tr>
</tbody>
</table>

Note 6. **TEMPORARILY RESTRICTED NET ASSETS**

Temporarily restricted net assets at December 31, 2012 are available for the following purposes:

Various federal, state and private agency programs  $508,330

Note 7. **NET ASSETS RELEASED FROM RESTRICTIONS**

During the year ended December 31, 2012, net assets were released from donor/grantor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors/grantors.

Purpose restrictions accomplished:

Various expenses related to performance of federal, state and private agency programs  $2,658,003
Note 8. **CONCENTRATION OF REVENUES**

During the year ended December 31, 2012, the Organization recognized revenues from United States Environmental Protection Agency of approximately $1,233,320 for program services performed. This represents 42% of all revenues recognized by the Organization as a whole in 2012.

The Organization receives grants from various agencies of the U.S. Government. Such grants are subject to audit under the provisions of OMB Circular A-133. The ultimate determination of amounts received under the U.S. Government grants is based upon the allowance of costs reported to and accepted by the U.S. Government. Audits in accordance with the provisions of OMB Circular A-133 have been completed for the Organization for all required years through 2012. Until such audits have been accepted by the U.S. Government, there exists a contingency to refund any amount received in excess of allowable costs. Management is of the opinion that no additional material liability will result from such audits.

Note 9. **LOAN PAYABLE**

The Organization has a line of credit agreement with a bank for an amount up to $115,000. This line of credit is renewable each year by verbal agreement. As of December 31, 2012, there was no balance on the line of credit. The line of credit is secured by all personal property of the Organization and is payable on demand. Interest is due monthly at prime plus two percent. The interest rate was 5.25% as of December 31, 2012. Total interest expense for the years ended December 31, 2012 was $0.
SUPPLEMENTARY INFORMATION
<table>
<thead>
<tr>
<th>Federal Direct Grantor/Pass-Through Grantor</th>
<th>Program or Cluster Title</th>
<th>CFDA Number</th>
<th>Pass-Through Entity Number/Identifying Grant Number</th>
<th>Federal Expenditures</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Environmental Protection Agency (EPA):</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Region III</td>
<td>Circuit Rider (Note 3)</td>
<td>66.466</td>
<td>CB97375801-0</td>
<td>$34,198</td>
</tr>
<tr>
<td>Region III</td>
<td>Local Government Advisory Committee Coordination</td>
<td>66.466</td>
<td>CB97375701-0</td>
<td>144,862</td>
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<tr>
<td>Region III</td>
<td>Chesapeake Bay Program</td>
<td>66.466</td>
<td>CB97383602</td>
<td>76,942</td>
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<tr>
<td>Region III</td>
<td>Chesapeake Bay Program Support</td>
<td>66.466</td>
<td>CB97324705-0</td>
<td>386,891</td>
</tr>
<tr>
<td>National Fish &amp; Wildlife Foundation</td>
<td>Reedy Creek Stewardship</td>
<td>66.466</td>
<td>2009-0055-020</td>
<td>81,463</td>
</tr>
<tr>
<td>National Fish &amp; Wildlife Foundation</td>
<td>Watershed Forum</td>
<td>66.466</td>
<td>2010-0912-002</td>
<td>62,021</td>
</tr>
<tr>
<td>National Fish &amp; Wildlife Foundation</td>
<td>Greening of Virginia</td>
<td>66.466</td>
<td>1544-PO-2</td>
<td>5,451</td>
</tr>
<tr>
<td>National Fish &amp; Wildlife Foundation</td>
<td>Cumberland County MS4</td>
<td>66.466</td>
<td>0600.12.036312</td>
<td>10,935</td>
</tr>
<tr>
<td>National Fish &amp; Wildlife Foundation</td>
<td>Conococheague Creek Riparian Buffer</td>
<td>66.466</td>
<td>0602.12.033781</td>
<td>672</td>
</tr>
<tr>
<td>National Fish &amp; Wildlife Foundation</td>
<td>Chesapeake Watershed Network</td>
<td>66.466</td>
<td>2010-0912-002</td>
<td>12,436</td>
</tr>
<tr>
<td>National Fish &amp; Wildlife Foundation</td>
<td>2012 Stormwater Partners Retreat</td>
<td>66.466</td>
<td>2010-0912-002</td>
<td>28,238</td>
</tr>
<tr>
<td>National Fish &amp; Wildlife Foundation</td>
<td>Brightbill Park</td>
<td>66.466</td>
<td>2010-0067-012</td>
<td>100,969</td>
</tr>
<tr>
<td>DC Department of the Environment</td>
<td>PerviousPaver and Rain Garden Rebate Program</td>
<td>66.466</td>
<td>11G-11-MS4/BB-ACB/WPD14</td>
<td>8,913</td>
</tr>
<tr>
<td>DC Department of the Environment</td>
<td>ARRA - Riversmart Homes Grant</td>
<td>66.466</td>
<td>11G-11-MS4/BB-ACB/WPD8</td>
<td>660,712</td>
</tr>
<tr>
<td>National Fish &amp; Wildlife Foundation</td>
<td>Cedar Run</td>
<td>66.606</td>
<td>2009-0054-026</td>
<td>16,204</td>
</tr>
<tr>
<td>National Fish &amp; Wildlife Foundation</td>
<td>Chesapeake Riverwise Communities</td>
<td>66.606</td>
<td>0602.12.033855</td>
<td>9,710</td>
</tr>
<tr>
<td>National Fish &amp; Wildlife Foundation</td>
<td>2012 Watershed Forum</td>
<td>66.606</td>
<td>9922.10.026522</td>
<td>77,197</td>
</tr>
<tr>
<td>National Fish &amp; Wildlife Foundation</td>
<td>Lemoynne Rain Gardens</td>
<td>66.606</td>
<td>0600.12.038316</td>
<td>2,109</td>
</tr>
<tr>
<td>U.S. Department of Agriculture:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>National Fish &amp; Wildlife Foundation</td>
<td>Fish Survey Interns</td>
<td>10.678</td>
<td>511410-A-J034</td>
<td>6,276</td>
</tr>
<tr>
<td>National Fish &amp; Wildlife Foundation</td>
<td>Stormwater Retreat</td>
<td>10.678</td>
<td>2010-0912-002</td>
<td>929</td>
</tr>
<tr>
<td>National Fish &amp; Wildlife Foundation</td>
<td>Chesapeake Online Network</td>
<td>10.678</td>
<td>2008-0901-001</td>
<td>2,289</td>
</tr>
<tr>
<td>Forest Service</td>
<td>Year of the Forest Outreach</td>
<td>10.678</td>
<td>10-DG-11420004</td>
<td>1,502</td>
</tr>
<tr>
<td>Forest Service</td>
<td>Real Forestry for Real Estate</td>
<td>10.678</td>
<td>12-DG-11420004-081</td>
<td>13,552</td>
</tr>
<tr>
<td>Forest Service</td>
<td>Conservation Innovation Grant</td>
<td>10.678</td>
<td>69-3A75-12-203</td>
<td>19,057</td>
</tr>
<tr>
<td>Forest Service</td>
<td>Urban Tree Canopy, Social Marketing Initiative</td>
<td>10.678</td>
<td>12-DG-11420004-082</td>
<td>1,194</td>
</tr>
<tr>
<td>Forest Service</td>
<td>Forestry for the Bay - Phase V</td>
<td>10.678</td>
<td>06-DG-099</td>
<td>52,040</td>
</tr>
<tr>
<td>Forest Service</td>
<td>Forestry for the Bay - Phase VI</td>
<td>10.678</td>
<td>12-DG-11420004-215</td>
<td>42,796</td>
</tr>
<tr>
<td>Total Expenditures of Federal Awards</td>
<td></td>
<td></td>
<td></td>
<td>$1,859,558</td>
</tr>
</tbody>
</table>

The accompanying notes to the schedule of expenditures of federal awards are an integral part of this schedule.
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1. *Basis of Presentation*

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Alliance for the Chesapeake Bay, Inc. (the Organization) under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of 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 the Organization, it is not intended to and does not present the statement of financial position, changes in net assets, or cash flows of the Organization.

Note 2. *Summary of Significant Accounting Policies*

Expenditures reported on 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 of 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 this schedule, the Organization provided federal awards to subrecipients as follows:

<table>
<thead>
<tr>
<th>CFDA Number</th>
<th>Program Name</th>
<th>Amount Provided to Subrecipients</th>
</tr>
</thead>
<tbody>
<tr>
<td>66.466</td>
<td>Circuit Rider</td>
<td>$17,000</td>
</tr>
</tbody>
</table>
INDEPENDENT AUDITOR’S 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

Board of Directors
Alliance for the Chesapeake Bay, Inc.
Annapolis, Maryland

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial statements in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Alliance for the Chesapeake Bay, Inc. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2012, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated August 21, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Alliance for the Chesapeake Bay, Inc.’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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Alliance for the Chesapeake Bay, Inc.’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization'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 the entity’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 material weaknesses. However, material weakness may exist that have not been identified.
Compliance and Other Matters

As part of obtaining reasonable assurance whether Alliance for the Chesapeake Bay, Inc.'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 these 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 on 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 Organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Glen Burnie, Maryland
August 21, 2013
INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133

Board of Directors
Alliance for the Chesapeake Bay, Inc.
Annapolis, Maryland

Report on Compliance for Each Major Program

We have audited Alliance for the Chesapeake Bay, Inc.’s 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 Alliance for the Chesapeake Bay, Inc.’s major federal programs for the year ended December 31, 2012. Alliance for the Chesapeake Bay, Inc.’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 program.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of Alliance for the Chesapeake Bay, Inc.’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 Alliance for the Chesapeake Bay, Inc.’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 Alliance for the Chesapeake Bay, Inc.’s compliance.
Opinion on Each Major Federal Program

In our opinion, Alliance for the Chesapeake Bay, Inc. 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 Alliance for the Chesapeake Bay, Inc. 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 Alliance for the Chesapeake Bay, Inc.’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 expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Alliance for the Chesapeake Bay, Inc.’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 may 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.

Anderson, Davis & Associates

Glen Burnie, Maryland
August 21, 2013
Finding 11-1 - Subrecipient Requirements:

**Summary identification of finding** - The Organization awarded subawards to various organizations during 2011. In our review of the Organization's subrecipient award documents, it was noted the agreements did not include required award information. It was also noted subrecipient monitoring procedures being performed were not documented to support compliance with subrecipient monitoring requirements. (Questioned costs - N/A)

Current Status: In 2012, the Organization sent to subrecipients amendments to the original subrecipient award documents made prior to 2012. These documents contained updated required wording as noted in OMB Circular A-133, Section 400(d) relating to award information. Also, subrecipient monitoring procedures were properly documented by program managers in 2012. There were no new subrecipients awarded in 2012.
Alliance for the Chesapeake Bay, Inc.
Schedule of Findings and Questioned Costs
Year Ended December 31, 2012

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
  Material weaknesses identified? yes X no
  Significant deficiency identified not considered to be material weakness? yes X none reported

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major programs:
  Material weaknesses identified? yes X no
  Significant deficiency identified that is not considered to be material weakness? yes X none reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? yes X no

Identification of major programs:

<table>
<thead>
<tr>
<th>CFDA Number</th>
<th>Name of Federal Program or Cluster</th>
</tr>
</thead>
<tbody>
<tr>
<td>66.466</td>
<td>U.S. Environmental Protection Agency, Region III, as passed through from District of Columbia Department of the Environment and National Fish and Wildlife Foundation</td>
</tr>
</tbody>
</table>

Dollar threshold used to distinguish between Type A and Type B Programs: $300,000

Auditee qualified as low-risk auditee? yes X no
Alliance for the Chesapeake Bay, Inc.

Schedule of Findings and Questioned Costs (continued)
Year Ended December 31, 2012

Section II - Financial Statement Findings

No current year findings.

Section III - Federal Award Findings and Questioned Costs

No current year findings.