

**NAUTILUS OF AMERICA, INC.**

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**FINANCIAL STATEMENTS**

**JUNE 30, 2007**

**WITH**

**INDEPENDENT AUDITORS' REPORT**

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# NAUTILUS OF AMERICA, INC.

**JUNE 30, 2007**

## CONTENTS

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	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statement of Financial Position June 30, 2007 With Comparative Totals as of June 30, 2006	2
Statement of Activities and Changes in Net Assets For the Year Ended June 30, 2007 With Comparative Totals for the Year Ended June 30, 2006	3
Statement of Functional Expenses For the Year Ended June 30, 2007 With Comparative Totals for the Year Ended June 30, 2006	4
Statement of Cash Flows For the Year Ended June 30, 2007 With Comparative Totals for the Year Ended June 30, 2006	5
NOTES TO FINANCIAL STATEMENTS	6
INDEPENDENT AUDITORS' REPORTS	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	11



VAVRINEK, TRINE, DAY  
& COMPANY, LLP  
*Certified Public Accountants*

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## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Nautilus of America, Inc.  
San Francisco, California

We have audited the accompanying statement of financial position of Nautilus of America, (A Nonprofit Corporation) as of June 30, 2007 and the related statements of activities, cash flows, and functional expenses for the year then ended. The financial statements are the responsibility of the Organization'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 the Organization's 2006 financial statements and, in our report, dated June 3, 2008; we expressed an unqualified opinion on those financial 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 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 Nautilus of America as of June 30, 2007, and the changes in its 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 a report dated September 3, 2009, on our consideration of Nautilus of America's internal control over financial reporting and 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 conjunction with this report in assessing the results of our audit.

*Vavrinek, Trine, Day & Co LLP*

Pleasanton, California  
September 3, 2009

**NAUTILUS OF AMERICA, INC.**

**STATEMENT OF FINANCIAL POSITION**

**JUNE 30, 2007**

**WITH COMPARATIVE TOTALS AS OF JUNE 30, 2006**

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ASSETS	<u>2007</u>	<u>2006</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,482,183	\$ 1,699,676
Promise to give	70,000	420,000
Total current assets	<u>1,552,183</u>	<u>2,119,676</u>
<b>OTHER ASSETS</b>		
Life insurance surrender value	<u>130,000</u>	<u>130,000</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,682,183</u>	<u>\$ 2,249,676</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 72,279	\$ 1,378
Accrued payroll expenses	91,214	122,723
Total current liabilities	<u>163,493</u>	<u>124,101</u>
Total liabilities	<u>163,493</u>	<u>124,101</u>
<b>NET ASSETS</b>		
Unrestricted		
Designated	645,607	645,607
Undesignated	593,348	732,782
Total unrestricted	<u>1,238,955</u>	<u>1,378,389</u>
Temporarily restricted	279,735	747,186
Total net assets	<u>1,518,690</u>	<u>2,125,575</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 1,682,183</u>	<u>\$ 2,249,676</u>

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

**NAUTILUS OF AMERICA, INC.**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2007  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2007 Total</u>	<u>2006 Total</u>
<b>SUPPORT AND REVENUE</b>				
Government grants	\$ -	\$ 120,000	\$ 120,000	\$ 98,000
Foundation grants	60,232	99,282	159,514	484,311
Individual and corporate donations	-	-	-	3,600
Program fees	12,586	-	12,586	1,330
In kind donations	-	-	-	140,000
Other income	-	-	-	7,154
Interest income	44,951	-	44,951	27,673
Satisfaction of program restrictions	686,733	(686,733)	-	-
Total support and revenue	<u>804,502</u>	<u>(467,451)</u>	<u>337,051</u>	<u>762,068</u>
<b>EXPENSES</b>				
<b>Program expenses</b>				
Peace and security	532,434	-	532,434	504,144
Energy futures and security	26,065	-	26,065	25,620
Information services	147,734	-	147,734	89,365
Total program expenses	<u>706,233</u>	<u>-</u>	<u>706,233</u>	<u>619,129</u>
<b>Supporting expenses</b>				
Administration	237,703	-	237,703	240,236
Total support expenses	<u>237,703</u>	<u>-</u>	<u>237,703</u>	<u>240,236</u>
Total expenses	<u>943,936</u>	<u>-</u>	<u>943,936</u>	<u>859,365</u>
Change in net assets	(139,434)	(467,451)	(606,885)	(97,297)
NET ASSETS, Beginning of Year	<u>1,378,389</u>	<u>747,186</u>	<u>2,125,575</u>	<u>2,222,872</u>
NET ASSETS, End of Year	<u>\$ 1,238,955</u>	<u>\$ 279,735</u>	<u>\$ 1,518,690</u>	<u>\$ 2,125,575</u>

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

NAUTILUS OF AMERICA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2007

WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2006

	Peace and Security	Energy Futures and Security	Information Services	Total Program Expenses	Administration	Total Supporting Services	2007 Total Expenses	2006 Total Expenses
Salaries	\$ 69,446	\$ 18,466	\$ 104,669	\$ 192,581	\$ 130,053	\$ 130,053	\$ 322,634	\$ 273,082
Employee benefits	12,286	3,267	18,517	34,070	25,859	25,859	59,929	55,374
Payroll taxes	4,207	1,119	6,340	11,666	8,854	8,854	20,520	95,998
Miscellaneous	-	-	-	-	963	963	963	8,500
Professional fees	2,767	736	4,170	7,673	500	500	8,173	28,973
Legal and accounting	-	-	-	-	5,324	5,324	5,324	6,948
Occupancy	-	-	-	-	816	816	816	140,544
Supplies	6,106	1,624	9,204	16,934	14,228	14,228	31,162	10,666
Telephone	734	195	1,106	2,035	1,544	1,544	3,579	1,645
Postage	-	-	-	-	261	261	261	542
Printing	-	-	-	-	1,914	1,914	1,914	525
Event costs	434,415	-	-	434,415	-	-	434,415	222,914
Lodging and travel	-	-	-	-	14,587	14,587	14,587	336
Dues and subscription	-	-	-	-	25,266	25,266	25,266	2,342
Insurance	2,473	658	3,728	6,859	5,207	5,207	12,066	9,550
Bank charges	-	-	-	-	2,327	2,327	2,327	1,426
	<u>\$ 532,434</u>	<u>\$ 26,065</u>	<u>\$ 147,734</u>	<u>\$ 706,233</u>	<u>\$ 237,703</u>	<u>\$ 237,703</u>	<u>\$ 943,936</u>	<u>\$ 859,365</u>

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

**NAUTILUS OF AMERICA, INC.**

**STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2007  
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2006**

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	<u>Total</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (606,885)	\$ (97,297)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
(Increase) decrease in		
Promise to give	350,000	250,189
Life insurance surrender value	-	(7,154)
Increase (decrease) in		
Accounts payable	70,901	(73,239)
Accrued payroll expenses	<u>(31,509)</u>	<u>62,578</u>
Net cash provided by operating activities	<u>(217,493)</u>	<u>135,077</u>
 NET INCREASE IN CASH	 (217,493)	 135,077
 CASH AND CASH EQUIVALENTS, Beginning of Year	 <u>1,699,676</u>	 <u>1,564,599</u>
 CASH AND CASH EQUIVALENTS, End of Year	 <u>\$ 1,482,183</u>	 <u>\$ 1,699,676</u>

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

# NAUTILUS OF AMERICA, INC.

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

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### *NOTE #1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

#### **Nature of Activities**

Nautilus of America's (the Organization) vision is a peaceful, ethical, and sustainable world. The Organization applies and refines the strategic tools of cooperative engagement in order to build global security and sustainability. The Organization is supported primarily through grants from private foundations and government entities.

#### **Basis of Accounting**

The financial statements of Nautilus of America have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

#### **Financial Statement Presentation**

The Organization presents the financial statements in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, 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. In addition, the Organization is required to present a Statement of Cash Flows. The Organization has chosen to continue its use of fund accounting and has reclassified its financial statements (including fund balances) to present the required three classes of net assets.

#### **Description of Program and Supporting Services**

The following program and supporting services are included in the accompanying financial statements:

##### *Peace and Security*

The Peace and Security program identifies ways to avoid and resolve conflicts without resorting to force or war, with particular emphasis on Northeast Asia. Nautilus of America's staff travels to the Asia-Pacific region frequently and have particular expertise on North Korea. Research concentrates on: arms control and disarmament measures for nuclear weapons in the region; nuclear non proliferation in East Asia; confidence-building between states and institutions, as exemplified in the US-DPRK Village Wind Power Project. The projects include: 1) the Northeast Asia Peace and Security Network (NAPSNet) Daily Report, Week in Review, Special Reports and Policy Forum, which serves a transnational electronic network launched in November 1993. It includes 3,000 readers including non-proliferation specialists, regional security experts, and non-governmental organizations from Northeast Asia and North America; 2) The US-DPRK briefing Book, an online resource center for policy analysts, the Administration, international community, media and public at large.



# NAUTILUS OF AMERICA, INC.

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

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### *Energy Futures and Security*

Energy futures and security is developing a new operational paradigm of energy security for states in the Northeast Asian region by engaging key energy analysts and planners in the region in collaborative conceptual and applied work with American counterparts. This calculus evaluates the costs and benefits of insurance strategies and technological and geographical supplier diversification (adopted to counter perceived vulnerability to supply disruption) versus the probability and costs/benefits of supply cutoff. The calculus accounts for environmental and security externalities in addition to economic costs and benefits associated with particular fuel cycles and energy paths. Perceived vulnerability to energy supply cutoff is a major driving variable behind national commitments to plutonium and nuclear power in the Northeast Asian region. The major current activities include the GRID Project and the East Asia Energy Security Project. The East Asia Energy Security Project focus is on modeling energy strategies in each East Asian country using Long Range Energy Alternative Path (LEAP) Software and then aggregating these models to chart "Scenarios" for cooperation and sustainable energy development strategies.

### *Information Services*

Networking, Mapping, Modular Email and News and Information Services: The uncertainties created by these security dilemmas highlight the need for inter-regional communication to create "consensual knowledge" a basic agreement on the most significant relevant facts, although not necessarily on interpretations of those facts. Without consensual knowledge, perceptions tend to be formed based on incorrect or incomplete information.

NAPSNET- To meet this need, in 1993 Nautilus of America founded the Northeast Asia Peace and Security Network (NAPSNet) to provide information and analysis via the internet on security and nonproliferation issues in Northeast Asia to a growing number of government officials, scholars, journalists, students, activists, and business people and other interested persons throughout the region. This service includes the Daily Report, the Week In Review, Policy Forum and Special Reports.

### *Administration*

Functions necessary to maintain the program to ensure an adequate working environment; provide coordination and articulation of the Organization's program strategy through the Executive Director, secure proper administrative functioning of the Board of Directors; and manage the financial and budgetary responsibilities of the Organization. This also includes sublease activities with the subtenants at 125 University and media outreach and coordination.

### **Donated Assets**

Donated marketable securities and other noncash donations are recorded as contributions at their estimated fair values at the date of donation.

# NAUTILUS OF AMERICA, INC.

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

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### **Donated Property and Equipment**

Donations of property and equipment are recorded as donations at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

### **Donated Services and Goods**

Donated services and goods are reflected in the financial statements at the fair value of the services received. The donations of services, including advertising services, are recognized if the services received (a) create or enhance nonfinancial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. Donation of goods are recognized if the value of the goods can be reasonably estimated. No in kind donated services were received during the year ended June 30, 2007. During the year ended June 30, 2006, the organization received the use of office space at University of Australia at no charge. This space was valued at \$135,000 per year and was used for peace and security program operations. In addition, other in kind services totaling \$5,000 for tuition discounts for administration employees as received during the year ended June 30, 2006.

### **Income Taxes**

The Organization is exempt from Federal and State income taxes under Internal Revenue Code Section 501(c)(3) and therefore has made no provision for income taxes.

### **Promise to Give**

The promise to give receivable consists of amounts awarded by grantors where payment has not been received as of the end of the year. The Organization computes the allowance for doubtful accounts based on actual uncollectible accounts receivable. Uncollectible accounts over the history of the Organization have been considered immaterial and inconsistent. Therefore, no amounts have been included for an allowance for doubtful accounts.

### **Functional Allocation of Expenses**

The costs of providing the Organization's various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

# NAUTILUS OF AMERICA, INC.

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

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### Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all unrestricted cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

### Estimates

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

### Property and Equipment

All acquisitions of property and equipment and all expenditures for repairs, maintenance, renewals, and betterments that materially prolongs the useful lives of assets are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method.

### Interest and Taxes

During the year the Organization paid no interest or taxes.

### NOTE #2 PROMISE TO GIVE

At June 30, 2007, promises to give, net of a 6% discount rate, collectible within one year and in two to five years consisted of the following:

	One Year
Henry Luce Foundation	<u>\$ 70,000</u>

### NOTE #3 - SATISFACTION OF PROGRAM RESTRICTIONS

Temporarily restricted net assets were expended for the following purposes:

Peace and security	\$ 491,536
Energy future	<u>195,197</u>
Total	<u>\$ 686,733</u>

# NAUTILUS OF AMERICA, INC.

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

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### NOTE #4 – RESTRICTED NET ASSETS

At June 30, 2007, the Organization had the following restricted net assets:

#### *Purpose restricted*

Korea Foundation - Peace and security	\$ 48,771
U.S Department of Energy - Energy futures and security	160,964

#### *Time and purpose restricted*

Henry Luce Foundation - Peace and security	70,000
Total	<u>\$ 279,735</u>

### NOTE #5 – DESIGNATED NET ASSETS

The board of directors has established a reserve for future operations. The funds are held in a separate bank account with Wells Fargo and as of June 30, 2007, amounted to \$645,607.

### NOTE #6 - CONCENTRATIONS

The Organization maintains cash balances in excess of the FDIC limits. At June 30, 2007 the amount in excess of the FDIC limit was approximately \$1,400,000.

### NOTE #7 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Due to the short nature of their maturities, cash, accounts receivable, prepaid expenses, and accounts payable carrying amounts reflect their fair values.

### NOTE 8 - ANNUITY PLANS

The Organization purchases non-forfeitable annuities for employees participating in an annuity retirement plan. Employees are eligible to participate in the plan immediately upon hire. The organization contributes 5% of salary to individual accounts. No amounts were contributed during the year ended June 30, 2007.



VAVRINEK, TRINE, DAY  
& COMPANY, LLP  
*Certified Public Accountants*

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors  
Nautilus of America  
San Francisco, California

We have audited the financial statements of Nautilus of America (a nonprofit corporation) as of and for the year ended June 30, 2007, and have issued our report thereon dated September 3, 2009. 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**

In planning and performing our audit, we considered Nautilus of America's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of Nautilus of America (a nonprofit corporation) in a separate letter dated September 3, 2009.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Nautilus of America'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*.

This report is intended solely for the information and use of the board, management, others within the organization and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Vavrinek, Trine, Day & Co LLP*

Pleasanton, California  
September 3, 2009