INDEPENDENT AUDITORS’ REPORT

FINANCIAL STATEMENTS

Statement of Financial Position
June 30, 2011
With Comparative Totals as of June 30, 2010

Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2011
With Comparative Totals for the Year Ended June 30, 2010

Statement of Functional Expenses
For the Year Ended June 30, 2011
With Comparative Totals for the Year Ended June 30, 2010

Statement of Cash Flows
For the Year Ended June 30, 2011
With Comparative Totals for the Year Ended June 30, 2010

NOTES TO FINANCIAL STATEMENTS

INDEPENDENT AUDITORS’ REPORTS

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

SCHEDULE OF FINDINGS AND RESPONSES

SUMMARY SCHEDULE OF PRIOR FINDINGS
INDEPENDENT AUDITORS' REPORT

Board of Directors
Nautilus of America, Inc.
Berkeley, California

We have audited the accompanying statement of financial position of Nautilus of America, (A Nonprofit Corporation) as of June 30, 2011 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 2010 financial statements and, in our report, dated May 8, 2012; 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, 2011, 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 June 14, 2012, 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.

Pleasanton, California
June 14, 2012
### NAUTILUS OF AMERICA, INC

**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2011**  
**WITH COMPARATIVE TOTALS AS OF JUNE 30, 2010**

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CURRENT ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$1,249,805</td>
<td>$1,771,333</td>
</tr>
<tr>
<td>Promise to give</td>
<td>36,900</td>
<td>157,500</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>$1,286,705</td>
<td>$1,928,833</td>
</tr>
<tr>
<td><strong>OTHER ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Life insurance surrender value</td>
<td>130,000</td>
<td>130,000</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>$1,416,705</td>
<td>$2,058,833</td>
</tr>
</tbody>
</table>

| LIABILITIES AND NET ASSETS |        |        |
| **CURRENT LIABILITIES** |        |        |
| Accounts payable | $31,602 | $59,116 |
| Accrued payroll expenses | 129,506 | 175,928 |
| **Total current liabilities** | $161,108 | $235,044 |
| **Total liabilities** | $161,108 | $235,044 |

| **NET ASSETS** |        |        |
| Unrestricted |        |        |
| Designated | 720,000 | 720,000 |
| Undesignated | 333,697 | 594,600 |
| **Total unrestricted** | 1,053,697 | 1,314,600 |
| Temporarily restricted | 201,900 | 509,189 |
| **Total net assets** | 1,255,597 | 1,823,789 |

| TOTAL LIABILITIES AND NET ASSETS | $1,416,705 | $2,058,833 |

The accompanying notes are an integral part of these financial statements.
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, 2011
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2010

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, 2011
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30,

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

<table>
<thead>
<tr>
<th>CASH FLOWS FROM OPERATING ACTIVITIES</th>
<th>2011 Total</th>
<th>2010 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Change in net assets</td>
<td>$ (568,192)</td>
<td>$ (314,710)</td>
</tr>
<tr>
<td>Adjustments to reconcile change in net assets to net cash provided by operating activities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Promise to give</td>
<td>120,600</td>
<td>192,500</td>
</tr>
<tr>
<td>Life insurance surrender value</td>
<td>-</td>
<td>(13,903)</td>
</tr>
<tr>
<td>Increase (decrease) in</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>(27,514)</td>
<td>23,726</td>
</tr>
<tr>
<td>Accrued payroll expenses</td>
<td>(46,422)</td>
<td>59,233</td>
</tr>
<tr>
<td>Net cash used by operating activities</td>
<td>(521,528)</td>
<td>(53,154)</td>
</tr>
<tr>
<td>NET DECREASE IN CASH</td>
<td>(521,528)</td>
<td>(53,154)</td>
</tr>
</tbody>
</table>

CASH AND CASH EQUIVALENTS, Beginning of Year: 1,771,333, 1,824,487

CASH AND CASH EQUIVALENTS, End of Year: $1,249,805, $1,771,333
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:

Nonproliferation

The Nonproliferation 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.
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.

Climate Change

Climate change 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.

Civil Society

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.

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.
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 years ended June 30, 2011 or 2010.

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. Income tax returns for 2008 and forward may be audited by regulatory agencies, however, the Organization is not aware of any such actions at this time.

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.

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 - SATISFACTION OF PROGRAM RESTRICTIONS

Temporarily restricted net assets were expended for the following purposes:

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Civil society</td>
<td>$52,276</td>
</tr>
<tr>
<td>Non proliferation</td>
<td>$658,560</td>
</tr>
<tr>
<td>DPRK energy database analysis</td>
<td>$135,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$845,836</strong></td>
</tr>
</tbody>
</table>

NOTE #3 – RESTRICTED NET ASSETS

At June 30, 2011, the Organization had the following restricted net assets:

Purpose restricted

- Norwegian Ministry of Foreign Affairs - Nonproliferation $165,000

Time and purpose restricted

- Korea Foundation - civil society $30,000
- Korea Institute - civil society $6,900

Total $201,900

NOTE #4 – 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, 2011, amounted to $720,000.
NOTE #5 - CONCENTRATIONS

The Organization maintains cash balances in excess of the FDIC limits. At June 30, 2011 the amount in excess of the FDIC limit was approximately $480,000.

NOTE #6 - 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 7 - 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, 2011.

NOTE #8 – SUBSEQUENT EVENTS

The Organization’s management has evaluated events or transactions that may occur for potential recognition or disclosure in the financial statements from the balance sheet date through June 14, 2012, which is the date the financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.
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
Berkeley, California

We have audited the financial statements of Nautilus of America (a nonprofit corporation) as of and for the year ended June 30, 2011, and have issued our report thereon dated June 14, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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.

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

We noted certain matters that we reported to management of Nautilus of America in a separate letter dated June 14, 2012.

Nautilus of America response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Nautilus of America's response and, accordingly, we express no opinion on the response.

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.

Vaurienc, Trine, Day & Co LLP

Pleasanton, California
June 14, 2012
2011-1 Reporting
Significant Deficiency

Criteria or Specific Requirements

The Royal Ministry of Foreign Affairs Norwegian grant provisions require that the funds received from the grant be accounted for in a separate bank account from the remainder of the organization’s funds.

Condition

The funds received from the Royal Ministry of Foreign Affairs Norwegian grant have been accounted for in the organization’s main checking account.

Context

The Organization received approximately $79,000 from the Royal Ministry of Foreign Affairs Norwegian grant during the fiscal year 2008-2009 to be used for the Building Energy Efficiency Project (BEET).

Effect

Although the Organization does separately account for the expenditures of each grant that is recorded with the Organization’s checking account, the Organization is out of compliance with the provision of the grant agreement that requires the use of a separate bank account for this particular grant.

Cause

The Organization was unaware of the provision in the grant agreement requiring use of a separate bank account for this grant.

Recommendation

We recommend the Organization consider opening a separate bank account to account for the activities of this grant.

Response

We understand this requirement. We have created a new account for these funds and after June 2011 are now in full compliance with the grant provisions.
None noted