

NAUTILUS OF AMERICA, INC.

FINANCIAL STATEMENTS

JUNE 30, 2005

WITH

INDEPENDENT AUDITORS' REPORT

NAUTILUS OF AMERICA, INC.

JUNE 30, 2005

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INDEPENDENT AUDITORS' REPORT

Board of Directors
San Francisco, California

We have audited the accompanying statement of financial position of Nautilus of America, Inc., (A Nonprofit Corporation) as of June 30, 2005 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 2004 financial statements and, in our report, dated March 3, 2006; 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, Inc. as of June 30, 2005, 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 July 17, 2007 on our consideration of Nautilus of America, Inc.'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
July 17, 2007

NAUTILUS OF AMERICA, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2005

WITH COMPARATIVE TOTALS AS OF JUNE 30, 2004

ASSETS	2005	2004
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,564,599	1,381,159
Promise to give	670,189	14,765
Total current assets	2,234,788	1,395,924
PROPERTY AND EQUIPMENT		
Property and equipment	-	198,080
OTHER ASSETS		
Deposits	-	19,736
Life insurance surrender value	122,846	122,846
TOTAL ASSETS	<u>\$ 2,357,634</u>	<u>\$ 1,736,586</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 74,617	\$ 12,760
Accrued payroll expenses	60,145	10,837
Total current liabilities	134,762	23,597
Total liabilities	134,762	23,597
NET ASSETS		
Unrestricted		
Designated	645,607	645,607
Undesignated	714,208	663,352
Total unrestricted	1,359,815	1,308,959
Temporarily restricted	863,057	404,030
Total net assets	2,222,872	1,712,989
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,357,634</u>	<u>\$ 1,736,586</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, 2005 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2004

	Unrestricted	Temporarily Restricted	2005 Total	2004 Total
SUPPORT AND REVENUE				
Government grants	\$ -	\$ 340,764	\$ 340,764	\$ 300,000
Foundation grants	-	735,413	735,413	452,500
Individual and corporate donations	-	269,982	269,982	14,030
Program fees	2,000	-	2,000	1,428
Sublease income	-	-	-	172,023
In kind donations	-	-	-	4,580
Other income	-	-	-	12,471
Interest income	32,716	-	32,716	20,429
Satisfaction of program restrictions	887,132	(887,132)	-	-
Total support and revenue	<u>921,848</u>	<u>459,027</u>	<u>1,380,875</u>	<u>977,461</u>
EXPENSES				
Program expenses				
Peace and security	213,729	-	213,729	180,415
Energy futures and security	130,984	-	130,984	46,838
Information services	134,896	-	134,896	-
Pegasus project	114,703	-	114,703	50,899
Total program expenses	<u>594,312</u>	<u>-</u>	<u>594,312</u>	<u>278,152</u>
Supporting expenses				
Administration	276,680	-	276,680	1,234,747
Total support expenses	<u>276,680</u>	<u>-</u>	<u>276,680</u>	<u>1,234,747</u>
Total expenses	<u>870,992</u>	<u>-</u>	<u>870,992</u>	<u>1,512,899</u>
Change in net assets	50,856	459,027	509,883	(535,438)
NET ASSETS, Beginning of Year	<u>1,308,959</u>	<u>404,030</u>	<u>1,712,989</u>	<u>2,248,427</u>
NET ASSETS, End of Year	<u>\$ 1,359,815</u>	<u>\$ 863,057</u>	<u>\$ 2,222,872</u>	<u>\$ 1,712,989</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, 2005 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2004

	Peace and Security	Energy Futures and Security	Information Services	Pegasus Project	Total Program Expenses	Administration	Total Supporting Services	2005 Total Expenses	2004 Total Expenses
Salaries	\$ 24,083	\$ 84,907	\$ 87,442	\$ -	\$ 196,432	\$ 126,997	\$ 126,997	\$ 323,429	\$ 590,264
Employee benefits	2,487	8,769	9,031	-	20,287	26,809	26,809	47,096	167,394
Payroll taxes	3,833	13,513	13,916	-	31,262	20,210	20,210	51,472	98,814
Miscellaneous	-	-	-	-	-	5,767	5,767	5,767	22,946
Professional fees	2,769	9,763	10,054	-	22,586	14,602	14,602	37,188	3,060
Legal and accounting	-	-	-	-	-	19,402	19,402	19,402	15,135
Occupancy	-	-	-	-	-	19,878	19,878	19,878	216,616
Repairs and maintenance	-	-	-	573	573	-	-	573	51,923
Supplies	739	2,604	2,682	-	6,025	7,078	7,078	13,103	19,313
Telephone	2,662	9,383	9,664	-	21,709	14,034	14,034	35,743	26,895
Postage	-	-	-	-	-	309	309	309	399
Printing	-	-	-	-	-	229	229	229	372
Event costs	176,575	-	-	-	176,575	-	-	176,575	227,253
Lodging and travel	-	-	-	-	-	14,632	14,632	14,632	1,817
Dues and subscription	-	-	-	-	-	1,085	1,085	1,085	431
Insurance	320	1,126	1,160	-	2,606	1,685	1,685	4,291	10,398
Bank charges	-	-	-	-	-	2,589	2,589	2,589	61
Depreciation/loss on sale of assets	261	919	947	114,130	116,257	1,374	1,374	117,631	59,808
	<u>\$ 213,729</u>	<u>\$ 130,984</u>	<u>\$ 134,896</u>	<u>\$ 114,703</u>	<u>\$ 594,312</u>	<u>\$ 276,680</u>	<u>\$ 276,680</u>	<u>\$ 870,992</u>	<u>\$ 1,512,899</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, 2005 WITH COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2004

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 509,883	\$ (535,438)
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	3,501	59,808
Loss on disposal of assets	157,754	-
(Increase) decrease in		
Promise to give	(655,424)	260,175
Deposits	19,736	-
Life insurance surrender value	-	12,777
Increase (decrease) in		
Accounts payable	61,857	(7,321)
Tenant deposits	-	(1,858)
Accrued payroll expenses	49,308	(24,482)
Net cash provided (used) by operating activities	<u>146,615</u>	<u>(236,339)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale of boat	<u>36,825</u>	<u>-</u>
Net cash provided by investing activities	<u>36,825</u>	<u>-</u>

NET INCREASE (DECREASE) IN CASH	183,440	(236,339)
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CASH AND CASH EQUIVALENTS, Beginning of Year	<u>1,381,159</u>	<u>1,617,498</u>
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CASH AND CASH EQUIVALENTS, End of Year	<u>\$ 1,564,599</u>	<u>\$ 1,381,159</u>
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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, 2005

NOTE #1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Nautilus of America, Inc.'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, Inc. 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, Inc. staff travel 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, 2005

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, Inc. 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.

SANDNet - We believe that complex global problems can be tackled and resolved through creation, expansion, and strengthening of focused, and partially overlapping , global networks of civil society organizations to a point where these networks can make effective and critical interventions in public and policy debates. Specifically, the South Asia Initiative (SAI) will identify and engage a wide range of broad based civil society movements inside and outside of South Asia that are concerned with issues of regional peace, nuclear disarmament, radical fundamentalism, terrorism and environmental deterioration. To achieve its goals, SAI uses modern tools of networking, engagement and information creation/dissemination.

NAUTILUS OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2005

Pegasus Project

The Pegasus Project is a model youth marine environmental educational program with a strong community and volunteer foundation. Providing equal access to San Francisco Bay via direct, on-water experience is a crucial aspect of environmental justice. The Pegasus Project is the only existing public access for low-income and minority at-risk youth to the San Francisco Bay marine environment on a sailing vessel. This activity is a collaboration of the Nautilus of America, Inc., the Berkeley Boosters, OCSC Sailing School and Cal Sailing Club, and the Shorebird Nature Center.

The project's fundamental objective is to invest in the youth who will be the future environmental and political leaders of our diverse communities, by providing them with access to the marine environment and the means to safely learn about it, and thereby, about themselves.

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.

NAUTILUS OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2005

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. The organization received free berth rent valued at \$4,580 during the year ended June 30, 2004.

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.

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.

NAUTILUS OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2005

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, 2005, 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	Two to Five Years	Total	Present Value Discount	Net
Henry Luce Foundation	\$ 90,000	\$ 150,000	\$ 240,000	\$ (7,946)	\$ 232,054
Ploughshares Fund	50,000	-	50,000		50,000
McCarthy Foundation	200,000	200,000	400,000	(11,865)	388,135
	<u>\$ 340,000</u>	<u>\$ 350,000</u>	<u>\$ 690,000</u>	<u>\$ (19,811)</u>	<u>\$ 670,189</u>

NOTE #3 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	Beginning of Year	Additions	Deletions	End of Year
Equipment	\$ 231,869	\$ -	\$ (231,869)	\$ -
Furniture	137,267	-	(137,267)	-
Leasehold improvements	99,660	-	(99,660)	-
Library collection	35,007	-	(35,007)	-
Pegasus	114,561	-	(114,561)	-
Subtotal	618,364	-	(618,364)	-
Accumulated depreciation and amortization	360,476	3,501	(363,977)	-
Total	<u>\$ 257,888</u>	<u>\$ (3,501)</u>	<u>\$ (254,387)</u>	<u>\$ -</u>

NAUTILUS OF AMERICA, INC.

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2005

NOTE #4 - SATISFACTION OF PROGRAM RESTRICTIONS

Temporarily restricted net assets were expended for the following purposes:

Peace and security	\$ 608,408
Energy future	278,724
Total	<u>\$ 887,132</u>

NOTE #5 - RESTRICTED NET ASSETS

At June 30, 2005, the Organization had the following restricted net assets:

<i>Time and purpose restricted</i>	
Henry Luce Foundation - Peace and security	\$ 232,054
Ploughshares Foundation - Peace and security	50,000
McCarthy Foundation - Peace and security	388,135
<i>Purpose restricted</i>	
U.S Department of Energy - Energy futures and security	192,868
Total	<u>\$ 863,057</u>

NOTE #6 - 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 #7 - CONCENTRATIONS

The Organization maintains cash balances in excess of the FDIC limits. At June 30, 2005 the amount in excess of the FDIC limit was approximately \$1,450,000.

Support received from the Department of Energy accounted for approximately 25% of the Organization's revenue during the year ended June 30, 2005.

NOTE #8 - 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.

NAUTILUS OF AMERICA, INC.

**NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE 9 - 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. During the year ended June 30, 2005 the organization contributed \$31,415.

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, Inc.
San Francisco, California

We have audited the financial statements of Nautilus of America, Inc. (a nonprofit corporation) as of and for the year ended June 30, 2005, and have issued our report thereon dated July 17, 2007. 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, Inc. 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, Inc. (a nonprofit corporation) in a separate letter dated July 17, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Nautilus of America, Inc. 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.

Vavurek, Trine, Day & Co LLP
Pleasanton, California
July 17, 2007