



INDEPENDENT AUDITORS' REPORT

Board of Directors

Berkeley, California

We have audited the accompanying statement of financial position of Nautilus of America, Inc., (A Nonprofit Corporation) as of June 30, 2002 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.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and 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, 2002, 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 our report dated July 15, 2003 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 grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of Nautilus of America, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, "Audits of States, Local Governments, and Non-Profit Organizations," and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Vavrinek, Trine, Day & Co LLP

Pleasanton, California

July 15, 2003

NAUTILUS OF AMERICA, INC.

**STATEMENT OF FINANCIAL POSITION
JUNE 30, 2002**

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 1,844,005
Promise to give	<u>690,656</u>
Total current assets	2,534,661

PROPERTY AND EQUIPMENT

Property and equipment	331,605
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OTHER ASSETS

Life insurance surrender value	59,208
	<u>100,441</u>

TOTAL ASSETS

\$ 3,025,915

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	25,614
Accrued expenses	<u>55,192</u>
Total current liabilities	<u>80,806</u>
Total liabilities	<u>80,806</u>

NET ASSETS

Unrestricted	
Designated	136,324
Undesignated	<u>2,068,129</u>
Total unrestricted	2,204,453
Temporarily restricted	<u>740,656</u>
Total net assets	<u>2,945,109</u>

TOTAL LIABILITIES AND NET ASSETS

\$ 3,025,915

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, 2002**

	Unrestricted	Temporarily Restricted	2002 Total
SUPPORT AND REVENUE			
Government grants	\$ -	\$ 675,000	\$ 675,000
Foundation grants	-	877,925	877,925
Individual and corporate donations	4,810	-	4,810
Program fees	13,941	-	13,941
Sublease income	120,239	-	120,239
In kind donations	4,580	-	4,580
Other income	20,223	-	20,223
Interest income	46,670	-	46,670
Satisfaction of program restrictions	1,618,310	(1,618,310)	-
Total support and revenue	<u>1,828,773</u>	<u>(65,385)</u>	<u>1,763,388</u>
EXPENSES			
Program expenses			
Peace and security	435,563		435,563
Energy futures and security	1,075,996		1,075,996
Information services	361,512		361,512
Investment rules	471,284		471,284
Pegasus project	40,583		40,583
Total program expenses	<u>2,384,938</u>		<u>2,384,938</u>
Supporting expenses			
Administration	48,428		48,428
Fundraising	3,886		3,886
Total support expenses	<u>52,314</u>		<u>52,314</u>
Total expenses	<u>2,437,252</u>	<u>-</u>	<u>2,437,252</u>
Change in net assets	(608,479)	(65,385)	(673,864)
NET ASSETS, Beginning of Year	<u>2,812,932</u>	<u>806,041</u>	<u>3,618,973</u>
NET ASSETS, End of Year	<u>\$ 2,204,453</u>	<u>\$ 740,656</u>	<u>\$ 2,945,109</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, 2002**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (673,864)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	80,931
(Increase) decrease in	
Promise to give	609,581
Life insurance surrender value	(27,977)
Increase (decrease) in	
Accounts payable	4,658
Accrued expenses	13,365
Net cash provided by operating activities	<u>6,694</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of furniture, equipment and leasehold improvements	<u>(74,637)</u>
Net cash used by investing activities	<u>(74,637)</u>

NET DECREASE IN CASH (67,943)

CASH AND CASH EQUIVALENTS, Beginning of Year 1,911,948

CASH AND CASH EQUIVALENTS, End of Year \$ 1,844,005

The accompanying notes are an integral part of these 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, Inc.
Berkeley, California

We have audited the financial statements of Nautilus of America, Inc. (a nonprofit corporation) as of and for the year ended June 30, 2002, and have issued our report thereon dated July 15, 2003. 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.

Compliance

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 grants, 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 that are required to be reported under Government Auditing Standards.

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 15, 2003.

This report is intended solely for the information and use of the audit committee, 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
July 15, 2003

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133a

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

Compliance

We have audited the compliance of Nautilus of America, Inc. (a nonprofit organization) with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" that are applicable to its major federal program for the year ended June 30, 2002. Nautilus of America, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of Nautilus of America, Inc.'s management. Our responsibility is to express an opinion on Nautilus of America, Inc.'s compliance based on our audit.

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 Nautilus of America, 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. Our audit does not provide a legal determination of Nautilus of America, Inc.'s compliance with those requirements.

In our opinion, Nautilus of America, Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.

Internal Control Over Compliance

The management of Nautilus of America, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Nautilus of America, Inc.'s internal control over compliance with requirements that could have a direct and material effect on its major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program 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 compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, 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.

Vavonek, Trine, Day & Co LLP
Pleasanton, California
July 15, 2003

**NAUTILUS OF AMERICA, INC.
(A Nonprofit Corporation)**

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2002**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	
Identification of major programs:	<u>No</u>

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
81.120	Arms Control and Nonproliferations
	Policy Analysis

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>