

FINANCIAL STATEMENTS

**BUSINESS EXECUTIVES FOR
NATIONAL SECURITY**

**FOR THE YEAR ENDED DECEMBER 31, 2015
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2014**

BUSINESS EXECUTIVES FOR NATIONAL SECURITY

CONTENTS

	PAGE NO.
INDEPENDENT AUDITOR'S REPORT	2 - 3
EXHIBIT A - Statement of Financial Position, as of December 31, 2015, with Summarized Financial Information for 2014	4
EXHIBIT B - Statement of Activities and Change in Net Assets, for the Year Ended December 31, 2015, with Summarized Financial Information for 2014	5
EXHIBIT C - Statement of Cash Flows, for the Year Ended December 31, 2015, with Summarized Financial Information for 2014	6
NOTES TO FINANCIAL STATEMENTS	7 - 11
SUPPLEMENTAL INFORMATION	
SCHEDULE 1 - Schedule of Functional Expenses, for the Year Ended December 31, 2015, with Summarized Financial Information for 2014	12 - 13

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Business Executives for National Security
Washington, D.C.

We have audited the accompanying financial statements of Business Executives for National Security (BENS), which comprise the statement of financial position as of December 31, 2015, and the related statements of activities and change in net assets 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. 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 BENS as of December 31, 2015, and the change 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.

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Report on Summarized Comparative Information

We have previously audited BENS' 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 10, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Functional Expenses on pages 12 - 13 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.



May 13, 2016

BUSINESS EXECUTIVES FOR NATIONAL SECURITY
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2015
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2014

ASSETS		<u>2015</u>	<u>2014</u>
CURRENT ASSETS			
Cash and cash equivalents	\$	2,121,704	\$ 2,202,566
Investments		3,964,489	3,346,836
Accounts receivable		117,471	141,907
Prepaid expenses		<u>126,677</u>	<u>128,009</u>
Total current assets		<u>6,330,341</u>	<u>5,819,318</u>
FIXED ASSETS			
Equipment		117,572	117,572
Furniture		103,243	100,189
Leasehold improvements		37,879	37,879
Less: Accumulated depreciation and amortization		<u>(238,515)</u>	<u>(228,451)</u>
Net fixed assets		<u>20,179</u>	<u>27,189</u>
OTHER ASSETS			
Security deposits		<u>49,364</u>	<u>49,364</u>
TOTAL ASSETS	\$	<u>6,399,884</u>	\$ <u>5,895,871</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$	114,524	\$ 156,514
Accrued vacation		170,117	159,246
Deferred rent abatement		<u>44,079</u>	<u>26,847</u>
Total current liabilities		328,720	342,607
LONG-TERM LIABILITIES			
Deferred rent abatement, net of current portion		<u>221,438</u>	<u>265,517</u>
Total liabilities		<u>550,158</u>	<u>608,124</u>
NET ASSETS			
Unrestricted		<u>5,849,726</u>	<u>5,287,747</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>6,399,884</u>	\$ <u>5,895,871</u>

BUSINESS EXECUTIVES FOR NATIONAL SECURITY
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2015
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2014

	<u>Unrestricted</u>	
	<u>2015</u>	<u>2014</u>
REVENUE AND SUPPORT		
Contributions and grants	\$ 4,519,166	\$ 3,979,264
Special event income	1,915,484	2,196,353
In-kind contributions	43,048	43,076
Investment (loss) income	(7,901)	230,324
Other revenue	<u>891</u>	<u>3,103</u>
Total revenue and support	<u>6,470,688</u>	<u>6,452,120</u>
EXPENSES		
Program Services:		
Meetings Program Development and Implementation	2,180,950	2,348,588
Project Development and Implementation	<u>1,946,796</u>	<u>1,740,524</u>
Total program services	<u>4,127,746</u>	<u>4,089,112</u>
Supporting Services:		
Administration	654,661	603,307
Membership	<u>1,126,302</u>	<u>1,179,541</u>
Total supporting services	<u>1,780,963</u>	<u>1,782,848</u>
Total expenses	<u>5,908,709</u>	<u>5,871,960</u>
Change in net assets	561,979	580,160
Net assets at beginning of year	<u>5,287,747</u>	<u>4,707,587</u>
NET ASSETS AT END OF YEAR	<u>\$ 5,849,726</u>	<u>\$ 5,287,747</u>

BUSINESS EXECUTIVES FOR NATIONAL SECURITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 561,979	\$ 580,160
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	10,064	25,162
Net unrealized and realized loss (gain) on investments	143,845	(121,409)
(Increase) decrease in:		
Accounts receivable	24,436	(56,724)
Prepaid expenses	1,332	(65,435)
Increase (decrease) in:		
Accounts payable and accrued expenses	(41,990)	70,694
Accrued vacation	10,871	11,424
Deferred rent abatement	<u>(26,847)</u>	<u>(1,197)</u>
Net cash provided by operating activities	<u>683,690</u>	<u>442,675</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of investments	(761,498)	(74,577)
Purchases of furniture	<u>(3,054)</u>	<u>-</u>
Net cash used by investing activities	<u>(764,552)</u>	<u>(74,577)</u>
Net (decrease) increase in cash and cash equivalents	(80,862)	368,098
Cash and cash equivalents at beginning of year	<u>2,202,566</u>	<u>1,834,468</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,121,704</u>	<u>\$ 2,202,566</u>
SCHEDULE OF NONCASH INVESTING TRANSACTIONS		
Donated Securities	<u>\$ 161,967</u>	<u>\$ 150,469</u>

BUSINESS EXECUTIVES FOR NATIONAL SECURITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

Business Executives for National Security (BENS) is a non-profit organization, incorporated in the District of Columbia. The purpose of BENS is charitable and educational, namely, to conduct nonpartisan public educational functions concerning national security issues.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with FASB ASC 958, *Not-for-Profit Entities*.

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with BENS' financial statements for the year ended December 31, 2014, from which the summarized information was derived.

Cash and cash equivalents -

BENS considers all cash and other highly liquid investments with initial maturities of three months or less to be cash equivalents.

Bank deposit accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to a limit of \$250,000. At times during the year, BENS maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Investments -

Investments are recorded at their readily determinable fair value. Realized and unrealized gains and losses are included in investment income in the Statement of Activities and Change in Net Assets.

Accounts receivable -

Accounts receivable approximate fair value. Management considers all amounts to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established. Accounts receivable are expected to be collected within one year.

Fixed assets -

BENS records fixed assets at cost. Fixed assets are depreciated or amortized on a straight-line basis over the estimated useful lives of the related assets, generally three to seven years. BENS has established a capitalization threshold policy of \$2,500. Leasehold improvements are amortized over the remaining life of the lease.

The cost of maintenance and repairs is recorded as expenses are incurred. Depreciation and amortization expense for the year ended December 31, 2015 was \$10,064.

Income taxes -

BENS is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for income taxes has been made in the accompanying financial statements. BENS is not a private foundation.

Uncertain tax positions -

For the year ended December 31, 2015, BENS has documented its consideration of FASB ASC 740-10, *Income Taxes*, that provides guidance for reporting uncertainty in income taxes and has determined that no material uncertain tax positions qualify for either recognition or disclosure in the financial statements.

BUSINESS EXECUTIVES FOR NATIONAL SECURITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION (Continued)

Net asset classification -

The net assets are reported as follows:

Unrestricted net assets include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of BENS and include both internally designated and undesignated resources.

Contributions and grants -

Contributions and grants are recorded as revenue in the year notification is received from the donor.

In-kind contributions -

In-kind contributions are valued at fair market value as of the date of the gift. The value of services and materials donated to BENS for the year ended December 31, 2015 was \$43,048 and is reflected as in-kind contributions in the Statement of Activities and Change in Net Assets. The corresponding expenses are recorded in the appropriate expense categories in the Schedule of Functional Expenses.

Use of 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 the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

Functional allocation of expenses -

The costs of providing the various programs and other activities have been summarized on a functional basis in the Statement of Activities and Change in Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Risks and uncertainties -

BENS invests in various investment securities. Investment securities are exposed to various risks such as interest rates, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the accompanying financial statements.

Fair value measurement -

BENS adopted the provisions of FASB ASC 820, *Fair Value Measurement*. FASB ASC 820 defines fair value, establishes a framework for measuring fair value, establishes a fair value hierarchy based on the quality of inputs (assumptions that market participants would use in pricing assets and liabilities, including assumptions about risk) used to measure fair value, and enhances disclosure requirements for fair value measurements. BENS accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

Operating lease -

On March 26, 2009, BENS entered into a new lease for ten years and one month. The commencement date on the new lease was September 1, 2009 and expires on October 31, 2019. BENS' rent increases on a yearly basis by a factor of 3% per year. BENS received rent abatement for months one and thirteen of the lease.

BUSINESS EXECUTIVES FOR NATIONAL SECURITY

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

2. COMMITMENTS

Operating lease (continued) -

Accounting principles generally accepted in the United States of America require that the total rent commitment should be recognized on a straight-line basis over the term of the lease. Accordingly, the difference between the actual monthly payments and the rent expense being recognized for financial statement purposes is recorded as a deferred rent liability in the Statement of Financial Position.

Rent expense for 2015 totaled \$686,627. BENS also has signed leases for various types of office equipment with lease terms of two to five years. Future minimum payments are as follows:

Year Ending December 31,

2016	\$	716,315
2017		733,947
2018		752,057
2019		<u>632,117</u>
	\$	<u>2,834,436</u>

3. BOARD DESIGNATED NET ASSETS

A reserve fund, the Leadership Fund, has been established by the Board of Directors and contributions to this fund are Board restricted. In an emergency situation in which revenues are insufficient to meet financial commitments, the Chief Executive Officer (CEO) may request a draw from these reserves. Any disbursement of funds would require the approval of the Chairman of the Board and the Chairs of both the Executive and Finance Committees. All advances from the Leadership Fund must be restored as soon as funds, surplus to the budgetary needs of BENS, become available.

The balance of the Leadership Fund as of December 31, 2015 was \$2,504,143.

4. RETIREMENT PLAN

BENS has a 401(k) plan for all employees. BENS contributes a four percent matching contribution for all participating employees. The employer's contribution for the year ended December 31, 2015 totaled \$91,117.

5. INVESTMENTS

Investments consisted of the following at December 31, 2015:

	<u>Fair Value</u>
Corporate bonds	\$ 787,619
Equities	1,207,135
Insurance contract	126,380
Mutual funds	<u>1,843,355</u>
TOTAL INVESTMENTS	\$ <u>3,964,489</u>

BUSINESS EXECUTIVES FOR NATIONAL SECURITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2015

5. INVESTMENTS (Continued)

Included in investment loss are the following for the year ended December 31, 2015:

Interest and dividends	\$ 135,944
Unrealized loss	(273,380)
Realized gain	<u>129,535</u>
TOTAL INVESTMENT LOSS	\$ <u>(7,901)</u>

6. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, BENS has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy.

The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

Investments recorded in the Statement of Financial Position are categorized based on the inputs to valuation techniques as follows:

Level 1. These are investments where values are based on unadjusted quoted prices for identical assets in an active market BENS has the ability to access.

Level 2. These are investments where values are based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, or model-based valuation techniques that utilize inputs that are observable either directly or indirectly for substantially the full-term of the investments.

Level 3. These are investments where inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at December 31, 2015.

- *Corporate debt, U.S. agency bonds, mortgage-backed securities* - Fair value is based upon current yields available on comparable securities of issuers with similar ratings, the security's terms and conditions, and interest rate and credit risk.
- *Equities* - Valued at the closing price reported on the active market in which the individual securities are traded.
- *Mutual funds* - Fair value is equal to the reported net asset value of the fund, which is the price at which additional shares can be obtained.
- *Insurance contract* - Generally valued at contract value which approximates fair value.

BUSINESS EXECUTIVES FOR NATIONAL SECURITY

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

6. FAIR VALUE MEASUREMENT (Continued)

The table below summarizes, by level within the fair value hierarchy, BENS' investments as of December 31, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total December 31, 2015</u>
Asset Class: Investments				
Corporate bonds	\$ 787,619	\$ -	\$ -	\$ 787,619
Equities	1,207,135	-	-	1,207,135
Insurance contract	-	-	126,380	126,380
Mutual funds	<u>1,843,355</u>	<u>-</u>	<u>-</u>	<u>1,843,355</u>
TOTAL	<u>\$ 3,838,109</u>	<u>\$ -</u>	<u>\$ 126,380</u>	<u>\$ 3,964,489</u>

Level 3 Financial Assets

The following table provides a summary of changes in fair value of the BENS's financial assets for the year ended December 31, 2015:

Beginning balance as of January 1, 2015	\$ 119,052
Unrealized gains	<u>7,328</u>
BALANCE AS OF DECEMBER 31, 2015	<u>\$ 126,380</u>

7. SUBSEQUENT EVENTS

In preparing these financial statements, BENS has evaluated events and transactions for potential recognition or disclosure through May 13, 2016, the date the financial statements were issued.

SUPPLEMENTAL INFORMATION

BUSINESS EXECUTIVES FOR NATIONAL SECURITY
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2015
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2014

	2015		
	Program Services		
	Meetings Program Development and Implementation	Project Development and Implementation	Total Program Services
Salaries	\$ 1,160,227	\$ 1,175,688	\$ 2,335,915
Payroll taxes and employee benefits	269,639	273,233	542,872
 Total salaries and employee expenses	 1,429,866	 1,448,921	 2,878,787
Professional services	2,465	-	2,465
Temporary help	-	-	-
Postage	9,955	10,087	20,042
Office supplies and equipment	55,944	56,689	112,633
Advertising	29,013	-	29,013
Software licenses	2,344	2,376	4,720
Printing	1,113	1,128	2,241
Rent	126,642	262,418	389,060
Telephone	18,414	18,659	37,073
Repairs and maintenance	10,248	10,385	20,633
Travel and subsistence	54,230	34,849	89,079
Meetings	371,882	30,271	402,153
Depreciation and amortization	3,851	3,903	7,754
Bank fees	36,019	36,499	72,518
Dues and subscriptions	15,544	15,751	31,295
Employee development	275	1,540	1,815
Business insurance	12,964	13,137	26,101
Other	181	183	364
 TOTAL	 \$ 2,180,950	 \$ 1,946,796	 \$ 4,127,746

2014				
Supporting Services				
Administration	Membership	Total Supporting Services	Total Expenses	Total Expenses
\$ 233,137	\$ 462,635	\$ 695,772	\$ 3,031,687	\$ 2,975,871
54,182	107,518	161,700	704,572	650,223
287,319	570,153	857,472	3,736,259	3,626,094
176,887	9,009	185,896	188,361	175,139
-	-	-	-	300
2,000	3,969	5,969	26,011	31,166
11,242	22,307	33,549	146,182	120,835
-	-	-	29,013	-
471	935	1,406	6,126	-
224	444	668	2,909	6,014
149,455	148,112	297,567	686,627	680,199
3,700	7,343	11,043	48,116	54,121
2,059	4,086	6,145	26,778	40,184
546	15,662	16,208	105,287	136,175
6,982	316,945	323,927	726,080	810,594
774	1,536	2,310	10,064	25,162
7,238	14,362	21,600	94,118	74,476
3,123	6,198	9,321	40,616	57,097
-	-	-	1,815	35
2,605	5,169	7,774	33,875	33,093
36	72	108	472	1,276
\$ 654,661	\$ 1,126,302	\$ 1,780,963	\$ 5,908,709	\$ 5,871,960