

FINANCIAL STATEMENTS

**BUSINESS EXECUTIVES FOR
NATIONAL SECURITY**

**FOR THE YEAR ENDED DECEMBER 31, 2016
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2015**

BUSINESS EXECUTIVES FOR NATIONAL SECURITY

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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, 2016, 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, 2016, 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' 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 13, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, 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 13 - 14 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.



June 30, 2017

BUSINESS EXECUTIVES FOR NATIONAL SECURITY
STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015

ASSETS		<u>2016</u>	<u>2015</u>
CURRENT ASSETS			
Cash and cash equivalents	\$	2,631,021	\$ 2,121,704
Investments		4,478,234	3,964,489
Accounts receivable		127,324	117,471
Prepaid expenses		<u>133,135</u>	<u>126,677</u>
Total current assets		<u>7,369,714</u>	<u>6,330,341</u>
FIXED ASSETS			
Equipment		142,113	117,572
Furniture		103,243	103,243
Leasehold improvements		37,879	37,879
Less: Accumulated depreciation and amortization		<u>(249,487)</u>	<u>(238,515)</u>
Net fixed assets		<u>33,748</u>	<u>20,179</u>
OTHER ASSETS			
Security deposits		<u>49,364</u>	<u>49,364</u>
TOTAL ASSETS	\$	<u>7,452,826</u>	\$ <u>6,399,884</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued expenses	\$	241,411	\$ 114,524
Accrued vacation		171,836	170,117
Deferred rent abatement		<u>61,711</u>	<u>44,079</u>
Total current liabilities		474,958	328,720
LONG-TERM LIABILITIES			
Deferred rent abatement, net of current portion		<u>175,160</u>	<u>221,438</u>
Total liabilities		<u>650,118</u>	<u>550,158</u>
NET ASSETS			
Unrestricted		<u>6,802,708</u>	<u>5,849,726</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>7,452,826</u>	\$ <u>6,399,884</u>

BUSINESS EXECUTIVES FOR NATIONAL SECURITY
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015

	<u>Unrestricted</u>	
	<u>2016</u>	<u>2015</u>
REVENUE AND SUPPORT		
Contributions and grants	\$ 4,989,597	\$ 4,519,166
Special event income	1,956,824	1,915,484
In-kind contributions	47,441	43,048
Investment income (loss)	284,015	(7,901)
Other revenue	<u>209</u>	<u>891</u>
Total revenue and support	<u>7,278,086</u>	<u>6,470,688</u>
EXPENSES		
Program Services:		
Meetings, Program Development and Implementation	2,228,159	2,180,950
Project Development and Implementation	<u>2,167,010</u>	<u>1,946,796</u>
Total program services	<u>4,395,169</u>	<u>4,127,746</u>
Supporting Services:		
Administration	687,195	654,661
Membership	<u>1,242,740</u>	<u>1,126,302</u>
Total supporting services	<u>1,929,935</u>	<u>1,780,963</u>
Total expenses	<u>6,325,104</u>	<u>5,908,709</u>
Change in net assets	952,982	561,979
Net assets at beginning of year	<u>5,849,726</u>	<u>5,287,747</u>
NET ASSETS AT END OF YEAR	<u>\$ 6,802,708</u>	<u>\$ 5,849,726</u>

BUSINESS EXECUTIVES FOR NATIONAL SECURITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 952,982	\$ 561,979
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	10,972	10,064
Net unrealized and realized (gain) loss on investments	(117,899)	143,845
(Increase) decrease in:		
Accounts receivable	(9,853)	24,436
Prepaid expenses	(6,458)	1,332
Increase (decrease) in:		
Accounts payable and accrued expenses	126,887	(41,990)
Accrued vacation	1,719	10,871
Deferred rent abatement	<u>(28,646)</u>	<u>(26,847)</u>
Net cash provided by operating activities	<u>929,704</u>	<u>683,690</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of investments	(395,846)	(761,498)
Purchases of furniture	<u>(24,541)</u>	<u>(3,054)</u>
Net cash used by investing activities	<u>(420,387)</u>	<u>(764,552)</u>
Net increase (decrease) in cash and cash equivalents	509,317	(80,862)
Cash and cash equivalents at beginning of year	<u>2,121,704</u>	<u>2,202,566</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 2,631,021</u>	<u>\$ 2,121,704</u>
SCHEDULE OF NONCASH INVESTING TRANSACTIONS		
Donated Securities	<u>\$ 155,528</u>	<u>\$ 161,967</u>

BUSINESS EXECUTIVES FOR NATIONAL SECURITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016

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 to apply best business practices to address the nation's most pressing security challenges.

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, 2015, 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 represent credit card payments that were initiated before year end and are received after year end. The receivables 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, 2016 was \$10,972.

Income taxes -

BENS is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

BUSINESS EXECUTIVES FOR NATIONAL SECURITY

NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2016

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

Income taxes (continued) -

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, 2016, 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.

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 payment is received.

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, 2016 was \$47,441 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.

BUSINESS EXECUTIVES FOR NATIONAL SECURITY

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

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

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.

New accounting pronouncement -

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities* (Topic 958), intended to improve financial reporting for not-for-profit entities. The ASU will reduce the current three classes of net assets into two: with and without donor restrictions. The change in each of the classes of net assets must be reported on the Statement of Activities and Change in Net Assets. The ASU also requires various enhanced disclosures around topics such as board designations, liquidity, functional classification of expenses, investment expenses, donor restrictions, and underwater endowments. The ASU is effective for years beginning after December 15, 2017. Early adoption is permitted. The ASU should be applied on a retrospective basis in the year the ASU is first applied. While the ASU will change the presentation of the BENS' financial statements, it is not expected to alter the BENS' reported financial position.

2. INVESTMENTS

Investments consisted of the following at December 31, 2016:

	<u>Fair Value</u>
Corporate bonds	\$ 806,362
Equities	1,366,393
Insurance contract	135,995
Mutual funds	<u>2,169,484</u>
TOTAL INVESTMENTS	<u>\$ 4,478,234</u>

Included in investment income are the following for the year ended December 31, 2016:

Interest and dividends	\$ 166,116
Unrealized gain	141,501
Realized loss	<u>(23,602)</u>
TOTAL INVESTMENT INCOME	<u>\$ 284,015</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.

BUSINESS EXECUTIVES FOR NATIONAL SECURITY

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

3. BOARD DESIGNATED NET ASSETS (Continued)

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 Audit 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, 2016 was \$2,504,143.

4. COMMITMENTS

Operating lease -

On March 26, 2009, BENS entered into a lease for office space for ten years and one month. The lease commenced on 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. In December 2016, BENS signed a lease extension for a period of nine years and ten months. Under the terms of the lease extension, base rent will increase on a yearly basis by a factor of 2.5% per year.

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 2016 totaled \$714,981. 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,

2017	\$ 733,947
2018	752,057
2019	<u>632,117</u>
	<u>\$ 2,118,121</u>

5. 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, 2016 totaled \$101,022.

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.

BUSINESS EXECUTIVES FOR NATIONAL SECURITY

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

6. FAIR VALUE MEASUREMENT (Continued)

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, 2016.

- *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.
- *Insurance contract* - Generally valued at contract value which approximates fair value.
- *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.

The table below summarizes, by level within the fair value hierarchy, BENS' investments as of December 31, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total December 31, 2016</u>
Asset Class: Investments				
Corporate bonds	\$ 806,362	\$ -	\$ -	\$ 806,362
Equities	1,366,393	-	-	1,366,393
Insurance contract	-	-	135,995	135,995
Mutual funds	<u>2,169,484</u>	<u>-</u>	<u>-</u>	<u>2,169,484</u>
TOTAL	<u>\$ 4,342,239</u>	<u>\$ -</u>	<u>\$ 135,995</u>	<u>\$ 4,478,234</u>

BUSINESS EXECUTIVES FOR NATIONAL SECURITY

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016**

6. FAIR VALUE MEASUREMENT (Continued)

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, 2016:

Beginning balance as of January 1, 2016	\$ 126,380
Unrealized gains	<u>9,615</u>
BALANCE AS OF DECEMBER 31, 2016	<u>\$ 135,995</u>

7. SUBSEQUENT EVENTS

In preparing these financial statements, BENS has evaluated events and transactions for potential recognition or disclosure through June 30, 2017, the date the financial statements were issued.

SUPPLEMENTAL INFORMATION

BUSINESS EXECUTIVES FOR NATIONAL SECURITY
SCHEDULE OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2015

	2016		
	Program Services		
	Meetings, Program Development and Implementation	Project Development and Implementation	Total Program Services
Salaries	\$ 1,221,445	\$ 1,338,511	\$ 2,559,956
Payroll taxes and employee benefits	278,878	305,607	584,485
 Total salaries and employee expenses	 1,500,323	 1,644,118	 3,144,441
Professional services	-	88	88
Consultants	-	5,760	5,760
Postage	10,045	11,008	21,053
Office supplies and equipment	58,753	64,384	123,137
Advertising	-	-	-
Software licenses	-	209	209
Printing	2,911	3,190	6,101
Rent	129,836	269,719	399,555
Telephone	14,560	15,956	30,516
Repairs and maintenance	12,739	13,960	26,699
Travel and subsistence	68,960	18,097	87,057
Meetings	368,107	49,474	417,581
Depreciation and amortization	4,063	4,452	8,515
Bank fees	36,204	39,674	75,878
Dues and subscriptions	10,805	11,841	22,646
Employee development	-	3,187	3,187
Business insurance	10,422	11,421	21,843
Other	431	472	903
 TOTAL	 \$ 2,228,159	 \$ 2,167,010	 \$ 4,395,169

2015				
Supporting Services				
Administration	Membership	Total Supporting Services	Total Expenses	Total Expenses
\$ 246,004	\$ 491,678	\$ 737,682	\$ 3,297,638	\$ 3,031,687
56,167	112,259	168,426	752,911	704,572
302,171	603,937	906,108	4,050,549	3,736,259
183,123	6,683	189,806	189,894	188,361
-	-	-	5,760	-
2,023	4,043	6,066	27,119	26,011
11,833	23,650	35,483	158,620	146,182
-	500	500	500	29,013
4,671	74	4,745	4,954	6,126
586	1,172	1,758	7,859	2,909
162,100	153,326	315,426	714,981	686,627
2,932	5,861	8,793	39,309	48,116
2,566	5,128	7,694	34,393	26,778
968	12,671	13,639	100,696	105,287
1,750	400,768	402,518	820,099	726,080
822	1,635	2,457	10,972	10,064
7,289	14,574	21,863	97,741	94,118
2,176	4,350	6,526	29,172	40,616
-	-	-	3,187	1,815
2,099	4,195	6,294	28,137	33,875
86	173	259	1,162	472
\$ 687,195	\$ 1,242,740	\$ 1,929,935	\$ 6,325,104	\$ 5,908,709