

FINANCIAL STATEMENTS



FEDERATION OF AMERICAN SCIENTISTS

**FOR THE YEAR ENDED JUNE 30, 2017
WITH SUMMARIZED FINANCIAL
INFORMATION FOR 2016**

FEDERATION OF AMERICAN SCIENTISTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Federation of American Scientists
Washington, D.C.

We have audited the accompanying financial statements of the Federation of American Scientists (FAS), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and change in net assets, functional expenses 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 FAS as of June 30, 2017, 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 FAS' 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 21, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gelman Rosenberg & Friedman

November 1, 2017

FEDERATION OF AMERICAN SCIENTISTS
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016

ASSETS

	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	\$ 274,250	\$ 466,727
Investments	4,187,860	4,037,973
Accounts receivable	87,856	29,810
Grants receivable	20,000	275,000
Pledges receivable	-	68,869
Prepaid expenses	58,325	60,660
Total current assets	4,628,291	4,939,039
FIXED ASSETS		
Furniture and equipment	178,308	174,254
Website development	9,999	9,999
Leasehold improvements	64,891	64,891
	253,198	249,144
Less: Accumulated depreciation and amortization	(242,873)	(232,539)
Net fixed assets	10,325	16,605
OTHER ASSETS		
Security deposit	31,008	31,008
TOTAL ASSETS	\$ 4,669,624	\$ 4,986,652

LIABILITIES AND NET ASSETS

	<u>2017</u>	<u>2016</u>
CURRENT LIABILITIES		
Accounts payable and accrued liabilities	\$ 22,637	\$ 70,881
Accrued salaries and related benefits	41,106	38,627
Deferred income	-	11,176
Deferred rent liability	<u>22,408</u>	<u>37,394</u>
	<u>86,151</u>	<u>158,078</u>
LONG-TERM LIABILITIES		
Deferred rent liability, net of current portion	-	22,408
Security deposits	<u>19,469</u>	<u>19,469</u>
	<u>19,469</u>	<u>41,877</u>
	<u>105,620</u>	<u>199,955</u>
NET ASSETS		
Unrestricted	2,182,610	1,715,699
Temporarily restricted	381,394	1,070,998
Permanently restricted	<u>2,000,000</u>	<u>2,000,000</u>
	<u>4,564,004</u>	<u>4,786,697</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,669,624</u>	<u>\$ 4,986,652</u>

FEDERATION OF AMERICAN SCIENTISTS
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016

	<u>2017</u>			<u>2016</u>	
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	<u>Total</u>
REVENUE					
Grants and contributions	\$ 222,890	\$ 288,806	\$ -	\$ 511,696	\$ 1,523,568
Government contracts	118,292	-	-	118,292	81,640
Contracts	144,353	-	-	144,353	99,492
Rental income	208,246	-	-	208,246	201,119
Other revenue	1,798	-	-	1,798	10,042
Net assets released from donor restrictions	<u>1,235,256</u>	<u>(1,235,256)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenue	<u>1,930,835</u>	<u>(946,450)</u>	<u>-</u>	<u>984,385</u>	<u>1,915,861</u>
EXPENSES					
Program Services	1,135,427	-	-	1,135,427	1,023,051
Management and General Development	467,161	-	-	467,161	512,235
	<u>104,446</u>	<u>-</u>	<u>-</u>	<u>104,446</u>	<u>59,717</u>
Total expenses	<u>1,707,034</u>	<u>-</u>	<u>-</u>	<u>1,707,034</u>	<u>1,595,003</u>
Change in net assets before other item	223,801	(946,450)	-	(722,649)	320,858
OTHER ITEM					
Investment income (loss)	<u>243,110</u>	<u>256,846</u>	<u>-</u>	<u>499,956</u>	<u>(62,668)</u>
Change in net assets	466,911	(689,604)	-	(222,693)	258,190
Net assets at beginning of year	<u>1,715,699</u>	<u>1,070,998</u>	<u>2,000,000</u>	<u>4,786,697</u>	<u>4,528,507</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,182,610</u>	<u>\$ 381,394</u>	<u>\$ 2,000,000</u>	<u>\$ 4,564,004</u>	<u>\$ 4,786,697</u>

FEDERATION OF AMERICAN SCIENTISTS
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016

	2017			2016	
	Program Services	Management and General	Development	Total Expenses	Total Expenses
Salaries and related expenses	\$ 528,297	\$ 104,521	\$ 32,589	\$ 665,407	\$ 637,839
Professional fees	320,893	46,378	40	367,311	341,723
Travel expenses	77,985	4,466	21,356	103,807	93,098
Occupancy expense	125,530	299,179	5,923	430,632	416,464
Office expense	4,198	338	7,074	11,610	16,579
IT and equipment expense	57,929	10,454	27,756	96,139	50,547
Event expense	1,735	399	6,776	8,910	8,956
Administrative expense	18,860	1,426	2,932	23,218	29,797
TOTAL	\$ 1,135,427	\$ 467,161	\$ 104,446	\$1,707,034	\$1,595,003

FEDERATION OF AMERICAN SCIENTISTS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
WITH SUMMARIZED FINANCIAL INFORMATION FOR 2016

	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (222,693)	\$ 258,190
Adjustments to reconcile change in net assets to net cash (used) provided by operating activities:		
Depreciation and amortization	10,334	9,956
Unrealized loss on investments	267,247	126,125
Realized gain on investments	(695,537)	(5,969)
Deferred rent liability	(37,394)	(27,718)
(Increase) decrease in:		
Accounts receivable	(58,046)	42,189
Grants receivable	255,000	(175,000)
Pledges receivable	68,869	(68,869)
Prepaid expenses	2,335	904
(Decrease) increase in:		
Accounts payable and accrued liabilities	(48,244)	1,344
Accrued salaries and related benefits	2,479	(1,267)
Deferred income	<u>(11,176)</u>	<u>2,958</u>
Net cash (used) provided by operating activities	<u>(466,826)</u>	<u>162,843</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(4,054)	-
Purchase of investments	(4,214,018)	(30,519)
Proceeds from sale of investments	<u>4,492,421</u>	<u>100,000</u>
Net cash provided by investing activities	<u>274,349</u>	<u>69,481</u>
Net (decrease) increase in cash and cash equivalents	(192,477)	232,324
Cash and cash equivalents at beginning of year	<u>466,727</u>	<u>234,403</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 274,250</u>	<u>\$ 466,727</u>

FEDERATION OF AMERICAN SCIENTISTS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

Organization -

The Federation of American Scientists (FAS) is a non-profit organization, incorporated in the District of Columbia and located in Washington, D.C. FAS general purpose is to provide educational, scientific and legislative information to the public and Government.

Basis of presentation -

The accompanying financial statements are presented on the accrual basis of accounting, and in accordance with the Financial Accounting Standards Board (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 FAS' financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Cash and cash equivalents -

FAS 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, FAS 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. Interest, dividends, realized and unrealized gains and losses and investment fees are included in investment income (loss) in the Statement of Activities and Change in Net Assets.

Receivables -

Receivables are recorded at their net realizable value, which approximates fair value. Grants receivable that are expected to be collected in future years are recorded at their fair value, measured as the present value of their future cash flows. The discounts on these amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in grants and contribution revenue.

Conditional promises to give are not included as support until the conditions are substantially met. All accounts and grants receivable are considered by management to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

Fixed assets -

Fixed assets in excess of \$1,000 are capitalized and stated at cost. Fixed assets are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to seven years. 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 June 30, 2017 totaled \$10,334, and it is included in IT and equipment expense in the Statement of Functional Expenses.

FEDERATION OF AMERICAN SCIENTISTS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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

Net asset classification -

The net assets are reported in three self-balancing groups as follows:

- **Unrestricted net assets** include unrestricted revenue and contributions received without donor-imposed restrictions. These net assets are available for the operation of FAS and include both internally designated and undesignated resources.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of FAS and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Change in Net Assets as net assets released from restrictions.
- **Permanently restricted net assets** represent funds restricted by the donor to be maintained in-perpetuity by FAS. There are restrictions placed on the use of investment earnings from these endowment funds.

Grants and contributions -

Unrestricted and temporarily restricted grants and contributions are recorded as revenue in the year notification is received from the donor. Temporarily restricted grants and contributions are recognized as unrestricted support only to the extent of actual expenses incurred in compliance with the donor-imposed restrictions and satisfaction of time restrictions. Such funds in excess of expenses incurred are shown as temporarily restricted net assets in the accompanying financial statements.

Contracts -

Contract revenues are derived principally from fixed-price and time-and-materials contracts with the Federal Government and other organizations. Revenue on fixed-price contracts is recognized ratably over the period of the contract. Revenue on time-and-materials contracts is recognized based on the number of hours of incurred time at the contractual hourly rates, plus reimbursable expenses incurred.

Income taxes -

FAS 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. FAS is not a private foundation.

FAS is required to report unrelated business income to the Internal Revenue Service and the appropriate state taxing authorities. Unrelated business income consists primarily of website advertising revenue.

Uncertain tax positions -

For the year ended June 30, 2017, FAS 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.

FEDERATION OF AMERICAN SCIENTISTS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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

Use of estimates -

The preparation of the 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. Accordingly, actual results could differ from those estimates.

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 -

FAS 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 -

FAS 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. FAS accounts for a significant portion of its financial instruments at fair value or considers fair value in their measurement.

New accounting pronouncement not yet adopted -

In August 2016, the 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. While the ASU will change the presentation of FAS' financial statements, it is not expected to alter FAS' reported financial position.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers* (Topic 606) (ASU 2014-09). The ASU establishes a comprehensive revenue recognition standard for virtually all industries under generally accepted accounting principles in the United States (U.S. GAAP) including those that previously followed industry-specific guidance. The guidance states that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

FEDERATION OF AMERICAN SCIENTISTS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

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

New accounting pronouncement not yet adopted (continued) -

The FASB issued ASU 2015-14 in August 2015 that deferred the effective date of ASU 2014-09 by a year; thus, the effective date is fiscal years beginning after December 15, 2018.

In 2016, the FASB issued ASU 2016-02, *Leases* (Topic 842). The ASU changes the accounting treatment for operating leases by recognizing a lease asset and lease liability at the present value of the lease payments in the Statement of Financial Position and disclosing key information about leasing arrangements. The ASU is effective for private entities for fiscal years beginning after December 15, 2019.

Early adoption for the ASUs is permitted. The ASUs should be applied at the beginning of the earliest period presented using a modified retrospective approach. FAS plans to adopt the ASUs at the required implementation date.

2. INVESTMENTS

Investments consisted of the following at June 30, 2017:

	<u>Market Value</u>
Fixed income mutual funds	\$ 1,228,616
Equity mutual funds:	
Domestic	2,074,062
International	<u>885,182</u>
TOTAL INVESTMENTS	<u>\$ 4,187,860</u>

Included in investment income are the following for the year ended June 30, 2017:

Interest and dividends	\$ 85,135
Unrealized loss	(267,247)
Realized gain	695,537
Investment fees	<u>(13,469)</u>
TOTAL INVESTMENT INCOME	<u>\$ 499,956</u>

3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at June 30, 2017:

Strategic Security	\$ 103,965
Government Secrecy	<u>277,429</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 381,394</u>

FEDERATION OF AMERICAN SCIENTISTS

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

4. NET ASSETS RELEASED FROM RESTRICTIONS

The following temporarily restricted net assets were released from donor restrictions by incurring expenses (or through the passage of time) which satisfied the restricted purposes specified by the donors:

Strategic Security	\$ 694,213
Government Secrecy	239,657
Appropriation of endowment assets for expenditure	256,846
Other	<u>44,540</u>
TOTAL NET ASSETS RELEASED FROM RESTRICTIONS	\$ <u>1,235,256</u>

5. LEASE COMMITMENTS

FAS leases office space under a ten-year agreement, which originated in October 2007. Base rent is \$32,446 per month, plus a proportionate share of expenses, increasing by a factor of 2.5% per year. Subsequent to year-end, FAS entered into a five-year lease agreement for office space to begin January 2018. Base rent begins at \$8,896 per month.

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.

The following is a schedule of the future minimum lease payments:

Year Ending June 30,

2018	\$ 255,416
2019	108,084
2020	110,787
2021	113,556
2022	116,395
Thereafter	<u>119,305</u>
	\$ <u>823,543</u>

Rent expense for the year ended June 30, 2017, was \$416,053. Rent expense is included in occupancy expense in the accompanying Statement of Functional Expenses. The deferred rent liability was \$22,408 as of June 30, 2017.

FAS sublets portions of its office space under several subleases. The subleases will terminate effective December 31, 2017.

The following is a schedule of future minimum lease payments to be received at June 30, 2017:

Year Ending June 30, 2018	\$ <u>72,803</u>
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Rental income for the year ended June 30, 2017 was \$208,246.

FEDERATION OF AMERICAN SCIENTISTS

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

5. LEASE COMMITMENTS (Continued)

FAS utilized the services of a real estate agent in order to find the tenants to sublease its office space. In doing so, they incurred real estate commission fees, which are being amortized over the life of each sublease. Real estate commission expense for the year ended June 30, 2017 was \$4,561, and is included in occupancy expense in the accompanying Statement of Functional Expenses. The real estate commissions asset was fully amortized as of June 30, 2017.

6. RETIREMENT PLAN

FAS provides retirement benefits to its employees through a defined contribution plan covering all full-time employees with one-year of eligible experience. FAS has a matching contribution beginning on the first pay period following twelve consecutive months of service, which is 100% of employee deferrals, up to 5% of compensation.

FAS also has a discretionary contribution beginning on the first pay period following twelve consecutive months of service, which is 5% of each employee salary, regardless of their own deferral contribution. The discretionary contribution increases to 9% after four years of employment. For the year ended June 30, 2017, FAS made discretionary contributions to the plan in the amount of \$60,037.

7. FAIR VALUE MEASUREMENT

In accordance with FASB ASC 820, *Fair Value Measurement*, FAS 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 FAS 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 June 30, 2017.

- *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.

FEDERATION OF AMERICAN SCIENTISTS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

7. FAIR VALUE MEASUREMENT (Continued)

The table below summarizes, by level within the fair value hierarchy, FAS' investments as of June 30, 2017:

Asset Class:	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Fixed income mutual funds	\$ 1,228,616	\$ -	\$ -	\$ 1,228,616
Equity mutual funds:				
Domestic	2,074,062	-	-	2,074,062
International	<u>885,182</u>	<u>-</u>	<u>-</u>	<u>885,182</u>
TOTAL	<u>\$ 4,187,860</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,187,860</u>

8. ENDOWMENT

FAS' endowment consists of donor-restricted endowment funds. As required by generally accepted accounting principles (GAAP), net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary.

As a result of this interpretation, FAS classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

In accordance with UPMIFA, the organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the fund;
- The purpose of the organization and the donor-restricted endowment fund;
- General economic conditions and the possible effect of inflation and deflation;
- The expected total return from income and the appreciation of investments; and
- Investment policies of the organization.

Endowment net asset composition by type of fund as of June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>

FEDERATION OF AMERICAN SCIENTISTS

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

8. ENDOWMENT (Continued)

Changes in endowment net assets for the year ended June 30, 2017:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ -	\$ 2,000,000	\$ 2,000,000
Investment return:				
Investment income	-	42,561	-	42,561
Net appreciation (realized and unrealized)	<u>-</u>	<u>214,285</u>	<u>-</u>	<u>214,285</u>
Total investment return	<u>-</u>	<u>256,846</u>	<u>-</u>	<u>256,846</u>
Appropriation of endowment assets for expenditure	<u>-</u>	<u>(256,846)</u>	<u>-</u>	<u>(256,846)</u>
ENDOWMENT NET ASSETS, END OF YEAR	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,000,000</u></u>	<u><u>\$ 2,000,000</u></u>

Funds with Deficiencies -

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the organization to retain as fund of perpetual duration. There were no deficiencies of this nature that are reported in unrestricted net assets as of June 30, 2017.

Return Objectives and Risk Parameters -

FAS has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the organization must hold in-perpetuity or for a donor-specified period.

Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to:

1. Maintain the principal of the endowment adjusted for inflation (US Department of Labor Consumer Price Index).
2. Generate earned income for operations and programs.
3. Preserve the purchasing power of the endowment.
4. Generate capital growth to increase the value of the endowment.

Strategies Employed for Achieving Objectives -

To satisfy its long-term rate-of-return objectives, FAS relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). FAS targets a diversified asset allocation of approximately 60% in equity-based investments and 40% in fixed-income investments to achieve its long-term return objectives within prudent risk constraints.

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8. ENDOWMENT (Continued)

Spending Policy and How the Investment Objectives Relate to Spending Policy -

FAS has a policy of appropriating for distribution each year an amount not to exceed earnings from dividends, interest and realized gains and losses. This is consistent with FAS objective to maintain the purchasing power of the endowment assets held in-perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

9. SUBSEQUENT EVENTS

In preparing these financial statements, FAS has evaluated events and transactions for potential recognition or disclosure through November 1, 2017, the date the financial statements were issued.