

UNION OF CONCERNED SCIENTISTS, INC.

**FINANCIAL STATEMENTS
YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

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Certified Public Accountants & Consultants

UNION OF CONCERNED SCIENTISTS, INC.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Union of Concerned Scientists, Inc.
Cambridge, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of Union of Concerned Scientists, Inc. (UCS), which comprise the statements of financial position as of September 30, 2016 and 2015, the related statements of activities, functional expenses, and cash flows for the years 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 U.S. generally accepted accounting principles, 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 audits. We conducted our audits in accordance with U.S. generally accepted auditing standards. 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 UCS'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 UCS'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 Union of Concerned Scientists, Inc. as of September 30, 2016 and 2015, and the changes in its net assets, functional expenses, and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

Tonneson & Company, PC

Wakefield, Massachusetts
March 3, 2017

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Certified Public Accountants & Consultants

401 Edgewater Place, Suite 300, Wakefield, MA 01880-6208 t. 781.245.9999 f. 781.245.8731 www.tonneson.com

UNION OF CONCERNED SCIENTISTS, INC.

STATEMENTS OF FINANCIAL POSITION

SEPTEMBER 30, 2016 AND 2015

	<u>Unrestricted</u>						
	<u>General</u>	<u>Board Designated</u>	<u>Total Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
<u>ASSETS</u>							
ASSETS:							
Cash and cash equivalents	\$ 1,707,280	\$	\$ 1,707,280	\$ 3,799,138	\$	\$ 5,506,418	\$ 4,862,607
Investments		26,672,207	26,672,207	391,296	185,435	27,248,938	27,846,547
Pledges receivable			-	108,488		108,488	109,620
Grants receivable			-	1,483,022		1,483,022	2,047,564
Prepaid expenses and other assets	638,643		638,643			638,643	476,572
Property and equipment, net	9,109,575		9,109,575			9,109,575	8,877,572
TOTAL ASSETS	\$ 11,455,498	\$ 26,672,207	\$ 38,127,705	\$ 5,781,944	\$ 185,435	\$ 44,095,084	\$ 44,220,482
<u>LIABILITIES AND NET ASSETS</u>							
LIABILITIES:							
Accounts payable and accrued expenses	\$ 1,118,046	\$	\$ 1,118,046	\$	\$	\$ 1,118,046	\$ 1,431,610
Deferred rent	274,483		274,483			274,483	-
Liabilities under unitrust and annuity agreements			-	1,434,236		1,434,236	1,252,969
Long-term debt	2,661,454		2,661,454			2,661,454	3,606,940
Note payable, other	250,000		250,000			250,000	250,000
Due to (from) other funds	1,832,968	(1,832,968)	-			-	-
TOTAL LIABILITIES	6,136,951	(1,832,968)	4,303,983	1,434,236	-	5,738,219	6,541,519
NET ASSETS	5,318,547	28,505,175	33,823,722	4,347,708	185,435	38,356,865	37,678,963
TOTAL LIABILITIES AND NET ASSETS	\$ 11,455,498	\$ 26,672,207	\$ 38,127,705	\$ 5,781,944	\$ 185,435	\$ 44,095,084	\$ 44,220,482

See Notes to Financial Statements.

UNION OF CONCERNED SCIENTISTS, INC.

STATEMENT OF FINANCIAL POSITION

SEPTEMBER 30, 2015

	<u>Unrestricted</u>					
	<u>General</u>	<u>Board Designated</u>	<u>Total Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>ASSETS</u>						
ASSETS:						
Cash and cash equivalents	\$ 955,249	\$ 1,424,909	\$ 2,380,158	\$ 2,482,449	\$	\$ 4,862,607
Investments		26,714,488	26,714,488	946,624	185,435	27,846,547
Pledges receivable			-	109,620		109,620
Grants receivable			-	2,047,564		2,047,564
Prepaid expenses and other assets	476,572		476,572			476,572
Property and equipment, net	<u>8,877,572</u>		<u>8,877,572</u>			<u>8,877,572</u>
TOTAL ASSETS	<u>\$ 10,309,393</u>	<u>\$ 28,139,397</u>	<u>\$ 38,448,790</u>	<u>\$ 5,586,257</u>	<u>\$ 185,435</u>	<u>\$ 44,220,482</u>
<u>LIABILITIES AND NET ASSETS</u>						
LIABILITIES:						
Accounts payable and accrued expenses	\$ 1,431,610	\$	\$ 1,431,610	\$	\$	\$ 1,431,610
Liabilities under unitrust and annuity agreements			-	1,252,969		1,252,969
Long-term debt	3,606,940		3,606,940			3,606,940
Note payable, other	250,000		250,000			250,000
Due to (from) other funds	<u>700,709</u>	<u>(700,709)</u>	<u>-</u>			<u>-</u>
TOTAL LIABILITIES	5,989,259	(700,709)	5,288,550	1,252,969	-	6,541,519
NET ASSETS	<u>4,320,134</u>	<u>28,840,106</u>	<u>33,160,240</u>	<u>4,333,288</u>	<u>185,435</u>	<u>37,678,963</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 10,309,393</u>	<u>\$ 28,139,397</u>	<u>\$ 38,448,790</u>	<u>\$ 5,586,257</u>	<u>\$ 185,435</u>	<u>\$ 44,220,482</u>

See Notes to Financial Statements.

UNION OF CONCERNED SCIENTISTS, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2016

(WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2015)

	<u>Unrestricted</u>						
	<u>General</u>	<u>Board Designated</u>	<u>Total Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
OPERATING REVENUE AND OTHER SUPPORT:							
Membership and contributions	\$ 16,352,962	\$	\$ 16,352,962	\$ 4,561,978	\$	\$ 20,914,940	\$ 19,396,899
Foundation and other institutional grants	100,000		100,000	5,144,910		5,244,910	6,364,278
Net investment income		2,428,683	2,428,683	14,665		2,443,348	(694,386)
Bequests and annuities	1,434,818	1,522,492	2,957,310			2,957,310	962,893
In-kind contributions	543,976		543,976			543,976	30,250
Other revenue	474,810		474,810			474,810	486,090
Interfund transfers	1,975,197	(1,975,197)	-			-	-
Net assets released from restrictions:							
Appropriation of cumulative gains	1,312,496	(1,312,496)	-			-	-
Satisfaction of program restrictions	9,707,133		9,707,133	(9,707,133)		-	-
Total operating revenue and other support	<u>31,901,392</u>	<u>663,482</u>	<u>32,564,874</u>	<u>14,420</u>	<u>-</u>	<u>32,579,294</u>	<u>26,546,024</u>
OPERATING EXPENSES:							
Programs:							
Center for Science and Democracy	3,801,476		3,801,476			3,801,476	3,516,842
Climate and Clean Energy	11,009,597		11,009,597			11,009,597	10,668,921
Clean Vehicles	3,383,083		3,383,083			3,383,083	3,178,555
Global Security	3,071,409		3,071,409			3,071,409	2,823,145
Food and Environment	4,780,968		4,780,968			4,780,968	2,823,862
Legislative	348,089		348,089			348,089	312,935
	<u>26,394,622</u>	<u>-</u>	<u>26,394,622</u>	<u>-</u>	<u>-</u>	<u>26,394,622</u>	<u>23,324,260</u>
Supporting services:							
Fundraising and member communications	4,347,110		4,347,110			4,347,110	3,723,858
General and administrative	1,159,660		1,159,660			1,159,660	987,035
	<u>5,506,770</u>	<u>-</u>	<u>5,506,770</u>	<u>-</u>	<u>-</u>	<u>5,506,770</u>	<u>4,710,893</u>
Total operating expenses	<u>31,901,392</u>	<u>-</u>	<u>31,901,392</u>	<u>-</u>	<u>-</u>	<u>31,901,392</u>	<u>28,035,153</u>
CHANGE IN NET ASSETS BEFORE TRANSFER FOR CAPITAL EXPENDITURES	-	663,482	663,482	14,420	-	677,902	(1,489,129)
Transfer for capital expenditures	998,413	(998,413)	-	-	-	-	-
CHANGE IN NET ASSETS	998,413	(334,931)	663,482	14,420	-	677,902	(1,489,129)
NET ASSETS AT BEGINNING OF YEAR	<u>4,320,134</u>	<u>28,840,106</u>	<u>33,160,240</u>	<u>4,333,288</u>	<u>185,435</u>	<u>37,678,963</u>	<u>39,168,092</u>
NET ASSETS AT END OF YEAR	<u>\$ 5,318,547</u>	<u>\$ 28,505,175</u>	<u>\$ 33,823,722</u>	<u>\$ 4,347,708</u>	<u>\$ 185,435</u>	<u>\$ 38,356,865</u>	<u>\$ 37,678,963</u>

See Notes to Financial Statements.

UNION OF CONCERNED SCIENTISTS, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2015

	<u>Unrestricted</u>					
	<u>General</u>	<u>Board Designated</u>	<u>Total Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
OPERATING REVENUE AND OTHER SUPPORT:						
Membership and contributions	\$ 16,423,856	\$ -	\$ 16,423,856	\$ 2,973,043	\$ -	\$ 19,396,899
Foundation and other institutional grants	150,000	-	150,000	6,214,278	-	6,364,278
Net investment income	-	(689,484)	(689,484)	(4,902)	-	(694,386)
In-kind contributions	30,250	-	30,250	-	-	30,250
Bequests and annuities	334,207	628,686	962,893	-	-	962,893
Other revenue	486,090	-	486,090	-	-	486,090
Interfund transfers	915,549	(915,549)	-	-	-	-
Net assets released from restrictions:						
Appropriation of cumulative gains	1,294,217	(1,294,217)	-	-	-	-
Satisfaction of program restrictions	8,400,984	-	8,400,984	(8,400,984)	-	-
Total operating revenue and other support	<u>28,035,153</u>	<u>(2,270,564)</u>	<u>25,764,589</u>	<u>781,435</u>	<u>-</u>	<u>26,546,024</u>
OPERATING EXPENSES:						
Programs:						
Center for Science and Democracy	3,516,842	-	3,516,842	-	-	3,516,842
Climate and Clean Energy	10,668,921	-	10,668,921	-	-	10,668,921
Clean Vehicles	3,178,555	-	3,178,555	-	-	3,178,555
Global Security	2,823,145	-	2,823,145	-	-	2,823,145
Food and Environment	2,823,862	-	2,823,862	-	-	2,823,862
Legislative	312,935	-	312,935	-	-	312,935
	<u>23,324,260</u>	<u>-</u>	<u>23,324,260</u>	<u>-</u>	<u>-</u>	<u>23,324,260</u>
Supporting services:						
Fundraising and member communications	3,723,858	-	3,723,858	-	-	3,723,858
General and administrative	987,035	-	987,035	-	-	987,035
	<u>4,710,893</u>	<u>-</u>	<u>4,710,893</u>	<u>-</u>	<u>-</u>	<u>4,710,893</u>
Total operating expenses	<u>28,035,153</u>	<u>-</u>	<u>28,035,153</u>	<u>-</u>	<u>-</u>	<u>28,035,153</u>
CHANGE IN NET ASSETS BEFORE TRANSFER FOR CAPITAL EXPENDITURES	-	(2,270,564)	(2,270,564)	781,435	-	(1,489,129)
Transfer for capital expenditures	1,520,000	(1,520,000)	-	-	-	-
CHANGE IN NET ASSETS	1,520,000	(3,790,564)	(2,270,564)	781,435	-	(1,489,129)
NET ASSETS AT BEGINNING OF YEAR	<u>2,800,134</u>	<u>32,630,670</u>	<u>35,430,804</u>	<u>3,551,853</u>	<u>185,435</u>	<u>39,168,092</u>
NET ASSETS AT END OF YEAR	\$ <u>4,320,134</u>	\$ <u>28,840,106</u>	\$ <u>33,160,240</u>	\$ <u>4,333,288</u>	\$ <u>185,435</u>	\$ <u>37,678,963</u>

See Notes to Financial Statements.

UNION OF CONCERNED SCIENTISTS, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

YEAR ENDED SEPTEMBER 30, 2016

	Programs						Supporting Services			Total Operating Expenses	
	Center for Science and Democracy	Climate and Clean Energy	Clean Vehicles	Global Security	Food and Environment	Legislative	Total Programs	Fundraising and Member Communications	General and Administrative		Total Supporting Services
Personnel costs	\$ 2,106,978	\$ 6,541,111	\$ 2,108,843	\$ 2,026,844	\$ 1,949,555	\$ 180,519	\$ 14,913,850	\$ 2,644,936	\$ 863,448	\$ 3,508,384	\$ 18,422,234
Contractual expenses	669,614	1,790,434	518,941	453,562	576,671	106,097	4,115,319	452,659	161,040	613,699	4,729,018
Coalition support	10,835	92,792	8,521	7,771	1,348,908	19	1,468,846	4,457	98	4,555	1,473,401
Publications and mailing costs	251,232	546,980	120,258	91,389	161,682	1,446	1,172,987	670,139	1,421	671,560	1,844,547
Event costs	163,627	240,310	43,020	36,995	112,859	1,648	598,459	148,215	2,359	150,574	749,033
Office and equipment expenses	342,322	1,052,353	395,067	276,630	396,981	40,816	2,504,169	153,378	96,651	250,029	2,754,198
Books, periodicals and online services	88,233	241,811	75,714	74,522	85,143	3,626	569,049	101,620	16,965	118,585	687,634
Travel	135,251	397,968	78,490	69,699	117,505	11,191	810,104	150,285	3,292	153,577	963,681
Fees and interest expense	33,384	105,838	34,229	33,997	31,664	2,727	241,839	21,421	14,386	35,807	277,646
Total expenses	\$ 3,801,476	\$ 11,009,597	\$ 3,383,083	\$ 3,071,409	\$ 4,780,968	\$ 348,089	\$ 26,394,622	\$ 4,347,110	\$ 1,159,660	\$ 5,506,770	\$ 31,901,392

YEAR ENDED SEPTEMBER 30, 2015

	Programs						Supporting Services			Total Operating Expenses	
	Center for Science and Democracy	Climate and Clean Energy	Clean Vehicles	Global Security	Food and Environment	Legislative	Total Programs	Fundraising and Member Communications	General and Administrative		Total Supporting Services
Personnel costs	\$ 1,888,286	\$ 6,278,903	\$ 1,943,251	\$ 1,904,172	\$ 1,745,122	\$ 159,442	\$ 13,919,176	\$ 2,282,010	\$ 764,046	\$ 3,046,056	\$ 16,965,232
Contractual expenses	563,558	1,649,658	447,321	281,036	355,135	100,045	3,396,753	323,241	109,550	432,791	3,829,544
Coalition support	14,877	103,680	9,828	9,220	12,603	485	150,693	5,262	184	5,446	156,139
Publications and mailing costs	453,917	519,183	173,280	59,784	64,606	4,123	1,274,893	658,656	1,207	659,863	1,934,756
Event costs	63,364	196,088	27,646	121,615	56,877	700	466,290	88,862	2,809	91,671	557,961
Office and equipment expenses	289,066	1,056,216	384,188	243,763	366,474	36,322	2,376,029	126,887	78,386	205,273	2,581,302
Books, periodicals and online services	61,467	201,108	58,230	57,955	55,362	2,165	436,287	67,183	9,317	76,500	512,787
Travel	148,834	549,400	99,118	109,107	135,009	6,964	1,048,432	150,934	8,255	159,189	1,207,621
Fees and interest expense	33,473	114,685	35,693	36,493	32,674	2,689	255,707	20,823	13,281	34,104	289,811
Total expenses	\$ 3,516,842	\$ 10,668,921	\$ 3,178,555	\$ 2,823,145	\$ 2,823,862	\$ 312,935	\$ 23,324,260	\$ 3,723,858	\$ 987,035	\$ 4,710,893	\$ 28,035,153

See Notes to Financial Statements.

UNION OF CONCERNED SCIENTISTS, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 677,902	\$ (1,489,129)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	646,142	518,316
Realized and unrealized (gains) losses on investments, net	(2,203,191)	1,064,052
Loss on disposal of property and equipment	6,410	-
Changes in certain assets and liabilities:		
Pledges receivable	1,132	54,469
Grants receivable	564,542	(585,793)
Prepaid expenses and other assets	(165,681)	(154,962)
Accounts payable and accrued expenses	(313,564)	58,509
Deferred rent	274,483	-
Liabilities under unitrust and annuity agreements	<u>181,267</u>	<u>62,003</u>
Net cash used in operating activities	<u>(330,558)</u>	<u>(472,535)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(880,945)	(772,387)
Proceeds from sales (purchases) of investments, net	<u>2,800,800</u>	<u>3,580,073</u>
Net cash provided by investing activities	<u>1,919,855</u>	<u>2,807,686</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of long-term debt	<u>(945,486)</u>	<u>(926,116)</u>
Net cash used in financing activities	<u>(945,486)</u>	<u>(926,116)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	643,811	1,409,035
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,862,607</u>	<u>3,453,572</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ <u><u>5,506,418</u></u>	\$ <u><u>4,862,607</u></u>

See Notes to Financial Statements.

UNION OF CONCERNED SCIENTISTS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 1 - NATURE OF ORGANIZATION

Union of Concerned Scientists, Inc. (“UCS”) is an independent not-for-profit organization that was incorporated in the District of Columbia on September 19, 1973. UCS’s support comes primarily from foundations, memberships, and other contributions from individuals.

UCS puts rigorous, independent science to work to solve our planet's most pressing problems. Joining with citizens across the country, UCS combines technical analysis and effective advocacy to create innovative, practical solutions for a healthy, safe, and sustainable future.

What began as a collaboration between students and faculty members at the Massachusetts Institute of Technology in 1969 is now an alliance of more than 400,000 citizens and scientists. UCS members are people from all walks of life: parents and businesspeople, biologists and physicists, teachers, and students. UCS members understand that scientific analysis - not political calculations or corporate hype - should guide our efforts to secure responsible changes in government policy, corporate practices, and consumer choices.

UCS experts work on some of the world's most complex and daunting problems: stemming the tide of global warming, finding sustainable ways to feed, power and transport ourselves, and reducing the threat of catastrophic war. UCS’s achievements over the decades show that thoughtful action based on the best available science can help safeguard our future and the future of our planet.

UCS’s major programs include Center for Science and Democracy, Climate and Clean Energy, Clean Vehicles, Global Security, Food and Environment, and Legislative.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Classification of Net Assets - Net assets and revenue, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

Unrestricted Net Assets - Net assets not subject to donor imposed restrictions or for which restrictions have expired. Unrestricted net assets include the following:

General - General includes the revenue and expenses associated with the principal mission of UCS.

Board Designated - Board Designated includes certain unrestricted contributions and bequests that have been earmarked by the Board of Directors to build a reserve that will provide a long-term stable funding source for UCS, as well as an operating cash reserve and a fund for strategic initiatives.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may, or will be, met by actions of UCS and/or the passage of time.

Permanently Restricted Net Assets - Net assets subject to donor-imposed stipulations that the principal be maintained in perpetuity by UCS and the income is available to support the general operations of UCS.

UNION OF CONCERNED SCIENTISTS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates - The preparation of the financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - Cash and cash equivalents consist of bank and money market accounts with initial maturities of 90 days or less. Certificate of deposit accounts with initial maturities of one year or less are also included in cash and cash equivalents.

Investments - Investments in marketable securities with readily determinable market values and all investments in debt securities are carried at fair value in the Statements of Financial Position. Net realized and unrealized gains and losses in the fair value of the investments are reflected in the Statements of Activities. Investments, in general, are exposed to various risks, such as interest rate, credit and overall market volatility. As such, it is reasonably possible that changes in the values of investments will occur in the near term and those changes could materially affect the amounts reported in the financial statements.

Investment Income - Interest, dividends and net gains or losses on investments are reported as follows:

- as increases or decreases in permanently restricted net assets if the terms of the gift require that they be applied to the principal of a permanent endowment fund;
- as increases or decreases in temporarily restricted net assets if the terms of the gift impose restrictions on the current use of the income or net gains and losses; and
- as increases or decreases in unrestricted net assets in all other cases; and losses in excess of accumulated unspent gains on permanently and temporarily restricted net assets are reported as decreases in unrestricted net assets. These amounts will be restored to unrestricted as future gains are earned on the underlying investments. Should future gains exceed the original corpus of the underlying gifts, such amounts would be reflected as accumulated unspent gains in temporarily restricted net assets.

Investment Return Objectives and Parameters - UCS's primary objective is to provide long-term stability while allowing support for current activities. To satisfy its objectives, UCS 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). UCS targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk constraints.

UNION OF CONCERNED SCIENTISTS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Spending Policy - UCS utilizes a spending policy whereby a percentage of the historical twelve quarter average market value of the board designated reserve is distributed for program services and capital needs and treated as support for operating activities. The amount distributed is reported as a component of net assets released from restrictions. To the extent the total return requirement for the current year is not fulfilled by interest and dividends, UCS utilizes realized gains of its board designated reserve. In the event unrestricted general activities has a surplus for the year, UCS will not appropriate any gains from its board designated reserves. For the years ended September 30, 2016 and 2015, UCS appropriated the amount necessary to balance the unrestricted general activities.

During the year ended September 30, 2016, the Board revised its policy whereby 50% of current year bequests received may be used to support operations with the remainder being designated by the Board for special purposes. In the event unrestricted general activities has a surplus for the year, UCS will not use any bequests to support operations. For the year ended September 30, 2016 \$1,434,818 of bequests were used to support operations.

For the year ended September 30, 2015 The Board's policy is that 50% of the five year average of unrestricted bequests received annually may be used to support operations with the remainder being designated by the Board for special purposes. In the event unrestricted general activities has a surplus for the year, UCS will not use any bequests to support operations. For the year ended September 30, 2015 \$334,207 of bequests were used to support operations.

For the years ended September 30, 2016 and 2015, the Board voted to transfer from board designated reserve the amount needed to cover the General Operations deficit. The transfer from the board designated reserve amounted to \$1,975,197 and \$915,549 for the years ended September 30, 2016 and 2015, respectively.

For the years ended September 30, 2016 and 2015, the Board voted to transfer from board designated reserve the amount needed for capital expenditures. The transfer from the board designated reserve amounted to \$998,413 and \$1,520,000 for the years ended September 30, 2016 and 2015, respectively.

Gift Annuities and Charitable Remainder Unitrust Agreements - UCS records assets received under gift annuities and charitable remainder unitrust agreements at the fair market value of the assets when the assets are received by UCS as trustee. In conjunction with these gift annuity and unitrust contributions, UCS has recorded a liability equal to the present value of future cash flows expected to be paid to the beneficiaries based on actuarial expected lives of the beneficiaries.

Pledges and Grants Receivable - Pledges receivable represent unconditional promises to give. Grants receivable represent amounts awarded by various foundations to UCS that will be received in future periods. Amounts that will be received within one year are recorded at net realizable value and those that will not be received within one year are recorded at the present value of future cash flows.

Pledges and grants receivable are stated at the amount management expects to collect from outstanding pledges and grants. Management provides for probable uncollectible accounts through a charge to earnings and a credit to valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to pledges or grants receivable. Pledges and grants receivable have been reviewed by management and it has been determined that there is no requirement for an allowance.

Property and Equipment - Property and equipment are stated at cost, or if donated, are recorded at fair value at the date of the gift. The cost of normal maintenance and repairs is charged to expense as incurred; significant additions and improvements are capitalized.

UNION OF CONCERNED SCIENTISTS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and Equipment (Continued) - The straight-line method is used to depreciate the cost of property, plant and equipment over their estimated useful lives as follows:

Building and building improvements	40 years
Leasehold improvements	Term of Lease
Furniture and fixtures	5 - 10 years
Equipment	5 - 10 years
Solar equipment	25 years
Computer equipment	3 years

Contributions - Contribution revenues are recognized at the earlier of when received or when the donor declares an unconditional intent to contribute cash or other assets to UCS. Donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. The discount rates used for long-term pledges and grants receivable for 2016 and 2015 was .77% to .88% and .64% to .90%, respectively.

Contributed Services and Assets - Contributions of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of assets are recognized if the assets would typically need to be purchased if not provided by donation.

Paid Media - Paid media expenses refer to print or broadcast ads to increase public awareness of issues central to UCS's mission such as renewable energy, clean vehicles, and climate change. UCS's policy is to expense paid media costs as incurred. These expenses were approximately \$1,133,000 and \$381,000 for the years ended September 30, 2016 and 2015, respectively. Included in the expenses for the year ended September 30, 2016 is use of an in-kind donation of billboard advertising amounting to approximately \$514,000.

Rent Expense - Rent expense for the Washington D.C. operating lease, which has five months of free rent and escalating rental payments over the term of the lease, is recorded on a straight-line basis over the expected lease term.

Functional Allocation of Expenses - The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and the Statements of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Concentration of Credit Risk - Financial instruments, which potentially subject UCS to concentrations of credit risk, consist principally of temporary cash investments. UCS places its temporary cash investments in high quality financial institutions. However, at times a portion of temporary cash investments may be in excess of insured levels. At September 30, 2016, the amount in excess of insured levels amounted to approximately \$3,640,000. In addition, at September 30, 2016, UCS has approximately \$1,710,000 in non-insured money market accounts at various high quality financial institutions.

UNION OF CONCERNED SCIENTISTS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes - In accordance with Section 501(c)(3) of the Internal Revenue Code, UCS is exempt from federal and state income taxes and, accordingly, the financial statements do not reflect a provision for income taxes. In determining the recognition of uncertain tax positions, UCS applies a more-likely-than-not recognition threshold and determines the measurement of uncertain tax positions considering the amounts and probabilities of the outcomes that could be realized upon ultimate settlement with taxing authorities. As of September 30, 2016, UCS has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. These determinations have been reviewed according to guidance in a Financial Accounting Standards Board pronouncement related to accounting for uncertainty in income taxes. UCS is generally subject to potential examination by taxing jurisdictions for the prior three years.

Subsequent Events - The date to which events occurring after September 30, 2016 have been evaluated for possible adjustment to the financial statements or disclosure is the date of the Independent Auditor's Report which is the date the financial statements were available to be issued.

NOTE 3 - INVESTMENTS

Investments at September 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Equity Mutual Funds	\$ 17,126,319	\$ 17,371,867
Bond Mutual Funds	9,514,918	9,726,990
Certificates of Deposit	-	493,826
Commodities/Real Estate	6,434	6,096
Money Market Funds	<u>601,267</u>	<u>247,768</u>
	<u>\$ 27,248,938</u>	<u>\$ 27,846,547</u>

Investment income (loss), net of fees, for the years ended September 30, 2016 and 2015 consists of the following:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 368,694	\$ 476,559
Unrealized gains (losses), net	2,122,071	(1,785,172)
Realized gains (losses), net	81,120	721,120
Investment fees and annuity gifts interest expense	<u>(128,537)</u>	<u>(106,893)</u>
	<u>\$ 2,443,348</u>	<u>\$ (694,386)</u>

UNION OF CONCERNED SCIENTISTS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 4 - FAIR VALUE MEASUREMENTS

U.S generally accepted accounting principles define fair value as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants. U.S generally accepted accounting principles require UCS to maximize the use of observable market inputs, minimize the use of unobservable market inputs, and disclose in the form of an outlined hierarchy the details of such fair value measurements. U.S generally accepted accounting principles specify a hierarchy of valuation techniques based on whether the inputs to a fair value measurement are considered to be observable or unobservable in a marketplace. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect UCS's market assumptions.

This hierarchy requires the use of observable market data when available. These inputs have created the following fair value hierarchy:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than those included in Level 1. For example, quoted prices for similar assets in active markets or quoted prices for identical assets in inactive markets.

Level 3 - Unobservable inputs reflecting management's own assumptions about the inputs used in estimating the value of the asset.

The following table summarizes UCS's financial assets measured at fair value on a recurring basis in accordance with U.S. generally accepted accounting principles as of September 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
<u>Level 1</u>		
Mutual Funds		
Bond and fixed income	\$ 9,514,918	\$ 9,726,990
International	9,460,136	3,339,939
Large cap	7,660,708	14,027,129
Mid cap	4,234	3,733
Small cap	1,241	1,066
Money Market Funds	601,267	247,768
Certificates of Deposit	-	493,826
	<u>27,242,504</u>	<u>27,840,451</u>
<u>Level 2</u>		
Commodities/Real Estate	<u>6,434</u>	<u>6,096</u>
Total	<u>\$ 27,248,938</u>	<u>\$ 27,846,547</u>

UNION OF CONCERNED SCIENTISTS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 5 - PLEDGES RECEIVABLE

Pledges receivable at September 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Due within a year	\$ 50,000	\$ 80,000
Due between one and five years	60,000	30,000
	<u>110,000</u>	<u>110,000</u>
Less: present value discount	<u>(1,512)</u>	<u>(380)</u>
Net pledges receivable	<u>\$ 108,488</u>	<u>\$ 109,620</u>

NOTE 6 - GRANTS RECEIVABLE

Grants receivable at September 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Due within a year	\$ 1,238,816	\$ 1,597,608
Due between one and five years	249,940	455,734
	<u>1,488,756</u>	<u>2,053,342</u>
Less: present value discount	<u>(5,734)</u>	<u>(5,778)</u>
Net grants receivable	<u>\$ 1,483,022</u>	<u>\$ 2,047,564</u>

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment at September 30, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Building and leasehold improvements	\$ 11,290,834	\$ 10,974,535
Equipment, furniture and fixtures	3,469,463	2,978,001
	<u>14,760,297</u>	<u>13,952,536</u>
Less accumulated depreciation	<u>5,650,722</u>	<u>5,074,964</u>
Property and equipment, net	<u>\$ 9,109,575</u>	<u>\$ 8,877,572</u>

UNION OF CONCERNED SCIENTISTS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 8 - NOTE PAYABLE, BANK

UCS has a line of credit agreement with a bank whereby the maximum borrowings made available under the agreement are \$2,000,000. Borrowings under the agreement are due on demand and bear interest at the prime rate, plus one-half percent, with a minimum rate of 4.5%. Borrowings are collateralized by a security interest in substantially all UCS's assets. At September 30, 2016 and 2015 there were no borrowings outstanding under this agreement.

NOTE 9 - LONG-TERM DEBT

In July 2001, \$3,825,000 of private placement Massachusetts Health and Educational Facilities Authority ("HEFA") Revenue Bonds, Union of Concerned Scientists Issue, Series A were issued under an agreement between HEFA and UCS to refinance two mortgage notes payable, make renovations and improvements to existing property, and to purchase certain equipment. The bonds are payable in monthly installments of principal and interest at various rates through July 2021. At September 30, 2016 and 2015, interest was charged at the rate of 3.58%. The bonds are collateralized by a first mortgage on certain real property and an assignment of all leases. The net book value of collateral property at September 30, 2016 is approximately \$3,959,250. At September 30, 2016 and 2015, the balance outstanding on the bonds was \$1,180,270 and \$1,401,685, respectively.

Under the 2001 HEFA bond series, UCS is subject to certain covenants relating to achievement of certain financial ratios, including a debt service coverage ratio greater than 1.25%, maximum leverage ratio not to exceed 2.0 to 1.0 and a loan to value less than 60%. The bond agreement contains an acceleration clause activated by non-compliance with the covenants. As of September 30, 2016, management has obtained a waiver for any covenant violations.

In December 2013, UCS purchased additional office space in Cambridge, Massachusetts for \$3,685,995. The purchase price was partially funded with a promissory note to the seller in the amount of \$2,917,731. The note is collateralized by a first mortgage on the purchased property and interest is charged at a rate of 1.65% per annum. The note is payable in four annual installments of principal and interest totaling \$760,000 commencing in December 2014. In the event of a default in the full and punctual payment of the interest or principal due or the default in performance of any other terms and provisions of the agreement, the lender may declare the entire outstanding principal and unpaid accrued interest immediately due and payable in full. UCS is subject to certain covenants relating to the achievement of certain financial ratios, including a maximum leverage ratio not to exceed 2.0 to 1.0 and a cash flow to debt ratio greater than 1.25. The net book value of collateral property at September 30, 2016 is approximately \$3,675,720. At September 30, 2016 and 2015 the balance outstanding on the note was \$1,481,184 and 2,205,255, respectively.

UNION OF CONCERNED SCIENTISTS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 9 - LONG-TERM DEBT (CONTINUED)

Maturities of long-term debt for the years succeeding September 30, 2016 are as follows:

Years Ending September 30,

2017	\$	965,328
2018		983,153
2019		246,480
2020		255,450
2021		<u>211,043</u>
	\$	<u><u>2,661,454</u></u>

NOTE 10 - NOTE PAYABLE, OTHER

UCS has a non-interest bearing loan in the amount of \$250,000 from an individual. The loan is payable upon request and may be converted to a contribution upon the death of the lender. The balance outstanding on the loan was \$250,000 for each of the years ended September 30, 2016 and 2015.

NOTE 11 - LEGAL MATTER

During 2016, the U.S. House of Representatives Committee on Science, Space, and Technology's Chairman issued congressional subpoenas to several attorneys general and nonprofit organizations including UCS. The subpoena ordered UCS to deliver all of its communications with state attorneys general and other nonprofits related to the issue of climate change. UCS did not comply with this subpoena as it believes that the Committee has no jurisdiction to issue this subpoena and it violates UCS's First Amendment rights.

NOTE 12 - TEMPORARILY RESTRICTED NET ASSETS

At September 30, 2016 and 2015, temporarily restricted net assets are available for the following purposes:

	<u>2016</u>	<u>2015</u>
Center for Science and Democracy Program	\$ 228,833	\$ 118,307
Climate and Clean Energy Program	1,034,363	1,403,498
Clean Vehicles Program	843,253	412,084
Global Security Program	724,494	655,625
Food and Environment Program	1,101,971	1,383,702
Net investment income on permanently restricted net assets	163,664	148,999
Other	<u>251,130</u>	<u>211,073</u>
	\$ <u><u>4,347,708</u></u>	\$ <u><u>4,333,288</u></u>

UNION OF CONCERNED SCIENTISTS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 13 - PERMANENTLY RESTRICTED NET ASSETS

At September 30, 2016 and 2015, permanently restricted net assets consist of the following:

	<u>2016</u>		<u>2015</u>
Fund for Ongoing Scientific Research	\$ 51,362	\$	51,362
Victor F. Weisskopf Fund for New Initiatives	41,248		41,248
Fund for Activist and Media/Outreach	1,968		1,968
General Endowment	<u>90,857</u>		<u>90,857</u>
	<u>\$ 185,435</u>	\$	<u>185,435</u>

NOTE 14 - ENDOWMENT

UCS's endowment consists of individual funds established for a variety of purposes. As required by U.S. generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

UCS has interpreted the Massachusetts Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result, UCS 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 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 net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by UCS. In accordance with UPMIFA, UCS considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of UCS and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of UCS
7. The investment policies of UCS

UNION OF CONCERNED SCIENTISTS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 14 - ENDOWMENT (continued)

The endowment net asset composition by type of fund as of September 30, 2016 is as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ <u>163,664</u>	\$ <u>185,435</u>	\$ <u>349,099</u>

The endowment net asset composition by type of fund as of September 30, 2015 is as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ <u>148,999</u>	\$ <u>185,435</u>	\$ <u>334,434</u>

The changes in endowment net assets for the years ended September 30, 2016 and 2015 are as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at October 1, 2014	\$ 153,901	\$ 185,435	\$ 339,336
Investment loss, net	<u>(4,902)</u>	<u> </u>	<u>(4,902)</u>
Balance at September 30, 2015	148,999	185,435	334,434
Investment income, net	<u>14,665</u>	<u> </u>	<u>14,665</u>
Balance at September 30, 2016	\$ <u>163,664</u>	\$ <u>185,435</u>	\$ <u>349,099</u>

UNION OF CONCERNED SCIENTISTS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 15 - LEASES

UCS leases facilities under non-cancelable agreements that expire at various dates through April 2026. All lease agreements have been accounted for as operating leases. UCS subleases certain space at the Washington D.C. office under an agreement that expires in November 2017. UCS also subleases certain space at the Cambridge, Massachusetts office under an agreement that expires in December 2016. Rent expense, exclusive of rental revenues, was approximately \$1,332,000 and \$1,266,000 for the years ended September 30, 2016 and 2015, respectively.

Aggregate approximate future minimum lease payments and lease rentals under non-cancelable operating leases at September 30, 2016 are as follows:

<u>Years Ending September 30,</u>	<u>Lease Commitments</u>	<u>Sublease Rentals</u>	<u>Net Lease Commitments</u>
2017	\$ 1,156,000	\$ (40,000)	\$ 1,116,000
2018	1,184,000	-	1,184,000
2019	1,258,000	-	1,258,000
2020	1,290,000	-	1,290,000
2021	1,290,000	-	1,290,000
Thereafter	<u>6,016,000</u>	<u>-</u>	<u>6,016,000</u>
	<u>\$ 12,194,000</u>	<u>\$ (40,000)</u>	<u>\$ 12,154,000</u>

NOTE 16 - PENSION PLAN

UCS has in place a 403(b) retirement plan (the "Plan") in which employees can elect to defer a portion of their compensation. All employees are eligible to participate in the Plan upon employment. UCS contributes 8% of salaries and wages for employees after the completion of one year of services. UCS funds the plan on a semi-monthly basis. Pension plan expense was approximately \$999,000 and \$917,000 for the years ended September 30, 2016 and 2015, respectively.

While the Organization expects to continue the plan indefinitely, it has reserved the right to modify, amend or terminate the plan. In the event of termination, the entire amount contributed under the plan must be applied to the payment of benefits to the participants or their beneficiaries.

UNION OF CONCERNED SCIENTISTS, INC.

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 17 - ALLOCATION OF JOINT COSTS

During the years ended September 30, 2016 and 2015, UCS incurred joint costs of \$1,973,470 and \$2,236,582, respectively, for informational materials and activities that included fund-raising appeals that were allocated as follows:

	<u>2016</u>	<u>2015</u>
Center for Science and Democracy	\$ 290,698	\$ 611,870
Climate and Clean Energy	579,348	544,174
Clean Vehicles	55,274	197,882
Global Security	8,189	18,226
Food and Environment	135,113	28,641
	<u>1,068,622</u>	<u>1,400,793</u>
Fundraising	904,848	835,789
	<u>904,848</u>	<u>835,789</u>
Total joint costs	\$ <u>1,973,470</u>	\$ <u>2,236,582</u>

NOTE 18 - SIGNIFICANT DONORS

Contributions from one donor amounted to approximately 15% of total operating revenue for the year ended September 30, 2015. There were no significant donors that contributed 10% or more of total operating revenue for the year ended September 30, 2016.

NOTE 19 - STATEMENTS OF CASH FLOWS SUPPLEMENTAL NOTE

Cash paid for interest during the years ended September 30, 2016 and 2015 amounted to \$72,841 and \$92,372, respectively.