

Audited Financial Statements

**THE CENTER FOR ARMS CONTROL AND
NON-PROLIFERATION**

December 31, 2015

The Center for Arms Control and Non-Proliferation

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T A T E



T R Y O N

A Professional Corporation

Certified Public

Accountants

and Consultants

Independent Auditor's Report on the Financial Statements

To the Board of Directors
The Center for Arms Control and Non-Proliferation

We have audited the accompanying financial statements of The Center for Arms Control and Non-Proliferation (the Center) which comprise the statements of financial position as of December 31, 2015 and 2014, and the related statements of activities, functional expense, 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 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of 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 The Center for Arms Control and Non-Proliferation as of December 31, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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The Center for Arms Control and Non-Proliferation

Statements of Financial Position

December 31,	2015	2014
Assets		
Cash and cash equivalents	\$ 601,060	\$ 564,536
Investments	1,262,914	1,544,209
Accounts receivable	56,848	83,602
Pledges receivable	24,117	61,045
Prepaid expenses	12,797	11,673
Property, furniture and equipment - net	1,322,668	1,354,689
Total assets	\$ 3,280,404	\$ 3,619,754
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 11,143	\$ 39,316
Annuities payable	46,816	173,702
Capital lease liability	13,401	19,078
Total liabilities	71,360	232,096
Net assets		
Unrestricted	1,775,813	1,826,163
Temporarily restricted	473,688	596,052
Permanently restricted	959,543	965,443
Total net assets	3,209,044	3,387,658
Total liabilities and net assets	\$ 3,280,404	\$ 3,619,754

See notes to the financial statements.

The Center for Arms Control and Non-Proliferation

Statement of Activities Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support				
Grant income	\$ 221,756	\$ 420,000	\$ -	\$ 641,756
Contributions and pledges	161,961	-	-	161,961
Investment income	3,794	(18,914)	-	(15,120)
Bequests	74,815	-	-	74,815
Rental income	61,553	-	-	61,553
Other revenue	143,082	-	-	143,082
Special events	20,559	-	-	20,559
Net assets released from donor restrictions	523,450	(523,450)	-	-
Total revenue and support	1,210,970	(122,364)	-	1,088,606
Expenses				
Program services	961,399	-	-	961,399
General and administrative	208,783	-	5,900	214,683
Fundraising	91,138	-	-	91,138
Total expense	1,261,320	-	5,900	1,267,220
Change in net assets	(50,350)	(122,364)	(5,900)	(178,614)
Net assets, beginning of year	1,826,163	596,052	965,443	3,387,658
Net assets, end of year	\$ 1,775,813	\$ 473,688	\$ 959,543	\$ 3,209,044

See notes to the financial statements.

The Center for Arms Control and Non-Proliferation

Statement of Activities Year Ended December 31, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support				
Grant income	\$ 321,808	\$ 507,360	\$ -	\$ 829,168
Contributions and pledges	470,701	-	-	470,701
Investment income	9,457	68,735	-	78,192
Special events	53,605	-	-	53,605
Rental income	51,661	-	-	51,661
Bequests	10,000	-	-	10,000
Other revenue	9,432	-	-	9,432
Net assets released from donor restrictions	505,029	(505,029)	-	-
Total revenue and support	1,431,693	71,066	-	1,502,759
Expenses				
Program services	984,890	-	-	984,890
General and administrative	103,649	-	27,308	130,957
Fundraising	119,597	-	-	119,597
Total expense	1,208,136	-	27,308	1,235,444
Change in net assets	223,557	71,066	(27,308)	267,315
Net assets, beginning of year	1,602,606	524,986	992,751	3,120,343
Net assets, end of year	\$ 1,826,163	\$ 596,052	\$ 965,443	\$ 3,387,658

See notes to the financial statements.

The Center for Arms Control and Non-Proliferation

Statement of Functional Expenses Year Ended December 31, 2015

	Program Services	General and Administrative	Fundraising	2015 Total
Consultants and professional fees	\$ 564,612	\$ 23,702	\$ 1,450	\$ 589,764
Salaries	161,840	84,955	50,242	297,037
Office and other expenses	31,381	17,217	4,912	53,510
Depreciation	30,950	12,264	8,080	51,294
Information technology	39,000	15,267	6,222	60,489
Employee Benefits	10,150	19,039	500	29,689
Taxes	19,032	10,069	5,577	34,678
Payroll taxes	13,249	8,088	4,128	25,465
Bad debt	-	5,900	-	5,900
Repairs and maintenance	10,415	5,825	3,021	19,261
Occupancy	5,749	2,593	1,709	10,051
Dues and subscriptions	3,022	-	-	3,022
Insurance	6,289	2,356	1,749	10,394
Travel	5,609	2,130	-	7,739
Conferences, conventions, and meetings	59,681	5,278	3,548	68,507
Advertising and promotion	420	-	-	420
Total	\$ 961,399	\$ 214,683	\$ 91,138	\$ 1,267,220

The Center for Arms Control and Non-Proliferation

Statement of Functional Expenses Year Ended December 31, 2014

	Program Services	General and Administrative	Fundraising	2014 Total
Consultants and professional fees	\$ 492,507	\$ 14,748	\$ 17,018	\$ 524,273
Salaries	265,621	47,959	55,338	368,918
Office and other expenses	51,224	9,249	10,672	71,145
Depreciation	33,102	5,977	6,896	45,975
Information technology	27,907	5,039	5,814	38,760
Employee Benefits	25,219	4,553	5,254	35,026
Taxes	24,427	4,410	5,089	33,926
Payroll taxes	20,948	3,782	4,364	29,094
Bad debt	-	27,308	-	27,308
Repairs and maintenance	16,839	3,040	3,508	23,387
Occupancy	8,762	1,582	1,825	12,169
Dues and subscriptions	5,411	977	1,127	7,515
Insurance	5,389	973	1,123	7,485
Travel	3,214	580	669	4,463
Conferences, conventions, and meetings	2,693	486	561	3,740
Advertising and promotion	1,627	294	339	2,260
Total	\$ 984,890	\$ 130,957	\$ 119,597	\$ 1,235,444

The Center for Arms Control and Non-Proliferation

Statements of Cash Flows

<i>Year ended December 31,</i>	2015	2014
Cash flows from operating activities		
Change in net assets	\$ (178,614)	\$ 267,315
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization	51,294	45,975
Net loss (gain) on investments	48,592	(41,214)
Revaluation of charitable gift annuities	(116,770)	-
Changes in assets and liabilities:		
Accounts receivable	26,754	(69,726)
Pledges receivable	36,928	70,598
Prepaid expenses	(1,124)	(5,653)
Accounts payable and accrued expenses	(28,173)	14,227
Total adjustments	17,501	14,207
Net cash (used in) provided by operating activities	(161,113)	281,522
Cash flows from investing activities		
Purchases of property, furniture and equipment	(19,273)	(3,540)
Purchases of investments	(141,457)	(152,547)
Proceeds from sale of investments	374,160	56,057
Net cash provided by (used in) investing activities	213,430	(100,030)
Cash flows from financing activities		
Annuities payable	(10,116)	(7,243)
Principal payments on capital lease obligations	(5,677)	(5,861)
Net cash used in financing activities	(15,793)	(13,104)
Net increase in cash and cash equivalents	36,524	168,388
Cash and cash equivalents, beginning of year	564,536	396,148
Cash and cash equivalents, end of year	\$ 601,060	\$ 564,536

See notes to the financial statements.

The Center for Arms Control and Non-Proliferation

Notes to the Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: The Center for Arms Control and Non-Proliferation (the Center) is a non-profit organization incorporated in January 1980 under the laws of the District of Columbia. The Center was established to carry out educational projects concerning the subjects of arms control and the proliferation of nuclear weapons and weapons systems.

Income tax status: The Center is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. The Center qualifies for charitable contribution deductions and has been classified as an organization that is not a private foundation.

Basis of accounting: The accompanying financial statements have been prepared on the accrual basis of accounting. Consequently, revenue is recognized when earned and expense when the obligation is incurred.

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 certain reported amounts and disclosures. Actual results could differ from estimates.

Cash and cash equivalents: For financial statement purposes, all highly liquid investment instruments purchased with a maturity of three months or less are considered to be cash equivalents.

Pledges receivable: Pledges receivable expected to be collected in future years are recorded at 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 contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Accounts receivable: Accounts receivable consist primarily of grants receivable and amounts due from other organizations. The Center's management periodically reviews the status of these receivables for collectibility, which is assessed based on management's knowledge of and relationship with the customer and the age of the receivable. As a result of these reviews, all receivables deemed uncollectible are written off directly to bad debt expense. Management believes that the use of the direct write-off method approximates the results that would be presented if an allowance for bad debts had been recorded.

Annuities payable: Charitable gift annuities are recorded as revenue when the annuity contract is received from the donor. During 2015, the Center revalued the liability related to the anticipated future payments to be made to the annuitants. As a result, the liability was reduced by \$116,770. The corresponding gain from the reduction in the liability is included as a component of "other revenue" on the 2015 statement of activities.

Property, furniture and equipment: Property, furniture and equipment in excess of \$500 are stated at cost and are depreciated on a straight-line basis over the estimated useful lives of the related assets, generally three to thirty-nine years. The cost of maintenance and repairs is recorded as expenses as incurred.

The Center for Arms Control and Non-Proliferation

Notes to the Financial Statements

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Net assets: For financial statement purposes, net assets are as follows:

Unrestricted: Unrestricted net assets include those net assets whose use is not restricted by donors even though their use may be limited in other respects, such as by board designation.

Temporarily restricted: Temporarily restricted net assets include those net assets whose use by the Center has been donor-restricted by specified time or purpose limitations (see Note F).

Permanently restricted: Permanently restricted net assets represent the portion of net assets that have been restricted by donors who require the principal of the gift to be maintained in perpetuity by the Center and only the earnings to be used for a specified purpose (see Note I).

Revenue recognition: Contributions, unconditional pledges and grants are recorded as revenue in the year notification is received from the donor. Temporarily restricted contributions and grants 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. Amounts to be received in the future are recorded as grants or pledges receivable in the accompanying Statements of Financial Position.

Allocation of functional expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Subsequent events: Subsequent events have been evaluated through September 21, 2016, which is the date the financial statements were available to be issued.

B. CONCENTRATIONS

Credit risk: The Center maintains demand deposits with commercial banks and money market funds with financial institutions. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. federal government. The uninsured portions of cash and money market accounts are backed solely by the assets of the underlying institution. Therefore, the failure of an underlying institution could result in financial loss to the Center.

Market value risk: The Center also invests funds in mutual funds that contain various types of investment securities. Such investments are exposed to market and credit risks. The Center's financial investments may be subject to significant fluctuations in fair value. As a result, the investment balances reported in these financial statements may not be reflective of the portfolio's value during subsequent periods.

The Center for Arms Control and Non-Proliferation

Notes to the Financial Statements

C. INVESTMENTS

In accordance with U.S. generally accepted accounting principles, the Center uses the following prioritized input levels to measure fair value of financial instruments. The input levels used for valuing financial instruments are not necessarily an indication of risk.

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets such as stock quotes;

Level 2 – Includes inputs other than level 1 that are directly or indirectly observable in the marketplace such as yield curves or other market data;

Level 3 – Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk such as bid/ask spreads and liquidity discounts.

The following is a summary of input levels used to determine fair values, measured on a recurring basis, at December 31,:

2015	Total	Level 1	Level 2	Level 3
Investments, at fair value				
Mutual funds - stocks	\$ 1,214,562	\$ 1,214,562	\$ -	\$ -
Mutual funds - bonds	48,352	48,352		
	\$ 1,262,914	\$ 1,262,914	\$ -	\$ -

2014	Total	Level 1	Level 2	Level 3
Investments, at fair value				
Mutual funds - stocks	\$ 1,494,732	\$ 1,494,732	\$ -	\$ -
Mutual funds - bonds	49,477	49,477		
	\$ 1,544,209	\$ 1,544,209	\$ -	\$ -

Investments classified within Level 1 include mutual funds which were valued based on quoted prices for identical assets in active markets.

Investment income consists of the following for the years ended December 31,:

	2015	2014
Interest and dividends	\$ 33,472	\$ 36,978
Net (loss) gain on investments	(48,592)	41,214
	\$ (15,120)	\$ 78,192

The Center for Arms Control and Non-Proliferation

Notes to the Financial Statements

D. PROPERTY, FURNITURE, AND EQUIPMENT

Acquisitions of property, furniture, and equipment equal to or greater than \$500 are capitalized at cost. Furniture and equipment are depreciated using the straight-line method over an estimated useful life of the assets, ranging from three to thirty-nine years.

Property, furniture, and equipment consists of the following at December 31,:

	2015	2014
Building	\$ 1,443,541	\$ 1,443,541
Software	49,373	35,743
Capital lease asset	27,869	27,869
Furniture and equipment	25,464	25,464
Computer equipment	61,599	55,955
Land	<u>315,585</u>	<u>315,585</u>
	1,923,431	1,904,157
Less accumulated depreciation	<u>(600,763)</u>	<u>(549,468)</u>
	<u>\$ 1,322,668</u>	<u>\$ 1,354,689</u>

E. CAPITAL LEASE OBLIGATION

In 2013, the Center acquired telephone equipment under a non-cancelable capital lease agreement. The lease is for 60 months, beginning July 2013, and included a bargain purchase option of \$1 at the end of the lease. The lease requires monthly installments of approximately \$488.

The Center is also responsible for the operating costs, including property taxes. The Center estimated the fair value of the leased equipment to be approximately \$27,869 at lease inception. As of December 31, 2015 and 2014, the related accumulated amortization of the leased asset was \$13,935 and \$8,361, respectively. Amortization of assets held under capital leases is included under depreciation and amortization expense.

Future minimum lease payments at December 31, 2015 are as follows:

2016	\$ 5,861
2017	5,861
2018	<u>2,931</u>
	14,653
Less: interest	<u>(1,252)</u>
Total	<u>\$ 13,401</u>

The Center for Arms Control and Non-Proliferation

Notes to the Financial Statements

F. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of amounts that are subject to donor restrictions and investment income earned on temporarily and permanently restricted net assets.

Temporarily restricted net assets consisted of the following as of December 31,:

	2015	2014
Endowment investment income	\$ 285,121	\$ 367,719
Pentagon budget campaign	188,567	137,558
Time restriction	-	31,775
Hewlett grant	-	59,000
	<u>\$ 473,688</u>	<u>\$ 596,052</u>

G. RENTAL INCOME

The Center has entered into sublease agreements with Women's Action for New Directions, Council for a Livable World, and Nuclear Age Peace Foundation with lease terms of twelve months. The leases are renewable unless cancelled by either tenant or landlord. Subsequent to year-end, the leases were extended for another twelve-month period. Revenue from the agreements totaled \$61,553 and \$51,661 during the years ended December 31, 2015 and 2014, respectively. 2016 revenue from the agreements is expected to be approximately \$60,000.

H. RELATED PARTY

The Center and the Council for a Livable World (CLW) share one common Board member. The Center and CLW share staff and office space. As of December 31, 2015, CLW owed the Center a net amount of \$40,616 for various expense reimbursements. As of December 31, 2014, the Center owed the CLW a net amount of \$3,652 for various expense reimbursements.

I. ENDOWMENT

The Center's endowment consists of donor-restricted endowment funds. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law: 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, the Center 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.

The Center for Arms Control and Non-Proliferation

Notes to the Financial Statements

I. ENDOWMENT - CONTINUED

In accordance with UPMIFA, the Center 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.

Return objectives and risk parameters: The Center 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(s) as well as Board-designated funds.

Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to ensure the long-term financial health of the organization and facilitate long-term strategic planning. The Center expects its endowment funds, over time, to provide an average rate of return of approximately 10% annually. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives: To satisfy its long-term rate-of-return objectives, the Center 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). The Center targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policy and how the investment objectives relate to spending policy: The Center has a policy of appropriating for distribution each year 5% of its endowment fund's average fair value over the prior 12 quarters through the calendar year-end preceding the fiscal year in which the distribution is planned. In establishing this policy, the Center considered the long-term expected return on its endowment. Accordingly, over the long-term, the Center expects the current spending policy to allow its endowment to grow at an average of 5% annually. This is consistent with the Center's 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. During the years ended December 31, 2015 and 2014, \$63,684 and \$53,379, respectively, was released from the endowment based on the Center's spending policy.

The Center for Arms Control and Non-Proliferation

Notes to the Financial Statements

I. ENDOWMENT - CONTINUED

Endowment activity: Changes in endowment net assets consist of the following for the year ended December 31, 2015:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 367,719	\$ 965,443	\$ 1,333,162
Investment return:			
Interest and dividends	27,971		27,971
Net loss	(46,885)		(46,885)
Net investment return	(18,914)	-	(18,914)
Bad debt		(5,900)	(5,900)
Appropriations	(63,684)		(63,684)
Endowment net assets, end of year	\$ 285,121	\$ 959,543	\$ 1,244,664

Changes in endowment net assets consist of the following for the year ended December 31, 2014:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 352,363	\$ 992,751	\$ 1,345,114
Investment return:			
Interest and dividends	30,968		30,968
Net gain	37,767		37,767
Net investment return	68,735	-	68,735
Bad debt		(27,308)	(27,308)
Appropriations	(53,379)		(53,379)
Endowment net assets, end of year	\$ 367,719	\$ 965,443	\$ 1,333,162