

FINANCIAL STATEMENTS

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

FOR THE YEAR ENDED DECEMBER 31, 2013

THE CENTER FOR ARMS CONTROL AND NON-PROLIFERATION

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Center for Arms Control and Non-Proliferation
Washington, D.C.

We have audited the accompanying financial statements of The Center for Arms Control and Non-Proliferation (the Center), which comprise the statement of financial position as of December 31, 2013, 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 the Center as of December 31, 2013, 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 the Center's 2012 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated August 21, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Gelman Rosenberg & Friedman

September 18, 2015

THE CENTER FOR ARMS CONTROL AND NON-PROLIFERATION

STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2013

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 396,148
Investments (Notes 2 and 9)	1,406,505
Accounts receivable	13,876
Pledges receivable, current portion	62,435
Prepaid expenses	<u>6,020</u>
Total current assets	<u>1,884,984</u>

PROPERTY, FURNITURE AND EQUIPMENT

Land	315,585
Building	1,443,541
Furniture and equipment	113,622
Capital lease asset (Note 3)	27,869
Less: Accumulated depreciation and amortization	<u>(503,493)</u>
Net property, furniture and equipment	<u>1,397,124</u>

OTHER ASSETS

Pledges receivable, net of current portion	<u>69,208</u>
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TOTAL ASSETS \$ 3,351,316

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable and accrued liabilities	\$ 21,425
Accrued salaries and related benefits	3,664
Annuity payable, short-term	10,709
Capital lease liability, short-term (Note 3)	<u>5,861</u>
Total current liabilities	<u>41,659</u>

LONG-TERM LIABILITIES

Annuity payable, long-term	170,236
Capital lease liability, long-term (Note 3)	<u>19,078</u>
Total long-term liabilities	<u>189,314</u>
Total liabilities	<u>230,973</u>

NET ASSETS

Unrestricted	1,602,606
Temporarily restricted (Notes 4 and 8)	801,928
Permanently restricted (Note 10)	<u>715,809</u>
Total net assets	<u>3,120,343</u>

TOTAL LIABILITIES AND NET ASSETS \$ 3,351,316

THE CENTER FOR ARMS CONTROL AND NON-PROLIFERATION

STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE				
Contributions and pledges	\$ 227,834	\$ 72,600	\$ -	\$ 300,434
Grant income	65,500	401,500	-	467,000
Investment income (Note 2)	16,610	262,154	-	278,764
Special events	22,505	-	-	22,505
Rental income (Note 6)	73,965	-	-	73,965
Bequests	11,046	-	-	11,046
Other revenue	34,535	-	-	34,535
Net assets released from donor restrictions (Notes 5 and 10)	<u>486,605</u>	<u>(436,323)</u>	<u>(50,282)</u>	<u>-</u>
Total revenue	<u>938,600</u>	<u>299,931</u>	<u>(50,282)</u>	<u>1,188,249</u>
EXPENSES				
Program Services	881,770	-	-	881,770
General and Administrative	121,580	-	-	121,580
Fundraising	<u>95,382</u>	<u>-</u>	<u>-</u>	<u>95,382</u>
Total expenses	<u>1,098,732</u>	<u>-</u>	<u>-</u>	<u>1,098,732</u>
Change in net assets	(160,132)	299,931	(50,282)	89,517
Net assets at beginning of year, as restated (Note 8)	<u>1,762,738</u>	<u>501,997</u>	<u>766,091</u>	<u>3,030,826</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,602,606</u>	<u>\$ 801,928</u>	<u>\$ 715,809</u>	<u>\$ 3,120,343</u>

THE CENTER FOR ARMS CONTROL AND NON-PROLIFERATION

STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2013

	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total Expenses</u>
Salaries	\$ 300,156	\$ 19,370	\$ 51,741	\$ 371,267
Contracted services	390,964	1,983	-	392,947
Depreciation and amortization	-	42,726	-	42,726
Computer expense	25,552	6,388	6,388	38,328
Benefits	25,632	1,737	4,348	31,717
Payroll taxes	23,564	1,681	4,109	29,354
Taxes-other	27,435	1,444	-	28,879
Professional fees	13,465	3,432	3,366	20,263
Repairs and maintenance	12,554	3,139	3,139	18,832
Equipment rental expense	11,744	2,936	2,936	17,616
Events and meetings	-	-	12,872	12,872
Utilities	8,043	2,011	2,011	12,065
Telephone	6,305	1,568	1,569	9,442
Printing and production	152	8,366	39	8,557
Dues, publications and subscriptions	485	7,965	-	8,450
Organizational insurance	5,316	1,329	1,329	7,974
Bank fees	-	3,578	-	3,578
Postage and delivery	402	2,026	95	2,523
Office supplies	1,815	368	368	2,551
Parking expense	-	1,720	-	1,720
Meals	417	1,056	-	1,473
Information searches	1,440	-	-	1,440
Mailing service	-	1,413	-	1,413
Travel and entertainment	12,884	1,226	-	14,110
Meetings and conventions	4,208	1,099	-	5,307
Advertising and promotion	55	250	-	305
Miscellaneous	9,182	2,769	1,072	13,023
TOTAL	<u>\$ 881,770</u>	<u>\$ 121,580</u>	<u>\$ 95,382</u>	<u>\$ 1,098,732</u>

THE CENTER FOR ARMS CONTROL AND NON-PROLIFERATION

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in net assets	\$ 89,517
Adjustments to reconcile change in net assets to net cash used by operating activities:	
Depreciation and amortization	42,726
Unrealized gain on investments	(246,275)
Realized gain on investments	(2,585)
Allowance to discount pledges to present value	3,392
(Increase) decrease in:	
Accounts receivable	46,346
Grants receivable	75,000
Pledges receivable	(107,727)
Prepaid expenses	(5,802)
Increase (decrease) in:	
Accounts payable and accrued liabilities	10,652
Accrued salaries and related benefits	<u>(2,389)</u>
Net cash used by operating activities	<u>(97,145)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property, furniture and equipment	(7,257)
Purchase of investments	(1,114)
Proceeds from sale of investments	<u>50,719</u>
Net cash provided by investing activities	<u>42,348</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Annuity payable	(12,468)
Principal payments on capital lease liability	<u>(2,930)</u>
Net cash used by financing activities	<u>(15,398)</u>

Net decrease in cash and cash equivalents	(70,195)
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Cash and cash equivalents at beginning of year	<u>466,343</u>
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CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 396,148</u>
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SUPPLEMENTAL INFORMATION:

Capital Lease Obligation Incurred	<u>\$ 27,869</u>
Interest Paid	<u>\$ 488</u>

THE CENTER FOR ARMS CONTROL AND NON-PROLIFERATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GENERAL INFORMATION

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.

Basis of presentation -

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

Cash and cash equivalents -

The Center 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, the Center maintains cash balances in excess of the FDIC insurance limits. Management believes the risk in these situations to be minimal.

Investments -

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

Grants, pledges and accounts receivable -

Grants and pledges receivable that are 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 grants and contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met. Accounts receivable are recorded at their net realizable value which approximates fair value. All grants, pledges and accounts receivable are considered by management to be fully collectible. Accordingly, an allowance for doubtful accounts has not been established.

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 are incurred.

Income taxes -

The Center 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. The Center is not a private foundation.

THE CENTER FOR ARMS CONTROL AND NON-PROLIFERATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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

Uncertain tax positions -

For the year ended December 31, 2013, the Center 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.

The Federal Form 990, *Return of Organization Exempt from Income Tax*, is subject to examination by the Internal Revenue Service, generally for three years after it is filed.

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 the Center.
- **Temporarily restricted net assets** include revenue and contributions subject to donor-imposed stipulations that will be met by the actions of the Center 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** consist of contributions that are restricted by the donor to be invested in perpetuity. There are no restrictions placed on the use of investment earnings from these endowment funds.

Contributions and grants -

Contributions, 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.

Grants and pledges receivable -

Unconditional promises to give are recorded as revenue in the year notification is received from the donor. Amounts to be received in the future are recorded as grants or pledges receivable in the accompanying Statement of Financial Position.

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.

THE CENTER FOR ARMS CONTROL AND NON-PROLIFERATION

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013

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

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.

Annuity payable -

Charitable gift annuities are recorded as revenue when the annuity contract is received from the donor. A liability is recorded in the Statement of Financial Position for the present value of the expected future cash flows to be paid to the benefactor.

Risks and uncertainties -

The Center 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 -

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

2. **INVESTMENTS**

Investments consisted of the following at December 31, 2013:

	<u>Market Value</u>
Mutual funds - Stocks	\$ 1,382,702
Mutual funds - Bonds	<u>23,803</u>
TOTAL INVESTMENTS	\$ <u>1,406,505</u>

Included in investment income are the following for the year ended December 31, 2013:

Interest and dividends	\$ 29,904
Unrealized gain	246,275
Realized gain	<u>2,585</u>
TOTAL INVESTMENT INCOME	\$ <u>278,764</u>

As of December 31, 2013, \$36,620 of investments represents funds held for annuities payable.

THE CENTER FOR ARMS CONTROL AND NON-PROLIFERATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

3. 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, 2013, the related accumulated amortization of the leased asset was \$2,787. Amortization of assets held under capital leases is included under depreciation and amortization expense.

Future minimum lease payments at December 31, 2013 are as follows:

<u>Year Ending December 31,</u>		
	2014	\$ 5,861
	2015	5,861
	2016	5,861
	2017	5,861
	2018	<u>2,931</u>
		26,375
Less: Interest		<u>(1,436)</u>
		24,939
Less: Current portion		<u>(5,861)</u>
LONG-TERM PORTION		<u>\$ 19,078</u>

4. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following at December 31, 2013:

Budget Priorities Working Group	\$ 100,023
Time Restriction	72,600
Accumulated investment income - Endowment	<u>629,305</u>
TOTAL TEMPORARILY RESTRICTED NET ASSETS	<u>\$ 801,928</u>

5. NET ASSETS RELEASED FROM DONOR RESTRICTIONS

The following temporarily restricted net assets were released from donor restrictions by incurring expenses, which satisfied the restricted purposes specified by the donors:

Budget Priorities Working Group	\$ 316,323
National Security	45,000
Time Restriction	75,000
Released from Endowment Fund	<u>50,282</u>
TOTAL NET ASSETS RELEASED FROM DONOR RESTRICTIONS	<u>\$ 486,605</u>

THE CENTER FOR ARMS CONTROL AND NON-PROLIFERATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

6. RENTAL INCOME

In 2008, the Center entered into lease agreements with four tenants 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. The minimum rental payments to be received under these leases are as follows:

Year Ending December 31, 2014 **\$ 61,505**

Total rental income for the year ended December 31, 2013 was \$73,965.

7. RELATED PARTY

The Center and the Council for a Livable World (CLW) share Board members, staff and office space. As of December 31, 2013, there were no amounts due between the two parties.

8. NET ASSET RESTATEMENT

In 2013, the Center discovered that its agreement with the Budget Priorities Working Group (BPWG), which has been accounted for as an agency transaction since 2012, should have been accounted for as a program.

Following is a reconciliation of all financial statement account balances (as previously stated and as restated) to effect the change in accounting method:

	Balance at December 31, 2012, As Previously Stated	Adjustments	Balance at December 31, 2012, As Restated
Temporarily Restricted Grant Income	\$ <u>185,000</u>	\$ <u>232,500</u>	\$ <u>417,500</u>
Program Services:			
Contracted services	\$ 101,013	\$ 162,133	\$ 263,146
Office supplies	4,435	651	5,086
Travel and entertainment	10,958	8,166	19,124
Postage and delivery	484	4	488
Meetings and conventions	<u>-</u>	<u>1,700</u>	<u>1,700</u>
Total Program Services	\$ <u>116,890</u>	\$ <u>172,654</u>	\$ <u>289,544</u>
Temporarily Restricted Net Assets	\$ <u>442,151</u>	\$ <u>59,846</u>	\$ <u>501,997</u>
Accounts Payable And Accrued Liabilities	\$ <u>124,948</u>	\$ <u>(59,846)</u>	\$ <u>65,102</u>

9. FAIR VALUE MEASUREMENT

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

THE CENTER FOR ARMS CONTROL AND NON-PROLIFERATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

9. FAIR VALUE MEASUREMENT (Continued)

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

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

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

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

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

Following is a description of the valuation methodology used for investments measured at fair value. There have been no changes in the methodologies used at December 31, 2013.

- *Mutual Funds - Stocks* - Valued at the closing price reported on the active market in which the individual securities are traded.
- *Mutual Funds - Bonds* - The fair value is equal to the reported net asset value of the fund, which is the price at which additional shares can be obtained.

The table below summarizes, by level within the fair value hierarchy, the Center's investments as of December 31, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Asset Class - Investments:				
Mutual funds - Stocks	\$ 1,382,702	\$ -	\$ -	\$ 1,382,702
Mutual funds - Bonds	<u>23,803</u>	<u>-</u>	<u>-</u>	<u>23,803</u>
TOTAL	<u>\$ 1,406,505</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,406,505</u>

10. ENDOWMENT

The Center's endowment consists of donor-restricted endowment funds. As required by 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, 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 CENTER FOR ARMS CONTROL AND NON-PROLIFERATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

10. ENDOWMENT (Continued)

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 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.

Endowment net asset composition by type of fund as of December 31, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-Restricted Endowment Funds	\$ <u>-</u>	\$ <u>629,305</u>	\$ <u>715,809</u>	\$ <u>1,345,114</u>

Changes in endowment net assets for the year ended December 31, 2013:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 367,151	\$ 766,091	\$ 1,133,242
Investment income	-	262,154	-	262,154
Other changes:				
Release from endowment funds	<u>-</u>	<u>-</u>	<u>(50,282)</u>	<u>(50,282)</u>
ENDOWMENT NET ASSETS, END OF YEAR	\$ <u>-</u>	\$ <u>629,305</u>	\$ <u>715,809</u>	\$ <u>1,345,114</u>

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.

THE CENTER FOR ARMS CONTROL AND NON-PROLIFERATION

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013**

10. ENDOWMENT (Continued)

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. As of December 31, 2013, \$50,282 was released from the endowment based on the Center's spending policy.

11. SUBSEQUENT EVENTS

In preparing these financial statements, the Center has evaluated events and transactions for potential recognition or disclosure through September 18, 2015, the date the financial statements were issued.