Audited Financial Statements

THE CENTER FOR ARMS CONTROL AND NON-PROLIFERATION

December 31, 2014

Contents

TATE
&
TRYON
A Professional Corporation
Certified Public Accountants and Consultants
2021 L Street, NW
Suite 400
Washington, DC
20036
Telephone
202/293-2200
Facsimile
202/293-2208
www.tatetryon.com

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 statement of financial position as of December 31, 2014, and the related statement of activities, functional expense, 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 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, 2014, and the changes 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.

Tate & Tryon

Washington, DC
April 25, 2016

The Center for Arms Control and Non-Proliferation

Statement of Financial Position
December 31, 2014

Assets		
Cash and cash equivalents	$	**564,536**
Investments		**1,544,209**
Accounts receivable		**83,602**
Pledges receivable		**61,045**
Prepaid expenses		**11,673**
Property, furniture and equipment - net		**1,354,689**
Total assets	**$**	**3,619,754**
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$	**39,316**
Annuities payable		**173,702**
Capital lease liability		**19,078**
Total liabilities		**232,096**
Net assets		
Unrestricted		**1,826,163**
Temporarily restricted		**596,052**
Permanently restricted		**965,443**
Total net assets		**3,387,658**
Total liabilities and net assets	**$**	**3,619,754**

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, as restated	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**

The Center for Arms Control and Non-Proliferation

Statement of Functional Expense

Year Ended December 31, 2014

	Program Services	General and Administrative	Fundraising	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

Statement of Cash Flows
Year Ended December 31, 2014

Cash flows from operating activities		
Change in net assets	$	**267,315**
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization		**45,975**
Net gain on investments		**(41,214)**
Changes in assets and liabilities:		
Accounts receivable		**(69,726)**
Pledges receivable		**70,598**
Prepaid expenses		**(5,653)**
Accounts payable and accrued expenses		**14,227**
Total adjustments		**14,207**
Net cash provided by operating activities		**281,522**
Cash flows from investing activities		
Purchases of property, furniture and equipment		**(3,540)**
Purchases of investments		**(152,547)**
Proceeds from sale of investments		**56,057**
Net cash used in investing activities		**(100,030)**
Cash flows from financing activities		
Annuity payable		**(7,243)**
Principal payments on capital lease obligations		**(5,861)**
Net cash used in financing activities		**(13,104)**
Net increase in cash and cash equivalents		**168,388**
Cash and cash equivalents, beginning of year		**396,148**
Cash and cash equivalents, end of year	**$**	**564,536**

See 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 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. 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.

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.

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, 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. 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.

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 April 25, 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.

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, 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 year ended December 31, 2014:

Net gain on investments	$ 41,214
Interest and dividends	36,978
	$ 78,192

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, 2014:

Building	$ 1,443,541
Software	35,743
Capital lease asset	27,869
Furniture and equipment	25,464
Computer equipment	55,955
Land	315,585
	1,904,157
Less accumulated depreciation	(549,468)
	$ 1,354,689

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, 2014, the related accumulated amortization of the leased asset was $8,361. Amortization of assets held under capital leases is included under depreciation and amortization expense.

Future minimum lease payments at December 31, 2014 are as follows:

2015	$ 5,861
2016	5,861
2017	5,861
2018	2,931
	20,514
Less: interest	(1,436)
Total	**$ 19,078**

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, 2014;

Endowment investment income	$	367,719
Pentagon budget campaign		137,558
Time restriction		31,775
Hewlett grant		59,000
	$	**596,052**

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 $51,661 during the year ended December 31, 2014. 2015 revenue from the agreements is expected to be approximately $48,000.

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, 2014, the Center owed the Council 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.

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. As of December 31, 2014, $53,379 was released from the endowment based on the Center's spending policy.

Endowment net assets: Endowment net assets consisted of the following as of December 31, 2014:

	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted Endowment Fund	$ 367,719	$ 965,443	$ 1,333,162

I. Endowment - Continued

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

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2013	**$ 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, December 31, 2014	**$ 367,719**	**$ 965,443**	**$ 1,333,162**

J. Restatement

Prior to 2014, the Center presented appropriations from its endowment as reductions in permanently restricted net assets. During the process of preparing the 2014 financial statements, the Center concluded that these appropriations were intended to be reductions in the endowment's accumulated investment earnings and gains. The endowment's accumulated investment earnings and gains are reported as a component of the Center's temporarily restricted net assets. As such, the 2014 endowment appropriations are presented as a reduction in temporarily restricted net assets. In order to conform with this method of reporting, the Center has restated the original presentation of its December 31, 2013 net assets. The impact of the restatement is presented below.

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Net assets as originally presented, December 31, 2013	$ 1,602,606	$ 801,928	$ 715,809	$ 3,120,343
Reclassification of accumulated endowment appropriations	-	(276,942)	276,942	-
Net assets as restated, December 31, 2013	**$ 1,602,606**	**$ 524,986**	**$ 992,751**	**$ 3,120,343**