Audited Financial Statements

THE CENTER FOR ARMS CONTROL AND NON-PROLIFERATION

December 31, 2016

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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, 2016 and 2015, 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, 2016 and 2015, 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.

Tate & Tryon

Washington, DC
June 19, 2017

Statements of Financial Position

December 31,	2016	2015
Assets		
Cash and cash equivalents	**$ 788,673**	$ 601,060
Investments	**1,070,371**	1,262,914
Accounts receivable	**98,123**	56,848
Pledges receivable	**1,150**	24,117
Prepaid expenses	**31,553**	12,797
Property, furniture and equipment - net	**1,304,998**	1,322,668
Total assets	**$ 3,294,868**	$ 3,280,404
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	**$ 29,160**	$ 11,143
Annuities payable	**46,732**	46,816
Capital lease liability	**22,019**	13,401
Deferred revenue	**1,455**	-
Total liabilities	**99,366**	71,360
Net assets		
Unrestricted	**1,720,114**	1,775,813
Temporarily restricted	**515,845**	473,688
Permanently restricted	**959,543**	959,543
Total net assets	**3,195,502**	3,209,044
Total liabilities and net assets	**$ 3,294,868**	$ 3,280,404

See notes to the financial statements.

The Center for Arms Control and Non-Proliferation

Statement of Activities
Year Ended December 31, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support				
Grant income	$ 160,327	$ 381,000	$ -	**$ 541,327**
Contributions and pledges	137,577	-	-	**137,577**
Investment income	4,278	95,722	-	**100,000**
Rental income	73,613	-	-	**73,613**
Special events	33,944	-	-	**33,944**
Other revenue	5,912	-	-	**5,912**
Net assets released from donor restrictions	434,565	(434,565)	-	**-**
Total revenue and support	850,216	42,157	-	**892,373**
Expenses				
Program services	644,718	-	-	**644,718**
General and administrative	190,442	-	-	**190,442**
Fundraising	70,755	-	-	**70,755**
Total expense	905,915	-	-	**905,915**
Change in net assets	(55,699)	42,157	-	**(13,542)**
Net assets, beginning of year	1,775,813	473,688	959,543	**3,209,044**
Net assets, end of year	**$ 1,720,114**	**$ 515,845**	**$ 959,543**	**$ 3,195,502**

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
Other revenue	143,082	-	-	143,082
Bequests	74,815	-	-	74,815
Rental income	61,553	-	-	61,553
Special events	20,559	-	-	20,559
Investment income	3,794	(18,914)	-	(15,120)
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**

The Center for Arms Control and Non-Proliferation

Statement of Functional Expenses
Year Ended December 31, 2016

	Program Services	General and Administrative	Fundraising	2016 Total
Consultants and professional fees	$ 355,533	$ 27,158	$ -	$ 382,691
Salaries	115,996	81,112	31,102	228,210
Information technology	36,478	14,438	10,269	61,185
Depreciation	42,123	7,154	343	49,620
Office and other expenses	14,500	17,333	11,547	43,380
Taxes	23,383	8,329	5,488	37,200
Employee Benefits	5,931	12,102	4,177	22,210
Conferences, conventions, and meetings	17,502	-	-	17,502
Repairs and maintenance	9,491	4,581	2,821	16,893
Payroll taxes	8,499	6,335	2,015	16,849
Insurance	4,784	2,193	1,422	8,399
Occupancy	4,377	1,974	1,301	7,652
Bad debt	-	7,375	-	7,375
Dues and subscriptions	3,834	358	-	4,192
Travel	1,270	-	270	1,540
Advertising and promotion	1,017	-	-	1,017
Total	**$ 644,718**	**$ 190,442**	**$ 70,755**	**$ 905,915**

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**

See notes to the financial statements.

The Center for Arms Control and Non-Proliferation

Statements of Cash Flows

Year ended December 31,	2016	2015
Cash flows from operating activities		
Change in net assets	**$ (13,542)**	$ (178,614)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	**49,620**	51,294
Net (gain) loss on investments	**(70,729)**	48,592
Revaluation of charitable gift annuities	**11,411**	(116,770)
Changes in assets and liabilities:		
Accounts receivable	**(41,275)**	26,754
Pledges receivable	**22,967**	36,928
Prepaid expenses	**(18,756)**	(1,124)
Accounts payable and accrued expenses	**18,017**	(28,173)
Deferred revenue	**1,455**	
Total adjustments	**(27,290)**	17,501
Net cash used in operating activities	**(40,832)**	(161,113)
Cash flows from investing activities		
Purchases of property, furniture and equipment	**(31,950)**	(19,273)
Purchases of investments	**(162,797)**	(141,457)
Proceeds from sale of investments	**426,069**	374,160
Net cash provided by investing activities	**231,322**	213,430
Cash flows from financing activities		
Annuities payable	**(11,495)**	(10,116)
Financing from capital lease obligation	**14,685**	-
Principal payments on capital lease obligations	**(6,067)**	(5,677)
Net cash used in financing activities	**(2,877)**	(15,793)
Net increase in cash and cash equivalents	**187,613**	36,524
Cash and cash equivalents, beginning of year	**601,060**	564,536
Cash and cash equivalents, end of year	**$ 788,673**	$ 601,060
Supplemental disclosures of cash flow information		
Property and equipment related to capital lease obligation	**$ 14,685**	$ -

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 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. Each year, the Center revalues the liability related to the anticipated future payments to be made to the annuitants. The corresponding change in value from the revaluation in the liability is included as a component of "other revenue" on the 2016 and 2015 statements of activities.

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 June 19, 2017, 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,:

2016	**Total**	**Level 1**	**Level 2**	**Level 3**
Investments, at fair value				
Mutual funds - stocks	$ 1,070,371	$ 1,070,371	$ -	$ -
	$ 1,070,371	$ 1,070,371	$ -	$ -

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	$ -	$ -

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,:

	2016	**2015**
Net gain (loss) on investments	$ 70,729	$ (48,592)
Interest and dividends	29,271	33,472
	$ 100,000	**$ (15,120)**

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 estimated useful lives of the assets, ranging from three to thirty-nine years.

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

	2016	2015
Building	$ 1,443,541	$ 1,443,541
Software	52,573	49,373
Capital lease asset	42,555	27,869
Furniture and equipment	25,464	25,464
Computer equipment	75,662	61,599
Land	315,585	315,585
	1,955,380	1,923,431
Less accumulated depreciation	(650,382)	(600,763)
	$ 1,304,998	**$ 1,322,668**

The Center is currently marketing its land and building for sale. No sales contract has been entered into as of June 19, 2017. While the ultimate selling price of the land and building are not yet known, the Center anticipates realizing a gain on the sale.

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. In 2016, the Center acquired a copier under a non-cancelable capital lease agreement. The lease is for 60 months, beginning August 2016, and included a bargain purchase option of $1 at the end of the lease. The lease requires monthly installments of approximately $285.

E. Capital Lease Obligation - Continued

The Center is also responsible for the operating costs, including property taxes. The Center estimated the fair value of the leased telephone equipment and copier to be $27,869 and $14,685, respectively, at lease inception. As of December 31, 2016 and 2015, the related accumulated amortization of the leased assets was $20,487 and $13,935, respectively. Amortization of assets held under capital leases is included under depreciation and amortization expense.

Future minimum lease payments at December 31, 2016 are as follows:

2017	$	9,281
2018		6,350
2019		3,420
2020		3,420
2021		2,280
		24,751
Less: interest		(2,732)
Total	**$**	**22,019**

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,:

		2016		**2015**
Endowment investment income	$	313,629	$	285,121
Pentagon budget campaign		172,216		188,567
Time restriction		30,000		-
	$	**515,845**	**$**	**473,688**

G. Rental Income

The Center has entered into sublease agreements with Council for a Livable World and Women's Action for New Directions. The leases are renewable unless cancelled by either tenant or landlord. Subsequent to year-end, the leases were extended for another twelve-month period. In addition, the Center has entered into month-to-month sublease agreements with Moveon.org and DC Environmental Network. Revenue from the agreements totaled $73,613 and $61,553 during the years ended December 31, 2016 and 2015, respectively.

H. Related Party

The Center and the Council for a Livable World (CLW) share one common Board member. The Center provides CLW with personnel and other general and administrative expenses. As of December 31, 2016 and 2015, CLW owed the Center a net amount of $77,831 and $40,616, respectively, 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.

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.

I. 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. During the years ended December 31, 2016 and 2015, $67,214 and $63,684, respectively, was released from the endowment based on the Center's spending policy.

Endowment activity: Changes in endowment net assets consist of the following for the year ended December 31, 2016:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	**$ 285,121**	**$ 959,543**	**$ 1,244,664**
Investment return:			
Interest and dividends	27,267		27,267
Net gain	68,455		68,455
Net investment return	95,722	-	95,722
Appropriations	(67,214)		(67,214)
Endowment net assets, end of year	**$ 313,629**	**$ 959,543**	**$ 1,273,172**

I. Endowment - Continued

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

	Temporarily Restricted	Permanently Restricted	Total
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**

J. Office Lease

In the anticipation of selling the building, on March 17, 2017 the Center entered into a new lease agreement for office space at 820 1st Street, N.E. in Washington, D.C. The lease commences on approximately September 1, 2017 and expires on approximately August 31, 2027. The Organization received certain concessions for entering into this lease including a rent abatement, which will be amortized over the lease term on a straight-line basis. The lease agreement provides for annual rent escalations. Future minimum rental payments on this lease are anticipated to be approximately $110,000 for each lease year.