Audited Financial Statements

THE CENTER FOR ARMS CONTROL AND NON-PROLIFERATION

December 31, 2017

The Center for Arms Control and Non-Proliferation

Contents

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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, 2017 and 2016, 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, 2017 and 2016, 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
July 24, 2018

Statements of Financial Position

December 31,		2017		2016
Assets				
Cash and cash equivalents	**$**	**2,544,404**	$	788,673
Investments		**1,953,579**		1,070,371
Accounts receivable		**379,090**		98,123
Pledges receivable		**-**		1,150
Prepaid expenses		**37,480**		31,553
Property, furniture and equipment - net		**260,449**		1,304,998
Total assets	**$**	**5,175,002**	$	3,294,868
Liabilities and Net Assets				
Current liabilities				
Accounts payable and accrued expenses	**$**	**50,934**	$	29,160
Annuities payable		**44,228**		46,732
Capital lease liability		**14,088**		22,019
Deferred revenue		**-**		1,455
Deferred rent		**230,019**		-
Total liabilities		**339,269**		99,366
Net assets				
Unrestricted		**2,714,259**		1,720,114
Temporarily restricted		**1,161,931**		515,845
Permanently restricted		**959,543**		959,543
Total net assets		**4,835,733**		3,195,502
Total liabilities and net assets	**$**	**5,175,002**	$	3,294,868

See notes to the financial statements.

The Center for Arms Control and Non-Proliferation

Statement of Activities
Year Ended December 31, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenue and support				
Grant income	$ 262,213	$ 963,500	$ -	**$ 1,225,713**
Gain on sale of building	1,098,039	-	-	**1,098,039**
Investment income	20,285	254,426	-	**274,711**
Contributions and pledges	190,771	-	-	**190,771**
Rental income	57,451	-	-	**57,451**
Other revenue	4,017	-	-	**4,017**
Net assets released from donor restrictions	571,840	(571,840)	-	**-**
Total revenue and support	2,204,616	646,086	-	**2,850,702**
Expenses				
Program services	946,510	-	-	**946,510**
General and administrative	163,383	-	-	**163,383**
Fundraising	100,578	-	-	**100,578**
Total expense	1,210,471	-	-	**1,210,471**
Change in net assets	994,145	646,086	-	**1,640,231**
Net assets, beginning of year	1,720,114	515,845	959,543	**3,195,502**
Net assets, end of year	**$ 2,714,259**	**$ 1,161,931**	**$ 959,543**	**$ 4,835,733**

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 Functional Expenses
Year Ended December 31, 2017

	Program Services	General and Administrative	Fundraising	2017 Total
Consultants and professional fees	$ 429,363	$ 22,126	$ -	$ 451,489
Salaries	258,678	78,315	41,338	378,331
Office and other expenses	81,308	11,930	33,015	126,253
Information technology	40,616	14,571	6,696	61,883
Depreciation	52,327	2,471	1,629	56,427
Taxes	17,500	10,111	6,663	34,274
Employee Benefits	19,340	12,084	1,953	33,377
Payroll taxes	16,100	5,778	5,141	27,019
Repairs and maintenance	6,347	2,887	1,886	11,120
Insurance	6,475	1,607	1,172	9,254
Travel	7,485	-	105	7,590
Occupancy	3,297	1,487	980	5,764
Dues and subscriptions	4,041	-	-	4,041
Conferences, conventions, and meetings	3,145	16	-	3,161
Advertising and promotion	488	-	-	488
Total	**$ 946,510**	**$ 163,383**	**$ 100,578**	**$ 1,210,471**

See notes to the financial statements.

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**

See notes to the financial statements.

Statements of Cash Flows

Year ended December 31,	2017	2016
Cash flows from operating activities		
Change in net assets	**$ 1,640,231**	$ (13,542)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	**56,427**	49,620
Net gain on investments	**(233,209)**	(70,729)
Revaluation of charitable gift annuities	**7,083**	11,411
Net gain on sale of building	**(1,098,039)**	-
Tenant improvement allowance	**(200,394)**	-
Changes in assets and liabilities:		
Accounts receivable	**(280,967)**	(41,275)
Pledges receivable	**1,150**	22,967
Prepaid expenses	**(5,927)**	(18,756)
Accounts payable and accrued expenses	**21,774**	18,017
Deferred revenue	**(1,455)**	1,455
Deferred rent	**230,019**	-
Total adjustments	**(1,503,538)**	(27,290)
Net cash provided by (used in) operating activities	**136,693**	(40,832)
Cash flows from investing activities		
Purchases of property, furniture and equipment	**(37,417)**	(31,950)
Proceeds from sale of building	**2,323,972**	-
Purchases of investments	**(649,999)**	(162,797)
Proceeds from sale of investments	**-**	426,069
Net cash provided by investing activities	**1,636,556**	231,322
Cash flows from financing activities		
Annuities payable	**(9,587)**	(11,495)
Financing from capital lease obligation	**-**	14,685
Principal payments on capital lease obligations	**(7,931)**	(6,067)
Net cash used in financing activities	**(17,518)**	(2,877)
Net increase in cash and cash equivalents	**1,755,731**	187,613
Cash and cash equivalents, beginning of year	**788,673**	601,060
Cash and cash equivalents, end of year	**$ 2,544,404**	$ 788,673

Supplemental schedule of noncash investing and financing activities		
Leasehold improvements acquired via tenant allowance	**$ 200,394**	$ -
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 and conduct policy analyses 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 2017 and 2016 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 J).

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 July 24, 2018, 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,:

2017	Total	Level 1	Level 2	Level 3
Investments, at fair value				
Mutual funds - equities	$ 1,953,579	$ 1,953,579	$ -	$ -
	$ 1,953,579	$ 1,953,579	$ -	$ -

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

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,:

	2017	2016
Net gain on investments	$ 233,209	$ 70,729
Interest and dividends	41,502	29,271
	$ 274,711	**$ 100,000**

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,:

	2017	2016
Tenant Improvements	$ 200,394	$ -
Software	52,573	52,573
Leased equipment	42,555	42,555
Furniture and equipment	25,098	25,464
Computer equipment	37,791	75,662
Building	-	1,443,541
Land	-	315,585
	358,411	1,955,380
Less accumulated depreciation	(97,962)	(650,382)
	$ 260,449	**$ 1,304,998**

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.

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, 2017 and 2016, the related accumulated amortization of the leased assets was $28,999 and $20,487, respectively. Amortization of assets held under capital leases is included under depreciation and amortization expense.

Future minimum lease payments at December 31, 2017 are as follows:

2018	$ 6,350
2019	3,420
2020	3,420
2021	2,280
	15,470
Less: interest	(1,382)
Total principal	**$ 14,088**

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,:

	2017	2016
Time restriction	$ 508,441	$ 30,000
Endowment investment income	504,385	313,629
Pentagon budget campaign	149,105	172,216
	$ 1,161,931	**$ 515,845**

G. Rental Income

Prior to the sale of the building, the Center had entered into sublease agreements with Council for a Livable World and Women's Action for New Directions. The leases were renewable unless cancelled by either tenant or landlord. In addition, the Center had entered into month-to-month sublease agreements with Moveon.org and DC Environmental Network. Subsequent to the sale of the building in 2017, Women's Action for New Directions and Moveon.org terminated their respective leases while Council for a Livable World and DC Environmental Network continue as tenants. Revenue from the agreements totaled $61,468 and $73,613 during the years ended December 31, 2017 and 2016, respectively.

H. Retirement Plan

Effective April 4, 2018, the Center provides and administers a 401(k) plan for all eligible employees. Employees become participants effective after completing one year of service and when they reach the age of 21. Employee contributions are voluntary up to the annual limits set by the law. The Center will make an employer profit sharing contribution on a discretionary basis to be determined from year to year.

I. 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, 2017 and 2016, CLW owed the Center a net amount of $43,904 and $77,831, respectively, for various expense reimbursements.

J. 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.

J. 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, 2017 and 2016, $63,670 and $67,214, 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, 2017:

	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	**$ 313,629**	**$ 959,543**	**$ 1,273,172**
Investment return:			
Interest and dividends	29,144		29,144
Net gain	225,282		225,282
Net investment return	254,426	-	254,426
Appropriations	(63,670)		(63,670)
Endowment net assets, end of year	**$ 504,385**	**$ 959,543**	**$ 1,463,928**

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**

K. Gain on Sale of Building

On October 2, 2017, the Center sold its building located at 322 4th Street, NE, Washington, DC for a net gain of $1,098,039. The net gain includes the sale price of the building ($2,500,000) less a) legal fees and closing costs ($176,039), and b) the historical cost of the building less its respective accumulated depreciation ($1,225,922).

L. Office Lease

On March 17, 2017 the Center entered into a lease agreement for office space at 820 1st Street, N.E. in Washington, D.C. The lease commenced on September 1, 2017 and expires on August 31, 2027. The Center received certain concessions for entering into this lease including a four-month rental abatement, which will be amortized over the lease term on a straight-line basis. After the commencement of rental payments, the lease provides for annual base rental increases. In addition, under the terms of the lease, the Center received a tenant improvement allowance of $200,394. Total office lease rent and occupancy expense for the lease was $36,305 for the year ended December 31, 2017. The following are the future minimum rental payments on this lease at December 31, 2017;

2018	$ 101,032
2019	103,558
2020	106,147
2021	108,800
2022	111,520
Thereafter	558,089
Total	**$ 1,089,146**

Deferred rent expense: The Center accounts for leases in accordance with the provisions of U.S. generally accepted accounting principles (GAAP). GAAP requires that the cost of the tenant improvements be capitalized and amortized as property and equipment. GAAP also requires that the lease incentive, along with the scheduled rent increases resulting from the escalation of base rentals, be recorded as a liability and amortized ratably over the term of the lease so as to record rent expense on a straight-line basis. Therefore, the Center recorded a deferred rent liability of $230,019 at December 31, 2017.