Audited Financial Statements

THE CENTER FOR ARMS CONTROL AND NON-PROLIFERATION

December 31, 2018

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 statement of financial position as of December 31, 2018, and the related statements 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 the 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 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, 2018, 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.

Adoption of New Accounting Standards

As described in Note A to the financial statements, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities* (ASU 2016-14). As required by the FASB, the Center adopted the provisions of ASU 2016-14 during the year ended December 31, 2018. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, new disclosures were added regarding liquidity and the availability of resources. There was no change in the Center's previously reported change in net assets as a result of the adoption of the standard. Our opinion is not modified with respect to this matter.

Tate & Tryon

Washington, DC
September 11, 2019

The Center for Arms Control and Non-Proliferation

Statement of Financial Position
December 31, 2018

Assets		
Cash and cash equivalents	$	**2,505,243**
Investments		**1,722,284**
Accounts receivable		**33,097**
Prepaid expenses		**30,477**
Property, furniture and equipment - net		**218,684**
Total assets	**$**	**4,509,785**
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	$	**37,862**
Annuities payable		**37,778**
Capital lease liability		**8,784**
Deferred rent		**217,862**
Total liabilities		**302,286**
Net assets		
Without donor restrictions		
Undesignated		**542,352**
Board-designated		**1,947,524**
Total net assets without donor restrictions		**2,489,876**
With donor restrictions		**1,717,623**
Total net assets		**4,207,499**
Total liabilities and net assets	**$**	**4,509,785**

See notes to the financial statements.

The Center for Arms Control and Non-Proliferation

Statement of Activities
Year Ended December 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Grant income	$ 214,275	$ 351,898	**$ 566,173**
Contributions and pledges	118,222	-	**118,222**
Rental income	44,376	-	**44,376**
Other revenue	7,891	-	**7,891**
Investment loss	(37,179)	(114,294)	**(151,473)**
Net assets released from donor restrictions	641,455	(641,455)	**-**
Total revenue and support	989,040	(403,851)	**585,189**
Expenses			
Policy education & analysis programs	1,007,396	-	**1,007,396**
General and administrative	132,088	-	**132,088**
Fundraising	73,939	-	**73,939**
Total expense	1,213,423	-	**1,213,423**
Change in net assets	(224,383)	(403,851)	**(628,234)**
Net assets, beginning of year	2,714,259	2,121,474	**4,835,733**
Net assets, end of year	**$ 2,489,876**	**$ 1,717,623**	**$ 4,207,499**

Statement of Functional Expense
Year Ended December 31, 2018

	Policy Education & Analysis Programs	General and Administrative	Fundraising	2018 Total
Salaries	$ 348,224	$ 64,624	$ 40,972	$ 453,820
Consultants and professional fees	307,812	24,839	-	332,651
Office and other expenses	137,195	12,817	19,392	169,404
Travel	80,506	-	86	80,592
Employee Benefits	35,516	8,043	959	44,518
Depreciation	33,406	6,030	3,973	43,409
Information technology	27,040	9,453	6,020	42,513
Payroll taxes	23,934	5,750	2,171	31,855
Dues and subscriptions	6,210	-	99	6,309
Conferences, conventions, and meetings	4,133	-	-	4,133
Insurance	3,235	532	267	4,034
Advertising and promotion	185	-	-	185
Total	**$ 1,007,396**	**$ 132,088**	**$ 73,939**	**$ 1,213,423**

See notes to the financial statements.

The Center for Arms Control and Non-Proliferation

Statements of Cash Flows
Year Ended December 31, 2018

Cash flows from operating activities		
Change in net assets	$	**(628,234)**
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities:		
Depreciation and amortization		**43,409**
Net loss (gain) on investments		**231,296**
Revaluation of charitable gift annuities		**1,952**
Changes in assets and liabilities:		
Accounts receivable		**345,993**
Prepaid expenses		**7,003**
Accounts payable and accrued expenses		**(13,072)**
Deferred rent		**(12,157)**
Total adjustments		**604,424**
Net cash used in operating activities		**(23,810)**
Cash flows from investing activities		
Purchases of property, furniture and equipment		**(1,645)**
Net cash used in investing activities		**(1,645)**
Cash flows from financing activities		
Annuities payable		**(8,402)**
Principal payments on capital lease obligations		**(5,304)**
Net cash used in financing activities		**(13,706)**
Net decrease in cash and cash equivalents		**(39,161)**
Cash and cash equivalents, beginning of year		**2,544,404**
Cash and cash equivalents, end of year	**$**	**2,505,243**

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.

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.

Net assets: Net assets are classified based on the existence or absence of donor-imposed restrictions. For financial statement purposes, net assets are comprised of net assets without donor restrictions and net assets with donor restrictions. See note G for details.

Revenue recognition: Contributions, unconditional pledges and grants are recorded as revenue in the year notification is received from the donor. Contributions and grants with donor restrictions are recognized as support without donor restrictions 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 net assets with donor restrictions 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.

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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, costs such as salaries, benefits, depreciation, and information technology costs have been allocated among the programs and supporting services benefited. These costs have been allocated based on estimates of the amount of staff time utilized by each functional area.

New accounting principle: The Financial Accounting Standards Board (FASB) issued Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities* (ASU 2016-14). The Center adopted the provisions of ASU 2016-14 during the year ended December 31, 2018. In addition to changes in terminology used to describe categories of net assets throughout the financial statements, the disclosure regarding liquidity and the availability of resources was added.

Subsequent events: Subsequent events have been evaluated through September 11, 2019, 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.

C. INVESTMENTS - CONTINUED

The following is a summary of input levels used to determine fair values, measured on a recurring basis, at December 31, 2018:

2018	Total	Level 1	Level 2	Level 3
Investments, at fair value				
Mutual funds - equities	$ 1,722,284	$ 1,722,284	$ -	$ -
	$ 1,722,284	$ 1,722,284	$ -	$ -

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, 2018:

Net (loss) gain on investments	$ (231,296)
Interest and dividends	79,823
	$ (151,473)

D. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

Financial assets available for the Center's general expenditure, that is, financial assets without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, are comprised of the following as of December 31, 2018:

Cash and cash equivalents	$ 2,505,243
Investments	1,722,284
Accounts receivable	33,097
Subtotal financial assets	4,260,624
Amounts not available within one year	
Board-designated net assets	(1,947,524)
Net assets with donor restrictions	(1,717,623)
Financial assets available to meet cash needs for general expenditures within one year	**$ 595,477**

The Center manages its financial assets to be available as its operating expenditures, liabilities, and other obligations come due. In addition, financial assets in excess of daily cash requirements are invested in financial instruments that can be converted to cash within a short period of time in accordance with the Center's investment policy. Income from the donor-restricted endowment fund is restricted for specific purposes and, therefore, is not available for general expenditure. If deemed necessary, the Board can elect to make all, or a part of, the Board-designated fund available for general expenditure.

E. 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 ten years.

Property, furniture, and equipment consists of the following at December 31, 2018:

Tenant Improvements	$	200,394
Software		54,215
Leased equipment		42,555
Computer equipment		37,791
Furniture and equipment		25,098
		360,053
Less accumulated depreciation		(141,369)
	$	**218,684**

F. Capital Lease Obligation

In 2013, the Center acquired telephone equipment under a non-cancelable capital lease agreement. The lease was 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 includes 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, 2018, the related accumulated amortization of the leased assets was $34,722. Amortization of assets held under capital leases is included under depreciation and amortization expense.

Future minimum lease payments at December 31, 2018 are as follows:

2019	$	3,420
2020		3,420
2021		2,280
		9,120
Less: interest		(336)
Total principal	**$**	**8,784**

G. Net Assets

Net assets without donor restrictions: Net assets without donor restrictions 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. Included within net assets without donor restrictions is a board-designated reserve fund. These funds were generated primarily from the sale of the Center's headquarters building. The use of the board-designated fund is made at the recommendation of the Finance/Investment Committee and is subject to approval by the Board of Directors.

Net assets with donor restrictions: Net assets with donor restrictions include those net assets whose use is subject to donor restrictions. Donor restrictions may be for a specified time or purpose limitation or the donor may specify that the corpus of their original and certain subsequent gifts be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Net assets with donor restrictions consisted of the following as of December 31, 2018:

Endowment - see Note K	$ 1,281,034
Pentagon budget campaign	226,321
Time restriction	210,268
	$ 1,717,623

H. Rental Income

The Center subleases space to various organizations under month-to-month agreements. Revenue from the agreements totaled $46,328 during the year ended December 31, 2018.

I. 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. No such contribution was made during 2018.

J. Related Party

The Center and the Council for a Livable World (CLW) shared one common Board member until March 2018. In addition, the Center and CLW utilize the shared services of certain employees. As such, the Center provides CLW with personnel and other general and administrative expenses. As of December 31, 2018, CLW owed the Center a net amount of $15,768 for various expense reimbursements.

During 2018, the Center entered into an agreement with CLW to provide a grant to CLW to support Council's lobbying efforts on issues concerning disarmament and peace and security consistent with the organizations' shared objectives.

K. 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 net assets with donor restrictions held in perpetuity (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 net assets with donor restrictions held in perpetuity is classified as net assets with donor restrictions 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).

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.

K. 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 year ended December 31, 2018 $68,600 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, 2018:

	With Donor Restrictions		
	Available for Specified Purpose	Held in Perpetuity	Total
Endowment net assets, beginning of year	**$ 504,385**	**$ 959,543**	**$ 1,463,928**
Investment loss	(114,294)	-	(114,294)
Appropriations	(68,600)		(68,600)
Endowment net assets, end of year	**$ 321,491**	**$ 959,543**	**$ 1,281,034**

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 $108,915 for the year ended December 31, 2018. The following are the future minimum rental payments on this lease at December 31, 2018;

Year Ending December 31,		
2019	$	103,558
2020		106,147
2021		108,800
2022		111,520
2023		114,308
Thereafter		443,781
Total	**$**	**988,114**

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 $217,862 at December 31, 2018.