COMPETITIVE ENTERPRISE INSTITUTE

Financial Statements

For the Year Ended September 30, 2018
(With Summarized Financial Information for the Year Ended September 30, 2017)

and
Report Thereon

COMPETITIVE ENTERPRISE INSTITUTE

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For the Year Ended September 30, 2018

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Competitive Enterprise Institute

We have audited the accompanying financial statements of the Competitive Enterprise Institute (CEI), which comprise the statement of financial position as of September 30, 2018, and the related statements of activities 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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.

Continued

Opinion

In our opinion, the 2018 financial statements referred to above present fairly, in all material respects, the financial position of the Competitive Enterprise Institute as of September 30, 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.

Report on Summarized Comparative Information

CEI's 2017 financial statements were audited by Raffa, P.C., whose practice was combined with Marcum LLP as of October 1, 2018, and whose report dated February 9, 2018, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2017, is consistent, in all material respects, with the financial statements from which it has been derived.

Marcum LLP

Washington, DC
April 12, 2019

COMPETITIVE ENTERPRISE INSTITUTE

STATEMENT OF FINANCIAL POSITION
September 30, 2018
(With Summarized Financial Information as of September 30, 2017)

	2018	2017
ASSETS		
Cash and cash equivalents	$ 726,572	$ 1,103,180
Investments	626,663	821,578
Pledges receivable	272,500	337,500
Other receivables	90,397	49,989
Prepaid expenses	275,526	163,126
Deposits and other assets	72,852	73,842
Property and equipment, net	1,096,317	1,330,800
TOTAL ASSETS	$ 3,160,827	$ 3,880,015
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 105,910	$ 96,654
Accrued salaries and benefits	164,755	175,264
Capital lease obligation	22,604	13,149
Notes payable	11,003	22,044
Liability for loss on sublease	35,581	371,450
Deferred rent and lease incentives	2,044,051	2,025,328
TOTAL LIABILITIES	2,383,904	2,703,889
Net Assets		
Unrestricted	772,402	1,095,075
Temporarily restricted	4,521	81,051
TOTAL NET ASSETS	776,923	1,176,126
TOTAL LIABILITIES AND NET ASSETS	$ 3,160,827	$ 3,880,015

The accompanying notes are an integral part of these financial statements.

COMPETITIVE ENTERPRISE INSTITUTE

STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2018
(With Summarized Financial Information for the Year Ended September 30, 2017)

	2018			2017
	Unrestricted	Temporarily Restricted	Total	Total
REVENUE AND SUPPORT				
Grants and contributions	$ 5,405,530	$ -	$ 5,405,530	$ 6,196,741
Special events	1,060,000	-	1,060,000	913,080
In-kind contributions	35,100	-	35,100	388,260
Court-awarded fees	186,313	-	186,313	162,413
Rental income	84,589	-	84,589	76,865
Investment income, net	9,953	-	9,953	10,419
Miscellaneous	15,194	-	15,194	7,330
Net assets released from restrictions:				
Satisfaction of time restrictions	76,530	(76,530)	-	-
TOTAL REVENUE AND SUPPORT	6,873,209	(76,530)	6,796,679	7,755,108
EXPENSES				
Program Services	5,762,640	-	5,762,640	6,323,060
Supporting Services:				
General and administrative	373,254	-	373,254	1,339,143
Fundraising	904,151	-	904,151	1,005,373
Fundraising – cost of direct benefit to donors	155,837	-	155,837	153,991
Total Supporting Services	1,433,242	-	1,433,242	2,498,507
TOTAL EXPENSES	7,195,882	-	7,195,882	8,821,567
CHANGE IN NET ASSETS	(322,673)	(76,530)	(399,203)	(1,066,459)
NET ASSETS, BEGINNING OF YEAR	1,095,075	81,051	1,176,126	2,242,585
NET ASSETS, END OF YEAR	$ 772,402	$ 4,521	$ 776,923	$ 1,176,126

The accompanying notes are an integral part of these financial statements.

COMPETITIVE ENTERPRISE INSTITUTE

STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2018
(With Summarized Financial Information for the Year Ended September 30, 2017)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (399,203)	$ (1,066,459)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Realized and unrealized loss on investments	1,362	486
Loss on sublease	-	371,450
Loss on disposal of property and equipment	6,165	-
Depreciation and amortization	299,684	234,439
Amortization of deferred lease benefit	118,625	110,414
Changes in assets and liabilities:		
Pledges receivable	65,000	110,362
Other receivables	(40,408)	372,583
Prepaid expenses	(112,400)	150,931
Deposits and other assets	990	(11,606)
Accounts payable and accrued expenses	9,256	(77,268)
Accrued salaries and benefits	(10,509)	17,601
Liability for loss on sublease	(335,869)	-
Deferred rent and lease incentives	(99,902)	403,744
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	(497,209)	616,677
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(57,493)	(282,751)
Purchase of investments	(36,171)	(274,589)
Sale of investments	229,724	76,204
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	136,060	(481,136)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on note payable	(10,996)	(10,117)
Principal payments on capital lease obligation	(4,463)	(5,466)
NET CASH USED IN FINANCING ACTIVITIES	(15,459)	(15,583)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(376,608)	119,958
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,103,180	983,222
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 726,572	$ 1,103,180
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Noncash contributions	$ 35,100	$ 388,260
NONCASH INVESTING AND FINANCING ACTIVITES		
Equipment acquired under a capital lease	$ 13,918	$ -
Obligation of equipment acquired under a capital lease	(13,918)	-
	$ -	$ -

The accompanying notes are an integral part of these financial statements.

1. Organization and Summary of Significant Accounting Policies

Organization

The Competitive Enterprise Institute (CEI) was incorporated in the District of Columbia in 1984 as a nonprofit organization. CEI serves as a link between the academic community of free market scholars and the general public. CEI works to promote a better understanding of the values of a free society and the policies necessary for its survival by using policy analysis, public education and litigation. These activities are funded primarily through contributions and grants from individuals, corporations and foundations.

On October 1, 2015, CEI entered into an agreement with the Center for Class Action Fairness (CCAF) in which CCAF agreed to transfer to CEI all assets and liabilities. After the transfer, CCAF ceased operations as a separate entity and was integrated into the program activities of CEI. Effective January 31, 2019, CEI and CCAF entered into a separation agreement to transfer certain program activities to a new anticipated conservative public-interest litigation nonprofit organization named Hamilton Lincoln Law Institute.

Cash Equivalents

CEI considers all money market funds to be cash equivalents.

Pledges Receivable

All unconditional promises to give are expected to be collected within one year and are recorded as pledges receivable at net realizable value. Conditional promises to give are not included as support until the conditions are substantially met. CEI believes all pledges are collectible, and therefore does not have an allowance for uncollectible amounts.

Investments

Investments consist of insurance annuity contracts and a certificate of deposit with an original maturity greater than 90 days. The annuity contracts are recorded in the accompanying financial statements at their fair value as of September 30. The certificate of deposit is recorded at amortized cost, which approximates fair value.

The change in unrealized appreciation or depreciation of investments is included in investment income in the accompanying statement of activities. Realized gains and losses on sales of investments are computed using an average cost method, recorded on the trade date of the transactions and included in net investment income in the accompanying statement of activities.

Fair Value of Financial Instruments

In accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, *Fair Value Measurement*, CEI has categorized its applicable financial instruments into a required fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest-level input that is significant to the fair value measurement of the instrument.

1. Organization and Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments (continued)

Applicable financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

> *Level 1* – Financial assets and liabilities whose values are based on quoted prices for identical assets or liabilities in an active market that CEI has the ability to access. This classification is applied to any investment of CEI that has a readily available quoted market price from an active market where there is significant transparency in the executed/quoted market price.
>
> *Level 2* – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability, such as quoted prices for similarly structured securities in active markets.
>
> *Level 3* – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the assets or liability.

As of September 30, 2018, only CEI's investments, as described in Note 2 of these financial statements, were measured at fair value on a recurring basis.

Property and Equipment and Related Depreciation and Amortization

Property and equipment are stated at cost and are depreciated using the straight-line method over three to seven years, with no salvage value. Leasehold improvements are amortized over the shorter of the lease period or useful life of the improvements. Expenditures for major repairs and improvements over $1,000 and an economic life in excess of one year are capitalized; expenditures for minor repairs and maintenance costs are expensed when incurred. Upon the retirement or disposal of assets, the cost and accumulated depreciation or amortization are eliminated from the respective accounts and the resulting gain or loss is included in revenue or expenses.

Classification of Net Assets

The net assets of CEI are reported as follows:

- Unrestricted net assets represent the portion of expendable funds that are available for support of CEI's operations.
- Temporarily restricted net assets represent amounts that are specifically restricted by donors or grantors for various programs or future periods.

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

Revenue Recognition

Grants and contributions are reported as revenue in the year in which payments are received and/or unconditional promises to give are made. CEI reports gifts of cash and other assets that are received with donor stipulations limiting the use of the donated assets as unrestricted support if all such donor restrictions are met in the fiscal year in which the award is received. Gifts of cash and other assets that are received with donor stipulations limiting the use of the donated assets are reported as temporarily restricted if such donor stipulations are not fully met in the fiscal year in which the award is received. When a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated services and materials are recorded as in-kind contributions at their estimated fair value as of the date of the donation.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated proportionately among the programs and supporting services based upon the estimated time employees work on each program or activity, direct costs or other reasonable bases.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Continued

2. Investments

The following table summarizes CEI's investments measured at fair value on a recurring basis as of September 30, 2018:

	Total Fair Value	Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Insurance annuity contracts	$ 586,635	$ -	$ 586,635	$ -
Total Investments Carried at Fair Value	586,635	$ -	$ 586,635	$ -
Certificate of deposit	40,028			
Total Investments	$ 626,663			

The insurance annuity contracts are valued based upon published market valuation quotes for the underlying securities held by the annuities and have been classified as Level 2 by CEI.

The certificate of deposit held by CEI as of September 30, 2018, and included in its investment portfolio does not meet the definition of a security subject to the fair value measurements and disclosures of FASB ASC Topic 820, and therefore is not categorized in the fair value hierarchy.

As of September 30, 2018, the certificate of deposit served as collateral for the security deposit under one of CEI's office leases.

Investment income is summarized as follows for the year ended September 30, 2018:

Interest and dividends on cash and cash equivalents	$ 11,315
Unrealized loss	(16)
Realized loss	(1,346)
Investment Income, Net	$ 9,953

3. Property and Equipment

CEI's property and equipment consisted of the following as of September 30, 2018:

Leasehold improvements	$ 983,556
Computers and equipment	495,903
Furniture	232,550
Leased equipment	13,918
Total Property and Equipment	1,725,927
Less: Accumulated Depreciation and Amortization	(629,610)
Property and Equipment, Net	$ 1,096,317

Depreciation and amortization expense totaled $299,684 for the year ended September 30, 2018.

4. Commitments, Risks and Contingencies

Concentration of Credit Risk

The cash and cash equivalents of CEI are composed of amounts in accounts at various financial institutions. While the amounts, at times, exceed the amount guaranteed by federal agencies and, therefore, bear some risk, CEI has not experienced, nor does it anticipate, any loss of funds. As of September 30, 2018, the Federal Deposit Insurance Corporation (FDIC) insured balances of a depositor at each FDIC-insured institution up to $250,000. The amounts held by CEI in excess of the FDIC-insured limit as of September 30, 2018, was $653,413.

Operating Leases

In July 2016, CEI entered into a noncancelable operating lease for its current office space in Washington, D.C. The lease commenced August 1, 2016, and expires November 30, 2027. The lease includes a fixed escalation clause for increases in the annual minimum rent. CEI was also provided with a 16-month rental abatement and an allowance for tenant improvements of up to $1,411,784, of which up to $160,430 could either be used for leasehold improvements or applied to the rent balance. Of this amount, CEI used $1,251,354 for various leasehold improvements and the remaining $160,430 was applied as a credit against future rental payments.

Under GAAP, all fixed rent increases and lease incentives are recognized on a straight-line basis over the term of the lease. The difference between this expense and the required lease payments is reflected as deferred rent and lease incentives in the accompanying statement of financial position.

Continued

4. Commitments, Risks and Contingencies (continued)

Operating Leases (continued)

Rent expense under this lease for the year ended September 30, 2018, was $686,906.

In February 2008, CEI renegotiated a noncancelable operating lease for its prior office space in Washington, D.C. The lease commenced October 1, 2008, and expires November 30, 2018. The lease contains a fixed escalation clause for increases in the annual minimum rent. Under GAAP, all fixed rent increases and lease incentives are recognized on a straight-line basis over the term of the lease. The difference between this expense and the required lease payments is reflected as deferred rent and lease incentives in the accompanying statement of financial position.

In accordance with FASB ASC Topic 420, *Accounting for Costs Associated with Exit or Disposal Obligations*, CEI estimated that, when the space was abandoned in August 2016, no loss was required to be recognized, as the net present value of the future obligations under this lease were approximately equal to the estimated amount of sublease income which could reasonably be obtained for the space.

Based upon changing economic conditions specific to the office building and immediate area, as of September 30, 2017, CEI re-evaluated the amount of sublease income which could reasonably be obtained for the space and determined that a loss of $371,450 was required, representing the difference between the net present value of the remaining future obligations under its original office space lease and the sublease rental income reasonably obtainable for the space. This amount is being amortized over the term of the lease. The unamortized balance as of September 30, 2018, was $35,581 and is recorded as a liability for loss on sublease in the accompanying statement of financial position.

In October 2017, CEI entered into a noncancelable sublease agreement for its prior office space in Washington, D.C. The agreement commenced on March 1, 2018, and expires on November 29, 2018. The agreement contains a fixed escalation clause for increases in the annual minimum rent. Under GAAP, all fixed rent increases are recognized on a straight-line basis over the term of the lease. The difference between this income and the required lease payments to be received is recognized as deferred rent receivable, which is included in deposits and other assets in the accompanying statement of financial position.

Continued

4. Commitments, Risks and Contingencies (continued)

Operating Leases (continued)

As of September 30, 2018, total future minimum lease payments required and future minimum rentals to be received under each of these operating leases were as follows:

For the Years Ending September 30,	Current Office Space	Prior Office Space	Subtotal	Less: Sublease Rental Income	Net Total
2019	$ 716,347	$ 96,530	$ 812,877	$ (48,953)	$ 763,924
2020	734,328	-	734,328	-	734,328
2021	825,332	-	825,332	-	825,332
2022	858,969	-	858,969	-	858,969
2023	880,413	-	880,413	-	880,413
Thereafter	3,912,995	-	3,912,995	-	3,912,995
Total	$ 7,928,384	$ 96,530	$ 8,024,914	$ (48,953)	$ 7,975,961

5. Temporarily Restricted Net Assets

Temporarily restricted net assets as of September 30, 2018, totaling $4,521 were for the purpose of Biofuels analysis.

6. Joint Costs

During the year ended September 30, 2018, CEI incurred joint costs from direct mail campaigns that included both educational materials and fundraising appeals.

These joint costs were allocated as follows for the year ended September 30, 2018:

Programs	$ 44,415
Fundraising	73,830
General and administrative	2,157
Total Joint Costs of Activities	$ 120,402

7. Income Taxes

CEI has been classified as a public charity under Section 501(c)(3) of the Internal Revenue Code and is exempt from federal taxes on income other than net unrelated business income. There was no provision for income tax for CEI for the year ended September 30, 2018, as CEI had no net taxable unrelated business income.

7. Income Taxes (continued)

CEI reviews and assesses all activities annually to identify any changes in the scope of the activities and revenue sources and the tax treatment thereof, to identify any uncertainty in income taxes. For the year ended September 30, 2018, management did not identify any uncertainty in income taxes requiring recognition or disclosure in these financial statements.

CEI's tax returns are subject to possible examination by the taxing authorities. For federal tax purposes, the tax returns essentially remain open for possible examination for a period of three years after the respective filing deadlines of those returns.

8. Summarized Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with CEI's financial statements for the year ended September 30, 2017, from which the summarized information was derived.

9. Risk and Uncertainties

CEI has sustained recurring losses and negative cash flows from operations. For the year ended September 30, 2018, CEI had an operating loss of $322,673 and negative cash from operations of $497,209. CEI expects that it will raise additional funds consistent with its strategic plan over the next several years. CEI expects to meet future cash needs through continued development efforts.

10. Subsequent Events

CEI's management has evaluated the effect of subsequent events on the financial statements through April 12, 2019, the date these financial statements were available to be issued. Except for the separation agreement between CEI and CCAF discussed in Note 1, there were no subsequent events identified through April 12, 2019, that are required to be disclosed in these financial statements.