



COMPETITIVE  
ENTERPRISE  
INSTITUTE

## **Financial Statements**

*For the Years Ended September 30, 2014 and 2013*



**and  
Report Thereon**





*Certified Public Accountants*

## **INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors of the  
Competitive Enterprise Institute

### **Report on the Financial Statements**

We have audited the accompanying financial statements of ABC Competitive Enterprise Institute (CEI), which comprise the statements of financial position as of September 30, 2014 and 2013, 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.

### ***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 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 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 CEI as of September 30, 2014 and 2013, 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.

A handwritten signature in black ink, appearing to read 'Raffa, P.C.', with a stylized flourish.

**Raffa, P.C.**

Washington, DC  
January 16, 2015

**COMPETITIVE ENTERPRISE INSTITUTE**  
**STATEMENTS OF FINANCIAL POSITION**  
**September 30, 2014 and 2013**

	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 1,118,511	\$ 1,315,059
Pledges receivable, current portion	960,525	551,632
Other receivables	8,456	3,031
Prepaid expenses	<u>114,690</u>	<u>127,318</u>
Total Current Assets	<u>2,202,182</u>	<u>1,997,040</u>
Long Term and Other Assets		
Pledges receivable, net of current portion	-	46,228
Investments	596,203	625,915
Property and equipment, net	<u>115,252</u>	<u>100,053</u>
Total Long Term and Other Assets	<u>711,455</u>	<u>772,196</u>
TOTAL ASSETS	<u><u>\$ 2,913,637</u></u>	<u><u>\$ 2,769,236</u></u>
<b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable and accrued expenses	\$ 142,067	\$ 666,650
Accrued salaries and benefits	275,052	201,847
Capital lease obligation, current portion	3,743	-
Deferred rent, current portion	<u>28,436</u>	<u>14,000</u>
Total Current Liabilities	449,298	882,497
Capital lease obligation, net of current portion	23,138	-
Deferred rent, net of current portion	<u>178,997</u>	<u>207,433</u>
TOTAL LIABILITIES	<u>651,433</u>	<u>1,089,930</u>
Net Assets		
Unrestricted	1,657,966	1,248,619
Temporarily restricted	<u>604,238</u>	<u>430,687</u>
TOTAL NET ASSETS	<u>2,262,204</u>	<u>1,679,306</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 2,913,637</u></u>	<u><u>\$ 2,769,236</u></u>

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

**COMPETITIVE ENTERPRISE INSTITUTE**  
**STATEMENTS OF ACTIVITIES**  
**For the Years Ended September 30, 2014 and 2013**

	2014			2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Grants and contributions	\$ 4,980,835	\$ 1,226,400	\$ 6,207,235	\$ 4,163,583	\$ 1,242,793	\$ 5,406,376
Special events	1,057,078	-	1,057,078	1,157,528	-	1,157,528
In-kind contributions	13,457	-	13,457	101,807	-	101,807
Miscellaneous	43,550	-	43,550	66,878	-	66,878
Investment income	9,585	-	9,585	10,382	-	10,382
Reimbursement for outsourced staff	-	-	-	7,945	-	7,945
Publications	714	-	714	258	-	258
Advertising	372	-	372	109	-	109
Rental income	-	-	-	-	-	-
Net assets released from restrictions:						
Satisfaction of time restrictions	150,000	(150,000)	-	570,000	(570,000)	-
Satisfaction of program restrictions	902,849	(902,849)	-	1,079,408	(1,079,408)	-
<b>TOTAL REVENUE AND SUPPORT</b>	<b>7,158,440</b>	<b>173,551</b>	<b>7,331,991</b>	<b>7,157,898</b>	<b>(406,615)</b>	<b>6,751,283</b>
EXPENSES						
Program Services	5,198,173	-	5,198,173	6,870,625	-	6,870,625
<b>Total Program Services</b>	<b>5,198,173</b>	<b>-</b>	<b>5,198,173</b>	<b>6,870,625</b>	<b>-</b>	<b>6,870,625</b>
Supporting Services:						
General and Administrative	448,524	-	448,524	406,784	-	406,784
Fundraising - other	930,417	-	930,417	736,610	-	736,610
Fundraising - cost of direct benefit to donors	171,979	-	171,979	142,865	-	142,865
<b>Total Supporting Services</b>	<b>1,550,920</b>	<b>-</b>	<b>1,550,920</b>	<b>1,286,259</b>	<b>-</b>	<b>1,286,259</b>
<b>TOTAL EXPENSES</b>	<b>6,749,093</b>	<b>-</b>	<b>6,749,093</b>	<b>8,156,884</b>	<b>-</b>	<b>8,156,884</b>
CHANGE IN NET ASSETS	409,347	173,551	582,898	(998,986)	(406,615)	(1,405,601)
NET ASSETS, BEGINNING OF YEAR	1,248,619	430,687	1,679,306	2,247,605	837,302	3,084,907
NET ASSETS, END OF YEAR	<u>\$ 1,657,966</u>	<u>\$ 604,238</u>	<u>\$ 2,262,204</u>	<u>\$ 1,248,619</u>	<u>\$ 430,687</u>	<u>\$ 1,679,306</u>

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

# COMPETITIVE ENTERPRISE INSTITUTE

## STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2014 and 2013

Increase (Decrease) in Cash and Cash Equivalents

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 582,898	\$ (1,405,601)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation and amortization	37,099	36,297
Realized and unrealized loss on investments	535	442
Changes in assets and liabilities:		
Pledges receivable	(362,665)	(27,860)
Other receivables	(5,425)	20,970
Prepaid expenses	12,628	(35,080)
Accounts payable and accrued expenses	(524,583)	592,900
Accrued salaries and benefits	73,205	56,005
Deferred rent	(14,000)	5,566
NET CASH USED IN OPERATING ACTIVITIES	(200,308)	(756,361)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(34,498)	(23,196)
Purchase of investments	(9,776)	(10,067)
Sale of investments	38,953	200,615
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(5,321)	167,352
CASH FLOWS FROM FINANCING ACTIVITIES		
Lease obligation paid through capital lease obligation	9,639	-
Principal payments on capital lease obligation	(558)	-
NET CASH PROVIDED BY FINANCING ACTIVITIES	9,081	-
NET DECREASE IN CASH AND CASH EQUIVALENTS	(196,548)	(589,009)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,315,059	1,904,068
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,118,511	\$ 1,315,059
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Non-cash contributions and expense	\$ 13,457	\$ 101,807
NONCASH INVESTING AND FINANCING ACTIVITIES		
Equipment acquired under a capital lease	\$ 17,800	\$ -
Obligation of equipment acquired under a capital lease	(17,800)	-
	\$ -	\$ -

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

# COMPETITIVE ENTERPRISE INSTITUTE

## NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2014 and 2013

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### 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 non-profit 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.

#### **Basis of Accounting**

The financial statements of CEI have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) promulgated by the Financial Accounting Standards Board Accounting Standards Codification (ASC). Consequently, revenue is recognized when earned and expenses when the obligation is incurred.

#### **Cash Equivalents**

CEI considers all money market funds and certificates of deposit with maturities of three months or less 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 life annuity funds, certificates of deposit and common stocks. Investment transactions are recorded on a trade-date basis and are reported in the accompanying financial statements at their fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. For disclosure of the inputs used to measure fair value and related valuation techniques, see Note 3. Interest and dividend income is recorded as earned. Realized gains and losses are determined by a comparison of specific costs at the investment's acquisition to the proceeds at the time of its disposal, or for unrealized gains or losses, to its fair value at year-end, and are reflected as investment income in the accompanying statements of activities.

At times, CEI may receive contributions in the form of marketable securities. CEI's policy is to sell these securities and to invest in a more conservative manner. Any unrealized gains and losses are included in investment income in the accompanying statement of activities.

## COMPETITIVE ENTERPRISE INSTITUTE

### NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2014 and 2013

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

##### **Fair Value Measurements**

The Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements, defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and requires disclosures about fair value measurements for assets and liabilities measured at fair value on a recurring basis. The ASC emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the ASC established a fair value hierarchy based upon the transparency of the inputs to the valuation of an asset or liability. These inputs may be observable, whereby market participant assumptions are developed based on market data obtained from independent sources, and unobservable, whereby assumptions about market participant assumptions are developed by the reporting entity based on the best information available in the circumstances.

The three levels of the fair value hierarchy are described as follows:

*Level 1* – Inputs based on quoted prices (unadjusted) in active markets for identical assets or liabilities accessible at the measurement date.

*Level 2* – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly, such as quoted prices for similar assets or liabilities in active markets. Level 2 also includes investments that can be redeemed in the near term and use net asset value (NAV) as a practical expedient for determining fair value.

*Level 3* – Unobservable inputs for the asset or liability, including the reporting entity's own assumptions in determining the fair value measurement.

As of September 30, 2014 and 2013, only CEI's investments, as described in Note 2, were measured at fair value on a recurring basis and subject to FASB ASC Topic 820, Fair Value Measurements.

##### **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 \$500, are capitalized and expenditures for minor repairs and maintenance costs are expensed when incurred.

# COMPETITIVE ENTERPRISE INSTITUTE

## NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2014 and 2013

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

#### **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.

#### **Revenue Recognition**

Grants and contributions are reported as revenue in the year in which payments are received and/or unconditional promises are made. CEI reports gifts of cash and other assets as temporarily restricted if they are received with donor stipulations that limit the use of the donated asset. 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 statements of activities as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same year are reported directly as unrestricted revenue. Contributions receivable are discounted to net present value if due in more than one year.

Donated services and materials are recorded as in-kind contributions at the estimated fair market 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 statements 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 basis.

#### **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. Accordingly, actual results could differ from these estimates.

# COMPETITIVE ENTERPRISE INSTITUTE

## NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2014 and 2013

### 2. Investments

Investments, at fair value, consisted of the following as of September 30:

	<u>2014</u>	<u>2013</u>
Life annuity funds	\$ 545,823	\$ 536,117
Certificates of deposit	39,958	89,798
Common stocks	<u>10,422</u>	<u>-</u>
Total	<u>\$ 596,203</u>	<u>\$ 625,915</u>

A certificate of deposit, in the amount of \$39,888, held at a financial institution, is being used as collateral for the occupancy lease during September 30, 2014 and 2013.

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

	<u>2014</u>	<u>2013</u>
Interest and dividends	\$ 10,120	\$ 10,824
Unrealized gain (loss)	104	(908)
Realized gain	<u>(639)</u>	<u>466</u>
Total	<u>\$ 9,585</u>	<u>\$ 10,382</u>

Interest and dividend income includes interest earned on cash and cash equivalents of \$343 and \$757, respectively, as of September 30, 2014 and 2013.

### 3. Fair Value Measurements

The following table summarizes CEI's assets measured at fair value on a recurring basis as of:

	<u>Total Fair Value</u>	<u>Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
September 30, 2014:				
Life annuity funds	\$ 545,823	\$ -	\$ 545,823	\$ -
Certificates of deposit	39,958	-	39,958	-
Common Stock	<u>10,422</u>	<u>10,422</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 596,203</u>	<u>\$ 10,422</u>	<u>\$ 585,781</u>	<u>\$ -</u>

Continued

# COMPETITIVE ENTERPRISE INSTITUTE

## NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2014 and 2013

### 3. Fair Value Measurements (continued)

	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)
September 30, 2013:				
Life annuity funds	\$ 536,117	\$ -	\$ 536,117	\$ -
Certificates of deposit	89,798	-	89,798	-
Total	<u>\$ 625,915</u>	<u>\$ -</u>	<u>\$ 625,915</u>	<u>\$ -</u>

Under the provisions of FASB ASC Topic *Fair Value Measurements and Disclosures*, applicable financial assets are categorized based on the inputs to the valuation techniques as follows:

*Life Annuity Funds* – Valued at the cash surrender value.

*Certificates of Deposit* – Value based on a survey from the dealer communities and obtaining dealer/broker quotes on a daily basis.

*Common Stocks* – Value based on quoted market prices in active markets.

### 4. Property and Equipment

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

	2014	2013
Leasehold improvements	\$ 119,688	\$ 111,869
Computers and equipment	114,345	185,912
Furniture	23,559	24,188
Leased equipment	<u>17,800</u>	<u>-</u>
Total Property and Equipment	275,392	321,969
Less: Accumulated Depreciation and Amortization	<u>(160,140)</u>	<u>(221,916)</u>
Property and Equipment, Net	<u>\$ 115,252</u>	<u>\$ 100,053</u>

Depreciation and amortization expense totaled \$37,099 and \$36,297 for the years ended September 30, 2014 and 2013, respectively.

## COMPETITIVE ENTERPRISE INSTITUTE

### NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2014 and 2013

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#### 5. Commitments

##### **Operating Lease**

On February 27, 2008, CEI renegotiated a noncancelable operating lease for office space for its headquarters in Washington, DC. The lease expires on November 30, 2018. The lease contains a fixed escalation clause for increases in the annual minimum rent. CEI is also responsible for its proportionate share of real estate taxes and operating and maintenance costs of the landlord to include 8.23% of any increase in operating costs.

Under accounting principles generally accepted in the United States of America, all fixed rent increases are recognized on a straight-line basis over the term of the lease. The difference between rent paid and rent expensed is reflected as deferred rent in the accompanying statements of financial position.

The following is a schedule of future minimum rental payments required under the above operating leases as of September 30, 2014:

For the Year Ending September 30,	
2015	\$ 536,734
2016	550,153
2017	563,907
2018	578,004
2019	<u>48,265</u>
Total	<u>\$ 2,277,063</u>

Rent expense was \$534,890 and \$527,590 for the years ended September 30, 2014 and 2013, respectively.

##### **Concentration of Credit Risk**

CEI's cash is held in accounts at various financial institutions. Amounts held in accounts that exceed the Federal Deposit Insurance Corporation (FDIC) insurable limit are uninsured. CEI has never experienced nor does management anticipate any losses on its funds. As of September 30, 2014 and 2013, the cash balance exceeding the \$250,000 per depositor per institution FDIC-insured limit was \$544,529 and \$837,108, respectively.

# COMPETITIVE ENTERPRISE INSTITUTE

## NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2014 and 2013

### 6. Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following programs and time periods as of September 30:

	2014	2013
Center for advancing capitalism	\$ 46,228	\$ 94,305
IWhiskey project	28,604	49,854
International outreach & advocacy	4,406	119,411
Labor and Employment	-	11,838
Biofuels Analysis	-	5,279
Total Purpose Restricted	<u>79,238</u>	<u>280,687</u>
Time restrictions	<u>525,000</u>	<u>150,000</u>
Total Temporarily Restricted Assets	<u><u>\$ 604,238</u></u>	<u><u>\$ 430,687</u></u>

### 7. Joint Costs of Activities that Include a Fund-Raising Appeal

CEI achieves some of its programmatic, and general and administrative goals in direct mail campaigns that include requests for contributions. The costs of conducting those campaigns are not directly attributable to either the program or general and administrative components or the fundraising component of the activities and are allocated as joint costs. These joint costs were allocated as follows for the years ended September 30:

	2014	2013
Programs	\$ 185,493	\$ 267,223
General and administrative	44,832	-
Fundraising	<u>32,533</u>	<u>129,059</u>
Total	<u><u>\$ 262,858</u></u>	<u><u>\$ 396,282</u></u>

### 8. Related Entities

Freedom Action Inc. is a separate social welfare organization whose mission is to create a gathering of grassroots activists who will make their voices heard over special interest and big government advocates. While CEI has an economic interest in Freedom Action, Inc., it does not have control. Therefore, its operations are not consolidated in the financial statements of CEI.

During the years ended September 30, 2014 and 2013, CEI provided the services of several employees to Freedom Action totaling \$1,316 and \$7,945, respectively. In addition, Freedom Action owed CEI \$1,916 and \$3,031 at September 30, 2014 and 2013, respectively.

## **COMPETITIVE ENTERPRISE INSTITUTE**

### **NOTES TO FINANCIAL STATEMENTS** **For the Years Ended September 30, 2014 and 2013**

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#### **9. Income Taxes**

CEI qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC). According, CEI is exempt from the payment of taxes on income other than net unrelated business income. For the year ended September 30, 2014 and 2013, no provision for income taxes was made, as CEI had no net taxable unrelated business income.

CEI follows the authoritative guidance relating to accounting for uncertainty in income taxes included in ASC Topic Income Taxes. These provisions provide consistent guidance for the accounting for uncertainty in income taxes recognized in an entity's financial statements and prescribe a threshold of "more likely than not" for recognition and derecognition of tax positions taken or expected to be taken in a tax return. CEI performed an evaluation of uncertain tax positions for the years ended September 30, 2014 and 2013, respectively, and determined that there were no matters that would require recognition in the financial statements or that may have any effect on its tax-exempt status. As of September 30, 2014, the statute of limitations for tax years 2010 through 2012 remains open with the U.S. federal jurisdiction or the various states and local jurisdictions in which CEI files tax returns. It is CEI's policy to recognize interest and/or penalties related to uncertain tax positions, if any, in income tax expense. As of September 30, 2014 and 2013, CEI had no accruals for interest and/or penalties.

#### **10. Subsequent Events**

In preparing the financial statements, CEI has evaluated events and transactions for potential recognition or disclosure through January 16, 2015, the date the financial statements were available to be issued. There were no subsequent events that require recognition of, or disclosure in, these financial statements.