



COMPETITIVE ENTERPRISE INSTITUTE

Financial Statements

For the Years Ended September 30, 2015 and 2014



**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 the Competitive Enterprise Institute (CEI), which comprise the statements of financial position as of September 30, 2015 and 2014, 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, 2015 and 2014, 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 at the end.

Raffa, P.C.

Washington, DC
January 15, 2016

COMPETITIVE ENTERPRISE INSTITUTE
STATEMENTS OF FINANCIAL POSITION
September 30, 2015 and 2014

	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 821,103	\$ 1,118,511
Pledges receivable	1,182,073	960,525
Other receivables	13,835	8,456
Prepaid expenses	142,020	114,690
	2,159,031	2,202,182
Long-Term and Other Assets		
Investments	595,694	596,203
Property and equipment, net	99,557	115,252
	695,251	711,455
	\$ 2,854,282	\$ 2,913,637
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 63,250	\$ 142,067
Accrued salaries and benefits	238,786	275,052
Capital lease obligation, current portion	4,523	3,743
Deferred rent, current portion	41,827	28,436
	348,386	449,298
Capital lease obligation, net of current portion	18,615	23,138
Deferred rent, net of current portion	137,170	178,997
	504,171	651,433
Net Assets		
Unrestricted	2,325,739	1,657,966
Temporarily restricted	24,372	604,238
	2,350,111	2,262,204
	\$ 2,854,282	\$ 2,913,637

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

COMPETITIVE ENTERPRISE INSTITUTE
STATEMENTS OF ACTIVITIES
For the Years Ended September 30, 2015 and 2014

	2015			2014		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT						
Grants and contributions	\$ 5,621,531	\$ 799,016	\$ 6,420,547	\$ 4,980,835	\$ 1,226,400	\$ 6,207,235
Special events	1,098,608	-	1,098,608	1,057,078	-	1,057,078
In-kind contributions	273,740	-	273,740	13,457	-	13,457
Miscellaneous	24,754	-	24,754	44,636	-	44,636
Investment income	8,864	-	8,864	9,585	-	9,585
Net assets released from restrictions:						
Satisfaction of time restrictions	525,000	(525,000)	-	150,000	(150,000)	-
Satisfaction of program restrictions	853,882	(853,882)	-	902,849	(902,849)	-
TOTAL REVENUE AND SUPPORT	8,406,379	(579,866)	7,826,513	7,158,440	173,551	7,331,991
EXPENSES						
Program services	5,889,205	-	5,889,205	5,198,173	-	5,198,173
Total Program Services	5,889,205	-	5,889,205	5,198,173	-	5,198,173
Supporting Services:						
General and administrative	552,988	-	552,988	448,524	-	448,524
Fundraising – other	1,126,263	-	1,126,263	930,417	-	930,417
Fundraising – cost of direct benefit to donors	170,150	-	170,150	171,979	-	171,979
Total Supporting Services	1,849,401	-	1,849,401	1,550,920	-	1,550,920
TOTAL EXPENSES	7,738,606	-	7,738,606	6,749,093	-	6,749,093
CHANGE IN NET ASSETS	667,773	(579,866)	87,907	409,347	173,551	582,898
NET ASSETS, BEGINNING OF YEAR	1,657,966	604,238	2,262,204	1,248,619	430,687	1,679,306
NET ASSETS, END OF YEAR	\$ 2,325,739	\$ 24,372	\$ 2,350,111	\$ 1,657,966	\$ 604,238	\$ 2,262,204

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

COMPETITIVE ENTERPRISE INSTITUTE

STATEMENTS OF CASH FLOWS

For the Years Ended September 30, 2015 and 2014
Increase (Decrease) in Cash and Cash Equivalents

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 87,907	\$ 582,898
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	45,057	37,099
Realized and unrealized loss on investments	538	535
Changes in assets and liabilities:		
Pledges receivable	(221,548)	(362,665)
Other receivables	(5,379)	(5,425)
Prepaid expenses	(27,330)	12,628
Accounts payable and accrued expenses	(78,817)	(524,583)
Accrued salaries and benefits	(36,266)	73,205
Deferred rent	(28,436)	(14,000)
NET CASH USED IN OPERATING ACTIVITIES	(264,274)	(200,308)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(29,362)	(34,498)
Purchase of investments	(9,913)	(9,776)
Sale of investments	9,884	38,953
NET CASH USED IN INVESTING ACTIVITIES	(29,391)	(5,321)
CASH FLOWS FROM FINANCING ACTIVITIES		
Lease obligation paid through capital lease obligation	-	9,639
Principal payments on capital lease obligation	(3,743)	(558)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	(3,743)	9,081
NET DECREASE IN CASH AND CASH EQUIVALENTS	(297,408)	(196,548)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,118,511	1,315,059
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 821,103	\$ 1,118,511
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Noncash contributions and expense	\$ 273,740	\$ 13,457
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, 2015 and 2014

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.

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 (FASB) Accounting Standards Codification (ASC). Consequently, revenue is recognized when earned and expenses are recognized 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, 2015 and 2014

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

Fair Value Measurement

FASB ASC Topic 820, *Fair Value Measurement*, defines fair value, establishes a framework for measuring fair value in accordance with GAAP 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, 2015 and 2014, 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 Measurement*.

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, 2015 and 2014

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 year in which they are donated 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 GAAP 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, 2015 and 2014

2. Investments

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

	<u>2015</u>	<u>2014</u>
Life annuity funds	\$ 555,716	\$ 545,823
Certificates of deposit	39,978	39,958
Common stocks	<u>-</u>	<u>10,422</u>
Total Investments	<u>\$ 595,694</u>	<u>\$ 596,203</u>

A certificate of deposit, in the amount of \$39,978, held at a financial institution, is being used as collateral for the occupancy lease during September 30, 2015 and 2014.

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

	<u>2015</u>	<u>2014</u>
Interest and dividends	\$ 9,779	\$ 10,120
Unrealized gain	-	104
Realized loss	<u>(915)</u>	<u>(639)</u>
Total Investment Income	<u>\$ 8,864</u>	<u>\$ 9,585</u>

Interest and dividend income includes interest earned on cash and cash equivalents of \$254 and \$343, respectively, as of September 30, 2015 and 2014.

3. Fair Value Measurement

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, 2015:				
Life annuity funds	\$ 555,716	\$ -	\$ 555,716	\$ -
Certificates of deposit	<u>39,978</u>	<u>-</u>	<u>39,978</u>	<u>-</u>
Total Assets	<u>\$ 595,694</u>	<u>\$ -</u>	<u>\$ 595,694</u>	<u>\$ -</u>

Continued

COMPETITIVE ENTERPRISE INSTITUTE

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2015 and 2014

3. Fair Value Measurement (continued)

	<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 Assets	<u>\$ 596,203</u>	<u>\$ 10,422</u>	<u>\$ 585,781</u>	<u>\$ -</u>

Under the provisions of FASB ASC Topic 820, *Fair Value Measurement*, 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 stock – 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:

	<u>2015</u>	<u>2014</u>
Leasehold improvements	\$ 119,688	\$ 119,688
Computers and equipment	140,970	114,345
Furniture	23,559	23,559
Leased equipment	<u>17,800</u>	<u>17,800</u>
Total Property and Equipment	302,017	275,392
Less: Accumulated Depreciation and Amortization	<u>(202,460)</u>	<u>(160,140)</u>
Property and Equipment, Net	<u>\$ 99,557</u>	<u>\$ 115,252</u>

Depreciation and amortization expense totaled \$45,057 and \$37,099 for the years ended September 30, 2015 and 2014, respectively.

COMPETITIVE ENTERPRISE INSTITUTE

NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2015 and 2014

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 GAAP, 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:

<u>For the Year Ending</u> <u>September 30,</u>	
2016	\$ 550,153
2017	563,907
2018	578,004
2019	<u>48,265</u>
Total	<u>\$ 1,740,329</u>

Rent expense was \$543,812 and \$534,890 for the years ended September 30, 2015 and 2014, 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, 2015 and 2014, the cash balance exceeding the \$250,000 per depositor per institution FDIC-insured limit was \$307,737 and \$544,529, respectively.

COMPETITIVE ENTERPRISE INSTITUTE

NOTES TO FINANCIAL STATEMENTS
For the Years Ended September 30, 2015 and 2014

6. Temporarily Restricted Net Assets

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

	<u>2015</u>	<u>2014</u>
Center for Advancing Capitalism	\$ 19,851	\$ 46,228
Biofuels Analysis	4,521	-
iWhiskey project	-	28,604
International outreach and advocacy	<u>-</u>	<u>4,406</u>
Total Purpose Restricted	24,372	79,238
Time Restricted	<u>-</u>	<u>525,000</u>
Total Temporarily Restricted Net Assets	<u>\$ 24,372</u>	<u>\$ 604,238</u>

7. Joint Costs of Activities That Include a Fundraising Appeal

CEI achieves some of its programmatic, and general and administrative, goals through 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:

	<u>2015</u>	<u>2014</u>
Programs	\$ 254,232	\$ 185,493
General and administrative	75,746	44,832
Fundraising	<u>69,337</u>	<u>32,533</u>
Total	<u>\$ 399,315</u>	<u>\$ 262,858</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, 2015 and 2014, CEI provided the services of several employees to Freedom Action totaling \$1,343 and \$1,316, respectively. In addition, Freedom Action owed CEI \$1,352 and \$1,916 at September 30, 2015 and 2014, respectively.

COMPETITIVE ENTERPRISE INSTITUTE

NOTES TO FINANCIAL STATEMENTS For the Years Ended September 30, 2015 and 2014

9. Income Taxes

CEI qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the IRC). Accordingly, CEI is exempt from the payment of taxes on income other than net unrelated business income. For the years ended September 30, 2015 and 2014, 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 FASB ASC Topic 740, *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, 2015 and 2014, 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, 2015, the statute of limitations for tax years 2012 through 2014 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, 2015 and 2014, CEI had no accruals for interest and/or penalties.

10. Reclassification

Certain 2014 amounts have been reclassified to conform to the 2015 financial statement presentation.

11. Subsequent Events

CEI's management has evaluated subsequent events through January 15, 2016, the date the financial statements were available to be issued. On October 1, 2015, CEI entered into an agreement with the Center for Class Action Fairness, in which the Center for Class Action Fairness agreed to transfer to CEI all assets and liabilities. There were no other subsequent events identified that require recognition or disclosure in these financial statements.