



COMPETITIVE ENTERPRISE INSTITUTE

Financial Statements

For the Year Ended September 30, 2021

(With Summarized Financial Information for the Year Ended September 30, 2020)



**and
Report Thereon**



COMPETITIVE ENTERPRISE INSTITUTE

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Competitive Enterprise Institute

Report on the Financial Statements

We have audited the accompanying financial statements of Competitive Enterprise Institute (CEI), which comprise the statement of financial position as of September 30, 2021, and the related statements of activities, functional expenses 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 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.

Opinion

In our opinion, the 2021 financial statements referred to above present fairly, in all material respects, the financial position of Competitive Enterprise Institute as of September 30, 2021, 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

We have previously audited CEI's 2020 financial statements, and our report dated February 4, 2021, 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, 2020, is consistent, in all material respects, with the financial statements from which it has been derived.

Marcum LLP

Washington, DC
February 16, 2022

COMPETITIVE ENTERPRISE INSTITUTE

STATEMENT OF FINANCIAL POSITION

September 30, 2021

(With Summarized Financial Information as of September 30, 2020)

	<u>2021</u>	<u>2020</u>
ASSETS		
Cash and cash equivalents	\$ 2,394,300	\$ 2,203,463
Investments	652,043	636,453
Pledges receivable	812,500	432,500
Other receivables	19,598	27,298
Prepaid expenses	176,072	304,451
Deposits and other assets	61,948	62,987
Property and equipment, net	<u>641,202</u>	<u>813,424</u>
TOTAL ASSETS	<u><u>\$ 4,757,663</u></u>	<u><u>\$ 4,480,576</u></u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 349,333	\$ 71,007
Accrued salaries and benefits	239,701	207,088
Capital lease obligation	12,076	16,873
Deferred rent and lease incentives	<u>1,685,756</u>	<u>1,867,852</u>
TOTAL LIABILITIES	<u>2,286,866</u>	<u>2,162,820</u>
Net Assets		
Without donor restrictions	1,764,067	1,515,258
With donor restrictions	<u>706,730</u>	<u>802,498</u>
TOTAL NET ASSETS	<u>2,470,797</u>	<u>2,317,756</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,757,663</u></u>	<u><u>\$ 4,480,576</u></u>

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

COMPETITIVE ENTERPRISE INSTITUTE

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2021

(With Summarized Financial Information for the Year Ended September 30, 2020)

	2021			2020
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUE AND SUPPORT				
Grants and contributions	\$ 6,355,288	\$ 280,000	\$ 6,635,288	\$ 6,696,253
Special events	155,500	-	155,500	-
In-kind contributions	117,680	-	117,680	110,171
Court-awarded fees	-	-	-	6,108
Rental income	84,487	-	84,487	89,086
Investment income, net	15,615	-	15,615	12,326
Miscellaneous	16,442	-	16,442	1,547
Net assets released from restrictions:				
Satisfaction of purpose restrictions	375,768	(375,768)	-	-
TOTAL REVENUE AND SUPPORT	7,120,780	(95,768)	7,025,012	6,915,491
EXPENSES				
Program Services:				
Communication	928,563	-	928,563	1,207,905
Center for Economic Freedom	906,458	-	906,458	841,015
Center for Energy and Environment	898,489	-	898,489	806,457
Center for Litigation	800,820	-	800,820	435,869
Center for Technology and Innovation	526,097	-	526,097	592,014
Other programs	1,234,649	-	1,234,649	1,055,666
Total Program Services	5,295,076	-	5,295,076	4,938,926
Supporting Services:				
General and administrative	520,281	-	520,281	447,612
Fundraising	1,013,198	-	1,013,198	893,654
Fundraising – cost of direct benefit to donors	43,416	-	43,416	-
Total Supporting Services	1,576,895	-	1,576,895	1,341,266
TOTAL EXPENSES	6,871,971	-	6,871,971	6,280,192
CHANGE IN NET ASSETS	248,809	(95,768)	153,041	635,299
NET ASSETS, BEGINNING OF YEAR	1,515,258	802,498	2,317,756	1,682,457
NET ASSETS, END OF YEAR	\$ 1,764,067	\$ 706,730	\$ 2,470,797	\$ 2,317,756

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

COMPETITIVE ENTERPRISE INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2021
(With Summarized Financial Information for the Year Ended September 30, 2020)

	Program Services						Supporting Services			2021 Total	2020 Total	
	Communication	Center for Economic Freedom	Center for Energy and Environment	Center for Litigation	Center for Technology and Innovation	Other Programs	Total Program Services	General and Administrative	Fundraising			Total Supporting Services
Salaries, benefits and payroll taxes	\$ 510,094	\$ 547,383	\$ 590,015	\$ 361,403	\$ 361,699	\$ 794,018	\$ 3,164,612	\$ 301,179	\$ 608,682	\$ 909,861	\$ 4,074,473	\$ 3,651,730
Professional services	88,051	151,573	90,033	325,870	66,929	127,468	849,924	97,384	49,348	146,732	996,656	724,535
Occupancy	110,181	102,020	89,777	48,969	61,212	130,585	542,744	24,485	110,181	134,666	677,410	675,891
Travel and meetings	4,116	2,737	2,772	947	4,292	76,954	91,818	983	159,882	160,865	252,683	171,638
Direct mail	143	47,407	72,922	14,384	143	9,330	144,329	26,333	33,944	60,277	204,606	129,511
Depreciation and amortization	29,672	27,474	24,177	13,188	16,485	35,167	146,163	6,595	29,672	36,267	182,430	170,378
Supplies and office expense	58,533	11,068	9,740	5,372	6,641	17,262	108,616	14,251	28,423	42,674	151,290	135,373
Advertising	111,033	-	-	-	27	-	111,060	-	-	-	111,060	405,714
Fees, dues and subscriptions	5,809	6,849	7,154	25,365	2,390	2,904	50,471	26,619	6,699	33,318	83,789	78,849
Insurance	7,570	7,010	6,168	3,365	4,206	9,795	38,114	1,682	7,576	9,258	47,372	45,801
Printing and postage	355	325	253	309	210	27,648	29,100	156	15,894	16,050	45,150	44,697
Telephone	1,893	1,613	4,215	898	1,263	2,239	12,121	712	1,590	2,302	14,423	16,457
Miscellaneous	248	198	558	365	119	253	1,741	7,210	3,858	11,068	12,809	2,987
Grant expense	-	-	-	-	-	-	-	12,500	-	12,500	12,500	258
Interest	865	801	705	385	481	1,026	4,263	192	865	1,057	5,320	6,750
Bad debt	-	-	-	-	-	-	-	-	-	-	-	19,623
TOTAL EXPENSES	\$ 928,563	\$ 906,458	\$ 898,489	\$ 800,820	\$ 526,097	\$ 1,234,649	\$ 5,295,076	\$ 520,281	\$ 1,056,614	\$ 1,576,895	\$ 6,871,971	\$ 6,280,192

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

COMPETITIVE ENTERPRISE INSTITUTE

STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2021

(With Summarized Financial Information for the Year Ended September 30, 2020)

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 153,041	\$ 635,299
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized (gain) loss on investments	(152)	133
Loss on disposal of property and equipment	280	-
Depreciation and amortization	182,430	170,378
Amortization of deferred lease incentives	(109,424)	(109,424)
Proceeds from securities contributed without donor restrictions	(27,678)	(5,498)
Changes in assets and liabilities:		
Pledges receivable	(380,000)	54,872
Other receivables	7,700	(15,281)
Prepaid expenses	128,379	(102,049)
Deposits and other assets	1,039	1,760
Accounts payable and accrued expenses	278,326	(19,488)
Accrued salaries and benefits	32,613	57,951
Deferred rent and lease incentives	<u>(72,672)</u>	<u>18,331</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>193,882</u>	<u>686,984</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(10,488)	(120,452)
Purchase of investments	(15,590)	(462,748)
Sale of investments	<u>27,830</u>	<u>428,926</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>1,752</u>	<u>(154,274)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease obligation	<u>(4,797)</u>	<u>(3,367)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(4,797)</u>	<u>(3,367)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	190,837	529,343
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>2,203,463</u>	<u>1,674,120</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 2,394,300</u>	<u>\$ 2,203,463</u>

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

COMPETITIVE ENTERPRISE INSTITUTE

NOTES TO FINANCIAL STATEMENTS For the Year Ended September 30, 2021

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.

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 to five years 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 fully collectible, and therefore does not have an allowance for uncollectible amounts.

Investments

Investments consist of insurance annuity contracts which are recorded in the accompanying financial statements at 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 Measurement

Applicable financial assets and liabilities measured at fair value on a recurring basis are categorized in the fair value hierarchy as follows:

Level 1 – Valuation based on quoted prices in active markets for identical assets or liabilities as of the reporting date, without adjustment.

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, 2021, only CEI's investments, as described in Note 2 of these financial statements, were measured at fair value on a recurring basis.

COMPETITIVE ENTERPRISE INSTITUTE

NOTES TO FINANCIAL STATEMENTS For the Year Ended September 30, 2021

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

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

Net assets without donor restrictions represent the portion of expendable funds that are available for any purpose in performing the primary objectives of CEI at the discretion of CEI's management and the Board of Directors. Net assets with donor restrictions represent funds that are specifically restricted by donors for use in various programs and/or for a specific period of time. These donor restrictions can be temporary in nature in that they will be met by actions of CEI or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated that the funds be maintained in perpetuity. As of September 30, 2021, CEI had no net assets with donor restrictions that are required to be maintained in perpetuity.

Revenue Recognition

Unconditional 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 net assets without donor restrictions if all such donor restrictions are met in the fiscal year in which the award is received. CEI reports gifts of cash and other assets as having donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a stipulated time restriction ends or purpose of a restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the accompanying statement of activities as net assets released from restrictions.

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

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.

COMPETITIVE ENTERPRISE INSTITUTE

NOTES TO FINANCIAL STATEMENTS For the Year Ended September 30, 2021

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

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 functional expenses. Expenses directly attributed to a specific functional area of CEI are reported as expenses of those functional areas, while shared costs that benefit multiple functional areas have been allocated among the various functional areas based on estimates determined by management to be equitable. Occupancy, depreciation and other shared costs are allocated based on the number of employees working the related department. Costs that are part of the direct mail campaigns are allocated based on the line counts of the direct mail pieces.

2. Investments

The following table summarizes CEI's investments measured at fair value on a recurring basis as of September 30, 2021:

	<u>Total Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Insurance annuity contracts	\$ 652,043	\$ -	\$ 652,043	\$ -
Total Investments Carried at Fair Value	<u>\$ 652,043</u>	<u>\$ -</u>	<u>\$ 652,043</u>	<u>\$ -</u>

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

3. Property and Equipment

CEI's property and equipment consisted of the following as of September 30, 2021:

Leasehold improvements	\$ 983,556
Computers, website and equipment	553,625
Furniture	232,550
Leased equipment	<u>13,918</u>
Total Property and Equipment	1,783,649
Less: Accumulated Depreciation and Amortization	<u>(1,142,447)</u>
Property and Equipment, Net	<u>\$ 641,202</u>

Depreciation and amortization expense totaled \$182,430 for the year ended September 30, 2021.

COMPETITIVE ENTERPRISE INSTITUTE

NOTES TO FINANCIAL STATEMENTS For the Year Ended September 30, 2021

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.

Global Pandemic

The COVID-19 outbreak in the United States has caused business disruption through mandated and voluntary closings of businesses across the country for non-essential services. While the disruption is currently expected to be temporary, there is considerable uncertainty about the duration of closings. CEI has been able to continue most of its operations in a remote environment; however, at this point, the extent to which COVID-19 may impact CEI's financial condition or results of operations is uncertain.

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. Rent expense under this lease for the year ended September 30, 2021, was \$677,410.

As of September 30, 2021, 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	
<u>September 30,</u>	
2022	\$ 858,969
2023	880,413
2024	902,472
2025	925,039
2026	948,222
Thereafter	<u>1,137,262</u>
Total	<u>\$ 5,652,377</u>

COMPETITIVE ENTERPRISE INSTITUTE

NOTES TO FINANCIAL STATEMENTS For the Year Ended September 30, 2021

5. Net Assets With Donor Restrictions

As of September 30, 2021, net assets with donor restrictions were restricted for the following purposes or period:

Asset Forfeiture Reform	\$ 530,000
Discussion on Fact Based Climate Issues	93,000
Center for Energy and Environment	<u>83,730</u>
Total Net Assets With Donor Restrictions	<u>\$ 706,730</u>

6. Availability and Liquidity

CEI regularly monitors liquidity required to meet its annual operating needs and other contractual commitments, while also striving to preserve the principal and return on the investment of its funds. CEI's financial assets available within one year of the statement of financial position date for general expenditures at September 30, 2021, were as follows:

Cash and cash equivalents	\$ 2,394,300
Pledges receivable	812,500
Other receivables	19,598
Investments	<u>652,043</u>
Total Financial Assets	3,878,441
Less:	
Amounts unavailable for general expenditures due to donor restrictions	<u>(706,730)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 3,171,711</u>

CEI has various sources of liquidity at its disposal, including cash and cash equivalents and investments, which are available for general expenditures, liabilities and other obligations as they come due. Management is focused on sustaining the financial liquidity of CEI throughout the year. This is done through monitoring and reviewing CEI's cash flow needs on a weekly basis. As a result, management is aware of the cyclical nature of CEI's cash flow related to CEI's various funding sources and is therefore able to ensure that there is cash available to meet current liquidity needs. As part of its liquidity plan, excess cash is invested in fixed income annuities. CEI can liquidate its investments at any time, and therefore the investments are available to meet current cash flow needs.

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, 2021, as CEI

COMPETITIVE ENTERPRISE INSTITUTE

NOTES TO FINANCIAL STATEMENTS For the Year Ended September 30, 2021

7. Income Taxes (continued)

had no net taxable unrelated business income. 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, 2021, 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; however, no examinations are pending or in progress. 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 Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Accordingly, such information should be read in conjunction with CEI's financial statements for the year ended September 30, 2020, from which the summarized information was derived.

9. Subsequent Events

CEI's management has evaluated the effect of subsequent events on the financial statements through February 16, 2022, the date these financial statements were available to be issued. There were no subsequent events identified that require recognition or disclosure in these financial statements.