



COMPETITIVE ENTERPRISE INSTITUTE

Financial Statements

For the Year Ended September 30, 2022

(With Summarized Financial Information for the Year Ended September 30, 2021)



**and
Report Thereon**



COMPETITIVE ENTERPRISE INSTITUTE

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For the Year Ended September 30, 2022

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Competitive Enterprise Institute

Opinion

We have audited the financial statements of Competitive Enterprise Institute (CEI), which comprise the statement of financial position as of September 30, 2022, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of CEI as of September 30, 2022, 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of CEI and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about CEI's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 CEI's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about CEI's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Other Matter

Report on Summarized Comparative Information

We have previously audited CEI's 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 16, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended September 30, 2021, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Marcum LLP

Washington, DC
February 22, 2023

COMPETITIVE ENTERPRISE INSTITUTE
STATEMENT OF FINANCIAL POSITION
September 30, 2022
(With Summarized Financial Information as of September 30, 2021)

	2022	2021
ASSETS		
Cash and cash equivalents	\$ 3,282,744	\$ 2,394,300
Investments	667,926	652,043
Pledges receivable	672,500	812,500
Other receivables	20,990	19,598
Prepaid expenses	205,566	176,072
Deposits and other assets	61,832	61,948
Property and equipment, net	551,891	641,202
TOTAL ASSETS	\$ 5,463,449	\$ 4,757,663
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 172,314	\$ 349,333
Accrued salaries and benefits	244,709	239,701
Capital lease obligation	28,795	12,076
Deferred rent and lease incentives	1,470,023	1,685,756
TOTAL LIABILITIES	1,915,841	2,286,866
Net Assets		
Without donor restrictions	2,672,216	1,764,067
With donor restrictions	875,392	706,730
TOTAL NET ASSETS	3,547,608	2,470,797
TOTAL LIABILITIES AND NET ASSETS	\$ 5,463,449	\$ 4,757,663

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

COMPETITIVE ENTERPRISE INSTITUTE

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2022

(With Summarized Financial Information for the Year Ended September 30, 2021)

	2022			2021
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUE AND SUPPORT				
Grants and contributions	\$ 6,956,615	\$ 505,000	\$ 7,461,615	\$ 6,635,288
Special events	505,400	-	505,400	155,500
Contributed goods and services	147,389	-	147,389	117,680
Rental income	88,028	-	88,028	84,487
Investment income, net	15,627	-	15,627	15,615
Miscellaneous	1,147	-	1,147	16,442
Net assets released from restrictions:				
Satisfaction of purpose restrictions	336,338	(336,338)	-	-
TOTAL REVENUE AND SUPPORT	8,050,544	168,662	8,219,206	7,025,012
EXPENSES				
Program Services:				
Other programs	1,447,570	-	1,447,570	1,234,649
Center for Communication	971,485	-	971,485	928,563
Center for Economic Freedom	895,000	-	895,000	906,458
Center for Litigation	786,184	-	786,184	800,820
Center for Energy and Environment	738,280	-	738,280	898,489
Center for Technology and Innovation	692,680	-	692,680	526,097
Total Program Services	5,531,199	-	5,531,199	5,295,076
Supporting Services:				
Fundraising	1,067,638	-	1,067,638	1,013,198
General and administrative	444,925	-	444,925	520,281
Fundraising – cost of direct benefit to donors	98,633	-	98,633	43,416
Total Supporting Services	1,611,196	-	1,611,196	1,576,895
TOTAL EXPENSES	7,142,395	-	7,142,395	6,871,971
CHANGE IN NET ASSETS	908,149	168,662	1,076,811	153,041
NET ASSETS, BEGINNING OF YEAR	1,764,067	706,730	2,470,797	2,317,756
NET ASSETS, END OF YEAR	\$ 2,672,216	\$ 875,392	\$ 3,547,608	\$ 2,470,797

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

COMPETITIVE ENTERPRISE INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended September 30, 2022
(With Summarized Financial Information for the Year Ended September 30, 2021)

	Program Services						Supporting Services			2022 Total	2021 Total	
	Other Programs	Center for Communication	Center for Economic Freedom	Center for Litigation	Center for Energy and Environment	Center for Technology and Innovation	Total Program Services	Fundraising	General and Administrative			Total Supporting Services
Salaries, benefits and payroll taxes	\$ 903,468	\$ 498,197	\$ 532,731	\$ 443,676	\$ 499,458	\$ 437,930	\$ 3,315,460	\$ 519,842	\$ 261,829	\$ 781,671	\$ 4,097,131	\$ 4,074,473
Professional services	72,773	86,606	236,315	244,504	21,617	122,108	783,923	186,249	86,368	272,617	1,056,540	996,656
Occupancy	181,672	113,429	79,308	45,187	68,242	79,308	567,146	92,219	23,055	115,274	682,420	677,410
Travel and meetings	156,277	4,746	5,001	3,280	4,951	18,184	192,439	200,541	1,459	202,000	394,439	252,683
Direct mail	20,292	-	2,044	1,335	106,166	-	129,837	57,668	14,831	72,499	202,336	204,606
Supplies and office expense	26,982	60,028	8,918	5,089	7,674	8,918	117,609	32,286	16,266	48,552	166,161	151,290
Advertising	-	158,731	-	-	-	-	158,731	-	-	-	158,731	111,060
Depreciation and amortization	34,609	21,608	15,108	8,608	13,000	15,108	108,041	17,568	4,392	21,960	130,001	182,430
Fees, dues and subscriptions	3,106	12,255	6,755	28,673	7,586	2,025	60,400	5,785	25,485	31,270	91,670	83,789
Printing and postage	28,230	3,576	387	868	302	389	33,752	34,438	121	34,559	68,311	45,150
Insurance	15,239	9,462	6,615	3,769	5,693	6,616	47,394	7,692	1,923	9,615	57,009	47,372
Miscellaneous	714	669	261	149	224	261	2,278	10,006	817	10,823	13,101	12,809
Telephone	2,980	1,505	1,087	778	2,962	1,363	10,675	1,430	742	2,172	12,847	14,423
Bad debt	-	-	-	-	-	-	-	-	7,500	7,500	7,500	-
Interest	1,078	673	470	268	405	470	3,364	547	137	684	4,048	5,320
Grant expense	150	-	-	-	-	-	150	-	-	-	150	12,500
TOTAL EXPENSES	\$ 1,447,570	\$ 971,485	\$ 895,000	\$ 786,184	\$ 738,280	\$ 692,680	\$ 5,531,199	\$ 1,166,271	\$ 444,925	1,611,196	\$ 7,142,395	\$ 6,871,971

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

COMPETITIVE ENTERPRISE INSTITUTE

STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2022

(With Summarized Financial Information for the Year Ended September 30, 2021)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 1,076,811	\$ 153,041
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Realized and unrealized (gain) loss on investments	379	(152)
Loss on disposal of property and equipment	2,320	280
Depreciation and amortization	130,001	182,430
Amortization of deferred lease incentives	(109,424)	(109,424)
Proceeds from securities contributed without donor restrictions	(19,094)	(27,678)
Changes in assets and liabilities:		
Pledges receivable	140,000	(380,000)
Other receivables	(1,392)	7,700
Prepaid expenses	(29,494)	128,379
Deposits and other assets	116	1,039
Accounts payable and accrued expenses	(177,019)	278,326
Accrued salaries and benefits	5,008	32,613
Deferred rent and lease incentives	(106,309)	(72,672)
NET CASH PROVIDED BY OPERATING ACTIVITIES	911,903	193,882
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(23,510)	(10,488)
Purchase of investments	(16,032)	(15,590)
Sale of investments	18,864	27,830
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(20,678)	1,752
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease obligation	(2,781)	(4,797)
NET CASH USED IN FINANCING ACTIVITIES	(2,781)	(4,797)
NET INCREASE IN CASH AND CASH EQUIVALENTS	888,444	190,837
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,394,300	2,203,463
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 3,282,744	\$ 2,394,300
NONCASH INVESTING AND FINANCING ACTIVITIES		
Equipment acquired under a capital lease	\$ 19,500	\$ -
Obligation of equipment acquired under a capital lease	(19,500)	-
Net cash outlay	\$ -	\$ -

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

COMPETITIVE ENTERPRISE INSTITUTE

NOTES TO FINANCIAL STATEMENTS For the Year Ended September 30, 2022

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, 2022, 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, 2022

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, 2022, 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 non-financial 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 non-financial 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, 2022

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 in the related department. Costs that are part of the direct mail campaigns are allocated based on the line counts of the direct mail pieces.

New Accounting Pronouncements

In September 2020, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets*, to increase the transparency of contributed nonfinancial assets through enhancements to presentation and disclosure. ASU 2020-07 requires not-for-profits to present contributed nonfinancial assets as a separate line item in the statement of activities and provide additional disclosures about contributions of nonfinancial assets. CEI adopted ASU 2020-07 retrospectively on October 1, 2021. The adoption of the standard did not result in a material change to the financial statements.

2. Investments

The following table summarizes CEI's investments measured at fair value on a recurring basis as of September 30, 2022:

	<u>Total Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Insurance annuity contracts	\$ 667,926	\$ -	\$ 667,926	\$ -
Total Investments Carried at Fair Value	<u>\$ 667,926</u>	<u>\$ -</u>	<u>\$ 667,926</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.

COMPETITIVE ENTERPRISE INSTITUTE

NOTES TO FINANCIAL STATEMENTS For the Year Ended September 30, 2022

3. Property and Equipment

CEI's property and equipment consisted of the following as of September 30, 2022:

Leasehold improvements	\$ 983,556
Computers, website and equipment	577,135
Furniture	232,550
Leased equipment	<u>19,500</u>
Total Property and Equipment	1,812,741
Less: Accumulated Depreciation and Amortization	<u>(1,260,850)</u>
Property and Equipment, Net	<u>\$ 551,891</u>

Depreciation and amortization expense totaled \$130,001 for the year ended September 30, 2022.

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.

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, 2022, was \$682,421.

COMPETITIVE ENTERPRISE INSTITUTE

NOTES TO FINANCIAL STATEMENTS For the Year Ended September 30, 2022

4. Commitments, Risks and Contingencies (continued)

Operating Leases (continued)

As of September 30, 2022, 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>	
2023	\$ 880,413
2024	902,472
2025	925,039
2026	948,222
2027	971,912
Thereafter	<u>165,350</u>
Total	<u>\$ 4,793,408</u>

5. Net Assets With Donor Restrictions

As of September 30, 2022, net assets with donor restrictions were restricted for the following purposes or period:

Asset Forfeiture Reform	\$ 460,367
Center for Advancing Capitalism	225,000
In Support of Joshua Bandoch	45,972
Kevin Williams Project	57,000
Discussion on Fact Based Climate Issues	19,641
Biden Harris Clean Power Plan	<u>67,412</u>
Total Net Assets With Donor Restrictions	<u>\$ 875,392</u>

6. Joint Costs

During the year ended September 30, 2022, 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, 2022:

Programs	\$ 129,638
Fundraising	57,869
General and administrative	<u>14,831</u>
Total Joint Costs of Activities	<u>\$ 202,338</u>

COMPETITIVE ENTERPRISE INSTITUTE

NOTES TO FINANCIAL STATEMENTS For the Year Ended September 30, 2022

7. 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, 2022, were as follows:

Cash and cash equivalents	\$ 3,282,744
Pledges receivable	672,500
Other receivables	20,990
Investments	<u>667,926</u>
Total Financial Assets	4,644,160
Less:	
Amounts unavailable for general expenditures due to donor restrictions	<u>(875,392)</u>
Financial Assets Available to Meet General Expenditures Within One Year	<u>\$ 3,768,768</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.

8. Contributed Services

Contributed services are recognized as in-kind revenues at their estimated fair value if they create or enhance nonfinancial assets or they require specialized skills that would need to be purchased if they were not donated. Contributed goods and services are recorded in the accompanying statement of activities at their estimated fair value, which is valued at the actual costs of advertising. Contributed goods and services included advertising services in the amount of \$147,389 for the year ended September 30, 2022. All contributed goods and services are related to general and administrative activities. There were no donor imposed restrictions associated with the donated goods and services.

9. 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, 2022, as CEI

COMPETITIVE ENTERPRISE INSTITUTE

NOTES TO FINANCIAL STATEMENTS For the Year Ended September 30, 2022

9. 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, 2022, 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.

10. 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, 2021, from which the summarized information was derived.

11. Subsequent Events

CEI's management has evaluated the effect of subsequent events on the financial statements through February 22, 2023, 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.