



THE CENTER FOR
EFFECTIVE PHILANTHROPY

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

**REPORT ON AUDIT OF FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

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Bernard, Johnson & Company, P.C.

Certified Public Accountants and Business Advisors

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
The Center for Effective Philanthropy, Inc.:

We have audited the accompanying statements of financial position of The Center for Effective Philanthropy, Inc. (a Massachusetts corporation, not for profit) as of December 31, 2008 and 2007 and the related statements of activities and changes in net assets, cash flows and functional expenses for the years then ended. These financial statements are the responsibility of The Center for Effective Philanthropy's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Center for Effective Philanthropy, Inc. as of December 31, 2008 and 2007 and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Bernard Johnson & Company P.C.

Topsfield, Massachusetts
March 25, 2009

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

STATEMENTS OF FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

ASSETS	2008			2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
CURRENT ASSETS:						
Cash and cash equivalents	\$ 1,771,879	\$ 1,520,000	\$ 3,291,879	\$ 1,175,247	\$ 1,100,000	\$ 2,275,247
Accounts receivable	357,131	-	357,131	187,485	-	187,485
Pledges receivable	-	751,667	751,667	15,000	955,000	970,000
Prepaid expenses and deposits	134,211	-	134,211	33,696	-	33,696
Total current assets	<u>2,263,221</u>	<u>2,271,667</u>	<u>4,534,888</u>	<u>1,411,428</u>	<u>2,055,000</u>	<u>3,466,428</u>
PLEDGES RECEIVABLE, net of current portion	-	567,061	567,061	-	1,386,655	1,386,655
FIXED ASSETS, net	<u>437,446</u>	<u>-</u>	<u>437,446</u>	<u>109,499</u>	<u>-</u>	<u>109,499</u>
TOTAL ASSETS	<u>\$ 2,700,667</u>	<u>\$ 2,838,728</u>	<u>\$ 5,539,395</u>	<u>\$ 1,520,927</u>	<u>\$ 3,441,655</u>	<u>\$ 4,962,582</u>
LIABILITIES AND NET ASSETS						
CURRENT LIABILITIES:						
Accounts payable and accrued expenses	\$ 327,200	\$ -	\$ 327,200	\$ 141,134	\$ -	\$ 141,134
Deferred revenue	642,059	-	642,059	56,050	-	56,050
Total current liabilities	<u>969,259</u>	<u>-</u>	<u>969,259</u>	<u>197,184</u>	<u>-</u>	<u>197,184</u>
TOTAL LIABILITIES	<u>969,259</u>	<u>-</u>	<u>969,259</u>	<u>197,184</u>	<u>-</u>	<u>197,184</u>
NET ASSETS:						
Unrestricted-						
Operating	632,076	-	632,076	627,689	-	627,689
Board designated	675,235	-	675,235	586,555	-	586,555
Fixed assets	424,097	-	424,097	109,499	-	109,499
Total unrestricted	<u>1,731,408</u>	<u>-</u>	<u>1,731,408</u>	<u>1,323,743</u>	<u>-</u>	<u>1,323,743</u>
Temporarily restricted	<u>-</u>	<u>2,838,728</u>	<u>2,838,728</u>	<u>-</u>	<u>3,441,655</u>	<u>3,441,655</u>
TOTAL NET ASSETS	<u>1,731,408</u>	<u>2,838,728</u>	<u>4,570,136</u>	<u>1,323,743</u>	<u>3,441,655</u>	<u>4,765,398</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,700,667</u>	<u>\$ 2,838,728</u>	<u>\$ 5,539,395</u>	<u>\$ 1,520,927</u>	<u>\$ 3,441,655</u>	<u>\$ 4,962,582</u>

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

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008			2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
OPERATING REVENUE AND SUPPORT:						
Grants and contributions-						
General operations	\$ 1,107,959	\$ 952,073	\$ 2,060,032	\$ 1,096,722	\$ 3,411,655	\$ 4,508,377
Program support	-	-	-	160,000	-	160,000
Net assets released from restrictions	1,555,000	(1,555,000)	-	617,000	(617,000)	-
Total grants and contributions	2,662,959	(602,927)	2,060,032	1,873,722	2,794,655	4,668,377
Earned revenue -						
Assessment tools	1,686,048	-	1,686,048	1,251,172	-	1,251,172
CEP conference fees	-	-	-	120,035	-	120,035
Interest income and other	68,729	-	68,729	58,975	-	58,975
Consulting fees	583,000	-	583,000	16,025	-	16,025
Speaking engagement fees	10,000	-	10,000	12,000	-	12,000
Total earned revenue	2,347,777	-	2,347,777	1,458,207	-	1,458,207
Total operating revenue and support	5,010,736	(602,927)	4,407,809	3,331,929	2,794,655	6,126,584
OPERATING EXPENSES:						
Program services	3,650,969	-	3,650,969	2,577,556	-	2,577,556
General and administrative	838,828	-	838,828	531,258	-	531,258
Fundraising	113,274	-	113,274	134,435	-	134,435
Total operating expenses	4,603,071	-	4,603,071	3,243,249	-	3,243,249
Changes in net assets from operations	407,665	(602,927)	(195,262)	88,680	2,794,655	2,883,335
NET ASSETS, beginning of year	1,323,743	3,441,655	4,765,398	1,235,063	647,000	1,882,063
NET ASSETS, end of year	\$ 1,731,408	\$ 2,838,728	\$ 4,570,136	\$ 1,323,743	\$ 3,441,655	\$ 4,765,398

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

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ (195,262)	\$ 2,883,335
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization	76,584	19,769
Changes in operating assets and liabilities -		
Accounts receivable	(169,646)	108,739
Pledges receivable	1,037,927	(1,709,655)
Prepaid expenses and deposits	(100,515)	11,174
Accounts payable and accrued expenses	186,066	25,565
Deferred revenue	586,009	(57,340)
Net cash provided by operating activities	<u>1,421,163</u>	<u>1,281,587</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisition of fixed assets	<u>(404,531)</u>	<u>(64,377)</u>
Net cash used in investing activities	<u>(404,531)</u>	<u>(64,377)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,016,632	1,217,210
CASH AND CASH EQUIVALENTS, beginning of year	<u>2,275,247</u>	<u>1,058,037</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 3,291,879</u>	<u>\$ 2,275,247</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION -		
Interest	\$ -	\$ -
Income taxes	-	-

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

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

	2008				2007			
	Program Services	General & Administrative	Fund-Raising	Total	Program Services	General & Administrative	Fund-Raising	Total
PERSONNEL AND RELATED:								
Salaries	\$ 1,928,989	\$ 523,115	\$ 72,172	\$ 2,524,276	\$ 1,239,193	\$ 312,332	\$ 76,977	\$ 1,628,502
Fringe benefits	198,213	53,753	7,416	259,382	111,406	27,575	6,926	145,907
Payroll taxes	138,043	37,435	5,165	180,643	94,575	22,947	5,885	123,407
Total personnel and related	<u>2,265,245</u>	<u>614,303</u>	<u>84,753</u>	<u>2,964,301</u>	<u>1,445,174</u>	<u>362,854</u>	<u>89,788</u>	<u>1,897,816</u>
OCCUPANCY:								
Rent	186,944	41,514	4,116	232,574	86,531	20,936	5,385	112,852
Telephone/internet/telecom	42,414	9,381	905	52,700	23,392	5,145	1,326	29,863
Utilities	10,313	2,687	227	13,227	6,761	1,656	420	8,837
Total occupancy	<u>239,671</u>	<u>53,582</u>	<u>5,248</u>	<u>298,501</u>	<u>116,684</u>	<u>27,737</u>	<u>7,131</u>	<u>151,552</u>
OTHER:								
Professional fees	359,384	62,917	5,421	427,722	332,072	72,029	13,341	417,442
CEP conference expenses	-	-	-	-	148,556	-	-	148,556
Travel	169,703	29,089	8,535	207,327	96,529	14,520	7,749	118,798
Printing	94,815	1,829	604	97,248	111,904	2,370	760	115,034
Survey administration	118,365	5,000	-	123,365	81,092	-	-	81,092
Office supplies	74,064	13,552	1,680	89,296	56,467	13,175	2,862	72,504
Postage and delivery	53,252	3,915	896	58,063	56,708	3,481	3,172	63,361
Meals	74,430	15,354	1,724	91,508	38,736	10,986	2,267	51,989
Computer related expenses	39,526	10,300	847	50,673	26,731	7,743	1,710	36,184
Equipment rental and maintenance	34,353	8,916	756	44,025	19,002	6,009	1,232	26,243
Depreciation and amortization	59,375	15,902	1,307	76,584	15,172	3,653	944	19,769
Dues and subscriptions	31,512	433	634	32,579	15,339	3,010	832	19,181
Professional development	26,811	1,530	546	28,887	6,764	1,431	2,202	10,397
Miscellaneous	5,216	1,141	207	6,564	5,391	999	127	6,517
Insurance	3,859	1,034	85	4,978	3,504	921	224	4,649
Advertising	1,388	31	31	1,450	1,731	340	94	2,165
Total other	<u>1,146,053</u>	<u>170,943</u>	<u>23,273</u>	<u>1,340,269</u>	<u>1,015,698</u>	<u>140,667</u>	<u>37,516</u>	<u>1,193,881</u>
Total expenses	<u>\$ 3,650,969</u>	<u>\$ 838,828</u>	<u>\$ 113,274</u>	<u>\$ 4,603,071</u>	<u>\$ 2,577,556</u>	<u>\$ 531,258</u>	<u>\$ 134,435</u>	<u>\$ 3,243,249</u>

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

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007

1. OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES:

OPERATIONS:

The Center For Effective Philanthropy, Inc. (CEP) is a nonprofit organization with a mission to provide data and create insight so philanthropic funders can better define, assess, and improve their effectiveness and impact. CEP's research, assessment tools and programming are widely utilized by chief executive officers, trustees and senior executives of the country's several hundred largest foundations. CEP has offices in Cambridge, Massachusetts and San Francisco, California.

CEP is exempt from Federal income taxes as an organization (not a private foundation) formed for charitable purposes under Section 501(c) (3) of the Internal Revenue Code. CEP is also exempt from state income taxes. Donors may deduct contributions made to CEP within Internal Revenue Code requirements.

SIGNIFICANT ACCOUNTING POLICIES:

Cash and Cash Equivalents

Cash and cash equivalents consists of cash in banks, money market accounts and short-term certificates of deposit. Certificates of deposit totaling \$1,716,465 and \$659,730 as of December 31, 2008 and 2007, respectively, are included in cash equivalents in the accompanying financial statements. At December 31, 2008, these certificates bear interest ranging from 1.74% to 4.15% and have maturities ranging from three to twenty four months.

Revenue Recognition

Unrestricted grants and contributions are recorded as revenue when received or unconditionally pledged. Restricted grants and contributions are recorded as temporarily restricted revenues and net assets when received or unconditionally pledged. Transfers are made to unrestricted net assets as costs are incurred or time restrictions or program restrictions have lapsed. Donor restricted grants received and satisfied in the same period are included in unrestricted net assets.

Assessment tools, seminar, consulting and speaking fees are recorded based upon the delivery of services.

All other revenue is recorded as earned.

Fixed Assets

Purchased fixed assets are recorded at cost. Renewals and betterments are capitalized while repairs and maintenance are charged to expense as incurred. Depreciation is computed using the straight-line method.

(Continued)

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)

SIGNIFICANT ACCOUNTING POLICIES (continued):

Fixed Assets (continued)

Fixed assets consist of the following:

	Estimated Useful Lives	2008	2007
Office furniture and equipment	5 years	\$223,027	\$ 91,266
Leasehold improvements	5 years	225,444	64,377
Computer equipment and software	3 years	146,586	34,883
		<u>595,057</u>	<u>190,526</u>
Less accumulated depreciation		157,611	81,027
Fixed assets, net		<u>\$437,446</u>	<u>\$109,499</u>

Depreciation expense was \$76,584 and \$19,769 for the years ended December 31, 2008 and 2007, respectively.

Deferred Revenue

Seminar fees and assessment tools fees received in advance are recorded as deferred revenue.

Net Assets

Unrestricted Net Assets

Unrestricted net assets include the following:

- **Operating net assets** represent amounts that bear no external restrictions and are currently available for operations.
- **Board designated net assets** represent funds set aside by the Board of Directors to establish a working capital reserve. Funds may only be used upon approval of the Board of Directors.
- **Fixed asset net assets** represent the net book value of CEP's equipment and leasehold improvements, net of related debt.

Temporarily Restricted Net Assets

CEP receives contributions and grants which are designated by donors for specific purposes or for specified time periods. These contributions are recorded as temporarily restricted net assets until they are expended for their designated purposes or their time restriction has lapsed. Temporarily restricted net assets are restricted for the following purposes at December 31:

	2008	2007
Time restricted	\$2,838,728	\$3,441,655

(Continued)

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

(Continued)

SIGNIFICANT ACCOUNTING POLICIES *(continued)*:

Expense Allocation

Expenses related directly to a function are distributed to that function, while other expenses are allocated based upon management's estimate of the percentage attributable to each function.

Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Advertising Costs

CEP expenses advertising costs as incurred.

2. PLEDGES RECEIVABLE:

Temporarily restricted pledges receivable consist of pledges payable over the next three years. As of December 31, 2008 and 2007, CEP had pledges receivable of \$1,343,333 and \$2,420,000, respectively, of which \$591,666 and \$1,450,000, respectively, are considered long-term. Long-term receivables as of December 31, 2008 and 2007 have been discounted at the present value of estimated future cash flows using a discount rate of 4%.

(Continued)

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2008 AND 2007

(Continued)

2. PLEDGES RECEIVABLE: (continued)

Pledges receivable consists of the following at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Restricted for Time	\$1,343,333	\$2,405,000
Unrestricted	-	15,000
	<u>1,343,333</u>	<u>2,420,000</u>
Gross pledges receivable	1,343,333	2,420,000
Less: Unamortized discount	(24,605)	(63,345)
	<u>\$1,318,728</u>	<u>\$2,356,655</u>
Amounts due in -		
Less than one year	\$ 751,667	\$ 970,000
Two to three years	591,666	1,450,000

3. COMMITMENTS:

CEP leases its Cambridge office under the terms of a five year lease agreement expiring December 31, 2012, with an option to renew for an additional five years. The lease requires CEP to pay its proportionate share of real estate taxes and operating expenses, and maintain certain insurance coverage on the premises. During 2008, CEP entered into a five year lease agreement for office space in San Francisco expiring September 14, 2013. This lease requires CEP to pay its proportionate share of operating costs of the building. In accordance with the agreement, assuming no event of default, the lease contains a rent forgiveness period for the first nine months of the lease in the amount of \$57,611. This amount will be recognized ratably over the remaining 51 months of the lease. Rent expense was approximately \$233,000 and \$113,000 for the years ended December 31, 2008 and 2007, respectively.

Future minimum lease payments, without regard to CPI increases or common area costs, for the next five years are as follows:

2009	\$285,022
2010	305,232
2011	315,916
2012	326,601
2013	60,908

(Continued)

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2008 AND 2007
(Continued)

4. RETIREMENT PLAN:

CEP adopted a defined contribution plan under Section 403(b) of the Internal Revenue Code. Eligible participants are able to defer a portion of their salary up to limits established by the Internal Revenue Code. CEP contributes up to 5% for 2008 and 3% for 2007 of eligible participants' compensation. For the years ended December 31, 2008 and 2007, CEP made contributions of \$67,195 and \$42,174 to the plan, respectively. Employees immediately vest in all contributions. Employer contributions are included in fringe benefits in the accompanying Statements of Functional Expenses.

5. CONCENTRATIONS:

CEP maintains its cash balances in a Massachusetts bank. The Federal Deposit Insurance Corporation insures balances up to \$250,000. At certain times during the year, cash balances exceeded the insured amounts. Management monitors, on a regular basis, the financial condition of the financial institutions along with their balances to keep this potential risk to a minimum.

6. LINE OF CREDIT:

CEP has a \$250,000 revolving line of credit agreement with a local bank. Interest fluctuates at a rate equal to the prime rate as published in the Wall Street Journal (3.25% at December 31, 2008). As of December 31, 2008 and 2007, there were no amounts outstanding under this facility. The line is secured by cash deposits held by the bank.