



THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

**FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020**

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

Contents
December 31, 2021 and 2020

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Independent Auditor's Report

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

Opinion

We have audited the financial statements of The Center for Effective Philanthropy, Inc. (a Massachusetts nonprofit corporation) (CEP) which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of activities and changes in net assets, cash flows, and functional expenses for the years 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 The Center for Effective Philanthropy, Inc. as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of CEP and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. 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 CEP's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's 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 auditor's 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.

Auditor's Responsibilities for the Audit of the Financial Statements (Continued)

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 CEP'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 CEP'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.

AAFCPA, Inc.

Boston, Massachusetts
June 22, 2022

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

Statements of Financial Position
December 31, 2021 and 2020

Assets	2021	2020
Current Assets:		
Cash and cash equivalents	\$ 13,278,628	\$ 4,178,457
Accounts receivable	430,705	448,521
Current portion of pledges receivable	1,559,857	311,810
Prepaid expenses and other current assets	224,584	227,340
Total current assets	15,493,774	5,166,128
Pledges Receivable, net	505,000	160,000
Investments	3,490,224	2,830,327
Security Deposits	41,048	35,270
Property and Equipment, net	330,883	270,213
Total assets	\$ 19,860,929	\$ 8,461,938
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 783,444	\$ 564,702
Current portion of deferred revenue	834,228	450,102
Total current liabilities	1,617,672	1,014,804
Deferred Rent	136,060	85,141
Deferred Revenue, net of current portion	46,700	87,400
Deferred Compensation	113,015	79,383
Total liabilities	1,913,447	1,266,728
Net Assets:		
Without donor restrictions:		
Operating	1,565,423	1,841,738
Strategic opportunities fund	8,000,000	-
Board designated funds for operations	5,955,531	3,141,324
Property and equipment	330,883	270,213
Total without donor restrictions	15,851,837	5,253,275
With donor restrictions	2,095,645	1,941,935
Total net assets	17,947,482	7,195,210
Total liabilities and net assets	\$ 19,860,929	\$ 8,461,938

The accompanying notes are an integral part of these statements.

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THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating Revenue and Support:						
Earned revenue:						
Assessment and advisory services	\$ 3,422,926	\$ -	\$ 3,422,926	\$ 2,585,490	\$ -	\$ 2,585,490
YouthTruth	2,393,529	(276,680)	2,116,849	1,535,690	(258,500)	1,277,190
Speaking engagement and registration fees	47,967	-	47,967	27,821	-	27,821
Total earned revenue	5,864,422	(276,680)	5,587,742	4,149,001	(258,500)	3,890,501
Support:						
Grants and contributions	11,741,339	3,703,880	15,445,219	2,049,503	2,335,816	4,385,319
Net assets released from restrictions	3,273,490	(3,273,490)	-	4,067,831	(4,067,831)	-
Total support	15,014,829	430,390	15,445,219	6,117,334	(1,732,015)	4,385,319
Investment return, net	117,516	-	117,516	94,345	-	94,345
Total operating revenue and support	20,996,767	153,710	21,150,477	10,360,680	(1,990,515)	8,370,165
Operating Expenses:						
Program services	8,334,425	-	8,334,425	7,860,147	-	7,860,147
General and administrative	1,958,465	-	1,958,465	1,570,392	-	1,570,392
Fundraising	105,315	-	105,315	115,934	-	115,934
Total operating expenses	10,398,205	-	10,398,205	9,546,473	-	9,546,473
Changes in net assets	10,598,562	153,710	10,752,272	814,207	(1,990,515)	(1,176,308)
Net Assets:						
Beginning of year	5,253,275	1,941,935	7,195,210	4,439,068	3,932,450	8,371,518
End of year	\$ 15,851,837	\$ 2,095,645	\$ 17,947,482	\$ 5,253,275	\$ 1,941,935	\$ 7,195,210

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

Statements of Cash Flows

For the Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ 10,752,272	\$ (1,176,308)
Adjustments to reconcile changes in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	148,897	144,516
Realized and unrealized gain on investments	(98,964)	(50,553)
Changes in operating assets and liabilities:		
Accounts receivable	17,816	94,827
Unbilled receivables	-	175,469
Pledges receivable	(1,593,047)	1,466,500
Prepaid expenses and other current assets	2,756	(6,408)
Security deposits	(5,778)	-
Accounts payable and accrued expenses	218,742	(143,567)
Deferred revenue	343,426	177,559
Deferred rent	50,919	52,041
Deferred compensation	33,632	20,022
	<u>9,870,671</u>	<u>754,098</u>
Net cash and cash equivalents provided by operating activities		
Cash Flows from Investing Activities:		
Purchase of property and equipment	(209,567)	(172,603)
Proceeds from sale of investments	337,481	2,466,823
Purchase of investments	(898,414)	(2,835,194)
	<u>(770,500)</u>	<u>(540,974)</u>
Net cash and cash equivalents used in investing activities		
Net Change in Cash and Cash Equivalents	9,100,171	213,124
Cash and Cash Equivalents:		
Beginning of year	<u>4,178,457</u>	<u>3,965,333</u>
End of year	<u>\$ 13,278,628</u>	<u>\$ 4,178,457</u>

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

Statements of Functional Expenses
For the Years Ended December 31, 2021 and 2020

	2021				2020			
	Program Services	General and Administrative	Fund-raising	Total	Program Services	General and Administrative	Fund-raising	Total
Personnel and Related:								
Salaries	\$ 5,589,915	\$ 763,312	\$ 71,962	\$ 6,425,189	\$ 5,103,053	\$ 812,340	\$ 79,735	\$ 5,995,128
Fringe benefits	762,501	104,121	9,816	876,438	634,163	100,951	9,909	745,023
Payroll taxes	402,715	54,991	5,184	462,890	347,189	55,268	5,425	407,882
Total personnel and related	6,755,131	922,424	86,962	7,764,517	6,084,405	968,559	95,069	7,148,033
Occupancy:								
Rent	635,618	86,795	8,183	730,596	613,214	101,394	9,632	724,240
Telephone	56,642	7,735	729	65,106	72,229	11,498	1,129	84,856
Utilities	12,981	1,773	167	14,921	16,532	2,632	258	19,422
Total occupancy	705,241	96,303	9,079	810,623	701,975	115,524	11,019	828,518
Other:								
Professional and consulting fees	153,591	804,301	-	957,892	426,554	368,795	-	795,349
Computer expenses	290,705	39,696	3,742	334,143	223,885	35,640	3,498	263,023
Depreciation and amortization	129,540	17,689	1,668	148,897	123,012	19,582	1,922	144,516
Dues and subscriptions	94,258	12,871	1,213	108,342	110,458	17,584	1,726	129,768
Professional development	56,027	7,651	721	64,399	46,905	7,467	733	55,105
Advertising	47,215	6,447	608	54,270	7,184	1,144	112	8,440
Office supplies	39,871	5,444	513	45,828	23,340	3,715	365	27,420
Insurance	-	37,057	-	37,057	-	16,086	-	16,086
Equipment rental and maintenance	31,919	4,359	411	36,689	32,311	5,144	505	37,960
Meals	11,223	1,532	144	12,899	14,379	2,289	225	16,893
Postage and delivery	10,545	1,440	136	12,121	6,096	996	22	7,114
Bank fees and miscellaneous	5,198	710	67	5,975	6,537	992	101	7,630
Printing	2,241	306	29	2,576	3,052	499	11	3,562
Travel	1,720	235	22	1,977	40,054	6,376	626	47,056
CEP conference expenses	-	-	-	-	10,000	-	-	10,000
Total other	874,053	939,738	9,274	1,823,065	1,073,767	486,309	9,846	1,569,922
Total expenses	\$ 8,334,425	\$ 1,958,465	\$ 105,315	\$ 10,398,205	\$ 7,860,147	\$ 1,570,392	\$ 115,934	\$ 9,546,473

The accompanying notes are an integral part of these statements.

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

Notes to Financial Statements
December 31, 2021 and 2020

1. OPERATIONS AND NONPROFIT STATUS

Operations

The Center for Effective Philanthropy (CEP) is a nonprofit organization focused on the development of data and insight to enable higher-performing funders. CEP provides data, feedback, programs, and insights to help individual and institutional donors improve their effectiveness. We do this work because we believe effective donors, working collaboratively and thoughtfully, can profoundly contribute to creating a better and more just world. CEP's research, assessment and advisory services, and programming are widely utilized by chief executive officers, trustees and senior executives of the largest foundations within the United States and Europe, as well as individual donors and those who advise them. CEP has offices in Cambridge, Massachusetts and San Francisco, California.

YouthTruth, an initiative of CEP, harnesses student perceptions to help educators and education funders accelerate improvements. Through our validated survey instruments and tailored advisory services, we partner with schools, districts, states, and education funders to enhance learning for all students.

Nonprofit Status

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 (IRC). CEP is also exempt from state income taxes. Donors may deduct contributions made to CEP within IRC requirements.

2. SIGNIFICANT ACCOUNTING POLICIES

CEP prepares its financial statements in accordance with generally accepted accounting standards and principles (U.S. GAAP) established by the Financial Accounting Standards Board (FASB). References to U.S. GAAP in these notes are to the FASB Accounting Standards Codification (ASC).

Estimates

The preparation of financial statements in accordance with U.S. GAAP 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, CEP considers all highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents, excluding cash included in the investment portfolio (see Note 4). Cash and cash equivalents consist of checking and money market accounts in the accompanying statements of financial position.

Accounts Receivable

Accounts receivable represent contract service receivables recognized when the right to consideration is unconditional and only the passage of time is required before the payment of that consideration is due. Any estimated uncollectible amounts are generally considered implicit price concessions which directly reduces accounts receivable. Changes to the estimate of the transaction price are generally recorded as adjustments to revenue in the period of change. Subsequent changes that are determined to be the result of an adverse change in the payer's ability to pay are recorded as bad debt expense.

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

Notes to Financial Statements
December 31, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges Receivable

Unconditional promises to give are reported as pledges receivable at net realizable value on the date the promise is verifiably committed. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value, and those that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. Conditional promises to give are not included as support until the conditions are substantially met.

Allowance for Grants and Pledges Receivable

CEP receives grants and pledges from various donors. An allowance for doubtful accounts, if any, is based on management's best estimate of amounts that may become uncollectible. There was no allowance as of December 31, 2021 and 2020.

Investments

Investment returns consist of interest and dividends (investment income), net of realized and unrealized gain and losses on investments and investment fees (see Note 4). Interest income is recorded as earned and dividend income is recorded on the ex-dividend date. Gains and losses are recognized upon sale using the first-in, first-out (FIFO) method or based on fair value changes during the period.

Property, Equipment, Depreciation and Amortization

Property and equipment are recorded at cost, if purchased, or at their fair value, if donated. Additions, renewals and betterments of property and equipment over \$5,000 are capitalized.

Depreciation and amortization are computed using the straight-line method over the following estimated useful lives:

Leasehold improvements	3 - 5 years
Furniture, fixture and equipment	3 - 5 years
Software	3 years

Long-Lived Assets

Long-lived assets, including property and equipment, are evaluated for impairment in accordance with the ASC Topic, *Property, Plant and Equipment*. If the carrying amount of the long-lived asset (or asset group) exceeds its fair value and the carrying amount is not recoverable, an impairment loss is recognized. An impairment loss is measured as the amount by which the long-lived asset (or asset group) exceeds its fair value. There were no impairment losses during 2021 and 2020.

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

Notes to Financial Statements
December 31, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Net Assets Without Donor Restrictions

Net assets without donor restrictions are those net resources that bear no external restrictions and are generally available for use by CEP. CEP has grouped its net assets without donor restrictions into the following categories:

Operating net assets represent net assets which are available for operations and bear no external restrictions.

Property and equipment net assets reflect the net book value of CEP's property and equipment.

Board designated funds for operations represent funds set aside by the Board of Directors to cover any significant needs for CEP. During the years ended December 31, 2021 and 2020, the Board of Directors approved transfers of \$2,814,207 and \$392,575, respectively, to Board designated funds for operations net assets.

Strategic opportunities fund represents funds set aside by the Board of Directors to support new and existing initiatives that advance both CEP's and YouthTruth's purpose either through expansion or improvement. During the year ended December 31, 2021, the Board of Directors approved a transfer of \$8,000,000 to establish the strategic opportunities fund.

Net Assets With Donor Restrictions

Net assets with donor restrictions represent amounts received or committed with donor restrictions which have not yet been expended for their designated purpose (purpose restricted) or amounts for use in future periods (time restricted).

Net assets with donor restrictions at December 31, 2021 and 2020, are available for the following purposes:

	<u>2021</u>	<u>2020</u>
Subject to Time Restrictions	\$ 1,905,000	\$ 545,000
Subject to Program Restrictions:		
Research and other	121,995	341,500
YouthTruth - District Funding	<u>68,650</u>	<u>1,055,435</u>
	<u>\$ 2,095,645</u>	<u>\$ 1,941,935</u>

During the years ended December 31, 2021 and 2020, net assets were released from restrictions for the following programs and purposes and other restrictions:

	<u>2021</u>	<u>2020</u>
Satisfaction of Time Restrictions	\$ 2,286,382	\$ 2,836,416
Subject to Program Restrictions:		
Research and other	987,108	1,231,415
YouthTruth - District Funding	<u>276,680</u>	<u>258,500</u>
	<u>\$ 3,550,170</u>	<u>\$ 4,326,331</u>

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

Notes to Financial Statements
December 31, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition

In accordance with ASC Topic 606, CEP uses a five-step model for recognizing and measuring revenue from contracts with customers, which includes 1) identifying the contract with the customer, 2) identifying the performance obligation(s) promised within the contract, 3) determining the transaction price (the amount of consideration to which CEP expects to be entitled), 4) allocating the transaction price to the performance obligation(s), and 5) recognizing revenue when (or as) the performance obligation(s) are satisfied.

CEP assesses the contract term as the period in which the parties to the contract have presently enforceable rights and obligations. The contract term can differ from the stated term in contracts that include certain termination or renewal rights, depending on whether there are penalties associated with those rights. Customer contracts generally are standardized and non-cancellable for the duration of the stated contract term. Because CEP's performance obligations relate to contracts with a duration of less than one year, CEP elected to apply the optional exemption provided in ASC 606. Therefore, it is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

CEP's revenue generated from exchange transactions include assessment and advisory services, and YouthTruth, speaking engagement and registration fees, as further described below:

Contract Revenue - Assessment and Advisory Services and YouthTruth

Contract revenue is recognized in accordance with ASC Topic 606. CEP charges a fee for the performance of assessment and advisory services and recognizes revenue related to these services over time as the customer consumes the benefits of the services performed. Timing of recognizing revenue is based on the input measurement of hours incurred to date, compared to the estimated total hours of the contract to satisfy the performance obligations. Estimates of total survey revenue and hours are monitored regularly during the term of the engagement.

Speaking Engagements and Registration Fees

Speaking engagement and registration fees revenue is recognized at a point in time when the services are performed.

As discussed previously, revenue from speaking engagement and registration fees is recognized at a point in time, whereas revenue from assessment and advisory services and YouthTruth is recognized over time. Total revenue recognized at a point in time and over time is as follows for the years ended December 31:

	<u>2021</u>	<u>2020</u>
Revenue recognized over time	\$ 5,539,775	\$ 3,862,680
Revenue recognized at a point in time	<u>47,967</u>	<u>27,821</u>
	<u>\$ 5,587,742</u>	<u>\$ 3,890,501</u>

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

Notes to Financial Statements
December 31, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

The transaction price is the amount of consideration to which CEP expects to be entitled in exchange for transferring goods and services to the customer. Revenue is recorded based on the transaction price, which includes fixed consideration and estimates of variable consideration. The amount of variable consideration included in the transaction price is constrained and is included only to the extent it is probable that a significant reversal of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. Variable consideration may include expense reimbursements. Reimbursements that are billed to clients in a fixed-fee arrangement are included in the estimation of the total transaction price. Reimbursable expenses are recognized as expenses in the period in which the expenses are incurred.

CEP has elected the practical expedient that permits an entity not to recognize a significant financing component if the time between the transfer of a good or service and payment is one year or less. CEP does not enter into contracts in which the period between payment by the customer and the transfer of the promised goods or services to the customer is greater than twelve months.

The timing of revenue recognition may not align with the right to invoice the customer. CEP records accounts receivable when it has the unconditional right to issue an invoice and receive payment, regardless of whether revenue has been recognized. If revenue has not yet been recognized, a contract liability (deferred revenue) is also recorded. If revenue is recognized in advance of the right to invoice, a contract asset (unbilled receivable) is recorded.

Grant and Contributions

In accordance with ASC Topic 958, CEP recognizes grants and contributions when unconditionally pledged or received. CEP reports gifts of cash or other assets as net assets with donor restrictions if they are received with donor stipulations that limit the use of the donated assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

In accordance with Topic 958, CEP must determine whether a contribution (or a promise) is conditional or unconditional for transactions deemed to be a contribution. A contribution is considered to be a conditional contribution if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include a measurable performance-related barrier or other measurable barriers, a stipulation that limits discretion by the recipient on the conduct of an activity, and stipulations that are related to the purpose of the agreement. Topic 958 prescribes that CEP should not consider probability of compliance with the barrier when determining if such awards are conditional and should be reported as conditional grant advance liabilities until such conditions are met (see Note 10).

Grants restricted for specific use for the YouthTruth program of \$276,680 and \$258,500 for the years ended December 31, 2021 and 2020, respectively, are included in earned revenue in the accompanying statements of activities and changes in net assets, however, are accounted for under Topic 958.

All other revenue is recorded when it is earned.

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

Notes to Financial Statements
December 31, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

Deferred Revenue

Based on the timing of revenue recognition, billings, and cash collections for contract revenue, CEP receives certain billings in advance of revenue recognition, resulting in contract liabilities. These payments are presented as deferred revenue in the accompanying statements of financial position. The current portion of deferred revenue as of December 31, 2020, was recognized during 2021. The current portion of deferred revenue as of December 31, 2021, is expected to be recognized in 2022. Long-term deferred revenue as of December 31, 2021 and 2020, is expected to be recognized through 2023.

Functional Expenses

CEP allocates expenses on a functional basis among its program and supporting services. Supporting services are those related to operating and managing CEP and its programs on a day-to-day basis. Expenses are composed of the following:

Program Services: Includes all activities related to CEP's assessment and advisory services and YouthTruth and CEP registration and speaking engagements.

General and Administrative: Includes all activities related to CEP's internal management and accounting for program services.

Fundraising: Includes activities related to maintaining contributor information, writing grant proposals, distribution of materials, and other similar projects related to the procurement of funds for CEP's programs.

Expenses that can be identified with a specific program or supporting service are allocated directly to those classifications. Other expenses that are common to several functions, including occupancy, office supplies, depreciation and amortization, travel, professional development, and professional and consulting fees, are allocated to the underlying activity through which it was incurred. The accompanying statements of activities and changes in net assets includes certain expenses which must be allocated on a reasonable basis, which has been consistently applied. Management allocates common expenses based on actual employee time incurred for each function.

Statements of Activities and Changes in Net Assets

Transactions deemed by management to be ongoing, major, or central to the operations of CEP are reported as operating revenue and support and operating expenses in the accompanying statements of activities and changes in net assets. Peripheral or incidental transactions are reported as non-operating revenue.

Advertising Expense

CEP's policy is to expense advertising costs as incurred. Advertising expense was \$54,270 and \$8,440 for the years ended December 31, 2021 and 2020, respectively.

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

Notes to Financial Statements
December 31, 2021 and 2020

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

CEP follows the accounting and disclosure standards pertaining to ASC Topic, *Fair Value Measurements*, for qualifying assets and liabilities. Fair value is defined as the price that CEP would receive upon selling an asset or pay to settle a liability in an orderly transaction between market participants.

CEP uses a framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. This hierarchy is broken down into three levels based on inputs that market participants would use in valuing the financial instruments based on market data obtained from sources independent of CEP. Inputs refer broadly to the assumptions that market participants would use in pricing the financial instrument, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the financial instrument developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset developed based on the best information available.

The three-tier hierarchy of inputs is summarized in the three broad levels as follows:

- Level 1: Inputs that reflect unadjusted quoted prices in active markets for identical assets at the measurement date.
- Level 2: Inputs other than quoted prices that are observable for the asset either directly or indirectly, including inputs in markets that are not considered to be active.
- Level 3: Inputs that are unobservable and which require significant judgment or estimation.

An asset or liability's level within the framework is based upon the lowest level of any input that is significant to the fair value measurement. All of CEP's qualifying assets are valued using Level 1 inputs.

Accounting for Uncertainty in Income Taxes

CEP accounts for uncertainty in income taxes in accordance with ASC Topic, *Income Taxes*. This standard clarifies the accounting for uncertainty in tax positions and prescribes a recognition threshold and measurement attribute for the financial statements regarding a tax position taken or expected to be taken in a tax return. CEP has determined that there are no uncertain tax positions which qualify for either recognition or disclosure in the financial statements at December 31, 2021 and 2020. CEP's information and tax returns are subject to examination by the Federal and state jurisdictions.

Subsequent Events

Subsequent events have been evaluated through June 22, 2022, which is the date the financial statements were available to be issued. There were no events that met the criteria for recognition or disclosure in the financial statements.

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3. PLEDGES RECEIVABLE

Pledges receivable consisted of the following at December 31:

	<u>2021</u>	<u>2020</u>
Amounts due in:		
Less than one year	\$ 1,559,857	\$ 311,810
One to three years (long-term portion)	<u>505,000</u>	<u>160,000</u>
	2,064,857	471,810
Less - current portion	<u>1,559,857</u>	<u>311,810</u>
	\$ 505,000	\$ 160,000
Pledges receivable, net	<u>\$ 505,000</u>	<u>\$ 160,000</u>

A discount has not been recorded on the long-term portion of pledges receivable as it would be immaterial to the financial statements.

4. INVESTMENTS

The primary investment objective is to balance the protection of asset values while earning a return. Investment allocations are periodically reviewed by the Audit and Finance Committee and adjustments are made. The Board of Directors will review and make changes as necessary on an annual basis.

Investments are classified as non-current in the accompanying statements of financial position since it is the CEP's intent to hold the investments until maturity.

Unrealized gains or losses on investments are reflected in the accompanying statements of activities and changes in net assets based on fair value changes during the period. Realized gains and losses, if any, on investments are recorded on the date in which the sale takes place. These investments are not insured and are subject to on-going market fluctuations.

The following table presents the fair value of CEP's investments as of December 31, 2021 and 2020, all of which are valued using Level 1 inputs (see Note 2):

	<u>2021</u>	<u>2020</u>
Money market funds	\$ 95,565	\$ 466,820
Mutual funds:		
Fixed income	2,560,066	1,651,021
Domestic equities	750,202	635,423
Commodities	64,349	62,097
International equities	<u>20,042</u>	<u>14,966</u>
	<u>\$ 3,490,224</u>	<u>\$ 2,830,327</u>

Investment return consists of the following for the years ended December 31:

	<u>2021</u>	<u>2020</u>
Realized and unrealized gains on investments	\$ 98,964	\$ 50,553
Investment income	28,628	52,325
Investment fees	<u>(10,076)</u>	<u>(8,533)</u>
	\$ 117,516	\$ 94,345
Investment return, net	<u>\$ 117,516</u>	<u>\$ 94,345</u>

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5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31:

	<u>2021</u>	<u>2020</u>
Office furniture and equipment	\$ 560,456	\$ 382,169
Computer equipment and software	360,320	329,040
Leasehold improvements	<u>313,322</u>	<u>313,322</u>
	1,234,098	1,024,531
Less - accumulated depreciation and amortization	<u>(903,215)</u>	<u>(754,318)</u>
Property and equipment, net	<u>\$ 330,883</u>	<u>\$ 270,213</u>

6. LINE OF CREDIT

CEP has a \$1,000,000 revolving line of credit agreement available with a bank. Borrowings are due on demand and interest is payable monthly at a rate equal to 0.25% above the prime rate, which was 3.25% at December 31, 2021 and 2020. As of December 31, 2021 and 2020, there were no amounts outstanding under this line. The line is secured by cash deposits held by the bank. The line automatically renews annually unless terminated by the bank. The line of credit agreement contains financial and administrative covenants with which CEP is required to comply. CEP was in compliance with these covenants at December 31, 2021 and 2020.

7. RETIREMENT PLAN

CEP sponsors a qualified retirement plan for all eligible employees, whereby employees may elect to defer a portion of their salary on a pre-tax or post-tax basis. CEP matches 100% of the first 5% of deferrals for eligible employees. Matching contributions were \$277,090 and \$248,370 for the years ended December 31, 2021 and 2020, respectively, and are included in fringe benefits in the accompanying statements of functional expenses.

CEP sponsors a non-qualified 457(b) deferred compensation plan, whereby participants may elect to have their compensation deferred into the plan within annual limits. CEP's discretionary credits to the plan totaled \$11,500 and \$5,250 for the years ended December 31, 2021 and 2020, respectively. The 457(b) plan assets of approximately \$113,000 and \$79,400 are included in investments in the accompanying statements of financial position as of December 31, 2021 and 2020, respectively.

8. CONCENTRATIONS

CEP maintains its operating cash balances in banks in Massachusetts. The Federal Deposit Insurance Corporation (FDIC) insures balances at each bank up to certain amounts. At certain times during the year, cash balances exceeded the insured amounts. CEP has not experienced any losses in such accounts. CEP believes it is not exposed to any significant credit risk on its operating cash balance.

Approximately 47% and 26% of CEP's operating revenue and support was from one and two donors at December 31, 2021 and 2020, respectively.

Approximately 86% and 97% of CEP's pledges receivable was due from three and four donors at December 31, 2021 and 2020, respectively.

Approximately 15% of CEP's accounts receivable was due from one customer as of December 31, 2021. There was no accounts receivable concentration as of December 31, 2020.

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9. COMMITMENTS

CEP has a five-year lease agreement for office space in Cambridge, Massachusetts through December 31, 2022. The terms of the lease require minimum monthly payments ranging from \$38,740 to \$40,690.

CEP had a five-year lease agreement for office space in San Francisco, California through November 2020. The terms of the lease required minimum monthly payments ranging from \$19,804 through \$20,208. During 2020, the lease agreement was amended and extended through November 2025. Minimum monthly payments range from \$9,700 to \$21,017. Per the terms of the lease agreement, CEP received an abatement of rent for the months of September 2020 through November 2020, and a 50% reduction in base rent from December 2020 through August 2021. In accordance with U.S. GAAP, the increasing annual rent has been allocated evenly over the term of the lease resulting in \$136,060 and \$85,141 being recorded as deferred rent as of December 31, 2021 and 2020, respectively, in the accompanying statements of financial position.

CEP has a ten-month lease agreement for additional space in San Francisco, California through October 31, 2022. Per the terms of the lease agreement, CEP is required to make monthly payments aggregating to \$5,778.

Rent expense under these lease agreements totaled \$730,596 and \$724,240 for the years ended December 31, 2021 and 2020, respectively.

Future minimum lease payments under these agreements over the remainder of the lease terms are as follows:

<u>Year</u>	<u>Lease Payments</u>
2022	\$ 803,917
2023	\$ 242,904
2024	\$ 247,754
2025	\$ 231,183

10. CONDITIONAL GRANT

CEP applied for, and was awarded, a loan of \$965,037 from the Paycheck Protection Program (PPP) established by the Coronavirus Aid, Relief and Economic Security Act (CARES Act) through a bank. The funds were used to pay payroll costs during the covered period as defined in the CARES Act. The PPP loan proceeds were accounted for as a conditional grant under ASC Subtopic 958-605. The grant was deemed conditional upon meeting certain performance measurements and incurring eligible expenses as defined in the CARES Act.

In December 2020, CEP received a notice of forgiveness for the loan from the lending bank and Small Business Administration, at which point all barriers were deemed to have been met and the loan proceeds were recognized as grants and contributions revenue in the accompanying 2020 statement of activities and changes in net assets.

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11. EMPLOYEE RETENTION TAX CREDIT

The Employee Retention Tax Credit (ERTC) was first established by the CARES Act and was extended and expanded by the Consolidated Appropriations Act (CAA) and American Rescue Plan (ARP). ERTC provides a refundable tax credit against certain employment taxes equal to 50% of the first \$10,000 in qualified wages paid to each employee between March 12, 2020 and December 31, 2020 (2020 ERTC), and 70% of the first \$10,000, per quarter, in qualified wages paid to each employee between January 1, 2021 and September 30, 2021 (2021 ERTC). To be eligible, CEP must meet certain conditions as described in applicable laws and regulations.

CEP has determined that it qualifies for the 2021 ERTC and is accounting for the credits as conditional grants under ASC Subtopic 958-605. These grants are conditional upon certain performance requirements and the incurrence of eligible expenses. In the opinion of management, these conditions were met as of December 31, 2021, and therefore, the entire amount of \$610,053 that CEP expects to receive was recognized as revenue and is reflected as grants and contributions in the accompanying statements of activities and changes in net assets. As of December 31, 2021, \$282,357 is outstanding and is included in pledges receivable in the accompanying statements of financial position. Eligibility for the credit and the credit calculations are subject to review and approval by the Federal government. In the opinion of management, the results of such reviews and audit will not have a material effect on the financial position of CEP as of December 31, 2021, and on the changes in its net assets for the year then ended.

12. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

CEP's financial assets available within one year from the statements of financial position date for general operating purposes as of December 31, 2021 and 2020, are as follows:

	<u>2021</u>	<u>2020</u>
Cash and cash equivalents	\$ 13,278,628	\$ 4,178,457
Current portion of pledges receivable	1,559,857	311,810
Accounts receivable	<u>430,705</u>	<u>448,521</u>
	15,269,190	4,938,788
Less - donor-imposed restrictions	<u>(695,645)</u>	<u>(1,631,935)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 14,573,545</u>	<u>\$ 3,306,853</u>

CEP has a goal to maintain, at minimum, financial assets available to meet six months of normal operating expenses. As of December 31, 2021 and 2020, CEP had financial assets equal to approximately seventeen and four months of operating expenses, respectively. CEP also has access to a \$1,000,000 line of credit (see Note 6) that can be drawn upon as needed to cover operating costs. In addition, there is approximately \$3,377,000 and \$2,751,000 of long-term investments available to CEP as of December 31, 2021 and 2020, respectively.

13. RECLASSIFICATION

Certain amounts in the 2020 financial statements have been reclassified to conform with the 2021 presentation.