



THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

**FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021**

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

Contents
December 31, 2022 and 2021

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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, 2022 and 2021, 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, 2022 and 2021, 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.

Emphasis of Matter

As discussed in Note 2 to the financial statements, in 2022, CEP adopted Financial Accounting Standards Board's Accounting Standards Updates 2016-02, *Leases (Topic 842)*. Our opinion is not modified with respect to this matter.

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, which 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.

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, which 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.

AAFCPAs, Inc.

Boston, Massachusetts
June 7, 2023

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

Statements of Financial Position
December 31, 2022 and 2021

Assets	2022	2021
Current Assets:		
Cash and cash equivalents	\$ 4,744,313	\$ 13,278,628
Accounts receivable	966,053	430,705
Current portion of pledges receivable	1,815,126	1,559,857
Prepaid expenses and other current assets	246,124	224,584
Total current assets	7,771,616	15,493,774
Pledges Receivable, net	440,485	505,000
Investments	11,214,981	3,490,224
Security Deposits	105,470	41,048
Property and Equipment, net	286,387	330,883
Operating Right-of-Use Assets	2,274,498	-
Total assets	\$ 22,093,437	\$ 19,860,929
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 1,229,948	\$ 783,444
Current portion of lease liability	640,888	-
Current portion of deferred revenue	535,470	834,228
Total current liabilities	2,406,306	1,617,672
Long-term Liabilities:		
Deferred revenue, net of current portion	-	46,700
Deferred rent	-	136,060
Deferred compensation	119,276	113,015
Lease liability, net of current portion	1,803,445	-
Total liabilities	4,329,027	1,913,447
Net Assets:		
Without donor restrictions:		
Operating	976,334	1,565,423
Strategic opportunities fund	6,555,892	8,000,000
Board designated funds for operations	6,554,095	5,955,531
Property and equipment	116,552	330,883
Total without donor restrictions	14,202,873	15,851,837
With donor restrictions	3,561,537	2,095,645
Total net assets	17,764,410	17,947,482
Total liabilities and net assets	\$ 22,093,437	\$ 19,860,929

The accompanying notes are an integral part of these statements.

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

Statements of Activities and Changes in Net Assets
For the Years Ended December 31, 2022 and 2021

	2022					2021				
	Without Donor Restrictions				Total	Without Donor Restrictions				Total
Operating	Strategic Opportunities Fund	Total Without Donor Restrictions	With Donor Restrictions			Operating	Strategic Opportunities Fund	Total Without Donor Restrictions	With Donor Restrictions	
Operating Revenue and Support:										
Earned revenue:										
Assessment and advisory services	\$ 4,452,579	\$ -	\$ 4,452,579	\$ -	\$ 4,452,579	\$ 3,422,926	\$ -	\$ 3,422,926	\$ -	\$ 3,422,926
YouthTruth	2,458,868	-	2,458,868	(35,000)	2,423,868	2,393,529	-	2,393,529	(276,680)	2,116,849
Speaking engagement and registration fees	22,734	-	22,734	-	22,734	47,967	-	47,967	-	47,967
Total earned revenue	6,934,181	-	6,934,181	(35,000)	6,899,181	5,864,422	-	5,864,422	(276,680)	5,587,742
Support:										
Grants and contributions	1,388,771	-	1,388,771	5,273,757	6,662,528	1,741,339	10,000,000	11,741,339	3,703,880	15,445,219
Net assets released from restrictions	3,772,865	-	3,772,865	(3,772,865)	-	3,273,490	-	3,273,490	(3,273,490)	-
Internal designation transfer	-	-	-	-	-	2,000,000	(2,000,000)	-	-	-
Total support	5,161,636	-	5,161,636	1,500,892	6,662,528	7,014,829	8,000,000	15,014,829	430,390	15,445,219
Total operating revenue and support	12,095,817	-	12,095,817	1,465,892	13,561,709	12,879,251	8,000,000	20,879,251	153,710	21,032,961
Operating Expenses:										
Program services	9,270,628	1,426,724	10,697,352	-	10,697,352	8,334,425	-	8,334,425	-	8,334,425
General and administrative	2,614,106	-	2,614,106	-	2,614,106	1,958,465	-	1,958,465	-	1,958,465
Fundraising	173,066	-	173,066	-	173,066	105,315	-	105,315	-	105,315
Total operating expenses	12,057,800	1,426,724	13,484,524	-	13,484,524	10,398,205	-	10,398,205	-	10,398,205
Changes in net assets from operations	38,017	(1,426,724)	(1,388,707)	1,465,892	77,185	2,481,046	8,000,000	10,481,046	153,710	10,634,756
Investment Return, net	(242,873)	(17,384)	(260,257)	-	(260,257)	117,516	-	117,516	-	117,516
Changes in net assets	(204,856)	(1,444,108)	(1,648,964)	1,465,892	(183,072)	2,598,562	8,000,000	10,598,562	153,710	10,752,272
Net Assets:										
Beginning of year	7,851,837	8,000,000	15,851,837	2,095,645	17,947,482	5,253,275	-	5,253,275	1,941,935	7,195,210
End of year	\$ 7,646,981	\$ 6,555,892	\$ 14,202,873	\$ 3,561,537	\$ 17,764,410	\$ 7,851,837	\$ 8,000,000	\$ 15,851,837	\$ 2,095,645	\$ 17,947,482

The accompanying notes are an integral part of these statements.

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

Statements of Cash Flows

For the Years Ended December 31, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities:		
Changes in net assets	\$ (183,072)	\$ 10,752,272
Adjustments to reconcile changes in net assets to net cash and cash equivalents provided by (used in) operating activities:		
Depreciation and amortization	181,847	148,897
Non-cash lease expenses	776,933	-
Realized and unrealized (gain) loss on investments	413,202	(98,964)
Change in discount on pledges receivable	25,515	-
Changes in operating assets and liabilities:		
Accounts receivable	(535,348)	17,816
Pledges receivable	(216,269)	(1,593,047)
Prepaid expenses and other current assets	(21,540)	2,756
Security deposits	(64,422)	(5,778)
Accounts payable and accrued expenses	446,504	218,742
Deferred revenue	(345,458)	343,426
Change in operating lease liabilities	(743,158)	-
Deferred rent	-	50,919
Deferred compensation	6,261	33,632
	<u>(259,005)</u>	<u>9,870,671</u>
Net cash and cash equivalents provided by (used in) operating activities		
Cash Flows from Investing Activities:		
Purchase of property and equipment	(137,351)	(209,567)
Proceeds from sale of investments	2,346,840	337,481
Purchase of investments	(10,484,799)	(898,414)
	<u>(8,275,310)</u>	<u>(770,500)</u>
Net cash and cash equivalents used in investing activities		
Net Change in Cash and Cash Equivalents	(8,534,315)	9,100,171
Cash and Cash Equivalents:		
Beginning of year	<u>13,278,628</u>	<u>4,178,457</u>
End of year	<u>\$ 4,744,313</u>	<u>\$ 13,278,628</u>

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

Statements of Functional Expenses
For the Years Ended December 31, 2022 and 2021

	2022				2021			
	Program Services	General and Administrative	Fundraising	Total	Program Services	General and Administrative	Fundraising	Total
Personnel and Related:								
Salaries	\$ 6,630,144	\$ 1,061,206	\$ 117,885	\$ 7,809,235	\$ 5,589,915	\$ 763,312	\$ 71,962	\$ 6,425,189
Fringe benefits	785,598	125,741	13,968	925,307	762,501	104,121	9,816	876,438
Payroll taxes	467,499	74,827	8,312	550,638	402,715	54,991	5,184	462,890
Total personnel and related	<u>7,883,241</u>	<u>1,261,774</u>	<u>140,165</u>	<u>9,285,180</u>	<u>6,755,131</u>	<u>922,424</u>	<u>86,962</u>	<u>7,764,517</u>
Occupancy:								
Rent	715,213	114,476	12,717	842,406	635,618	86,795	8,183	730,596
Telephone	56,146	8,986	998	66,130	56,642	7,735	729	65,106
Utilities	24,000	3,842	427	28,269	12,981	1,773	167	14,921
Total occupancy	<u>795,359</u>	<u>127,304</u>	<u>14,142</u>	<u>936,805</u>	<u>705,241</u>	<u>96,303</u>	<u>9,079</u>	<u>810,623</u>
Other:								
Professional and consulting fees	963,657	1,017,013	-	1,980,670	153,591	804,301	-	957,892
Computer expenses	376,897	60,325	6,701	443,923	290,705	39,696	3,742	334,143
Depreciation and amortization	154,552	24,566	2,729	181,847	129,540	17,689	1,668	148,897
Travel	127,445	20,399	2,266	150,110	1,720	235	22	1,977
Meals	118,041	18,893	2,099	139,033	11,223	1,532	144	12,899
Dues and subscriptions	108,279	17,331	1,925	127,535	94,258	12,871	1,213	108,342
Office supplies	50,939	8,153	906	59,998	39,871	5,444	513	45,828
Professional development	36,849	5,898	655	43,402	56,027	7,651	721	64,399
Equipment rental and maintenance	33,560	5,371	597	39,528	31,919	4,359	411	36,689
Insurance	-	39,139	-	39,139	-	37,057	-	37,057
Advertising	16,992	2,720	302	20,014	47,215	6,447	608	54,270
Printing	13,118	2,100	233	15,451	2,241	306	29	2,576
Bank fees and miscellaneous	10,302	1,820	202	12,324	5,198	710	67	5,975
Postage and delivery	8,121	1,300	144	9,565	10,545	1,440	136	12,121
Total other	<u>2,018,752</u>	<u>1,225,028</u>	<u>18,759</u>	<u>3,262,539</u>	<u>874,053</u>	<u>939,738</u>	<u>9,274</u>	<u>1,823,065</u>
Total expenses	<u>\$ 10,697,352</u>	<u>\$ 2,614,106</u>	<u>\$ 173,066</u>	<u>\$ 13,484,524</u>	<u>\$ 8,334,425</u>	<u>\$ 1,958,465</u>	<u>\$ 105,315</u>	<u>\$ 10,398,205</u>

The accompanying notes are an integral part of these statements.

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

Notes to Financial Statements
December 31, 2022 and 2021

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. CEP does this work because they 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).

Recently Adopted Accounting Pronouncement

ASU 2016-02, Leases (Topic 842)

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The most significant change in the new lease guidance is the requirement to recognize right-of-use (ROU) assets and lease liabilities for operating leases on the statement of financial position. CEP elected to adopt *Topic 842* on January 1, 2022, using the optional transition method provided in ASU 2018-11. Under this transition method, financial information related to years prior to adoption is reported under ASC *Topic 840*.

CEP elected the package of practical expedients permitted under the transition guidance within the new standard, which, among other things, allowed CEP to carry forward the historical lease classification as operating or capital leases. CEP did not elect the hindsight practical expedient in determining the lease term for existing leases as of January 1, 2022.

The most significant impact of adoption was the recognition of operating lease assets and operating lease liabilities of \$3,051,431 and \$3,187,491, respectively. CEP expects the impact of adoption to be immaterial to the accompanying statements of activities and changes in net assets and cash flows on an ongoing basis. As part of the adoption, CEP also modified its control procedures and processes, none of which materially affected internal control over financial reporting.

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

Notes to Financial Statements
December 31, 2022 and 2021

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recently Adopted Accounting Pronouncement (Continued)

ASU 2016-02, Leases (Topic 842) (Continued)

The cumulative effect of the changes made to the statement of financial position for the adoption of the new lease standard as of January 1, 2022, was as follows:

<u>Statement of Financial Position</u>	<u>As Previously Reported</u>	<u>Effect of Adoption</u>	<u>As Adjusted</u>
Operating Right-of-use assets	\$ -	\$ 3,051,431	\$ 3,051,431
Operating Lease liabilities	\$ -	\$ 3,187,491	\$ 3,187,491
Deferred rent	\$ 136,060	\$ (136,060)	\$ -

Leases

CEP determines if an arrangement is a lease or contains a lease at inception of a contract. A contract is determined to be a lease or contain a lease if the contract conveys the right to control the use of identified property, plant, or equipment (an identified asset) in exchange for consideration. CEP determines such assets are leased because CEP has the right to obtain substantially all of the economic benefits from and the right to direct the use of the identified asset. Assets in which the supplier or lessor has the practical ability and right to substitute alternative assets for the identified asset and would benefit economically from the exercise of its right to substitute the asset are not considered to be or contain a lease because CEP determines it does not have the right to control and direct the use of the identified asset. CEP's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In evaluating its contracts, CEP separately identifies lease and non-lease components, such as common area and other maintenance costs, in calculating the ROU assets and lease liabilities for its buildings, equipment, and parking spaces. CEP has elected the practical expedient to not separate lease and non-lease components and classifies the contract as a lease if consideration in the contract allocated to the lease component is greater than the consideration allocated to the non-lease component.

Leases result in the recognition of ROU assets and lease liabilities on the statement of financial position. ROU assets represent the right to use an underlying asset for the lease term, and lease liabilities represent the obligation to make lease payments arising from the lease, measured on a discounted basis. CEP determines lease classification as operating or finance at the lease commencement date.

At lease inception, the lease liability is measured at the present value of the lease payments over the lease term. The ROU asset equals the lease liability adjusted for any initial direct costs, prepaid or deferred rent, and lease incentives. CEP uses the implicit rate when readily determinable. As most of the leases do not provide an implicit rate, CEP uses a risk-free rate based on the information available at the later of January 1, 2022, or commencement date to determine the present value of lease payments.

The lease term may include options to extend or to terminate the lease that CEP is reasonably certain to exercise. Lease expense is generally recognized on a straight-line basis over the lease term. CEP has elected not to record leases with an initial term of twelve months or less on the statements of financial position. Lease expense on such leases is recognized on a straight-line basis over the lease term.

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

Notes to Financial Statements
December 31, 2022 and 2021

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

CEP recorded rent on a straight-line basis over the terms of the leases in accordance with ASU *Topic 840, Leases*, through fiscal year 2021. Any difference between cash payments in the lease agreements and the related expense for a given year was recorded as deferred rent.

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.

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, 2022 and 2021.

Statements of Activities and Changes in Net Assets

Transactions deemed by management to be ongoing, major or central to the provision of operating programs are reported as operating revenue and support and operating expenses in the accompanying statements of activities and changes in net assets. Non-operating revenue includes investment income net of expenses consistent with industry practice.

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

Notes to Financial Statements
December 31, 2022 and 2021

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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	Shorter of lease term or 3 years
Office furniture and equipment	3 - 5 years
Computer equipment and software	3 years

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.

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. During the year ended December 31, 2022, the Board of Directors approved an appropriation of \$1,426,724 for operations.

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, 2022 and 2021, the Board of Directors approved transfers of \$598,564 and \$2,814,207, respectively, to Board designated funds for operations net assets.

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

Activity related to operating, Board designated funds and property and equipment net assets are reflected in the operating column in the accompanying statements of activities and changes in net assets.

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).

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

Notes to Financial Statements
December 31, 2022 and 2021

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets (Continued)

Net Assets With Donor Restrictions (Continued)

Net assets with donor restrictions at December 31, 2022 and 2021, are available for the following purposes:

	<u>2022</u>	<u>2021</u>
Subject to time restrictions	\$ 1,159,484	\$ 1,907,500
Subject to program restrictions	600,076	31,500
YouthTruth:		
Subject to time restrictions	799,519	-
Subject to program restrictions	<u>1,002,458</u>	<u>156,645</u>
	<u>\$ 3,561,537</u>	<u>\$ 2,095,645</u>

During the years ended December 31, 2022 and 2021, net assets were released from restrictions for the following programs and purposes and other restrictions:

	<u>2022</u>	<u>2021</u>
Satisfaction of time restrictions	\$ 1,738,016	\$ 1,605,000
Subject to program restrictions	696,426	607,000
YouthTruth:		
Subject to program restrictions	322,944	139,583
Satisfaction of time restrictions	<u>1,050,479</u>	<u>1,198,587</u>
	<u>\$ 3,807,865</u>	<u>\$ 3,550,170</u>

Revenue Recognition

In accordance with FASB's ASU No. 2014-09, *Revenue from Contracts with Customers (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 *Topic 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.

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

Notes to Financial Statements
December 31, 2022 and 2021

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

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 *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>2022</u>	<u>2021</u>
Revenue recognized over time	\$ 6,876,447	\$ 5,539,775
Revenue recognized at a point in time	<u>22,734</u>	<u>47,967</u>
	<u>\$ 6,899,181</u>	<u>\$ 5,587,742</u>

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.

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Notes to Financial Statements
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

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.

Account receivable and deferred revenue from exchange transactions were \$448,521 and \$537,502, respectively, at January 1, 2021.

Grant and Contributions

In accordance with ASC 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*, 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.

Grants restricted for specific use for the YouthTruth program of \$35,000 and \$276,680 for the years ended December 31, 2022 and 2021, 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.

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, 2021, was recognized during 2022. The current portion of deferred revenue as of December 31, 2022, is expected to be recognized in 2023. Long-term deferred revenue as of December 31, 2022 and 2021, is expected to be recognized through 2024.

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

Notes to Financial Statements
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 include 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.

Advertising Expense

CEP's policy is to expense advertising costs as incurred. Advertising expense was \$20,014 and \$54,270 for the years ended December 31, 2022 and 2021, respectively.

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.

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Notes to Financial Statements
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2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements (Continued)

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, 2022 and 2021. 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 7, 2023, 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.

3. PLEDGES RECEIVABLE

Pledges receivable at December 31, 2022 and 2021, are expected to be collected in the following periods:

	<u>2022</u>	<u>2021</u>
Pledges receivable due in one year	\$ 1,815,126	\$ 1,559,857
Pledges receivable due between two and three years	<u>466,000</u>	<u>505,000</u>
Total pledges receivable	2,281,126	2,064,857
Less - current portion	1,815,126	1,559,857
Less - present value discount	<u>25,515</u>	<u>-</u>
Pledges receivable, net	<u>\$ 440,485</u>	<u>\$ 505,000</u>

The present value discount was calculated using a discount factor, which ranged from 4.75% to 5.07% at December 31, 2022. A discount factor was not recorded at December 31, 2021, as it would be immaterial to the financial statements as a whole.

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

Notes to Financial Statements
December 31, 2022 and 2021

4. INVESTMENTS

The primary investment objectives are two-tiered. Tier one is protection of the asset with a secondary focus on current income allowing for potentially higher returns on funds that are not required for ongoing operations. Tier two 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.

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, 2022 and 2021, all of which are valued using Level 1 inputs (see Note 2):

	<u>2022</u>	<u>2021</u>
Money market funds	\$ 2,480,133	\$ 95,565
Mutual funds:		
Domestic equities	4,491,535	750,202
Fixed income	4,222,066	2,560,066
International equities	21,247	20,042
Commodities	<u>-</u>	<u>64,349</u>
	<u>\$ 11,214,981</u>	<u>\$ 3,490,224</u>

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

	<u>2022</u>	<u>2021</u>
Realized and unrealized gains (losses) on investments	\$ (413,202)	\$ 98,964
Investment income	164,000	28,628
Investment fees	<u>(11,055)</u>	<u>(10,076)</u>
Investment return (loss), net	<u>\$ (260,257)</u>	<u>\$ 117,516</u>

5. PROPERTY AND EQUIPMENT

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

	<u>2022</u>	<u>2021</u>
Office furniture and equipment	\$ 424,498	\$ 560,456
Computer equipment and software	457,385	360,320
Leasehold improvements	<u>263,142</u>	<u>313,322</u>
	1,145,025	1,234,098
Less - accumulated depreciation and amortization	<u>(858,638)</u>	<u>(903,215)</u>
Property and equipment, net	<u>\$ 286,387</u>	<u>\$ 330,883</u>

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Notes to Financial Statements
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6. LEASES

CEP had a five-year lease agreement for office space in Cambridge, Massachusetts that expired on December 31, 2022. During 2022, CEP entered into a four-year lease agreement for office space in Cambridge, Massachusetts through December 31, 2026. The terms of the lease require minimum monthly payments ranging from \$37,100 to \$39,050.

CEP has a lease agreement for office space in San Francisco, California that expires in November 2025. The terms of the lease required minimum monthly payments ranging from \$9,700 to \$21,017.

CEP had 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.

CEP leases two office equipment and certain plants and related containers under lease agreements that expires at various periods through October 2026. The aggregate monthly payments under the terms of these lease agreements are \$2,011.

CEP recorded rent on a straight-line basis over the terms of the lease in accordance with ASU *Topic 840, Leases*, through 2021. The difference between cash payments in the lease agreements and the related expense which aggregated to \$136,060 was recorded as deferred rent at December 31, 2021, in the accompanying statement of financial position.

The following is a schedule of future minimum lease payments in accordance with the lease agreements as of December 31, 2021:

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

The following summarizes lease costs and other information relative to operating leases as of and for the year ended December 31, 2022:

Lease Costs (included in rent and utilities expenses):	
Operating lease cost	\$ 801,571
Add - variable lease cost	28,269
Add - short-term costs	<u>40,835</u>
Total lease costs	<u>\$ 870,675</u>
Other Information:	
Cash paid for amounts included in measuring operating lease liabilities:	
Operating cash flows from operating leases	<u>\$ 769,083</u>
Lease assets obtained in exchange for lease obligations:	
Operating leases	<u>\$ 1,679,123</u>
Weighted-average remaining lease term (years)	3.57
Weighted-average discount rate	3.41%

THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

Notes to Financial Statements
December 31, 2022 and 2021

6. LEASES (Continued)

The maturities of lease liabilities as of December 31, 2022, are as follows:

<u>Year Ending December 31,</u>	
2023	\$ 712,238
2024	721,334
2025	700,328
2026	<u>471,166</u>
Total future undiscounted lease payments	2,605,066
Less - present value discount	<u>(160,733)</u>
Present value of lease liabilities	<u>\$ 2,444,333</u>

7. 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 7.5% and 3.25% at December 31, 2022 and 2021, respectively. As of December 31, 2022 and 2021, there were no amounts outstanding under this line. The line is secured by cash deposits held by the bank. The line of credit automatically renews annually unless terminated by the bank. The line of credit agreement contains certain administrative covenants with which CEP is required to comply. CEP was in compliance with these covenants at December 31, 2022 and 2021.

8. 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 \$313,491 and \$277,090 for the years ended December 31, 2022 and 2021, 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 \$20,500 and \$11,500 for the years ended December 31, 2022 and 2021, respectively. The 457(b) plan assets of approximately \$119,000 and \$113,000 are included in investments in the accompanying statements of financial position as of December 31, 2022 and 2021, respectively.

9. 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% of CEP's operating revenue and support was from one donor at December 31, 2021. No individual donor represented a significant portion of CEP's operating revenue and support at December 31, 2022.

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Notes to Financial Statements
December 31, 2022 and 2021

9. CONCENTRATIONS (Continued)

Approximately 51% and 86% of CEP's pledges receivable was due from three donors at December 31, 2022 and 2021, respectively.

10. EMPLOYEE RETENTION TAX CREDIT

The Employee Retention Tax Credit (ERTC) was first established by the Coronavirus Aid, Relief, and Economic Security Act (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 expected 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, 2022 and 2021, \$282,357 was outstanding and is included in pledges receivable in the accompanying statements of financial position. Eligibility for the credit and the credit calculations is 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, 2022 and 2021, and on the changes in its net assets for the years then ended.

11. 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, 2022 and 2021, are as follows:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 4,744,313	\$ 13,278,628
Accounts receivable	966,053	430,705
Current portion of pledges receivable	<u>1,815,126</u>	<u>1,559,857</u>
	7,525,492	15,269,190
Less - donor-imposed restrictions	<u>(2,043,016)</u>	<u>(695,645)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 5,482,476</u>	<u>\$ 14,573,545</u>

CEP has a goal to maintain, at minimum, financial assets available to meet six months of normal operating expenses. As of December 31, 2022 and 2021, CEP had financial assets equal to approximately five and seventeen months of operating expenses, respectively. CEP also has access to a \$1,000,000 line of credit (see Note 7) that can be drawn upon as needed to cover operating costs. In addition, there is approximately \$11,200,000 and \$3,500,000 of long-term investments available to CEP as of December 31, 2022 and 2021, respectively.

12. RECLASSIFICATION

Certain amounts in the 2021 financial statements have been reclassified to conform with the 2022 presentation.