



**THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.**

**FINANCIAL STATEMENTS  
DECEMBER 31, 2020 AND 2019**

**THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.**

Contents  
December 31, 2020 and 2019

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## Independent Auditor's Report

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of The Center for Effective Philanthropy, Inc. (a Massachusetts corporation, not for profit) which comprise the statement of financial position as of December 31, 2020, and the related statements of activities and changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Center for Effective Philanthropy, Inc. as of December 31, 2020, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Prior Period Financial Statements***

The financial statements of The Center for Effective Philanthropy, Inc. as of December 31, 2019, were audited by other auditors whose report dated July 2, 2020, expressed an unmodified opinion on those financial statements.

*AAFCPA, Inc.*

Boston, Massachusetts  
June 23, 2021

**THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.**

Statements of Financial Position  
December 31, 2020 and 2019

<b>Assets</b>	<b>2020</b>	<b>2019</b>
Current Assets:		
Cash and cash equivalents	\$ 4,178,457	\$ 3,965,333
Accounts receivable	448,521	543,348
Unbilled receivables	-	175,469
Current portion of pledges receivable	311,810	1,923,310
Prepaid expenses and other current assets	227,340	220,932
Total current assets	5,166,128	6,828,392
 Pledges Receivable, net	 160,000	 15,000
 Investments	 2,830,327	 2,411,403
 Security Deposits	 35,270	 35,270
 Property and Equipment, net	 270,213	 301,182
 Total assets	 \$ 8,461,938	 \$ 9,591,247
<b>Liabilities and Net Assets</b>		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 564,702	\$ 767,325
Current portion of deferred revenue	450,102	359,943
Total current liabilities	1,014,804	1,127,268
 Deferred Rent	 85,141	 33,100
 Deferred Revenue, net of current portion	 87,400	 -
 Deferred Compensation	 79,383	 59,361
 Total liabilities	 1,266,728	 1,219,729
 Net Assets:		
Without donor restrictions:		
Operating	1,841,738	1,448,193
Board designated funds for operations	3,141,324	2,748,749
Property and equipment	270,213	242,126
Total without donor restrictions	5,253,275	4,439,068
 With donor restrictions	 1,941,935	 3,932,450
Total net assets	7,195,210	8,371,518
 Total liabilities and net assets	 \$ 8,461,938	 \$ 9,591,247

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, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
<b>Operating Revenue and Support:</b>						
Earned revenue:						
Assessment and advisory services	\$ 2,585,490	\$ -	\$ 2,585,490	\$ 3,353,090	\$ -	\$ 3,353,090
YouthTruth	1,535,690	(258,500)	1,277,190	1,732,207	(389,992)	1,342,215
Investment return, net	94,345	-	94,345	220,740	-	220,740
Speaking engagement fees	27,821	-	27,821	21,500	-	21,500
CEP conference fees	-	-	-	514,685	-	514,685
Royalties	-	-	-	12,750	-	12,750
Total earned revenue	4,243,346	(258,500)	3,984,846	5,854,972	(389,992)	5,464,980
Support:						
Grants and contributions	2,049,503	2,335,816	4,385,319	1,231,565	4,794,050	6,025,615
Net assets released from restrictions	4,067,831	(4,067,831)	-	3,826,370	(3,826,370)	-
Total support	6,117,334	(1,732,015)	4,385,319	5,057,935	967,680	6,025,615
Total operating revenue and support	10,360,680	(1,990,515)	8,370,165	10,912,907	577,688	11,490,595
<b>Operating Expenses:</b>						
Program services	7,860,147	-	7,860,147	8,332,728	-	8,332,728
General and administrative	1,570,392	-	1,570,392	1,716,053	-	1,716,053
Fundraising	115,934	-	115,934	150,354	-	150,354
Total operating expenses	9,546,473	-	9,546,473	10,199,135	-	10,199,135
Changes in net assets	814,207	(1,990,515)	(1,176,308)	713,772	577,688	1,291,460
<b>ASC 606 Transition Adjustment at January 1, 2019</b>	-	-	-	(59,365)	-	(59,365)
<b>Net Assets:</b>						
Beginning of year	4,439,068	3,932,450	8,371,518	3,784,661	3,354,762	7,139,423
End of year	\$ 5,253,275	\$ 1,941,935	\$ 7,195,210	\$ 4,439,068	\$ 3,932,450	\$ 8,371,518

**THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.**

Statements of Cash Flows

For the Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>Cash Flows from Operating Activities:</b>		
Changes in net assets	\$ (1,176,308)	\$ 1,291,460
Adjustments to reconcile changes in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	144,516	123,376
Realized and unrealized gain on investments	(50,553)	(135,670)
Changes in operating assets and liabilities:		
Accounts receivable	94,827	585,628
Unbilled receivables	175,469	(175,469)
Pledges receivable	1,466,500	(759,015)
Prepaid expenses and other current assets	(6,408)	66,376
Accounts payable and accrued expenses	(143,567)	33,859
Deferred revenue	177,559	(145,707)
Deferred rent	52,041	33,100
Deferred compensation	20,022	16,926
	<u>754,098</u>	<u>934,864</u>
Net cash and cash equivalents provided by operating activities	<u>754,098</u>	<u>934,864</u>
<b>Cash Flows from Investing Activities:</b>		
Purchase of property and equipment	(172,603)	(94,835)
Proceeds from sale of investments	2,466,823	2,124,474
Purchase of investments	(2,835,194)	(2,359,867)
	<u>(540,974)</u>	<u>(330,228)</u>
Net cash and cash equivalents used in investing activities	<u>(540,974)</u>	<u>(330,228)</u>
<b>Net Change in Cash and Cash Equivalents</b>	213,124	604,636
<b>Cash and Cash Equivalents:</b>		
Beginning of year	<u>3,965,333</u>	<u>3,360,697</u>
End of year	<u>\$ 4,178,457</u>	<u>\$ 3,965,333</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Property and equipment purchases included in accounts payable	<u>\$ -</u>	<u>\$ 59,056</u>

**THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.**

Statements of Functional Expenses  
For the Years Ended December 31, 2020 and 2019

	2020				2019			
	Program Services	General and Admin- istrative	Fund- raising	Total	Program Services	General and Admin- istrative	Fund- raising	Total
<b>Personnel and Related:</b>								
Salaries	\$ 5,103,053	\$ 812,340	\$ 79,735	\$ 5,995,128	\$ 4,674,714	\$ 842,190	\$ 97,694	\$ 5,614,598
Fringe benefits	634,163	100,951	9,909	745,023	545,696	98,312	11,404	655,412
Payroll taxes	347,189	55,268	5,425	407,882	337,946	60,884	7,063	405,893
Total personnel and related	6,084,405	968,559	95,069	7,148,033	5,558,356	1,001,386	116,161	6,675,903
<b>Occupancy:</b>								
Rent	613,214	101,394	9,632	724,240	616,276	111,027	12,879	740,182
Telephone	72,229	11,498	1,129	84,856	58,665	10,569	1,226	70,460
Utilities	18,566	2,956	290	21,812	27,501	4,955	576	33,032
Total occupancy	704,009	115,848	11,051	830,908	702,442	126,551	14,681	843,674
<b>Other:</b>								
Professional and consulting fees	426,554	368,795	-	795,349	598,072	399,835	-	997,907
Computer expenses	223,885	35,640	3,498	263,023	200,972	36,206	4,200	241,378
Depreciation and amortization	123,012	19,582	1,922	144,516	102,723	18,506	2,147	123,376
Dues and subscriptions	110,458	17,584	1,726	129,768	139,260	25,089	2,910	167,259
Professional development	46,905	7,467	733	55,105	59,397	10,701	1,241	71,339
Travel	40,054	6,376	626	47,056	151,858	27,359	3,174	182,391
Equipment rental and maintenance	30,277	4,820	473	35,570	36,326	6,545	759	43,630
Office supplies	23,340	3,715	365	27,420	75,974	13,687	1,588	91,249
Meals	14,379	2,289	225	16,893	76,629	13,805	1,601	92,035
Insurance	-	16,086	-	16,086	-	15,470	-	15,470
CEP conference expenses	10,000	-	-	10,000	544,802	-	-	544,802
Advertising	7,184	1,144	112	8,440	3,385	6,044	167	9,596
Bank fees and miscellaneous	6,537	992	101	7,630	29,121	5,246	609	34,976
Postage and delivery	6,096	996	22	7,114	19,177	3,455	401	23,033
Printing	3,052	499	11	3,562	34,234	6,168	715	41,117
Total other	1,071,733	485,985	9,814	1,567,532	2,071,930	588,116	19,512	2,679,558
Total expenses	<u>\$ 7,860,147</u>	<u>\$ 1,570,392</u>	<u>\$ 115,934</u>	<u>\$ 9,546,473</u>	<u>\$ 8,332,728</u>	<u>\$ 1,716,053</u>	<u>\$ 150,354</u>	<u>\$ 10,199,135</u>

The accompanying notes are an integral part of these statements.



## THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

Notes to Financial Statements  
December 31, 2020 and 2019

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### 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's mission is to provide data and create insight so philanthropic funders can better define, assess and improve their effectiveness and, as a result, their intended impact. This mission is based on a vision of a world in which pressing social needs are more effectively addressed. It stems from a belief that improved effectiveness of philanthropic funders can have a profoundly positive impact on nonprofit organizations and the people and communities they serve. 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. CEP has offices in Cambridge, Massachusetts and San Francisco, California.

#### 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 on the accompanying statements of financial position.

#### Accounts Receivable and Unbilled Receivables

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. Amounts earned but not yet billed are included in unbilled receivables on the accompanying statements of financial position. 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, 2020 and 2019

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### 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 Accounts 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, 2020 and 2019.

#### 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, unless of a relatively minor amount, 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

Depreciation and amortization expense for the years ended December 31, 2020 and 2019, was \$144,516 and \$123,376, respectively.

#### 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 2020 and 2019.

## THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

Notes to Financial Statements  
December 31, 2020 and 2019

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### 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, 2020 and 2019, the Board of Directors approved transfers of \$392,575 and \$22,680, respectively, to Board designated funds for operations 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).

Net assets with donor restrictions at December 31, 2020 and 2019, are available for the following purposes:

	<u>2020</u>	<u>2019</u>
Subject to Program Restrictions:		
YouthTruth	\$ 1,055,435	\$ 1,443,998
Research and other	341,500	600,952
Subject to Time Restrictions	<u>545,000</u>	<u>1,887,500</u>
	<u>\$ 1,941,935</u>	<u>\$ 3,932,450</u>

During the years ended December 31, 2020 and 2019, net assets were released from restrictions for the following programs and purposes and other restrictions:

	<u>2020</u>	<u>2019</u>
Subject to Program Restrictions:		
Research and other	\$ 1,231,415	\$ 1,676,370
YouthTruth	258,500	389,992
Conference	-	270,000
Satisfaction of Time Restrictions	<u>2,836,416</u>	<u>1,880,000</u>
	<u>\$ 4,326,331</u>	<u>\$ 4,216,362</u>

## THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.

Notes to Financial Statements  
December 31, 2020 and 2019

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### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### Revenue Recognition

On January 1, 2019, CEP adopted ASC Topic 606, under the modified retrospective approach, which resulted in a change in the timing of revenue recognition for assessment and advisory services. The changes in revenue recognition resulted in an ASC 606 transition adjustment to opening net assets of \$59,365 which is included on the accompanying 2019 statement of activities and changes in net assets.

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 obligations, and 5) recognizing revenue when (or as) the performance obligations 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, YouthTruth, conference fees and speaking engagement 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 Conference Fees*

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

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

	<u>2020</u>	<u>2019</u>
Revenue recognized over time	\$ 3,862,680	\$ 4,695,305
Revenue recognized at a point in time	<u>27,821</u>	<u>548,935</u>
	<u>\$ 3,890,501</u>	<u>\$ 5,244,240</u>

**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) also is 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 \$258,500 and \$389,992 for the years ended December 31, 2020 and 2019, respectively, are included in earned revenue on 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, 2020 and 2019

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### 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 on the accompanying statements of financial position. Deferred revenue as of December 31, 2019, was recognized in 2020. The current portion of deferred revenue as of December 31, 2020, is expected to be recognized in 2021. Long-term deferred revenue as of December 31, 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 conference 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.

#### Advertising Expense

CEP's policy is to expense advertising costs as incurred. Advertising expense was \$8,440 and \$9,596 for the years ended December 31, 2020 and 2019, 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.

## 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Fair Value Measurements (Continued)

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, 2020 and 2019. 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 23, 2021, 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.

**THE CENTER FOR EFFECTIVE PHILANTHROPY, INC.**

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**3. PLEDGES RECEIVABLE**

Pledges receivable consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>
Amounts due in:		
Less than one year	\$ 311,810	\$ 1,923,310
One to three years	<u>160,000</u>	<u>15,000</u>
	471,810	1,938,310
Less - current portion	<u>311,810</u>	<u>1,923,310</u>
Long-term pledges receivable, net	<u>\$ 160,000</u>	<u>\$ 15,000</u>

**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 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 long-term on the accompanying statements of financial position as of December 31, 2020 and 2019, as management does not intend to utilize investment returns to meet operating needs.

Unrealized gains or losses on investments are reflected on 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, 2020 and 2019, all of which are valued using Level 1 inputs (see Note 2):

	<u>2020</u>	<u>2019</u>
Money market funds	\$ 466,820	\$ 329,103
Mutual funds:		
Fixed income	1,651,021	1,332,589
Domestic equities	635,423	479,348
Commodities	62,097	110,405
International equities	<u>14,966</u>	<u>159,958</u>
	<u>\$ 2,830,327</u>	<u>\$ 2,411,403</u>

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

	<u>2020</u>	<u>2019</u>
Realized and unrealized gains on investments	\$ 50,553	\$ 135,670
Investment income	52,325	92,891
Investment fees	<u>(8,533)</u>	<u>(7,821)</u>
Net return, net	<u>\$ 94,345</u>	<u>\$ 220,740</u>



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### 5. PROPERTY AND EQUIPMENT

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

	<u>2020</u>	<u>2019</u>
Office furniture and equipment	\$ 382,169	\$ 231,968
Computer equipment and software	329,040	270,720
Leasehold improvements	313,322	313,322
Assets not yet placed in service	<u>-</u>	<u>131,233</u>
	1,024,531	947,243
Less - accumulated depreciation and amortization	<u>(754,318)</u>	<u>(646,061)</u>
	<u>\$ 270,213</u>	<u>\$ 301,182</u>

As of December 31, 2019, assets not yet placed in service represented costs incurred for CEP's new website which was placed in service during 2020.

### 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% and 4.75% at December 31, 2020 and 2019, respectively. As of December 31, 2020 and 2019, 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.

### 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 \$248,370 and \$227,335 for the years ended December 31, 2020 and 2019, respectively.

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 \$5,250 and \$5,000 for the years ended December 31, 2020 and 2019, respectively. The 457(b) plan assets of approximately \$79,400 and \$59,300 are included in investments on the accompanying statements of financial position as of December 31, 2020 and 2019, 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 26% and 27% of CEP's operating revenue and support was from two and three donors at December 31, 2020 and 2019, respectively.

Approximately 97% and 57% of CEP's pledges receivable was due from four and two donors at December 31, 2020 and 2019, respectively.

Approximately 18% of CEP's accounts receivable was due from one donor as of December 31, 2019.

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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 \$85,141 and \$33,100 being recorded as deferred rent as of December 31, 2020 and 2019, respectively, on the accompanying statements of financial position.

Rent expense under these lease agreements totaled \$724,240 and \$740,182 for the years ended December 31, 2020 and 2019, 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>
2021	\$ 655,884
2022	\$ 746,134
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 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 grant and contribution revenue on the accompanying 2020 statement of activities and changes in net assets.

### 11. CONTINGENCY

During 2020, COVID-19 was recognized as a global pandemic. The impact of COVID-19 on CEP's future operations and the demand for its services will depend upon, among other things, the duration, spread and intensity of the pandemic, related government responses, such as required physical distancing, restrictions on business operations and travel, the pace of recovery of economic activity, and the impact to consumers, all of which are uncertain and impossible to predict. The financial impact to CEP cannot be reasonably estimated at this time.

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### 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, 2020 and 2019, are as follows:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 4,178,457	\$ 3,965,333
Accounts receivable	448,521	543,348
Current portion of pledges receivable	311,810	1,923,310
Unbilled receivables	-	175,469
	<u>4,938,788</u>	<u>6,607,460</u>
Less - donor-imposed restrictions	<u>(1,396,935)</u>	<u>(2,044,950)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 3,541,853</u>	<u>\$ 4,562,510</u>

CEP has a goal to maintain, at minimum, financial assets available to meet six months of normal operating expenses. As of December 31, 2020 and 2019, CEP had financial assets equal to approximately five months of operating expenses. 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 \$2,830,000 and \$2,411,000 of long-term investments available to CEP as of December 31, 2020 and 2019, respectively.

### 13. RECLASSIFICATION

Certain amounts in 2019 financial statements have been reclassified to conform with 2020 presentation.