HARRIS
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Financial Statements

Center for Applied Rationality Inc.
(a nonprofit organization)
Years Ended December 31, 2018 and 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Center for Applied Rationality
Berkeley, California

Report on the Financial Statements

We have audited the accompanying financial statements of Center for Applied Rationality. (a nonprofit organization), which comprise the statement of financial position as of December 31, 2018 and the related statements of activities, functional expenses and cash flows 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 audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform our audits to obtain reasonable assurance about whether the financial statements are free of 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 risk 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 Center for Applied Rationality as of December 31, 2018 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.

Report on Summarized Comparative Information

We have previously audited the Center for Applied Rationality's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 4, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Harris CPAs

Meridian, Idaho
June 14, 2019

CENTER FOR APPLIED RATIONALITY
STATEMENTS OF FINANCIAL POSITION
December 31, 2018
With Comparative Totals as of December 31, 2017

	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,136,425	$ 1,147,742
Grants and pledges receivable	783,518	0
Prepaid expenses	3,795	2,798
Total Current Assets	1,923,738	1,150,540
Property and Equipment, net	1,705,100	0
Total Assets	$ 3,628,838	$ 1,150,540
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable	$ 24,244	$ 17,870
Accrued expenses	4,447	650
Current portion of long-term debt	12,893	0
Total Current Liabilities	41,584	18,520
Long-Term Debt		
Mortgage payable	925,952	0
Total Liabilities	967,536	18,520
Net Assets		
Without donor restrictions	1,231,699	926,620
With donor restrictions	1,429,603	205,400
Total Net Assets	2,661,302	1,132,020
Total Liabilities and Net Assets	$ 3,628,838	$ 1,150,540

See notes to financial statements.

CENTER FOR APPLIED RATIONALITY
STATEMENTS OF ACTIVITIES
For the Year Ended December 31, 2018
With Comparative Totals for the Year Ended December 31, 2017

	Without Donor Restrictions	With Donor Restrictions	2018 Total	2017 Total
Revenues and Other Support				
Grants and contracts	$ 1,774,043	$ 1,749,483	$ 3,523,526	$ 378,150
Contributions	195,139		195,139	1,414,603
Program income	140,171		140,171	306,313
Other income	55,059		55,059	9,628
	2,164,412	1,749,483	3,913,895	2,108,694
Net assets released from restrictions	525,280	(525,280)	0	0
Total Revenue and Other Support	2,689,692	1,224,203	3,913,895	2,108,694
Expenses				
Program Services				
Specialized programs	814,987	0	814,987	629,957
Workshops	792,979		792,979	536,005
Research and training	371,026		371,026	278,510
Total Program Services	1,978,992	0	1,978,992	1,444,472
Supporting Services				
Administration	405,621		405,621	355,699
Total Expenses	2,384,613	0	2,384,613	1,800,171
Change in Net Assets	305,079	1,224,203	1,529,282	308,523
Net Assets				
Beginning of Year	926,620	205,400	1,132,020	823,497
End of Year	$ 1,231,699	$ 1,429,603	$ 2,661,302	$ 1,132,020

See notes to financial statements.

CENTER FOR APPLIED RATIONALITY
STATEMENTS OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2018
With Comparative Totals for the Year Ended December 31, 2017

	Specialized Programs	Workshops	Research and Training	General and Administrative	2018 Total	2017 Total
Salaries and wages	$ 167,896	$ 176,321	$ 173,180	$ 173,486	$ 690,883	$ 516,786
Venue and Lodging	236,828	44,611	18,650	1,250	301,339	565,477
Food and Meals	22,903	131,524	13,825	50,506	218,758	168,238
Contractors	118,819	33,138	23,477	14,771	190,205	93,817
Program fees	37,364	55,247	56,567		149,178	69,289
Maintenance and improvements		140,542		8,193	148,735	2,361
Transportation	75,332	46,163	17,487	5,925	144,906	73,961
Rent and Parking	52,247	27,497	27,497	27,550	134,792	86,249
Employee benefits	10,905	23,327	23,327	24,453	82,011	58,279
Payroll taxes	13,175	14,153	13,705	14,712	55,744	44,372
Professional fees	7,950			45,143	53,093	25,858
Supplies	24,912	15,696	2,384	8,191	51,184	51,332
Software and internet fees	36,998			10,476	47,474	9,568
Interest		36,667			36,667	0
Depreciation		28,900			28,900	0
Insurance	8,827			8,881	17,708	8,701
Other expenses	831	19,193	927	12,085	33,036	25,883
Total Expenses	$ 814,987	$ 792,979	$ 371,026	$ 405,621	$ 2,384,613	$ 1,800,171

See notes to financial statements.

CENTER FOR APPLIED RATIONALITY
STATEMENTS OF CASH FLOWS
For the Year Ended December 31, 2018
With Comparative Totals for the Year Ended December 31, 2017

	2018	2017
Cash Flow From Operating Activities		
Change in net assets	$ 1,529,282	$ 308,523
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation expense	28,900	0
Changes in operating assets and liabilities:		
Grants and pledges receivable	(783,518)	0
Prepaid expense	(997)	193
Accounts payable and accrued liabilities	10,171	18,315
Net Cash Provided (Used) by Operating Activities	783,838	327,031
Cash Flow From Investing Activities		
Purchase of building	(784,000)	0
Cash Flow From Financing Activities		
Repayment of long-term debt	(11,155)	0
Net Change in Cash and Cash Equivalents	(11,317)	327,031
Cash and Cash Equivalents		
Beginning of Year	1,147,742	820,711
End of Year	$ 1,136,425	$ 1,147,742
Supplemental Disclosure of Cash Flow Information		
Cash paid for interest	$ 36,667	$ 0
Noncash investing and financing activities:		
Purchase of building with debt	$ 950,000	$ 0

See notes to financial statements.

Note A – Summary of Significant Accounting Policies

Nature of Organization

Center for Applied Rationality, (the Organization) is a California nonprofit corporation. The specific purpose of the organization is to educate others in the field of cognitive science in service of a flourishing future.

Major Programs

The organization provides workshops as their primary avenue for teaching rationality content in general, as well as specific workshops dedicated to teach rationality to talented programmers for the sake of improving cognitive skills and career advice in the AI safety field. The organization holds a summer program, SPARC, that helps talented high school students apply quantitative thinking skills to their lives and the world. The European Summer Program on Rationality (ESPR) is an immersive summer workshop for mathematically talented students with a desire to understand themselves and the world. The organization hosts a community blog and forum, LessWrong, to engage in the discussion of cognitive biases, philosophy, psychology, economics, rationality, and AI, among other topics.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation

The Organization reports net assets and revenues, expenses, gains and losses are classified according to two classes of net assets: with donor restrictions and without donor restrictions. Net assets without donor restrictions are available for use at the discretion of the Board of Directors and/or management for general operating purposes. Net asset with donor restrictions consist of assets whose use is limited by donor-imposed, time and/or purpose restrictions.

Accounting Pronouncements Adopted

For the year ended December 31, 2018, the Organization adopted Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance and cash flows.

Note A – Summary of Significant Accounting Policies (Continued)

Accounting Pronouncements Adopted (Continued)

Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. This guidance also enhances disclosures for board designated amounts, composition of net assets without donor restrictions, liquidity and expenses by both their natural and functional classification.

Implementation of the new standard did not require reclassification or restatement of any opening balances related to the prior period. Net assets presented as temporary or permanently restricted assets are now reported as net assets with donor restrictions. Net assets reported as unrestricted are now reported as net assets without donor restrictions.

Use of Estimates

The Organization uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all short-term investments purchased with maturity of three months or less to be cash equivalents.

Concentration of Credit Risk and Income

Financial instruments that potentially subject the Organization to significant concentrations of credit risk consist of cash and investments. Accounts at these financial institutions are insured by the Federal Deposit Insurance Corporation for up to $250,000. At December 31, 2018 and 2017 the Organization had an uninsured cash balance of $714,657 and $202,316, respectively. For the years ended December 31, 2018 and 2017, the Organization had 2 donors that comprised 54% and 43, respectively, of total income.

Note A – Summary of Significant Accounting Policies (Continued)

Fair Value

The Organization uses fair value reporting for financial assets and liabilities. A hierarchy for reporting the reliability of input measurements used to assess fair value for all assets and liabilities. Fair value is defined as the selling price that would be received for an asset, or paid to transfer a liability, in the principal or most advantageous market on the measurement date. The hierarchy established, prioritizes fair value measurements based on the types of inputs used in the valuation technique. Certain financial instruments are carried at cost on the balance sheet, which approximates fair value due to their short term, highly liquid nature.

Property and Equipment

Property is stated at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets, which is forty years.

Contributions and Donor Imposed Restrictions

Contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted by the donor for specific purposes are reported as contributions with donor restrictions that increases that net asset class. When donor restrictions expire, that is, when a time restriction ends and/or a purpose restriction is fulfilled, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restriction.

Functional Allocation of Expenses

The costs of providing the program have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited. Certain categories of expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are salaries and wages, benefits, payroll taxes, and rent and parking, which are allocated based on the time spent by each employee on each respective program or supporting function. Depreciation, maintenance and improvements, and loan interest are one-hundred percent allocated to workshops, as they are related to a building solely used for hosting workshop seminars. Insurance is allocated based on the specific coverage on individual policies. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Note A – Summary of Significant Accounting Policies (Continued)

Advertising

The Organization expenses advertising as costs are incurred. Advertising expenses totaled $75 and $1,249 for the years ended December 31, 2018 and 2017 respectively.

Income Taxes

The Organization is a nonprofit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and comparable state law. Accordingly, no provision for income taxes is made in the financial statements.

Uncertain Tax Positions

The accounting standard on accounting for uncertainty in income taxes addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of that position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for fiscal years 2018 or 2017. The Organization files Form 990 in the U.S. federal jurisdiction. The Organization is generally no longer subject to examination by the Internal Revenue Service for years before 2015.

Presentation of Certain Taxes

The Organization collects various taxes from customers and remits these amounts to applicable taxing authorities. The Organization's accounting policy is to exclude these taxes from income and program expenses.

Subsequent Events

The Organization has evaluated subsequent events through June 14, 2019, which is the date the financial statements were available to be issued.

Note B – Liquidity and Availability of Resources

The Organization's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

Cash and cash equivalents	$	1,136,425
Grants receivable		783,518
Total financial assets available within one year		1,919,943
Less amounts unavailable for general expenditures within one year, due to:		
Restricted by donors with purpose restrictions		(1,429,603)
Total financial assets available within one year after restriction	$	490,340

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. At December 31, 2018, all net assets with donor restrictions are available for payment of any major expenditures incurred, except for grants receivable which are available when the receivable is collected which is expected within the next year and the expenditure is incurred.

Note C – Grants and Pledges Receivable

Approximately 99% of gross receivables at December 31, 2018 were made up of two grants. These grants represent 64% and 35% of gross accounts receivable at December 31, 2018.

Components of accounts receivable as of December 31, 2018 are as follows:

		2018
Pledges receivable	$	3,518
Grant receivable – Open Philanthropy Project		500,000
Grant receivable – Silicon Valley Community Foundation		280,000
	$	783,518

Note D – Property and Equipment

At December 31, property and equipment consisted of the following:

	2018	2017
Building	$ 1,734,000	$ 0
Less accumulated depreciation	28,900	0
Property and Equipment, net	$ 1,705,100	$ 0

Note E – Long-Term Debt

At December 31, long-term debt consisted of the following:

	2018	2017
Mortgage payable to bank, secured by a building. Payable in monthly installments of $5,503, including interest at 5.6%. Matures in October 2028.	$ 938,845	$ 0
Less current portion	(12,893)	0
	$ 925,952	$ 0

Future maturities for the years then ended December 31,

2019	$ 12,893
2020	13,494
2021	14,431
2022	15,272
2023	15,754
Thereafter	867,001
	$ 938,845

Note F – Net Assets

The detail of the Organization's net asset categories at December 31, is as follows:

	2018	2017
Without donor restrictions		
Funds restricted for use in SPARC program	$ 465,444	926,620
Invested in property and equipment	766,255	0
Total without donor restrictions	$ 1,231,699	$ 926,620
With donor restrictions:		
Funds restricted for use in ESPR program	$ 84,948	$ 99,795
Funds restricted for use in LessWrong2.0 program	302,641	22,976
Funds restricted for use in SPARC program	542,014	82,629
Funds restricted for use in a future period	500,000	0
Total with donor restrictions	1,429,603	205,400
Total net assets	$ 2,661,302	$ 1,132,020

Note G – Operating Lease

The Organization had one active operating lease during 2018 for rented office space. Rent expense for the year ended December 31, 2018 from the operating lease totaled $92,158. This operating lease expires in November 2020. The total future minimum payments due under the lease is $276,715.