

Animal Welfare Institute

Financial Statements (Together with Independent Auditors' Report)

June 30, 2018 and 2017

MARKS PANETH

ACCOUNTANTS & ADVISORS

Animal Welfare Institute
FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)
June 30, 2018 and 2017

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MARKS PANETH

ACCOUNTANTS & ADVISORS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Animal Welfare Institute
Washington, DC

We have audited the accompanying financial statements of Animal Welfare Institute, which comprise the statements of financial position as of June 30, 2018 and 2017, 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.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Animal Welfare Institute as of June 30, 2018 and 2017 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.



November 12, 2018
Purchase, New York



Morison KSi
Independent member

ANIMAL WELFARE INSTITUTE
STATEMENTS OF FINANCIAL POSITION

	June 30,	
	2018	2017
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents (including \$1,276,412 and \$724,460 in money market funds in 2018 and 2017, respectively)	\$ 3,929,315	\$ 3,004,681
Contributions and accounts receivable	45,086	45,809
Investment in securities	5,894,684	5,372,191
Prepaid expenses	18,797	12,038
TOTAL CURRENT ASSETS	9,887,882	8,434,719
FIXED ASSETS	4,932,612	4,953,193
INTANGIBLE ASSET - WEBSITE COST	60,300	-
TOTAL ASSETS	\$ 14,880,794	\$ 13,387,912
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 57,403	\$ 12,418
TENANT SECURITY PAYABLE	12,950	8,050
NET ASSETS:		
Unrestricted	14,670,801	13,192,135
Temporarily restricted	39,640	75,309
Permanently restricted	100,000	100,000
TOTAL NET ASSETS	14,810,441	13,367,444
TOTAL LIABILITIES AND NET ASSETS	\$ 14,880,794	\$ 13,387,912

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

ANIMAL WELFARE INSTITUTE

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	Years Ended June 30,	
	2018	2017
CHANGES IN UNRESTRICTED NET ASSETS:		
REVENUES:		
Contributions - Foundations and trusts	\$ 884,676	\$ 569,587
- Legacies and bequests	1,689,810	1,874,260
- Memberships and other	1,826,225	1,511,840
Tenants net rental income	66,605	78,000
Sale of publications and reports	1,627	1,388
Dividend income	90,461	95,374
Interest income	19,785	1,156
Realized and unrealized gain on securities	444,180	556,029
	<u>5,023,369</u>	<u>4,687,634</u>
NET ASSETS RELEASED FROM RESTRICTIONS:		
Satisfaction of program restrictions:		
Roger L. Stevens Publication Fund	35,669	28,144
Total net assets released from restrictions	<u>35,669</u>	<u>28,144</u>
Total unrestricted revenues and other support	<u>5,059,038</u>	<u>4,715,778</u>
EXPENSES:		
Program services	3,264,109	2,457,481
Management and general	261,446	229,117
Fundraising	54,816	50,711
Total expenses	<u>3,580,372</u>	<u>2,737,309</u>
Increase in unrestricted net assets	<u>1,478,666</u>	<u>1,978,469</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Net assets released from restrictions	<u>(35,669)</u>	<u>(28,144)</u>
Decrease in temporarily restricted net assets	<u>(35,669)</u>	<u>(28,144)</u>
INCREASE IN NET ASSETS	<u>1,442,997</u>	<u>1,950,325</u>
NET ASSETS - beginning of year	<u>13,367,444</u>	<u>11,417,119</u>
NET ASSETS - end of year	<u>\$ 14,810,441</u>	<u>\$ 13,367,444</u>

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

ANIMAL WELFARE INSTITUTE
STATEMENTS OF CASH FLOWS

	Years Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 1,442,997	\$ 1,950,325
Adjustments to reconcile change in net assets to net cash provided by:		
Depreciation and amortization expense	106,270	92,368
Realized and unrealized gain on securities	(444,180)	(556,029)
Changes in assets and liabilities:		
Decrease (Increase) in contributions and accounts receivable	723	(12,479)
Decrease (Increase) in prepaid expenses	(6,759)	5,445
Increase in accounts payable and accrued expenses	44,985	3,198
Increase in tenant security deposit	4,900	552
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,148,936	1,483,380
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of building improvements	(94,210)	(69,530)
Purchase of intangibles assets	(72,360)	-
Proceeds from sale of securities	2,358,450	1,943,295
Purchase of securities	(2,416,182)	(2,592,065)
NET CASH (USED IN) INVESTING ACTIVITIES	(224,302)	(718,300)
INCREASE IN CASH AND CASH EQUIVALENTS	924,634	765,080
CASH AND CASH EQUIVALENTS - beginning of year	3,004,681	2,239,601
CASH AND CASH EQUIVALENTS - end of year	\$ 3,929,315	\$ 3,004,681

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

ANIMAL WELFARE INSTITUTE

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2018

	Program Services	Management and General	Fund Raising	Total
Salaries	\$ 1,350,255	\$ 92,772	\$ 29,559	\$ 1,472,587
Payroll taxes and unemployment insurance	105,148	7,223	2,293	114,663
Employee benefits	111,053	11,638	2,425	125,117
Retirement plan	30,786	4,362	671	35,819
Advertising	52,840	240	2,950	56,030
Animal Welfare Institute Quarterlies	187,072	-	3,066	190,138
Printing and publications (except for Quarterlies)	115,954	271	7,804	124,028
Research, writing and editing	19,547	-	-	19,547
Grants	632,542	-	-	632,542
Conferences, meetings and travel	140,741	1,903	7	142,652
Postage, mailing and addressing costs (except for Quarterlies)	40,197	195	1,140	41,533
Telephone, duplicating and office supplies	59,678	18,449	326	78,453
Professional services	68,840	25,375	-	94,216
Membership and subscriptions	17,730	9,001	507	27,237
Consultants	166,299	-	-	166,299
Internet services	19,673	-	-	19,673
Schweitzer Award	25,520	-	-	25,520
Occupancy costs	61,936	30,651	638	93,225
Bank and investment fees	-	52,507	-	52,507
Total expenses before depreciation and amortization	3,205,811	254,587	51,387	3,511,786
Depreciation and amortization	58,298	6,859	3,429	68,586
Total expenses	<u>\$ 3,264,109</u>	<u>\$ 261,446</u>	<u>\$ 54,816</u>	<u>\$ 3,580,372</u>

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

ANIMAL WELFARE INSTITUTE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017

	Program Services	Management and General	Fund Raising	Total
Salaries	\$ 1,144,095	\$ 77,365	\$ 22,507	\$ 1,243,967
Payroll taxes and unemployment insurance	89,030	6,048	1,690	96,768
Employee benefits	131,952	13,178	2,354	147,484
Retirement plan	25,974	1,762	485	28,221
Advertising	1,664	180	9,683	11,527
Animal Welfare Institute Quarterlies	192,029	-	1,787	193,816
Printing and publications (except for Quarterlies)	89,645	384	5,566	95,595
Research, writing and editing	14,787	-	-	14,787
Grants	141,689	-	-	141,689
Conferences, meetings and travel	100,720	1,144	100	101,964
Postage, mailing and addressing costs (except for Quarterlies)	27,651	89	1,676	29,416
Telephone, duplicating and office supplies	54,600	46,258	130	100,988
Professional services	86,954	28,624	-	115,578
Membership and subscriptions	26,850	3,700	1,239	31,789
Consultants	202,466	-	-	202,466
Internet services	18,060	-	-	18,060
Occupancy costs	59,882	1,949	550	62,381
Bank and investment fees	-	39,512	-	39,512
Miscellaneous	116	3,122	43	3,281
Total expenses before depreciation	2,408,164	223,315	47,810	2,679,289
Depreciation	49,317	5,802	2,901	58,020
Total expenses	\$ 2,457,481	\$ 229,117	\$ 50,711	\$ 2,737,309

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

**ANIMAL WELFARE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Animal Welfare Institute ("AWI" or the "Organization") is a nonprofit organization incorporated in 1951 under the laws of Delaware. The general objective of AWI is to reduce animal suffering caused by people.

The Organization has received a determination letter from the Internal Revenue Service that it is exempt from federal income tax, pursuant to Section 501(c)(3) of the Internal Revenue Code.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting and Use of Estimates

The accompanying financial statements of the Organization have been prepared on the accrual basis of accounting and conform to accounting principles generally accepted in the United States of America.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities, revenues, and expenses, as well as the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results may differ from those estimates.

B. Basis of Presentation

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 958-210, the Organization is required to report information regarding its financial position and activities according to three classes of net assets.

- Unrestricted - represents resources available for support of the Organization's operations over which the Board of Directors has discretionary control.
- Temporarily Restricted - represents contributions and other inflows of assets that are subject to donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reported in the statements of activities and changes in net assets as net assets released from restrictions.
- Permanently Restricted - represents those resources subject to donor-imposed stipulations that they be maintained intact in perpetuity. The donor permits the use of all the income on related investments and the net capital appreciation thereon, for restricted purpose.

C. Cash and Cash Equivalents

The Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

**ANIMAL WELFARE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Investments

Investments are carried at fair value. Unrealized gains and losses are recognized as changes in net assets in the period in which they occur and investment income is recognized as revenue in the period earned. Fair value measurements are based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, a fair value hierarchy provides observable and unobservable inputs used to measure fair value into three levels as described in Note 3.

E. Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line basis over the estimated useful lives of the related assets. Fixed assets are capitalized by AWI for all items \$1,000 or more and its useful life is greater than one year.

F. Contributions and Grants

Contributions are considered available for unrestricted use, unless the donor restricts the use thereof, either on a temporary or permanent basis.

G. Revenue Recognition

The Organization reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires by the passage of time or its restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities and changes in net assets as net assets released from restrictions. Donor restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted revenues and support.

H. Functional Allocation of Expenses

The costs of providing various programs and supporting services have been summarized on a functional basis in the accompanying statements of activities. Accordingly, expenses have been allocated among the programs and supporting services using appropriate measurement methodologies developed by management.

I. Income Taxes

The Organization follows FASB ASC Topic 740, which provides standards for establishing and classifying any tax provisions for uncertain tax positions.

J. Concentration of Credit Risk

Financial instruments that potentially subject the Organization to a concentration of credit risk include cash accounts with banks that may exceed the Federal Deposit Insurance Corporation ("FDIC") insurance limit amount of \$250,000 per depositor.

The Organization had insured cash accounts that exceeded the FDIC insurance limit for the years ended 2018 and 2017 by approximately \$2,752,500 and \$1,750,000, respectively.

**ANIMAL WELFARE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 3 - INVESTMENTS

Fair Value Measurements

	Quoted Prices in Active Markets for Identical Assets (Level 1)	
	June 30, 2018	June 30, 2017
Stocks	\$ 3,580,659	\$ 2,975,872
Mutual Funds	1,877,726	1,957,657
	5,458,385	4,933,529
	(Level 2)	
U.S Treasury Notes and Bills	339,544	343,458
Corporate Bonds	96,755	95,204
	\$ 436,299	\$ 438,662
	\$ 5,894,684	\$ 5,372,191

FASB ASC 820-10 established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels:

Level 1: Valuations based on quoted prices (unadjusted) in an active market area that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Valuations based on observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in inactive markets; or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated with observable market data.

Level 3: Valuations based on unobservable inputs are used when little or no market data is available. The fair value hierarchy gives lowest priority to Level 3 inputs.

Equity Securities

Equity securities are valued at the closing price reported on the active market on which the individual securities are traded.

Mutual Funds

Mutual funds are valued at the daily closing price as reported by the fund. Mutual funds held by the Organization are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily NAV and to transact at that price.

**ANIMAL WELFARE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 3 – INVESTMENTS (CONTINUED)

U.S. Government Securities

U.S. government securities are valued using pricing models maximizing the use of observable inputs for similar securities.

Corporate Bonds

Corporate bonds are valued using pricing models maximizing the use of observable inputs for similar securities. This includes basing value on yields currently available on comparable securities of issuers with similar credit ratings.

NOTE 4 – FIXED ASSETS

Estimated useful lives and accumulated depreciation consists of the following:

	Estimated Useful Lives	June 30,	
		2018	2017
Land, building and improvements	10-40	5,767,353	\$ 5,693,724
Less: Accumulated depreciation		(834,741)	(740,531)
		\$ 4,932,612	\$ 4,953,193

NOTE 5 – CONCENTRATIONS

AWI received approximately 23% of its total contributions from three contributors in 2018 and 45% of its total contributions from four contributors in 2017.

	Number of Contributors	2018		Number of Contributors	2017	
Foundation	1	\$	400,000	1	\$	400,000
Bequest	2	\$	576,294	3	\$	1,391,554

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	June 30,	
	2018	2017
Roger L. Stevens Publications Fund	\$ 19,140	\$ 54,809
Marine Mammals	20,500	20,500
	\$ 39,640	\$ 75,309

**ANIMAL WELFARE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017**

NOTE 7 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets of \$100,000 in both 2018 and 2017 are restricted in perpetuity, the income from which is expendable to support the operations of AWI.

Delaware enacted the Uniform Prudent Management of Institutional Funds Act (UPMIFA), the provisions of which apply to endowment funds existing on or established after that date. Based on its interpretation of the provisions of UPMIFA, AWI is required to act prudently when making decisions to spend or accumulate donor restricted endowment assets and in doing so to consider a number of factors including the duration and preservation of its donor restricted endowment funds. As a result of this interpretation, AWI classifies as permanently restricted net assets the original value of gifts donated to be held in perpetuity. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by AWI in a manner consistent with the standard of prudence prescribed by UPMIFA.

NOTE 8 – 401(k) PLAN

AWI has a 401(k) plan that covers substantially all employees. Contributions are made to the plan at the discretion of management. AWI contributed \$35,819 and \$28,221 to the plan for the years ended June 30, 2018 and 2017, respectively.

NOTE 9 – TENANT NET RENTAL INCOME

Tenant net rental income consists of:

	<u>2018</u>	<u>2017</u>
Rental income	\$ 104,289	\$ 112,348
Depreciation	<u>(37,684)</u>	<u>(34,348)</u>
Net rental income	<u>\$ 66,605</u>	<u>\$ 78,000</u>

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated events subsequent to the date of the financial statements through November 12, 2018, the date the financials were available to be issued.