

Animal Welfare Institute

Financial Statements
(Together with Independent Auditors' Report)

June 30, 2017 and 2016

M A R K S P A N E T H

ACCOUNTANTS & ADVISORS

Animal Welfare Institute
FINANCIAL STATEMENTS
(Together with Independent Auditors' Report)
June 30, 2017 and 2016

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M A R K S P A N E T H
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, 2017 and 2016, 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 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 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, 2017 and 2016 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.

Marks Paneth LLP

October 20, 2017
Purchase, New York

ANIMAL WELFARE INSTITUTE
STATEMENTS OF FINANCIAL POSITION

	June 30,	
	2017	2016
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash and cash equivalents (including \$724,460 and \$674,589 in money market funds in 2017 and 2016, respectively)	\$ 3,004,681	\$ 2,239,601
Contributions and accounts receivable	45,809	33,330
Investment in securities	5,372,191	4,167,392
Prepaid insurance	12,038	17,483
TOTAL CURRENT ASSETS	8,434,719	6,457,806
FIXED ASSETS	4,953,193	4,976,031
TOTAL ASSETS	\$ 13,387,912	\$ 11,433,837
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 12,418	\$ 9,220
TENANT SECURITY PAYABLE	8,050	7,498
NET ASSETS:		
Unrestricted	13,192,135	11,213,666
Temporarily restricted	75,309	103,453
Permanently restricted	100,000	100,000
TOTAL NET ASSETS	13,367,444	11,417,119
TOTAL LIABILITIES AND NET ASSETS	\$ 13,387,912	\$ 11,433,837

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

ANIMAL WELFARE INSTITUTE

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

	Year Ended June 30,	
	<u>2017</u>	<u>2016</u>
CHANGES IN UNRESTRICTED NET ASSETS:		
REVENUES:		
Contributions - Foundations and trusts	\$ 569,587	\$ 437,400
- Legacies and bequests	1,874,260	1,669,138
- Memberships and other	1,511,840	1,146,068
Tenants net rental income	78,000	92,048
Sale of publications and reports	1,388	1,598
Dividend income	95,374	136,472
Interest income	1,156	17,244
Realized and unrealized gain (loss) on securities	556,029	(297,358)
Gain on sale of building	-	283,199
	<u>4,687,634</u>	<u>3,485,809</u>
NET ASSETS RELEASED FROM RESTRICTIONS:		
Satisfaction of program restrictions:		
Roger L Stevens Publication Fund	28,144	84,913
Bosnian Stray Dogs	-	2,085
Marine mammals	-	5,200
Total net assets released from restrictions	<u>28,144</u>	<u>92,198</u>
Total unrestricted revenues and other support	<u>4,715,778</u>	<u>3,578,007</u>
EXPENSES:		
Program service	2,457,481	2,802,772
Management and general	229,117	193,465
Fundraising	50,711	58,631
Total expenses	<u>2,737,309</u>	<u>3,054,868</u>
Increase in unrestricted net assets	<u>1,978,469</u>	<u>523,139</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Grants and contributions	-	25,700
Net assets released from restrictions	<u>(28,144)</u>	<u>(92,198)</u>
Decrease in temporarily restricted net assets	<u>(28,144)</u>	<u>(66,498)</u>
INCREASE IN NET ASSETS	1,950,325	456,641
NET ASSETS - beginning of year	<u>11,417,119</u>	<u>10,960,478</u>
NET ASSETS - end of year	<u>\$ 13,367,444</u>	<u>\$ 11,417,119</u>

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

ANIMAL WELFARE INSTITUTE
STATEMENTS OF CASH FLOWS

	June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase in net assets	\$ 1,950,325	\$ 456,641
Adjustments to reconcile change in net assets to net cash used in:		
Depreciation expense	92,368	85,871
Gain on sale	-	(283,199)
Realized and unrealized (gain) on securities	(556,029)	(29,685)
Changes in assets and liabilities:		
Decrease in contributions and accounts receivable	(12,479)	(3,917)
(Decrease) increase in prepaid expense	5,445	(1,095)
Increase (decrease) in accounts payable and accrued expenses	3,198	(23,032)
Increase (decrease) in tenant security deposit	552	(1,502)
NET CASH PROVIDED BY OPERATING ACTIVITIES	1,483,380	200,082
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of fixed assets	-	683,943
Purchase of building improvements	(69,530)	-
Proceeds from sale of securities	1,943,295	2,733,630
Purchase of securities	(2,592,065)	(2,454,010)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(718,300)	963,563
INCREASE IN CASH AND CASH EQUIVALENTS	765,080	1,163,645
CASH AND CASH EQUIVALENTS - beginning of year	2,239,601	1,075,956
CASH AND CASH EQUIVALENTS - end of year	\$ 3,004,681	\$ 2,239,601

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	41,461	550	101,893
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	<u>\$ 2,457,481</u>	<u>\$ 229,117</u>	<u>\$ 50,711</u>	<u>\$ 2,737,309</u>

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

ANIMAL WELFARE INSTITUE
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>Total</u>
Salaries	\$ 1,307,492	\$ 75,964	\$ 19,433	\$ 1,402,889
Payroll taxes and unemployment insurance	101,499	6,322	1,545	109,366
Employee benefits	151,948	11,440	2,195	165,583
Retirement plan	26,267	1,610	399	28,276
Advertising	14,302	80	2,527	16,909
Animal Welfare Institute Quarterlies	138,188	-	1,396	139,584
Printing and publications (except for Quarterlies)	154,363	196	5,383	159,942
Research, writing and editing	19,287	-	-	19,287
Grants	154,219	-	-	154,219
Conferences, meetings and travel	106,463	1,002	12	107,477
Postage, mailing and addressing costs (except for Quarterlies)	24,182	197	100	24,479
Telephone, duplicating and office supplies	68,047	13,730	17,820	99,597
Professional services	96,955	10,125	4,625	111,705
Membership and subscriptions	19,890	4,155	164	24,209
Acquisition of books and other educational materials	241	-	-	241
Consultants	180,665	-	-	180,665
Internet services	62,725	3,499	-	66,224
Occupancy costs	93,380	59,993	456	153,829
Miscellaneous	38,865	-	-	38,865
Total expenses before depreciation	<u>2,758,978</u>	<u>188,313</u>	<u>56,055</u>	<u>3,003,346</u>
Depreciation	<u>43,794</u>	<u>5,152</u>	<u>2,576</u>	<u>51,522</u>
Total expenses	<u>\$ 2,802,772</u>	<u>\$ 193,465</u>	<u>\$ 58,631</u>	<u>\$ 3,054,868</u>

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

**ANIMAL WELFARE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016**

NOTE 1 – ORGANIZATION AND NATURE OF ACTIVITIES

Animal Welfare Institute (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 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 financial investments purchased with a maturity of three months or less to be cash equivalents.

**ANIMAL WELFARE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016**

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 statement 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 statement 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 2017 and 2016 by approximately \$1,750,000 and \$1,239,000, respectively.

**ANIMAL WELFARE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016**

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Reclassification

Certain items in the June 30, 2016, financial statements have been reclassified to conform with the June 30, 2017 presentation. These reclassifications had no impact on the change in net assets for the year ended June 30, 2017

NOTE 3 - INVESTMENTS

Fair Value Measurements

Fair Value Measurements Using:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	
	June 30, 2017	June 30, 2016
	Stocks	\$ 2,975,872
Mutual Funds	1,957,657	1,104,145
U.S Treasury Notes and Bills	343,458	271,027
Corporate Bonds	95,204	82,500
	\$ 5,372,191	\$ 4,167,392

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 base 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, 2017 AND 2016**

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,	
		2017	2016
Land, building and improvements	10-40	\$ 5,693,724	\$ 5,624,194
Less: Accumulated depreciation		(740,531)	(648,163)
		<u>\$ 4,953,193</u>	<u>\$ 4,976,031</u>

NOTE 5 – CONCENTRATIONS

AWI received approximately 45% of its total contributions from four contributors in 2017 and 56% of its total contributions from three contributors in 2016.

	Number of Contributors	2017	Number of Contributors	2016
Foundation	1	\$ 400,000	1	\$ 400,000
Bequest	3	\$ 1,391,554	2	\$ 1,422,503

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes:

	June 30,	
	2017	2016
Roger L. Stevens Publications Fund	\$ 54,809	\$ 82,953
Marine Mammals	20,500	20,500
	<u>\$ 75,309</u>	<u>\$ 82,953</u>

**ANIMAL WELFARE INSTITUTE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016**

NOTE 7 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets of \$100,000 in 2017 and 2016, respectively, 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 \$28,221 and \$28,276 to the Plan for the years ended June 30, 2017 and 2016, respectively.

NOTE 9 – TENANT NET RENTAL INCOME

Tenant net rental income consists of:

	<u>2017</u>	<u>2016</u>
Rental income	\$ 112,348	\$ 126,396
Depreciation	<u>(34,348)</u>	<u>(34,348)</u>
Net rental income	<u>\$ 78,000</u>	<u>\$ 92,048</u>

NOTE 10 – SUBSEQUENT EVENTS

Management has evaluated events subsequent to the date of the financial statements through October 20, 2017, the date the financials were available to be issued.