ALBERT ELLIS INSTITUTE

Financial Statements
For the Years Ended
December 31, 2016
and
December 31, 2015

CONDON O'MEARA McGINTY & DONNELLY LLP

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Independent Auditor's Report

The Board of Trustees of
Albert Ellis Institute

We have audited the accompanying financial statements of the Albert Ellis Institute which comprise the statement of financial position as of December 31, 2016 and December 31, 2015 and the related statements of activities, functional expenses and cash flows 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.

Auditor's 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 audits 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 Albert Ellis Institute as of December 31, 2016 and December 31, 2015 and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Condon O'Meara McGinty & Donnelly LLP

October 13, 2017

ALBERT ELLIS INSTITUTE

Statement of Financial Position

Assets

	December 31 2016	December 31 2015
Cash and cash equivalents	$ 1,299,884	$ 815,332
Investments, at fair value	12,616,238	12,811,084
Prepaid expenses and other current assets	43,916	43,006
Inventory	18,633	22,099
Property and equipment, net	31,540	40,381
Total assets	**$ 14,010,211**	**$ 13,731,902**

Liabilities and Unrestricted Net Assets

	2016	2015
Liabilities		
Line of credit	$ 2,500	$ -
Accounts payable and accrued expenses	19,610	27,137
Total liabilities	22,110	27,137
Unrestricted net assets	13,988,101	13,704,765
Total liabilities and unrestricted net assets	**$ 14,010,211**	**$ 13,731,902**

See notes to financial statements.

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Statement of Activities

	For the Year Ended December 31 2016	For the Year Ended December 31 2015
Revenue and support		
Program service fees	$ 710,417	$ 706,358
Dividends and interest (net of advisory fees of $81,230 and $73,209 for 2016 and 2015, respectively)	172,946	300,467
Contributions	5,765	6,500
Membership dues	14,320	15,435
Royalties	27,122	37,917
Sales of publications (net of cost of goods sold of $27,630 and $32,028 in 2016 and 2015, respectively)	8,957	948
Certification fees	27,010	23,860
Other	936	1,210
Total revenue and support	967,473	1,092,695
Expenses		
Program services	1,078,565	1,039,840
Management and general	288,365	286,693
Total expenses	1,366,930	1,326,533
(Deficiency) of revenue to cover expenses before other addition (deduction)	(399,457)	(233,838)
Other addition (deduction)		
Settlement proceeds	-	319,283
Net realized and unrealized gain (loss) on investments	682,793	(977,554)
Increase (decrease) in unrestricted net assets	**283,336**	**(892,109)**
Unrestricted net assets, beginning of year	**13,704,765**	**14,596,874**
Unrestricted net assets, end of year	**$ 13,988,101**	**$ 13,704,765**

See notes to financial statements.

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Statement of Functional Expenses

	For the Year Ended December 31					
	2016			2015		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries and related expenses						
Salaries – administrative staff	$ 274,424	$ 119,128	$ 393,552	$ 261,654	$ 111,232	$ 372,886
Salaries – professional staff	204,036	-	204,036	186,651	-	186,651
Payroll taxes	40,278	11,143	51,421	40,248	11,207	51,455
Employee fringe benefits	30,322	12,890	43,212	26,907	11,438	38,345
Total salaries and related expenses	549,060	143,161	692,221	515,460	133,877	649,337
Other expenses						
Research grant	12,000	-	12,000	7,200	-	7,200
Meetings and conferences	6,657	1,664	8,321	6,145	1,536	7,681
Supervision and fees	7,699	-	7,699	7,743	-	7,743
Fellowships and stipends	22,850	-	22,850	19,250	-	19,250
Professional fees	-	47,081	47,081	-	44,589	44,589
Workshop	46,439	1,436	47,875	46,866	1,449	48,315
Travel	8,467	2,117	10,584	3,937	984	4,921
Computer cost	4,898	1,225	6,123	5,007	1,252	6,259
Repairs and maintenance	15,622	6,468	22,090	17,192	7,118	24,310
Insurance	22,218	9,199	31,417	23,696	9,811	33,507
Postage and shipping	317	317	634	782	782	1,564
Telephone and internet	3,476	869	4,345	10,685	2,671	13,356
Depreciation and amortization	8,327	2,082	10,409	8,076	2,019	10,095
Occupancy	341,033	60,182	401,215	333,720	59,993	393,713
Advertising	1,004	112	1,116	1,478	164	1,642
Office	27,656	4,881	32,537	29,177	5,149	34,326
Other	842	7,571	8,413	3,426	15,299	18,725
Total expenses	$ 1,078,565	$ 288,365	$ 1,366,930	$ 1,039,840	$ 286,693	$ 1,326,533

See notes to financial statements.

ALBERT ELLIS INSTITUTE

Statement of Cash Flows

	For the Year Ended December 31	
	2016	2015
Cash flows from operating activities		
Increase (decrease) in unrestricted net assets	$ 283,336	$ (892,109)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	10,409	10,095
Net realized and unrealized (gain) loss on investments	(682,793)	977,554
(Increase) decrease in assets		
Accounts receivable	-	11,557
Prepaid expenses and other assets	(910)	(1,633)
Inventory	3,466	(5,828)
(Decrease) in liabilities		
Accounts payable and accrued expenses	(7,527)	(28,460)
Net cash provided by (used in) operating activities	(394,019)	71,176
Cash flows from investing activities		
Purchase of property and equipment	(1,568)	(8,038)
Purchase of investments	(11,080,109)	(6,025,969)
Proceeds from sale of investments	11,957,748	6,273,712
Net cash provided by investing activities	876,071	239,705
Cash flows from financing activities		
Proceeds from line of credit	2,500	-
Net increase in cash and cash equivalents	**484,552**	**310,881**
Cash and cash equivalents, beginning of year	**815,332**	**504,451**
Cash and cash equivalents, end of year	**$ 1,299,884**	**$ 815,332**

See notes to financial statements.

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Notes to Financial Statements
December 31, 2016 and December 31, 2015

Note 1 – Nature of organization

The Albert Ellis Institute (the "Institute") named for Dr. Albert Ellis, is a not-for-profit educational organization, founded in 1959, that provides advanced professional training in rational emotive behavior therapy, as well as conducts research, and offers workshops, lectures and counseling services for the general public. The Institute also publishes and distributes resources for mental health professionals and educators, as well as books and other self-help materials for the public.

Note 2 – Summary of significant accounting policies

Revenue recognition

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of donor restrictions. At December 31, 2016 and December 31, 2015, the Institute had no temporarily or permanently restricted net assets.

Contributions are recorded as revenue upon the receipt of either cash or unconditional pledges. Contributions are considered available for unrestricted use, unless specifically restricted by the donor. Conditional contributions are recorded when the specified conditions have been met.

Sales of publications are reported net of the direct cost of sales.

The Institute has entered into royalty agreements with publishers who distribute certain works authored and co-authored by Dr. Ellis and Dr. Kristene A. Doyle. Royalties are recorded as revenue upon receipt of cash or notification of amounts due from the publishing house.

Functional allocation of expenses

The cost of providing the various programs and supporting services has been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Cash and cash equivalents

The Institute considers highly liquid investments with original maturities of 90 days or less to be cash equivalents.

Investments

The Institute's investments are reported at fair value based on quoted market prices.

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Notes to Financial Statements (continued)
December 31, 2016 and December 31, 2015

Note 2 – Summary of significant accounting policies (continued)

Fair value measurements

Fair value refers to the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value hierarchy gives the highest priority to quoted market prices in active markets and the lowest priority to unobservable data. Fair value measurements are required to be separately disclosed by level within the fair value hierarchy. The three levels of inputs used to measure fair value are as follows:

Level 1 – Quoted prices in active markets for identical assets.

Level 2 – Observable inputs other than level 1 prices such as quoted prices of similar assets; quoted prices in markets with insufficient volume or infrequent transactions (less than active markets).

Level 3 – Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of assets.

As of December 31, 2016 and December 31, 2015, all of the Institute's investments are classified as Level 1 investments.

Inventory

Inventory consists of publications, which is reported at the lower of cost or market value, using the first-in, first-out method.

Property and equipment

Property and equipment are stated at cost, if purchased, or at fair value at the date of the gift, if donated. Furniture and equipment are depreciated using the straight-line method over the estimated useful lives of the assets of 5 years. Leasehold improvements are amortized over the life of the lease. The Institute capitalizes, as property and equipment, expenditures for capital assets in excess of $1,000 with an estimated useful life of greater than one year.

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Notes to Financial Statements (continued)
December 31, 2016 and December 31, 2015

Note 2 – Summary of significant accounting policies (continued)

Concentrations of credit risk

The Institute's financial instruments that are potentially exposed to concentrations of credit risk consist of cash, cash equivalents and investments. The Institute places its cash and cash equivalents with what it believes to be quality financial institutions. Cash balances are in excess of the FDIC insurance limit. The Institute has not experienced any losses in such accounts to date. Investments are exposed to various risks such as interest rate, market volatility, liquidity and credit. Due to the level of uncertainty related to changes in interest rates, market volatility, liquidity and credit risks, it is reasonably possible that changes in these risks could materially affect the fair value of the investments reported in the statement of financial position at December 31, 2016. As a result, the Institute believes no significant concentrations of credit risk exist with respect to its cash, cash equivalents and investments.

Use of estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of 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.

Subsequent events

The Institute has evaluated events and transactions for potential recognition or disclosure through October 13, 2017, which is the date the financial statements were available to be issued.

Note 3 – Investments

Investments consist of the following as of December 31, 2016 and December 31, 2015:

	2016		2015	
	Fair Value	Cost	Fair Value	Cost
Equities				
Exchange-traded funds	$ -	$ -	$ 2,917,705	$ 3,182,031
Common stock	6,626,375	6,534,280	2,674,540	2,666,506
Mutual funds	2,060,965	2,040,999	241,155	230,206
Fixed income				
Mutual funds	-	-	407,742	470,484
Exchange-traded funds	1,246,500	1,264,750	3,099,259	3,223,696
Corporate bonds and notes	939,349	941,861	266,664	251,109
Government and agency securities	1,743,049	1,747,358	-	-
Mutual funds - blended	-	-	3,204,019	3,373,237
Total	$ 12,616,238	$ 12,529,248	$ 12,811,084	$ 13,397,269

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Notes to Financial Statements (continued)
December 31, 2016 and December 31, 2015

Note 4 – Property and equipment

Property and equipment as of December 31, 2016 and December 31, 2015 consisted of the following:

	2016	2015
Furniture and equipment	$ 15,377	$ 13,809
Leasehold improvements	44,000	44,000
Total property and equipment	59,377	57,809
Less: accumulated depreciation and amortization	27,837	17,428
Net property and equipment	$ 31,540	$ 40,381

Note 5 – Line of credit

The Institute has available and revolving line of credit with a financial institution. The line of credit is collateralized by the investment accounts maintained with the financial institution. The limit on the line of credit at December 31, 2016 was approximately $10,000 and the outstanding balance under the line of $2,500.

Note 6 – Retirement plan

The Institute maintains a Safe Harbor 401(k) plan covering all eligible employees. The Institute matches 100% of employee contributions that do not exceed 3% of the employees' compensation plus 50% of employee contributions that exceed 3% of compensation and that do not exceed 5% of compensation. For the years ended December 31, 2016 and December 31, 2015, the Institute contributed $18,245 and $16,268, respectively.

Note 7 – Commitments

In July 2013, the Institute entered into a six-year lease for office space expiring in June 2019. The lease calls for monthly payments of $30,000 for the first year of the lease with 2.75% increases per annum thereafter. The Institute received free rent for the first five months of the lease with rental payments starting December 2013. The lease requires the Institute to pay its proportional share of real estate taxes. The following are the required minimum annual lease payments:

Year	Amount
2017	$ 395,900
2018	406,800
2019	206,100
Total	$ 1,008,800

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Notes to Financial Statements (continued)
December 31, 2016 and December 31, 2015

Note 7 – Commitments (continued)

Rent expense for the years ended December 31, 2016 and December 31, 2015 was $385,297 and $374,985, respectively.

In lieu of a security deposit, the Institute obtained a $180,000 letter of credit in favor of the landlord.

Note 8 – Settlement

During 2011, the Institute became aware that an employee had fraudulently transferred, through a series of 2011 and 2010 wires, from the Institute's bank accounts to the employee's personal business accounts, without authorization of the Institute. During December 2015, in connection with the defalcation, the Institute received settlement proceeds from the sale of property of the employee, net of legal expenses, totaling $319,283. The Institute does not anticipate further proceeds from the defalcation.

Note 9 – Tax status

The Institute is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (the "Code"). In addition, the Institute has been determined by the Internal Revenue Service to be a publicly supported organization and not a private foundation within the meaning of Section 509(a)(1) of the Code.