ALBERT ELLIS INSTITUTE

Financial Statements
For the Years Ended
December 31, 2018
and
December 31, 2017

CONDON O'MEARA McGINTY & DONNELLY LLP

Certified Public Accountants

One Battery Park Plaza
New York, NY 10004-1405
Tel: (212) 661 - 7777
Fax: (212) 661 - 4010

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, 2018 and December 31, 2017 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, 2018 and December 31, 2017 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

August 15, 2019

ALBERT ELLIS INSTITUTE

Statement of Financial Position

Assets

	December 31 2018	December 31 2017
Cash and cash equivalents	$ 1,250,167	$ 1,914,350
Investments, at fair value	12,172,011	12,836,977
Accounts receivable	60,027	6,102
Prepaid expenses and other assets	79,950	44,258
Inventory	17,836	21,425
Property and equipment, net	12,115	22,378
Total assets	**$ 13,592,106**	**$ 14,845,490**

Liabilities and Net Assets

	2018	2017
Liabilities		
Accounts payable and accrued expenses	$ 8,892	$ 25,510
Net assets without donor restrictions	13,583,214	14,819,980
Total liabilities and net assets	**$ 13,592,106**	**$ 14,845,490**

See notes to financial statements.

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Statement of Activities

	For the Year Ended December 31 2018	For the Year Ended December 31 2017
Revenue and support		
Program service fees	$ 792,696	$ 613,604
Investment return, net – operations	550,000	575,000
Contributions	8,928	13,274
Membership dues	21,455	16,995
Royalties	33,886	34,264
Sales of publications (net of cost of goods sold of $36,852 and $28,926 in 2018 and 2017, respectively)	10,797	6,133
Certification fees	46,317	38,565
Other	7,593	3,989
Total revenue and support	1,471,672	1,301,824
Expenses		
Program services	1,106,012	1,022,610
Management and general	311,321	284,355
Total expenses	1,417,333	1,306,965
Excess (deficiency) of revenue to cover expenses before other	54,339	(5,141)
Other		
Investment return, net – non-operations	(1,291,105)	837,020
Increase (decrease) in net assets	**(1,236,766)**	**831,879**
Net assets without donor restrictions, beginning of year	**14,819,980**	**13,988,101**
Net assets without donor restrictions, end of year	**$ 13,583,214**	**$ 14,819,980**

See notes to financial statements.

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Statement of Functional Expenses

	For the Year Ended December 31					
	2018			2017		
	Program Services	Management and General	Total	Program Services	Management and General	Total
Salaries and related expenses						
Salaries – administrative staff	$ 296,420	$ 113,566	$ 409,986	$ 282,616	$ 119,741	$ 402,357
Salaries – professional staff	189,849	-	189,849	152,215	-	152,215
Payroll taxes	30,125	9,676	39,801	30,197	10,621	40,818
Employee benefits	35,611	13,644	49,255	34,593	14,825	49,418
Total salaries and related expenses	552,005	136,886	688,891	499,621	145,187	644,808
Other expenses						
Research grant	9,600	-	9,600	9,600	-	9,600
Meetings and conferences	6,597	1,649	8,246	6,458	1,615	8,073
Supervision and fees	8,279	-	8,279	6,161	-	6,161
Fellowships and stipends	18,900	-	18,900	19,350	-	19,350
Professional fees	-	48,749	48,749	-	41,642	41,642
Workshop	51,580	1,595	53,175	42,874	1,326	44,200
Travel	14,117	3,529	17,646	10,198	-	10,198
Computer	4,858	1,215	6,073	4,404	1,101	5,505
Repairs and maintenance	8,845	20,877	29,722	14,484	5,997	20,481
Insurance	24,331	10,309	34,640	21,814	9,032	30,846
Telephone and internet	4,397	1,099	5,496	5,075	1,269	6,344
Depreciation and amortization	8,668	2,167	10,835	7,504	3,217	10,721
Occupancy	358,302	63,230	421,532	348,836	62,466	411,302
Office	27,052	4,774	31,826	24,345	4,296	28,641
Online training	6,500	-	6,500	-	-	-
Other	1,981	15,242	17,223	1,886	7,207	9,093
Total expenses	$ 1,106,012	$ 311,321	$ 1,417,333	$ 1,022,610	$ 284,355	$ 1,306,965

See notes to financial statements.

ALBERT ELLIS INSTITUTE

Statement of Cash Flows

	For the Year Ended December 31	
	2018	2017
Cash flows from operating activities		
Increase (decrease) in net assets	$ (1,236,766)	$ 831,879
Adjustments to reconcile increase (decrease) in net assets to net cash (used in) operating activities		
Depreciation and amortization	10,835	10,721
Net realized and unrealized (gain) loss on investments	1,050,594	(1,150,847)
(Increase) decrease in assets		
Accounts receivable	(53,925)	(6,102)
Prepaid expenses and other assets	(35,692)	(342)
Inventory	3,589	(2,792)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(16,618)	3,400
Net cash (used in) operating activities	(277,983)	(314,083)
Cash flows from investing activities		
Purchase of property and equipment	(572)	(1,559)
Purchase of investments	(4,294,532)	(5,212,216)
Proceeds from sale of investments	3,908,904	6,142,324
Net cash provided by (used in) investing activities	(386,200)	928,549
Net increase (decrease) in cash and cash equivalents	**(664,183)**	**614,466**
Cash and cash equivalents, beginning of year	**1,914,350**	**1,299,884**
Cash and cash equivalents, end of year	**$ 1,250,167**	**$ 1,914,350**

See notes to financial statements.

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Notes to Financial Statements
December 31, 2018 and December 31, 2017

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

Recent accounting pronouncement

Not-for-Profit Financial Statement Presentation

During 2018, the Institute adopted Accounting Standards Update 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, and expenses by functional and natural classification.

Revenue recognition

Contributions received are recorded as revenue, depending on the existence and/or nature of donor restrictions. At December 31, 2018 and December 31, 2017, the Institute had no net assets with donor restrictions.

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. Albert Ellis and Dr. Kristene A. Doyle. Royalties are recorded as revenue upon receipt of cash or notification of amounts due from the publishing house(s).

Functional allocation of expenses

The cost of providing the various program services and supporting activities has been summarized on a functional basis in the accompanying statement of activities. Accordingly, certain costs have been allocated among the program services and supporting activities benefitted. Expenses attributable to more than one functional expense category are allocated based on time and effort.

Cash and cash equivalents

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

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Notes to Financial Statements (continued)
December 31, 2018 and December 31, 2017

Note 2 – Summary of significant accounting policies (continued)

Investments

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

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, 2018 and December 31, 2017, 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, 2018 and December 31, 2017

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. At times during the year, cash balances are in excess of the FDIC insurance limit. The Institute has not experienced any losses in such accounts to date. Investments (note 4) 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, 2018. 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 August 15, 2019, which is the date the financial statements were available to be issued.

Note 3 – Liquidity and availability of financial assets

The Institute's working capital and cash flows vary due to timing of payments for program service fees. The following is a summary of the Institute's financial assets as of December 31, 2018:

Cash and cash equivalents	$ 1,250,167
Accounts receivable	10,027
Total financial assets as of year end	1,260,194
Appropriation of investments for 2019 operations	600,000
Total financial assets available for general expenditures within one year	$ 1,860,194

The Institute has an annual spending rate of between 4% and 5%. An appropriation of $600,000 from the investments will be available within the next 12 months as of December 31, 2018.

As part of the Institute'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.

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Notes to Financial Statements (continued)
December 31, 2018 and December 31, 2017

Note 4 – Investments

Investments consist of the following as of December 31, 2018 and December 31, 2017:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Equities				
Common stock	$ 7,030,425	$ 6,888,422	$ 6,450,491	$ 7,284,612
Mutual funds	1,443,980	1,397,186	1,083,616	1,105,995
Fixed income				
Exchange-traded funds	424,856	407,682	304,864	311,052
Mutual funds	1,163,718	1,109,817	1,172,711	1,217,022
Corporate bonds and notes	909,042	894,338	1,094,325	1,099,741
Government and agency securities	1,485,925	1,474,566	1,459,947	1,454,547
Mutual funds - blended	-	-	339,996	364,008
Total	$ 12,457,946	$ 12,172,011	$ 11,905,950	$ 12,836,977

Investment return is composed of the following at December 31, 2018 and December 31, 2017:

	2018	2017
Interest and dividends	$ 415,152	$ 363,482
Realized and unrealized gains (losses	(1,050,594)	1,150,847
Investment fees and taxes	(105,663)	(102,302)
Total	$ (741,105)	$ 1,412,020

Investment return is summarized as follows for the years ended December 31, 2018 and December 31, 2017:

	2018	2017
Interest return, net - operations	$ 550,000	$ 575,000
Investment return, net – non-operations	(1,291,105)	837,020
Total	$ (741,105)	$ 1,412,020

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Notes to Financial Statements (continued)
December 31, 2018 and December 31, 2017

Note 5 – Property and equipment

Property and equipment as of December 31, 2018 and December 31, 2017 consisted of the following:

	2018	2017
Furniture and equipment	$ 17,508	$ 16,936
Leasehold improvements	44,000	44,000
Total property and equipment	61,508	60,936
Less: accumulated depreciation and amortization	49,393	38,558
Net property and equipment	$ 12,115	$ 22,378

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, 2018 and December 31, 2017, the Institute contributed $18,495 and $18,408, respectively.

Note 7 - Office lease

In July 2013, the Institute entered into a six-year lease for office space expiring in June 2019. During 2018, the Institute signed a new lease for its office space which expires in July 2029. The lease calls for monthly payments of $38,000 in the first year of the lease with 2.75% increases per annum thereafter. The Institute will receive one month of free rent during 2019. The lease also calls for the landlord to reimburse the Institute up to $150,000 for certain renovations which are expected to be completed during 2019. 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
2019	$ 396,100
2020	462,270
2021	474,982
2022	488,044
2023	501,466
2024 and thereafter	3,062,821
Total	$ 5,385,683

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Notes to Financial Statements (continued)
December 31, 2018 and December 31, 2017

Note 7 - Office lease (continued)

Rent expense for the years ended December 31, 2018 and December 31, 2017 was $406,779 and $395,892, respectively.

In lieu of a security deposit, the Institute obtained an $180,000 letter of credit in favor of the landlord. Effective August 31, 2019, the letter of credit decreases to $152,000.

Note 8 – 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.