2014
Annual Report

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Audited Consolidating Financial Statements

Tax Executives Institute, Inc. and TEI Education Fund

June 30, 2014

Independent Auditor's Report

To the Board of Directors
Tax Executives Institute, Inc. and
TEI Education Fund

We have audited the accompanying consolidating financial statements of Tax Executives Institute, Inc. and TEI Education Fund (collectively, the Organization), which comprise the consolidating statements of financial position as of June 30, 2014 and 2013, and the related consolidating statements of activities and cash flows for the years then ended, and the related notes to the consolidating financial statements.

Management's Responsibility for the Consolidating Financial Statements

Management is responsible for the preparation and fair presentation of these consolidating 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 consolidating 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 consolidating 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 consolidating financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidating financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidating financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the consolidating 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 Organization'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 consolidating 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 consolidating financial statements referred to above present fairly, in all material respects, the individual and consolidated financial positions of Tax Executives Institute, Inc. and TEI Education Fund as of June 30, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Tate & Tryon
Washington, DC
July 19, 2014

Consolidating Statements of Financial Position
Years Ended June 30, 2014 and 2013

	2014			2013		
	TEI	**TEIF**	**Total**	**TEI**	**TEIF**	**Total**
Assets						
Cash and cash equivalents	**$ 718,223**	**$ 87,819**	**$ 806,042**	$ 936,957	$ 124,286	$ 1,061,243
Investments	**10,626,723**		**10,626,723**	9,839,962		9,839,962
Accounts receivable	**31,288**		**31,288**	25,754		25,754
Due (to) from affiliate	**(7,548)**	**7,548**	**-**	(9,930)	9,930	-
Prepaid expenses	**69,893**		**69,893**	87,364		87,364
Property and equipment	**127,220**		**127,220**	206,388		206,388
Total assets	**$ 11,565,799**	**$ 95,367**	**$ 11,661,166**	$ 11,086,495	$ 134,216	$ 11,220,711
Liabilities and net assets						
Accounts payable	**$ 1,821**	**$ -**	**$ 1,821**	$ 32,299	$ -	32,299
Accrued liabilities	**190,571**		**190,571**	162,494		162,494
Deferred revenue	**2,836,359**		**2,836,359**	2,819,415		2,819,415
Deferred rent and lease incentive	**270,996**		**270,996**	293,152		293,152
Total liabilities	**3,299,747**	**-**	**3,299,747**	3,307,360	-	3,307,360
Commitment and contingency			**-**			-
Net assets - unrestricted	**8,266,052**	**95,367**	**8,361,419**	7,779,135	134,216	7,913,351
Total liabilities and net assets	**$ 11,565,799**	**$ 95,367**	**$ 11,661,166**	$ 11,086,495	$ 134,216	$ 11,220,711

See notes to the consolidating financial statements.

Consolidating Statements of Activities
Years Ended June 30, 2014 and 2013

	2014			2013		
	TEI	**TEIF**	**Total**	**TEI**	**TEIF**	**Total**
Revenue						
Sponsorships	**$ 2,003,650**	**$ -**	**$ 2,003,650**	$ 1,933,778	$ -	$ 1,933,778
Continuing education	**1,694,150**		**1,694,150**	1,814,510		1,814,510
Membership dues	**1,570,507**		**1,570,507**	1,552,005		1,552,005
Royalty	**535,000**		**535,000**	537,200		537,200
Publications	**406,865**		**406,865**	450,768		450,768
Interest income	**177,030**	**24**	**177,054**	122,460	26	122,486
Initiation Fees	**142,675**		**142,675**	113,875		113,875
Other	**10,616**		**10,616**	11,853		11,853
Management Fees	**(9,916)**	**9,916**	**-**	(16,384)	16,384	-
Total revenue	**6,530,577**	**9,940**	**6,540,517**	6,520,065	16,410	6,536,475
Expense						
Program services						
Continuing education	**2,068,680**	**48,138**	**2,116,818**	1,991,821	7,066	1,998,887
Committee and liaison	**664,081**		**664,081**	623,546		623,546
Publications	**611,387**		**611,387**	562,890		562,890
Membership services	**429,620**		**429,620**	474,502		474,502
Dues transferred to chapters	**206,745**		**206,745**	201,705		201,705
Total program services	**3,980,513**	**48,138**	**4,028,651**	3,854,464	7,066	3,861,530
Supporting services						
General and administrative	**2,309,147**	**651**	**2,309,798**	2,394,172	1,989	2,396,161
Total expense	**6,289,660**	**48,789**	**6,338,449**	6,248,636	9,055	6,257,691
Change in net assets from operations	**240,917**	**(38,849)**	**202,068**	271,429	7,355	278,784
Net gain (loss) on investments	**251,100**		**251,100**	(138,999)		(138,999)
Special projects expense	**(5,100)**		**(5,100)**	(168,182)		(168,182)
Change in net assets	**486,917**	**(38,849)**	**448,068**	(35,752)	7,355	(28,397)
Net assets, beginning of year	**7,779,135**	**134,216**	**7,913,351**	7,814,887	126,861	7,941,748
Net assets, end of year	**$ 8,266,052**	**$ 95,367**	**$ 8,361,419**	$ 7,779,135	$ 134,216	$ 7,913,351

See notes to the consolidating financial statements.

Consolidating Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014			2013		
	TEI	**TEIF**	**Total**	**TEI**	**TEIF**	**Total**
Cash flows from operating activities						
Change in net assets	**$ 486,917**	**$ (38,849)**	**$ 448,068**	$ (35,752)	$ 7,355	$ (28,397)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activites						
Net (gain) loss on investments	**(251,100)**		**(251,100)**	138,999		138,999
Depreciation and amortization	**110,321**		**110,321**	160,413		160,413
Loss on disposal of property and equipment			**-**	1,365		1,365
Changes in assets and liabilities:						
Accounts receivable	**(5,534)**		**(5,534)**	75,018		75,018
Due from (to) affiliate	**(2,382)**	**2,382**	**-**	259	(259)	-
Prepaid expenses	**17,471**		**17,471**	(31,289)		(31,289)
Accounts payable	**(30,478)**		**(30,478)**	(126,755)		(126,755)
Accrued liabilities	**28,077**		**28,077**	(3,554)		(3,554)
Deferred revenue	**16,944**		**16,944**	34,616		34,616
Deferred rent and lease incentive	**(22,156)**		**(22,156)**	(216)		(216)
Total adjustments	**(138,837)**	**2,382**	**(136,455)**	248,856	(259)	248,597
Net cash provided by (used in) operating activities	**348,080**	**(36,467)**	**311,613**	213,104	7,096	220,200
Cash flows from investing activities						
Proceeds from sale and maturity of investments	**6,793,752**		**6,793,752**	5,091,726		5,091,726
Purchases of investments, net of money market sales	**(7,329,413)**		**(7,329,413)**	(4,969,842)		(4,969,842)
Purchases of property and equipment	**(31,153)**		**(31,153)**	(32,592)		(32,592)
Net cash (used in) provided by investing activities	**(566,814)**	**-**	**(566,814)**	89,292	-	89,292
Net (decrease) increase cash and cash equivalents	**(218,734)**	**(36,467)**	**(255,201)**	302,396	7,096	309,492
Cash and cash equivalents, beginning of year	**936,957**	**124,286**	**1,061,243**	634,561	117,190	751,751
Cash and cash equivalents, end of year	**$ 718,223**	**$ 87,819**	**$ 806,042**	$ 936,957	$ 124,286	$ 1,061,243
Supplemental Disclosure of Cash Flow Information						
Cash paid during the year for income taxes	**$ 1,153**	**$ -**	**$ 1,153**	$ 19,274	$ -	$ 19,274

See notes to the consolidating financial statements.

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Tax Executives Institute, Inc. (TEI) was incorporated in 1944 in the State of New York and exists to enhance and improve the tax system and to serve TEI members, their employers, and society generally by facilitating interaction among, and the training of, members and their staffs, by effectively advocating its members' views, and by promoting competence and professionalism in both the private and government sectors.

TEI Education Fund (TEIF) was formed in 1987 in the Commonwealth of Virginia and exists to sponsor TEI's conferences, seminars, and tax courses.

Principles of consolidation: The consolidating financial statements include the accounts of TEI and its affiliate, TEIF (collectively referred to as the Organization). Significant intra-entity accounts and transactions have been eliminated in consolidation.

Income tax status: TEI is exempt from the payment of income taxes on its exempt activities under Section 501(c)(6) of the Internal Revenue Code. However, TEI is subject to income tax on its unrelated business activities, such as advertising.

TEIF is exempt from the payment of income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified by the Internal Revenue Service as other than a private foundation within the meaning of Section 509(a)(1) of the Internal Revenue Code.

The Organization believes that it has appropriate support for income tax positions taken. Therefore, management has not identified any uncertain income tax positions. Generally, income tax returns related to the current year and three prior years remain open for examination by taxing authorities.

Basis of accounting: The Organization prepares its consolidating financial statements on the accrual basis of accounting. Revenue is recognized when earned and expense when the obligation is incurred.

Use of estimates: 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 and disclosures. Actual results could differ from estimates.

Cash and cash equivalents: For financial statement purposes, cash and cash equivalents consists of demand deposits and money market accounts which are not included in the investment portfolio. Money market accounts which are included in the investment portfolio are classified as investments for financial statement purposes.

Accounts receivable: Accounts receivable consists primarily of advertising and continuing education income. Accounts receivable are presented at the amount due to the Organization. The Organization's management periodically reviews the status of all accounts receivable balances for collectability. Each receivable balance is assessed based on management's knowledge of the customer, the Organization's relationship with the customer, and the age of the receivable balance. As a result of these reviews, customer balances deemed to be uncollectible are charged directly to bad debt expense. Management believes that the use of the direct write-off method approximates the results that would be presented if an allowance for bad debts had been recorded.

Functional allocation of expenses: The costs of providing various program and supporting service activities have been summarized on a functional basis in the consolidating statements of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited, based on employee effort.

Measure of operations: The Organization excludes certain financial statement line items from operations, such as net gain (loss) on investments and special projects expense.

Subsequent events: Subsequent events have been evaluated through July 21, 2014, which is the date the consolidating financial statements were available to be issued.

B. CONCENTRATIONS

Credit risk: The Organization maintains demand deposit accounts with commercial banks and money market funds with financial institutions. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. Government. The uninsured portions of these accounts are backed solely by the assets of the underlying institution. Therefore, the failure of an underlying institution could result in financial loss to the Organization.

Market value risk: The Organization also invests funds in a professionally managed portfolio of short-term and long-term investments which contain various types of marketable debt and equity securities. Such investments are exposed to market and credit risks and may be subject to fluctuations in fair value. As a result, the investment balances reported in the accompanying consolidating financial statements may not be reflective of fair value during subsequent periods.

C. INVESTMENTS

In accordance with accounting principles generally accepted in the United States of America, the Organization uses the following prioritized input levels to measure fair value of investments recorded at fair value. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets, such as stock quotes.

Level 2 – Includes inputs other than Level 1 inputs that are directly or indirectly observable in the marketplace, such as yield curves or other market data.

Level 3 – Unobservable inputs which reflect the reporting entity's assessment of the assumptions that market participants would use in pricing the asset or liability including assumptions about risk, such as bid/ask spreads and liquidity discounts.

Investments classified within Level 1 include various mutual funds (fixed income funds and equity funds) and alternative strategies funds (exchange traded funds, closed-end funds, and unit investment trusts), which were valued based on quoted prices for identical assets in active markets.

Investments classified within Level 2 include corporate bonds in 2014 and U.S. Government obligations in 2013, which were valued by pricing vendors using outside data. In determining fair value of the investments, the pricing vendors used a market approach to obtain pricing spreads based on the credit risk of the issuer, maturity, current yield, and other terms and conditions of each security

Management believes the estimated fair values of short-term and long-term investments to be a reasonable approximation of their exit price.

The following is a summary of the input levels used to determine fair values of investments, which are measured on a recurring basis, at June 30,:

2014	Total	Level 1	Level 2	Level 3
Long-term investments, at fair value				
Corporate bonds	$ 461,668	$ -	$ 461,668	$ -
Mutual funds - fixed income	2,883,245	2,883,245		
Mutual funds - equity	1,027,227	1,027,227		
Alternative strategies funds	235,863	235,863		
Auction-rate preferred securities	75,000		75,000	
Total Investments	**$ 4,683,003**	**$ 4,146,335**	**$ 536,668**	**$ -**

2013	Total	Level 1	Level 2	Level 3
Short-term investments, at fair value				
U.S. Government obligations	$ 50,365	$ -	$ 50,365	$ -
Mutual funds - fixed income	847,657	847,657		
	898,022	847,657	50,365	-
Long-term investments, at fair value				
U.S. Government obligations	456,526		456,526	
Mutual funds - fixed income	3,976,510	3,976,510		
Mutual funds - equity	898,095	898,095		
Alternative strategies funds	213,133	213,133		
Auction-rate preferred securities	275,000		275,000	
	5,819,264	5,087,738	731,526	-
Total Investments	**$ 6,717,286**	**$ 5,935,395**	**$ 781,891**	**$ -**

Investments recorded at cost include money market funds, certificates of deposit, and investment trade pending receivable. Investments recorded at cost are not required to be classified in one of the levels prescribed by the fair value hierarchy.

Investments, including those reported at cost and at fair value, consist of the following at June 30,:

	2014	2013
Short-term investments		
Money market funds	$ 501,617	$ 702,729
Certificates of deposit	2,029,019	590,071
U.S. Government obligations	-	50,365
Mutual funds - fixed income	-	847,657
Subtotal short-term investments	2,530,636	2,190,822
Long-term investments		
Money market funds	56,840	52,521
Certificates of deposit	3,162,244	1,777,355
Investment trade pending receivable	194,000	-
U.S. Government obligations	-	456,526
Corporate bonds	461,668	-
Mutual funds - fixed income	2,883,245	3,976,510
Mutual funds - equity	1,027,227	898,095
Alternative strategies funds	235,863	213,133
Auction-rate preferred securities	75,000	275,000
Subtotal long-term investments	8,096,087	7,649,140
	$ 10,626,723	**$ 9,839,962**

Investment management fees totaling $27,643 and $8,274 were recorded in general and administrative expense during the years ended June 30, 2014 and 2013, respectively.

D. RETIREMENT PLANS

Money purchase plan: TEI has a defined contribution money-purchase retirement plan, which covers all eligible employees who meet age and length-of-service requirements. Under the plan, TEI's annual contribution amounts to 8% of each participant's compensation. Participants are fully vested after six years of service. TEI's contribution to the plan totaled $171,286 and $174,741 for the years ended June 30, 2014 and 2013, respectively.

401(k) plan: TEI has a defined contribution salary deferral and savings incentive plan, which covers all eligible employees who meet age and length of service requirements. The plan includes automatic enrollment with an opt-out option. Under the plan, TEI matches employee contributions as follows: 50% of the first 2% of compensation, and 25% of the next 4% of compensation up to the maximum contribution allowed by Internal Revenue Service limits. Participants are fully vested after five years of service. TEI's contributions to the plan totaled $40,670 and $34,341 for the years ended June 30, 2014 and 2013, respectively.

E. PROPERTY AND EQUIPMENT

Acquisitions of property and equipment greater than $1,000 are recorded at cost and depreciated or amortized using the straight-line basis over the following useful lives: office furniture and equipment – three to ten years; leasehold improvements – over the lesser of the remaining life of the office lease or the estimated useful life of the improvements.

Property and equipment consisted of the following at June 30,:

	2014	2013
Office furniture and equipment	$ 943,450	$ 951,495
Leasehold improvements	76,856	76,856
	1,020,306	1,028,351
Less accumulated depreciation and amortization	(893,086)	(821,963)
	$ 127,220	**$ 206,388**

F. DEFERRED REVENUE

Revenue received in advance of the period in which it is earned is deferred to subsequent years.

Deferred revenue consisted of the following at June 30,:

	2014	2013
Membership dues	$ 1,358,322	$ 1,363,254
Sponsorships	930,500	952,000
Royalty	305,000	305,000
Seminars, schools, and conferences	215,005	192,935
Advertising	23,321	-
Subscriptions	4,211	6,226
	$ 2,836,359	**$ 2,819,415**

G. NET ASSETS

Unrestricted net assets include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by board designation. The Organization has the following designated net asset categories:

Operating reserve: The operating reserve serves as TEI's safety net and is an unrestricted fund which has been designated in order to stabilize TEI's finances by providing a cushion against unexpected events, losses of income, and large unbudgeted expenses. The operating reserve is equivalent to the three-year rolling average of (1) 50% of annual operating expenses and (2) 100% of annual sponsorship and royalty revenue.

Capital / opportunity reserve: The capital / opportunity reserve is the balance of TEI's unrestricted net assets remaining after the operating reserve has been determined.

Unrestricted net assets consisted of the following at June 30,:

	2014	2013
TEI		
Designated net assets		
Operating reserve	$ 5,593,309	$ 5,426,075
Captial / opportunity reserve	2,672,743	2,353,060
	8,266,052	7,779,135
TEIF		
Undesignated net assets	95,367	134,216
	$ 8,361,419	**$ 7,913,351**

H. MANAGEMENT FEES

Pursuant to a written agreement, TEI administers certain continuing education courses which are sponsored by TEIF. Under the terms of the agreement, TEI pays a percentage of the net income from the sponsored courses to TEIF. The management fees paid by TEI totaled $9,916 and $16,384 for the years ended June 30, 2014 and 2013, respectively.

I. SPECIAL PROJECTS EXPENSE

Special projects expense relates to either nonrecurring costs or multiyear projects. Special projects expense is approved through the Organization's budget process but, by policy, it is not included in the changes in net assets from operations.

Special projects expense consisted of the following during the years ended June 30,:

	2014	2013
Grants and scholarships	$ 5,100	$ 2,435
Executive transition	$ -	$ 89,895
Corporate Tax Management urvey	-	75,852
	$ 5,100	**$ 168,182**

J. CHAPTERS AND REGIONS

TEI has several chapters and regions located throughout the United States of America, Canada, Europe, and Asia. As stipulated in the Chapter Regulations, the activities of the chapters and regions are subject to (1) the policies adopted by TEI's board and (2) the general oversight of TEI's board. This oversight, however, does not constitute control in accordance with generally accepted accounting principles. Thus, the chapters and regions are not included in the accompanying consolidating financial statements. Chapter and region cash balances aggregate to approximately $2,000,000 annually.

K. COMMITMENT AND CONTINGENCY

Office lease: TEI leases office space under an operating lease that expires February 2018. The lease contains annual escalations of the monthly base rent. In accordance with generally accepted accounting principles, the difference between cash payments required under the terms of the lease and rent expense has been reported as deferred rent in the accompanying consolidating statements of financial position. Deferred rent will be amortized on a basis to achieve straight-line rent expense over the life of the lease. The lease also includes a tenant improvement allowance of approximately $76,000 which will also be amortized on a straight line basis over the term of the lease. Rent expense was approximately $465,000 and $468,900 for the years June 30, 2014 and 2013, respectively.

Future minimum lease payments are as follows:

Year Ending June 30,	Amount
2015	$ 503,900
2016	526,500
2017	550,100
2018	377,500
	$ 1,958,000

Employment agreements: TEI has an employment agreement with its Executive Director which expires December 2017. Under the terms of the agreement, should the agreement be terminated for any reason other than good cause, TEI would be obligated to pay salary and benefits for the remaining period of the agreement. Furthermore, TEI is obligated to pay the Executive Director an amount upon termination as specified in the agreement.