2012
Annual Report

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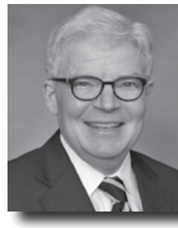

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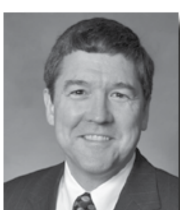

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Audited Consolidating Financial Statements

Tax Executives Institute, Inc. and TEI Education Fund

June 30, 2012

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Independent Auditor's Report

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

We have audited the accompanying consolidating statements of financial position of Tax Executives Institute, Inc. and TEI Education Fund (collectively, the Organization) as of June 30, 2012 and 2011, and the related consolidating statements of activities and cash flows for the years then ended. These consolidating financial statements are the responsibility of the Organization's management. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidating financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2012 and 2011, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Tate & Tryon

Washington, DC
July 20, 2012

Consolidating Statements of Financial Position
Years Ended June 30, 2012 and 2011

	2012			2011		
	TEI	TEIF	Total	TEI	TEIF	Total
Assets						
Cash and cash equivalents - Note B	$ 634,561	$ 117,190	$ 751,751	$ 680,973	$ 119,869	$ 800,842
Short-term investments - Notes B & C	5,674,030		5,674,030	6,467,759		6,467,759
Accounts receivable	100,772		100,772	54,405		54,405
Due (to) from affiliate	(9,671)	9,671	-	(6,508)	6,508	-
Prepaid expenses	56,075		56,075	65,359		65,359
Long-term investments - Notes B & C	4,916,815		4,916,815	4,746,125		4,746,125
Investments held for deferred compensation - Notes C & D	59,601		59,601	61,337		61,337
Property and equipment - Note E	335,574		335,574	395,482		395,482
Total assets	$ 11,767,757	$ 126,861	$ 11,894,618	$ 12,464,932	$ 126,377	$ 12,591,309
Liabilities and net assets						
Accounts payable	$ 159,054	$ -	159,054	61,239	-	61,239
Accrued liabilities	166,048		166,048	178,228		178,228
Investment trades pending payable	490,000		490,000	700,000		700,000
Deferred revenue - Note F	2,784,799		2,784,799	3,454,504		3,454,504
Deferred rent and lease incentive - Note J	293,368		293,368	273,207		273,207
Deferred compensation - Note D	59,601		59,601	61,337		61,337
Total liabilities	3,952,870	-	3,952,870	4,728,515	-	4,728,515
Commitment and contingency - Note J			-			-
Net assets - unrestricted	7,814,887	126,861	7,941,748	7,736,417	126,377	7,862,794
Total liabilities and net assets	$ 11,767,757	$ 126,861	$ 11,894,618	$ 12,464,932	$ 126,377	$ 12,591,309

See notes to the consolidating financial statements.

Consolidating Statements of Activities
Years Ended June 30, 2012 and 2011

	2012			2011*		
	TEI	TEIF	Total	TEI	TEIF	Total
Revenue						
Sponsorships	$ 1,969,825	$ -	$ 1,969,825	$ 1,636,750	$ -	$ 1,636,750
Continuing education	1,867,213		1,867,213	1,650,089		1,650,089
Membership dues	1,543,291		1,543,291	1,404,067		1,404,067
Royalty	524,050		524,050	520,174		520,174
Publications	425,205		425,205	406,619		406,619
Initiation Fees	133,850		133,850	136,175		136,175
Interest income	120,086	25	120,111	155,725	45	155,770
Other	9,107		9,107	10,922		10,922
Management Fees - Note G	(15,029)	15,029	-	(10,753)	10,753	-
Total revenue	6,577,598	15,054	6,592,652	5,909,768	10,798	5,920,566
Expense						
Program Services						
Continuing education	1,988,273	13,933	2,002,206	1,913,279	5,622	1,918,901
Committee and liaison	570,389		570,389	663,647		663,647
Membership services and development	485,419		485,419	410,805		410,805
Publications	433,756		433,756	459,055		459,055
Dues transferred to chapters	200,625		200,625	202,440		202,440
Total program services	3,678,462	13,933	3,692,395	3,649,226	5,622	3,654,848
Supporting services						
General and administrative	2,336,092	637	2,336,729	2,400,480	954	2,401,434
Total expense	6,014,554	14,570	6,029,124	6,049,706	6,576	6,056,282
Change in net assets from operations	563,044	484	563,528	(139,938)	4,222	(135,716)
Special project expense - Note H	(440,047)		(440,047)	(21,021)		(21,021)
Net loss on investments	(44,527)		(44,527)	(84,305)		(84,305)
Change in net assets	78,470	484	78,954	(245,264)	4,222	(241,042)
Net assets, beginning of year	7,736,417	126,377	7,862,794	7,981,681	122,155	8,103,836
Net assets, end of year	$ 7,814,887	$ 126,861	$ 7,941,748	$ 7,736,417	$ 126,377	$ 7,862,794

See notes to the consolidating financial statements. *Certain 2011 amounts have been reclassified for comparative purposes.

Consolidating Statements of Cash Flows
Years Ended June 30, 2012 and 2011

	2012			2011		
	TEI	TEIF	Total	TEI	TEIF	Total
Cash flows from operating activities						
Change in net assets	$ 78,470	$ 484	$ 78,954	$ (245,264)	$ 4,222	$ (241,042)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activites						
Depreciation and amortization	169,992		169,992	142,578		142,578
Net loss on investments	44,527		44,527	84,305		84,305
Changes in assets and liabilities:						
Accounts receivable	(46,367)		(46,367)	9,783		9,783
Due (to) from affiliate	3,163	(3,163)	-	1,626	(1,626)	-
Prepaid expenses	9,284		9,284	(9,414)		(9,414)
Accounts payable	97,815		97,815	(41,614)		(41,614)
Accrued liabilities	(12,180)		(12,180)	9,845		9,845
Deferred revenue	(669,705)		(669,705)	509,156		509,156
Deferred rent and lease incentives	20,161		20,161	39,045		39,045
Total adjustments	(383,310)	(3,163)	(386,473)	745,310	(1,626)	743,684
Net cash (used in) provided by operating activities	(304,840)	(2,679)	(307,519)	500,046	2,596	502,642
Cash flows from investing activities						
Proceeds from sale and maturity of investments	4,520,000		4,520,000	4,112,244		4,112,244
Purchases of investments	(4,151,488)		(4,151,488)	(4,680,241)		(4,680,241)
Purchases of property and equipment	(110,084)		(110,084)	(86,039)		(86,039)
Net cash provided by (used in) investing activities	258,428	-	258,428	(654,036)	-	(654,036)
Net (decrease) increase cash and cash equivalents	(46,412)	(2,679)	(49,091)	(153,990)	2,596	(151,394)
Cash and cash equivalents, beginning of year	680,973	119,869	800,842	834,963	117,273	952,236
Cash and cash equivalents, end of year	$ 634,561	$ 117,190	$ 751,751	$ 680,973	$ 119,869	$ 800,842
Supplemental Disclosure of Cash Flow Information						
Cash paid during the year for income taxes	$ 751	$ -	$ 751	$ 14,220	$ -	$ 14,220

See notes to the consolidating financial statements.

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: *Tax Executives Institute, Inc.* (TEI), incorporated in 1944 in New York, is a professional organization for corporate and business employees who are responsible for the tax affairs of their employers in an executive, managerial, or administrative capacity.

TEI Education Fund (TEIF) was formed in 1987 to sponsor or co-sponsor continuing education programs and otherwise to further TEI's educational objectives.

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 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 generally accepted accounting principles 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 other than those held within the investment portfolio. Money market accounts held in the investment portfolio are classified as investments for financial statement purposes.

Accounts receivable: Accounts receivable consists primarily of accrued interest receivable. 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 was recorded.

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. However, the Organization has no board designated net assets.

Reserve policy: TEI has established an operating reserve policy, the goal of which is to maintain minimum reserves equivalent to the three-year rolling average of (1) 50% of annual operating expenses and (2) 100% of annual sponsorship and royalty revenue.

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

Measure of operations: The Organization excludes from operations special projects expense and net loss on investments.

Subsequent events: Subsequent events have been evaluated through July 20, 2012, 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. federal 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 professionally managed short-term and long-term portfolios containing various 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 the portfolio's value during subsequent periods.

C. INVESTMENTS

In accordance with generally accepted accounting principles, the Organization uses the following prioritized input levels to measure 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 that are directly or indirectly observable in the marketplace, such as yield curves or other market data.

Level 3 – Unobservable inputs which reflect the Organization'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.

Money market funds and mutual funds, which were classified in Level 1, were valued based on quoted prices in active markets.

Certificates of deposit and government securities, which were classified in Level 2, were based on observable trades of similar securities. Auction-rate preferred securities, which were also classified in Level 2, were reported at carrying value which approximates fair value.

Management believes the estimated fair values to be a reasonable approximation of the exit price for the investments.

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

2012	Total	Level 1	Level 2	Level 3
Short-term investments				
Money market funds	$ 1,544,322	$ 1,544,322	$ -	$ -
Certificates of deposit	2,905,463		2,905,463	
Government securities	949,245		949,245	
Auction-rate preferred securities	275,000		275,000	
Subtotal short-term investments	5,674,030	1,544,322	4,129,708	-
Long-term investments				
Certificates of deposit	2,366,038		2,366,038	
Government securities	518,671		518,671	
Mutual Funds-fixed income	2,032,106	2,032,106		
Subtotal long-term investments	4,916,815	2,032,106	2,884,709	-
Investments held for deferred compensation				
Mutual funds	59,601	59,601		
TOTAL	**$10,650,446**	**$ 3,636,029**	**$ 7,014,417**	**$ -**

2011	Total	Level 1	Level 2	Level 3
Short-term investments				
Money market funds	$ 1,652,278	$ 1,652,278	$ -	$ -
Certificates of deposit	3,520,348		3,520,348	
Government securities	1,020,133		1,020,133	
Auction-rate preferred securities	275,000		275,000	
Subtotal short-term investments	6,467,759	1,652,278	4,815,481	-
Long-term investments				
Certificates of deposit	1,953,622		1,953,622	
Government securities	773,438		773,438	
Mutual Funds-fixed income	2,019,065	2,019,065		
Subtotal long-term investments	4,746,125	2,019,065	2,727,060	-
Investments held for deferred compensation				
Mutual funds	61,337	61,337		
TOTAL	**$11,275,221**	**$ 3,732,680**	**$ 7,542,541**	**$ -**

D. RETIREMENT PLANS

Deferred compensation plan: TEI has a deferred compensation plan under Section 457(b) of the Internal Revenue Code, which covers a key employee. Contributions to the deferred compensation plan were discontinued with the establishment of the 401(k) Plan described below. Therefore, no contributions were made to the plan during the years ended June 30, 2012 and 2011. However, the participant's balance will continue to accumulate earnings or losses. Deferred compensation liabilities amounted to $59,601 and $61,337 at June 30, 2012 and 2011, respectively.

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. TEI's contribution to the plan totaled $152,610 and $158,736 for the years ended June 30, 2012 and 2011, 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. TEI's contributions to the plan totaled $33,991 and $32,039 for the years ended June 30, 2012 and 2011, 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,:

	2012	2011
Office furniture and equipment	$ 975,270	$ 868, 012
Leasehold improvements	76,856	76,856
	1,052,126	944,868
Less accumulated depreciation and amortization	(716,552)	(549,386)
	$ 335,574	**$ 395,482**

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,:

	2012	2011
Membership dues	$ 1,360,961	$ 1,356,073
Sponsorships	793,000	1,416,250
Seminars, schools, and conferences	313,675	362,300
Royalty	305,000	305,000
Subscriptions	7,163	4,161
Advertising	5,000	10,720
	$ 2,784,799	**$ 3,454,504**

G. 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 $15,029 and $10,753 for the years ended June 30, 2012 and 2011, respectively.

H. SPECIAL PROJECTS EXPENSE

Special projects expense relates to either nonrecurring costs or multi-year projects. Special projects expense is approved through the Organization's budget process but is classified as non-operating.

Special projects expense consisted of the following as of June 30,:

	2012	2011
Executive transition	$ 189,988	$ -
Strategic planning	179,456	-
Corporate Tax Management Survey	61,223	3,211
Grants and scholarships	9,380	17,810
	$ 440,047	**$ 21,021**

I. 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 $1,500,000 annually.

J. 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 statement 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 $73,936 which will also be amortized on a straight line basis over the term of the lease. Rent expense was approximately $478,800 and $482,000 for the years ended June 30, 2012 and 2011, respectively.

Future minimum lease payments are as follows:

Year Ending June 30,	Amount
2013	$ 460,300
2014	482,200
2015	503,900
2016	526,500
2017	550,100
Thereafter	377,500
	$ 2,900,500

Employment agreements: TEI has an employment agreement with its current Executive Director, which expires January 2013. 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, including accrued bonuses, for the remaining period of the agreement.

During the year ended June 30, 2012, TEI signed an employment agreement with a successor Executive Director. The agreement is effective January 2013 and 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.