

# 2017

## Annual Report



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 Director, Tax  
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 Telephone & Data Systems, Inc.

# Audited Consolidating Financial Statements

## TAX EXECUTIVES INSTITUTE, INC. AND TEI EDUCATION FUND

June 30, 2017

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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 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, 2017 and 2016, 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 judg-

ment, 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, 2017 and 2016, 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 24, 2017

## Consolidating Statements of Financial Position Years Ended June 30, 2017 and 2016

### 2017

### 2016

	TEI	TEIF	Total	TEI	TEIF	Total
<b>Assets</b>						
Cash and cash equivalents	\$ 682,542	\$ 106,287	\$ 788,829	\$ 734,383	\$ 105,916	\$ 840,299
Investments	9,755,710		9,755,710	10,434,410		10,434,410
Accounts receivable	47,191		47,191	30,536		30,536
Due (to) from affiliate			-	(6,108)	6,108	-
Prepaid expenses	167,222		167,222	73,909		73,909
Property and equipment	1,110,154		1,110,154	1,023,198		1,023,198
<b>Total assets</b>	<b>\$ 11,762,819</b>	<b>\$ 106,287</b>	<b>\$ 11,869,106</b>	<b>\$ 12,290,328</b>	<b>\$ 112,024</b>	<b>\$ 12,402,352</b>
<b>Liabilities and net assets</b>						
Accounts payable	\$ 49,045	\$ -	\$ 49,045	\$ 76,826	\$ 309	\$ 77,135
Accrued liabilities	164,088		164,088	298,779		298,779
Deferred revenue	3,153,007		3,153,007	3,076,957		3,076,957
Deferred rent and lease incentive	1,127,010		1,127,010	834,244		834,244
Total liabilities	4,493,150	-	4,493,150	4,286,806	309	4,287,115
Commitments and contingencies			-			-
Net assets - unrestricted	7,269,669	106,287	7,375,956	8,003,522	111,715	8,115,237
<b>Total liabilities and net assets</b>	<b>\$ 11,762,819</b>	<b>\$ 106,287</b>	<b>\$ 11,869,106</b>	<b>\$ 12,290,328</b>	<b>\$ 112,024</b>	<b>\$ 12,402,352</b>

See notes to the consolidating financial statements.

## Consolidating Statements of Activities Years Ended June 30, 2017 and 2016

	2017			2016		
	TEI	TEIF	Total	TEI	TEIF	Total
<b>Revenue</b>						
Sponsorships	\$ 1,817,700	\$ -	\$ 1,817,700	\$ 1,895,400	\$ -	\$ 1,895,400
Membership dues	1,530,736		1,530,736	1,580,993		1,580,993
Continuing education	1,509,225		1,509,225	1,695,150		1,695,150
Royalty	535,000		535,000	535,000		535,000
Publications	432,267		432,267	436,850		436,850
Interest and dividends	182,332	18	182,350	186,653	18	186,671
Other	9,215		9,215	10,154		10,154
Management Fees	(9,120)	9,120	-	(10,232)	10,232	-
Initiation Fees			-	134,325		134,325
<b>Total revenue</b>	<b>6,007,355</b>	<b>9,138</b>	<b>6,016,493</b>	<b>6,464,293</b>	<b>10,250</b>	<b>6,474,543</b>
<b>Expense</b>						
Program services						
Continuing education	2,046,788	13,795	2,060,583	2,103,480	2,188	2,105,668
Publications	795,957		795,957	780,002		780,002
Committee and liaison	720,542		720,542	685,244		685,244
Membership services	388,541		388,541	419,328		419,328
Dues transferred to chapters	210,050		210,050	207,960		207,960
Total program services	4,161,878	13,795	4,175,673	4,196,014	2,188	4,198,202
Supporting services						
General and administrative	2,598,416	771	2,599,187	2,414,671	651	2,415,322
Total expense	6,760,294	14,566	6,774,860	6,610,685	2,839	6,613,524
Change in net assets from operations	(752,939)	(5,428)	(758,367)	(146,392)	7,411	(138,981)
Net realized and unrealized gain (loss) on investments	166,016		166,016	(188,961)		(188,961)
Special projects expense	(146,930)		(146,930)	(71,983)		(71,983)
Gain on office lease amendment			-	180,797		180,797
<b>Change in net assets</b>	<b>(733,853)</b>	<b>(5,428)</b>	<b>(739,281)</b>	<b>(226,539)</b>	<b>7,411</b>	<b>(219,128)</b>
Net assets, beginning of year	8,003,522	111,715	8,115,237	8,230,061	104,304	8,334,365
<b>Net assets, end of year</b>	<b>\$ 7,269,669</b>	<b>\$ 106,287</b>	<b>\$ 7,375,956</b>	<b>\$ 8,003,522</b>	<b>\$ 111,715</b>	<b>\$ 8,115,237</b>

See notes to the consolidating financial statements.

## Consolidating Statements of Cash Flows

### Years Ended June 30, 2017 and 2016

2017

2016

	TEI	TEIF	Total	TEI	TEIF	Total
<b>Cash flows from operating activities</b>						
Change in net assets	\$ (733,853)	\$ (5,428)	\$ (739,281)	\$ (226,539)	\$ 7,411	\$ (219,128)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities						
Net realized and unrealized (gain) loss on investments	(166,016)		(166,016)	188,961		188,961
Bad debt			-	248		248
Depreciation and amortization	145,126		145,126	57,916		57,916
Loss on disposal of property and equipment			-	18,327		18,327
Gain on office lease amendment			-	(180,797)		(180,797)
Changes in assets and liabilities:						
Accounts receivable	(16,655)		(16,655)	(1,179)		(1,179)
Due (to) from affiliate	(6,108)	6,108	-	(316)	316	-
Prepaid expenses	(93,313)		(93,313)	3,384		3,384
Accounts payable	(27,781)	(309)	(28,090)	(45,258)	309	(44,949)
Accrued liabilities	(134,691)		(134,691)	108,850		108,850
Deferred revenue	76,050		76,050	151,511		151,511
Deferred rent and lease incentive	292,766		292,766	787,832		787,832
Total adjustments	69,378	5,799	75,177	1,089,479	625	1,090,104
Net cash (used in) provided by operating activities	(664,475)	371	(664,104)	862,940	8,036	870,976
<b>Cash flows from investing activities</b>						
Proceeds from sale and maturities of investments	5,351,089		5,351,089	6,173,267		6,173,267
Purchases of investments	(4,506,373)		(4,506,373)	(5,936,948)		(5,936,948)
Purchases of property and equipment	(232,082)		(232,082)	(1,014,645)		(1,014,645)
Net cash provided by (used in) investing activities	612,634	-	612,634	(778,326)	-	(778,326)
<b>Net (decrease) increase in cash and cash equivalents</b>	(51,841)	371	(51,470)	84,614	8,036	92,650
Cash and cash equivalents, beginning of year	734,383	105,916	840,299	649,769	97,880	747,649
<b>Cash and cash equivalents, end of year</b>	\$ 682,542	\$ 106,287	\$ 788,829	\$ 734,383	\$ 105,916	\$ 840,299
<b>Schedule of noncash investing activities:</b>						
Property and equipment purchased with lease incentive	\$ -	\$ -	\$ -	\$ 752,080	\$ -	\$ 752,080

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.

TEI has operating loss carry-forwards resulting from its unrelated business activities of approximately \$7,700 which may be applied against future years' taxable income. A deferred tax asset has not been recognized due to the uncertainty of realizing the benefit of the loss carry-forwards.

**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 held in the investment portfolio are classified as investments for financial statement purposes.

**Accounts receivable:** Accounts receivable consists primarily of membership dues related to services provided and have been presented at the gross amount due to the Organization. Management periodically reviews the status of all accounts receivable balances for collectability. Each receivable balance is assessed based on management's knowledge of the member, the Organization's relationship with the member, and the age of the receivable balance. As a result of these reviews, receivable balances deemed to be uncollectible are charged directly to bad debt expense, which totaled \$0 and \$248 for the years ended June 30, 2017 and 2016, respectively. 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 realized and unrealized gain (loss) on investments, special projects expense, and gain on office lease amendment.

**Subsequent events:** Subsequent events have been evaluated through July 24, 2017, 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

Investments held in the short-term and long-term portfolios consisted of the following at June 30,:

	<b>2017</b>	<b>2016</b>
Short-term investments		
Money market funds	\$ 838,271	\$ 702,745
Certificates of deposit	2,638,822	2,757,450
Subtotal short-term investments	<u>3,477,093</u>	<u>3,460,195</u>
Long-term investments		
Money market funds	636,085	608,562
Certificates of deposit	1,148,060	2,094,512
Corporate bonds	276,435	358,835
Mutual funds		
Fixed income	2,890,766	2,747,071
Equity	1,102,171	941,101
Alternative strategies funds	225,100	224,134
Subtotal long-term investments	<u>6,278,617</u>	<u>6,974,215</u>
	<u><b>\$ 9,755,710</b></u>	<u><b>\$ 10,434,410</b></u>

**Investment return:** Interest and dividends and net realized and unrealized gain (loss) on investments have been presented on the face of the consolidating statements of activities. However, investment management fees have been included in general and administrative expense and totaled \$27,979 and \$28,052 during the years ended June 30, 2017 and 2016, respectively.

**Fair values:** In accordance with accounting principles generally accepted in the United States of America, the Organization uses the following prioritized input levels to measure 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 reflect an assessment of the assumptions that market participants would use in pricing an asset (or liability) and may include assumptions about risk or other considerations such as bid / ask spreads and liquidity discounts.

Investments valued using Level 1 inputs include various types of mutual funds, such as fixed income, equity, and alternative strategies (exchange traded funds, closed-end funds, and unit investment trusts). Mutual funds were valued based on quoted prices for identical assets in active markets. Furthermore, the alternative strategies funds were valued based on the inputs used in the valuation of their underlying portfolios of securities, which were primarily Level 1.

Investments valued using Level 2 inputs include corporate bonds, 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 investments to be a reasonable approximation of their exit price.

The following is a summary of the input levels used to determine fair value of investments, which are measured on a recurring basis, at June 30, 2017:

2017	Total	Level 1	Level 2	Level 3
Corporate bonds	\$ 276,435	\$ -	\$ 276,435	\$ -
Mutual funds - fixed income	2,890,766	2,890,766		
Mutual funds - equity	1,102,171	1,102,171		
Mutual funds - alternative strategies	225,100	225,100		
<b>Total Investments</b>	<b>\$ 4,494,472</b>	<b>\$ 4,218,037</b>	<b>\$ 276,435</b>	<b>\$ -</b>

The following is a summary of the input levels used to determine fair value of investments, which are measured on a recurring basis, at June 30, 2016:

2016	Total	Level 1	Level 2	Level 3
Corporate bonds	\$ 358,835	\$ -	\$ 358,835	\$ -
Mutual funds - fixed income	2,747,071	2,747,071		
Mutual funds - equity	941,101	941,101		
Mutual funds - alternative strategies	224,134	224,134		
	<b>\$ 4,271,141</b>	<b>\$ 3,912,306</b>	<b>\$ 358,835</b>	<b>\$ -</b>

Investments recorded at cost include certificates of deposit and money market funds, which are not required to be classified in one of the levels prescribed by the fair value hierarchy. Therefore, investments at cost have been excluded from classification within the input levels detailed in the charts above.

#### 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 \$184,262 and \$178,463 for the years ended June 30, 2017 and 2016, 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 \$41,697 and \$40,320 for the years ended June 30, 2017 and 2016, 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,:

	2017	2016
Office furniture and equipment	\$ 593,079	\$ 840,655
Leasehold improvements	703,755	703,756
Website	330,818	132,500
	<u>1,627,652</u>	<u>1,676,911</u>
Less accumulated depreciation and amortization	(517,498)	(653,713)
	<u><b>\$1,110,154</b></u>	<u><b>\$ 1,023,198</b></u>



## Notes to the Consolidating Financial Statements

During the year ended June 30, 2016, TEI completed leasehold improvements on its office space. Relating to the project, TEI capitalized furniture and equipment of \$167,182 and leasehold improvements of \$584,898 relating to the tenant improvement allowance, which totaled \$752,080 (see Note K).

### F. DEFERRED REVENUE

Revenue received in advance of the period in which an earnings process completed is recorded as deferred revenue and, when earned in subsequent years, the revenue is recognized.

Deferred revenue consisted of the following at June 30,:

	2017	2016
Membership dues	\$ 1,334,369	\$ 1,322,237
Sponsorships	1,134,000	1,176,500
Seminars, schools, and conferences	371,950	269,525
Royalty	305,000	305,000
Advertising	4,271	-
Subscriptions	3,417	3,695
	<u>\$ 3,153,007</u>	<u>\$ 3,076,957</u>

### 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 reserves:** The operating reserves represent TEI's safety net which has been board-designated in order to provide a cushion against unexpected events, loss of income, or large unbudgeted expenses. The operating reserves balance 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 reserves:** The capital / opportunity reserves represent the remaining balance of TEI's unrestricted net assets after the operating and any other reserves have been determined.

**2020 Annual Conference (75th Anniversary):** During each of years ended June 30, 2017 and 2016, the Board of Directors designated \$50,000 to fund the 2020 Annual Conference (75th Anniversary).

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

	2017	2016
<b>TEI</b>		
Designated net assets		
Operating reserves	\$ 5,667,165	\$ 5,633,684
Capital / opportunity reserves	1,502,504	2,319,838
2020 Annual Conference (75th Anniversary)	100,000	50,000
	<u>7,269,669</u>	<u>8,003,522</u>
<b>TEIF</b>		
Undesignated net assets	106,287	111,715
	<u>\$ 7,375,956</u>	<u>\$ 8,115,237</u>

### 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 \$9,120 and \$10,232 for the years ended June 30, 2017 and 2016, respectively.

### I. 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, by policy, it is not included in the changes in net assets from operations.

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

	2017	2016
Membership structure	\$ 138,296	\$ 62,042
Grants and scholarships	\$ 8,634	\$ 9,941
	<u>\$ 146,930</u>	<u>\$ 71,983</u>

### J. CHAPTERS AND REGIONS

TEI has several chapters and regions located throughout the United States of America, Canada, Europe, Latin America, 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. Therefore, the chapters and regions are not included in the accompanying consolidating financial statements.

Chapter and region cash balances aggregated to approximately \$2.3 million at June 30, 2016 and chapter and region revenue aggregated to approximately \$3.85 million for the year ended June 30, 2016. Aggregate chapter and region financial information is not yet available as of and for the year ended June 30, 2017.

### K. COMMITMENTS AND CONTINGENCIES

**Office lease:** TEI has an operating lease for office space that was amended effective May 2016 and expires February 2028. As a result of the amendment, TEI wrote off the May 2016 balance of the liability for deferred rent and lease incentive, which was related to the previous amendment, and recorded a gain on office lease amendment totaling \$180,797 for the year ended June 30, 2016.

The office 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 terms of the office lease also include a tenant improvement allowance of \$752,080 which will also be amortized on a straight line basis over the term of the lease. The liability for deferred rent and lease incentive totaled \$1,127,010 and \$834,244 at June 30, 2017 and 2016, respectively.

## Notes to the Consolidating Financial Statements

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Rent expense, on a straight-line basis, approximated \$490,300 and \$476,200 for the years June 30, 2017 and 2016, respectively.

Future minimum cash basis office lease payments are as follows:

<b>Year Ending June 30,</b>	<b>Amount</b>
2018	480,400
2019	502,000
2020	524,500
2021	548,000
2022	572,600
Thereafter	<u>3,764,700</u>
	<b><u>\$ 6,392,200</u></b>

**Employment agreement:** TEI has an employment agreement with its Executive Director which expires on December 31, 2025. 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 additional amount if employed on December 31, 2025 and provided certain conditions are met.

**Hotel contracts:** TEI has agreements with hotels to provide conference facilities, meeting space, and room accommodations for future events. The agreements contain cancellation or attrition clauses whereby TEI may be liable for liquidated damages in the event of cancellation or lower than anticipated attendance.