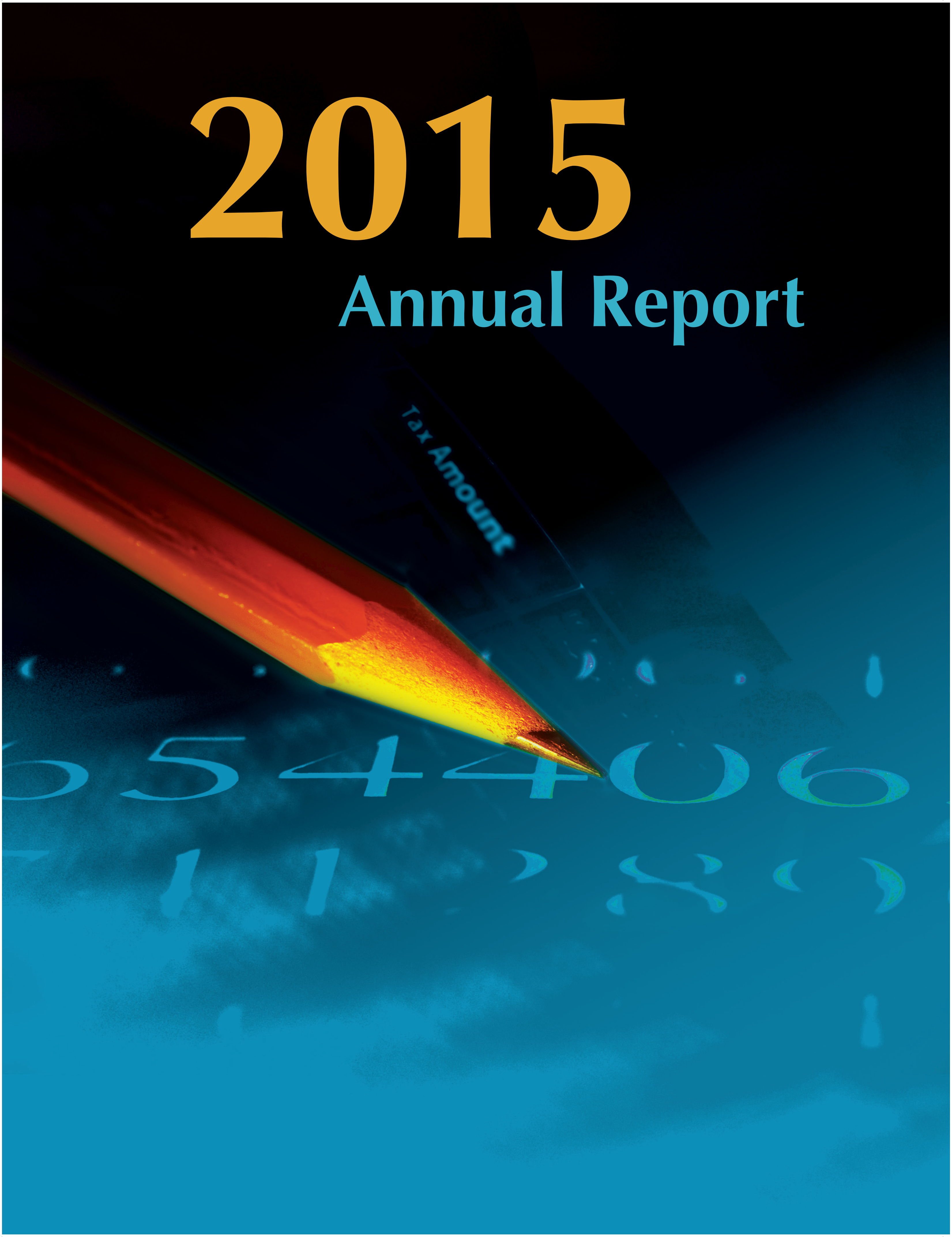
2015

Annual Report



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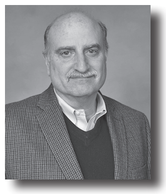

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Audited Consolidating Financial Statements

Tax Executives Institute, Inc. and TEI Education Fund

June 30, 2015

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, 2015 and 2014, 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, 2015 and 2014, 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 21, 2015

Consolidating Statements of Financial Position
Years Ended June 30, 2015 and 2014

	2015			2014		
	TEI	TEIF	Total	TEI	TEIF	Total
Assets						
Cash and cash equivalents	$ 649,769	$ 97,880	$ 747,649	$ 718,223	$ 87,819	$ 806,042
Investments	10,859,690		10,859,690	10,626,723		10,626,723
Accounts receivable	29,605		29,605	31,288		31,288
Due (to) from affiliate	(6,424)	6,424	-	(7,548)	7,548	-
Prepaid expenses	77,293		77,293	69,893		69,893
Property and equipment	84,796		84,796	127,220		127,220
Total assets	$ 11,694,729	$ 104,304	$ 11,799,033	$ 11,565,799	$ 95,367	$ 11,661,166
Liabilities and net assets						
Accounts payable	$ 122,084	$ -	$ 122,084	$ 1,821	$ -	$ 1,821
Accrued liabilities	189,929		189,929	190,571		190,571
Deferred revenue	2,925,446		2,925,446	2,836,359		2,836,359
Deferred rent and lease incentive	227,209		227,209	270,996		270,996
Total liabilities	3,464,668	-	3,464,668	3,299,747	-	3,299,747
Commitment and contingencies			-			-
Net assets - unrestricted	8,230,061	104,304	8,334,365	8,266,052	95,367	8,361,419
Total liabilities and net assets	$ 11,694,729	$ 104,304	$ 11,799,033	$ 11,565,799	$ 95,367	$ 11,661,166

See notes to the consolidating financial statements.

Consolidating Statements of Activities
Years Ended June 30, 2015 and 2014

	2015			2014		
	TEI	TEIF	Total	TEI	TEIF	Total
Revenue						
Sponsorships	**$ 1,888,900**	**$ -**	**$ 1,888,900**	$ 2,003,650	$ -	$ 2,003,650
Continuing education	**1,720,090**		**1,720,090**	1,694,150		1,694,150
Membership dues	**1,574,462**		**1,574,462**	1,570,507		1,570,507
Royalty	**535,000**		**535,000**	535,000		535,000
Publications	**412,966**		**412,966**	406,865		406,865
Interest income	**197,905**	**18**	**197,923**	177,030	24	177,054
Initiation Fees	**141,750**		**141,750**	142,675		142,675
Other	**9,754**		**9,754**	10,616		10,616
Management Fees	**(11,800)**	**11,800**	**-**	(9,916)	9,916	-
Total revenue	**6,469,027**	**11,818**	**6,480,845**	6,530,577	9,940	6,540,517
Expense						
Program services						
Continuing education	**1,992,654**	**2,812**	**1,995,466**	2,068,680	48,138	2,116,818
Publications	**652,693**		**652,693**	664,081		664,081
Committee and liaison	**639,263**		**639,263**	611,387		611,387
Membership services	**444,419**		**444,419**	429,620		429,620
Dues transferred to chapters	**209,160**		**209,160**	206,745		206,745
Total program services	**3,938,189**	**2,812**	**3,941,001**	3,980,513	48,138	4,028,651
Supporting services						
General and administrative	**2,358,467**	**69**	**2,358,536**	2,309,147	651	2,309,798
Total expense	**6,296,656**	**2,881**	**6,299,537**	6,289,660	48,789	6,338,449
Change in net assets from operations	**172,371**	**8,937**	**181,308**	240,917	(38,849)	202,068
Net (loss) gain on investments	**(133,992)**		**(133,992)**	251,100		251,100
Special projects expense	**(74,370)**		**(74,370)**	(5,100)		(5,100)
Change in net assets	**(35,991)**	**8,937**	**(27,054)**	486,917	(38,849)	448,068
Net assets, beginning of year	**8,266,052**	**95,367**	**8,361,419**	7,779,135	134,216	7,913,351
Net assets, end of year	**$ 8,230,061**	**$ 104,304**	**$ 8,334,365**	$ 8,266,052	$ 95,367	$ 8,361,419

See notes to the consolidating financial statements.

Consolidating Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2015			2014		
	TEI	TEIF	Total	TEI	TEIF	Total
Cash flows from operating activities						
Change in net assets	**$ (35,991)**	**$ 8,937**	**$ (27,054)**	$ 486,917	$ (38,849)	$ 448,068
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activites						
Net loss (gain) on investments	**133, 992**		**133, 992**	(251,100)		(251,100)
Bad debt	**1,621**		**1,621**	-		-
Depreciation and amortization	**77,569**		**77,569**	110,321		110,321
Loss on disposal of property and equipment	**4,228**		**4,228**			-
Changes in assets and liabilities:						
Accounts receivable	**62**		**62**	(5,534)		(5,534)
Due (to) from affiliate	**(1,124)**	**1,124**	**-**	(2,382)	2,382	-
Prepaid expenses	**(7,400)**		**(7,400)**	17,471		17,471
Accounts payable	**120,263**		**120,263**	(30,478)		(30,478)
Accrued liabilities	**(642)**		**(642)**	28,077		28,077
Deferred revenue	**89,087**		**89,087**	16,944		16,944
Deferred rent and lease incentive	**(43,787)**		**(43,787)**	(22,156)		(22,156)
Total adjustments	**373,869**	**1,124**	**374,993**	(138,837)	2,382	(136,455)
Net cash provided by (used in) operating activities	**337,878**	**10,061**	**347,939**	348,080	(36,467)	311,613
Cash flows from investing activities						
Proceeds from sale and maturity of investments	**6,656,186**		**6,656,186**	6,793,752		6,793,752
Purchases of investments, net of money market sales	**(7,023,145)**		**(7,023,145)**	(7,329,413)		(7,329,413)
Purchases of property and equipment	**(39,373)**		**(39,373)**	(31,153)		(31,153)
Net cash (used in) provided by investing activities	**(406,332)**	**-**	**(406,332)**	(566,814)	-	(566,814)
Net (decrease) increase cash and cash equivalents	**(68,454)**	**10,061**	**(58,393)**	(218,734)	(36,467)	(255,201)
Cash and cash equivalents, beginning of year	**718,223**	**87,819**	**806,042**	936,957	124,286	1,061,243
Cash and cash equivalents, end of year	**$ 649,769**	**$ 97,880**	**$ 747,649**	$ 718,223	$ 87,819	$ 806,042
Supplemental Disclosure of Cash Flow Information						
Cash paid during the year for income taxes	**$ -**	**$ -**	**$ -**	$ 1,153	$ -	$ 1,153

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.

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 advertising and membership dues. Accounts receivable are presented at the gross 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, which totaled $1,621 and $0 for the years ended June 30, 2015 and 2014, 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 (loss) gain on investments and special projects expense.

Subsequent events: Subsequent events have been evaluated through July 21, 2015, 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

Investment consisted of the following at June 30:

	2015	2014
Short-term investments		
Money market funds	$ 570,885	$ 501,617
Certificates of deposit	2,516,392	2,029,019
Subtotal short-term investments	3,087,277	2,530,636
Long-term investments		
Money market funds	210,443	56,840
Certificates of deposit	2,955,019	3,162,244
Investment trade pending receivable	-	194,000
Corporate bonds	376,567	461,668
Mutual funds - fixed income	2,152,990	2,883,245
Mutual funds - equity	1,774,411	1,027,227
Alternative strategies funds	227,983	235,863
Auction-rate preferred securities	75,000	75,000
Subtotal long-term investments	7,772,413	8,096,087
	$ 10,859,690	**$ 10,626,723**

Investment management fees totaling $28,805 and $27,643 were recorded in general and administrative expense during the years ended June 30, 2015 and 2014, respectively.

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 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 and auction-rate preferred securities. The corporate bonds 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.

Investments recorded at cost 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 below

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,:

2015	Total	Level 1	Level 2	Level 3
Corporate bonds	$ 376,567	$ -	$ 376,567	$ -
Mutual funds - fixed income	2,152,990	2,152,990		
Mutual funds - equity	1,774,411	1,774,411		
Mutual funds - alternative strategies	227,983	227,983		
Auction-rate preferred securities	75,000		75,000	
Total Investments	**$ 4,606,951**	**$ 4,155,384**	**$ 451,567**	**$ -**

2014	Total	Level 1	Level 2	Level 3
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		
Mutual funds - alternative strategies	235,863	235,863		
Auction-rate preferred securities	75,000		75,000	
Total Investments	**$ 4,683,003**	**$ 4,146,335**	**$ 536,668**	**$ -**

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 $178,796 and $171,286 for the years ended June 30, 2015 and 2014, 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 $38,429 and $40,670 for the years ended June 30, 2015 and 2014, 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,:

	2015	2014
Office furniture and equipment	$ 896,095	$ 943,450
Leasehold improvements	76,856	76,856
	972,951	1,020,306
Less accumulated depreciation and amortization	(888,155)	(893,086)
	$ 84,796	**$ 127,220**

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,:

	2015	2014
Membership dues	$ 1,393,299	$ 1,358,322
Sponsorships	847,000	930,500
Seminars, schools, and conferences	361,140	215,005
Royalty	305,000	305,000
Advertising	15,000	23,321
Subscriptions	4,007	4,211
	$ 2,925,446	**$ 2,836,359**

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,:

	2015	2014
TEI		
Designated net assets		
Operating reserve	$ 5,617,001	$ 5,593,309
Captial / opportunity reserve	2,613,060	2,672,743
	8,230,061	8,266,052
TEIF		
Undesignated net assets	104,304	95,367
	$ 8,334,365	**$ 8,361,419**

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 $11,800 and $9,916 for the years ended June 30, 2015 and 2014, 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,:

	2015	2014
Membership structure	$ 62,100	$ -
Grants and scholarships	$ 12,270	$ 5,100
	$ 74,370	**$ 5,100**

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 $2.5 million at June 30, 2014 and chapter and region revenue aggregated to approximately $4.0 million for the year ended June 30, 2014. Aggregate chapter and region financial information is not yet available as of and for the year ended June 30, 2015.

K. COMMITMENT AND CONTINGENCIES

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 $464,500 and $465,000 for the years June 30, 2015 and 2014, respectively.

Future minimum lease payments are as follows:

Year Ending June 30,	Amount
2016	$ 526,500
2017	550,100
2018	377,500
	$ 1,454,100

Employment agreements: TEI has an employment agreement with its Executive Director which currently expires December 31, 2017. The agreement includes an option to extend the term until December 31, 2022. 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.

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.