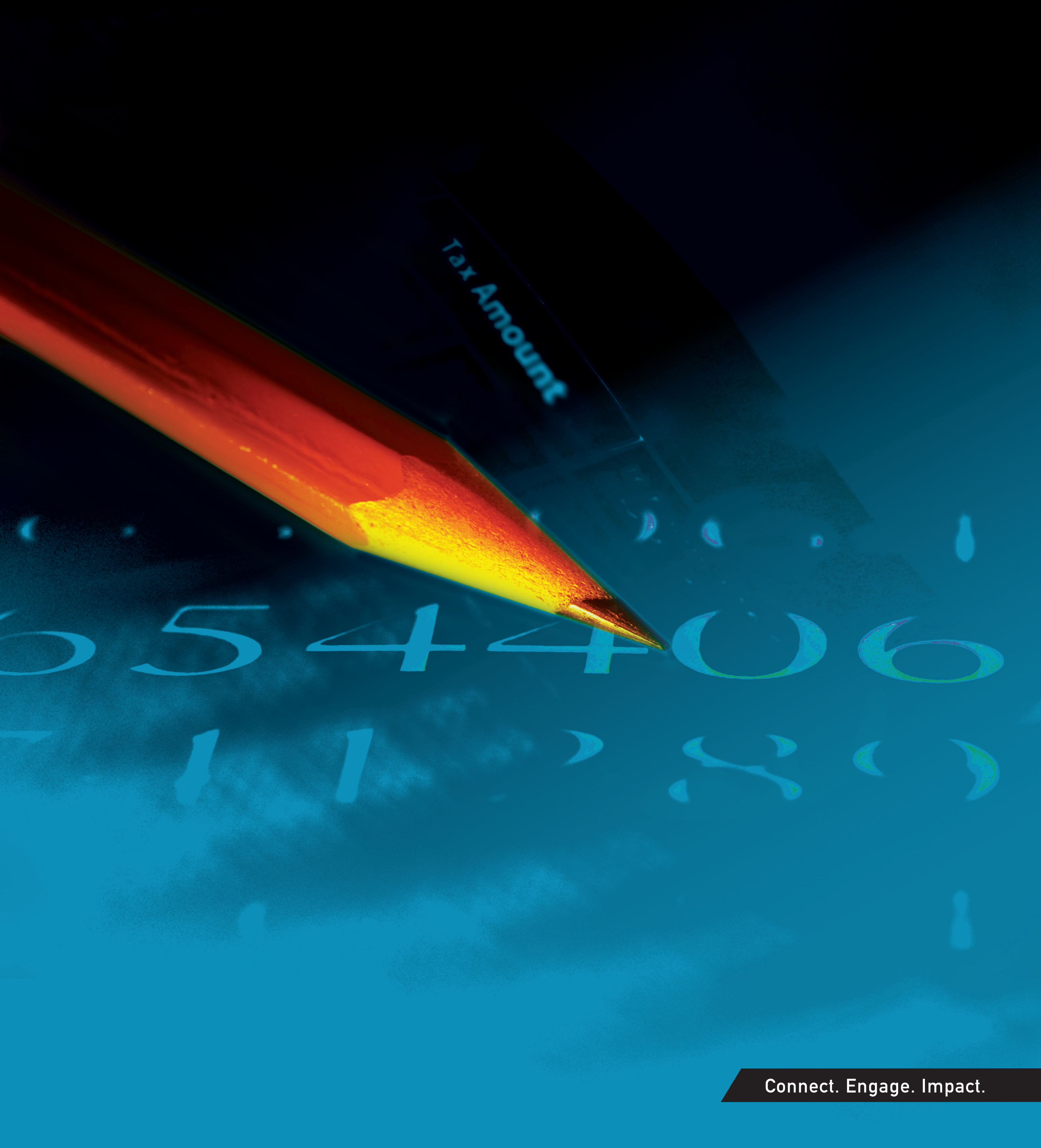
TEI 2018 ANNUAL REPORT



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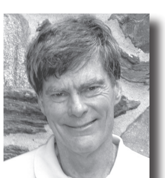

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Audited Consolidating Financial Statements

Tax Executives Institute, Inc. and TEI Education Fund

June 30, 2018

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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, 2018 and 2017, 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 a counting 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, 2018 and 2017, 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 26, 2018

Consolidating Statements of Financial Position
Years Ended June 30, 2018 and 2017

	2018			2017		
	TEI	TEIF	Total	TEI	TEIF	Total
Assets						
Cash and cash equivalents	**$ 844,198**	**$ 99,280**	**$ 943,478**	$ 682,542	$ 106,287	$ 788,829
Investments	**8,951,354**		**8,951,354**	9,755,710		9,755,710
Accounts receivable	**70,853**		**70,853**	47,191		47,191
Due (to) from affiliate	**(5,454)**	**5,454**	**-**			-
Prepaid expenses	**57,664**		**57,664**	167,222		167,222
Property and equipment	**953,215**		**953,215**	1,110,154		1,110,154
Total assets	**$ 10,871,830**	**$ 104,734**	**$ 10,976,564**	$ 11,762,819	$ 106,287	$ 11,869,106
Liabilities and net assets						
Accounts payable	**$ 75,529**	**$ 1,647**	**$ 77,176**	$ 49,045	$ -	$ 49,045
Accrued liabilities	**164,249**		**166,249**	164,088		164,088
Deferred revenue	**3,050,229**		**3,050,229**	3,153,007		3,153,007
Deferred rent and lease incentive	**1,146,207**		**1,146,207**	1,127,010		1,127,010
Total liabilities	**4,438,214**	**1,647**	**4,439,861**	4,493,150	-	4,493,150
Commitments and contingencies			**-**			-
Net assets - unrestricted	**6,433,616**	**103,087**	**6,536,703**	7,269,669	106,287	7,375,956
Total liabilities and net assets	**$ 10,871,830**	**$ 104,734**	**$ 10,976,564**	$ 11,762,819	$ 106,287	$ 11,869,106

See notes to the consolidating financial statements.

Consolidating Statements of Activities
Years Ended June 30, 2018 and 2017

	2018			2017		
	TEI	**TEIF**	**Total**	TEI	TEIF	Total
Revenue						
Sponsorships	**$ 1,892,575**	**$ -**	**$ 1,892,575**	$ 1,817,700	$ -	$ 1,817,700
Membership dues	**1,545,431**		**1,545,431**	1,530,736		1,530,736
Continuing education	**1,894,475**		**1,894,475**	1,509,225		1,509,225
Royalty	**533,025**		**533,025**	535,000		535,000
Publications	**404,991**		**404,991**	432,267		432,267
Investment income	**207,462**	**21**	**207,483**	154,353	18	154,371
Other income	**6,827**		**6,827**	9,215		9,215
Management Fees	**(9,996)**	**9,996**	**-**	(9,120)	9,120	-
Total revenue	**6,474,790**	**10,017**	**6,484,807**	5,979,376	9,138	5,988,514
Expense						
Program services						
Continuing education	**2,352,352**	**12,416**	**2,364,768**	2,046,788	13,795	2,060,583
Publications	**823,572**		**823,572**	795,957		795,957
Committee and liaison	**721,746**		**721,746**	720,542		720,542
Membership services	**382,572**		**382,572**	388,541		388,541
Dues transferred to chapters	**207,500**		**207,500**	210,050		210,050
Total program services	**4,487,742**	**12,416**	**4,500,158**	4,161,878	13,795	4,175,673
Supporting services						
General and administrative	**2,687,938**	**801**	**2,688,739**	2,570,437	771	2,571,208
Total expense	**7,175,680**	**13,217**	**7,188,897**	6,732,315	14,566	6,746,,881
Change in net assets from operations	**(700,890)**	**(3,200)**	**(704,090)**	(752,939)	(5,428)	(758,367)
Net realized and unrealized gain (loss) on investments	**(5,022)**		**(5,022)**	166,016		166,016
Special projects expense	**(130,141)**		**(130,141)**	(146,930)		(146,930)
Change in net assets	**(836,053)**	**(3,200)**	**(839,253)**	(733,853)	(5,428)	(739,281)
Net assets, beginning of year	**7,269,669**	**106,287**	**7,375,956**	8,003,522	111,715	8,115,237
Net assets, end of year	**$ 6,433,616**	**$ 103,087**	**$ 6,536,703**	$ 7,269,669	$ 106,287	$ 7,375,956

See notes to the consolidating financial statements.

Consolidating Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018			2017		
	TEI	**TEIF**	**Total**	**TEI**	**TEIF**	**Total**
Cash flows from operating activities						
Change in net assets	**$ (836,053)**	**$ (3,200)**	**$ (839,253)**	$ (733,853)	$ (5,428)	$ (739,281)
Adjustments to reconcile change in net assets to net cash used in provided by operating activites						
Net realized and unrealized loss (gain) on investments	**5,022**		**5,022**	(166,016)		(166,016)
Bad debt	**7,538**		**7,538**			-
Depreciation and amortization	**263,057**		**263,057**	145,126		145,126
Changes in assets and liabilities:						
Accounts receivable	**(31,200)**		**(31,200)**	(16,655)		(16,655)
Due from (to) affiliate	**5,454**	**(5,454)**	**-**	(6,108)	6,108	-
Prepaid expenses	**109,558**		**109,558**	(93,313)		(93,313)
Accounts payable	**26,484**	**1,647**	**28,131**	(27,781)	(309)	(28,090)
Accrued liabilities	**2,161**		**2,161**	(134,691)		(134,691)
Deferred revenue	**(102,778)**		**(102,778)**	76,050		76,050
Deferred rent and lease incentive	**19,197**		**19,197**	292,766		292,766
Total adjustments	**304,493**	**(3,807)**	**300,686**	69,378	5,799	75,177
Net cash used in (provided by) operating activities	**(531,560)**	**(7,007)**	**(538,567)**	(664,475)	371	(664,104)
Cash flows from investing activities						
Proceeds from sales and maturities of investments	**4,524,056**		**4,524,056**	5,351,089		5,351,089
Purchases of investments	**(3,724,722)**		**(3,724,722)**	(4,506,373)		(4,506,373)
Purchases of property and equipment	**(106,118)**		**(106,118)**	(232,082)		(232,082)
Net cash provided by investing activities	**693,216**	**-**	**693,216**	612,634	-	612,634
Net increase (decrease) in cash and cash equivalents	**161,656**	**(7,007)**	**154,649**	(51,841)	371	(51,470)
Cash and cash equivalents, beginning of year	**682,542**	**106,287**	**788,829**	734,383	105,916	840,299
Cash and cash equivalents, end of year	**$ 844,198**	**$ 99,280**	**$ 943,478**	$ 682,542	$ 106,287	$ 788,829

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.

TEI established *TEI Business Consulting (Shanghai) Company Limited (TEI China)* as a for-profit limited liability company in accordance with Chinese law in April 2018. TEI China is registered as a Wholly Foreign-Owned Enterprise (WFOE) and will maintain an office in Shanghai, China. TEI China's authorized business scope includes business information consulting, enterprise management consulting, exhibition and conference services, and other similar activities. TEI is obligated to provide capital of $200,000 (U.S. Dollars) to TEI China through a holding company as described below. The capital of $200,000 (U.S. Dollars) will be payable over 5 years. TEI China's assets and liabilities totaled $0 as of June 30, 2018.

Because TEI is a non-profit organization, it was required to organize a for-profit holding company to hold the shares of TEI China. Accordingly, *TEI Asia Pacific Limited (the Holding Company)* was incorporated in February 2018 in accordance with the Hong Kong Companies Ordinance (Chapter 622). The Holding Company is authorized to issue 100 ordinary shares of stock at $1 each and was formed as a wholly-owned subsidiary of TEI. After capital is contributed as previously described, TEI China will be a wholly-owned subsidiary of the Holding Company. The Holding Company's assets and liabilities totaled $0 as of June 30, 2018.

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. While the TEI China and the Holding Company were formed during the year ended June 30, 2018, they have had no financial activity. Therefore, the financial activities of the TEI China and the Holding Company will be included in the consolidating financial statements of the year ending June 30, 2019.

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. TEI has operating loss carry-forwards resulting from its unrelated business activities of approximately $10,430 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.

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 China and the Holding Company are subject to taxation on their activities and file income tax returns and other required statutory filings with the government of the People's Republic of China and Hong Kong, respectively..

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 $7,538 and $0 for the years ended June 30, 2018 and 2017, 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.

Reclassifications: Certain accounts relating to the prior year have been reclassified to conform to the current year presentation with no effect on previously reported net income. In particular, investment management fees of $27,979 for the year ended June 30, 2017 have been reclassified from general and administrative expense to investment income.

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

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. FAIR VALUE AND INVESTMENTS

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

	2018	2017
Short-term investments		
Money market funds	$ 1,009,881	$ 838,271
Certificates of deposit	2,388,770	2,638,822
Subtotal short-term investments	3,398,651	3,477,093
Long-term investments		
Money market funds	1,153,312	636,085
Certificates of deposit	835,032	1,148,060
Corporate bonds (Level 2)	-	276,435
Mutual funds (Level 1)		
Fixed income	2,601,024	2,890,766
Equity	774,567	1,102,171
Alternative strategies	188,768	225,100
Subtotal long-term investments	5,552,703	6,278,617
	$ 8,951,354	**$ 9,755,710**

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.

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

Investment return: Investment return consisted of the following for the years ended June 30,:

	2018	2017
Investment income		
Interest and dividends	$ 236,504	$ 182,350
Investment management fees	(29,021)	(27,979)
Subtotal investment income	207,483	154,371
Net realized and unrealized (loss) gain on investments	(5,022)	166,016
	$ 202,461	**$ 320,387**

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 contributes 8% of each participant's compensation and participants are fully vested after six years of service. TEI's contributions to the plan totaled $162,300 and $184,262 for the years ended June 30, 2018 and 2017, 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 deferral contributions (50% of the first 2% and 25% of the next 4%) up to the maximum contribution allowed by Internal Revenue Service limits and participants are fully vested in the matching contributions after five years of service. TEI's contributions to the plan totaled $43,335 and $41,697 for the years ended June 30, 2018 and 2017, 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,:

	2018	2017
Office furniture, equipment and website	$ 928,267	$ 923,897
Leasehold improvements	703,755	703,755
	1,632,022	1,627,652
Less accumulated depreciation and amortization	(678,807)	(517,498)
	$ 953,215	**$ 1,110,154**

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 period.

Deferred revenue consisted of the following at June 30,:

	2018	2017
Membership dues	$ 1,219,188	$ 1,334,369
Continuing education		
Sponsorships	1,233,500	1,134,000
Seminars, schools, and conferences	289,840	371,950
Royalty	305,000	305,000
Publications		
Subscriptions	2,701	3,417
Advertising	-	4,271
	$ 3,050,229	**$ 3,153,007**

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, 2018 and 2017, 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,:

	2018	2017
TEI		
Designated net assets		
Operating reserves	$ 5,771,843	$ 5,667,165
Capital / opportunity reserves	511,773	1,502,504
2020 Annual Conference (75th Anniversary)	150,000	100,000
	6,433,616	7,269,669
TEIF		
Undesignated net assets	103,087	106,287
	$ 6,536,703	**$ 7,375,956**

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 $9,996 and $9,120 for the years ended June 30, 2018 and 2017, 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,:

	2018	2017
Membership structure	$ 125,766	$ 138,296
Grants and scholarships	$ 4,375	$ 8,634
	$ 130,141	**$ 146,930**

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. Except in situations where TEI has control through 100% ownership, its oversight of the chapters and regions does not constitute control in accordance with generally accepted accounting principles. Therefore, chapters and regions that are not controlled by TEI have not been included in the accompanying consolidating financial statements.

Chapter and region cash balances aggregated to approximately $2.2 million at June 30, 2017 and chapter and region revenue aggregated to approximately $3.8 million for the year ended June 30, 2017. Aggregate chapter and region financial information is not yet available as of and for the year ended June 30, 2018.

K. COMMITMENTS AND CONTINGENCIES

Office lease: TEI has an operating lease for office space that expires February 2028. 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 $1,146,207 and $1,127,010 at June 30, 2018 and 2017, respectively.

Rent expense, on a straight-line basis, totaled $505,184 and $490,330 for the years June 30, 2018 and 2017, respectively.

Future minimum cash basis office lease payments are as follows:

Year Ending June 30,	Amount
2019	502,000
2020	524,500
2021	548,000
2022	572,600
2023	598,200
Thereafter	3,166,500
	$ 5,911,800

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 through December 31, 2022 or December 31, 2025, depending on the date of termination. 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.

L. SUBSEQUENT EVENTS

Subsequent events have been evaluated through July 26, 2018, which is the date the consolidating financial statements were available to be issued.

TEI China has an operating lease for fully furnished office space in Shanghai and plans to hire an individual who will begin employment on October 1, 2018, which is also the expected start date of TEI China's operations. While TEI has not yet provided any capital contributions, TEI plans to provide capital contributions to TEI China through the Holding Company prior to the start of operations on October 1, 2018.