2013
Annual Report

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Audited Consolidating Financial Statements

Tax Executives Institute, Inc. and TEI Education Fund

June 30, 2013

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 statements of financial position as of June 30, 2013 and 2012, 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, 2013 and 2012, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Tate & Tryon
Washington, DC
July 19, 2013

Consolidating Statements of Financial Position
Years Ended June 30, 2013 and 2012

	2013			2012		
	TEI	TEIF	Total	TEI	TEIF	Total
Assets						
Cash and cash equivalents - Note B	$ 936,957	$ 124,286	$ 1,061,243	$ 634,561	$ 117,190	$ 751,751
Investments - Notes B, C & D	9,839,962		9,839,962	10,650,446		10,650,446
Accounts receivable	25,754		25,754	100,772		100,772
Due (to) from affiliate	(9,930)	9,930	-	(9,671)	9,671	-
Prepaid expenses	87,364		87,364	56,075		56,075
Property and equipment - Note E	206,388		206,388	335,574		335,574
Total assets	$ 11,086,495	$ 134,216	$ 11,220,711	$ 11,767,757	$ 126,861	$ 11,894,618
Liabilities and net assets						
Accounts payable	$ 32,299	$ -	32,299	$ 159,054	$ -	159,054
Accrued liabilities	162,494		162,494	166,048		166,048
Investment trades pending payable			-	490,000		490,000
Deferred revenue - Note F	2,819,415		2,819,415	2,784,799		2,784,799
Deferred rent and lease incentive - Note K	293,152		293,152	293,368		293,368
Deferred compensation - Note D			-	59,601		59,601
Total liabilities	3,307,360	-	3,307,360	3,952,870	-	3,952,870
Commitment and contingency - Note K			-			-
Net assets - unrestricted - Note G	7,779,135	134,216	7,913,351	7,814,887	126,861	7,941,748
Total liabilities and net assets	$ 11,086,495	$ 134,216	$ 11,220,711	$ 11,767,757	$ 126,861	$ 11,894,618

See notes to the consolidating financial statements. Certain 2012 amounts have been reclassified for comparative purposes.

Consolidating Statements of Activities
Years Ended June 30, 2013 and 2012

	2013			2012		
	TEI	TEIF	Total	TEI	TEIF	Total
Revenue						
Sponsorships	$ 1,933,778	$ -	$ 1,933,778	$ 1,969,825	$ -	$ 1,969,825
Continuing education	1,814,510		1,814,510	1,867,213		1,867,213
Membership dues	1,552,005		1,552,005	1,543,291		1,543,291
Royalty	537,200		537,200	524,050		524,050
Publications	450,768		450,768	425,205		425,205
Interest income	122,460	26	122,486	120,086	25	120,111
Initiation Fees	113,875		113,875	133,850		133,850
Other	11,853		11,853	9,107		9,107
Management Fees - Note H	(16,384)	16,384	-	(15,029)	15,029	-
Total revenue	6,520,065	16,410	6,536,475	6,577,598	15,054	6,592,652
Expense						
Program Services						
Continuing education	1,991,821	7,066	1,998,887	1,958,768	13,933	1,972,701
Committee and liaison	623,546		623,546	599,894		599,894
Publications	562,890		562,890	433,756		433,756
Membership services and development	474,502		474,502	485,419		485,419
Dues transferred to chapters	201,705		201,705	200,625		200,625
Total program services	3,854,464	7,066	3,861,530	3,678,462	13,933	3,692,395
Supporting services						
General and administrative	2,394,172	1,989	2,396,161	2,336,092	637	2,336,729
Total expense	6,248,636	9,055	6,257,691	6,014,554	14,570	6,029,124
Change in net assets from operations	271,429	7,355	278,784	563,044	484	563,528
Special projects expense - Note I	(168,182)		(168,182)	(440,047)		(440,047)
Net loss on investments	(138,999)		(138,999)	(44,527)		(44,527)
Change in net assets	(35,752)	7,355	(28,397)	78,470	484	78,954
Net assets, beginning of year	7,814,887	126,861	7,941,748	7,736,417	126,377	7,862,794
Net assets, end of year	$ 7,779,135	$ 134,216	$ 7,913,351	$ 7,814,887	$ 126,861	$ 7,941,748

See notes to the consolidating financial statements. Certain 2012 amounts have been reclassified for comparative purposes.

Consolidating Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	2013 TEI	2013 TEIF	2013 Total	2012 TEI	2012 TEIF	2012 Total
Cash flows from operating activities						
Change in net assets	**$ (35,752)**	**$ 7,355**	**$ (28,397)**	$ 78,470	$ 484	$ 78,954
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activites						
Net loss on investments	**138,999**		**138,999**	44,527		44,527
Depreciation and amortization	**160,413**		**160,413**	169,992		169,992
Loss on disposal of property and equipment	**1,365**		**1,365**	-		-
Changes in assets and liabilities:						
Accounts receivable	**75,018**		**75,018**	(46,367)		(46,367)
Due from (to) affiliate	**259**	**(259)**	**-**	3,163	(3,163)	-
Prepaid expenses	**(31,289)**		**(31,289)**	9,284		9,284
Accounts payable	**(126,755)**		**(126,755)**	97,815		97,815
Accrued liabilities	**(3,554)**		**(3,554)**	(12,180)		(12,180)
Deferred revenue	**34,616**		**34,616**	(669,705)		(669,705)
Deferred rent and lease incentive	**(216)**		**(216)**	20,161		20,161
Total adjustments	**248,856**	**(259)**	**248,597**	(383,310)	(3,163)	(386,473)
Net cash provided by (used in) operating activities	**213,104**	**7,096**	**220,200**	(304,840)	(2,679)	(307,519)
Cash flows from investing activities						
Proceeds from sale and maturity of investments	**5,091,726**		**5,091,726**	4,520,000		4,520,000
Purchases of investments, net of money market sales	**(4,969,842)**		**(4,969,842)**	(4,151,488)		(4,151,488)
Purchases of property and equipment	**(32,592)**		**(32,592)**	(110,084)		(110,084)
Net cash provided by investing activities	**89,292**	**-**	**89,292**	258,428	-	258,428
Net increase (decrease) cash and cash equivalents	**302,396**	**7,096**	**309,492**	(46,412)	(2,679)	(49,091)
Cash and cash equivalents, beginning of year	**634,561**	**117,190**	**751,751**	680,973	119,869	800,842
Cash and cash equivalents, end of year	**$ 936,957**	**$ 124,286**	**$ 1,061,243**	$ 634,561	$ 117,190	$ 751,751
Supplemental Disclosure of Cash Flow Information						
Cash paid during the year for income taxes	**$ 19,274**	**$ -**	**$ 19,274**	$ 751	$ -	$ 751

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

Functional allocation of expenses: The costs of providing various program and supporting service activities have been summarized on a functional basis in the consolidating 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 19, 2013, 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.

Investments classified within Level 1 include money market funds, fixed income funds, equity funds, and alternative strategies funds, which were valued based on quoted prices in active markets.

Investments classified within Level 2 include certificates of deposit, government securities and auction-rate preferred securities. Certificates of deposit and government securities were valued based on observable trades of similar securities. Auction-rate preferred securities 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, which are measured on a recurring basis, at June 30,:

2013	Total	Level 1	Level 2	Level 3
Short-term investments				
Money market funds	$ 702,729	$ 702,729	$ -	$ -
Certificates of deposit	590,071		590,071	
Government securities	50,365		50,365	
Fixed income funds	847,657	847,657		
Subtotal short-term investments	2,190,822	1,550,386	640,436	-
Long-term investments				
Money market funds	52,521	52,521		
Certificates of deposit	1,777,355		1,777,355	
Government securities	456,526		456,526	
Fixed income funds	3,976,510	3,976,510		
Equity funds	898,095	898,095		
Alternative strategies funds	213,133	213,133		
Auction-rate preferred securities	275,000		275,000	
Subtotal long-term investments	7,649,140	5,140,259	2,508,881	-
Total Investments	**$9,839,962**	**$ 6,690,645**	**$ 3,149,317**	**$ -**

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	
Subtotal short-term investments	5,399,030	1,544,322	3,854,708	-
Long-term investments				
Certificates of deposit	2,366,038		2,366,038	
Government securities	518,671		518,671	
Fixed income funds	2,032,106	2,032,106		
Auction-rate preferred securities	275,000		275,000	
Subtotal long-term investments	5,191,815	2,032,106	3,159,709	-
Investments held for deferred compensation				
Mutual funds	59,601	59,601		
Total Investments	**$10,650,446**	**$ 3,636,029**	**$ 7,041,417**	**$ -**

D. RETIREMENT PLANS

Deferred compensation plan: TEI had a deferred compensation plan under Section 457(b) of the Internal Revenue Code, for the benefit of a key employee who retired in December 2012 and received payment of the benefit during the year ended June 30, 2013. Deferred compensation assets and liabilities totaled $0 and $59,601 at June 30, 2013 and 2012, 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 of service. TEI's contribution to the plan totaled $174,741 and $152,610 for the years ended June 30, 2013 and 2012, 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 $34,341 and $33,991 for the years ended June 30, 2013 and 2012, 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,:

	2013	2012
Office furniture and equipment	$ 951,495	$ 975,270
Leasehold improvements	76,856	76,856
	1,028,351	1,052,126
Less accumulated depreciation and amortization	(821,963)	(716,552)
	$ 206,388	**$ 335,574**

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,:

	2013	2012
Membership dues	$ 1,363,254	$ 1,360,961
Sponsorships	952,000	793,000
Royalty	305,000	305,000
Seminars, schools, and conferences	192,935	313,675
Subscriptions	6,226	7,163
Advertising	-	5,000
	$ 2,819,415	**$ 2,784,799**

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,:

	2013	2012
TEI		
Designated net assets	$ 5,426,075	$ 5,280,597
Operating reserve	2,353,060	2,534,290
Captial/opportunity reserve	7,779,135	7,814,887
TEIF		
Undesignated net assets	134,216	126,861
	$ 7,913,351	**$ 7,941,748**

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 $16,384 and $15,029 for the years ended June 30, 2013 and 2012, 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 as of June 30,:

	2013	2012
Executive transition	$ 89,895	$ 189,988
Corporate Tax Management Survey	75,852	61,223
Grants and scholarships	2,435	9,380
Strategic planning	-	179,456
	$ 168,182	**$ 440,047**

J. CHAPTERS AND REGIONS

TEI has several chapters and regions located throughout the United States of America, Canada, Europe, and Asia. As stipulated in the Chapter Regulations, the activities of the chapters and regions are subject to (1) the policies adopted by TEI's board and (2) the general oversight of TEI's board. This oversight, however, does not constitute control in accordance with generally accepted accounting principles. Thus, the chapters and regions are not included in the accompanying consolidating financial statements. Chapter and region cash balances aggregate to approximately $1,500,000 annually.

K. COMMITMENT AND CONTINGENCY

Office lease: TEI leases office space under an operating lease that expires February 2018. The lease contains annual escalations of the monthly base rent. In accordance with generally accepted accounting principles, the difference between cash payments required under the terms of the lease and rent expense has been reported as deferred rent in the accompanying consolidating 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 $76,000 which will also be amortized on a straight line basis over the term of the lease. Rent expense was approximately $468,900 and $471,200 for the years ended June 30, 2013 and 2012, respectively.

Future minimum lease payments are as follows:

Year Ending June 30,	Amount
2014	$ 482,200
2015	503,900
2016	526,500
2017	550,100
2018	377,500
	$ 2,440,200

Employment agreements: During June 2012, TEI signed an employment agreement with its current Executive Director that became effective in January 2013. The agreement expires December 2017. Under the terms of the agreement, should the agreement be terminated for any reason other than good cause, TEI would be obligated to pay salary and benefits for the remaining period of the agreement. Furthermore, TEI is obligated to pay the Executive Director an amount upon termination as specified in the agreement.