Audited Consolidating Financial Statements

Tax Executives Institute, Inc. and TEI Education Fund

June 30, 2011

Independent Auditor's Report

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

We have audited the accompanying consolidating statements of financial position of Tax Executives Institute, Inc. and TEI Education Fund (collectively, the Organization) as of June 30, 2011 and 2010, and the related consolidating statements of activities and cash flows for the years then ended. These consolidating financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these consolidating financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidating financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidating financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidating financial statements referred to above present fairly, in all material respects, the individual and consolidated financial positions of Tax Executives Institute, Inc. and TEI Education Fund as of June 30, 2011 and 2010, and the changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Tate & Tryon

Washington, DC
July 22, 2011

Consolidating Statements of Financial Position
Years Ended June 30, 2011 and 2010

	2011			2010		
	TEI	TEIF	Total	TEI	TEIF	Total
Assets						
Cash and cash equivalents - Note B	$ 680,973	$ 119,869	$ 800,842	$ 834,963	$ 117,273	$ 952,236
Short-term investments - Notes B & C	6,467,759		6,467,759	6,099,829		6,099,829
Accounts receivable	54,405		54,405	64,188		64,188
Due (to) from affiliate	(6,508)	6,508	-	(4,882)	4,882	-
Prepaid expenses	65,359		65,359	55,945		55,945
Long-term investments - Notes B & C	4,746,125		4,746,125	4,921,734		4,921,734
Investments held for deferred compensation - Notes C & D	61,337		61,337	45,807		45,807
Property and equipment - Note E	395,482		395,482	452,021		452,021
Total assets	$ 12,464,932	$ 126,377	$ 12,591,309	$ 12,469,605	$ 122,155	$ 12,591,760
Liabilities and net assets						
Accounts payable	61,239	-	61,239	102,853	-	102,853
Accrued liabilities	178,228		178,228	168,383		168,383
Investment trades pending payable	700,000		700,000	991,371		991,371
Deferred revenue - Note F	3,454,504		3,454,504	2,945,348		2,945,348
Deferred rent and lease incentive - Note I	273,207		273,207	234,162		234,162
Deferred compensation - Note D	61,337		61,337	45,807		45,807
Total liabilities	4,728,515	-	4,728,515	4,487,924	-	4,487,924
Commitment and contingency - Note I			-			-
Net assets - unrestricted	7,736,417	126,377	7,862,794	7,981,681	122,155	8,103,836
Total liabilities and net assets	$ 12,464,932	$ 126,377	$ 12,591,309	$ 12,469,605	$ 122,155	$ 12,591,760

See notes to the consolidating financial statements.

Consolidating Statements of Activities
Years Ended June 30, 2011 and 2010

	2011			2010		
	TEI	TEIF	Total	TEI	TEIF	Total
Revenue						
Continuing education	$ 1,650,089	$ -	$ 1,650,089	$ 1,431,000	$ -	$ 1,431,000
Sponsorships	1,636,750		1,636,750	1,527,550		1,527,550
Membership dues	1,404,067		1,404,067	1,359,906		1,359,906
Royalty	520,174		520,174	515,543		515,543
Publications	406,619		406,619	359,043		359,043
Initiation Fees	136,175		136,175	88,400		88,400
Investment income - Note C	71,420	45	71,465	125,938	47	125,985
Other	10,922		10,922	12,600		12,600
Management Fees - Note G	(10,753)	10,753	-	(10,761)	10,761	-
Total revenue	5,825,463	10,798	5,836,261	5,409,219	10,808	5,420,027
Expense						
Program Services						
Continuing education	1,913,279	5,622	1,918,901	1,723,878	4,305	1,728,183
Committee and liaison	663,647		663,647	582,230		582,230
Publications	459,055		459,055	399,301		399,301
Membership services and development	410,805		410,805	478,812		478,812
Dues transferred to chapters	202,440		202,440	200,550		200,550
Total program services	3,649,226	5,622	3,654,848	3,384,771	4,305	3,389,076
Supporting services						
General and administrative	2,400,480	954	2,401,434	2,361,702	741	2,362,443
Total expense	6,049,706	6,576	6,056,282	5,746,473	5,046	5,751,519
Change in net assets before special project expense	(224,243)	4,222	(220,021)	(337,254)	5,762	(331,492)
Special project expense	(21,021)		(21,021)	(24,000)		(24,000)
Change in net assets	(245,264)	4,222	(241,042)	(361,254)	5,762	(355,492)
Net assets, beginning of year	7,981,681	122,155	8,103,836	8,342,935	116,393	8,459,328
Net assets, end of year	$ 7,736,417	$ 126,377	$ 7,862,794	$ 7,981,681	$ 122,155	$ 8,103,836

See notes to the consolidating financial statements.

Consolidating Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	2011			2010		
	TEI	TEIF	Total	TEI	TEIF	Total
Cash flows from operating activities						
Change in net assets	$ (245,264)	$ 4,222	$ (241,042)	$ (361,254)	$ 5,762	$ (355,492)
Adjustments to reconcile change in net assets to net cash provided by operating activites						
Depreciation and amortization	142,578		142,578	75,693		75,693
Net loss on investments	84,305		84,305	61,114		61,114
Changes in assets and liabilities:						
Accounts receivable	9,783		9,783	26,524		26,524
Due (to) from affiliate	1,626	(1,626)	-	985	(985)	-
Prepaid expenses	(9,414)		(9,414)	373,527		373,527
Accounts payable	(41,614)		(41,614)	(3,963)		(3,963)
Accrued liabilities	9,845		9,845	25,898		25,898
Deferred revenue	509,156		509,156	223,144		223,144
Deferred rent and lease incentives	39,045		39,045	57,117		57,117
Total adjustments	745,310	(1,626)	743,684	840,039	(985)	839,054
Net cash provided by operating activities	500,046	2,596	502,642	478,785	4,777	483,562
Cash flows from investing activities						
Proceeds from sale and maturity of investments	4,112,244		4,112,244	6,276,289		6,276,289
Purchases of investments	(4,680,241)		(4,680,241)	(5,952,913)		(5,952,913)
Purchases of property and equipment	(86,039)		(86,039)	(379,075)		(379,075)
Net cash used in investing activities	(654,036)	-	(654,036)	(55,699)	-	(55,699)
Net (decrease) increase cash and cash equivalents	(153,990)	2,596	(151,394)	423,086	4,777	427,863
Cash and cash equivalents, beginning of year	834,963	117,273	952,236	411,877	112,496	524,373
Cash and cash equivalents, end of year	$ 680,973	$ 119,869	$ 800,842	$ 834,963	$ 117,273	$ 952,236
Supplemental Disclosure of Cash Flow Information						
Cash paid during the year for income taxes	$ 14,220	$ -	$ 14,220	$ 10,624	$ -	$ 10,624

See notes to the consolidating financial statements.

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Principles of consolidation: The consolidating financial statements include the accounts of TEI and its affiliate, TEIF (collectively referred to as the Organization). Significant intra-entity accounts and transactions have been eliminated in consolidation.

Income tax status: TEI is exempt from the payment of income taxes on its exempt activities under Section 501(c)(6) of the Internal Revenue Code. However, TEI is subject to income tax on its unrelated business activities, such as advertising.

TEIF is exempt from the payment of income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified by the Internal Revenue Service as other than a private foundation within the meaning of Section 509(a)(1) of the Internal Revenue Code.

The Organization believes that it has appropriate support for income tax positions taken. Therefore, management has not identified any uncertain income tax positions. The Organization believes it is no longer subject to U.S. Federal, state, and local income tax examinations by taxing authorities for years before June 30, 2008.

Basis of accounting: The Organization prepares its financial statements on the accrual basis of accounting. Revenue is recognized when earned and expense when the obligation is incurred.

Use of estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from estimates.

Cash and cash equivalents: For financial statement purposes, cash and cash equivalents consists of demand deposits and money market accounts other than those held within the investment portfolio. Money market accounts held in the investment portfolio are classified as investments for financial statement purposes.

Accounts receivable: Accounts receivable consists primarily of accrued interest receivable. Accounts receivable are presented at the amount due to the Organization. The Organization's management periodically reviews the status of all accounts receivable balances for collectability. Each receivable balance is assessed based on management's knowledge of the customer, the Organization's relationship with the customer, and the age of the receivable balance. As a result of these reviews, customer balances deemed to be uncollectible are charged directly to bad debt expense. Management believes that the use of the direct write-off method approximates the results that would be presented if an allowance for bad debts was recorded.

Net assets: Unrestricted net assets include those net assets whose use is not restricted by donors, even though their use may be limited in other respects, such as by board designation. However, the Organization has no board designated net assets.

Reserve policy: TEI has established a reserve policy, the goal of which is to maintain minimum reserves equivalent to at least 50% of annual operating expenses. This goal has been exceeded.

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.

Special project expense: Special project expense consists of costs relating to nonrecurring or multi-year projects.

Subsequent events: Subsequent events have been evaluated through July 22, 2011.

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 bid/ask spreads and liquidity discounts.

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 in Level 2 were valued by pricing vendors using outside data. Management believes the estimated fair value of the Level 2 investments to be a reasonable approximation of their exit price. The fair values of certificates of deposit and government securities were determined based on observable trades in the market place for similar securities. The value, liquidity, and related income of the auction-rate preferred securities are sensitive to changes in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the investments, auction failures, and changes in interest rates. The Organization held 11 and 14 shares of $25,000 par value auction-rate preferred securities at June 30, 2011 and 2010, respectively. Management believes the shares will be redeemed at their carrying value which approximates fair value.

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

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

2010	Total	Level 1	Level 2	Level 3
Short-term investments				
Money market funds	$ 1,681,055	$ 1,681,055	$ -	$ -
Certificates of deposit	3,044,524		3,044,524	
Government securities	1,024,250		1,024,250	
Auction-rate preferred securities	350,000		350,000	
Subtotal short-term investments	6,099,829	1,681,055	4,418,774	-
Long-term investments				
Certificates of deposit	1,876,201		1,876,201	
Government securities	1,049,065		1,049,065	
Mutual Funds	1,996,468	1,996,468		
Subtotal long-term investments	4,921,734	1,996,468	2,925,266	-
Investments held for deferred compensation				
Mutual funds	45,807	45,807		
TOTAL	**$11,067,370**	**$ 3,723,330**	**$ 7,344,040**	**$ -**

Investment income: Investment income consists of the following for the years ended June 30,:

	2011	2010
TEI		
Interest	$ 155,725	$ 187,052
Net loss on Investments	(84,305)	(61,114)
	71,420	125,938
TEIF		
Interest	45	47
	$ 71,465	**$ 125,985**

D. RETIREMENT PLANS

Deferred compensation plan: TEI has a deferred compensation plan under Section 457(b) of the Internal Revenue Code, which covers a key employee. No contributions were made to the deferred compensation plan during either of the years ended June 30, 2011 and 2010, and management has determined that no future contributions will be made because of the establishment of the 401(k) Plan (see description below). However, the participant's balance will continue to accumulate earnings and losses. Deferred compensation liabilities amounted to $61,337 and $45,807 at June 30, 2011 and 2010, respectively.

Money purchase plan: TEI has a defined contribution money-purchase retirement plan, which covers all eligible employees who meet age and length-of-service requirements. Under the plan, TEI's annual contribution amounts to 8% of each participant's compensation. Participants are fully vested after six years. TEI's contribution to the plan for the years ended June 30, 2011 and 2010, was $158,736 and $157,709, respectively.

401(k) plan: TEI has a defined contribution salary deferral and savings incentive plan, which covers all eligible employees who meet age and length of service requirements. The plan includes automatic enrollment with an opt-out option. Under the plan, TEI matches employee contributions as follows: 50% of the first 2% of compensation, and 25% of the next 4% of compensation up to the maximum contribution allowed by Internal Revenue Service limits. Participants are fully vested after five years. TEI's contribution to the plan for the years ended June 30, 2011 and 2010, was $32,039 and $34,789, 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,:

	2011	2010
Office furniture and equipment	$ 868, 012	$ 1,141,372
Leasehold improvements	76,856	76,856
	944,868	1,218,228
Less accumulated depreciation and amortization	(549,386)	(766,207)
	$ 395,482	**$ 452,021**

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,:

	2011	2010
Sponsorships	$ 1,416,250	$ 1,110,000
Membership dues	1,356,073	1,212,857
Seminars, schools, and conferences	362,300	293,100
Royalty	305,000	305,000
Advertising	10,720	15,395
Subscriptions	8,996	8,996
	$ 3,454,504	**$ 2,945,348**

G. MANAGEMENT FEES

TEI pays TEIF management fees pursuant to a written agreement under which TEI agreed to administer the continuing education courses sponsored by TEIF. Under the terms of the agreement, TEI paid TEIF a percentage of its net income from the sponsored courses totaling $10,753 and $10,761 for the years ended June 30, 2011 and 2010, respectively.

H. 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 U.S. generally accepted accounting principles. Thus, the chapters and regions are not included in the accompanying consolidated financial statements. Chapter and region cash balances aggregate to approximately $1,500,000 annually.

J. COMMITMENT AND CONTINGENCY

Office lease: TEI leases office space under an operating lease that expires February 2018. The lease contains annual escalations of the monthly base rent. In accordance with generally accepted accounting principles, the difference between cash payments required under the terms of the lease and rent expense has been reported as deferred rent in the accompanying consolidating statement of financial position. Deferred rent will be amortized on a basis to achieve straight-line rent expense over the life of the lease. The lease also includes a tenant improvement allowance of $73,936 which will also be amortized on a straight line basis over the term of the lease. Rent expense was approximately $482,000 and $481,100 for the years ended June 30, 2011 and 2010, respectively.

Future minimum lease payments are as follows:

Year Ending June 30,	Amount
2012	$ 439,900
2013	460,300
2014	482,200
2015	503,900
2016	526,500
Thereafter	927,600
	$ 3,340,400

Employment agreement: TEI has an employment agreement with its Executive Director, which expires December 2012. 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.