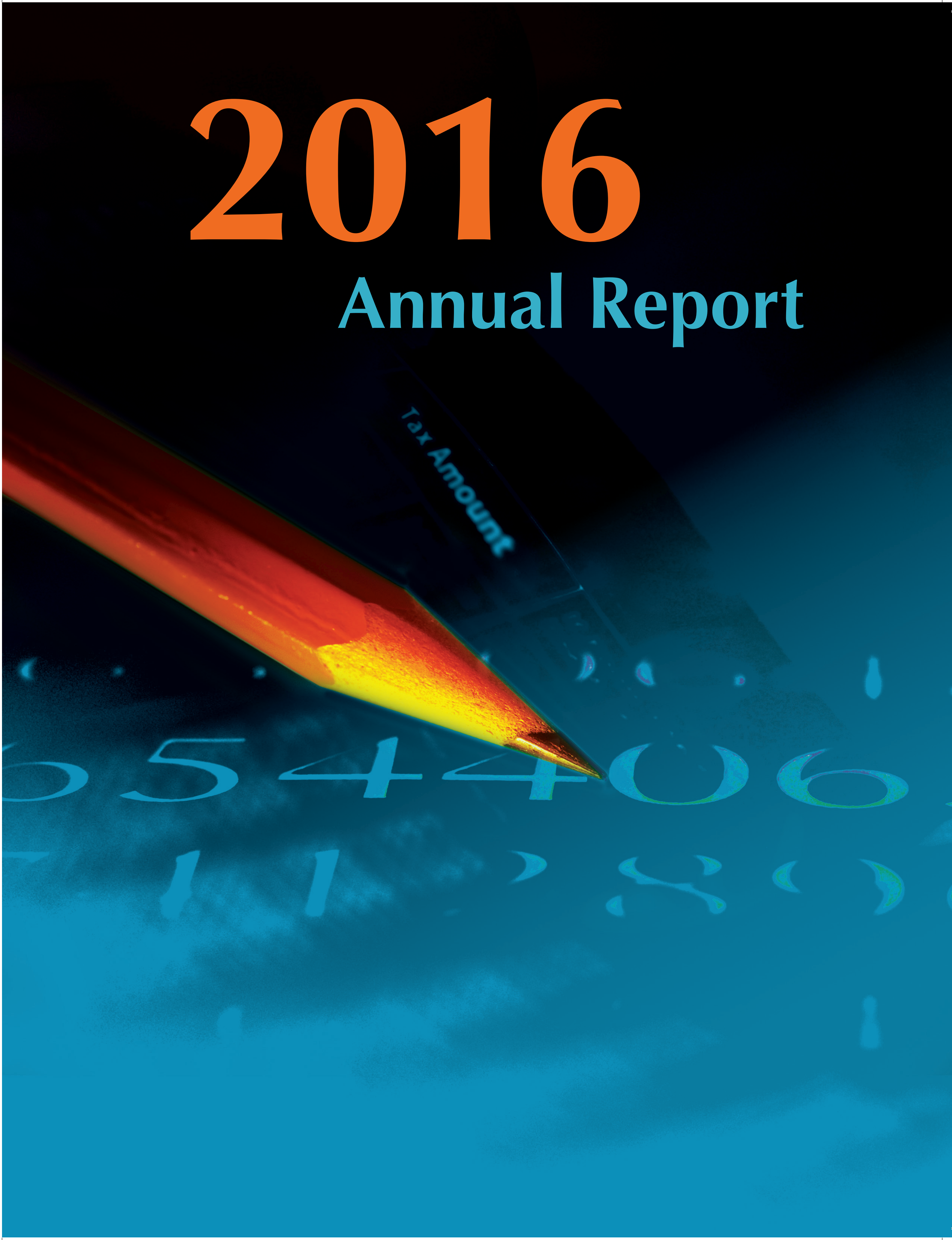
2016 Annual Report



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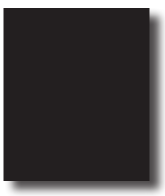

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Audited Consolidating Financial Statements

Tax Executives Institute, Inc. and TEI Education Fund

June 30, 2016

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, 2016 and 2015, 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, 2016 and 2015, 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 25, 2016

Consolidating Statements of Financial Position
Years Ended June 30, 2016 and 2015

	2016			2015		
	TEI	TEIF	Total	TEI	TEIF	Total
Assets						
Cash and cash equivalents	$ 734,383	$ 105,916	$ 840,299	$ 649,769	$ 97,880	$ 747,649
Investments	10,434,410		10,434,410	10,859,690		10,859,690
Accounts receivable	30,536		30,536	29,605		29,605
Due (to) from affiliate	(6,108)	6,108	-	(6,424)	6,424	-
Prepaid expenses	73,909		73,909	77,293		77,293
Property and equipment	1,023,198		1,023,198	84,796		84,796
Total assets	$ 12,290,328	$ 112,024	$ 12,402,352	$ 11,694,729	$ 104,304	$ 11,799,033
Liabilities and net assets						
Accounts payable	$ 76,826	$ 309	$ 77,135	$ 122,084	$ -	$ 122,084
Accrued liabilities	298,779		298,779	189,929		189,929
Deferred revenue	3,076,957		3,076,957	2,925,446		2,925,446
Deferred rent and lease incentive	834,244		834,244	227,209		227,209
Total liabilities	4,286,806	309	4,287,115	3,464,668	-	3,464,668
Commitment and contingencies			-			-
Net assets - unrestricted	8,003,522	111,715	8,115,237	8,230,061	104,304	8,334,365
Total liabilities and net assets	$ 12,290,328	$ 112,024	$ 12,402,352	$ 11,694,729	$ 104,304	$ 11,799,033

See notes to the consolidating financial statements.

Consolidating Statements of Activities
Years Ended June 30, 2016 and 2015

	2016			2015		
	TEI	TEIF	Total	TEI	TEIF	Total
Revenue						
Sponsorships	$ 1,895,400	$ -	$ 1,895,400	$ 1,888,900	$ -	$ 1,888,900
Continuing education	1,695,150		1,695,150	1,720,090		1,720,090
Membership dues	1,580,993		1,580,993	1,574,462		1,574,462
Royalty	535,000		535,000	535,000		535,000
Publications	436,850		436,850	412,966		412,966
Interest and dividends	186,653	18	186,671	197,905	18	197,923
Initiation Fees	134,325		134,325	141,750		141,750
Other	10,154		10,154	9,754		9,754
Management Fees	(10,232)	10,232	-	(11,800)	11,800	-
Total revenue	6,464,293	10,250	6,474,543	6,469,027	11,818	6,480,845
Expense						
Program services						
Continuing education	2,103,480	2,188	2,105,668	1,992,654	2,812	1,995,466
Publications	780,002		780,002	652,693		652,693
Committee and liaison	685,244		685,244	639,263		639,263
Membership services	419,328		419,328	444,419		444,419
Dues transferred to chapters	207,960		207,960	209,160		209,160
Total program services	4,196,014	2,188	4,198,202	3,938,189	2,812	3,941,001
Supporting services						
General and administrative	2,414,671	651	2,415,322	2,358,467	69	2,358,536
Total expense	6,610,685	2,839	6,613,524	6,296,656	2,881	6,299,537
Change in net assets from operations	(146,392)	7,411	(138,981)	172,371	8,937	181,308
Net realized and unrealized loss on investments	(188,961)		(188,961)	(133,992)		(133,992)
Gain on office lease amendment	180,797		180,797	-		-
Special projects expense	(71,983)		(71,983)	(74,370)		(74,370)
Change in net assets	(226,539)	7,411	(219,128)	(35,991)	8,937	(27,054)
Net assets, beginning of year	8,230,061	104,304	8,334,365	8,266,052	95,367	8,361,419
Net assets, end of year	$ 8,003,522	$ 111,715	$ 8,115,237	$ 8,230,061	$ 104,304	$ 8,334,365

See notes to the consolidating financial statements.

Consolidating Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016			2015		
	TEI	TEIF	Total	TEI	TEIF	Total
Cash flows from operating activities						
Change in net assets	$ (226,539)	$ 7,411	$ (219,128)	$ (35,991)	$ 8,937	$ (27,054)
Adjustments to reconcile change in net assets to net cash provided by operating activites						
Net loss on investments	188,961		188,961	133, 992		133, 992
Bad debt	248		248	1,621		1,621
Depreciation and amortization	57,916		57,916	77,569		77,569
Loss on disposal of property and equipment	18,327		18,327	4,228		4,228
Gain on office lease amendment	(180,797)		(180,797)	-		-
Changes in assets and liabilities:						
Accounts receivable	(1,179)		(1,179)	62		62
Due (to) from affiliate	(316)	316	-	(1,124)	1,124	-
Prepaid expenses	3,384		3,384	(7,400)		(7,400)
Accounts payable	(45,258)	309	(44,949)	120,263		120,263
Accrued liabilities	108,850		108,850	(642)		(642)
Deferred revenue	151,511		151,511	89,087		89,087
Deferred rent and lease incentive	787,832		787,832	(43,787)		(43,787)
Total adjustments	1,089,479	625	1,090,104	373,869	1,124	374,993
Net cash provided by operating activities	862,940	8,036	870,976	337,878	10,061	347,939
Cash flows from investing activities						
Proceeds from sale and maturities of investments	6,173,267		6,173,267	6,656,186		6,656,186
Purchases of investments	(5,936,948)		(5,936,948)	(7,023,145)		(7,023,145)
Purchases of property and equipment	(1,014,645)		(1,014,645)	(39,373)		(39,373)
Net cash used in investing activities	(778,326)	-	(778,326)	(406,332)	-	(406,332)
Net increase (decrease) in cash and cash equivalents	84,614	8,036	92,650	(68,454)	10,061	(58,393)
Cash and cash equivalents, beginning of year	649,769	97,880	747,649	718,223	87,819	806,042
Cash and cash equivalents, end of year	$ 734,383	$ 105,916	$ 840,299	$ 649,769	$ 97,880	$ 747,649
Schedule of noncash investing activities:						
Property and equipment purchased with lease incentive	$ 752,080	$ -	$ 752,080	$ -	$ -	$ -

See notes to the consolidating financial statements.

A. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization: Tax Executives Institute, Inc. (TEI) was incorporated in 1944 in the State of New York and exists to enhance and improve the tax system and to serve TEI members, their employers, and society generally by facilitating interaction among, and the training of, members and their staffs, by effectively advocating its members' views, and by promoting competence and professionalism in both the private and government sectors. TEI Education Fund (TEIF) was formed in 1987 in the Commonwealth of Virginia and exists to sponsor TEI's conferences, seminars, and tax courses.

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

Income tax status: TEI is exempt from the payment of income taxes on its exempt activities under Section 501(c)(6) of the Internal Revenue Code. However, TEI is subject to income tax on its unrelated business activities, such as advertising. TEIF is exempt from the payment of income taxes under Section 501(c)(3) of the Internal Revenue Code and has been classified by the Internal Revenue Service as other than a private foundation.

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 $248 and $1,621 for the years ended June 30, 2016 and 2015, respectively. Management believes that the use of the direct write-off method approximates the results that would be presented if an allowance for bad debts had been recorded.

Functional allocation of expenses: The costs of providing various program and supporting service activities have been summarized on a functional basis in the consolidating statements of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited, based on employee effort.

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

Subsequent events: Subsequent events have been evaluated through July 25, 2016, which is the date the consolidating financial statements were available to be issued.

B. CONCENTRATIONS

Credit risk: The Organization maintains demand deposit accounts with commercial banks and money market funds with financial institutions. At times, certain balances held within these accounts may not be fully guaranteed or insured by the U.S. Government. The uninsured portions of these accounts are backed solely by the assets of the underlying institution. Therefore, the failure of an underlying institution could result in financial loss to the Organization.

Market value risk: The Organization also invests funds in a professionally managed portfolio of short-term and long-term investments which contain various types of marketable debt and equity securities. Such investments are exposed to market and credit risks and may be subject to fluctuations in fair value. As a result, the investment balances reported in the accompanying consolidating financial statements may not be reflective of fair value during subsequent periods.

C. INVESTMENTS

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

	2016	2015
Short-term investments		
Money market funds	$ 702,745	$ 570,885
Certificates of deposit	2,757,450	2,516,392
Subtotal short-term investments	3,460,195	3,087,277
Long-term investments		
Money market funds	608,562	210,443
Certificates of deposit	2,094,512	2,955,019
Corporate bonds	358,835	376,567
Mutual funds		
Fixed income	2,747,071	2,152,990
Equity	941,101	1,774,411
Alternative strategies funds	224,134	227,983
Auction-rate preferred securities	-	75,000
Subtotal long-term investments	6,974,215	7,772,413
	$ 10,434,410	**$ 10,859,690**

Investment return: Interest and dividends and net realized and unrealized loss on investments have been presented on the face of the consolidating statements of activities. However, investment management fees have been included in general and administrative expense and totaled $28,052 and $28,805 during the years ended June 30, 2016 and 2015, respectively.

Fair values: In accordance with accounting principles generally accepted in the United States of America, the Organization uses the following prioritized input levels to measure investments recorded at fair value. The input levels used for valuing investments are not necessarily an indication of risk.

Level 1 – Observable inputs that reflect quoted prices for identical assets or liabilities in active markets, such as stock quotes.

Level 2 – Includes inputs other than Level 1 inputs that are directly or indirectly observable in the marketplace, such as yield curves or other market data.

Level 3 – Unobservable inputs reflect an assessment of the assumptions that market participants would use in pricing an asset (or liability) and may include assumptions about risk or other considerations such as bid/ask spreads and liquidity discounts.

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

Investments valued using Level 2 inputs include corporate bonds, which were valued by pricing vendors using outside data. In determining fair value of the investments, the pricing vendors used a market approach to obtain pricing spreads based on the credit risk of the issuer, maturity, current yield, and other terms and conditions of each security.

Management believes the estimated fair values of investments to be a reasonable approximation of their exit price.

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

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

The following is a summary of the input levels used to determine fair value of investments, which are measured on a recurring basis, at June 30, 2015:

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**	**$ -**

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

D. RETIREMENT PLANS

Money purchase plan: TEI has a defined contribution money-purchase retirement plan, which covers all eligible employees who meet age and length-of-service requirements. Under the plan, TEI's annual contribution amounts to 8% of each participant's compensation. Participants are fully vested after six years of service. TEI's contribution to the plan totaled $178,463 and $178,796 for the years ended June 30, 2016 and 2015, 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 $40,320 and $38,429 for the years ended June 30, 2016 and 2015, 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. Amortization for website costs will begin when the new website is placed in service.

Property and equipment consisted of the following at June 30,:

	2016	2015
Office furniture and equipment	$ 840,655	$ 896,095
Leasehold improvements	703,756	76,856
Website	132,500	-
	1,676,911	972,951
Less accumulated depreciation and amortization	(653,713)	(888,155)
	$1,023,198	**$ 84,796**

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

F. DEFERRED REVENUE

Revenue received in advance of the period in which an earnings process is not yet complete is recorded as deferred revenue and, when earned in subsequent years, the revenue is recognized.

Deferred revenue consisted of the following at June 30,:

	2016	2015
Membership dues	$ 1,322,237	$ 1,393,299
Sponsorships	1,176,500	847,000
Royalty	305,000	305,000
Seminars, schools, and conferences	269,525	361,140
Subscriptions	3,695	4,007
Advertising	-	15,000
	$ 3,076,957	**$ 2,925,446**

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 reserve: 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 the year ended June 30, 2016, the Board of Directors designated $50,000 to fund the 2020 Annual Conference (75th Anniversary).

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

	2016	2015
TEI		
Designated net assets		
Operating reserve	$ 5,633,684	$ 5,617,001
Captial / opportunity reserve	2,319,838	2,613,060
2020 Annual Conference (75th Anniversary)	50,000	-
	8,003,522	8,230,061
TEIF		
Undesignated net assets	111,715	104,304
	$ 8,115,237	**$ 8,334,365**

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 $10,232 and $11,800 for the years ended June 30, 2016 and 2015, 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,:

	2016	2015
Membership structure	$ 62,042	$ 62,100
Grants and scholarships	$ 9,941	$ 12,270
	$ 71,983	**$ 74,370**

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, 2015 and chapter and region revenue aggregated to approximately $4.0 million for the year ended June 30, 2015. Aggregate chapter and region financial information is not yet available as of and for the year ended June 30, 2016

K. COMMITMENT AND CONTINGENCIES

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

The office lease contains annual escalations of the monthly base rent. In accordance with generally accepted accounting principles, the difference between cash payments required under the terms of the lease and rent expense has been reported as deferred rent in the accompanying consolidating statements of financial position. Deferred rent will be amortized on a basis to achieve straight-line rent expense over the life of the lease. The terms of the office lease also include a tenant improvement allowance of $752,080 which will also be amortized on a straight line basis over the term of the lease. The liability for deferred rent and lease incentive that related to the amended terms of the office lease totaled $834,244 at June 30, 2016.

Rent expense, on a straight-line basis, approximated $476,200 and $464,500 for the years June 30, 2016 and 2015, respectively

Future minimum cash basis office lease payments are as follows:

Year Ending June 30,	Amount
2017	$ 196,600
2018	480,400
2019	502,000
2020	524,500
2021	548,000
Thereafter	4,337,300
	$ 6,588,800

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.