

**THE TEAK FELLOWSHIP, INC.**

**Financial Statements  
for year ended  
December 31, 2014**

**Independent Auditor's Report**

To the Board of Directors of  
The TEAK Fellowship, Inc.

We have audited the accompanying financial statements of The TEAK Fellowship, Inc. (the "Fellowship") which comprise the statement of financial position as of December 31, 2014 and the related statements of activities, functional expenses and cash flows for the year then ended and the related notes to the financial statements. The prior year's summarized comparative information has been derived from the Fellowship's 2013 financial statements and in our report, dated July 22, 2014, we expressed an unmodified opinion on those financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these 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 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 financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 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 financial statements referred to above present fairly, in all material respects, the financial position of The TEAK Fellowship, Inc. as of December 31, 2014, and the results of its activities and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Report on Summarized Comparative Information***

We have previously audited The TEAK Fellowship's 2013 financial statements, and our report dated July 22, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Cordon O'Meara, McIntyre + Dawley LLP*

**THE TEAK FELLOWSHIP, INC.**

**Statement of Financial Position**

**Assets**

	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
Cash and cash equivalents	\$1,489,938	\$1,164,445
Investments, at fair value	6,443,847	6,395,718
Contributions receivable	136,450	428,885
Prepaid expenses	32,940	33,538
Leasehold improvements, equipment, and website, net	25,888	58,329
<b>Total assets</b>	<b>\$8,129,063</b>	<b>\$8,080,915</b>

**Liabilities and Net Assets**

Accounts payable and accrued expenses	\$ 77,214	\$ 59,103
Net assets		
Unrestricted		
Operating	2,479,897	2,421,980
Board designated	4,156,166	4,156,166
Total unrestricted	6,636,063	6,578,146
Temporarily restricted	311,160	339,040
Permanently restricted	1,104,626	1,104,626
Total net assets	8,051,849	8,021,812
<b>Total liabilities and net assets</b>	<b>\$8,129,063</b>	<b>\$8,080,915</b>

See notes to financial statements.

THE TEAK FELLOWSHIP, INC.

Statement of Activities  
For the Year Ended December 31, 2014  
(with Summarized Comparative Information for the Year Ended December 31, 2013)

	2014					2013	
	Unrestricted					Temporarily Restricted	Permanently Restricted
	Operating	Board Designated	Total Unrestricted	Total Restricted	Total		
<b>Revenue and support</b>							
Grants and contributions							
Foundations and corporations	\$ 612,576	-	\$ 612,576	\$ 276,300	\$ -	\$ 888,876	\$ 888,011
Individuals	656,044	-	656,044	-	-	656,044	759,467
Special event, net of direct donor benefits of \$156,535 and \$243,552	801,545	-	801,545	-	-	801,545	1,032,084
Donated goods and services	24,200	-	24,200	-	-	24,200	33,554
Investment revenue	46,968	-	46,968	-	-	46,968	539,325
Other revenue	-	-	-	-	-	-	234
Net assets released from restriction	304,180	-	304,180	(304,180)	-	-	-
Total revenue and support	<u>2,445,513</u>	-	<u>2,445,513</u>	<u>(27,880)</u>	-	<u>2,417,633</u>	<u>3,252,675</u>
<b>Expenses</b>							
Program services	2,005,253	-	2,005,253	-	-	2,005,253	2,032,430
Supporting services							
Administrative and general	134,155	-	134,155	-	-	134,155	192,682
Fundraising	248,188	-	248,188	-	-	248,188	202,449
Total expenses	<u>2,387,596</u>	-	<u>2,387,596</u>	-	-	<u>2,387,596</u>	<u>2,427,561</u>
Increase (decrease) in net assets	57,917	-	57,917	(27,880)	-	30,037	825,114
Net assets, beginning of year	<u>2,421,980</u>	<u>4,156,166</u>	<u>6,578,146</u>	<u>339,040</u>	<u>1,104,626</u>	<u>8,021,812</u>	<u>7,196,698</u>
Net assets, end of year	<u>\$ 2,479,897</u>	<u>\$ 4,156,166</u>	<u>\$ 6,636,063</u>	<u>\$ 311,160</u>	<u>\$ 1,104,626</u>	<u>\$ 8,051,849</u>	<u>\$ 8,021,812</u>

See notes to financial statements.

**THE TEAK FELLOWSHIP, INC.**

**Statement of Functional Expenses  
For the Year Ended December 31, 2014  
(with Summarized Comparative Information for the Year Ended December 31, 2013)**

	2014		2013
	Administrative and General	Fund- raising	Total
	Program Services	Fund- raising	Total
Salaries and wages	\$ 1,015,513	\$ 175,521	\$1,253,720
Payroll taxes and employee benefits	266,535	38,535	321,127
Professional fees	13,139	1,877	37,541
Supplies	9,672	563	11,247
Student services and supplies	300,063	-	300,063
Computers	28,551	1,679	33,589
Photographs	3,651	913	4,564
Telephone	12,611	841	14,012
Postage and shipping	16,714	1,880	20,892
Occupancy	243,018	16,201	270,020
Printing and publications	34,807	4,095	40,949
Travel	11,490	638	12,766
Depreciation and amortization	27,899	2,920	32,441
Fundraising	-	10,406	10,406
Other	21,590	1,941	24,259
	<b>\$2,005,253</b>	<b>\$ 248,188</b>	<b>\$2,387,596</b>
<b>Total functional expenses</b>	<b>\$ 134,155</b>	<b>\$ 248,188</b>	<b>\$2,427,561</b>

See notes to financial statements.

**THE TEAK FELLOWSHIP, INC.**

**Statement of Cash Flows**

	<b>Year Ended</b>	
	<b>December 31</b>	
	<b>2014</b>	<b>2013</b>
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 30,037	\$ 825,114
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	32,441	40,534
Realized loss on investments	1,160	2,789
Change in fair value of investments	283,802	(244,687)
Contributions restricted for permanent endowment	-	(665)
Donated stock	(116,150)	(167,364)
Proceeds from sale of donated stock	116,150	167,364
(Increase) decrease in assets		
Contributions receivable	292,435	(110,469)
Prepaid expenses	598	4,289
Increase in accounts payable and accrued expenses	18,111	19,751
Net cash provided by operating activities	<u>658,584</u>	<u>536,656</u>
<b>Cash flows from investing activities</b>		
Additions to leasehold improvements, equipment and website	-	(11,549)
Purchase of investments	(1,493,348)	(1,358,584)
Proceeds from sales of investments	<u>1,160,257</u>	<u>1,258,423</u>
Net cash (used in) investing activities	<u>(333,091)</u>	<u>(111,710)</u>
<b>Cash flows from financing activities</b>		
Contributions restricted for permanent endowment	<u>-</u>	<u>665</u>
Net increase in cash and cash equivalents	<b>325,493</b>	<b>425,611</b>
<b>Cash and cash equivalents, beginning of year</b>	<b><u>1,164,445</u></b>	<b><u>738,834</u></b>
<b>Cash and cash equivalents, end of year</b>	<b><u>\$1,489,938</u></b>	<b><u>\$1,164,445</u></b>

See notes to financial statements.

**THE TEAK FELLOWSHIP, INC.****Notes to Financial Statements  
December 31, 2014****Note 1 – Nature of organization**

The TEAK Fellowship, Inc. (the “Fellowship”) was incorporated on May 14, 1998 under the New York State Not-for-Profit Corporation Law. The purpose of the Fellowship is to help academically talented New York City students from low-income families gain admission to and succeed at top high schools and colleges. Along with academic support, the Fellowship provides leadership training, exposure to the arts and outdoors, mentoring, career experience, and assistance with the high school and college application process.

**Note 2 – Summary of significant accounting policies****Financial reporting**

The Fellowship recognizes all unconditional grants and contributions as support on the statement of activities. Any grants or contributions that are unrestricted are recognized as such. Any grants or contributions that are restricted or pertain to future periods are reflected as temporary restricted net assets. Any grants or contributions, the corpus of which must be kept in perpetuity, are reflected as permanently restricted. The following is a summary of the Fellowship’s net assets:

**Unrestricted****Operating**

Operating net assets are used to account for the general activity of the Fellowship.

**Board designated**

Represents funds to be used to expand and continue the growth of the Fellowship’s programs. The funds will be used at the discretion of the Board to accomplish the aforementioned.

**Temporarily restricted**

Temporarily restricted net assets consist of expendable grants and contributions that relate to future periods. When the time restriction ends or the purpose of the restriction is accomplished, temporary restricted net assets will be reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. During 2014, the assets released from restrictions were used to fund the program described in note 1 to the financial statements.

**Permanently restricted**

Permanently restricted net assets consist of contributions that are restricted, by the donor in that the principal must remain in perpetuity but the investment revenue earned on such funds may be spent in accordance with the donor’s terms.



**THE TEAK FELLOWSHIP, INC.**

**Notes to Financial Statements (continued)**  
**December 31, 2014**

**Note 2 – Summary of significant accounting policies (continued)**

Donated goods and services

The Fellowship receives donated goods and services in connection with its program. Such donated goods and services are estimated at their fair value and reported as support and expenses in the period in which they are used.

For the years ended December 31, 2014 and 2013, the Fellowship received the following donated goods and services:

	2014	2013
Student related expenses	\$ 19,200	\$ 21,054
Professional fees	5,000	12,500
Total	\$ 24,200	\$ 33,554

In addition, the Fellowship received \$24,342 of donated goods and services in connection with its special event which are included in the \$156,535 of direct donor benefits.

Cash equivalents

The Fellowship considers highly liquid assets with a maturity of ninety days or less to be cash equivalents.

Investments

Investments are recorded at fair value based on publicly quoted prices. Realized and unrealized gains and losses on the investments are recognized as revenue in the statement of activities.

Contributions receivable

Other than \$5,000 of the contributions receivable, which will be collected in 2016, all contributions are expected to be collected during 2015.

Allowance for doubtful accounts

The Fellowship deems all accounts receivable to be collectible and, accordingly, does not have an allowance for doubtful accounts. Such estimate is based on management's experience, the aging of the receivables, subsequent receipts and current economic conditions.

**THE TEAK FELLOWSHIP, INC.****Notes to Financial Statements (continued)****December 31, 2014****Note 2 – Summary of significant accounting policies (continued)****Leasehold improvements, equipment and website**

Expenditures for leasehold improvements, equipment and website above a nominal value and having an estimated useful life of one year or longer are capitalized. Leasehold improvements, equipment and website are recorded at cost. Amortization and depreciation are provided on the straight-line method over a 5-year period, which is the estimated useful life of the assets.

**Comparative financial information**

The financial statements include certain prior-year summarized comparative information in total but not by net asset class and functional classification. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Fellowship's financial statements for the year ended December 31, 2013, from which the summarized information was derived.

**Concentrations of credit risk**

The Fellowship's financial instruments that are potentially exposed to concentrations of credit risk consist primarily of cash, cash equivalents, investments and contributions receivable. The Fellowship places its cash and cash equivalents with what it believes to be quality financial institutions and the Fellowship has not experienced any losses in such accounts to date. The Fellowship invests in a money market, mutual funds, municipal bonds and a certificate of deposit which are exposed to various risks such as interest rate, market volatility, liquidity and credit risk. Due to the uncertainty related to the foregoing risks, it is reasonably possible that changes in these risks could materially affect the fair value of the investments reported in the statement of financial position at December 31, 2014. The Fellowship routinely assesses the financial strength of its holdings in its investment portfolio. The Fellowship deems its contributions receivable to be collectible. Accordingly, the Fellowship believes no significant concentrations of credit risk exist with respect to its cash, cash equivalents, investments and contributions receivable.

**Functional allocation expenses**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain common costs have been allocated among the programs and supporting services benefited.

**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 the amounts reported in the financial statements. Actual results could differ from these estimates.

**THE TEAK FELLOWSHIP, INC.**

**Notes to Financial Statements (continued)**  
**December 31, 2014**

**Note 2 – Summary of significant accounting policies (continued)**

**Subsequent events**

The Fellowship has evaluated events and transactions for potential recognition or disclosure through June 3, 2015, which is the date the financial statements were available to be issued.

**Note 3 – Investments**

At December 31, 2014 and 2013, investments consist of the following:

	<u>2014</u>		<u>2013</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Money market	\$ 7,196	\$ 7,196	\$ 9,801	\$ 9,801
Multi-Asset Fund*	4,365,405	4,387,254	4,039,041	4,343,703
Municipal bonds	1,984,750	2,012,401	1,976,667	2,005,307
Certificate of Deposit	<u>36,996</u>	<u>36,996</u>	<u>36,907</u>	<u>36,907</u>
Total	<u>\$6,394,347</u>	<u>\$6,443,847</u>	<u>\$6,062,416</u>	<u>\$6,395,718</u>

- \* The Multi-Asset Fund seeks to achieve a total return (price appreciation plus dividends) that, over a majority of market cycles, exceeds inflation, as measured by the Consumer Price Index plus 5% per annum.

The following is a summary of investment revenue:

	<u>2014</u>	<u>2013</u>
Interest and dividend revenue	\$ 331,930	\$ 297,427
Realized (loss) on disposition of investments	(1,160)	(2,789)
Change in fair value of investments	<u>(283,802)</u>	<u>244,687</u>
Total investment revenue	<u>\$ 46,968</u>	<u>\$ 539,325</u>

**THE TEAK FELLOWSHIP, INC.**

**Notes to Financial Statements (continued)**  
**December 31, 2014**

**Note 3 – Investments (continued)**

Fair value measurements

Fair value refers to the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value hierarchy gives the highest priority to quoted market prices in active markets (Level 1) and the lowest priority to unobservable data (Level 3). Fair value measurements are required to be separately disclosed by level within the fair value hierarchy. The three levels of inputs used to measure fair value are as follows:

- Level 1 – Quoted prices in active markets for identical assets.
- Level 2 – Observable inputs other than Level 1 prices, such as quoted prices of similar assets; quoted prices in markets with insufficient volume or infrequent transactions (less active markets).
- Level 3 – Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of the assets.

The following table represents the Fellowship's investments measured at fair value on a recurring basis at December 31, 2014 and 2013:

<u>Description</u>	2014			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market	\$ 7,196	\$ 7,196	\$ -	\$ -
Multi-Asset Fund	4,387,254	-	4,387,254	-
Municipal bonds	2,012,401	-	2,012,401	-
Certificate of deposit	36,996	36,996	-	-
Total	<u>\$ 6,443,847</u>	<u>\$ 44,192</u>	<u>\$ 6,399,655</u>	<u>\$ -</u>

<u>Description</u>	2013			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market	\$ 9,801	\$ 9,801	\$ -	\$ -
Multi-Asset Fund	4,343,703	-	4,343,703	-
Municipal bonds	2,005,307	-	2,005,307	-
Certificate of deposit	36,907	36,907	-	-
Total	<u>\$ 6,395,718</u>	<u>\$ 46,708</u>	<u>\$ 6,349,010</u>	<u>\$ -</u>

**THE TEAK FELLOWSHIP, INC.****Notes to Financial Statements (continued)****December 31, 2014****Note 4 – Endowment**

The Fellowship's endowment consists of various funds established for a variety of purposes. Its endowment includes both donor-restricted endowment funds and funds designated by the Fellowship. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, including funds designated by the Fellowship to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

**Interpretation of relevant law**

The Fellowship, as required, follows New York State's Prudent Management of Institutional Funds Act (NYPMIFA), the provisions of which apply to endowment funds existing on or established after September 17, 2010. The Fellowship is required to act prudently when making decisions to spend or accumulate donor restricted endowment assets and in doing so to consider a number of factors including the duration and preservation of its donor restricted endowment funds (as outlined below). The Fellowship preserves the fair value of the original gift as the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. The Fellowship considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of the Fellowship and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of the Fellowship.
- (7) If appropriate and circumstances warrant, alternatives to endowment expenditures
- (8) The investment policies of the Fellowship.

**Strategies Employed for Achieving Objectives**

The Fellowship's primary investment objectives of the endowment shall be to maximize returns, conserve assets, and maintain diversification.

For 2014, the activity in the temporarily restricted net assets is reflected on the statement of activities.

For 2014, the Fellowship spent \$52,099 on its public interest internship program, the Morgan McKinzie Endowment. The Endowment allows each fellow to perform a public service internship and receive a stipend in their summer after ninth grade.

**THE TEAK FELLOWSHIP, INC.**

**Notes to Financial Statements (continued)**

**December 31, 2014**

**Note 4 – Endowment (continued)**

Strategies Employed for Achieving Objectives (continued)

At December 31, 2014, the Fellowship's net asset composition by type of fund is as follows:

	<u>Designated Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor-restricted endowment funds	\$ -	\$ 311,160	\$1,104,626	\$1,415,786
Fellowship-designated endowment fund	<u>4,156,166</u>	<u>-</u>	<u>-</u>	<u>4,156,166</u>
Total funds	<u>\$4,156,166</u>	<u>\$ 311,160</u>	<u>\$1,104,626</u>	<u>\$5,571,952</u>

**Note 5 – Leasehold improvements, equipment and website**

The following is a summary of leasehold improvements, equipment and website at December 31, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Leasehold improvements	\$ 177,829	\$ 177,829
Equipment and website	<u>138,098</u>	<u>138,098</u>
Total	315,927	315,927
Less: accumulated depreciation and amortization	<u>290,039</u>	<u>257,598</u>
Net leasehold improvements, equipment and website	<u>\$ 25,888</u>	<u>\$ 58,329</u>

**THE TEAK FELLOWSHIP, INC.**

**Notes to Financial Statements (continued)**

**December 31, 2014**

**Note 6 – Commitments**

The Fellowship has a lease for office space expiring December 31, 2018. The annual base rent was \$144,444 during 2009, the first year of the agreement, increasing to \$211,285 in the final year of the agreement. In lieu of a security deposit, the Fellowship has obtained a \$35,000 irrevocable stand-by letter of credit issued by a bank in favor of the landlord. The letter is secured by certain assets of the Fellowship.

The required minimum annual lease payments under the lease are as follows:

<u>Year</u>	<u>Amount</u>
2015	\$ 199,100
2016	203,081
2017	207,142
2018	<u>211,285</u>
Total	<u>\$ 820,608</u>

In addition, the Fellowship had a lease agreement for classroom space through August 8, 2014 at an annual rental of \$22,500. Rent expense in connection with these agreements, which is recorded as part of occupancy in the statement of functional expenses, totaled \$237,988 and \$226,153 for 2014 and 2013, respectively.

**Note 7 – Retirement plan**

The Fellowship has a 403(b) plan whereby eligible employees can contribute up to 20% of their gross wages within Internal Revenue Code limits and the Fellowship will contribute 6% of an eligible employee's salary after his/her second and third year of service, 7% after the fourth and fifth year of service and 9% for those with six or more years of service. Plan contributions are fully vested and non-forfeitable. The Fellowship's contribution for the years ended December 31, 2014 and 2013 totaled \$71,050 and \$79,957, respectively.

**Note 8 – Tax status**

The Fellowship is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Fellowship has been determined by the Internal Revenue Service to be a publicly supported organization, and not a private foundation under the meaning of Section 509(a)(1) of the Code. The Fellowship qualifies for the maximum charitable contribution deductions for donors. At December 31, 2014, no amounts were recognized for uncertain income tax positions. In addition, the Fellowship's tax returns for 2011 and forward are subject to the usual review by the appropriate authorities.