

THE TEAK FELLOWSHIP, INC.

**Financial Statements
for year ended
December 31, 2015**

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, 2015 and the related statements of activities, functional expenses and cash flows for the year then ended and the related notes to the 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 in the first paragraph on the previous page present fairly, in all material respects, the financial position of The TEAK Fellowship, Inc. as of December 31, 2015, 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 2014 financial statements, and our report dated June 3, 2015, 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, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Condon O'Meara McGinty + Dorelly LLP

May 10, 2016

THE TEAK FELLOWSHIP, INC.

Statement of Financial Position

Assets

	December 31	
	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$1,158,641	\$1,489,938
Investments, at fair value	6,374,716	6,443,847
Contributions receivable	115,358	136,450
Prepaid expenses	31,809	32,940
Leasehold improvements, equipment, and website, net	<u>28,513</u>	<u>25,888</u>
Total assets	<u>\$7,709,037</u>	<u>\$8,129,063</u>

Liabilities and Net Assets

Accounts payable and accrued expenses	<u>\$ 70,648</u>	<u>\$ 77,214</u>
Net assets		
Unrestricted		
Operating	2,252,129	2,479,897
Board designated	<u>4,156,166</u>	<u>4,156,166</u>
Total unrestricted	6,408,295	6,636,063
Temporarily restricted	125,468	311,160
Permanently restricted	<u>1,104,626</u>	<u>1,104,626</u>
Total net assets	<u>7,638,389</u>	<u>8,051,849</u>
Total liabilities and net assets	<u>\$7,709,037</u>	<u>\$8,129,063</u>

See notes to financial statements.

THE TEAK FELLOWSHIP, INC.

Statement of Activities
For the Year Ended December 31, 2015
(with Summarized Comparative Information for the Year Ended December 31, 2014)

	2015				2014
	<u>Unrestricted</u>		<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
	<u>Operating</u>	<u>Board Designated</u>	<u>Total Unrestricted</u>		
Revenue and support					
Grants and contributions					
Foundations and corporations	\$ 361,186	\$ -	\$ 361,186	\$ -	\$ 888,876
Individuals	698,456	-	698,456	-	656,044
Special event, net of direct donor benefits of \$114,730 and \$156,535	865,676	-	865,676	-	801,545
Donated goods and services	8,112	-	8,112	-	24,200
Investments	(69,535)	-	(69,535)	-	46,968
Net assets released from restriction	390,692	-	390,692	(390,692)	-
Total revenue and support	<u>2,254,587</u>	<u>-</u>	<u>2,254,587</u>	<u>(185,692)</u>	<u>2,417,633</u>
Expenses					
Program services	2,027,618	-	2,027,618	-	2,005,253
Supporting services					
Administrative and general	202,408	-	202,408	-	134,155
Fundraising	252,329	-	252,329	-	248,188
Total expenses	<u>2,482,355</u>	<u>-</u>	<u>2,482,355</u>	<u>-</u>	<u>2,387,596</u>
Increase (decrease) in net assets	(227,768)	-	(227,768)	(185,692)	30,037
Net assets, beginning of year	<u>2,479,897</u>	<u>4,156,166</u>	<u>6,636,063</u>	<u>1,104,626</u>	<u>8,021,812</u>
Net assets, end of year	<u>\$ 2,252,129</u>	<u>\$ 4,156,166</u>	<u>\$ 6,408,295</u>	<u>\$ 125,468</u>	<u>\$ 8,051,849</u>

See notes to financial statements.

THE TEAK FELLOWSHIP, INC.

**Statement of Functional Expenses
For the Year Ended December 31, 2015
(with Summarized Comparative Information for the Year Ended December 31, 2014)**

	2015			2014
	Administrative			
	Program Services	and General	Fund- raising	Total
Salaries and wages	\$1,023,799	\$ 63,197	\$ 176,954	\$1,263,950
Payroll taxes and employee benefits	261,695	15,765	37,835	315,295
Professional fees	48,841	83,728	6,978	139,547
Supplies	8,837	925	513	10,275
Student services and supplies	311,119	-	-	311,119
Computers	25,505	3,000	1,500	30,005
Photographs and videos	7,190	-	1,798	8,988
Telephone	11,877	792	527	13,196
Postage and shipping	7,542	848	1,038	9,428
Occupancy	237,498	15,833	10,555	263,886
Printing and publications	30,969	3,643	1,822	36,434
Travel	7,975	443	443	8,861
Depreciation and amortization	14,196	1,486	825	16,507
Fundraising	-	-	10,511	10,511
Uncollectible account	-	10,000	-	10,000
Other	30,575	2,748	1,030	34,353
Total functional expenses	\$2,027,618	\$ 202,408	\$ 252,329	\$2,482,355
				\$2,387,596

See notes to financial statements.

THE TEAK FELLOWSHIP, INC.

Statement of Cash Flows

	Year Ended December 31	
	<u>2015</u>	<u>2014</u>
Cash flows from operating activities		
Increase (decrease) in net assets	\$ (413,460)	\$ 30,037
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	16,507	32,441
Realized loss on investments	38,838	1,160
Change in fair value of investments	126,941	283,802
Donated stock	(82,661)	(116,150)
Proceeds from sale of donated stock	82,661	116,150
Decrease in assets		
Contributions receivable	21,092	292,435
Prepaid expenses	1,131	598
Increase (decrease) in accounts payable and accrued expenses	<u>(6,566)</u>	<u>18,111</u>
Net cash provided by (used in) operating activities	<u>(215,517)</u>	<u>658,584</u>
Cash flows from investing activities		
Additions to leasehold improvements, equipment and website	(19,132)	-
Purchase of investments	(6,987,966)	(1,493,348)
Proceeds from sales of investments	<u>6,891,318</u>	<u>1,160,257</u>
Net cash (used in) investing activities	<u>(115,780)</u>	<u>(333,091)</u>
Net increase (decrease) in cash and cash equivalents	(331,297)	325,493
Cash and cash equivalents, beginning of year	<u>1,489,938</u>	<u>1,164,445</u>
Cash and cash equivalents, end of year	<u>\$1,158,641</u>	<u>\$1,489,938</u>

See notes to financial statements.

THE TEAK FELLOWSHIP, INC.

Notes to Financial Statements December 31, 2015

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 TEAK Fellowship believes that motivation and potential, not economic circumstances, should determine a student’s future. TEAK unlocks access to outstanding education and transformative experiences for exceptional NYC students, who use these opportunities to change their lives and the world around them.

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 2015, 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, 2015

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, 2015 and 2014, the Fellowship received the following donated goods and services:

	<u>2015</u>	<u>2014</u>
Student related expenses	\$ 8,112	\$ 19,200
Professional fees	<u>-</u>	<u>5,000</u>
Total	<u>\$ 8,112</u>	<u>\$ 24,200</u>

In addition, during 2015, the Fellowship received \$13,240 of donated goods and services in connection with its special event which are included in the \$114,730 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

All contributions are expected to be collected during 2016.

Allowance for doubtful accounts

The Fellowship deems all receivables 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, 2015****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, 2014, 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 receivables. 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. Investments 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, 2015. The Fellowship routinely assesses the financial strength of its holdings in its investment portfolio. The Fellowship deems its receivables 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, 2015

Note 2 – Summary of significant accounting policies (continued)

Subsequent events

The Fellowship has evaluated events and transactions for potential recognition or disclosure through May 10, 2016, which is the date the financial statements were available to be issued.

Note 3 – Investments

At December 31, 2015 and 2014, investments consist of the following:

	<u>2015</u>		<u>2014</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Money market	\$ 264,242	\$ 264,242	\$ 7,196	\$ 7,196
Multi-Asset Fund	-	-	4,365,405	4,387,254
Municipal bonds	-	-	1,984,750	2,012,401
Mutual funds				
Fixed income	3,533,573	3,525,142	-	-
Equities	2,617,253	2,548,243	-	-
Certificate of Deposit	<u>37,089</u>	<u>37,089</u>	<u>36,996</u>	<u>36,996</u>
Total	<u>\$6,452,157</u>	<u>\$6,374,716</u>	<u>\$6,394,347</u>	<u>\$6,443,847</u>

The following is a summary of investment revenue:

	<u>2015</u>	<u>2014</u>
Interest and dividend revenue	\$ 118,541	\$ 331,930
Realized (loss) on disposition of investments	(38,838)	(1,160)
Change in fair value of investments	(126,941)	(283,802)
Investment Fees	<u>(22,297)</u>	<u>-</u>
Total investment revenue	<u>\$ (69,535)</u>	<u>\$ 46,968</u>

THE TEAK FELLOWSHIP, INC.

Notes to Financial Statements (continued)
December 31, 2015

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, 2015 and 2014:

<u>Description</u>	2015			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Money market	\$ 264,242	\$ 264,242	\$ -	\$ -
Multi-Asset Fund	-	-	-	-
Municipal bonds	-	-	-	-
Mutual Funds				
Fixed income	3,525,142	3,525,142	-	-
Equities	2,548,243	2,548,243	-	-
Certificate of deposit	37,089	37,089	-	-
Total	<u>\$ 6,374,716</u>	<u>\$ 6,374,716</u>	<u>\$ -</u>	<u>\$ -</u>

<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>

THE TEAK FELLOWSHIP, INC.**Notes to Financial Statements (continued)****December 31, 2015****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

Under New York State's Prudent Management of Institutional Funds Act (NYPMIFA), 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 2015, the activity in the temporarily restricted net assets is reflected on the statement of activities.

For 2015, the Fellowship spent \$53,176 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, 2015

Note 4 – Endowment (continued)

Strategies Employed for Achieving Objectives (continued)

At December 31, 2015, 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	\$ -	\$ 125,468	\$ 1,104,626	\$ 1,230,094
Board-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>\$ 125,468</u>	<u>\$1,104,626</u>	<u>\$5,386,260</u>

Note 5 – Leasehold improvements, equipment and website

The following is a summary of leasehold improvements, equipment and website at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Leasehold improvements	\$ 177,829	\$ 177,829
Equipment and website	<u>157,230</u>	<u>138,098</u>
Total	335,059	315,927
Less: accumulated depreciation and amortization	<u>306,546</u>	<u>290,039</u>
Net leasehold improvements, equipment and website	<u>\$ 28,513</u>	<u>\$ 25,888</u>

THE TEAK FELLOWSHIP, INC.

Notes to Financial Statements (continued)
December 31, 2015

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>
2016	\$ 203,081
2017	207,142
2018	<u>211,285</u>
Total	<u>\$ 621,508</u>

In addition, the Fellowship had a lease agreement for classroom space through August 7, 2015 at an annual rental of \$22,500, which will continue in 2016 from June 27, 2016 to August 4, 2016. Rent expense in connection with these agreements, which is recorded as part of occupancy in the statement of functional expenses, totaled \$238,792 and \$237,988 for 2015 and 2014, 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, 2015 and 2014 totaled \$59,410 and \$71,050, 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.