

THE TEAK FELLOWSHIP, INC.

**Financial Statements
for year ended
December 31, 2016**

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, 2016 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, 2016, 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 2015 financial statements, and our report dated May 10, 2016, 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, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Condon O'Meara McGinty + Donnelly LLP

April 26, 2017

THE TEAK FELLOWSHIP, INC.

Statement of Financial Position

Assets

	December 31	
	2016	2015
Cash and cash equivalents	\$1,401,617	\$1,158,641
Investments, at fair value	6,744,296	6,374,716
Contributions receivable	139,035	115,358
Prepaid expenses	3,115	31,809
Leasehold improvements, equipment, and website, net	<u>67,899</u>	<u>28,513</u>
Total assets	<u>\$8,355,962</u>	<u>\$7,709,037</u>

Liabilities and Net Assets

Accounts payable and accrued expenses	\$ <u>32,733</u>	\$ <u>70,648</u>
Net assets		
Unrestricted		
Operating	3,027,840	2,252,129
Board designated	<u>4,156,166</u>	<u>4,156,166</u>
Total unrestricted	7,184,006	6,408,295
Temporarily restricted	34,397	125,468
Permanently restricted	<u>1,104,826</u>	<u>1,104,626</u>
Total net assets	<u>8,323,229</u>	<u>7,638,389</u>
Total liabilities and net assets	<u>\$8,355,962</u>	<u>\$7,709,037</u>

See notes to financial statements.

THE TEAK FELLOWSHIP, INC.

Statement of Activities
For the Year Ended December 31, 2016
(with Summarized Comparative Information for the Year Ended December 31, 2015)

	2016				2015
	Unrestricted		Temporarily Restricted		Total
	Operating	Board Designated	Unrestricted	Permanently Restricted	Total
Revenue and support					
Grants and contributions					
Foundations and corporations	\$ 629,491	\$ -	\$ 629,491	\$ -	\$ 629,491
Individuals	983,634	-	983,634	200	1,043,834
Special event, net of direct donor benefits of \$193,257 and \$114,730	959,023	-	959,023	-	959,023
Donated goods and services	27,451	-	27,451	-	27,451
Investments	367,029	-	367,029	-	367,029
Net assets released from restriction	151,071	-	151,071	-	-
Total revenue and support	<u>3,117,699</u>	<u>-</u>	<u>3,117,699</u>	<u>200</u>	<u>3,026,828</u>
Expenses					
Program services	1,983,186	-	1,983,186	-	1,983,186
Supporting services					
Administrative and general	174,499	-	174,499	-	174,499
Fundraising	184,303	-	184,303	-	184,303
Total expenses	<u>2,341,988</u>	<u>-</u>	<u>2,341,988</u>	<u>-</u>	<u>2,482,355</u>
Increase (decrease) in net assets	775,711	-	775,711	200	684,840
Net assets, beginning of year	<u>2,252,129</u>	<u>4,156,166</u>	<u>6,408,295</u>	<u>1,104,626</u>	<u>8,051,849</u>
Net assets, end of year	<u>\$ 3,027,840</u>	<u>\$ 4,156,166</u>	<u>\$ 7,184,006</u>	<u>\$ 1,104,826</u>	<u>\$ 8,323,229</u>
					<u>\$ 7,638,389</u>

See notes to financial statements.

THE TEAK FELLOWSHIP, INC.

**Statement of Functional Expenses
For the Year Ended December 31, 2016
(with Summarized Comparative Information for the Year Ended December 31, 2015)**

	2016			2015
	Program Services	Administrative and General	Fund- raising	Total
Salaries and wages	\$1,051,010	\$ 102,538	\$ 128,171	\$1,281,719
Payroll taxes and employee benefits	252,659	24,650	30,812	308,121
Professional fees	9,914	16,996	1,416	28,326
Supplies	10,484	1,097	610	12,191
Student services and supplies	286,835	-	-	286,835
Computers	17,878	2,103	1,052	21,033
Telephone	12,740	849	566	14,155
Postage and shipping	5,273	593	725	6,591
Occupancy	249,402	16,627	11,085	277,114
Printing and publications	44,606	5,248	2,624	52,478
Travel	6,017	334	334	6,685
Depreciation and amortization	13,144	1,376	764	15,284
Fundraising	-	-	5,361	5,361
Uncollectible account	-	-	-	-
Other	23,224	2,088	783	26,095
Total functional expenses	\$1,983,186	\$ 174,499	\$ 184,303	\$2,341,988
				\$2,482,355

See notes to financial statements.

THE TEAK FELLOWSHIP, INC.

Statement of Cash Flows

	Year Ended December 31	
	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Increase (decrease) in net assets	\$ 684,840	\$ (413,460)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	15,284	16,507
Realized loss on investments	4,545	38,838
Change in fair value of investments	(268,030)	126,941
Donated stock	(182,667)	(82,661)
Proceeds from sale of donated stock	182,667	82,661
(Increase) decrease in assets		
Contributions receivable	(23,677)	21,092
Prepaid expenses	28,694	1,131
(Decrease) in accounts payable and accrued expenses	(37,915)	(6,566)
Net cash provided by (used in) operating activities	<u>403,741</u>	<u>(215,517)</u>
Cash flows from investing activities		
Additions to leasehold improvements, equipment and website	(54,670)	(19,132)
Purchase of investments	(444,883)	(6,987,966)
Proceeds from sales of investments	<u>338,788</u>	<u>6,891,318</u>
Net cash (used in) investing activities	<u>(160,765)</u>	<u>(115,780)</u>
 Net increase (decrease) in cash and cash equivalents	 242,976	 (331,297)
Cash and cash equivalents, beginning of year	<u>1,158,641</u>	<u>1,489,938</u>
Cash and cash equivalents, end of year	<u>\$1,401,617</u>	<u>\$1,158,641</u>

See notes to financial statements.

THE TEAK FELLOWSHIP, INC.

Notes to Financial Statements

December 31, 2016

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 2016, 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, 2016**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, 2016 and 2015, the Fellowship received donated goods and services in the form of student related expenses totaling \$27,451 in 2016 and \$8,122 in 2015, respectively. In addition, during 2016 and 2015, the Fellowship received \$5,547 and \$13,240, respectively, of donated goods and services in connection with its special event which are included in 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 2017.

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.

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.

THE TEAK FELLOWSHIP, INC.**Notes to Financial Statements (continued)
December 31, 2016****Note 2 – Summary of significant accounting policies (continued)****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, 2015, 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, 2016. 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.

Subsequent events

The Fellowship has evaluated events and transactions for potential recognition or disclosure through April 26, 2017, which is the date the financial statements were available to be issued.

THE TEAK FELLOWSHIP, INC.

Notes to Financial Statements (continued)
December 31, 2016

Note 3 – Investments

At December 31, 2016 and 2015, investments consist of the following:

	<u>2016</u>		<u>2015</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Money market	\$ 418,886	\$ 418,886	\$ 264,242	\$ 264,242
Mutual funds				
Fixed income	3,403,998	3,386,433	3,533,573	3,525,142
Equities	2,693,734	2,901,888	2,617,253	2,548,243
Certificate of Deposit	<u>37,089</u>	<u>37,089</u>	<u>37,089</u>	<u>37,089</u>
Total	<u>\$6,553,707</u>	<u>\$6,744,296</u>	<u>\$6,452,157</u>	<u>\$6,374,716</u>

The following is a summary of investment revenue:

	<u>2016</u>	<u>2015</u>
Interest and dividend revenue	\$ 135,049	\$ 118,541
Realized (loss) on disposition of investments	(4,545)	(38,838)
Change in fair value of investments	268,029	(126,941)
Investment Fees	<u>(31,504)</u>	<u>(22,297)</u>
Total investment revenue	<u>\$ 367,029</u>	<u>\$ (69,535)</u>

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.

At December 31, 2016 and 2015, the Fellowship's investments are deemed to be Level 1 investments.

THE TEAK FELLOWSHIP, INC.**Notes to Financial Statements (continued)****December 31, 2016****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 2016, the activity in the temporarily restricted net assets is reflected on the statement of activities.

For 2016, the Fellowship spent \$52,987 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, 2016

Note 4 – Endowment (continued)

Strategies Employed for Achieving Objectives (continued)

At December 31, 2016, 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	\$ -	\$ 34,397	\$ 1,104,826	\$ 1,139,223
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>\$ 34,397</u>	<u>\$1,104,826</u>	<u>\$ 5,295,389</u>

Note 5 – Leasehold improvements, equipment and website

The following is a summary of leasehold improvements, equipment and website at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Leasehold improvements	\$ 177,829	\$ 177,829
Equipment and website	<u>211,900</u>	<u>157,230</u>
Total	389,729	335,059
Less: accumulated depreciation and amortization	<u>321,830</u>	<u>306,546</u>
Net leasehold improvements, equipment and website	<u>\$ 67,899</u>	<u>\$ 28,513</u>

THE TEAK FELLOWSHIP, INC.

Notes to Financial Statements (continued)
December 31, 2016

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>
2017	\$ 207,142
2018	<u>211,285</u>
Total	<u>\$ 418,427</u>

In addition, the Fellowship had a lease agreement for classroom space through August 4, 2016 at an annual rental of \$22,500, which will continue in 2017 from June 29, 2017 to August 4, 2017 at an annual rental of \$23,175.

Rent expense in connection with these agreements, which is recorded as part of occupancy in the statement of functional expenses, totaled \$244,376 and \$238,792 for 2016 and 2015, 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, 2016 and 2015 totaled \$68,315 and \$59,410, 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.