

**THE TEAGLE FOUNDATION, INCORPORATED**

**JUNE 30, 2017 AND 2016**

**OWEN J. FLANAGAN & COMPANY, LLP**

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—  
DONALD F. SCHERER

**Independent Auditor's Report**

The Board of Directors of  
The Teagle Foundation

We have audited the accompanying financial statements of The Teagle Foundation (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and cash flows for the years 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 of 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 Teagle Foundation as of June 30, 2017 and 2016, and the changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Quinn J. Flanagan & Co.*

New York, NY  
November 2, 2017

THE TEAGLE FOUNDATION, INCORPORATEDSTATEMENTS OF FINANCIAL POSITIONJUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
<u>ASSETS</u>		
Investments, at fair value		
Cash and short-term investments	\$ 6,606,914	\$ 10,728,091
U.S. equity securities	19,075,938	27,646,212
Global equities	39,812,283	32,356,997
Fixed income	10,656,241	9,043,564
Real estate	1,589,493	2,627,440
Buyout	2,301,647	2,809,910
Hedge funds	37,482,358	24,755,078
Private equity	<u>21,583,301</u>	<u>25,708,656</u>
<u>Total Investments</u>	139,108,175	135,675,948
Operating cash	392,215	242,401
Interest and dividends receivable	15,408	16,824
Prepaid expenses and other assets	169,735	172,838
Prepaid Federal excise tax	110,573	-
Receivables	402,893	417,390
Leasehold improvements, furniture and equipment, net	<u>282,073</u>	<u>313,414</u>
<u>Total Assets</u>	<u>\$140,481,072</u>	<u>\$136,838,815</u>
<u>LIABILITIES AND NET ASSETS</u>		
Grants payable	\$ 4,508,692	\$ 4,770,743
Accounts payable and accrued expense	19,947	113,711
Federal excise tax	-	102,698
Deferred Federal excise tax	<u>415,527</u>	<u>271,864</u>
<u>Total Liabilities</u>	4,944,166	5,259,016
Net Assets	<u>135,536,906</u>	<u>131,579,799</u>
<u>Total Liabilities and Net Assets</u>	<u>\$140,481,072</u>	<u>\$136,838,815</u>

See accompanying notes to financial statements.

THE TEAGLE FOUNDATION, INCORPORATEDSTATEMENTS OF ACTIVITIESYEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Revenue (Loss)		
Investment income (loss)		
Dividends, interest and partnership earnings	\$ 1,767,305	\$ 2,791,495
Realized gain on sale of investments	3,679,465	7,297,583
Unrealized appreciation (depreciation) of investments	<u>7,183,147</u>	<u>(12,125,728)</u>
	12,629,917	(2,036,650)
Less: Directly reported investment fees	1,693,981	2,082,970
Federal excise and unrelated business income tax (recovery)	<u>166,849</u>	<u>(81,130)</u>
<u>Net Investment Income (Loss)</u>	<u>10,769,087</u>	<u>(4,038,490)</u>
Contributions	<u>1,000</u>	<u>1,000</u>
<u>Total Revenue (Loss)</u>	<u>10,770,087</u>	<u>(4,037,490)</u>
Expenses		
Grants	4,947,637	4,961,383
Program administration, management and general	<u>1,865,343</u>	<u>2,263,482</u>
<u>Total Expenses</u>	<u>6,812,980</u>	<u>7,224,865</u>
Change in net assets	3,957,107	(11,262,355)
Net Assets		
Beginning of year	<u>131,579,799</u>	<u>142,842,154</u>
End of year	<u>\$135,536,906</u>	<u>\$131,579,799</u>

See accompanying notes to financial statements.

THE TEAGLE FOUNDATION, INCORPORATEDSTATEMENTS OF CASH FLOWSYEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets for year	\$ 3,957,107	\$(11,262,355)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation and amortization	31,341	31,341
Net realized and unrealized (gain) loss on investments	(10,862,612)	4,828,145
Decrease (increase) in assets:		
Interest and dividends receivable	1,416	30,816
Prepaid expenses and other assets	3,103	(7,844)
Prepaid taxes	(110,573)	-
Receivables	14,497	(36,417)
Increase (decrease) in liabilities:		
Grants payable	(262,051)	170,891
Accounts payable and accrued expenses	(93,764)	67,560
Deferred Federal excise tax	143,663	(242,514)
Federal excise tax	<u>(102,698)</u>	<u>(56,499)</u>
Net cash used in operating activities	<u>(7,280,571)</u>	<u>(6,476,876)</u>
Cash flows from investing activities:		
Purchases of investments	(16,479,877)	(56,748,857)
Proceeds from sales of investments	19,789,085	71,071,646
Net change in short-term investments	<u>4,121,177</u>	<u>(9,131,987)</u>
Net cash provided by investing activities	<u>7,430,385</u>	<u>5,190,802</u>
Change in operating cash	149,814	(1,286,074)
Operating cash		
Beginning of year	<u>242,401</u>	<u>1,528,475</u>
End of year	<u>\$ 392,215</u>	<u>\$ 242,401</u>
<u>Supplemental Information</u>		
Excise taxes paid	\$ 240,000	\$ 215,000

See accompanying notes to financial statements.

THE TEAGLE FOUNDATION, INCORPORATEDNOTES TO FINANCIAL STATEMENTSJUNE 30, 2017 AND 2016**1. Organization and Tax Status**

The Teagle Foundation, Incorporated (the "Foundation") was established in 1944 by Walter C. Teagle, longtime President and later Chairman of the Board of Standard Oil Company (New Jersey), now Exxon Mobil Corporation ("Exxon"). Its assets are derived from bequests from Mr. Teagle, his wife, Rowena Lee Teagle and their son, Walter C. Teagle, Jr. The Foundation is exempt from income taxes under section 501(c)(3) of the Internal Revenue Code. It has been classified as a private foundation as defined in Section 509(a) of the Internal Revenue Code. The Foundation's primary source of support is investment revenue.

The Teagle Foundation aims to strengthen liberal arts education by providing the intellectual and financial resources necessary to ensure that today's students have access to challenging, wide-ranging, and enriching college educations, and that they succeed at the highest possible level.

**2. Summary of Significant Accounting Policies*****Basis of Presentation***

The financial statements of the Foundation have been prepared on the accrual basis of accounting.

The Foundation reports information regarding its financial position and activities based upon the existence or absence of donor restrictions on its net assets. The Foundation's net assets are neither permanently nor temporarily restricted by donor-imposed restrictions and are all classified as unrestricted.

***Cash***

For purposes of cash flow, the Foundation defines operating cash as checking accounts and petty cash.

***Investments***

Investments in marketable securities are valued at quoted market prices. Investments in alternative investment funds are ordinarily valued at the most recent estimate determined by the investment manager or agents based upon the valuation reported by the fund administrators in accordance with the policies established by the relevant funds. As a general matter, the fair value of the Foundation's investment in these funds will represent the amount that the Foundation could reasonably expect to receive from the fund if the Foundation's interest was redeemed at the time of valuation, based upon the information reasonably available at the time the valuation was made.

THE TEAGLE FOUNDATION, INCORPORATEDNOTES TO FINANCIAL STATEMENTSJUNE 30, 2017 AND 2016**2. Summary of Significant Accounting Policies (continued)**

Valuations provided by these funds may be based upon estimated or unaudited reports, and may be subject to later adjustment or revision. Any such adjustments or revision will either increase or decrease the net asset value of the Foundation at the time the Foundation is provided with the information regarding the adjustment.

The Foundation's portfolio of investments is diversified. Investments purchased by the Foundation are recorded at cost. Realized gains and losses from the sale of securities are determined by comparison of cost to proceeds and are determined under the specific identification method. Net income (interest, dividends, realized gains and management fees) from alternative investments is recorded when reported by the fund, which is normally annually.

***Fair Value Measurement of Investments***

The Foundation follows Financial Accounting Standards Board (FASB) guidance for *Fair Value Measurements* which defines fair value and establishes a fair value hierarchy organized into three levels based upon the input assumptions used in pricing assets. Level 1 inputs have the highest reliability and are related to assets with unadjusted quoted prices in active markets. Level 2 inputs relate to assets with other than quoted prices in active markets which may include quoted prices for similar assets or liabilities or other inputs which can be corroborated by observable market data. Level 3 inputs are unobservable input and are used to the extent that observable inputs do not exist.

The fair value of alternative investments has been estimated using the Net Asset Value ("NAV") or its equivalent, as reported by management of the respective alternative investment funds. U.S. GAAP guidance provides for the use of NAV or its equivalent as a "Practical Expedient" for estimating fair value of alternative investments. When the practical expedient is used, the investment is excluded from the fair value hierarchy.

***Leasehold Improvements, Furniture and Equipment***

Leasehold improvements, furniture and equipment are stated at cost. Depreciation of furniture and equipment is computed using the straight-line method over the estimated useful lives of the assets which range from three to seven years. Leasehold improvements are amortized over the life of the lease.

***Grants***

Unconditional grants are recognized as expense upon approval by the Board of Directors. Reporting requirements are not considered conditions by the Foundation. Conditional grants are recognized as expense when the conditions have been satisfied by the grantees.



THE TEAGLE FOUNDATION, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

**2. Summary of Significant Accounting Policies (continued)**

*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 reported amounts of assets and liabilities at the date of financial statements, and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

*Subsequent Events*

In connection with the preparation of the financial statements the Foundation evaluated subsequent events after the statement of financial position date of June 30, 2017 through November 2, 2017 which was the date the financial statements were available to be issued.

**3. Investments**

Investments as of June 30, 2017 and 2016 consist of the following:

	<u>2017</u>		<u>2016</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash and short-term investments	\$ 6,609,155	\$ 6,606,914	\$ 10,732,596	\$ 10,728,091
U.S. equity securities	5,692,222	19,075,938	12,379,819	27,646,212
Global equities	33,191,908	39,812,283	32,749,610	32,356,997
Fixed income	11,275,421	10,656,241	9,528,116	9,043,564
Real estate	1,762,239	1,589,493	2,955,792	2,627,440
Buyout	2,998,765	2,301,647	3,347,217	2,809,910
Hedge funds	36,185,576	37,482,358	26,075,846	24,755,078
Private equity	<u>20,616,530</u>	<u>21,583,301</u>	<u>24,313,740</u>	<u>25,708,656</u>
	<u>\$118,331,816</u>	<u>\$139,108,175</u>	<u>\$122,082,736</u>	<u>\$135,675,948</u>

The following are major categories of investments measured at estimated fair value as of June 30:

THE TEAGLE FOUNDATION, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

**3. Investments** (Continued)

	2017		
	Level 1	Valued at NAV	Total
Cash and short-term investments	\$ 6,606,914	\$ -	\$ 6,606,914
U.S. equity securities	19,075,938	-	19,075,938
Global equities	1,700,650	38,111,633	39,812,283
Fixed income	6,704,602	3,951,639	10,656,241
Real estate	-	1,589,493	1,589,493
Buyout	-	2,301,647	2,301,647
Hedge funds	-	37,482,358	37,482,358
Private equity	-	21,583,301	21,583,301
	<u>\$34,088,104</u>	<u>\$105,020,071</u>	<u>\$139,108,175</u>
	2016		
	Level 1	Valued at NAV	Total
Cash and short-term investments	\$10,728,091	\$ -	\$ 10,728,091
U.S. equity securities	27,646,212	-	27,646,212
Global equities	7,786,060	24,570,937	32,356,997
Fixed income	5,026,432	4,017,132	9,043,564
Real estate	-	2,627,440	2,627,440
Buyout	-	2,809,910	2,809,910
Hedge funds	-	24,755,078	24,755,078
Private equity	-	25,708,656	25,708,656
	<u>\$51,186,795</u>	<u>\$84,489,153</u>	<u>\$135,675,948</u>

Included in U.S. equity securities is the Foundation's holding in Exxon common stock. This investment's fair value was \$14,537,455 and \$17,318,465 as of June 30, 2017 and 2016, respectively, which represents approximately ten and thirteen percent of the total assets of the Foundation in 2017 and 2016, respectively. Also in U.S. equity securities at June 30, 2017 is a common stock portfolio valued at \$4,538,483.

Global equities consist of one publicly traded fund valued at \$1,700,650 and ten funds valued using the NAV. Two of these funds valued at \$11,987,814 have liquidation notice requirements ranging from 6 to 10 days. One fund valued at \$4,997,610 has monthly liquidity with ten days notice. Four funds, valued at \$6,755,290, have quarterly liquidity, with notice requirements of 30 to 65 days. The remaining three funds, valued at \$14,370,919 have lockup periods from January 2019 to April 2021.

THE TEAGLE FOUNDATION, INCORPORATEDNOTES TO FINANCIAL STATEMENTSJUNE 30, 2017 AND 2016**3. Investments** (Continued)

The fixed income securities classified as level 1 are U.S. Government securities. Alternative fixed income investments reported using NAV consist of two liquidating funds, valued at \$759,521, that attempt to capitalize on opportunities in the credit markets including stressed and distressed debt and bank loans, mezzanine and private placement investments, structured products and special situations investments. It is estimated that these funds will be liquidated over the next two years. There is a remaining commitment to one of these funds of \$136,897. The remaining fund, valued at \$3,192,118, is a mortgage fund with a 45 day notice period for withdrawals.

There are four real estate funds valued using NAV that invest in both U.S. and international real estate. Distributions from the funds will be received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the funds will be liquidated over the next four years. The Foundation has approximately \$138,122 remaining commitments to these funds.

Buyout investments consist of four funds that focus on corporate buyouts of U.S. companies. Distributions from the funds will be received as the underlying investments are liquidated. It is estimated that these investments will wind down over the next two years. These funds have remaining commitments totaling approximately \$362,000.

Hedge funds consist of nine investments following hedging investment strategies and including investments such as global equity funds. Three funds, valued at \$16,980,869 have monthly liquidity with 5 to 90 day notice requirements. One fund valued at \$4,287,580 has quarterly liquidation with 60 days notice. Two funds, valued at \$6,809,783, have partial liquidation ability with full redemptions taking from two to three years. The three remaining funds valued at \$9,404,126 have lockup periods expiring between 2018 and 2024. The hedge funds have remaining capital commitments of \$3,750,000.

Private equity investments consist of nineteen vehicles which focus on investing in merger, buyout and venture capital strategies in late stage private companies and smaller capitalization public companies to promote growth and expansion. The nature of these investments is to receive distributions as the underlying investments are sold off. Nine of these investments, valued at \$9,977,232, are older private equity investments that are closer to completion (within 4 years). The remaining ten investments, valued at \$11,606,069, were entered into mainly within the last five years. The remaining capital commitments to private equity are \$15,062,936, 480,000 Euros and 45,756 Canadian dollars.

THE TEAGLE FOUNDATION, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

**4. Leasehold Improvements, Furniture and Equipment**

Leasehold improvements, furniture and equipment as of June 30, 2017 and 2016 are comprised of the following:

	<u>2017</u>	<u>2016</u>
Leasehold improvements	\$234,447	\$234,447
Furniture and equipment	234,010	234,010
Paintings	<u>30,480</u>	<u>30,480</u>
	498,937	498,937
Less: accumulated depreciation and amortization	<u>216,864</u>	<u>185,523</u>
	<u>\$282,073</u>	<u>\$313,414</u>

**5. Federal Excise Tax**

In accordance with the applicable provisions of the Internal Revenue Code (the "Code"), the Foundation is subject to a Federal excise tax of two percent on its net investment income as defined by the Code. A reduction of the tax rate to one percent can be achieved by meeting qualifications under Code Section 4940(c). The Foundation's excise tax rate was 1% and 2% for 2017 and 2016, respectively. For the year ended June 30, 2017, excise tax expense was approximately \$31,000. The comparable amount for 2016 was \$160,000.

Some of the Foundations investments generated unrelated business income. This income is subject to tax at the for profit tax rates. For the year ended June 30, 2017, these investments generated losses which can be carried back or forward. For the year ended June 30, 2016, these investments reported a small gain.

Deferred Federal excise tax on unrealized appreciation of investments is calculated at the two percent tax rate since the qualification for the one percent tax is not determinable until the year in which gains are realized. Changes to the liability for deferred tax on the unrealized appreciation amounted to an increase of \$143,663 for the year ended June 30, 2017 and a decrease of \$242,514 for the year ended June 30, 2016.

**6. Retirement Plans**

The Foundation maintains a defined contribution profit sharing plan and a 403(b) retirement plan.

The defined contribution profit sharing plan, was established effective September 1, 2004 and covers all full time employees. The plan provides for a contribution of ten percent of compensation and is fully vested. The cost of this plan for the years ended June 30, 2017 and 2016 was \$69,901 and \$83,646 respectively.

The Foundation also maintains a 403(b) plan for all employees. The Foundation will match employee contributions to the plan up to five percent of each employee's salary. The cost of this plan for the years ended June 30, 2017 and 2016 was \$35,139 and \$41,823, respectively.

THE TEAGLE FOUNDATION, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

**7. Grants Payable**

The Foundation's Scholarship Program provides grants to the children of employees of Exxon Mobil Corporation and its affiliates. Awards based on financial need are renewable to the completion of the degree up to a maximum of \$10,000 a year for undergraduate study. Conditional commitments to scholarship recipients, which have not been recognized as an expense, totaled approximately \$720,000 as of June 30, 2017.

Grants are recognized when approved by the Directors of the Foundation. Grants payable represents amounts authorized but scheduled for future payment. Grants to be paid in more than one year are discounted to present value using the treasury bill rate. The commitments outstanding at June 30, 2017, net of the discount to present value, are scheduled for payment as follows:

Year ending June 30:	
2018	\$2,438,540
2019	1,751,000
2020	146,000
2021	146,000
2022	85,000
2023	<u>15,000</u>
	4,581,540
Less: discount to present value	<u>72,848</u>
	<u>\$4,508,692</u>

**8. Commitments and Contingencies**

***Leases***

The Foundation has a fifteen year and 4 month lease for space in New York City that commenced June 1, 2010. During the first year and 2 months of the lease, the Foundation received six months free rent. The minimum lease payments are as follows:

Year ending June 30:	
2018	\$ 248,574
2019	251,682
2020	254,828
2021	274,775
2022	281,563
2023 - 2026	<u>914,791</u>
	<u>\$2,226,213</u>

Rent expense was \$251,219 and \$240,616 for the years ended June 30, 2017 and 2016, respectively.

THE TEAGLE FOUNDATION, INCORPORATED

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

**9. Concentration of Risk**

During the fiscal year, the Foundation had cash in the bank exceeding federally insured limits. The Foundation manages this risk by only using a well established bank.

**10. Uncertain Tax Positions**

The Foundation recognizes the effect of income tax positions only if those positions are more likely than not to be sustained. Management has determined that the Foundation has no uncertain tax positions that would require financial statement disclosure and/or recognition.

**11. Reclassifications**

Certain prior year financial statement amounts have been reclassified to conform to the current year presentation.