

TURKISH PHILANTHROPY FUNDS, INC.

FINANCIAL STATEMENTS

For the Years Ended June 30, 2016 and 2015

And

Independent Auditor's Report



TURKISH PHILANTHROPY FUNDS, INC.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Turkish Philanthropy Funds, Inc.
216 East 45th Street, 7th Floor
New York, NY 10017

We have audited the accompanying financial statements of Turkish Philanthropy Funds, Inc., which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, functional expenses, 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 of 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the 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 Turkish Philanthropy Funds, Inc. as of June 30, 2016 and 2015, 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.

Valler Vendina LLP
Elmhurst, New York
July 28, 2016

TURKISH PHILANTHROPY FUNDS, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2016 AND 2015

	2016	2015
<u>ASSETS</u>		
Assets		
Cash and cash equivalents	\$ 1,554,433	\$ 949,000
Investments, at fair values	5,725,384	4,688,473
Receivables and prepayments	69,388	6,419
Property and equipment, net	2,466	3,235
TOTAL ASSETS	\$ 7,351,671	\$ 5,647,127
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities		
Accounts payable and accrued expenses	\$ 221,143	\$ 8,831
Total liabilities	221,143	8,831
Net Assets		
Unrestricted	\$ 4,628,785	3,329,656
Temporarily restricted	\$ 300,852	252,295
Permanently restricted	\$ 2,200,891	2,056,345
Total net assets	7,130,528	5,638,296
TOTAL LIABILITIES AND NET ASSETS	\$ 7,351,671	\$ 5,647,127

See accompanying notes to financial statements.

TURKISH PHILANTHROPY FUNDS, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016
(With summarized information for the year ended June 30, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2016	Total 2015
Revenues and support					
Contributions	\$ 3,123,802			\$ 3,123,802	\$ 823,049
Interest and dividend income, net	168,858	48,085		216,943	41,780
Fees and miscellaneous	32,368			32,368	37,246
Unrealized and realized gains (losses) on investments:					
Realized gains (losses), net	(54,474)	(24,322)		(78,796)	156,189
Unrealized gains (losses), net	(105,941)	(36,287)		(142,229)	(181,133)
Release from restrictions/transfers	(205,627)	61,081	144,546	-	-
Total revenue and support	<u>2,958,985</u>	<u>48,557</u>	<u>144,546</u>	<u>3,152,089</u>	<u>877,131</u>
Expenses					
Program services	1,214,005			1,214,005	1,110,482
Management and general	384,745			384,745	311,064
Fundraising	61,106			61,106	32,041
Total expenses	<u>1,659,856</u>	<u>-</u>	<u>-</u>	<u>1,659,856</u>	<u>1,453,587</u>
Change in net assets	1,299,129	48,557	144,546	1,492,232	(576,456)
Net assets at beginning of year	<u>3,329,656</u>	<u>252,295</u>	<u>2,056,345</u>	<u>5,638,296</u>	<u>6,214,752</u>
Net assets at end of year	<u>\$ 4,628,785</u>	<u>\$ 300,852</u>	<u>\$ 2,200,891</u>	<u>\$ 7,130,528</u>	<u>\$ 5,638,296</u>

See accompanying notes to financial statements.

TURKISH PHILANTHROPY FUNDS, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2015
Revenues and support				
Contributions	\$ 807,601	\$ 15,348	\$ 100	\$ 823,049
Interest and dividend income, net	38,146	3,634	-	41,780
Fees and miscellaneous	37,246	-	-	37,246
Unrealized and realized gains (losses) on investments:				
Realized gains (losses), net	43,237	112,952	-	156,189
Unrealized gains (losses), net	(51,842)	(129,291)	-	(181,133)
Release from restrictions	487,667	(487,667)	-	-
Total revenue and support	1,362,055	(485,024)	100	877,131
Expenses				
Program services	1,110,482	-	-	1,110,482
Management and general	311,064			311,064
Fundraising	32,041			32,041
Total expenses	1,453,587	-	-	1,453,587
Change in net assets	(91,532)	(485,024)	100	(576,456)
Net assets at beginning of year	3,421,188	737,319	2,056,245	6,214,752
Net assets at end of year	\$ 3,329,656	\$ 252,295	\$ 2,056,345	\$ 5,638,296

See accompanying notes to financial statements.

TURKISH PHILANTHROPY FUNDS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2016
(With summarized information for the year ended June 30, 2015)

	2016				2015
	Program Services	Management and General	Fundraising	Total	Total
Donor advised fund grants	\$ 220,849	\$ -	\$ -	\$ 220,849	\$ 337,034
Competitive grants	66,243	-	-	66,243	641,930
Pass through grants	703,107	-	-	703,107	
Salaries and employee benefits	193,287	175,493	41,442	410,222	296,481
Professional fees	-	74,533	250	74,783	61,857
Rent	25,187	27,158	7,355	59,700	40,900
Events and meetings	-	42,290	250	42,540	3,703
Travel	745	12,787	126	13,658	7,713
Insurance	-	1,075	-	1,075	-
Office expenses	-	15,186	-	15,186	21,044
Depreciation	-	1,802	-	1,802	1,801
Marketing	1,655	30,768	11,683	44,106	31,380
Taxes and filing fees	-	1,121	-	1,121	1,517
Miscellaneous	2,932	2,535	-	5,467	8,227
TOTAL	\$ 1,214,005	\$ 384,745	\$ 61,106	\$ 1,659,856	\$ 1,453,587

See accompanying notes to financial statements.

TURKISH PHILANTHROPY FUNDS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
Cash flows from operating activities		
Change in net assets	\$ 1,492,232	\$ (576,456)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Contributions restricted for endowments		(100)
Net unrealized and realized (gains) losses on investments	221,024	24,944
Depreciation	1,802	1,801
Changes in assets and liabilities:		
Other receivables and prepayments	(62,969)	(6,331)
Accounts payable and accrued expenses	212,312	(32,134)
Net cash provided by (used in) operating activities	1,864,401	(588,276)
Cash flows from investing activities		
Proceeds from sale of investments	770,907	4,063,466
Purchase of investments	(2,028,842)	(3,783,000)
Proceeds from sale of real estate property		-
Purchase of property and equipment	(1,033)	(1,299)
Net cash provided by (used in) investing activities	(1,258,968)	279,167
Cash flows from financing activities		
Contributions restricted for endowments	-	100
Net cash provided by financing activities	-	100
Net change in cash and cash equivalents	605,433	(309,009)
Cash and cash equivalents at beginning of year	949,000	1,258,009
Cash and cash equivalents at end of year	\$ 1,554,433	\$ 949,000
Supplementary cash flow information		
Taxes paid	\$ -	\$ 17,959
Interest paid	\$ -	\$ -

See accompanying notes to financial statements.

TURKISH PHILANTHROPY FUNDS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

1. NATURE OF ORGANIZATION

Turkish Philanthropy Funds, Inc. (“TPF”) is a not-for-profit charitable organization incorporated on February 1, 2007 in the State of Delaware. TPF was established for the purpose of enabling individuals, corporations, trusts and other entities, to make charitable contributions for the philanthropic support of programs and/or organizations in Turkey and in the United States of America. TPF administers individual charitable funds, each established with an instrument of gift describing either the general or specific purposes for which grants are to be made.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with the accounting principles generally accepted in the United States of America (“GAAP”). The Financial Accounting Standards Board (“FASB”) has established the source of authoritative accounting principles to be applied in the preparation of financial statements in accordance with GAAP. The TPF’s net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions or time-related restrictions. Accordingly, net assets of TPF and changes therein are classified and reported as follows:

Unrestricted net assets – Net asset that are not subject to donor-imposed stipulation or time related restrictions for which restrictions have expired.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulation that may or will be met either by actions of TPF and/or by the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed stipulation that they be maintained permanently by TPF. Generally, donors of these assets permit TPF to use all or part of the earnings on related investments for the donor restricted purpose.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Contributions with temporary restrictions that are received and used within the year are included in unrestricted activities. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the accompanying statement of activities as net assets released from restrictions. Contributions received in kind are valued at fair market value at the time of donation.

TURKISH PHILANTHROPY FUNDS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

Grants

Grants to charitable organizations are expensed with approval of the Board of Directors of TPF.

Donor Advised Funds

Individuals may establish donor advised funds, whereby each fund and its related earnings can be distributed to charities recommended by the donor, subject to the approval of TPF's Board of Directors. Donor advised funds are included in unrestricted net assets and amounted to \$2,427,916 as of June 30, 2016 and \$1,112,771 as of June 30, 2015, representing 52.3% and 33.4%, respectively, of unrestricted net assets.

Cash and Cash Equivalents

TPF considers all highly liquid instruments with an initial maturity of three months or less to be cash equivalents.

Investments

Investments are stated at fair values. Unrealized gains and losses are included in the change in net assets in the statements of activities. Purchases and sales of investments are recorded on a trade date basis.

Fair Value Measurement

FASB ASC 820 – *Fair Value Measurements and Disclosures*, establishes a common definition for fair value to be applied to U.S. generally accepted accounting principles requiring use of fair value, establishes a framework for measuring fair value, and expands disclosures about such fair value measurements. It also establishes a hierarchy for ranking the quality and reliability of the information used to determine fair values by requiring that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

- Level 1: Unadjusted quoted market prices in active markets for identical assets or liabilities.
- Level 2: Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable for the asset or liability.
- Level 3: Unobservable inputs for the asset or liability.

Property and Equipment

Property and equipment are recorded at cost at the date of acquisition, or fair market value at the date of donation in the case of gifts. Cost of property and equipment purchased in excess of \$1,000 is capitalized.

TURKISH PHILANTHROPY FUNDS

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JUNE 30, 2016 AND 2015

Depreciation is provided in amounts sufficient to amortize the cost of property and equipment over the estimated useful lives of the assets. Property and equipment are depreciated using the straight-line method as follows:

Computer Hardware	24 months
Office Equipment	60 months

Functional Allocation of Expenses

The costs of providing various programs and supporting services have been summarized on a functional basis in the Statements of Functional Expenses. Accordingly, certain costs have been allocated between the programs and supporting services.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make certain estimates and assumptions that may affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

TPF is recognized as an organization exempt from income tax under Section 501(c) (3) of the Internal Revenue Code. However, certain activities of exempt organizations, to the extent profitable, may be subject to Federal and State taxation as unrelated business income. There were no unrelated business income taxes for the fiscal year ended June 30, 2016 and 2015.

FASB issued a guidance clarifying the accounting for uncertain income tax positions, which could require additional disclosure. Management believes there are no material uncertain tax positions that require recognition in the accompanying financial statements. Income tax returns for the tax year 2013 and afterwards are still subject to examination by taxing authorities.

3. INVESTMENTS

Investments are comprised of the following as of June 30:

	<u>Fair Value</u>		
	<u>Measurement</u>		
	<u>Category</u>	<u>2016</u>	<u>2015</u>
Equity funds	Level 1	\$ 3,679,864	\$ 2,432,676
Fixed income	Level 1	373,770	33,596
Mutual funds and others	Level 1	1,671,750	1,718,055
Partnership interests	Level 3	-	504,145
		<u>\$ 5,725,384</u>	<u>\$ 4,688,472</u>

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The table below presents the change in fair value measurement that used Level 3 inputs during the fiscal years ended June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Balance at beginning of year	\$ 504,145	\$ 471,164
Realized and unrealized gains (losses)	(44,470)	32,981
Withdrawals and distributions	(459,675)	-
Balance at end of year	<u>\$ -</u>	<u>\$ 504,145</u>

The partnership interests represent Class A and Class B units of Airvana LP owned by Airvana Network Solutions, Inc. which were donated to TPF on August 29, 2013. The fair market value of the contribution as of June 30, 2015 was based on the Appraisal Reports submitted by Bay Valuation Advisers as of December 9, 2015 and Houlihan Lokey Financial Advisors, Inc. as of August 29, 2013. In 2016, the partnership sold substantially all its assets and TPF received \$459,675 in distribution as its share in the proceeds thereof. The remaining book value of the investment in the amount of \$44,470 was recognized as loss.

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following as of June 30:

	<u>2016</u>	<u>2015</u>
Computer equipment	\$ 7,179	\$ 6,146
Less: Accumulated depreciation	(4,713)	(2,911)
Net book value	<u>\$ 2,466</u>	<u>\$ 3,235</u>

5. ENDOWMENT FUNDS

TPF's endowment funds are coming from 23 individual donors. The endowment funds include only donor-restricted endowment funds. As required by U.S. GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law

The Board of Directors abides by the rule of New York Prudent Management of Institutional Fund Act ("NYPMIFA") in the valuation of endowment when there is absent explicit donor stipulations to the contrary, fiduciary standards require the preservation of the "historic dollar value" of donor-restricted endowment funds. Historic dollar value as to any donor-restricted endowment fund means the aggregate fair value of: (a) the original value of gifts donated to such fund; (b) the original value of subsequent gifts to such fund; and (c) accumulations to such fund made in accordance with the direction of the applicable donor gift instrument at the

TURKISH PHILANTHROPY FUNDS
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time the accumulation is added to the fund. Accordingly, TPF classifies the historic dollar value of a donor-restricted endowment fund as permanently restricted net assets. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted until those amounts are appropriated for expenditure by TPF.

In accordance with the NYPMIFA, TPF considers the following factors in making determination to appropriate or accumulate donor-restricted endowments funds:

- The duration and preservation of the funds
- The purposes of TPF and the donor-restricted endowment fund
- General economic conditions
- The possible effect of inflation and deflation
- The expected total return from income and the appreciation of investments
- Other resources of TPF
- The need to make distributions and preserve capital
- The investment policies of TPF

Spending Policy and How the Investment Objectives Relate to Spending Policy

The annual spending for grants shall be seven percent of a balance which is calculated by averaging the previous twelve quarters of a fund. This calculation will be done once a year, at the end of the fiscal year, and the resulting amount will be the grant amount for the next year. The spending policy may be modified by TPF at its sole discretion and will be communicated to the donor annually.

Endowment Investment Policy

TPF has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that TPF must hold in perpetuity or for a donor-specified period(s), as well as board-designated funds. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce results that over time will average the level of the approved TPF endowment spending rate plus inflation. Actual results in any given year may vary from this amount.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate of return objectives, TPF relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). TPF employs a strategy designed to achieve a real return over consecutive rolling five-year periods of 7% over inflation with significant diversification to reduce volatility. TPF has adopted this strategy in order to protect the inviolate nature of the original corpus of permanently restricted gifts against potential market declines in the future and to provide a predictable flow of funds to support operations. This is consistent with TPF's objective to maintain the purchasing power of the endowment assets

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JUNE 30, 2016 AND 2015

held in perpetuity or for a specified period as well as to provide additional real growth through new gifts and investment return.

The following table presents the changes in endowment net assets for the year ended June 30, 2016 and 2015:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Balance as of June 30, 2014	144,546	193,317	2,056,245	2,394,108
Investment income	-	59,296	-	59,296
Contributions	-	-	100	100
Appropriation for expenditures	-	(134,854)	-	(134,854)
Balance as of June 30, 2015	\$ 144,546	\$ 117,759	\$ 2,056,345	\$ 2,318,650
Investment income (losses) - net		(12,524)	-	(12,524)
Transfers/reclassifications	(144,546)		144,546	-
Balance as of June 30, 2016	\$ -	\$ 105,235	\$ 2,200,891	\$ 2,306,126

6. CONCENTRATION OF CREDIT RISK

TPF's financial instruments that are potentially exposed to concentration of credit risk consist of cash and cash equivalents, investments in equity funds, fixed income, government securities, mutual funds and others, and long term pool. The balance of cash and cash equivalents and investments in equity funds, fixed income, government securities, and mutual funds and others are fully insured by the Federal Deposit Insurance Corporation, Securities Investor Protection Corporation and Lloyd's of London. Exposure to credit risk is also reduced by the placement of such funds in high credit quality financial institution and financial instruments.

In order to control market risk, TPF has an investment committee that reviews and updates investment policy statements for TPF's various investment portfolio, oversees its investment portfolio, and engages the services of independent service adviser and consultants to perform due diligence services and ongoing valuation of investment managers. TPF monitors the market risks of its investment portfolio via ongoing review of asset allocation formulas and analysis of investment values as reported by investment custodian.

7. SUBSEQUENT EVENTS

TPF has evaluated subsequent events through July 28, 2016, which is the date the financial statements were available to be issued. Management is not aware of any events that have occurred subsequent to the statement of financial position date that would require adjustment to, or disclosure in, the accompanying financial statements.