

TURKISH PHILANTHROPY FUNDS, INC.

FINANCIAL STATEMENTS

For the Years Ended June 30, 2017 and 2016

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.
120 East 23rd Street, 5th Floor
New York, NY 10010

We have audited the accompanying financial statements of Turkish Philanthropy Funds, Inc., which comprise the statements of financial position as of June 30, 2017 and 2016, 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 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, 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.

Valley Kendall LLP

Elmhurst, New York
August 4, 2017

TURKISH PHILANTHROPY FUNDS, INC.
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2017 AND 2016

	2017	2016
<u>ASSETS</u>		
Current Assets		
Cash and cash equivalents	\$1,816,378	\$1,554,433
Investments, at fair values	5,694,564	5,725,384
Other receivables and prepayments	80,437	69,388
Total Current Assets	7,591,379	7,349,205
Non-Current Assets		
Property and equipment, net	549	2,466
Total Assets	\$7,591,928	\$7,351,671
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities		
Accounts payable and accrued expenses	\$ 65,476	\$ 221,143
Total liabilities	65,476	221,143
Net Assets		
Unrestricted	4,718,560	4,628,785
Temporarily restricted	607,001	300,852
Permanently restricted	2,200,891	2,200,891
Total net assets	7,526,452	7,130,528
Total Liabilities and Net Assets	\$7,591,928	\$7,351,671

See accompanying notes to financial statements.

TURKISH PHILANTHROPY FUNDS, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2017</u>	<u>Total 2016</u>
Revenues and support					
Contributions	\$2,221,531	\$ -	\$ -	\$2,221,531	\$3,123,802
Interest and dividend income, net	52,927	38,196		91,123	216,943
Fees and miscellaneous	30,476			30,476	32,368
Unrealized and realized gains (losses) on investments:					
Realized gains (losses), net	107,412	818		108,230	(78,796)
Unrealized gains (losses), net	164,001	268,482		432,483	(142,229)
Net asset released from restrictions/transfers	1,347	(1,347)		-	-
Total revenue and support	2,577,694	306,149	-	2,883,843	3,152,088
Expenses					
Program services	2,073,248			2,073,248	1,214,005
Management and general	327,213			327,213	384,745
Fundraising	87,458			87,458	61,106
Total expenses	2,487,919	-	-	2,487,919	1,659,856
Changes in net assets	89,775	306,149	-	395,924	1,492,232
Net assets at beginning of year	4,628,785	300,852	2,200,891	7,130,528	5,638,296
Net assets at end of year	<u>\$4,718,560</u>	<u>\$607,001</u>	<u>\$2,200,891</u>	<u>\$7,526,452</u>	<u>\$7,130,528</u>

See accompanying notes to financial statements.

TURKISH PHILANTHROPY FUNDS, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total 2016</u>
Revenues and support				
Contributions	\$3,123,802	\$ -	\$ -	\$3,123,802
Interest and dividend income, net	168,858	48,084		216,942
Fees and miscellaneous	32,368			32,368
Unrealized and realized gains (losses) on investments:				
Realized gains (losses), net	(54,474)	(24,322)		(78,796)
Unrealized gains (losses), net	(105,941)	(36,287)		(142,228)
Net assets released from restrictions/transfers	(205,627)	61,081	144,546	-
Total revenue and support	2,958,986	48,556	144,546	3,152,088
Expenses				
Program services	1,214,005			1,214,005
Management and general	384,745			384,745
Fundraising	61,106			61,106
Total expenses	1,659,856	-	-	1,659,856
Changes in net assets	1,299,130	48,556	144,546	1,492,232
Net assets at beginning of year	3,329,656	252,295	2,056,345	5,638,296
Net assets at end of year	<u>\$4,628,786</u>	<u>\$300,851</u>	<u>\$2,200,891</u>	<u>\$7,130,528</u>

See accompanying notes to financial statements.

TURKISH PHILANTHROPY FUNDS, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>Program Services</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>2017 Total</u>	<u>2016 Total</u>
Donor advised fund grants	\$1,161,367	\$ -	\$ -	\$1,161,367	\$ 220,849
Competitive grants	11,887			11,887	66,243
Pass through grants	701,081			701,081	703,107
Salaries and employee benefits	173,514	149,656	33,694	356,864	410,222
Professional fees		74,972		74,972	74,783
Rent	22,023	23,732	6,559	52,314	59,700
Events and meetings	900	30,988	45,915	77,803	42,540
Travel		4,220	94	4,314	13,658
Insurance		674		674	1,075
Office expenses		16,196		16,196	15,186
Depreciation		1,917		1,917	1,802
Marketing		20,238	1,196	21,434	44,106
Taxes and filing fees		2,100		2,100	1,118
Miscellaneous	2,476	2,520		4,996	5,467
Total	\$2,073,248	\$327,213	\$87,458	\$2,487,919	\$1,659,856

See accompanying notes to financial statements.

TURKISH PHILANTHROPY FUNDS, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Change in net assets	\$ 395,924	\$1,492,232
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Net unrealized and realized (gains) losses on investments	(540,713)	221,024
Depreciation	1,917	1,802
Change in assets and liabilities:		
Other receivables and prepayments	(11,049)	(62,969)
Accounts payable and accrued expenses	(155,667)	212,312
Net cash provided by (used in) operating activities	<u>(309,588)</u>	<u>1,864,401</u>
 Cash flows from investing activities		
Proceeds from sale of investments	740,533	770,907
Purchase of investments	(169,000)	(2,028,842)
Purchase of property and equipment	-	(1,033)
Net cash provided by (used in) investing activities	<u>571,533</u>	<u>(1,258,968)</u>
 Net change in cash and cash equivalents	261,945	605,433
Cash and cash equivalents at beginning of year	<u>1,554,433</u>	<u>949,000</u>
Cash and cash equivalents at end of year	<u>\$1,816,378</u>	<u>\$1,554,433</u>

See accompanying notes to financial statements.

TURKISH PHILANTHROPY FUNDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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 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.

TURKISH PHILANTHROPY FUNDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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.

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 \$2,314,916 as of June 30, 2017 and \$2,427,916 as of June 30, 2016, representing 49.1% and 52.3%, 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 accompanying statements of activities. Purchases and sales of investments are recorded on a trade date basis.

TURKISH PHILANTHROPY FUNDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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.

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.

TURKISH PHILANTHROPY FUNDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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, 2017 and 2016.

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.

3. INVESTMENTS

Investments are comprised of the following as of June 30:

	Fair Value Measurement Category	2017	2016
Equity funds	Level 1	\$3,845,935	\$3,679,864
Fixed income	Level 1	856,140	373,770
Mutual funds and others	Level 1	992,489	1,671,750
		<u>\$5,694,564</u>	<u>\$5,725,384</u>

4. PROPERTY AND EQUIPMENT

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

	2017	2016
Computer equipment	\$7,179	\$7,179
Less: Accumulated depreciation	(6,630)	(4,713)
Net book value	<u>\$ 549</u>	<u>\$2,466</u>

TURKISH PHILANTHROPY FUNDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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 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.

TURKISH PHILANTHROPY FUNDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

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 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, endowment assets are invested in a manner intended to produce results which over time will average the level of approved TPF endowment spending rate plus the 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 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 held in perpetuity or for a specified period as well as to provide additional real growth through new gifts and investment return.

The below table presents the changes in endowment net assets for the year ended June 30, 2017 and 2016:

	Temporarily Restricted	Permanently Restricted	Total
Balance as of June 30, 2015	\$117,759	\$2,056,345	\$2,174,104
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
Investment income (losses) - net	307,496	-	307,496
	<u>\$412,731</u>	<u>\$2,200,891</u>	<u>\$2,613,622</u>

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 balances of financial instruments are fully insured by the Federal Deposit Insurance Corporation, Securities Investor Protection

TURKISH PHILANTHROPY FUNDS, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Corporation and Lloyd's of London. Exposure to credit risk is also reduced through placement of those funds in high credit quality financial institution and financial instruments.

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 August 4, 2017, 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.