

TEACHING MATTERS, INC.

**Financial Statements
for Year Ended
August 31, 2016
and
August 31, 2015**

Independent Auditor's Report

To the Board of Directors
Teaching Matters, Inc.

We have audited the accompanying financial statements of Teaching Matters, Inc. ("TMI") which comprise the statement of financial position as of August 31, 2016 and August 31, 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 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 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 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 Teaching Matters, Inc. as of August 31, 2016 and August 31, 2015 and the results of its activities and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Condon O'Meara McKinstry & Donnelly LLP

TEACHING MATTERS, INC.

Statement of Financial Position

Assets

	<u>August 31</u>	
	<u>2016</u>	<u>2015</u>
Assets		
Cash and cash equivalents		
Operating	\$ 777,717	\$ 410,118
Board designated	750,000	-
Investments at fair value	4,119,147	5,167,619
Accounts receivable, net	416,026	605,659
Contributions receivable	115,000	493,130
Prepaid expenses	47,965	16,687
Furniture, equipment and leasehold improvements, at cost, net of accumulated depreciation and amortization of \$569,464 and \$555,629 for 2016 and 2015, respectively	<u>41,864</u>	<u>14,144</u>
Total assets	<u>\$ 6,267,719</u>	<u>\$ 6,707,357</u>

Liabilities and Net Assets

Liabilities		
Accounts payable and accrued expenses	\$ 210,593	\$ 148,828
Deferred revenue and deposits	<u>111,950</u>	<u>62,300</u>
Total liabilities	<u>322,543</u>	<u>211,128</u>
Net assets		
Unrestricted	5,800,176	5,965,229
Temporarily restricted	<u>145,000</u>	<u>531,000</u>
Total net assets	<u>5,945,176</u>	<u>6,496,229</u>
Total liabilities and net assets	<u>\$ 6,267,719</u>	<u>\$ 6,707,357</u>

See notes to financial statements.

TEACHING MATTERS, INC.

Statement of Activities

	Year Ended August 31					
	2016		2015			
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Public support and revenue						
Contributions	\$ 691,787	\$ 30,000	\$ 721,787	\$ 635,363	\$ 731,000	\$ 1,366,363
Net assets released from restrictions	416,000	(416,000)	-	376,500	(376,500)	-
Total public support	1,107,787	(386,000)	721,787	1,011,863	354,500	1,366,363
Government grants	512,290	-	512,290	539,404	-	539,404
Program service fees	3,404,302	-	3,404,302	3,364,272	-	3,364,272
Realized and unrealized gains (loss) on investments	131,204	-	131,204	(164,545)	-	(164,545)
Investment income, net	135,979	-	135,979	104,190	-	104,190
Total revenue	4,183,775	-	4,183,775	3,843,321	-	3,843,321
Total public support and revenue	5,291,562	(386,000)	4,905,562	4,855,184	354,500	5,209,684
Expenses						
Program services	4,424,748	-	4,424,748	4,809,814	-	4,809,814
Management and general	684,215	-	684,215	719,462	-	719,462
Fund-raising	347,652	-	347,652	333,033	-	333,033
Total expenses	5,456,615	-	5,456,615	5,862,309	-	5,862,309
Increase (decrease) in net assets	(165,053)	(386,000)	(551,053)	(1,007,125)	354,500	(652,625)
Net assets, beginning of year	5,965,229	531,000	6,496,229	6,972,354	176,500	7,148,854
Net assets, end of year	\$5,800,176	\$ 145,000	\$5,945,176	\$5,965,229	\$ 531,000	\$6,496,229

See notes to financial statements.

TEACHING MATTERS, INC.

Statement of Functional Expenses
 Year Ended August 31, 2016
 (with Summarized Comparative Totals for the Year Ended August 31, 2015)

	2016			2015
	Program Services	Management and General	Fund- Raising	Total
Salaries and related expenses	\$3,263,694	\$ 484,348	\$ 244,331	\$4,139,617
Professional fees	591,095	88,803	12,204	930,126
Computer software and expenses	75,905	4,145	1,834	81,884
Meetings, conferences and travel	97,801	19,493	15,920	133,214
Occupancy	157,985	23,930	11,827	193,742
Dues, fees and subscriptions	24,929	11,019	4,091	40,039
Office supplies and expense	14,129	4,591	7,837	26,557
Postage and messengers	24,428	3,700	1,829	29,957
Printing and stationery	35,282	-	5,685	40,967
Telephone	9,148	1,386	685	11,219
Temporary help, recruiting, and training	18,238	-	4,557	22,795
Marketing and promotion	39,536	8,028	32,222	79,786
Other	72,578	20,937	4,630	98,145
Total expenses before depreciation and amortization	4,424,748	670,380	347,652	5,442,780
Depreciation and amortization	-	13,835	-	13,835
Total expenses	\$4,424,748	\$ 684,215	\$ 347,652	\$5,456,615

TEACHING MATTERS, INC.

**Statement of Functional Expenses
Year Ended August 31, 2015**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund- Raising</u>	<u>Total</u>
Salaries and related expenses	\$3,357,273	\$ 516,828	\$ 265,516	\$4,139,617
Professional fees	827,313	102,813	-	930,126
Computer software and expenses	79,370	1,044	482	80,896
Meetings, conferences and travel	124,000	37,720	3,591	165,311
Occupancy	130,703	20,977	9,682	161,362
Dues, fees and subscription	38,588	2,728	7,253	48,569
Office supplies and expense	15,819	4,926	6,254	26,999
Postage and messengers	12,063	1,936	894	14,893
Printing and stationery	74,938	7,045	4,903	86,886
Telephone	9,302	1,493	689	11,484
Temporary help, recruiting, and training	23,132	-	-	23,132
Marketing and promotion	44,272	13,054	29,533	86,859
Other	<u>73,041</u>	<u>5,362</u>	<u>4,236</u>	<u>82,639</u>
Total expenses before depreciation and amortization	4,809,814	715,926	333,033	5,858,773
Depreciation and amortization	<u>-</u>	<u>3,536</u>	<u>-</u>	<u>3,536</u>
Total expenses	<u>\$4,809,814</u>	<u>\$ 719,462</u>	<u>\$ 333,033</u>	<u>\$5,862,309</u>

TEACHING MATTERS, INC.

Statement of Cash Flows

	Year Ended	
	August 31	
	<u>2016</u>	<u>2015</u>
Cash from operating activities		
(Decrease) in net assets	\$ (551,053)	\$ (652,625)
Adjustments to reconcile (decrease) in net assets to net cash (used in) operating activities		
Depreciation and amortization	13,835	3,536
Realized and unrealized (gain) loss on investments	(131,204)	164,545
(Increase) decrease in current assets		
Accounts receivable	189,633	1,026,399
Contributions receivable	378,130	(336,957)
Prepaid expenses	(31,278)	18,879
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	61,765	(298,844)
Deferred revenue and deposits	49,650	(43,501)
Net cash (used in) operating activities	<u>(20,522)</u>	<u>(118,568)</u>
Cash flows from investing activities		
Proceeds from the sale of investments	1,460,372	1,408,005
Purchase of investments	(280,696)	(2,509,695)
Purchase of leasehold improvements	(41,555)	(17,680)
Net cash (used in) investing activities	<u>1,138,121</u>	<u>(1,119,370)</u>
Increase (decrease) in cash and cash equivalents	1,117,599	(1,237,938)
Cash and cash equivalents, beginning of year	<u>410,118</u>	<u>1,648,056</u>
Cash and cash equivalents, end of year	<u>\$1,527,717</u>	<u>\$ 410,118</u>
Consists of:		
Cash and cash equivalents – operating	\$ 777,717	\$ 410,118
Cash and cash equivalents – board designated	750,000	-
Total cash and cash equivalents	<u>\$1,527,717</u>	<u>\$ 410,118</u>

See notes to financial statements.

TEACHING MATTERS, INC.

**Notes to Financial Statements
August 31, 2016 and August 31, 2015**

Note 1 – Nature of organization

Teaching Matters, Inc. (“TMI”) is an educational not-for-profit organization, operating in New York City since May 1994. TMI’s mission is to develop and retain great Teachers and measurably increase their ability to give students in urban public schools an excellent education.

TMI’s sources of financial support include contributions from private individuals, grant awards from public charities and foundations, and fees for services.

Note 2 – Summary of significant accounting policies

Financial reporting

TMI maintains two classes of net assets, as follows:

Unrestricted net assets

Unrestricted net assets are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the primary objectives of TMI. During 2016, the Board in agreement with management set aside a reserve of \$750,000 (Board-Designated) to be utilized to fund short-term and medium-term programmatic expansion and other identified strategic initiatives.

Temporarily restricted net assets

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.

Temporarily restricted net assets activity as of and for the years ended August 31, 2016 and August 31, 2015 are as follows:

	2016			
	Balance at		Net Assets	Balance at
	August 31,		Released	August 31,
	2015	Additions	from	2016
			Restrictions	
Time restricted	\$ 531,000	\$ 30,000	\$ (416,000)	\$ 145,000

TEACHING MATTERS, INC.

**Notes to Financial Statements
August 31, 2016 and August 31, 2015**

Note 2 – Summary of significant accounting policies (continued)

Temporarily restricted net assets (continued)

	2015			
Balance at August 31, 2013	<u>Support</u>	Net Assets Released from Restrictions	Balance at August 31, 2015	
Time restricted	\$ 176,500	\$ 731,000	\$ (376,500)	\$ 531,000

Grants and contributions

TMI reports contributions that are unrestricted as unrestricted public support. Grants and contributions that are received with donor stipulations that limit the use of the donated assets are recorded as temporarily restricted support. When a donor stipulation expires, that is, when a stipulated time restriction ends or the purpose for restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Cash equivalents

TMI considers cash equivalents to be highly liquid investments with original maturities of 90 days or less.

Investments

Investments are measured at fair value in the statement of financial position. Investment return (including gains and losses on investments, interest and dividends) is included in the statement of activities. TMI also invests in alternative investments. This alternative investment fund is managed by general partners who are affiliated with the same investment management company. The fair value of this alternative investment has been estimated by the general partners in the absence of readily ascertainable market values. However, because of the inherent uncertainty of valuation, those estimated values may differ from the values that would have been used had a ready market for the investments existed, and such differences could be material. This alternative investment can only be redeemed quarterly. Investments are exposed to various risks such as interest rate, market volatility, liquidity and credit. Due to the level of 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 August 31, 2016.

TEACHING MATTERS, INC.**Notes to Financial Statements (continued)
August 31, 2016 and August 31, 2015****Note 2 – Summary of significant accounting policies (continued)**Fair value measurements

Accounting principles generally accepted in The United States of America establish a fair value hierarchy that prioritizes the inputs used to measure fair value into three broad levels. Level 1 inputs are defined as quoted prices in active markets for identical assets that the reporting entity has the ability to access at the measurement date. Level 2 inputs are defined as 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 inputs are unobservable inputs that are significant in the measurement of fair value.

Allowance for doubtful accounts

As of August 31, 2016 and August 31, 2015, TMI has an allowance for doubtful accounts of \$50,000 and \$51,744, respectively, for any potentially uncollectible receivables. Such estimate is based on management's experience, the aging of the receivables, subsequent receipts and current economic conditions.

Furniture, equipment and leasehold improvements

Expenditures for furniture, equipment and leasehold improvements over a nominal amount are capitalized and recorded at cost. Depreciation and amortization are computed by the straight-line method over the estimated lives of the assets ranging from three to seven years.

Service and consulting fees

TMI reports services and consulting fees as revenue when services are rendered and the terms of the contracts are met. For services not yet provided, TMI defers the revenue until the next fiscal year.

Functional allocation of expenses

The cost of providing the various programs and other activities has been summarized on a functional basis in the statement of activities. Accordingly, certain 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.

TEACHING MATTERS, INC.

Notes to Financial Statements (continued)
August 31, 2016 and August 31, 2015**Note 2 – Summary of significant accounting policies (continued)****Concentrations of credit risk**

TMI's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, investments, accounts receivable and contributions receivable. TMI places its cash and cash equivalents with what it believes to be quality financial institutions. TMI has not experienced any losses in such bank accounts to date. TMI invests in equities, fixed income instruments, mutual funds and an alternative investment. Investments are exposed to various risks such as interest rate, market volatility, liquidity and credit. Due to the level of uncertainty related to changes in interest rates, market volatility, liquidity and credit 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 August 31, 2016. TMI monitors the collectibility of its receivables and believes that all accounts receivable and contributions receivables are collectible. As a result, TMI's management believes concentrations of credit risk are limited.

Subsequent events

TMI has evaluated events and transactions for potential recognition or disclosure through November 7, 2016, which is the date the financial statements were available to be issued.

Note 3 – Contributions receivable

As of August 31, 2016, contributions receivable are due to be collected as follows:

Due in one year	\$ 80,000
Due in one to five years	<u>35,000</u>
Total	<u>\$ 115,000</u>

TEACHING MATTERS, INC.

Notes to Financial Statements (continued)
August 31, 2016 and August 31, 2015Notes 4 – InvestmentsInvestments

Investments consist of equities, bonds and exchange-traded funds and are recorded at fair value, which is based on publicly quoted prices.

The following is a summary of investments at fair value:

	<u>August 31, 2016</u>		<u>August 31, 2015</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Fixed Income	\$ 1,508,084	\$ 1,520,276	\$ 2,780,639	\$ 2,730,466
Equities				
Domestic stock	1,447,923	1,548,769	1,420,315	1,401,483
International stock	393,789	344,638	384,699	331,665
Mutual Funds				
Blended	440,060	396,608	424,952	394,229
International Portfolio	181,200	165,308	178,894	159,071
Alternative Investment	155,380	143,548	151,679	149,424
Cash	-	-	1,281	1,281
Total	<u>\$ 4,126,436</u>	<u>\$ 4,119,147</u>	<u>\$ 5,342,459</u>	<u>\$ 5,167,619</u>

Each major class of assets measured at fair value on a recurring basis as of August 31, 2016 and August 31, 2015 are as follows:

<u>Description</u>	<u>2016</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income	\$1,520,276	\$1,520,276	\$ -	\$ -
Equities				
Domestic stock	1,548,769	1,548,769	-	-
International stock	344,638	344,638	-	-
Mutual funds				
Blended	396,608	396,608	-	-
International portfolio	165,308	165,308	-	-
Alternative investment	<u>143,548</u>	<u>-</u>	<u>-</u>	<u>143,548</u>
Total	<u>\$4,119,147</u>	<u>\$3,975,599</u>	<u>\$ -</u>	<u>\$ 143,548</u>

TEACHING MATTERS, INC.

Notes to Financial Statements (continued)
August 31, 2016 and August 31, 2015Notes 4 – InvestmentsInvestments (continued)

Description	2015			
	Total	Level 1	Level 2	Level 3
Fixed income	\$2,730,466	\$2,730,466	\$ -	\$ -
Equities				
Domestic stock	1,401,483	1,401,483	-	-
International stock	331,665	331,665	-	-
Mutual funds				
Blended	394,229	394,229	-	-
International portfolio	159,071	159,071	-	-
Alternative investment	149,424	-	-	149,424
Cash	1,281	1,281	-	-
Total	<u>\$5,167,619</u>	<u>\$5,018,195</u>	<u>\$ -</u>	<u>\$ 149,424</u>

The following is a summary of changes in the fair value of TMI's Level 3 investment for the fiscal years ended:

	August 31	
	2016	2015
Beginning balance	\$ 149,424	\$ 150,000
Loss on investment	(5,876)	(576)
Ending balance	<u>\$ 143,548</u>	<u>\$ 149,424</u>

Note 5 – Furniture, equipment and leasehold improvements

The following is a summary of furniture, equipment and leasehold improvements as of August 31, 2016 and August 31, 2015:

	August 31	
	2016	2015
Furniture, equipment and leasehold improvements	\$ 611,328	\$ 569,773
Less: accumulated depreciation and amortization	<u>569,464</u>	<u>555,629</u>
Net property and equipment	<u>\$ 41,864</u>	<u>\$ 14,144</u>

TEACHING MATTERS, INC.

**Notes to Financial Statements (continued)
August 31, 2016 and August 31, 2015**

Note 6 – Retirement plan

TMI maintains a defined contribution retirement plan and a tax-deferred annuity plan (the “Plan”) covering all eligible employees. All eligible employees may begin participation in the Plan on the first of the month following employment at TMI. Eligible employees may defer a portion of their earnings in accordance with the Internal Revenue Code, with a corresponding matching contribution by TMI not to exceed 6% of their regular salary. Effective January 2014, the matching contribution was increased from 3% to 6%. TMI begins matching contributions after one year of service.

Employees can make additional voluntary tax deferred contributions to the Plan through further salary reductions. Contributions are invested in the Teachers Insurance and Annuity Association and the College Retirement Equities Fund. Total retirement benefit costs for the year ended August 31, 2016 and August 31, 2015 were \$101,961 and \$114,004, respectively.

Note 7 – Commitment

On March 11, 2015, TMI entered into a lease for 5 years and four months expiring November 30, 2020. The rent is based on the amount equal to the tenant’s proportionate share of landlord’s carrying, maintenance, operating and depreciation charge, and the amount of scheduled contributions to the landlord’s capital improvement fund, as outlined in the lease. The monthly rent for 2016 and 2015 was \$13,458 and \$13,131, respectively.

In June 2016, TMI signed an amended lease agreement with their landlord for a reduction of space, which will be in effect on September 1, 2016 and will expire November 30, 2020. This will reduce the monthly rental expense to \$5,653.

As of August 31, 2016, future annual minimum lease payments under this lease are as follows:

<u>Year</u>	<u>Amount</u>
2017	\$ 67,956
2018	67,836
2019	67,836
2020	67,836
2021	<u>\$ 16,959</u>
Total	<u>\$ 288,423</u>

Note 8 – Tax status

TMI is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the “Code”). In addition, TMI 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.