

TEACHING MATTERS, INC.

**Financial Statements
and
Supplemental Information
for Year Ended
August 31, 2015
and
August 31, 2014**

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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, 2015 and August 31, 2014 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, 2015 and August 31, 2014 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2015 on our consideration of the TMI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the TMI's internal control over financial reporting and compliance.

Supplementary Information

Our audits for the year ended August 31, 2015 and August 31, 2014 were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Condon O'Meara Mc Ginty & Donnelly LLP

TEACHING MATTERS, INC.

Statement of Financial Position

Assets

	<u>August 31</u>	
	<u>2015</u>	<u>2014</u>
Assets		
Cash and cash equivalents		
Operating	\$ 410,118	\$ 898,056
Board designated	-	750,000
Investments at fair value	5,167,619	4,230,474
Accounts receivable, net	605,659	1,632,058
Contributions receivable	493,130	156,173
Prepaid expenses	16,687	35,566
Furniture, equipment and leasehold improvements, at cost, net of accumulated depreciation and amortization of \$555,629 and \$552,093 for 2015 and 2014, respectively	<u>14,144</u>	<u>-</u>
Total assets	<u>\$ 6,707,357</u>	<u>\$ 7,702,327</u>

Liabilities and Net Assets

Liabilities		
Accounts payable and accrued expenses	\$ 148,828	\$ 447,672
Deferred revenue and deposits	<u>62,300</u>	<u>105,801</u>
Total liabilities	<u>211,128</u>	<u>553,473</u>
Net assets		
Unrestricted	5,965,229	6,972,354
Temporarily restricted	<u>531,000</u>	<u>176,500</u>
Total net assets	<u>6,496,229</u>	<u>7,148,854</u>
Total liabilities and net assets	<u>\$ 6,707,357</u>	<u>\$ 7,702,327</u>

See notes to financial statements.

TEACHING MATTERS, INC.

Statement of Activities

	Year Ended August 31				
	2015		2014		
	Unrestricted	Temporarily Restricted	Total	Temporarily Restricted	Total
Public support and revenue					
Contributions	\$ 635,363	\$ 731,000	\$1,366,363	\$ 772,734	\$ 999,234
Net assets released from restrictions	376,500	(376,500)	-	350,500	-
Total public support	<u>1,011,863</u>	<u>354,500</u>	<u>1,366,363</u>	<u>1,123,234</u>	<u>999,234</u>
Government grants	539,404	-	539,404	727,987	727,987
Program service fees	3,364,272	-	3,364,272	5,742,263	5,742,263
Realized and unrealized gains (loss) on investments	(164,545)	-	(164,545)	26,531	26,531
Investment income, net	104,190	-	104,190	5,660	5,660
Total revenue	<u>3,843,321</u>	<u>-</u>	<u>3,843,321</u>	<u>6,502,441</u>	<u>6,502,441</u>
Total public support and revenue	<u>4,855,184</u>	<u>354,500</u>	<u>5,209,684</u>	<u>7,625,675</u>	<u>7,501,675</u>
Expenses					
Program services	4,809,814	-	4,809,814	6,060,004	6,060,004
Management and general	719,462	-	719,462	798,584	798,584
Fund-raising	333,033	-	333,033	318,558	318,558
Total expenses	<u>5,862,309</u>	<u>-</u>	<u>5,862,309</u>	<u>7,177,146</u>	<u>7,177,146</u>
Increase (decrease) in net assets	(1,007,125)	354,500	(652,625)	448,529	324,529
Net assets, beginning of year	6,972,354	176,500	7,148,854	6,523,825	6,824,325
Net assets, end of year	\$5,965,229	\$ 531,000	\$6,496,229	\$ 6,972,354	\$ 7,148,854

See notes to financial statements.

TEACHING MATTERS, INC.

Statement of Functional Expenses
 Year Ended August 31, 2015
 (with Summarized Comparative Totals for the Year Ended August 31, 2014)

	2015			2014
	Program Services	Management and General	Fund- Raising	Total
Salaries and related expenses	\$3,357,273	\$ 516,828	\$ 265,516	\$5,242,656
Professional fees	827,313	102,813	-	964,108
Computer software and expenses	79,370	1,044	482	170,092
Meetings, conferences and travel	124,000	37,720	3,591	216,558
Occupancy	130,703	20,977	9,682	126,337
Memberships	38,588	2,728	7,253	22,220
Office supplies and expense	15,819	4,926	6,254	48,020
Postage and messengers	12,063	1,936	894	17,180
Printing and stationery	74,938	7,045	4,903	77,858
Telephone	9,302	1,493	689	10,755
Temporary help, recruiting, and training	23,132	-	-	23,777
Marketing and promotion	44,272	13,054	29,533	70,575
Other	73,041	5,362	4,236	178,542
Total expenses before depreciation and amortization	4,809,814	715,926	333,033	7,168,678
Depreciation and amortization	-	3,536	-	8,468
Total expenses	\$4,809,814	\$ 719,462	\$ 333,033	\$7,177,146

TEACHING MATTERS, INC.

**Statement of Functional Expenses
Year Ended August 31, 2014**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund- Raising</u>	<u>Total</u>
Salaries and related expenses	\$4,485,579	\$ 489,642	\$ 267,435	\$5,242,656
Professional fees	825,574	128,534	10,000	964,108
Computer software and expenses	155,558	11,911	2,623	170,092
Meetings, conferences and travel	216,558	-	-	216,558
Occupancy	108,093	11,799	6,445	126,337
Membership	21,427	513	280	22,220
Office supplies and expense	36,301	8,924	2,795	48,020
Postage and messengers	14,699	1,605	876	17,180
Printing and stationery	76,489	885	484	77,858
Telephone	9,202	1,004	549	10,755
Temporary help, recruiting, and training	23,777	-	-	23,777
Marketing and promotion	44,647	-	25,928	70,575
Other	<u>42,100</u>	<u>135,299</u>	<u>1,143</u>	<u>178,542</u>
Total expenses before depreciation and amortization	6,060,004	790,116	318,558	7,168,678
Depreciation and amortization	-	8,468	-	8,468
Total expenses	<u>\$6,060,004</u>	<u>\$ 798,584</u>	<u>\$ 318,558</u>	<u>\$7,177,146</u>

TEACHING MATTERS, INC.

Statement of Cash Flows

	Year Ended August 31	
	<u>2015</u>	<u>2014</u>
Cash from operating activities		
Increase (decrease) in net assets	\$ (652,625)	\$ 324,529
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	3,536	8,468
Realized and unrealized (gain) on investments	164,545	(26,531)
(Increase) decrease in current assets		
Accounts receivable	1,026,399	932,573
Contributions receivable	(336,957)	144,327
Prepaid expenses	18,879	(25,511)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(298,844)	280,090
Deferred revenue and deposits	(43,501)	(615,719)
Net cash provided by (used in) operating activities	<u>(118,568)</u>	<u>1,022,226</u>
Cash flows from investing activities		
Proceeds from the sale of investments	1,408,005	14,035
Purchase of investments	(2,509,695)	(4,217,978)
Purchase of leasehold improvements	(17,680)	-
Net cash (used in) investing activities	<u>(1,119,370)</u>	<u>(4,203,943)</u>
(Decrease) in cash and cash equivalents	(1,237,938)	(3,181,717)
Cash and cash equivalents, beginning of year	<u>1,648,056</u>	<u>4,829,773</u>
Cash and cash equivalents, end of year	<u>\$ 410,118</u>	<u>\$1,648,056</u>
Consists of:		
Cash and cash equivalents – operating	\$ 410,118	\$ 898,056
Cash and cash equivalents – board designated	<u>-</u>	<u>750,000</u>
Total cash and cash equivalents	<u>\$ 410,118</u>	<u>\$1,648,056</u>

See notes to financial statements.

TEACHING MATTERS, INC.

**Notes to Financial Statements
August 31, 2015 and August 31, 2014**

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 provides professional development largely but not exclusively in New York City metropolitan area schools.

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

Net assets that are not subject to donor-imposed stipulations and that may be expendable for any purpose in performing the primary objectives of TMI. The Board in agreement with management had set aside a reserve amount of \$750,000 (Board-Designated) to be utilized to fund short-term and medium-term programmatic expansion and other identified strategic initiatives. During 2015, the \$750,000 was used to fund budget deficits.

Temporarily restricted net assets

Temporarily restricted net assets activity as of and for the years ended August 31, 2015 and August 31, 2014 are as follows:

	2015			
Balance at August 31, 2014	<u>Additions</u>	Net Assets Released from Restrictions	Balance at August 31, 2015	
Time restricted	\$ 176,500	\$ 731,000	\$ (376,500)	\$ 531,000

TEACHING MATTERS, INC.

Notes to Financial Statements
August 31, 2015 and August 31, 2014Note 2 – Summary of significant accounting policies (continued)Temporarily restricted net assets (continued)

	<u>2014</u>			
	<u>Balance at</u>		<u>Net Assets</u>	<u>Balance at</u>
	<u>August 31,</u>	<u>Support</u>	<u>Released</u>	<u>August 31,</u>
	<u>2013</u>		<u>from</u>	<u>2014</u>
			<u>Restrictions</u>	
Time restricted	<u>\$ 300,500</u>	<u>\$ 226,500</u>	<u>\$ (350,500)</u>	<u>\$ 176,500</u>

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.

During July 1, 2013, TMI was awarded a 21st Century Community Learning Center 3 year grant by the New York State Education Department (NYSED) from July to June at an amount of \$638,637 each year. The program model is to provide opportunities for academic enrichment, youth development activities, art, music and recreation activities, to students in low performing schools and to reinforce and complement the regular academic school day with these differentiated learning interventions after 3 pm. The model is a seamless integration between classroom and after school through joint training and coaching of classroom teachers and recreational staff by an afterschool Response to Intervention program.

Cash equivalents

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

TEACHING MATTERS, INC.**Notes to Financial Statements (continued)
August 31, 2015 and August 31, 2014****Note 2 – Summary of significant accounting policies (continued)****Investments**

Investments are measured at fair value in the statements of financial position. Investment return (including gains and losses on investments, interest and dividends) is included in the statement of activities. TMI 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, 2015.

Fair value measurements

Accounting principles generally accepted in The United States of America established 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, 2015 and August 31, 2014, TMI has an allowance for doubtful accounts of \$51,744 and \$100,000, 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. In addition, TMI sells software and includes this revenue in service fee revenue.

TEACHING MATTERS, INC.

Notes to Financial Statements (continued)
August 31, 2015 and August 31, 2014

Note 2 – Summary of significant accounting policies (continued)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.

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, 2015. 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 March 24, 2016, which is the date the financial statements were available to be issued.

Note 3 – Contributions receivable

As of August 31, 2015, contributions receivable are due to be collected as follows:

Due in one year	\$ 396,000
Due in one to five years	<u>100,000</u>
Sub-total	496,000
Less: interest discount at a rate of 3.0% for 2015	<u>(2,870)</u>
Total	<u>\$ 493,130</u>

TEACHING MATTERS, INC.

Notes to Financial Statements (continued)
August 31, 2015 and August 31, 2014Notes 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, 2015</u>		<u>August 31, 2014</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Fixed Income	\$ 2,780,639	\$ 2,730,466	\$ 1,719,611	\$ 1,726,620
Equities				
Domestic stock	1,420,315	1,401,483	1,200,080	1,217,006
International stock	384,699	331,665	415,500	417,357
Mutual Funds				
Blended	424,952	394,229	-	-
Diversified	-	-	405,025	408,524
International Portfolio	178,894	159,071	175,510	171,596
Small/mid cap equity	-	-	135,010	136,164
Alternative Investment	151,679	149,424	150,000	150,000
Cash	<u>1,281</u>	<u>1,281</u>	<u>3,207</u>	<u>3,207</u>
Total	<u>\$ 5,342,459</u>	<u>\$ 5,167,619</u>	<u>\$ 4,203,943</u>	<u>\$ 4,230,474</u>

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

<u>Description</u>	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
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	<u>1,281</u>	<u>1,281</u>	<u>-</u>	<u>-</u>
Total	<u>\$5,167,619</u>	<u>\$5,018,195</u>	<u>\$ -</u>	<u>\$ 149,424</u>

TEACHING MATTERS, INC.

**Notes to Financial Statements (continued)
August 31, 2015 and August 31, 2014**

Notes 4 – Investments

Investments (continued)

The following is a summary of changes in the fair value of TMI's Level 3 investment for the fiscal year ended August 31, 2015:

Balance, August 31, 2014	\$ 150,000
Loss on investment	<u>(576)</u>
Balance, August 31, 2015	<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, 2015 and August 31, 2014:

	<u>August 31</u>	
	<u>2015</u>	<u>2014</u>
Furniture, equipment and leasehold improvements	\$ 569,773	\$ 552,093
Less: accumulated depreciation and amortization	<u>555,629</u>	<u>552,093</u>
Net property and equipment	<u>\$ 14,144</u>	<u>\$ -</u>

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, 2015 and August 31, 2014 were \$114,004 and \$82,109, respectively.

TEACHING MATTERS, INC.

Notes to Financial Statements (continued)
August 31, 2015 and August 31, 2014

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 2015 and 2014 was \$13,131 and \$9,726, respectively. TMI received a notice from the landlord in December 2015 which resulted in a 2.5% increase in rent in 2015.

As of August 31, 2015, future annual minimum lease payments under this lease are as follows:

<u>Year</u>	<u>Amount</u>
2016	\$ 157,572
2017	157,572
2018	157,572
2019	157,572
2020	<u>39,393</u>
Total	<u>\$ 669,681</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.

TEACHING MATTERS, INC.

Schedule of Expenditures
of Federal Awards
Year Ended August 31, 2015

<u>Grantor/Pass through</u>	<u>CFDA #</u>	<u>Contract</u>	<u>Grant Period</u>	<u>Federal Expenditures</u>
<u>U. S. Department of Education</u>				
Twenty-First Century Community Learning Centers passed through The State Education Department of New York	84.287	C402123 C402124	July – June	<u>\$ 539,404</u>
Total expenditures of federal awards				<u>\$ 539,404</u>

TEACHING MATTERS, INC.**Notes to Schedule of Expenditures of Federal Awards
August 31, 2015****Note 1 – Summary of significant accounting policies****1. General information**

The accompanying schedule of expenditures of federal awards includes the activities in all the Federal programs of Teaching Matters, Inc. (“TMI”). All Federal awards received directly from Federal agencies as well as Federal awards passed through other governmental agencies or nonprofit organizations are included on the schedule.

2. Basis of accounting

The accompanying schedule of expenditures of federal awards was prepared using the accrual basis of accounting. The amounts reported in this schedule as expenditures may differ from certain financial reports submitted to Federal funding agencies due to those reports being submitted on either a cash or modified cash basis of accounting.

3. Relationship to financial statements

Federal program expenditures are reported in the statements of functional expenses as program expenses. In certain programs, the expenditures reported in the financial statements may differ from the expenditures reported in the schedule of expenditures of federal awards due to the capitalization of assets or in-kind contributions.

**Independent Auditor's Report on Internal Control
Over Financial Reporting
and on Compliance and Other Matters Based
on an Audit of Financial Statements
Performed in Accordance
With Government Auditing Standards**

**CONDON
O'MEARA
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To the Board of Directors
Teaching Matters, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Teaching Matters, Inc. (the "TMI") which comprise the statement of financial position as of August 31, 2015 and the related statement of activities, functional expenses, and cash flows for the year then ended and the related notes to the financial statements, and have issued our report thereon dated December 15, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered TMI's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of TMI's internal control. Accordingly, we do not express an opinion on the effectiveness of TMI's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether TMI's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of TMI's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Condon O'Meara McGinty & Donnelly LLP

**Independent Auditor's Report on Compliance
For Each Major Federal Program and
on Internal Control Over Compliance
Required by OMB Circular A-133**

**CONDON
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To the Board of Directors
Teaching Matters, Inc.

Report on Compliance for Each Major Federal Program

We have audited Teaching Matters, Inc. ("TMI") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the year ended August 31, 2015. TMI's major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of TMI's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about TMI's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of TMI's compliance.

Opinion on Each Major Federal Program

In our opinion, TMI complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal program for the year ended August 31, 2015.

Report on Internal Control Over Compliance

Management of TMI is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to on the previous page. In planning and performing our audit of compliance, we considered TMI's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of TMI's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Condon O'Meara McGinty + Donnelly LLP

TEACHING MATTERS, INC.

Schedule of Findings and Questioned Costs
Year Ended August 31, 2015Section I – Summary of Auditor’s Results**Financial Statements**

Type of auditor’s report issued: UNMODIFIED

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes √ No

Significant deficiency(ies) identified that are not
considered to be material weaknesses? _____ Yes √ None
reported

Noncompliance material to financial statements noted? _____ Yes √ No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes √ No

Significant deficiency(ies) identified that are not
considered to be material weakness(es)? _____ Yes √ None
reported

Type of auditor’s report issued on compliance for
major programs: UNMODIFIED

Any audit findings disclosed that are required to be
reported in accordance with Section 510(a) of
Circular A-133? _____ Yes √ No

CFDA NumberProgram Name or Cluster

84.287

Twenty-First Century Community Learning Centers

Dollar threshold used to distinguish between type A
and type B programs:\$ 300,000

Auditee qualified as low-risk auditee?

_____ Yes √ No

TEACHING MATTERS, INC.

**Schedule of Findings and Questioned Costs
Year Ended August 31, 2015**

Section II – Financial Statement Findings

None reported.

Section III – Federal Award Findings and Questioned Costs

None reported.

Section IV - Summary of Prior-Year Audit Findings

There were no findings in the prior year.