

TEACHING MATTERS, INC.

**Financial Statements
for Year Ended
August 31, 2018
and
August 31, 2017**

Independent Auditor's Report

To the Board of Directors
Teaching Matters, Inc.

We have audited the accompanying financial statements of Teaching Matters, Inc. which comprise the statement of financial position as of August 31, 2018 and August 31, 2017 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 above present fairly, in all material respects, the financial position of Teaching Matters, Inc. as of August 31, 2018 and August 31, 2017 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 McGinty + Donnelly LLP

April 8, 2019

TEACHING MATTERS, INC.

Statement of Financial Position

Assets

	<u>August 31</u>	
	<u>2018</u>	<u>2017</u>
Assets		
Cash and cash equivalents		
Operating	\$ 2,679,300	\$ 795,071
Board designated	1,000,000	750,000
Investments at fair value	5,512,015	4,779,373
Accounts receivable, net	343,437	614,426
Contributions receivable	2,531,961	1,787,160
Prepaid expenses	122,501	25,125
Furniture, equipment and leasehold improvements, net	<u>14,194</u>	<u>28,029</u>
Total assets	<u>\$12,203,408</u>	<u>\$ 8,779,184</u>

Liabilities and Net Assets

Liabilities		
Accounts payable and accrued expenses	\$ 141,548	\$ 127,790
Deferred revenue and deposits	<u>31,000</u>	<u>174,250</u>
Total liabilities	<u>172,548</u>	<u>302,040</u>
Net assets		
Unrestricted	8,017,860	6,686,985
Temporarily restricted	<u>4,013,000</u>	<u>1,790,159</u>
Total net assets	<u>12,030,860</u>	<u>8,477,144</u>
Total liabilities and net assets	<u>\$12,203,408</u>	<u>\$ 8,779,184</u>

See notes to financial statements.

TEACHING MATTERS, INC.

Statement of Activities

	Year Ended August 31				
	2018	2017			
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted	Total
Public support and revenue					
Grants and contributions	\$1,226,944	\$3,908,000	\$ 5,134,944	\$ 710,590	\$3,793,750
Net assets released from restrictions	1,685,159	(1,685,159)	-	1,438,001	-
Total public support	<u>2,912,103</u>	<u>2,222,841</u>	<u>5,134,944</u>	<u>2,148,591</u>	<u>3,793,750</u>
Government grants	-	-	-	565,221	565,221
Program service fees	4,201,393	-	4,201,393	3,820,443	3,820,443
Realized and unrealized gains on investments	239,884	-	239,884	276,624	276,624
Investment income, net	87,366	-	87,366	86,539	86,539
Total revenue	<u>4,528,643</u>	<u>-</u>	<u>4,528,643</u>	<u>4,748,827</u>	<u>4,748,827</u>
Total public support and revenue	<u>7,440,746</u>	<u>2,222,841</u>	<u>9,663,587</u>	<u>6,897,418</u>	<u>8,542,577</u>
Expenses					
Program services	4,777,144	-	4,777,144	4,753,767	4,753,767
Management and general	917,684	-	917,684	884,381	884,381
Fund-raising	415,043	-	415,043	372,461	372,461
Total expenses	<u>6,109,871</u>	<u>-</u>	<u>6,109,871</u>	<u>6,010,609</u>	<u>6,010,609</u>
Increase in net assets	1,330,875	2,222,841	3,553,716	886,809	2,531,968
Net assets, beginning of year	<u>6,686,985</u>	<u>1,790,159</u>	<u>8,477,144</u>	<u>5,800,176</u>	<u>5,945,176</u>
Net assets, end of year	<u>\$8,017,860</u>	<u>\$4,013,000</u>	<u>\$12,030,860</u>	<u>\$6,686,985</u>	<u>\$8,477,144</u>

See notes to financial statements.

TEACHING MATTERS, INC.

Statement of Functional Expenses
Year Ended August 31, 2018
(with Summarized Comparative Totals for the Year Ended August 31, 2017)

	2018			2017
	Program Services	Management and General	Fund- Raising	Total
Salaries and related expenses	\$3,956,378	\$ 530,734	\$ 337,740	\$4,824,852
Professional fees	202,135	226,559	2,400	431,094
Computer software and expenses	138,689	1,393	886	140,968
Meetings, conferences and travel	153,031	10,073	3,813	166,917
Occupancy	56,194	10,275	4,797	71,266
Dues, fees and subscriptions	38,024	2,396	1,525	41,945
Office supplies and expense	24,676	20,331	7,568	52,575
Postage and messengers	25,080	7,287	3,449	35,816
Printing and stationery	69	8,375	2,792	11,236
Telephone	6,958	1,250	594	8,802
Temporary help, recruiting, and training	24,477	-	-	24,477
Marketing and promotion	102,486	10,394	45,348	158,228
Bad debt	-	54,000	-	54,000
Other	48,947	20,782	4,131	73,860
Total expenses before depreciation and amortization	4,777,144	903,849	415,043	6,096,036
Depreciation and amortization	-	13,835	-	13,835
Total expenses	\$4,777,144	\$ 917,684	\$ 415,043	\$6,109,871
				\$6,010,609

TEACHING MATTERS, INC.

**Statement of Functional Expenses
Year Ended August 31, 2017**

	Program Services	Management and General	Fund- Raising	Total
Salaries and related expenses	\$3,581,066	\$ 634,619	\$ 317,310	\$4,532,995
Professional fees	613,330	155,714	-	769,044
Computer software and expenses	136,944	1,110	555	138,609
Meetings, conferences and travel	111,154	6,907	3,453	121,514
Occupancy	61,158	10,838	5,419	77,415
Dues, fees and subscriptions	36,282	4,268	2,134	42,684
Office supplies and expense	14,941	22,886	5,542	43,369
Postage and messengers	13,197	7,786	1,169	22,152
Printing and stationery	15,355	509	4,171	20,035
Telephone	7,099	1,258	629	8,986
Temporary help, recruiting, and training	30,875	379	190	31,444
Marketing and promotion	77,475	5,893	27,227	110,595
Other	<u>54,891</u>	<u>18,379</u>	<u>4,662</u>	<u>77,932</u>
Total expenses before depreciation and amortization	4,753,767	870,546	372,461	5,996,774
Depreciation and amortization	-	<u>13,835</u>	-	<u>13,835</u>
Total expenses	<u>\$4,753,767</u>	<u>\$ 884,381</u>	<u>\$ 372,461</u>	<u>\$6,010,609</u>

TEACHING MATTERS, INC.

Statement of Cash Flows

	Year Ended August 31	
	<u>2018</u>	<u>2017</u>
Cash from operating activities		
Increase in net assets	\$3,553,716	\$2,531,968
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation and amortization	13,835	13,835
Donated stock	(68,850)	(36,930)
Proceeds from the sale of donated stock	68,850	36,930
Realized and unrealized (gain) on investments	(239,884)	(276,624)
(Increase) decrease in current assets		
Accounts receivable	270,989	(198,400)
Contributions receivable	(744,801)	(1,672,160)
Prepaid expenses	(97,376)	22,840
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	13,758	(82,803)
Deferred revenue and deposits	<u>(143,250)</u>	<u>62,300</u>
Net cash provided by operating activities	<u>2,626,987</u>	<u>400,956</u>
Cash flows from investing activities		
Proceeds from the sale of investments	7,923,460	277,837
Purchase of investments	<u>(8,416,218)</u>	<u>(661,439)</u>
Net cash (used in) investing activities	<u>(492,758)</u>	<u>(383,602)</u>
Increase in cash and cash equivalents	2,134,229	17,354
Cash and cash equivalents, beginning of year	<u>1,545,071</u>	<u>1,527,717</u>
Cash and cash equivalents, end of year	<u>\$3,679,300</u>	<u>\$1,545,071</u>
Consists of:		
Cash and cash equivalents – operating	\$2,679,300	\$ 795,071
Cash and cash equivalents – board designated	<u>1,000,000</u>	<u>750,000</u>
Total cash and cash equivalents	<u>\$3,679,300</u>	<u>\$1,545,071</u>

See notes to financial statements.

TEACHING MATTERS, INC.**Notes to Financial Statements
August 31, 2018 and August 31, 2017****Note 1 – Nature of organization and programs**

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

Teaching Matters programs are committed to our mission of developing and retaining great teachers, and measurably increasing their ability to give students -- no matter their zip code -- an excellent education. Our school-based professional learning services effectively transform how educators work together at urban public schools, helping the most effective teachers develop the skills they need to lead their peers and drive school-wide improvement. Through our targeted coaching support, our content experts work side-by-side with teachers, teacher leaders and school leaders to move the needle on student success by significantly increasing teacher effectiveness. In our national service model, available to districts and states, we provide competency-based virtual coaching support to teachers mastering the critical skills of teacher leadership. Successful mastery of these skills results in the award of micro-credentials. For more than 20 years Teaching Matters, Inc. has been working with the New York City public schools and other urban school districts. In our work, we apply research-based and data-driven methods to develop and retain great teachers. We are committed to fostering collaboration, cultivating teacher leaders and using evidence to improve student performance.

Note 2 – Summary of significant accounting policies**Financial reporting**

Teaching Matters, Inc. maintains two classes of net assets, as follows:

Unrestricted net assets

Unrestricted net assets are not subject to donor-imposed stipulations and may be expendable for any purpose in performing the primary objectives of Teaching Matters, Inc. The Board in agreement with management has set aside a reserve of \$1,000,000 for fiscal 2018 and \$750,000 for fiscal 2017 (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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. During 2018, the assets released from restrictions were used to fund the program described in note 1 to the financial statements.

TEACHING MATTERS, INC.

Notes to Financial Statements
August 31, 2018 and August 31, 2017

Note 2 – Summary of significant accounting policies (continued)

Temporarily restricted net assets (continued)

Temporarily restricted net assets activity as of and for the years ended August 31, 2018 and August 31, 2017 are as follows:

	2018			
	Balance at August 31, 2017	Support	Net Assets Released from Restrictions	Balance at August 31, 2018
Time restricted	\$1,790,159	\$3,908,000	\$(1,685,159)	\$4,013,000
	2017			
	Balance at August 31, 2016	Support	Net Assets Released from Restrictions	Balance at August 31, 2017
Time restricted	\$ 145,000	\$3,083,160	\$(1,438,001)	\$1,790,159

Grants and contributions

Teaching Matters, Inc. 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

Teaching Matters, Inc. 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 net of investment fees) is included in the statement of activities. Teaching Matters, Inc. 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, 2018.

TEACHING MATTERS, INC.**Notes to Financial Statements (continued)
August 31, 2018 and August 31, 2017****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, 2018 and August 31, 2017, Teaching Matters, Inc. has an allowance for doubtful accounts of \$50,000 for any potentially uncollectible accounts receivable. There is no allowance for contributions receivable. 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.

Program service fees

Teaching Matters, Inc. reports fees generated from schools as program revenue when services are rendered and the terms of the contracts are met.

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, 2018 and August 31, 2017

Note 2 – Summary of significant accounting policies (continued)

Concentrations of credit risk

Teaching Matters, Inc.'s financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, investments, accounts receivable and contributions receivable. Teaching Matters, Inc. places its cash and cash equivalents with what it believes to be quality financial institutions. Teaching Matters, Inc. has not experienced any losses in such bank accounts to date. Teaching Matters, Inc. invests in 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, 2018. Teaching Matters, Inc. monitors the collectibility of its receivables and believes that all accounts receivable and contributions receivables are collectible. As a result, Teaching Matters, Inc.'s management believes concentrations of credit risk are limited.

Subsequent events

Teaching Matters, Inc. has evaluated events and transactions for potential recognition or disclosure through April 8, 2019, which is the date the financial statements were available to be issued.

Note 3 – Contributions receivable

As of August 31, 2018, contributions receivable are due to be collected as follows:

Due in one year	\$ 1,593,961
Due in fiscal 2020	888,000
Due in fiscal 2021	<u>50,000</u>
Total	<u>\$ 2,531,961</u>

Notes 4 – Investments

The following is a summary of investments:

	<u>August 31, 2018</u>		<u>August 31, 2017</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Cash	\$ 81	\$ 81	\$ -	\$ -
Fixed Income	-	-	1,886,664	1,862,253
Equities				
Domestic stock	-	-	1,415,657	1,615,089
International stock	-	-	455,122	465,199
Mutual funds	5,354,092	5,354,092	628,107	682,463
Alternative Investment	<u>156,583</u>	<u>157,842</u>	<u>156,583</u>	<u>154,369</u>
Total	<u>\$5,510,756</u>	<u>\$5,512,015</u>	<u>\$4,542,133</u>	<u>\$4,779,373</u>

TEACHING MATTERS, INC.

Notes to Financial Statements (continued)
August 31, 2018 and August 31, 2017Notes 4 – Investments (continued)

Each major class of assets measured at fair value on a recurring basis as of August 31, 2018 and August 31, 2017 are as follows:

<u>Description</u>	<u>2018</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash	\$ 81	\$ 81	\$ -	\$ -
Mutual funds	5,354,092	5,354,092	-	-
Alternative investment	<u>157,842</u>	<u>-</u>	<u>-</u>	<u>157,842</u>
Total	<u>\$5,512,015</u>	<u>\$5,354,173</u>	<u>\$ -</u>	<u>\$ 157,842</u>

<u>Description</u>	<u>2017</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Fixed income	\$1,862,253	\$1,862,253	\$ -	\$ -
Equities				
Domestic stock	1,615,089	1,615,089	-	-
International stock	465,199	465,199	-	-
Mutual funds	682,463	682,463	-	-
Alternative investment	<u>154,369</u>	<u>-</u>	<u>-</u>	<u>154,369</u>
Total	<u>\$4,779,373</u>	<u>\$4,625,004</u>	<u>\$ -</u>	<u>\$ 154,369</u>

The following is a summary of changes in the fair value of Teaching Matters, Inc.'s Level 3 investment for the fiscal years ended:

	<u>August 31</u>	
	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 154,369	\$ 143,548
Gain on investment	<u>3,473</u>	<u>10,821</u>
Ending balance	<u>\$ 157,842</u>	<u>\$ 154,369</u>

TEACHING MATTERS, INC.

**Notes to Financial Statements (continued)
August 31, 2018 and August 31, 2017**

Note 5 – Furniture, equipment and leasehold improvements

The following is a summary of furniture, equipment and leasehold improvements as of August 31, 2018 and August 31, 2017:

	August 31	
	2018	2017
Furniture, equipment and leasehold improvements	\$ 611,328	\$ 611,328
Less: accumulated depreciation and amortization	597,134	583,299
Net property and equipment	\$ 14,194	\$ 28,029

Note 6 – Retirement plan

Teaching Matters, Inc. 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 Teaching Matters, Inc. Eligible employees may defer a portion of their earnings in accordance with the Internal Revenue Code, with a corresponding matching contribution by Teaching Matters, Inc. not to exceed 6% of their regular salary. Teaching Matters, Inc. 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, 2018 and August 31, 2017 were \$95,613 and \$92,423, respectively.

Note 7 – Commitment

On March 11, 2015, Teaching Matters, Inc. (tenant) entered into a lease of its premises expiring November 30, 2020. The lease was amended during June 2016 for the purpose of reducing the size of the office premises. 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 base rent for 2018 and 2017 was \$5,739 and \$5,654, respectively.

TEACHING MATTERS, INC.

Notes to Financial Statements (continued)
August 31, 2018 and August 31, 2017

Note 7 – Commitment (continued)

As of August 31, 2018, future annual minimum lease payments under this lease are as follows:

<u>Year</u>	<u>Amount</u>
2019	\$ 67,847
2020	67,847
2021	<u>16,962</u>
Total	<u>\$ 152,656</u>

Note 8 – Tax status

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