

TEACHING MATTERS, INC.

**Financial Statements
for Year Ended
August 31, 2017
and
August 31, 2016**

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, 2017 and August 31, 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 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, 2017 and August 31, 2016 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

November 28, 2017

TEACHING MATTERS, INC.

Statement of Financial Position

Assets

	<u>August 31</u>	
	<u>2017</u>	<u>2016</u>
Assets		
Cash and cash equivalents		
Operating	\$ 795,071	\$ 777,717
Board designated	750,000	750,000
Investments at fair value	4,779,373	4,119,147
Accounts receivable, net	614,426	416,026
Contributions receivable	1,787,160	115,000
Prepaid expenses	25,125	47,965
Furniture, equipment and leasehold improvements, net	<u>28,029</u>	<u>41,864</u>
Total assets	<u>\$ 8,779,184</u>	<u>\$ 6,267,719</u>

Liabilities and Net Assets

Liabilities		
Accounts payable and accrued expenses	\$ 127,790	\$ 210,593
Deferred revenue and deposits	<u>174,250</u>	<u>111,950</u>
Total liabilities	<u>302,040</u>	<u>322,543</u>
Net assets		
Unrestricted	6,686,985	5,800,176
Temporarily restricted	<u>1,790,159</u>	<u>145,000</u>
Total net assets	<u>8,477,144</u>	<u>5,945,176</u>
Total liabilities and net assets	<u>\$ 8,779,184</u>	<u>\$ 6,267,719</u>

See notes to financial statements.

TEACHING MATTERS, INC.

Statement of Activities

	Year Ended August 31					
	2017		2016			
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Public support and revenue						
Contributions	\$ 710,590	\$3,083,160	\$3,793,750	\$ 691,787	\$ 30,000	\$ 721,787
Net assets released from restrictions	1,438,001	(1,438,001)	-	416,000	(416,000)	-
Total public support	<u>2,148,591</u>	<u>1,645,159</u>	<u>3,793,750</u>	<u>1,107,787</u>	<u>(386,000)</u>	<u>721,787</u>
Government grants	565,221	-	565,221	512,290	-	512,290
Program service fees	3,820,443	-	3,820,443	3,404,302	-	3,404,302
Realized and unrealized gains on investments	276,624	-	276,624	131,204	-	131,204
Investment income, net of investment management fees of \$23,340 in 2017 and \$21,793 in 2016.	86,539	-	86,539	114,186	-	114,186
Total revenue	<u>4,748,827</u>	<u>-</u>	<u>4,748,827</u>	<u>4,161,982</u>	<u>-</u>	<u>4,161,982</u>
Total public support and revenue	<u>6,897,418</u>	<u>1,645,159</u>	<u>8,542,577</u>	<u>5,269,769</u>	<u>(386,000)</u>	<u>4,883,769</u>
Expenses						
Program services	4,753,767	-	4,753,767	4,402,955	-	4,402,955
Management and general	884,381	-	884,381	684,215	-	684,215
Fund-raising	372,461	-	372,461	347,652	-	347,652
Total expenses	<u>6,010,609</u>	<u>-</u>	<u>6,010,609</u>	<u>5,434,822</u>	<u>-</u>	<u>5,434,822</u>
Increase (decrease) in net assets	886,809	1,645,159	2,531,968	(165,053)	(386,000)	(551,053)
Net assets, beginning of year	<u>5,800,176</u>	<u>145,000</u>	<u>5,945,176</u>	<u>5,965,229</u>	<u>531,000</u>	<u>6,496,229</u>
Net assets, end of year	<u>\$6,686,985</u>	<u>\$1,790,159</u>	<u>\$8,477,144</u>	<u>\$5,800,176</u>	<u>\$ 145,000</u>	<u>\$5,945,176</u>

See notes to financial statements.

TEACHING MATTERS, INC.

**Statement of Functional Expenses
Year Ended August 31, 2017
(with Summarized Comparative Totals for the Year Ended August 31, 2016)**

	2017		2016
	Program Services	Management and General	Fund- Raising
	Total	Total	Total
Salaries and related expenses	\$3,581,066	\$ 634,619	\$ 317,310
Professional fees	613,330	155,714	-
Computer software and expenses	136,944	1,110	555
Meetings, conferences and travel	111,154	6,907	3,453
Occupancy	61,158	10,838	5,419
Dues, fees and subscriptions	36,282	4,268	2,134
Office supplies and expense	14,941	22,886	5,542
Postage and messengers	13,197	7,786	1,169
Printing and stationery	15,355	509	4,171
Telephone	7,099	1,258	629
Temporary help, recruiting, and training	30,875	379	190
Marketing and promotion	77,475	5,893	27,227
Other	54,891	18,379	4,662
	\$4,753,767	\$ 884,381	\$ 372,461
Total expenses before depreciation and amortization	4,753,767	870,546	372,461
Depreciation and amortization	-	13,835	-
Total expenses	\$4,753,767	\$ 884,381	\$ 372,461
	\$4,753,767	\$ 870,546	\$ 372,461
	5,996,774	5,996,774	5,996,774
	13,835	13,835	13,835
	\$5,434,822	\$5,434,822	\$5,434,822

TEACHING MATTERS, INC.

**Statement of Functional Expenses
Year Ended August 31, 2016**

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund- Raising</u>	<u>Total</u>
Salaries and related expenses	\$3,263,694	\$ 484,348	\$ 244,331	\$3,992,373
Professional fees	569,302	88,803	12,204	670,309
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	<u>72,578</u>	<u>20,937</u>	<u>4,630</u>	<u>98,145</u>
Total expenses before depreciation and amortization	4,402,955	670,380	347,652	5,420,987
Depreciation and amortization	<u>-</u>	<u>13,835</u>	<u>-</u>	<u>13,835</u>
Total expenses	<u>\$4,402,955</u>	<u>\$ 684,215</u>	<u>\$ 347,652</u>	<u>\$5,434,822</u>

TEACHING MATTERS, INC.

Statement of Cash Flows

	Year Ended	
	August 31	
	<u>2017</u>	<u>2016</u>
Cash from operating activities		
Increase (decrease) in net assets	\$2,531,968	\$ (551,053)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities		
Depreciation and amortization	13,835	13,835
Donated stock	(36,930)	-
Proceeds from the sale of donated stock	36,930	-
Realized and unrealized (gain) on investments	(276,624)	(131,204)
(Increase) decrease in current assets		
Accounts receivable	(198,400)	189,633
Contributions receivable	(1,672,160)	378,130
Prepaid expenses	22,840	(31,278)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(82,803)	61,765
Deferred revenue and deposits	62,300	49,650
Net cash provided by (used in) operating activities	<u>400,956</u>	<u>(20,522)</u>
Cash flows from investing activities		
Proceeds from the sale of investments	277,837	1,460,372
Purchase of investments	(661,439)	(280,696)
Purchase of leasehold improvements	-	(41,555)
Net cash provided by (used in) investing activities	<u>(383,602)</u>	<u>1,138,121</u>
Increase in cash and cash equivalents	17,354	1,117,599
Cash and cash equivalents, beginning of year	<u>1,527,717</u>	<u>410,118</u>
Cash and cash equivalents, end of year	<u>\$1,545,071</u>	<u>\$1,527,717</u>
Consists of:		
Cash and cash equivalents – operating	\$ 795,071	\$ 777,717
Cash and cash equivalents – board designated	<u>750,000</u>	<u>750,000</u>
Total cash and cash equivalents	<u>\$1,545,071</u>	<u>\$1,527,717</u>

See notes to financial statements.

TEACHING MATTERS, INC.

**Notes to Financial Statements
August 31, 2017 and August 31, 2016**

Note 1 – Nature of organization

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, Inc.'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

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 \$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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. During 2017, 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, 2017 and August 31, 2016 are as follows:

	2017			
	Balance at		Net Assets	Balance at
	August 31,		Released	August 31,
	2016	Additions	from	2017
	<u>2016</u>	<u>Additions</u>	<u>Restrictions</u>	<u>2017</u>
Time restricted	\$ 145,000	\$3,083,160	\$(1,438,001)	\$1,790,159

TEACHING MATTERS, INC.

**Notes to Financial Statements
August 31, 2017 and August 31, 2016**

Note 2 – Summary of significant accounting policies (continued)

Temporarily restricted net assets (continued)

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

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, 2017.

TEACHING MATTERS, INC.**Notes to Financial Statements (continued)****August 31, 2017 and August 31, 2016****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, 2017 and August 31, 2016, 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.

Service and consulting fees

Teaching Matters, Inc. reports services and consulting fees as revenue when services are rendered and the terms of the contracts are met. For services not yet provided, Teaching Matters, Inc. 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, 2017 and August 31, 2016

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 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, 2017. 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 November 28, 2017, which is the date the financial statements were available to be issued.

Note 3 – Contributions receivable

As of August 31, 2017, contributions receivable are due to be collected as follows:

Due in one year	\$1,637,160
Due in one to five years	<u>150,000</u>
Total	<u>\$1,787,160</u>

TEACHING MATTERS, INC.

Notes to Financial Statements (continued)
August 31, 2017 and August 31, 2016Notes 4 – Investments

The following is a summary of investments:

	<u>August 31, 2017</u>		<u>August 31, 2016</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Fixed Income	\$ 1,886,664	\$ 1,862,253	\$ 1,508,084	\$ 1,520,276
Equities				
Domestic stock	1,415,657	1,615,089	1,447,923	1,548,769
International stock	455,122	465,199	393,789	344,638
Mutual Funds				
Blended	441,286	441,706	440,060	396,608
International Portfolio	186,821	240,757	181,200	165,308
Alternative Investment	<u>156,583</u>	<u>154,369</u>	<u>155,380</u>	<u>143,548</u>
Total	<u>\$4,542,133</u>	<u>\$4,779,373</u>	<u>\$4,126,436</u>	<u>\$4,119,147</u>

Each major class of assets measured at fair value on a recurring basis as of August 31, 2017 and August 31, 2016 are as follows:

<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				
Blended	441,706	441,706	-	-
International portfolio	240,757	240,757	-	-
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>

TEACHING MATTERS, INC.

Notes to Financial Statements (continued)
August 31, 2017 and August 31, 2016**Notes 4 – Investments**Investments (continued)

<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	143,548	-	-	143,548
Total	<u>\$4,119,147</u>	<u>\$3,975,599</u>	<u>\$ -</u>	<u>\$ 143,548</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>2017</u>	<u>2016</u>
Beginning balance	\$ 143,548	\$ 149,424
Gain (loss) on investment	<u>10,821</u>	<u>(5,876)</u>
Ending balance	<u>\$ 154,369</u>	<u>\$ 143,548</u>

Note 5 – Furniture, equipment and leasehold improvements

The following is a summary of furniture, equipment and leasehold improvements as of August 31, 2017 and August 31, 2016:

	<u>August 31</u>	
	<u>2017</u>	<u>2016</u>
Furniture, equipment and leasehold improvements	\$ 611,328	\$ 611,328
Less: accumulated depreciation and amortization	<u>583,299</u>	<u>569,464</u>
Net property and equipment	<u>\$ 28,029</u>	<u>\$ 41,864</u>

TEACHING MATTERS, INC.

**Notes to Financial Statements (continued)
August 31, 2017 and August 31, 2016**

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, 2017 and August 31, 2016 were \$92,423 and \$101,961, 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 2017 and 2016 was \$5,654 and \$13,458, respectively.

As of August 31, 2017, future annual minimum lease payments under this lease are as follows:

<u>Year</u>	<u>Amount</u>
2018	\$ 67,847
2019	67,847
2020	67,847
2021	<u>16,962</u>
Total	<u>\$ 220,503</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.