

TEACHING MATTERS, INC.

**Financial Statements
for year ended
August 31, 2009**

Independent Auditors' Report

To the Board of Directors
Teaching Matters, Inc.

We have audited the accompanying statement of financial position of Teaching Matters, Inc. ("TMI") as of August 31, 2009 and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of TMI's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the TMI's 2008 financial statements and, in our report dated March 12, 2009, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TMI at August 31, 2009 and the results of its activities and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Condon O'Meara McGinty & Donnelly LLP

January 6, 2010

TEACHING MATTERS, INC.
Statement of Financial Position

Assets

	Year Ended	
	August 31	
	<u>2009</u>	<u>2008</u>
Assets		
Cash and cash equivalents		
Operating	\$ 1,759,304	\$ 3,195,011
Board designated	<u>1,000,000</u>	<u>1,000,000</u>
Total cash and cash equivalents	2,759,304	4,195,011
Accounts receivable, net of allowance for doubtful accounts of \$3,500 in both 2009 and 2008	669,541	208,085
Investments, at market	2,180,995	1,090,906
Grants and contributions receivable	71,350	264,227
Prepaid expenses	5,769	10,778
Furniture, equipment and leasehold improvements, at cost, net of accumulated depreciation and amortization of \$454,495 and \$405,899 for 2009 and 2008, respectively	<u>80,662</u>	<u>129,258</u>
Total assets	<u>\$ 5,767,621</u>	<u>\$ 5,898,265</u>

Liabilities and Net Assets

Liabilities		
Accounts payable and accrued expenses	\$ 160,616	\$ 105,355
Deferred revenue and deposits	<u>28,390</u>	<u>74,227</u>
Total liabilities	<u>189,006</u>	<u>179,582</u>
Net assets		
Operating	4,532,265	4,420,093
Board designated	<u>1,000,000</u>	<u>1,000,000</u>
Total unrestricted	5,532,265	5,420,093
Temporarily restricted	<u>46,350</u>	<u>298,590</u>
Total net assets	<u>5,578,615</u>	<u>5,718,683</u>
Total liabilities and net assets	<u>\$ 5,767,621</u>	<u>\$ 5,898,265</u>

See notes to financial statements.

TEACHING MATTERS, INC.

Statement of Activities

	Year Ended August 31				
	2009		2008		
	Unrestricted	Temporarily Restricted	Total	Temporarily Restricted	Total
Public support and revenue					
Contributions	\$ 523,143	\$ -	\$ 523,143	\$ 540,388	\$ 540,388
Grants	-	287,373	287,373	-	870,672
Net assets released from restrictions	539,613	(539,613)	-	999,619	-
Total public support	1,062,756	(252,240)	810,516	1,540,007	1,411,060
Revenue					
Service and consulting fees	2,069,470	-	2,069,470	1,928,505	1,928,505
Realized and unrealized gain (loss) on investments	13,822	-	13,822	(17,793)	(17,793)
Investment income	35,023	-	35,023	155,576	155,576
Total revenue	2,118,315	-	2,118,315	2,066,288	2,066,288
Total public support and revenue	3,181,071	(252,240)	2,928,831	3,606,295	3,477,348
Expenses					
Program services	2,697,996	-	2,697,996	2,584,536	2,584,536
Fund-raising	115,032	-	115,032	109,216	109,216
Management and general	255,871	-	255,871	243,004	243,004
Total expenses	3,068,899	-	3,068,899	2,936,756	2,936,756
Increase (decrease) in net assets					
	112,172	(252,240)	(140,068)	669,539	(128,947)
Net assets, beginning of year	<u>5,420,093</u>	<u>298,590</u>	<u>5,718,683</u>	<u>4,750,554</u>	<u>5,178,091</u>
Net assets, end of year	<u>\$5,532,265</u>	<u>\$ 46,350</u>	<u>\$5,578,615</u>	<u>\$5,420,093</u>	<u>\$5,718,683</u>

See notes to financial statements.

TEACHING MATTERS, INC.

Statement of Cash Flows

	Year Ended	
	August 31	
	2009	2008
Cash from operating activities		
Increase (decrease) increase in net assets	\$ (140,068)	\$ 540,592
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities		
Unrealized (gain) loss on investments	(20,439)	17,793
Realized (gain) on investments	6,617	-
Depreciation and amortization	48,596	61,967
(Increase) decrease in current assets		
Accounts receivable	(461,456)	167,437
Grants and contributions receivable	192,877	89,808
Prepaid expenses	5,009	(5,063)
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	55,261	(71,568)
Deferred revenue and deposits	(45,837)	44,087
Net cash provided by operating activities	<u>(359,440)</u>	<u>845,053</u>
Cash flows (used in) investing activities		
Purchase of investments	(9,680,515)	(1,108,699)
Proceeds from investments	8,604,248	-
Purchase of furniture, equipment and leasehold improvements	-	(38,840)
Net cash (used in) investing activities	<u>(1,076,267)</u>	<u>(1,147,539)</u>
(Decrease) in cash and cash equivalents	(1,435,707)	(302,486)
Cash and cash equivalents, beginning of year	<u>4,195,011</u>	<u>4,497,497</u>
Cash and cash equivalents, end of year	<u>\$2,759,304</u>	<u>\$4,195,011</u>

See notes to financial statements.

TEACHING MATTERS, INC.

Statement of Functional Expenses
 Year Ended August 31, 2009
 (with Comparative Totals for 2008)

	2009			2008		
	Program Services	Fund-Raising	Management and General	Total	Total	Total
Salaries and related expenses	\$ 1,878,633	\$ 86,374	\$ 194,341	\$ 2,159,348	\$ 2,125,315	
Laboratory schools	12,915	-	-	12,915	39,876	
Computer software and expenses	36,109	1,659	3,733	41,501	8,781	
Equipment rentals	4,448	204	460	5,112	4,803	
Meetings, conferences and travel	45,660	2,099	4,723	52,482	42,372	
Occupancy	91,923	4,226	9,510	105,659	105,464	
Membership	7,577	348	784	8,709	4,586	
Office supplies and expense	15,491	713	1,601	17,805	19,537	
Postage and messengers	3,058	140	316	3,514	4,578	
Printing and stationery	23,913	1,099	2,473	27,485	21,805	
Professional fees	419,221	10,857	21,476	451,554	417,348	
Telephone	71,315	3,280	7,377	81,972	44,238	
Temporary help, recruiting, and training	22,524	1,035	2,330	25,889	7,579	
Marketing and promotion	13,779	633	1,426	15,838	17,862	
Other	9,152	421	947	10,520	10,645	
Total expenses before depreciation and amortization	2,655,718	113,088	251,497	3,020,303	2,874,789	
Depreciation and amortization	42,278	1,944	4,374	48,596	61,967	
Total expenses	\$ 2,697,996	\$ 115,032	\$ 255,871	\$ 3,068,899	\$ 2,936,756	

Total expenses before depreciation and amortization

Depreciation and amortization

Total expenses

See notes to financial statements.

TEACHING MATTERS, INC.**Notes to Financial Statements
August 31, 2009 and August 31, 2008****Note 1 – Organization**

Teaching Matters, Inc. ("TMI") is an educational not-for-profit organization, operating in New York City since May 1994. TMI provides technology planning and 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**Operating fund**

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.

Board-designated funds

During the 2005 fiscal year, the Board of Directors authorized \$1,000,000 for a three-year period for Content Development and Evaluation. During fiscal 2009 and 2008, TMI did not utilize these funds. TMI was able to generate funds from other outside sources. Content Development includes products and materials designed to support classroom instruction. Evaluation includes the evaluation of the content development and TMI's activities in two laboratory schools, East Bronx Academy for the Future and West Bronx Academy for the Future.

Temporarily restricted

Temporarily restricted net assets represent grants received, which are temporarily restricted by the donor for a specific purpose. Once that specific purpose has been met, the funds are released from restriction and are reported in the statement of activities as assets released from restrictions.

TEACHING MATTERS, INC.
Notes to Financial Statements
August 31, 2009 and August 31, 2008

Note 2 – Summary of significant accounting policies (continued)

Temporarily restricted net assets

The transactions in temporarily restricted net assets as of and for the year ended August 31, 2009 are as follows:

	Balance at August 31, 2008	Support	Released from Restrictions	Balance at August 31, 2009
Booth Ferris Foundation	\$ 100,000	\$ -	\$ 100,000	\$ -
Citi Foundation	-	245,000	195,000	50,000
Anonymous	50,000	-	50,000	-
Blanche T. Enders Charitable Trust	25,000	-	25,000	-
New York Community Trust	35,000	-	35,000	-
Goldman Sachs and Company	-	250	250	-
MCJ Foundation	-	1,000	1,000	-
Leon Lowenstein Foundation	6,000	-	6,000	-
May and Samuel Rudin Foundation	-	5,000	5,000	-
Pannonia Foundation	-	2,500	2,500	-
Ambrose Monell Foundation	-	25,000	25,000	-
Pumpkin Foundation	-	1,500	1,500	-
The Carson Family Charitable Trust	93,363	-	93,363	-
Change in Present Value	<u>(10,773)</u>	<u>7,123</u>	<u>-</u>	<u>(3,650)</u>
Total	<u>\$ 298,590</u>	<u>\$ 287,373</u>	<u>\$ 539,613</u>	<u>\$ 46,350</u>

TEACHING MATTERS, INC.**Notes to Financial Statements (continued)
August 31, 2009 and August 31, 2008****Note 2 – Summary of significant accounting policies (continued)****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.

Investments

Investments are recorded at fair market value based on publicly quoted market prices. Investment income is recorded as unrestricted revenue unless otherwise restricted by the donor.

Furniture, equipment and leasehold improvements

Furniture, equipment and leasehold improvements are 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. Leasehold improvements are amortized over the term of the lease.

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, generally on a basis of time spent.

TEACHING MATTERS, INC.**Notes to Financial Statements (continued)
August 31, 2009 and August 31, 2008****Note 2 – Summary of significant accounting policies (continued)**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.

Concentration of credit risk

TMI's financial instruments that are exposed to concentrations of credit risk consist primarily of cash, cash equivalents, investments and accounts receivable and grants and contribution 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 investments which consist primarily of U.S. Treasury obligations and Government bonds were exposed to various risks such as interest rate, market volatility, liquidity and credit risks. 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, 2009. TMI believes that all accounts receivable and grants and contribution receivables are collectible.

Comparative financial information

The financial statements include certain prior-year summarized comparative information in total but not by functional class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with TMI's financial statements for the year ended August 31, 2008 from which the summarized information was derived.

Subsequent events

TMI has evaluated events and transactions for potential recognition or disclosure through January 6, 2010, which is the date the financial statements were available to be issued.

TEACHING MATTERS, INC.

Notes to Financial Statements (continued)
August 31, 2009 and August 31, 2008Note 3 – Investments

The following is a summary of the investments as of August 31, 2009 and 2008:

	2009		2008	
	<u>Cost</u>	<u>Market Value</u>	<u>Cost</u>	<u>Market Value</u>
U.S. Treasury obligations	\$ 2,177,835	\$ 2,179,860	\$ 876,568	\$ 877,877
Government bonds	<u>514</u>	<u>1,125</u>	<u>232,131</u>	<u>213,029</u>
Total	<u>\$ 2,178,349</u>	<u>\$ 2,180,995</u>	<u>\$ 1,108,699</u>	<u>\$ 1,090,906</u>

Fair value measurements

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy gives the highest priority to quoted market prices in active markets and the lowest priority to unobservable data. Fair value measurements are required to be separately disclosed by level within the fair value hierarchy. The three levels of inputs used to measure fair value are as follows:

- Level 1 – Quoted prices in active markets for identical assets.
- Level 2 – 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 – Unobservable inputs to the valuation methodology that are significant to the measurement of fair value of the assets.

As of August 31, 2009, TMI's financial assets consist of investments, which are deemed to be Level 1 assets.

TEACHING MATTERS, INC.

Notes to Financial Statements (continued)
August 31, 2009 and August 31, 2008**Note 4 – Contributions receivable**

Contributions receivable are unconditional promises from external organizations to donate cash to TMI. TMI uses a discount rate of 5% to reduce the contributions receivable to their present value. The contributions receivable at August 31, 2009 are as follows:

<u>Fiscal year</u>	<u>Amount</u>
2010	<u>\$ 75,000</u>
Less amount to reduce the contributions receivable to their present value (discount rate – 5%)	<u>3,650</u>
Total	<u>\$ 71,350</u>

Note 5 – Furniture, equipment and leasehold improvements

The following is a summary of furniture, equipment and leasehold improvements as of August 31, 2009 and August 31, 2008:

	<u>August 31</u>	
	<u>2009</u>	<u>2008</u>
Furniture, equipment and leasehold improvements	\$ 535,157	\$ 535,157
Less: accumulated depreciation and amortization	<u>454,495</u>	<u>405,899</u>
Net property and equipment	<u>\$ 80,662</u>	<u>\$ 129,258</u>

Note 7 – Endowment

TMI's endowment consists of various individual funds established for a variety of purposes. Its endowment includes donor-restricted funds (temporarily restricted) and funds designated by TMI. As required by GAAP, net assets associated with endowment funds, including funds designated by TMI to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

TEACHING MATTERS, INC.

Notes to Financial Statements (continued)

August 31, 2009 and August 31, 2008

Note 7 – Endowment (continued)Statutory Law

TMI follows the New York State Not-For-Profit Corporation Law (N-PCL) when adhering to donor-restricted contributions. TMI considers the following factors in making a determination to appropriate or accumulated restricted funds:

- (1) The duration and preservation of the fund
- (2) The purposes of TMI and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of TMI
- (7) The investment policies of TMI.

Temporarily Restricted Net Asset Composition by Type of Fund as of August 31, 2009:

	<u>Temporarily Restricted</u>
Investments	\$ 46,350

Changes in Temporarily Restricted Net Assets for the Year Ended August 31, 2009:

	<u>Temporarily Restricted</u>
Net assets, beginning of year	\$ 298,590
Contributions and revenue	287,373
Net assets released from restrictions	<u>(539,613)</u>
Net assets, end of year	\$ 46,350

Funds with deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires TMI to retain as a fund of perpetual duration. In accordance with GAAP, deficiencies of this nature are reported in unrestricted net assets. There were no fund deficiencies as of August 31, 2009.

TEACHING MATTERS, INC.**Notes to Financial Statements (continued)
August 31, 2009 and August 31, 2008****Note 7 – Endowment (continued)****Strategies employed for achieving objectives**

TMI's primary investment objective of the endowment shall be to obtain an absolute return on investments that has the potential to achieve stability and favorable investment returns with reduced volatility and low correlation to both equity and fixed income investments. Within the guidelines that were approved by the Board, the portfolio will realign from time to time given current market trends.

Note 8 – 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 3% of their regular salary. 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, 2009 and 2008 were \$37,058 and \$32,809, respectively.

Note 9 – Commitment

TMI's entered into a lease for office space which expires on November 30, 2010. The lease requires an annual base rent of \$102,671 plus escalations.

Note 10 – 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) of the Code. As of August 31, 2009, no amounts were recognized for uncertain tax positions taken. In addition, TMI's tax returns for the years 2006 and forward are subject to the usual review by the appropriate taxing authorities.