

TEACHING FIRMS OF AMERICA PROFESSIONAL
PREPARATORY CHARTER SCHOOL

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2012

TEACHING FIRMS OF AMERICA PROFESSIONAL
PREPARATORY CHARTER SCHOOL

INDEX

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	2
FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities	4
Statement of Cash Flows	5
Statement of Functional Expenses	6
NOTES TO FINANCIAL STATEMENTS	7-13
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	14-15



KOCH GROUP & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Teaching Firms of America Professional Preparatory Charter School

We have audited the accompanying statement of financial position of Teaching Firms of America Professional Preparatory Charter School as of June 30, 2012, and the related statement of activities and cash flows for the period January 12, 2010 (inception) to June 30, 2012. These financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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. 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 present fairly, in all material respects, the financial position of Teaching Firms of America Professional Preparatory Charter School as of June 30, 2012, and the changes in its net assets and its cash flows for the period January 12, 2010 (inception) to June 30, 2012, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 9, 2012 on our consideration of Teaching Firms of America Professional Preparatory Charter School 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 and should be considered in assessing the results of our audit.

Koch Group & Company, LLP
Certified Public Accountants

New York, New York
November 9, 2012

TEACHING FIRMS OF AMERICA PROFESSIONAL
PREPARATORY CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2012

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 208,531
Restricted cash	25,008
Grants and contracts receivable	134,999
Prepaid expenses	44,634

Total Current Assets 413,172

PROPERTY AND EQUIPMENT,

at cost, less accumulated depreciation

350,550

Total Assets

\$ 763,722

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 109,095
Accrued expenses	250,102
Refundable advances	5,214
Loan payable - current portion	29,339

Total Current Liabilities 393,750

LOAN PAYABLE, non current portion

17,090

Total Liabilities

410,840

NET ASSETS - UNRESTRICTED

352,882

Total Liabilities and Net Assets

\$ 763,722

See notes to financial statements.

TEACHING FIRMS OF AMERICA PROFESSIONAL
PREPARATORY CHARTER SCHOOL

STATEMENT OF ACTIVITIES

FOR THE PERIOD JANUARY 12, 2010 (INCEPTION) TO JUNE 30, 2012

OPERATING REVENUE AND OTHER SUPPORT	
State and local per pupil operating revenue	\$ 2,020,973
Grants and Contracts	
State and local	113,074
Federal	727,068
Contributions-in-kind	623,416
Interest and other income	35
Special events, net	6,109
Contributions	1,600
	<hr/>
Total Operating Revenue and Other Support	3,492,275
EXPENSES	
Program Expenses	
Regular education	2,465,767
Special education	347,869
	<hr/>
	2,813,636
Management and general	301,479
Fundraising	24,278
	<hr/>
Total Expenses	3,139,393
CHANGE IN NET ASSETS	352,882
UNRESTRICTED NET ASSETS	
Beginning of period	<hr/>
	-
End of period	<hr/> <hr/>
	\$ 352,882

See notes to financial statements.

TEACHING FIRMS OF AMERICA PROFESSIONAL
PREPARATORY CHARTER SCHOOL

STATEMENT OF CASH FLOWS

FOR THE PERIOD JANUARY 12, 2010 (INCEPTION) TO JUNE 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in Net Assets	\$ 352,882
ADJUSTMENTS TO RECONCILE INCREASE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES	
Depreciation	89,368
Changes in Assets and Liabilities	
Restricted cash	(25,008)
Grants and contracts receivable	(134,999)
Prepaid expenses	(44,634)
Accounts payable	109,095
Accrued expenses	250,102
Refundable advances	5,214
	<u>602,020</u>
Net cash provided by operating activities	
CASH FLOWS FROM INVESTING ACTIVITIES	
Acquisition of fixed assets	<u>(439,918)</u>
Net cash used in investing activities	<u>(439,918)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Loan payable	<u>46,429</u>
Net cash provided by investing activities	<u>46,429</u>
NET INCREASE IN CASH	208,531
CASH AND CASH EQUIVALENTS	
Beginning of period	<u>-</u>
End of period	<u><u>\$ 208,531</u></u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash Paid for Interest	<u><u>\$ 2,771</u></u>

See notes to financial statements.

TEACHING FIRMS OF AMERICA PROFESSIONAL
PREPARATORY CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE PERIOD JANUARY 12, 2010 (INCEPTION) TO JUNE 30, 2012

	<u>Regular Education</u>	<u>Special Education</u>	<u>Total Programs</u>	<u>Management & General</u>	<u>Fundraising</u>	<u>Total</u>
<u>Personnel Expenses</u>						
Salaries and wages	\$ 1,125,901	\$ 167,057	\$ 1,292,958	\$ 165,353	\$ 14,730	\$ 1,473,041
Payroll taxes and fringe benefits	243,784	36,172	279,956	35,803	3,189	318,948
Total Personnel Expenses	<u>1,369,685</u>	<u>203,229</u>	<u>1,572,914</u>	<u>201,156</u>	<u>17,919</u>	<u>1,791,989</u>
<u>Operating Expenses</u>						
Start-up costs	230,615	32,133	262,748	22,649	3,174	288,571
Professional fees	-	-	-	12,000	-	12,000
Professional development	24,971	2,934	27,905	4,011	-	31,916
In-kind - legal	517,436	68,575	586,011	37,405	-	623,416
Student field trips	5,993	704	6,697	-	-	6,697
Office expenses and supplies	27,459	3,640	31,099	3,681	1,715	36,495
Food services	11,291	1,327	12,618	-	-	12,618
Information and technology	20,440	2,709	23,149	1,231	246	24,626
Telephone and internet	25,464	3,375	28,839	1,534	307	30,680
Insurance	17,796	2,359	20,155	1,286	-	21,441
Instructional materials	35,951	4,225	40,176	-	-	40,176
Furniture and equipment	9,419	1,107	10,526	6,669	-	17,195
Classroom supplies	34,096	4,007	38,103	-	-	38,103
Postage and shipping	1,887	250	2,137	114	23	2,274
Repairs and maintenance	5,566	738	6,304	402	-	6,706
Dues and subscriptions	961	113	1,074	-	-	1,074
Advertising and recruiting	52,562	6,613	59,175	2,102	-	61,277
Interest expense	-	-	-	2,771	-	2,771
Depreciation and amortization	74,175	9,831	84,006	4,468	894	89,368
Total Operating Expenses	<u>1,096,082</u>	<u>144,640</u>	<u>1,240,722</u>	<u>100,323</u>	<u>6,359</u>	<u>1,347,404</u>
TOTAL EXPENSES	<u>\$ 2,465,767</u>	<u>\$ 347,869</u>	<u>\$ 2,813,636</u>	<u>\$ 301,479</u>	<u>\$ 24,278</u>	<u>\$ 3,139,393</u>

TEACHING FIRMS OF AMERICA PROFESSIONAL
PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

1. Organization

Teaching Firms of America Professional Preparatory Charter School (the “School”), a 501(c)(3) tax-exempt organization, is a public charter school located in Brooklyn, New York. The School was granted a five-year charter on January 12, 2010 and commenced operating classes for kindergarten through first grade in August 2011. The School’s mission is to prepare students to become the future professionals (lawyer, doctors, scientists, entrepreneurs, etc) who will lead our global society in the 21st Century. The School’s vision is to provide a fun, “college-successful”, community-centered, culturally rich and relevant preparatory school experience to their students, where they will be nurtured, challenged and cultivated into highly intelligent, creative and critically thinking young leaders.

2. Summary of Significant Accounting Policies

a) Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

b) Financial Statement Presentation

The School reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted.

i) Unrestricted net assets – Net assets that are not subject to grant or donor-imposed stipulations.

ii) Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the School and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. There are no temporarily restricted net assets at June 30, 2012.

TEACHING FIRMS OF AMERICA PROFESSIONAL
PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

2. Summary of Significant Accounting Policies (Continued)

b) Financial Statement Presentation (Continued)

- iii) Permanently restricted net assets – Net assets subject to grant or donor-imposed stipulations that they be maintained permanently by the School to use all or part of the assets for general or specific purposes. There are no permanently restricted net assets at June 30, 2012.

Furthermore, information is required to segregate program service expenses from support expenses.

c) Cash

The School maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The School has not experienced any losses in such accounts. The School believes it is not exposed to significant credit risk on cash and cash equivalents.

For the purposes of the statement of cash flows, the School considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

d) Grants and Contributions Receivable

Unconditional promises to give that are expected to be collected within one year are recorded as grants and contribution receivable at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises are received. Conditional promises to give are not included as support until the conditions are substantially met.

e) Contributions and Contributions-in-kind

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions. However, if a restriction is fulfilled in the same period in which the contribution is received, the School reports the support as unrestricted.

TEACHING FIRMS OF AMERICA PROFESSIONAL
PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

2. Summary of Significant Accounting Policies (Continued)

f) Donated Services

The School receives contributed legal services that are an integral part of its operations. Such services are only recorded as contributions in-kind, at their fair value, provided the services received create or enhance non-financial assets, require specified skills provided by individuals possessing those skills, and typically need to be purchased if not provided by donation. Donated services received are estimated at \$623,416 for the period from January 12, 2010 (inception) to June 30, 2012 and is reflected as donated services as both income and expense in the accompanying financial statements.

g) Functional Allocation of Expenses

Costs and expenses of various programs and other activities have been analyzed on a functional basis. Accordingly, all costs and expenses incurred have been allocated among the programs and supporting services benefited.

h) Property and Equipment

Purchase of property and equipment are capitalized at cost. Donated assets are capitalized at the estimated fair value at date of receipt. The cost of maintenance and repairs is charged to expense as incurred; significant improvements are capitalized. The School capitalizes additions and significant improvements in excess of \$1,500. Depreciation is computed using the straight-line method over estimated useful lives of 3 to 7 years.

i) Income Taxes

On February 1, 2012 Teaching Firms of America Professional Preparatory Charter School filed and received approval of its application for tax exempt status from the Internal Revenue Service under section 501(c) (3) of the Internal Revenue code and has been classified as a publicly supported organization as described in Internal Revenue Code section 509 (A)(1) and 170 (B)(1)(A)(II).

TEACHING FIRMS OF AMERICA PROFESSIONAL
PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

2. Summary of Significant Accounting Policies (Continued)

i) Income Taxes

Management believes that the School has no uncertain tax positions that would require financial statement recognition. The School files an informational return in the United States federal jurisdiction. The School is subject to US federal income tax examination by tax authorities for all fiscal years in which informational returns were filed.

j) 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

3. Restricted Cash

Under the provisions of its charter, the School established an escrow account to pay for legal and audit expenses that would be associated with a dissolution should it occur. Per the School's authorizer, an escrow account of \$75,000 is required over a 3-year period.

4. Revenue Recognition

Revenue from the state and local government resulting from the School's charter status is based on the number of students enrolled and is recorded when services are performed in accordance with the charter agreement.

Revenue from federal, state and local government grants and contracts are recorded by the School when qualifying expenditures are incurred and billable. Funds received in advance for which qualifying expenditures have not been incurred are reflected as refundable advances from state and local government grants in the accompanying statement of financial position.

TEACHING FIRMS OF AMERICA PROFESSIONAL
PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

5. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of amounts due to vendors and for payroll earned by the staff during the school year, but paid out over the summer months.

6. Property and Equipment

At June 30, 2012, property and equipment consisted of the following:

		<u>Estimated Useful Life</u>
Building improvements	\$206,674	3-10 years
Furniture and fixtures	23,523	7 years
Computer equipment	51,310	3 years
Office and telephone equipment	148,999	3-7 years
Software	<u>9,412</u>	3 years
	439,918	
Less: Accumulated depreciation	<u>(89,368)</u>	
Total	<u>\$350,550</u>	

Depreciation expense for the period January 12, 2010 (inception) to June 30, 2012 was \$89,368.

7. Loan Payable

Loan payable to The New York City Charter School Center in the amount of \$60,000 bears interest at 2.00% per annum. The loan requires monthly principal and interest payments of \$2,500, with final payment and interest due January 2014. The loan balance as of June 30, 2012 was \$46,429.

Future minimum principal payments are as follow:

Fiscal year ending June 30,

2013	\$ 29,339	
2014	17,090	

TEACHING FIRMS OF AMERICA PROFESSIONAL
PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

8. Start-up Costs

The School incurred start up consulting fees in the amount of \$223,255, of which \$194,470 was paid to the founding members, who are currently serve as officers of the School. The fees were paid for establishing operations, human resources, education plan, school culture and community outreach.

9. School Facility

The School shares space with a New York City public school. The School is not responsible for rent, utilities, custodial services, maintenance and school safety services other than the security related to the School's programs that take place outside the district's school day.

10. Revenue Concentration

The School receives a substantial portion of its support and revenue from the New York City Department of Education. If the charter school laws were modified, reducing or eliminating these revenues the School's finances could be materially adversely affected.

11. Food Services

The New York City Department of Education provides free lunches directly to some of the School's students. Such costs are not included in these financial statements. The School covers the cost of lunches for children not entitled to the free lunches.

12. Contingency

The School participates in a number of federal and state programs. These programs require that the School comply with certain requirements of laws, regulations, contracts, and agreements applicable to the programs in which it participates. All funds expended in connection with government grants and contracts are subject to audit by government agencies. While the ultimate liability, if any, from such audits of government and contracts by government agencies is presently not determinable, it should not, in the opinion of the management, have a material effect on the financial position or results of operations. Accordingly, no provision for any such liability that may result has been made in the accompanying financial statements.

TEACHING FIRMS OF AMERICA PROFESSIONAL
PREPARATORY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

12. Contingency (Continued)

The School is a defendant in a class action lawsuit against a number of charter schools and the New York City Board of Education as to the planned and existing inequities between charter schools and public schools in co-located school buildings and the leasing of space in public school buildings to charter schools and other matters. The outcome of the lawsuit has not been determined as of November 9, 2012.

13. Subsequent Events

Management has evaluated subsequent events through November 9, 2012, the date that the financial statements were available to be issued. No significant subsequent events have been identified that would require adjustment or disclosure in the accompanying financial statements.



KOCH GROUP & COMPANY, LLP

CERTIFIED PUBLIC ACCOUNTANTS

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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

To the Board of Trustees of
Teaching Firms of America Professional Preparatory Charter School

We have audited the financial statements of Teaching Firms of America Professional Preparatory Charter School as of and for the period January 12, 2010 (inception) to June 30, 2012 and have issued a report thereon dated November 9, 2012. We conducted our audit 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.

Internal Control Over Financial Reporting

Management of Teaching Firms of America Professional Preparatory Charter School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Teaching Firms of America Professional Preparatory Charter School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Teaching Firms of America Professional Preparatory Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Teaching Firms of America Professional Preparatory Charter School's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Teaching Firms of America Professional Preparatory Charter School'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 audits, 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.

This report is intended solely for the information and use of management, the Board of Trustees, others within the entity, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Koch Group + Company, LLP
Certified Public Accountants

New York, New York
November 9, 2012