

**TEACHING FIRMS OF AMERICA PROFESSIONAL
PREPARATORY CHARTER SCHOOL**

FINANCIAL STATEMENTS
WITH INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2016

**TEACHING FIRMS OF AMERICA PROFESSIONAL
PREPARATORY CHARTER SCHOOL**

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KOCH GROUP & COMPANY, LLP

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of Teaching Firms of America Professional Preparatory Charter School, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for the year 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 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 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 Firms of America Professional Preparatory Charter School as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Teaching Firms of America Professional Preparatory Charter School's June 30, 2015 financial statements, and our report dated October 29, 2015 expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of June 30, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2016, on our consideration of Teaching Firms of America Professional Preparatory Charter School'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 Teaching Firms of America Professional Preparatory Charter School's internal control over financial reporting and compliance.

New York, New York
October 18, 2016

Koch Group & Company, LLP
Certified Public Accountants

**TEACHING FIRMS OF AMERICA PROFESSIONAL
PREPARATORY CHARTER SCHOOL**

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016
(With Comparative Totals as of June 30, 2015)

ASSETS

	2016	2015
CURRENT ASSETS		
Cash and cash equivalents	\$ 1,593,352	\$ 1,348,859
Grants and contracts receivable	106,698	250,197
Other receivable	40,042	14,276
Prepaid expenses	64,267	3,952
Total Current Assets	1,804,359	1,617,284
PROPERTY AND EQUIPMENT, net	340,641	369,497
OTHER ASSETS		
Restricted cash	75,081	75,064
Total Assets	\$ 2,220,081	\$ 2,061,845

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable	\$ 41,939	\$ 28,946
Accrued expenses	1,301,518	724,969
Refundable advances	5,105	3,045
Total Liabilities	1,348,562	756,960
NET ASSETS - UNRESTRICTED	871,519	1,304,885
Total Liabilities and Net Assets	\$ 2,220,081	\$ 2,061,845

See notes to financial statements.

**TEACHING FIRMS OF AMERICA PROFESSIONAL
PREPARATORY CHARTER SCHOOL**

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016
(With Summarized Totals for the year ended June 30, 2015)

	2016	2015
OPERATING REVENUE AND OTHER SUPPORT		
State and local per pupil		
Operating revenue	\$ 6,372,042	\$ 5,390,954
Grants and Contracts		
State and local	32,889	25,059
Federal	261,629	242,318
In-kind legal	-	70,958
Contributions	2,750	1,650
Interest and other income	4,691	14,892
	6,674,001	5,745,831
 EXPENSES		
Program Expenses		
Regular education	5,306,654	3,701,467
Special education	1,071,619	976,173
	6,378,273	4,677,640
Supporting Services		
Management and general	624,932	473,493
Fundraising	104,162	59,177
	7,107,367	5,210,310
 CHANGE IN NET ASSETS	(433,366)	535,521
 UNRESTRICTED NET ASSETS		
Beginning of year	1,304,885	769,364
End of year	\$ 871,519	\$ 1,304,885

See notes to financial statements.

**TEACHING FIRMS OF AMERICA PROFESSIONAL
PREPARATORY CHARTER SCHOOL**

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016

(With Summarized Totals for the year ended June 30, 2015)

	Regular Education	Special Education	Total Programs	Management & General	Fundraising	Total 2016	Total 2015
Personnel Expenses							
Salaries and wages	\$ 3,500,693	\$ 719,309	\$ 4,220,002	\$ 374,289	\$ 75,883	\$ 4,670,174	\$3,228,307
Payroll taxes and fringe benefits	688,772	141,526	830,298	73,643	14,930	918,871	707,929
Total Personnel Expenses	4,189,465	860,835	5,050,300	447,932	90,813	5,589,045	3,936,236
Operating Expenses							
Professional fees	7,496	1,540	9,036	29,968	162	39,166	11,400
Professional development	85,016	14,323	99,339	3,264	-	102,603	79,790
Outside services - consultants	203,134	36,381	239,515	16,030	1,264	256,809	245,257
Donated services- legal	-	-	-	-	-	-	70,958
Student field trips	50,276	8,470	58,746	-	-	58,746	28,072
Office expenses and supplies	76,400	15,698	92,098	8,169	1,786	102,053	77,985
Food services	40,965	6,902	47,867	-	-	47,867	34,401
Information and technology	73,390	15,080	88,470	7,847	1,591	97,908	89,874
Telephone and internet	67,472	13,864	81,336	7,214	1,463	90,013	58,997
Insurance	31,655	6,504	38,159	3,385	686	42,230	38,247
Instructional materials	118,426	19,952	138,378	-	-	138,378	105,180
Furniture and equipment	32,693	5,866	38,559	1,035	210	39,804	24,400
Classroom supplies	26,011	4,425	30,436	123	25	30,584	21,428
Conferences	19,962	3,363	23,325	-	-	23,325	29,625
Postage and shipping	2,417	497	2,914	258	52	3,224	3,225
Repairs and maintenance	26,795	5,506	32,301	2,865	581	35,747	23,301
Licenses and permits	-	-	-	-	-	-	71
Advertising and recruiting	133,115	27,352	160,467	14,233	2,885	177,585	179,593
Bad debts	-	-	-	69,569	-	69,569	-
Depreciation and amortization	121,966	25,061	147,027	13,040	2,644	162,711	152,270
Total Operating Expenses	1,117,189	210,784	1,327,973	177,000	13,349	1,518,322	1,274,074
TOTAL EXPENSES	\$ 5,306,654	\$ 1,071,619	\$ 6,378,273	\$ 624,932	\$ 104,162	\$ 7,107,367	\$ 5,210,310

See notes to financial statements

**TEACHING FIRMS OF AMERICA PROFESSIONAL
PREPARATORY CHARTER SCHOOL**

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016
(With Summarized Totals for the year ended June 30, 2015)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (433,366)	\$ 535,521
ADJUSTMENTS TO RECONCILE CHANGE IN NET ASSETS TO NET CASH FROM OPERATING ACTIVITIES		
Depreciation and amortization	162,711	152,270
Gain on disposal of equipment	(659)	(81)
Bad debts	69,569	-
Changes in Operating Assets and Liabilities		
Grants and contracts receivable	73,930	(88,363)
Other receivable	(25,766)	(12,315)
Prepaid expenses	(60,315)	95,934
Accounts payable	12,993	(15,415)
Accrued expenses	576,550	168,503
Refundable advances	2,060	3,045
	<u>377,707</u>	<u>839,099</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Restricted cash	(17)	(20)
Proceeds from sale of assets	2,004	-
Acquisition of fixed assets	(135,201)	(97,751)
	<u>(133,214)</u>	<u>(97,771)</u>
Net cash from investing activities	<u>(133,214)</u>	<u>(97,771)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	244,493	741,328
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>1,348,859</u>	<u>607,531</u>
End of year	<u>\$ 1,593,352</u>	<u>\$ 1,348,859</u>

See notes to financial statements.

**TEACHING FIRMS OF AMERICA PROFESSIONAL
PREPARATORY CHARTER SCHOOL**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

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 opened in 2010 and currently operates classes from kindergarten to fifth grade. On March 17, 2015, a charter renewal was granted for a term up to and including June 30, 2017. The School’s mission is to prepare students to become the future professionals (lawyers, 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**

Basis of Presentation and Use of Estimates

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”), which requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain accounts relating to the prior year have been reclassified to conform to the current year’s presentation.

Net Asset Presentation

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Unrestricted amounts are those currently available at the discretion of the board for use in the operations of the School. Temporarily restricted amounts are restricted by donor imposed restrictions as to use or time restricted. When a restriction expires, temporarily restricted net assets are re-classified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Permanently restricted amounts contain donor imposed restrictions to be maintained permanently by the School.

There are no temporarily or permanently restricted net assets at June 30, 2016.

**TEACHING FIRMS OF AMERICA PROFESSIONAL
PREPARATORY CHARTER SCHOOL**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

2. **Summary of Significant Accounting Policies (Continued)**

Cash and Cash Equivalents

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 equivalents. For 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.

Grants Receivable

Grants receivable are recorded at net realizable value and do not bear interest. The allowance for doubtful accounts is the School's best estimate of the amount of probable credit losses in existing receivables. Management determines the allowance based on historical write-off experience and reviews its allowance for doubtful accounts periodically. Past due balances are reviewed individually for collectability. Allowances recorded at June 30, 2016 are \$0, as management believes all amounts are collectible.

Donated Goods and Services

The School receives donated services from unpaid volunteers. No amounts have been recognized in the statement of activities since the services do not meet the specialized skill criteria for recognition under U.S. GAAP.

The School receives in-kind school facility and related costs with respect to shared space provided by the New York City Department of Education. These in-kind contributions are not recorded in the accompanying statement of activities, as the premises are temporary in nature and fair value cannot be determined.

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 dissolution, should such event occur.

**TEACHING FIRMS OF AMERICA PROFESSIONAL
PREPARATORY CHARTER SCHOOL**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

2. **Summary of Significant Accounting Policies (Continued)**

Revenue Recognition

Tuition revenue is from state and local government sources for student tuition and other school-related income. The School recognizes tuition and other school-related income as revenue during the applicable school year in which the revenue is earned.

Grants and contracts revenue is recognized when qualifying expenditures are incurred and/or services are provided to the students during the applicable school year. Funds received in advance or any unspent funds for which qualifying expenditures have not been incurred are recorded as refundable advances. Any unspent amounts might be returned to the granting agency or the granting agency can approve that those amounts be applied to a future grant period.

Functional Allocation of Expenses

Expenses have been charged to program and supporting services, either directly when identifiable to a specific program, or indirectly based on management's estimate of the functional area benefited.

Property and Equipment

Property and equipment are recorded at cost. Donated assets are capitalized at the estimated fair value at date of receipt. Maintenance and repairs are charged to expense as incurred; significant improvements are capitalized. The School capitalizes additions and significant improvements in excess of \$1500. Depreciation is computed using the straight-line method over estimated useful lives of the respective asset; 5 years for furniture and equipment and 3 years for software.

Refundable Advances

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, 2016

2. **Summary of Significant Accounting Policies (Continued)**

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).

Management has determined that the School has no uncertain tax positions that would require financial statement recognition. The School is no longer subject to income tax examination by federal, state or local tax authorities for years before June 30, 2012.

Prior Year Summarized Comparative Information

Information as of and for the year ended June 30, 2015 is presented for comparative purposes only. The notes to the financial statements and certain activity by net asset classification are not included in this report. Accordingly, 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 the School's financial statements as of and for the year ended June 30, 2015, from which the summarized comparative information was derived.

Subsequent Events

Management has evaluated subsequent events occurring after June 30, 2015 through the date of October 18, 2016, which is the date the financial statements were available to be issued. Based on this evaluation, management has determined that no subsequent events have occurred which require disclosure in the financial statements.

3. **Accrued Expenses**

Accrued expenses consist of employee bonuses and payroll taxes. Employees are eligible to receive a bonus based on a performance evaluation. For the year ended June 30, 2016, employee bonuses were \$1,130,771.

**TEACHING FIRMS OF AMERICA PROFESSIONAL
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NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

4. **Retirement Plan**

The School offers a 401(k) plan (the “Plan”) for all qualifying employees. Under the Plan, the School will matches employee contributions up to 5% of annual compensation. The amount charged for matching contributions to the Plan for the year ended June 30, 2016 was \$56,585.

5. **Property and Equipment**

At June 30, 2016, property and equipment consisted of the following:

	<u>2016</u>
Building improvements	\$477,591
Furniture and fixtures	66,086
Computer equipment	170,681
Office and telephone equipment	176,855
Software	<u>61,467</u>
	952,680
Less: Accumulated depreciation	<u>(612,039)</u>
	<u>\$340,641</u>

6. **Concentration of Risk**

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.

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, resulting in reduction or elimination of these revenues the School’s finances could be materially adversely affected.

7. **Food and Transportation**

The New York City Department of Education provides free lunches directly to a majority of the School’s students. Such costs are not included in these financial statements. The School covers the unreimbursed cost of lunches for children not entitled to free lunches. The office of Pupil Transportation provides free transportation to the majority of the students during the district’s school days.

**TEACHING FIRMS OF AMERICA PROFESSIONAL
PREPARATORY CHARTER SCHOOL**

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

8. **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.

9. **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.



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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, in accordance with the 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 Teaching Firms of America Professional Preparatory Charter School, which comprise the statement of financial position as of June 30, 2016, and the related statements 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 October 18, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Teaching Firms of America Professional Preparatory Charter School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the 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 Teaching Firms of America Professional Preparatory Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the Teaching Firms of America Professional Preparatory Charter School'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 a 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 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 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 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*.

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 the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Koch Group + Company, LLP
Certified Public Accountants

New York, New York
October 18, 2016