

VOICE CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2017

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2016)

VOICE CHARTER SCHOOL

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
VOICE Charter School

Report on the Financial Statements

We have audited the accompanying financial statements of VOICE Charter School (the "School"), which comprise the statement of financial position as of June 30, 2017, 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 of 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 School'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 School'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 VOICE Charter School as of June 30, 2017, 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 VOICE Charter School's 2016 financial statements and we expressed an unmodified opinion on those audited financial statements in our report dated September 29, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 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 September 26, 2017 on our consideration of VOICE 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 the VOICE Charter School's internal control over financial reporting and compliance.

MBAF CPAs, LLC

New York, NY
September 26, 2017

VOICE CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR JUNE 30, 2016)

ASSETS	2017	2016
Cash	\$ 2,290,144	\$ 2,179,834
Cash - NYCDOE set-aside	70,000	70,000
Grants and other receivables	439,299	308,932
Prepaid expenses and other assets	482,675	422,412
Property and equipment, net	2,121,003	1,994,795
Construction in progress	<u>553,680</u>	<u>568,074</u>
TOTAL ASSETS	<u>\$ 5,956,801</u>	<u>\$ 5,544,047</u>
<u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 126,099	\$ 164,351
Accrued salaries and other payroll related expenses	1,438,407	1,303,718
Deferred rent	<u>1,157,680</u>	<u>1,111,566</u>
TOTAL LIABILITIES	2,722,186	2,579,635
NET ASSETS		
Net assets - unrestricted	<u>3,234,615</u>	<u>2,964,412</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,956,801</u>	<u>\$ 5,544,047</u>

The accompanying notes are an integral part of these financial statements.

VOICE CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	2017	2016
OPERATING REVENUE		
State and local per pupil operating revenue	\$ 10,303,729	\$ 9,704,219
Government grants and contracts	944,261	736,750
	<u>11,247,990</u>	<u>10,440,969</u>
EXPENSES		
Program services	9,781,530	8,639,809
Management and general	1,264,203	1,207,988
	<u>11,045,733</u>	<u>9,847,797</u>
SURPLUS FROM SCHOOL OPERATION	<u>202,257</u>	<u>593,172</u>
SUPPORT AND OTHER INCOME		
Contributions, grants, and other income	61,351	11,457
Interest income	6,595	3,845
	<u>67,946</u>	<u>15,302</u>
CHANGE IN NET ASSETS	270,203	608,474
NET ASSETS - BEGINNING OF YEAR	<u>2,964,412</u>	<u>2,355,938</u>
NET ASSETS - END OF YEAR	<u>\$ 3,234,615</u>	<u>\$ 2,964,412</u>

The accompanying notes are an integral part of these financial statements.

VOICE CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2017

(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	No. of Positions	Program Services			Total Program	Supporting Services		2017	2016
		General Education	Special Education	-		Management and General	-		
Personnel services costs:									
Instructional personnel	92	\$ 4,909,853	\$ 868,994	\$ 5,778,847	\$ -	\$ 5,778,847	\$ 4,358,213		
Non-instructional personnel	29	183,737	-	183,737	521,371	705,108	1,059,609		
Total salaries and staff	121	5,093,590	868,994	5,962,584	521,371	6,483,955	5,417,822		
Payroll taxes and employee benefits		1,123,620	119,191	1,242,811	153,913	1,396,724	1,030,597		
Retirement benefits		337,395	44,931	382,326	41,080	423,406	426,476		
Professional development		198,596	-	198,596	9,174	207,770	261,645		
Legal fees		-	-	-	107,612	107,612	110,528		
Audit and accounting fees		19,580	-	19,580	37,880	57,460	63,682		
Professional fees - other		72,583	12,272	84,855	5,300	90,155	199,289		
Other contracted services		78,298	27,608	105,906	166,895	272,801	399,281		
Student and staff recruitment		103,793	-	103,793	499	104,292	74,182		
Curriculum / classroom expenses		315,614	49,683	365,297	-	365,297	385,330		
Food services		5,860	996	6,856	-	6,856	2,603		
Student field trips and incentive programs		43,550	-	43,550	-	43,550	30,217		
Parent activities		5,759	-	5,759	-	5,759	7,817		
Postage, printing, and copying		12,720	-	12,720	1,069	13,789	12,811		
Insurance		44,676	-	44,676	6,092	50,768	47,036		
Information technology		157,799	4,551	162,350	27,512	189,862	179,447		
Leased equipment		13,133	-	13,133	5,441	18,574	15,590		
Repairs and maintenance		119,762	16,888	136,650	13,020	149,670	150,161		
Occupancy and facility costs		514,740	75,566	590,306	83,455	673,761	670,998		
Utilities		49,985	7,089	57,074	6,461	63,535	63,243		
Depreciation and amortization		186,169	18,562	204,731	27,918	232,649	206,631		
Other expense		35,865	-	35,865	24,270	60,135	-		
Office expense		2,112	-	2,112	25,241	27,353	92,411		
		\$ 8,535,199	\$ 1,246,331	\$ 9,781,530	\$ 1,264,203	\$ 11,045,733	\$ 9,847,797		

The accompanying notes are an integral part of these financial statements.

VOICE CHARTER SCHOOL
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2017
(WITH SUMMARIZED COMPARATIVE INFORMATION FOR THE YEAR ENDED JUNE 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from operating revenue	\$ 11,117,623	\$ 10,210,080
Cash received from interest income	6,595	3,845
Other cash received	61,351	11,457
Cash paid to employees and suppliers	<u>(10,730,796)</u>	<u>(9,297,141)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>454,773</u>	<u>928,241</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(221,670)	(88,309)
Construction in progress	<u>(122,793)</u>	<u>(255,904)</u>
NET CASH USED IN INVESTING ACTIVITIES	<u>(344,463)</u>	<u>(344,213)</u>
NET INCREASE IN CASH	110,310	584,028
CASH - BEGINNING OF YEAR	<u>2,179,834</u>	<u>1,595,806</u>
CASH - END OF YEAR	<u>\$ 2,290,144</u>	<u>\$ 2,179,834</u>
Reconciliation of change in net assets to net cash provided by operating activities:		
Change in net assets	\$ 270,203	\$ 608,474
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	232,649	206,631
Changes in operating assets and liabilities:		
Grants and other receivables	(130,367)	(230,889)
Prepaid expenses and other assets	(60,263)	50,717
Accounts payable and accrued expenses	(38,252)	57,109
Accrued salaries and other payroll related expenses	134,689	133,886
Deferred rent	<u>46,114</u>	<u>102,313</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 454,773</u>	<u>\$ 928,241</u>
Non-cash investing activities:		
Construction in progress placed into service and included in property and equipment	<u>\$ 137,187</u>	<u>\$ 97,291</u>

The accompanying notes are an integral part of these financial statements.

VOICE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

1. NATURE OF THE ORGANIZATION

VOICE Charter School (the "School") aims to create a safe and healthy learning environment that will nurture, motivate, and challenge all of our children to achieve the highest level of academic excellence and to develop into mindful, responsible, contributing participants in their education, their community, and the diverse society in which we live. The School incorporates music into a rigorous academic program. On January 15, 2008, the Board of Regents of the University of the State of New York granted the School a provisional charter valid for a term of five years and renewable upon expiration. The charter was renewed for an additional 5 years on January 15, 2013 for the period ending June 30, 2018.

On October 3, 2008, the School, as determined by the Internal Revenue Service, was approved for Federal income tax exemption under section 501(a) of the Internal Revenue Code ("IRC") as an organization described in Section 501(c)(3) of the IRC. It is also currently exempt under a similar provision under New York State income tax laws. The School has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) of the IRC and qualifies for deductible contributions as provided in section 170(b)(1)(A)(ii) of the IRC. The School's primary sources of income are per pupil and other government funding. VOICE Charter School, located in Long Island City, Queens, primarily educates children residing in District 30.

In fiscal year 2017, the School operated classes for students in kindergarten through eighth grade.

The New York City Department of Education ("NYCDOE") provides free lunches and transportation directly to a majority of the School's students.

2. SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The School's financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

The classification of an organization's net assets and its support, revenues, and expenses is based on the existence or absence of donor-imposed restrictions. It requires that the amounts for each of the three classes of net assets, permanently restricted, temporarily restricted, and unrestricted, be displayed in a statement of financial position and that the amount of change in each of those classes of net assets be displayed in a statement of activities.

These classes are defined as follows:

Permanently Restricted - Net assets resulting from contributions and other inflows of assets whose use by the School is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the School.

Temporarily Restricted - Net assets resulting from contributions and other inflows of assets whose use by the School are limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the School pursuant to those stipulations. When such stipulations end or are fulfilled, such temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities. However, if a restriction is fulfilled in the same period in which the contribution is received, the School reports the support as unrestricted.

Unrestricted - The part of net assets that is neither permanently nor temporarily restricted by donor-imposed stipulations.

VOICE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash – NYCDOE Set-Aside

Cash – NYCDOE set-aside consists of an escrow account of \$70,000, which is held for contingency purposes as required by the NYCDOE.

Grants and Other Receivables

Grants and other receivables represent unconditional promises to give by donors. Grants and other receivables that are expected to be collected within one year and recorded at net realizable value amount to \$439,299 and \$308,932 at June 30, 2017 and 2016, respectively. The School has determined that no allowance for uncollectible accounts is necessary as of June 30, 2017 and 2016. Such estimate is based on management's assessments of the creditworthiness of its donors, the aged basis of its receivables, as well as current economic conditions and historical information.

Revenue Recognition

Revenue from state and local governments 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, if any, are reflected as refundable advances from state and local government grants in the accompanying statement of financial position.

Premises Provided by Government Authorities

The School does not record any in-kind contributions and related costs with respect to dedicated and shared space provided to it by the NYCDOE (see Note 8) as the premises are temporary in nature, is excess shared space whereby a fair value cannot be determined, and is industry practice.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Property and equipment are being depreciated in accordance with the straight-line method over their estimated useful lives. Leasehold improvements are amortized over the shorter of the life of the asset or the life of the lease. The School has established a \$5,000 threshold above which assets are capitalized. Property and equipment acquired with certain government contract funds is recorded as expenses pursuant to the terms of the contract in which the government funding source retains ownership of the property. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. Construction in progress is not depreciated until it is placed into service.

Impairment

The School reviews long-lived assets to determine whether there has been any permanent impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the assets, the School recognizes an impairment loss. No impairment losses were recognized for the year ended June 30, 2017.

Deferred Rent

In accordance with U.S. GAAP, rent expense is recognized on a straight-line basis over the life of the lease, including future escalations of rent, rather than in accordance with lease payments. Deferred rent represents the adjustment to future rents as a result of using the straight-line method.

VOICE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

Expenses that can be directly identified with a specific program or supporting service are charged accordingly. Other expenses by function have been allocated among program and supporting service classifications based upon benefits received.

Estimates

The preparation of financial statements in conformity with U.S. GAAP 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.

Subsequent Events

The School has evaluated events through September 26, 2017, which is the date the financial statements were available to be issued.

Comparative Financial Information

The June 30, 2017 financial statements include certain prior year summarized comparative information in total but not by net asset class. In addition, only certain of the notes to the financial statements for June 30, 2016 are presented. As a result, the June 30, 2016 comparative information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such June 30, 2016 information should be read in conjunction with the School's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

Income Taxes

The School follows the accounting standard for uncertainty in income taxes. The standard prescribes a minimum recognition threshold and measurement methodology that a tax position taken or expected to be taken in a tax return is required to meet before being recognized in the financial statements. It also provides guidance for derecognition, classification, interest and penalties, disclosure and transition.

The School files informational returns in the federal and New York State jurisdictions. With few exceptions, the School is no longer subject to federal, state, or local income tax examinations for fiscal years before 2014.

The School believes that it has appropriate support for the positions taken on its tax returns. Nonetheless, the amounts ultimately paid, if any, upon resolution of the issues raised by the taxing authorities may differ materially from the amounts accrued for each year. Management believes that its nonprofit status would be sustained upon examination.

Should there be interest on underpayments of income tax, the School would classify it as interest expense. The School would classify penalties in connection with underpayments of tax as "other expense".

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued an accounting standards update which affects the revenue recognition of entities that enter into either (1) certain contracts to transfer goods or services to customers or (2) certain contracts for the transfer of nonfinancial assets. The update indicates an entity should recognize revenue in an amount that reflects the consideration the entity expects to be entitled to in exchange for the goods or services transferred by the entity. The update is to be applied to the beginning of the year of implementation or retrospectively and is effective for annual periods beginning after December 15, 2018 and in interim periods in annual periods beginning after December 15, 2019. Early application is permitted but no earlier than annual reporting periods beginning after December 31, 2016. The School is currently evaluating the effect the update will have on its financial statements.

VOICE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

2. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Accounting Pronouncements (Continued)

In February 2016, the FASB issued an accounting standards update which amends existing lease guidance. The update requires lessees to recognize a right-of-use asset and related lease liability for many operating leases now currently off-balance sheet under current U.S. GAAP. The School is currently evaluating the effect the update will have on its financial statements but expects upon adoption that the update will have a material effect on the School's statement of financial position due to the recognition of a right-of-use asset and related lease liability. The School does not anticipate the update having a material effect on the School's results of operations or cash flows, though such an effect is possible. The update is effective using a modified retrospective approach for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020, with early application permitted.

In August 2016, the FASB issued an accounting standards update which aims to improve information provided to creditors, donors, grantors, and others while also reducing complexity and costs. The update is the first phase of a project regarding not-for-profits which aims to improve and simplify net asset classification requirements and improve the information presented and disclosed in financial statements about liquidity, cash flows, and financial performance. The update is effective retrospectively for financial statements issued for fiscal years beginning after December 15, 2017, and interim periods within fiscal years beginning after December 15, 2018, with earlier application permitted. The School is currently evaluating the effect the update will have on its financial statements.

In November 2016, the FASB issued an accounting standards update which amends cash flow statement presentation of restricted cash. The update requires amounts generally described as restricted cash and restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The update is effective retrospectively for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. The School is currently evaluating the effect the update will have on its financial statements.

3. PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of June 30:

	<u>2017</u>	<u>2016</u>	Estimated Useful Lives
Furniture and fixtures	\$ 366,276	\$ 286,531	7 years
Musical instruments	6,610	6,610	3 years
Computers	144,857	136,694	3 years
Software	35,425	35,425	3 years
Leasehold improvements	<u>2,433,948</u>	<u>2,162,999</u>	Life of lease
	2,987,116	2,628,259	
Less: accumulated depreciation and amortization	<u>(866,113)</u>	<u>(633,464)</u>	
	<u>\$ 2,121,003</u>	<u>\$ 1,994,795</u>	

Depreciation and amortization expense for the years ended June 30, 2017 and 2016 was \$232,649 and \$206,631, respectively.

VOICE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

4. CONSTRUCTION IN PROGRESS

The School is undergoing construction due to the expansion of the School. The School operates on a work-order basis and has not entered into any contract. At June 30, 2017 and 2016, construction in progress was \$553,680 and \$568,074, respectively.

While the School is not committed to any construction contract, the total estimated cost of the construction project is approximately \$3,361,000. At June 30, 2017, approximately 72% or \$2,433,948 of the project has been completed and placed into service, and is included in leasehold improvements.

5. PENSION PLAN

The School participates in the Teachers' Retirement System of the City of New York ("TRS" or the "Plan"), which covers principals and teachers. Employees enrolled in the Plan are required to contribute 4.85% for the first ten years and 1.85% thereafter through twenty-seven years. Employees become vested in the School's contribution to the Plan after ten years of service. The School's contribution is a rate based on actuarial assumptions and methods and a percentage of the School's contributions. During the years ended June 30, 2017 and 2016, the School used a rate of 9.59% and 10.84%, respectively. The difference between the two percentages yielded no accumulative credit for the year ended June 30, 2017. For the years ended June 30, 2017 and 2016, the School incurred a pension expense of \$353,060 and \$376,139, respectively, which is included in retirement benefits in the accompanying statement of functional expenses.

Accounting standards require employers participating in multiemployer plans to provide detailed quantitative and qualitative disclosures for these plans. TRS, which is sponsored by the City of New York, does not impose an expiration date on participating employers. The zone status is consistent with the Pension Protection Act and is for the Plan's year-end at June 30, 2016. The zone status is based on information provided in the TRS Comprehensive Annual Financial Report, which includes information from TRS' actuary and is certified by TRS' auditor. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded and plans in the green zone are at least 80 percent funded. TRS did not report a rehabilitation plan. Information related to the Plan is comprised of the following:

<i>Pension Fund</i>	<i>Plan Month/Day End Date</i>	<i>Zone Status</i>	<i>Contributions</i>	
			<i>2017</i>	<i>2016</i>
<i>Teachers' Retirement System</i>	06/30	<i>Red – As of June 30, 2016</i>	\$353,060	\$376,139

Employees may also participate in a Tax-Deferred Annuity ("TDA") Program, which is defined-contribution pension plan. Employees may contribute as little as 1% of their salary to the TDA Program and as much as their designated Maximum Contribution Rate. This rate is based on their salary and the allowable maximum contribution amount the Internal Revenue Service ("IRS") has established for that year.

In July 2014, the School opted to participate in a 403(b) Plan, which is open to all salaried employees of the School who are at least 21 years of age and have been employed at least six months at the School. The vesting period for the 403(b) Plan is two years. The 403(b) Plan calls for the School to make a base contribution of 3.5% of an employee's salary and match 100% of an employee's contribution up to 10% of their fiscal year salary. The base and matching contributions will not be offered to employees who participate in the TRS plan. The School incurred 403(b) Plan expenses of \$70,346 and \$50,338 for the years ended June 30, 2017 and 2016, respectively.

VOICE CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

6. RISK MANAGEMENT

The School is exposed to various risks of loss related to torts; thefts of, damage to, and destruction of assets; injuries to employees; and natural disasters. The School maintains commercial insurance to help protect itself from such risks.

The School entered into contractual relationships with certain governmental funding sources. The governmental agencies may request return of funds as a result of noncompliance by the School, as well as additional funds for the use of facilities. The accompanying financial statements make no provision for the possible disallowance or refund.

7. CONCENTRATIONS

Financial instruments that potentially subject the School to concentrations of credit risk consist principally of cash deposits. Accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000.

The School received approximately 92% and 93% of its total revenue from per pupil funding from the NYCDOE during the years ended June 30, 2017 and 2016, respectively.

The School's grants and other receivables consist of two major grantors as of June 30, 2017.

The School's payables consist of two major vendors as of June 30, 2017.

8. COMMITMENT AND CONTINGENCIES

In June 2011, the School entered into a lease agreement with The Roman Catholic Church of St. Rita for leasing the premises at 36-25 11th Street, Long Island City, New York 11106. The lease term is from July 1, 2011 to June 30, 2031. Future minimum rental lease payments are as follows:

June 30,	
2018	\$ 631,400
2019	647,185
2020	663,365
2021	679,949
2022	696,947
Thereafter	<u>7,111,221</u>
	<u>\$ 10,430,067</u>

Rent expense for the years ended June 30, 2017 and 2016 was \$673,761 and \$670,998, respectively, and is included in occupancy and facility costs on the statement of functional expenses.

The School also shares space with P.S. 111 Jacob Blackwell located at 37-15 13th Street, Queens, New York 11101. The School occupies 8,971 square feet at this location, and shares another 7,828 square feet. There is no lease or agreement in place for the shared space and no rent is charged to the School.

The School entered into an agreement with a bank whereby it is permitted to borrow up to \$500,000 under a line of credit. The line of credit is available until it is cancelled by either the School or the bank. Interest is payable on any outstanding balance at the greater of the bank's prime rate or the bank's minimum interest rate, plus 0.5%. There is no outstanding balance on the line of credit as of June 30, 2017.



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
VOICE Charter School

We have audited 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, the financial statements of VOICE Charter School (the "School"), which comprise the statement of financial position as of June 30, 2017, 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 September 26, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 School'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 the 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 audit, 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*.

We noted certain matters that we reported to management of the School in a separate letter dated September 26, 2017.

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

MBAF CPAs, LLC

New York, NY
September 26, 2017