VOICE CHARTER SCHOOL

FINANCIAL STATEMENTS

JUNE 30, 2012

(With Comparative Totals for 2011)

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
VOICE Charter School

We have audited the accompanying statement of financial position of VOICE Charter School (the "School") as of June 30, 2012, and the related statements of activities, functional expenses, and cash flows for the year then ended. 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. The prior year summarized comparative information has been derived from the School's 2011 financial statements and, in our report dated October 25, 2011, 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 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 referred to above present fairly, in all material respects, the financial position of VOICE Charter School as of June 30, 2012 and the changes in its net assets and its cash flows for the year then ended, 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 October 23, 2012 on our consideration of the 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 on 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.

MBAF CPAs, LLC

New York, NY
October 23, 2012

VOICE CHARTER SCHOOL

STATEMENT OF FINANCIAL POSITION
June 30, 2012
(with Comparative Totals for June 30, 2011)

	2012	2011
Assets:		
Cash	$ 776,035	$ 679,090
Cash - NYCDOE Set-aside	70,000	70,000
Grants and other receivables	245,450	88,974
Prepaid expenses and other assets	233,534	431,662
Property and equipment, net	512,400	42,318
Construction in progress	369,250	39,075
Total Assets	**$ 2,206,669**	**$ 1,351,119**
Liabilities and Net Assets:		
Liabilities:		
Accounts payable and accrued expenses	$ 137,608	$ 69,662
Accrued salaries and other payroll related expenses	776,736	643,568
Deferred rent	382,313	-
Security deposit	10,000	-
Total Liabilities	1,306,657	713,230
Net assets - unrestricted	900,012	637,889
Total Liabilities and Net Assets	**$ 2,206,669**	**$ 1,351,119**

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

VOICE CHARTER SCHOOL

STATEMENT OF ACTIVITIES
June 30, 2012
(with Comparative Totals for June 30, 2011)

	2012	2011
Operating revenue:		
State and local per pupil operating revenue	$ 5,043,506	$ 3,137,068
Government grants and contracts	236,782	257,771
Total operating revenue	5,280,288	3,394,839
Expenses:		
Program services	4,485,519	2,480,377
Management and general	657,790	494,568
Total operating expenses	5,143,309	2,974,945
Surplus from school operations	136,979	419,894
Support and other income:		
Contributions, grants and other income	123,294	24,682
In-kind contributions	-	4,900
Interest income	1,850	2,511
Total support and other income	125,144	32,093
Change in net assets - unrestricted	262,123	451,987
Net assets - unrestricted – beginning of year	637,889	185,902
Net assets - unrestricted – end of year	**$ 900,012**	**$ 637,889**

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

VOICE CHARTER SCHOOL

STATEMENT OF FUNCTIONAL EXPENSES
June 30, 2012
(with Comparative Totals for June 30, 2011)

	Program Services	Management and General	2012	2011
Salaries and wages	$ 2,276,817	$ 340,214	$ 2,617,031	$ 1,624,792
Payroll taxes and employee benefits	504,590	75,399	579,989	544,832
Rent and utilities	632,213	84,443	716,656	-
Accounting fees	69,606	18,068	87,674	108,274
Professional fees	54,613	30,795	85,408	312,736
Professional fees - In-kind	-	-	-	4,900
Classroom supplies and instructional materials	233,570	238	233,808	159,877
Furniture and fixtures - non-capitalizable	8,408	-	8,408	-
Insurance	19,112	2,606	21,718	18,166
Office expense	16,467	25,755	42,222	30,100
Parent activities	13,010	-	13,010	10,484
Postage and delivery	2,356	1,967	4,323	7,973
Printing and photocopying	8,397	810	9,207	9,300
Publications and advertisements	-	-	-	1,050
Repairs and maintenance	73,929	6,006	79,935	580
Other contracted services	177,935	42,621	220,556	44,992
Staff professional development	318,097	3,213	321,310	55,946
Student field trips and incentive programs	8,597	-	8,597	2,456
Student food services	1,954	-	1,954	666
Staff recruitment	17,516	-	17,516	4,494
Telephone and internet	20,494	10,666	31,160	16,829
Depreciation and amortization	27,838	14,989	42,827	16,498
Total expenses	**$ 4,485,519**	**$ 657,790**	**$ 5,143,309**	**$ 2,974,945**

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

VOICE CHARTER SCHOOL

STATEMENT OF CASH FLOWS
June 30, 2012
(with Comparative Totals for June 30, 2011)

	2012	2011
Cash flows from operating activities:		
Change in net assets	$ 262,123	$ 451,987
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	42,827	16,498
Changes in operating assets and liabilities:		
Cash - restricted	-	(40,000)
Grants and other receivables	(156,476)	(77,450)
Prepaid expenses and other assets	198,128	(360,093)
Accounts payable and accrued expenses	67,946	12,524
Accrued salaries and other payroll related expenses	133,168	55,871
Deferred rent	382,313	-
Security deposit	10,000	-
Net cash provided by operating activities	**940,029**	**59,337**
Cash flows from investing activities:		
Purchase of property and equipment	(843,084)	(32,929)
Net cash used in investing activities	**(843,084)**	**(32,929)**
Net increase in cash	96,945	26,408
Cash - beginning of year	679,090	652,682
Cash - end of year	**$ 776,035**	**$ 679,090**
Non-cash investing activities:		
Accrued property and equipment	$ 30,815	$ 31,942
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for:		
Interest	$ -	$ -
Income taxes	$ -	$ -

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

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 School submitted the application for renewal on August 31, 2012, and it is currently being reviewed by the New York City Department of Education ("NYCDOE").

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 2012, the School operated classes for students in grades kindergarten through fourth grade.

The 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 amounts 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.

None of the School's net assets are subject to donor-imposed restrictions. Accordingly, all net assets are accounted for as unrestricted net assets.

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 amounts to $245,450 and $88,974 at June 30, 2012 and 2011, respectively. The School has determined that no allowance for uncollectible accounts is necessary as of June 30, 2012 and 2011. 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 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.

Donated Goods and Services
The School receives contributed services (or, in-kind contributions) that are an integral part of its operations. Such services are only recorded as contributions in-kind, at their fair value, provided it meets the criteria for recognition. Donated services received are estimated at $0 and $4,900 for the years ended June 30, 2012 and 2011, respectively, and are reflected as both income and expense in the accompanying financial statements.

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 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 and are being depreciated on the straight-line method over the estimated useful lives of the assets. 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.

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, 2012.

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.

Functional Allocation of Expenses

Expenses that can be directly identified with the program or supporting service to which they relate 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 October 15, 2012, which is the date the financial statements were available to be issued.

Comparative Financial Information

The June 30, 2012 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, 2011 are presented. As a result, the June 30, 2011 comparative information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such June 30, 2011 information should be read in conjunction with the School's financial statements for the year ended June 30, 2011, 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, accounting in interim periods, disclosure and transition.

The School files informational returns in the United States federal and New York State jurisdictions. With few exceptions, the School is no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for fiscal years before 2009.

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 September 2011, the FASB issued an accounting standard update which requires employers to provide additional separate quantitative and qualitative disclosures for employers that participate in multi-employer pension plans and multi-employer other postretirement benefit plans. The amendments in this update are effective for annual periods ending after December 15, 2012, with early adoption permitted. This update should be applied retrospectively. The School is currently evaluating the effect the update will have on its financial statements.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements.

3. PROPERTY AND EQUIPMENT:

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

	2012	2011	Estimated Useful Lives
Furniture and fixtures	$ 85,925	$ 43,266	7 years
Musical instruments	6,610	6,610	3 years
Computers	21,812	9,564	3 years
Software	18,530	10,780	3 years
Leasehold improvements	450,252	-	20 years
	583,129	70,220	
Less: accumulated depreciation and amortization	(70,729)	(27,902)	
	$ 512,400	$ 42,318	

Depreciation and amortization expense for the years ended June 30, 2012 and 2011 was $42,827 and $16,498, respectively.

4. CONSTRUCTION IN PROGRESS:

During the year ended June 30, 2012, the School underwent construction due to the expanding of the School. The School operates on a work-order basis and has not entered into any contract liability. For the years ended June 30, 2012 and 2011, construction in progress is $369,250 and $39,075, respectively.

While the School is not committed to any construction contract, the scope of the total construction is approximately $1,100,000. As of the years ended June 30, 2012 and 2011, approximately 34% and 4%, respectively, has been completed. Subsequent to year end, approximately $250,000 of additional construction was completed.

5. PENSION PLAN:

The Teachers' Retirement System of the City of New York ("TRS") was founded in 1917 to provide eligible New York City educators with a retirement plan. Effective September 1, 2008, the School adopted the Teachers' Retirement System of the City of New York ("The Plan"), which covers only employees with approved job titles ("Principal" and "Teacher"). 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. In prior years, the School used a rate of 29% to accrue for the School's portion of this pension benefit. This rate was based on the percentage of other participating TRS charter schools' contributions. However, during the year ended June 30, 2012, the School used the rate of 15% which is based on actuarial assumptions and methods known as the "2012 A&M", which was adopted by the TRS Retirement Board on May 17, 2012. The difference between the two percentages yielded an accumulative credit of approximately $450,000. This credit was netted against the current year's pension expense. For the fiscal years ended June 30, 2012 and 2011, pension expense for the School was $69,523 and $218,330, respectively, which is included in payroll taxes and employee benefits in the accompanying statement of functional expenses.

TRS membership offers key benefits including a monthly retirement allowance through a Qualified Pension Plan ("QPP") upon meeting certain age and service credit requirements and the opportunity to set aside additional funds for retirement on a pre-tax basis and invest them in a combination of investment plans available through a Tax-Deferred Annuity ("TDA") Program.

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. All TRS members participate in TRS Qualified Pension Plan, a retirement plan administered under Section 401(a) of the IRC. The QPP combines features of a defined-benefit pension plan with those of a defined-contribution pension plan.

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 a concentration of credit risk include cash accounts at a major financial institution that, at times, exceeded the Federal Deposit Insurance Corporation (FDIC) insured limits. The FDIC has temporarily increased the limit to $250,000 through December 31, 2012.

The School received approximately 93% of its total revenue from per pupil funding from NYCDOE during the fiscal years ended June 30, 2012 and 2011, respectively.

The School's grants and other receivables consist of two major grantors.

The School's payables consist of two major vendors.

8. COMMITMENTS 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,		
2013	$	360,000
2014		440,000
2015		560,000
2016		560,000
2017		616,200
Thereafter		10,430,067
	$	12,966,267

Rent expense for the year ended June 30, 2012 and 2011 were $665,469 and $2,097, respectively, and are included in rent and utilities on the statement of functional expenses.

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 the financial statements of VOICE Charter School (the "School") as of and for the year ended June 30, 2012, and have issued our report thereon dated October 15, 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 the School is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the 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 the School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily 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.

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 October 23, 2012.

This report is intended solely for the information and use of the audit committee, Board of Trustees, management, the New York State Education Department and the Board of Regents of the University of the State of New York and is not intended to be and should not be used by anyone other than these specified parties.

MBAF CPAs, LLC

New York, NY
October 23, 2012