

Report to the Audit Committee

VOICE CHARTER SCHOOL

Audit Wrap Up:
Year Ended June 30, 2021

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Report to the Audit Committee



Audit Wrap Up:
Year Ended June 30, 2021

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SECTION 2

DRAFT VOICE CHARTER SCHOOL FINANCIAL STATEMENTS

The following communication was prepared as part of our audit, has consequential limitations, and is intended solely for the information and use of those charged with governance (e.g., Board of Directors and Audit Committee) and, if appropriate, management of the Client and is not intended and should not be used by anyone other than these specified parties.

Welcome

October 19, 2021

Those Charged With Governance

VOICE Charter School

Professional standards require us to communicate with you regarding matters related to the audit, that are, in our professional judgment, significant and relevant to your responsibilities in overseeing the financial reporting process. On April 19, 2021 we presented an overview of our plan for the audit of the financial statements of VOCIE Charter School (the “School”) as of and for the year ended June 30, 2021, including a summary of our overall objectives for the audit, and the nature, scope, and timing of the planned audit work.

This communication is intended to elaborate on the significant findings from our audit, including our views on the qualitative aspects of the School’s accounting practices and policies, management’s judgments and estimates, financial statement disclosures, and other required matters.

We are pleased to be of service to the School and look forward to meeting with you to discuss our audit findings, as well as other matters that may be of interest to you, and to answer any questions you might have.

Respectfully,

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Executive Summary

Status of Our Audit

We have substantially completed our audit of the financial statements as of and for the year ended June 30, 2021. Our audit was conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*. This audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

- ▶ The objective of our audit was to obtain reasonable - not absolute - assurance about whether the financial statements are free from material misstatements.
- ▶ The scope of the work performed was substantially the same as that described to you in our earlier Audit Planning communications.
- ▶ We expect to issue an unmodified opinion on the financial statements and release our report in October 2021.
- ▶ We expect to issue our 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*.
- ▶ Our responsibility for other information in documents containing the School's audited financial statements does not extend beyond the financial information identified in the audit report, and we are not required to perform procedures to corroborate such other information. However, in accordance with professional standards, we will read the information included by the School and consider whether such information, or the manner of its presentation, is materially inconsistent with its presentation in the financial statements. Our responsibility also includes calling to management's attention any information that we believe is a material misstatement of fact. We have not identified any material inconsistencies or concluded there are any material misstatements of facts in the other information that management has chosen not to correct.
- ▶ All records and information requested by BDO were freely available for our inspection.
- ▶ Management's cooperation was excellent. We received full access to all information that we requested while performing our audit, and we acknowledge the full cooperation extended to us by all levels of the School's personnel throughout the course of our work.



Highlights: Results of the Audit

ACCOUNTING PRACTICES, POLICIES, ESTIMATES

The following summarizes the more significant required communications related to our audit concerning the School's accounting practices, policies, and estimates:

The School's significant accounting practices and policies are those included in Note 2 of the financial statements. These accounting practices and policies are appropriate, comply with generally accepted accounting principles and industry practice, were consistently applied, and are adequately described within Note 2 of the financial statements.

- ▶ A summary of recently issued accounting pronouncements is included in Note 2 to the School's financial statements (refer to page 16).
- ▶ The School adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers* (Topic 606), as of July 1, 2020, using the modified-retrospective approach. The update outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current recognition guidance, including industry-specific guidance. The core principle of the revenue recognition standard is that an entity recognizes revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of this update had no effect on School's financial position and changes in net assets.
- ▶ There were no other changes in significant accounting policies and practices during the year ended June 30, 2021.

Significant estimates are those that require management's most difficult, subjective, or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain. The School's significant accounting estimates, including a description of management's processes and significant assumptions used in development of the estimates, are disclosed in Note 2 of the financial statements.

Significant Accounting Estimates

Allowances on grants and other receivables

Useful Lives of Fixed Assets

Pension Plan Liability

Fair value measurements

Allocation of Functional Expenses

- ▶ Management did not make any significant changes to the processes or significant assumptions used to develop the significant accounting estimates in FY 2021.

Highlights: Results of the Audit

CORRECTED AND UNCORRECTED MISSTATEMENTS

There were no corrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we brought to the attention of management.

Please refer to the Adjusting Journal Entries (AJEs) report in Appendix A for the full list of adjusting journal entries made during the year ended June 30, 2021.

Please refer to the schedule of Proposed Adjusting Journal Entries (PAJEs) in Appendix B. We concur with management's assessment that the effects of not recording such adjustments are, both individually and in the aggregate, immaterial to the consolidated financial statements taken as a whole, considering both qualitative and quantitative factors. None of the proposed adjustments could potentially cause future-period financial statement to be materially misstated.



Highlights: Results of the Audit - Assets

ASSETS			
	2021	2020	Change
Cash and cash equivalents	\$ 4,021,802	\$ 4,995,694	\$ (973,892)
Cash - restricted	70,000	70,000	-
Grants and other receivable	403,443	396,555	6,888
Investments	1,428,287	1,617,343	(189,056)
Prepaid expenses and other assets	601,671	247,914	353,757
Property, plant, & equipment, net	2,099,165	2,361,956	(262,791)
Construction in progress	356,483	276,629	79,854
	<u>\$ 8,980,851</u>	<u>\$ 9,966,091</u>	<u>\$ (985,240)</u>

- ▶ The decrease in cash and cash equivalents was mainly a result of the School not having most of the loan proceeds received from the PPP loan available in FY 2021 to fund payroll costs. In FY 2020 the School offset payroll costs paid from the operating account with approximately \$1.6 million of PPP loan proceeds. In FY 2021, the School only had \$247 thousand of available loan proceeds to offset payroll costs paid from the School's operating account.
- ▶ The decrease in investments is due to the redemption of the School's U.S. Treasury notes timing. The School redeemed a security in June 2021 and did not purchase a new security until July 2021, thus resulting in a decrease in investments at year-end as the proceeds from the redeemed security is included in cash and cash equivalents at June 30, 2021.

Highlights: Results of the Audit - Liabilities and Net Assets

LIABILITIES AND NET ASSETS			
	2021	2020	Change
Accounts payable and accrued expenses	\$ 127,315	\$ 219,251	\$ (91,936)
Accrued salaries and other payroll related expenses	2,507,593	1,960,764	546,829
Loan payable - Paycheck Protection Program	-	1,883,624	(1,883,624)
Deferred rent	1,185,035	1,202,670	(17,635)
Total Liabilities	\$ 3,819,943	\$ 5,266,309	\$ (1,446,366)
Net assets - without donor restriction	\$ 5,160,908	\$ 4,699,782	461,126
Total Liabilities and Net Assets	\$ 8,980,851	\$ 9,966,091	\$ (985,240)

- ▶ The increase in accrued salaries and other payroll related expenditures is due to the increase in the number of employees in FY 2021, amounting to approximately 12 new employees. Accrued payroll benefits increased in proportion to accrued salaries.
- ▶ The School received PPP Funds from the Small Business Administration (“SBA”) in May 2020 of \$1,883,624 to help offset eligible costs incurred by the School during the covered period. The School applied for and received full forgiveness from the SBA in December 2020 and properly derecognized the liability and recorded other income from the forgiveness of debt (refer to page 13).

Highlights: Results of the Audit - Liabilities and Net Assets

NET ASSETS			
	2021	2020	Change
Net assets without donor restrictions	\$ 5,160,908	\$ 4,699,782	\$ 461,126
Reconciliation of the Change in Net Assets	2021	2020	
Change in Net Assets	461,126	58,291	
Net increase	402,835		
The following represents significant fluctuations in the change in net assets between the current and prior year:			
Increase in revenue and support	\$ 2,666,228	Refer to page 12	
Increase in expenses	(2,263,393)	Refer to page 13	
	\$ 402,835		

Highlights: Results of the Audit - Revenues

REVENUE AND OTHER SUPPORT			
	2021	2020	Change
State and local per pupil operating revenue	\$ 13,105,958	\$ 12,300,630	\$ 805,328
Government grants and contracts	1,262,991	1,203,594	\$ 59,397
Forgiveness of debt - Paycheck Protection Program loan	1,883,624	-	1,883,624
Contributions, grants, and other income	31,168	74,934	(43,766)
Investment return, net	3,583	42,296	(38,713)
Interest income	3,077	2,719	358
	<u>\$ 16,290,401</u>	<u>\$ 13,624,173</u>	<u>\$ 2,666,228</u>

- ▶ The increase in per-pupil funding is mainly due to the increase in scholar count in both general education and special education FTEs in the School.

FTE BREAKDOWN			
	2021	2020	Change
Total General Education FTE	700	660	40
Special Education FTE Breakdown			
Less than 20%	24	21	3
Between 20% and 60%	23	24	(1)
More than 60%	84	73	11
	<u>131</u>	<u>118</u>	<u>13</u>

Highlights: Results of the Audit - Expenses

EXPENSES			
	2021	2020	Change
Program services:			
General education	\$ 12,123,806	\$ 9,952,740	\$ 2,171,066
Special education	1,930,488	1,921,283	9,205
Total Program services	\$ 14,054,294	\$ 11,874,023	\$ 2,180,271
Supporting services:			
Management and general	\$ 1,774,981	\$ 1,691,859	\$ 83,122
Total Supporting services	\$ 1,774,981	\$ 1,691,859	\$ 83,122
Total Expenses	\$ 15,829,275	\$ 13,565,882	\$ 2,263,393

- The increase in program services expenses is mainly due to the increase in personnel service costs in FY 2021. This increase is relative to the increase in scholars/FTEs in general education and special education.

Highlights: Results of the Audit - Expenses (continued)

	2021	2020	Change
Program services expense	\$ 14,054,294	\$ 11,874,023	\$ 2,180,271
Management and general	1,774,981	1,691,859	83,122
Total FTE of Gen Ed Scholars	700	660	40
Program services expense per Scholar	20,078	17,991	2,087
General and administrative per Scholar	2,536	2,563	(28)
	\$ 22,613	\$ 20,554	\$ 2,059

- ▶ Management and general expenses include legal and accounting fees, information technology costs, and occupancy and facility costs.
- ▶ Increase in Scholar expense is mainly related to increases in salaries and staff. Another contributing factor is the increase in professional fees, as the School partnered with another Not-for-Profit entity to provide supervising services for students attending remote classes while physically in the School building.

	2021	2020	Change
Significant Expense Fluctuations			
Salaries and Staff	\$ 9,010,608	\$ 7,602,134	\$ 1,408,474

- ▶ Increase in salaries is driven by the increase in salaries rates and number of employees.

Highlights: Results of the Audit - Expenses (continued)

FUNCTIONAL CLASS ANALYSIS (\$)					
	Program Services			Supporting Services	Total Expenses
	Regular Education	Special Education	Total	Total Management and General	
June 30,2021	\$ 12,123,806	\$ 1,930,488	\$ 14,054,294	\$ 1,774,981	\$ 15,829,275
June 30,2020	9,952,740	1,921,283	11,874,023	1,691,859	13,565,882
Increase (\$)	\$ 2,171,066	\$ 9,205	\$ 2,180,271	\$ 83,122	\$ 2,263,393

FUNCTIONAL CLASS ANALYSIS (%)					
	Program Services			Supporting Services	Total Expenses
	Regular Education	Special Education	Total	Total Management and General	
June 30,2021	77%	12%	89%	11%	100%
June 30,2020	73%	14%	88%	12%	100%
Increase / (Decrease) (%)	4%	-2%	1%	-1%	

- ▶ Refer to Historical Trends section for the School's functional expenses categories relationship for FY 2018 through FY 2021.

Highlights: Results of the Audit

QUALITY OF THE SCHOOL'S FINANCIAL REPORTING

A discussion was held regarding the quality of the School's financial reporting, which included the following:



Recent Accounting Pronouncements

OVERVIEW - LEASE ACCOUNTING

Summary: In 2016, the Financial Accounting Standards Board (FASB) issued its highly-anticipated leasing standard in [ASU 2016-02, Leases \(ASC Topic 842\)](#) for both lessees and lessors. Under its core principle, a lessee will recognize right-of-use (“ROU”) assets and related lease liabilities on the balance sheet/statement of financial position for all arrangements with terms longer than 12 months. The pattern of expense recognition in the income statement/statement of activities will depend on a lease’s classification.

Lessor accounting remains largely consistent with previous U.S. GAAP, but has been updated for consistency with the new lessee accounting model and with the new revenue standard, ASC 606.

The standard is effective for nonpublic business entities for fiscal years beginning after December 15, 2021 and will be effective for the Schools in fiscal year 2023.

OVERVIEW - PRESENTATION AND DISCLOSURE BY NOT-FOR-PROFIT ENTITIES FOR CONTRIBUTED NONFINANCIAL ASSETS

Summary: In 2020, the Financial Accounting Standards Board (FASB) issued [ASU 2020-07, Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets \(ASC Topic 958\)](#). The context of the ASU is enhanced transparency and therefore more disclosure regarding how much an organization receives, how it is valued and how it is used. The update requires not-for-profits to present contributed nonfinancial assets as a separate line item on the statement of activities, and to disclosure information regarding each type of contributed nonfinancial assets.

The standard becomes effective for annual periods beginning after June 15, 2021.



Internal Control Over Financial Reporting

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) 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. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

Our consideration of internal control was for the limited purpose described above and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

We are required to communicate, in writing, to those charged with governance all material weaknesses and significant deficiencies that have been identified in the School's internal control over financial reporting. The definitions of control deficiency, significant deficiency and material weakness follow:

Category	Definition
Control Deficiency	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.
Significant Deficiency	A deficiency or 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.
Material Weakness	A deficiency or 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.

In conjunction with our audit of the financial statements, we noted no material weaknesses.



Additional Required Communications

Other Required Communications

Following is a summary of other required items, along with specific discussion points as they pertain to the School:

Requirement	Discussion Point
Significant changes to planned audit strategy or significant risks initially identified	There were no significant changes to the planned audit strategy or significant risks initially identified and previously communicated to those charged with governance as part of our Audit Planning communications.
Obtain information from those charged with governance relevant to the audit	There were no matters noted relevant to the audit, including, but not limited to: violations or possible violations of laws or regulations; risks of material misstatement, including fraud risks; or tips or complaints regarding the School's financial reporting that we were made aware of as a result of our inquiry of those charged with governance.
If applicable, nature and extent of specialized skills or knowledge needed related to significant risks	There were no specialized skills or knowledge needed, outside of the core engagement team, to perform the planned audit procedures or evaluate audit results related to significant risks.
Consultations with other accountants	We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent public accountants on the application of generally accepted accounting principles.
Significant findings and issues arising during the audit in connection with the School's related parties	We have evaluated whether the identified related party relationships and transactions have been appropriately identified, accounted for, and disclosed and whether the effects of the related party relationships and transactions, based on the audit evidence obtained, prevent the financial statements from achieving fair presentation.
Significant findings or issues arising during the audit that were discussed, or were the subject of correspondence, with management	There were no significant findings or issues arising during the audit that were discussed, or were the subject of correspondence, with management.
Disagreements with management	There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to the School's financial statements or to our auditor's report.

Other Required Communications

Following is a summary of other required items, along with specific discussion points as they pertain to the School:

Requirement	Discussion Point
Significant difficulties encountered during the audit	There were no significant difficulties encountered during the audit.
Matters that are difficult or contentious for which the auditor consulted outside the engagement team	There were no difficult or contentious matters that we consulted with others outside the engagement team that we reasonably determined to be relevant to those charged with governance regarding their oversight of the financial reporting process.
Credit Card Transactions	Our testing of the School's credit card transactions revealed 7 instances where the School paid sales tax. As the School is deemed a qualified tax-exempt Organization, the School should not pay any sales tax on purchases made to achieve the mission of the School. We recommend Management review credit card receipts and invoices to ensure the School is not being charged sales tax and to inform the School's vendors as such. In addition, we recommend the School file for reimbursement with New York State.
Representations requested from management	Please refer to the management representation letter.

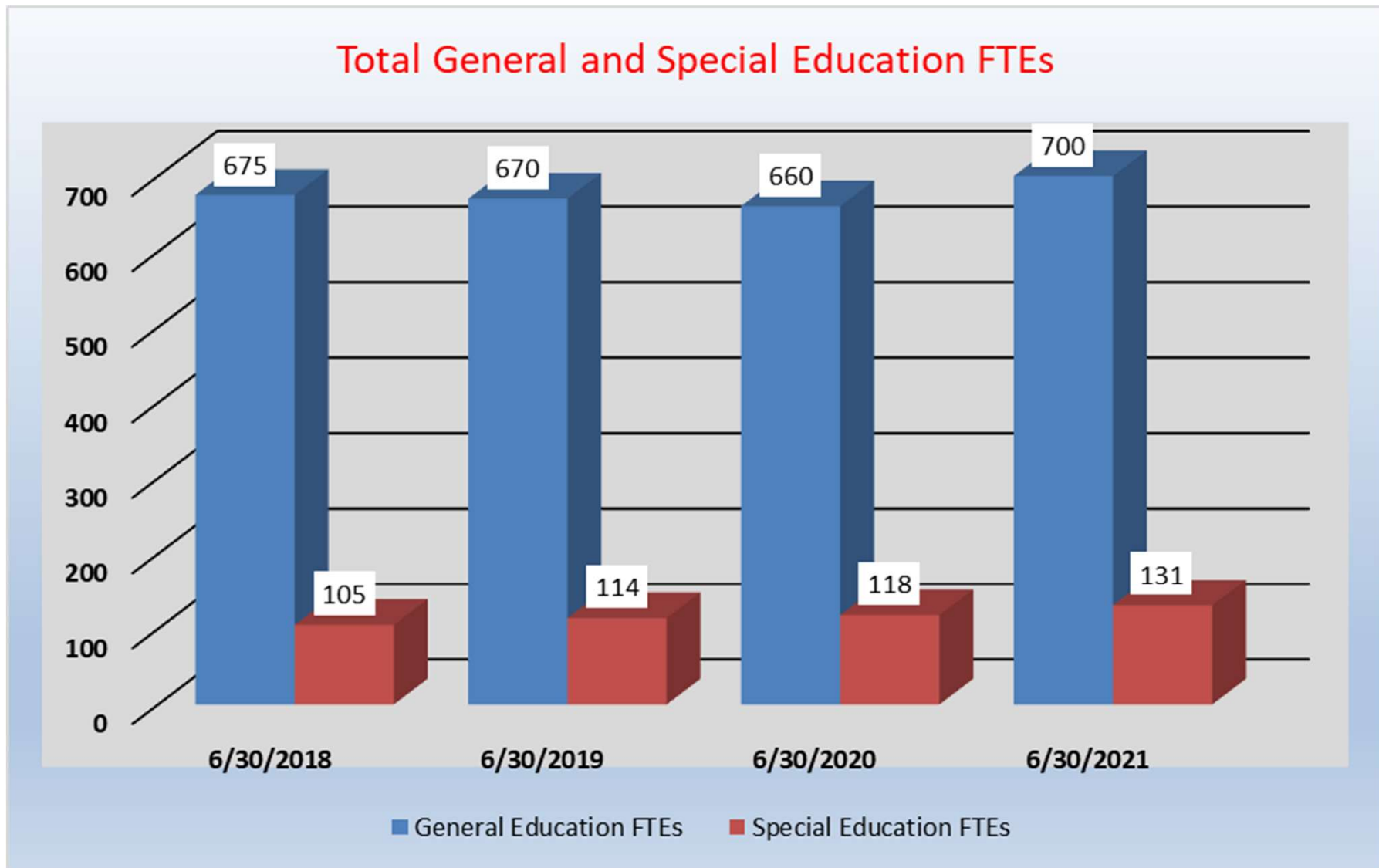


Independence

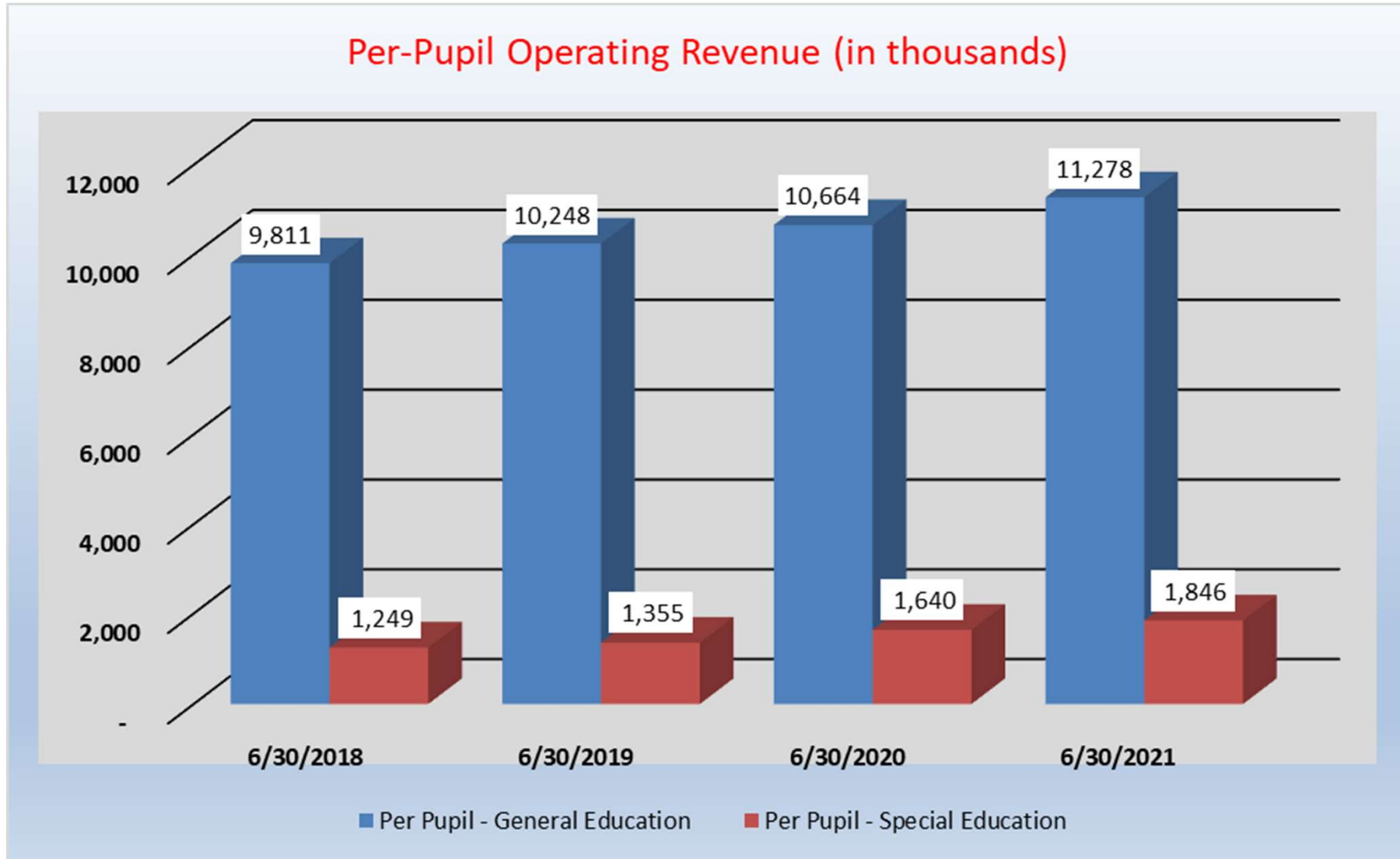
Our engagement letter to you dated April 28, 2021 describes our responsibilities in accordance with professional standards and certain regulatory authorities and *Government Auditing Standards* with regard to independence and the performance of our services. This letter also stipulates the responsibilities of the School with respect to independence as agreed to by the School. Please refer to that letter for further information.



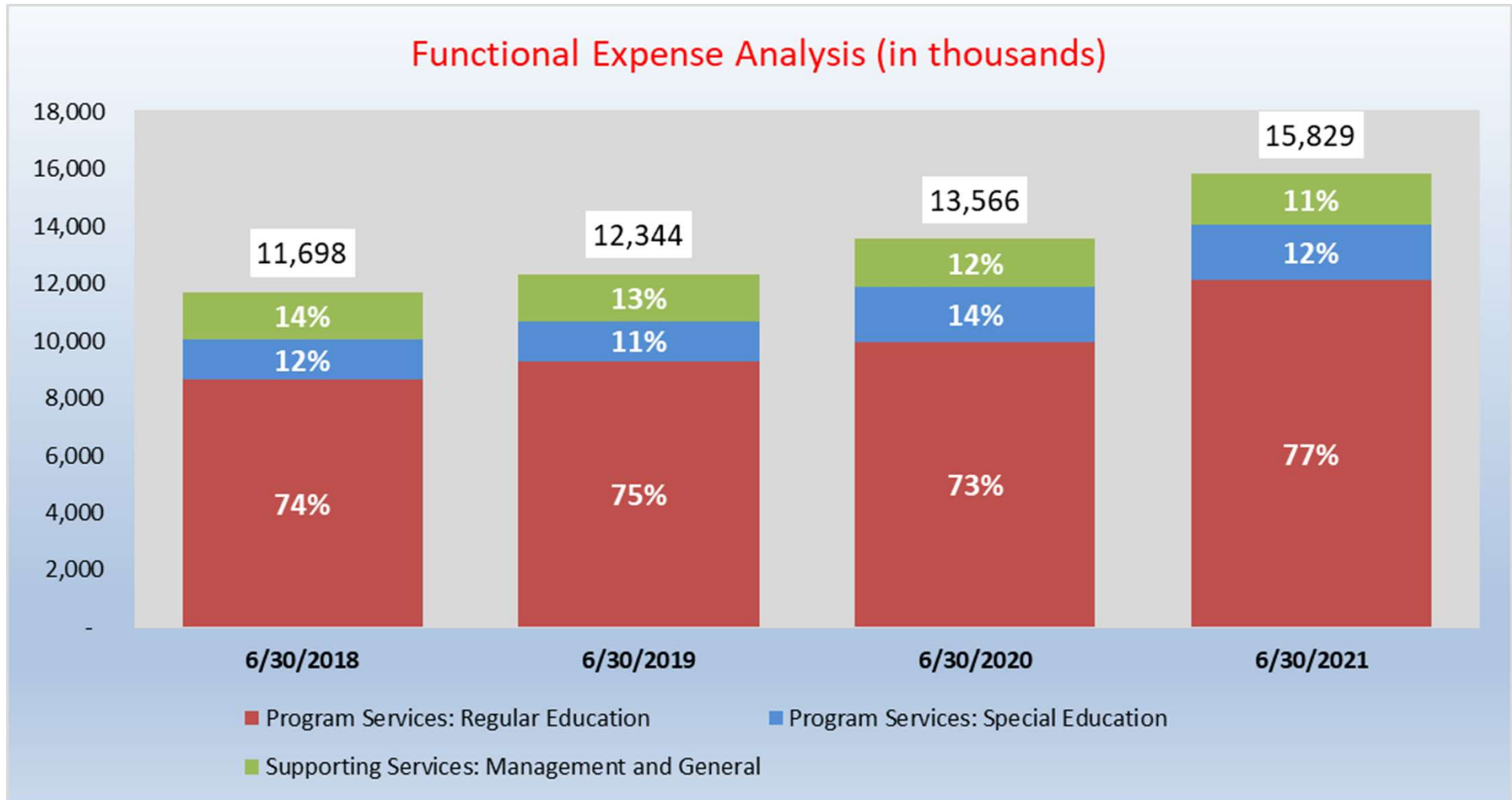
VOICE Charter School - Historical Trends



VOICE Charter School - Historical Trends



VOICE Charter School - Historical Trends





Appendix

Appendix A - Schedule of Adjusting Journal Entries Report


ADJUSTED JOURNAL ENTRIES REPORT

<u>Item #</u>	<u>Account Name and Adjustment Description</u>	<u>Debit</u>	<u>Credit</u>
1	Reclass entry to break-out cash and cash equivalents from the Bond Portfolio account.		
	Cash in Portfolio	\$ 194,839	
	Money Market Fund	\$ 921,798	
	Bond Portfolio		\$ 1,116,637
2	Provided by client entry to record Special COVID CSP Grant revenue in FY 2021 for eligible expenditures incurred in FY 2021.		
	Grants Receivable	\$ 49,950	
	Federal Funding		\$ 49,950
3	Provided by client entry to correct per pupil funding based on approved reconciliation received from NYSED		
	Per Pupil Funding	\$ 9,674	
	Special Ed - Per Pupil Funding	\$ 11,256	
	Misc. Receivable		\$ 20,930
4	Provided by client entry to remove the School's pre-order of technology expenses for FY 2022 recorded in FY 2021.		
	Accounts Payable	\$ 168,082	
	Prepaid Expenses		\$ 168,082
5	Provided by client entry to adjust TRS expenses to 11.78% based on TRS Actuary letter received in September 2021.		
	Pension Plan Contributions	\$ 224,105	
	TRS Pension Plan Payable		\$ 224,105

Appendix B - Schedule of Proposed Adjusting Journal Entries Report

PROPOSED ADJUSTED JOURNAL ENTRIES REPORT

<u>Item #</u>	<u>Account Name and Adjustment Description</u>	<u>Debit</u>	<u>Credit</u>
1	PAJE for fair value of donated space received by the School from the NYC DOE.		
	In-Kind Rent - Donated Space from NYC DOE	\$ 206,657	
	In-Kind Revenue - Donated Space from NYC DOE		\$ 206,657



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