

VOICES COLLEGE-BOUND LANGUAGE ACADEMIES

Operating:

**Voices College-Bound Language Academy
Voices College-Bound Language Academy at Morgan Hill
Voices College-Bound Language Academy at Mt. Pleasant**

**Independent Auditor's Report and Financial Statements
For the Year Ended
June 30, 2016**

VOICES COLLEGE-BOUND LANGUAGE ACADEMIES

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Voices College-Bound Language Academies
San Jose, CA

Report on the Financial Statements

We have audited the accompanying financial statements of Voices College-Bound Language Academies (the Academies), a California nonprofit public benefit corporation, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, cash flows and functional expenses 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 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.

Board of Directors
Voices College-Bound Language Academies

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 on page one present fairly, in all material respects, the financial position of the Academies 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.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the Academies' financial statements as a whole. The accompanying supplementary schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Uniform Guidance. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated September 5, 2016, on our consideration of the Academies' 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 Academies' internal control over financial reporting and compliance.



VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
September 5, 2016

VOICES COLLEGE-BOUND LANGUAGE ACADEMIES

STATEMENT OF FINANCIAL POSITION

June 30, 2016

	<u>CMO</u>	<u>San Jose</u>	<u>Morgan Hill</u>	<u>Mt. Pleasant</u>	<u>Total</u>
<u>ASSETS</u>					
CURRENT ASSETS:					
Cash and cash equivalents	\$ 110,167	\$ 4,537,191	\$ 382,661	\$ 225,027	\$ 5,255,046
Accounts receivable - federal and state	-	446,533	160,513	309,034	916,080
Accounts receivable - other	22,383	3,250	792	1,122	27,547
Intercompany receivable	223,847	30,083	-	-	253,930
Prepaid expenses and other assets	48,520	33,507	63,483	37,440	182,950
Total current assets	<u>404,917</u>	<u>5,050,564</u>	<u>607,449</u>	<u>572,623</u>	<u>6,635,553</u>
LONG-TERM ASSETS:					
Property, plant and equipment, net	-	7,647,933	25,756	74,594	7,748,283
Total long-term assets	-	<u>7,647,933</u>	<u>25,756</u>	<u>74,594</u>	<u>7,748,283</u>
Total assets	<u>\$ 404,917</u>	<u>\$ 12,698,497</u>	<u>\$ 633,205</u>	<u>\$ 647,217</u>	<u>\$ 14,383,836</u>
<u>LIABILITIES AND NET ASSETS</u>					
CURRENT LIABILITIES:					
Accounts payable and accrued liabilities	\$ 71,625	\$ 366,380	\$ 51,543	\$ 65,371	\$ 554,919
Intercompany payable	-	-	73,564	180,366	253,930
Deferred revenue	15,002	28,264	222,168	137,500	402,934
Revolving loan payable, current portion	-	-	50,000	50,000	100,000
Total current liabilities	<u>86,627</u>	<u>394,644</u>	<u>397,275</u>	<u>433,237</u>	<u>1,311,783</u>
LONG-TERM LIABILITIES:					
Revolving loan payable	-	-	150,002	200,000	350,002
Loan payable	44,255	-	-	-	44,255
Facility loan	-	8,849,508	-	-	8,849,508
Total long-term liabilities	<u>44,255</u>	<u>8,849,508</u>	<u>150,002</u>	<u>200,000</u>	<u>9,243,765</u>
NET ASSETS:					
Unrestricted	<u>274,035</u>	<u>3,454,345</u>	<u>85,928</u>	<u>13,980</u>	<u>3,828,288</u>
Total net assets	<u>274,035</u>	<u>3,454,345</u>	<u>85,928</u>	<u>13,980</u>	<u>3,828,288</u>
Total liabilities and net assets	<u>\$ 404,917</u>	<u>\$ 12,698,497</u>	<u>\$ 633,205</u>	<u>\$ 647,217</u>	<u>\$ 14,383,836</u>

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

VOICES COLLEGE-BOUND LANGUAGE ACADEMIES

STATEMENT OF ACTIVITIES For the Year Ended June 30, 2016

	CMO	San Jose	Morgan Hill	Mt. Pleasant	Eliminations	Total
REVENUES:						
State revenue:						
State aid	\$ -	\$ 2,827,863	\$ 224,783	\$ 596,484	\$ -	\$ 3,649,130
Other state revenue	-	581,983	89,497	113,043	-	784,523
Federal revenue:						
Grants and entitlements	-	305,868	327,497	369,805	-	1,003,170
Local revenue:						
In-lieu property tax revenue	-	973,567	384,617	250,781	-	1,608,965
Contributions	822,542	17,201	152,975	69,543	-	1,062,261
Investment income	294	3,954	212	276	-	4,736
Other revenue	634,604	88,681	22,509	14,800	(649,322)	111,272
Total revenues	1,457,440	4,799,117	1,202,090	1,414,732	(649,322)	8,224,057
EXPENSES:						
Program services	628,771	3,717,014	1,006,497	1,260,121	-	6,612,403
Management and general	1,011,002	507,408	100,593	140,631	(649,322)	1,110,312
Total expenses	1,639,773	4,224,422	1,107,090	1,400,752	(649,322)	7,722,715
Change in unrestricted net assets	(182,333)	574,695	95,000	13,980	-	501,342
Beginning unrestricted net assets	456,368	2,879,650	(9,072)	-	-	3,326,946
Ending unrestricted net assets	\$ 274,035	\$ 3,454,345	\$ 85,928	\$ 13,980	\$ -	\$ 3,828,288

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

VOICES COLLEGE-BOUND LANGUAGE ACADEMIES

**STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2016**

	<u>CMO</u>	<u>San Jose</u>	<u>Morgan Hill</u>	<u>Mt. Pleasant</u>	<u>Total</u>
CASH FLOWS from OPERATING ACTIVITIES:					
Change in net assets	\$ (182,333)	\$ 574,695	\$ 95,000	\$ 13,980	\$ 501,342
Adjustments to reconcile change in net assets to net cash flows from operating activities:					
Depreciation	-	146,195	1,758	2,705	150,658
Gifts in kind				(30,000)	(30,000)
Change in operating assets:					
Accounts receivable - federal and state	16,773	(157,877)	(160,513)	(281,196)	(582,813)
Accounts receivable - other	(22,383)	(3,250)	(792)	(1,122)	(27,547)
Intercompany receivable	221,975	(30,083)	146,468	-	338,360
Prepaid expenses and other assets	(48,520)	15,879	(63,483)	(37,440)	(133,564)
Change in operating liabilities:					
Accounts payable and accrued liabilities	65,398	(176,047)	51,543	65,371	6,265
Intercompany payable	-	(564,452)	73,564	152,528	(338,360)
Deferred revenue	(284,998)	(1,836,141)	(183,372)	137,500	(2,167,011)
Net cash flows from operating activities	<u>(234,088)</u>	<u>(2,031,081)</u>	<u>(39,827)</u>	<u>22,326</u>	<u>(2,282,670)</u>
CASH FLOWS from INVESTING ACTIVITIES:					
Purchases of property, plant and equipment	<u>-</u>	<u>(809,025)</u>	<u>(27,514)</u>	<u>(47,299)</u>	<u>(883,838)</u>
Net cash flows from investing activities	<u>-</u>	<u>(809,025)</u>	<u>(27,514)</u>	<u>(47,299)</u>	<u>(883,838)</u>
CASH FLOWS from FINANCING ACTIVITIES:					
Proceeds from debt	44,255	1,864,405	250,000	250,000	2,408,660
Repayments of debt	<u>-</u>	<u>-</u>	<u>(49,998)</u>	<u>-</u>	<u>(49,998)</u>
Net cash from financing activities	44,255	1,864,405	200,002	250,000	2,358,662
Net change in cash and cash equivalents	<u>(189,833)</u>	<u>(975,701)</u>	<u>132,661</u>	<u>225,027</u>	<u>(807,846)</u>
Cash and cash equivalents at the beginning of the year	<u>300,000</u>	<u>5,512,892</u>	<u>250,000</u>	<u>-</u>	<u>6,062,892</u>
Cash and cash equivalents at the end of the year	<u>\$ 110,167</u>	<u>\$ 4,537,191</u>	<u>\$ 382,661</u>	<u>\$ 225,027</u>	<u>\$ 5,255,046</u>
SUPPLEMENTAL DISCLOSURE:					
Cash paid for interest	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 512</u>	<u>\$ 722</u>	<u>\$ 1,234</u>

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

VOICES COLLEGE-BOUND LANGUAGE ACADEMIES

**STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2016**

	Program	Management		Total
	Services	and General	Eliminations	Expenses
Salaries and wages	\$ 3,255,540	\$ 503,188	\$ -	\$ 3,758,728
Pension expense	212,587	3,258	-	215,845
Other employee benefits	334,936	19,396	-	354,332
Payroll taxes	189,380	26,671	-	216,051
Management fees	-	701,983	(649,322)	52,661
Legal expenses	-	144,578	-	144,578
Accounting expenses	-	70,636	-	70,636
Instructional materials	617,374	-	-	617,374
Other fees for services	960,180	-	-	960,180
Advertising and promotion expenses	-	108,075	-	108,075
Office expenses	130,103	37,195	-	167,298
Printing and postage expenses	34,452	3,204	-	37,656
Occupancy expenses	370,022	38,367	-	408,389
Travel expenses	16,550	20,529	-	37,079
Conference and meeting expenses	20,100	2,569	-	22,669
Interest expense	208,770	22,109	-	230,879
Depreciation expense	150,658	-	-	150,658
Insurance expense	44,808	7,822	-	52,630
Other expenses	66,943	50,054	-	116,997
	<u>\$ 6,612,403</u>	<u>\$ 1,759,634</u>	<u>\$ (649,322)</u>	<u>\$ 7,722,715</u>

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

VOICES COLLEGE-BOUND LANGUAGE ACADEMIES

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities – Voices College-Bound Language Academies (“Academies”) is a California non-profit public benefit corporation and is organized to manage and operate public charter schools.

The Academies is funded principally through State of California public education monies received through the California Department of Education and the sponsoring District.

The Franklin-McKinley School District (“District”) has granted the charter for Voices College-Bound Language Academy (“Voices at San Jose”) through June 30, 2017. The charter may be revoked by the District for material violations of the charter, failure to meet pupil outcomes identified in the charter, failure to meet generally accepted standards of fiscal management, or violation of any provision of the law.

In September 2015, Voices chartered two new schools, Voices College-Bound Language Academy at Morgan Hill (“Voices at Morgan Hill”) and Voices College-Bound Language Academy at Mt. Pleasant (“Voices at Mt. Pleasant”) and developed a Charter Management Office (“CMO”) to assist in the management of all three charter schools.

Santa Clara County Office of Education (“SCCOE”) approved the charter for both Voices at Morgan Hill and Voices at Mt. Pleasant. Voices at Morgan Hill was granted a three year term continuing through June 30, 2018. Voices at Mt. Pleasant was granted a five year term continuing through June 30, 2020. The charter may be revoked by SCCOE for material violations of the charter, failure to meet pupil outcomes identified in the charter, failure to meet generally accepted standards of fiscal management, or violation of any provision of the law.

Cash and Cash Equivalents – The Academies define its cash and cash equivalents to include only cash on hand, demand deposits, and liquid investments with original maturities of three months or less.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures. Accordingly, actual results could differ from those estimates.

Basis of Accounting – The financial statements have been prepared on the accrual method of accounting and accordingly reflect all significant receivables and liabilities.

Functional Allocation of Expenses – Costs of providing the Academies’ programs and other activities have been presented in the statement of functional expenses. During the year, such costs are accumulated into separate groupings as either direct or indirect. Indirect or shared costs are allocated among program and support services by a method that best measures the relative degree of benefit.

Basis of Presentation – The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States as prescribed by the Financial Accounting Standards Board.

VOICES COLLEGE-BOUND LANGUAGE ACADEMIES

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Net Asset Classes – The Academies are required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. Net assets of the Academies are defined as:

- Unrestricted: All resources over which the governing board has discretionary control to use in carrying on the general operations of the Academies.
- Temporarily restricted: These net assets are restricted by donors to be used for specific purposes. The Academies do not currently have any temporarily restricted net assets.
- Permanently restricted: These net assets are permanently restricted by donors and cannot be used by the Academies. The Academies do not currently have any permanently restricted net assets.

Receivables – Accounts receivable primarily represent amounts due from federal and state governments as of June 30, 2016. Management believes that all receivables are fully collectible, therefore no provisions for uncollectible accounts were recorded.

Property, Plant and Equipment – Property, plant and equipment are stated at cost if purchased or at estimated fair market value if donated. Depreciation is provided on a straight-line basis over the estimated useful lives of the asset.

Property Taxes – Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on September 1 and are payable in two installments on or before November 1 and February 1. Unsecured property taxes are not a lien against real property and are payable in one installment on or before August 31. The County bills and collects property taxes for all taxing agencies within the County and distributes these collections to the various agencies. The sponsor agencies of the Academies are required by law to provide in-lieu property tax payments on a monthly basis, from August through July. The amount paid per month is based upon an allocation per student, with a specific percentage to be paid each month.

Compensated Absences – The Academies allow administrative employees to carryover unused vacation up to 40 hours. Accordingly, accumulated compensated absence benefits at June 30, 2016 was \$5,515.

Revenue Recognition – Amounts received from the California Department of Education are recognized as revenue by the Academies based on the average daily attendance (ADA) of students. Revenue that is restricted is recorded as an increase in unrestricted net assets if the restriction expires in the reporting period in which the revenue is recognized. All other restricted revenues are reported as increases in temporarily restricted net assets.

Contributions – All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are restricted to specific use or future periods are reported as temporarily restricted. Restricted contributions that are received and released in the same period are reported as unrestricted revenue. Unconditional promises to give expected to be received in one year or less are recorded at net realizable value. Unconditional promises to give expected to be received in more

VOICES COLLEGE-BOUND LANGUAGE ACADEMIES

NOTES TO THE FINANCIAL STATEMENTS For the Year Ended June 30, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

than one year are recorded at fair market value at the date of the promise. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met.

Income Taxes – The Academies’ corporation is a non-profit entity exempt from the payment of income taxes under Internal Revenue Code Section 501(c)(3) and California Revenue and Taxation Code Section 23701d. Accordingly, no provision has been made for income taxes. Management has determined that all income tax positions are more likely than not of being sustained upon potential audit or examination; therefore, no disclosures of uncertain income tax positions are required. The corporation files informational returns in the U.S. federal jurisdiction and the state of California. The statute of limitations for federal and California state purposes is generally three and four years, respectively.

Evaluation of Subsequent Events – The Academies have evaluated subsequent events through September 5, 2016, the date these financial statements were available to be issued.

NOTE 2: CONCENTRATION OF CREDIT RISK

The Academies maintain cash balances held in banks which are insured up to \$250,000 by the Federal Depository Insurance Corporation (“FDIC”). At times, cash in these accounts exceeds the insured amounts. The Academies have not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

NOTE 3: PROPERTY, PLANT AND EQUIPMENT

The Academies property, plant and equipment are as follows:

Building	\$ 7,723,940
Furniture, fixtures, equipment	162,561
Leasehold improvements	12,440
	<u>7,898,941</u>
Less accumulated depreciation and amortization	<u>(150,658)</u>
Property, plant and equipment, net	<u>\$ 7,748,283</u>

Depreciation expense for the year ended June 30, 2016 was \$150,658.

VOICES COLLEGE-BOUND LANGUAGE ACADEMIES

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

NOTE 4: EMPLOYEE RETIREMENT

Multi-employer Defined Benefit Pension Plans

Qualified employees are covered under multi-employer defined benefit pension plans maintained by agencies of the State of California.

The risks of participating in these multi-employer defined benefit pension plans are different from single-employer plans because: (a) assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers, (b) the required member, employer, and state contribution rates are set by the California Legislature, and (c) if the Academies choose to stop participating in the multi-employer plan, they may be required to pay a withdrawal liability to the plan. The Academies have no plans to withdraw from this multi-employer plan.

State Teachers' Retirement System (STRS)

Plan Description

The Academies contributes to the State Teachers' Retirement System (STRS), a cost-sharing multi-employer public employee retirement system defined benefit pension plan administered by STRS. Plan information for STRS is not publicly available. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. According to the most recently available Comprehensive Annual Financial Report and Actuarial Valuation Report for the year ended June 30, 2015, total plan net assets are \$181 billion, the total actuarial present value of accumulated plan benefits is \$242 billion, contributions from all employers totaled \$2.55 billion, and the plan is 68.5% funded. The Academies did not contribute more than 5% of the total contributions to the plan.

Copies of the STRS annual financial reports may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, CA 95826 and www.calstrs.com.

Funding Policy

Active plan members hired before December 31, 2012 are required to contribute 9.20% of their salary and those hired after are required to contribute 8.56% of their salary. The Academies is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. Under the 2014 funding plan, employer contributions on compensation creditable to the program will increase every year for the next seven years, up to 19.10% in 2020–21. The required employer contribution rate for year ended June 30, 2016 was 10.73% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

VOICES COLLEGE-BOUND LANGUAGE ACADEMIES

**NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2016**

NOTE 4: EMPLOYEE RETIREMENT

The Academies' contributions to STRS for the past three years are as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>Required</u> <u>Contribution</u>	<u>Percent</u> <u>Contributed</u>
2014	\$ 86,336	100%
2015	\$ 110,050	100%
2016	\$ 205,536	100%

Defined Contribution Plan

The Academies offer an Internal Revenue Code Section 401(k) retirement plan to each of its qualifying employees. Employee contributions and employer contributions (up to 3 percent match) are used to purchase annuity contracts for each participant. The amount of employer contributions used to purchase annuity contracts for the year ended June 30, 2016 was \$10,309.

NOTE 5: FACILITY GRANT/LOAN

Voices at San Jose received \$637,787 pursuant a funding agreement between the State Allocation Board and the California School Finance Authority collectively referred to as the State. Voices at San Jose applied to the State for financing of its charter school facilities project under the Charter School Facilities Program (CSFP) established pursuant to Article 12 of Chapter 12.5 of Part 10 of the California Education code. The preliminary apportionment in the amount of \$6,377,870 for the project has been approved by the State. The advance of \$637,787, representing 10% of the preliminary apportionment, for project design has been approved and disbursed by the State.

In August 2014, Voices at San Jose received approximately \$8.2 million in Prop 55 Funding for new construction of a school facility on an existing site to eventually accommodate 435 students (grades K-8) of which 78% are expected to qualify for free and reduced lunch. The site for the approximate 20,000 square foot one-story facility will be located at the existing G. W. Hellyer Elementary, 725 Hellyer Ave., San Jose, CA 95111. Voices at San Jose is constructing this project in cooperation with the Franklin-McKinley Elementary School District and consists of two kindergarten and 18 multi-grade classrooms, an administration building, and a multi-use building. Voices at San Jose completed the facility in time for occupancy at the start of the 2015-16 school year.

This apportionment is contingent upon Voices at San Jose paying its 50% local matching share obligation (funding agreement) by making payments to the State pursuant to the agreement. Voices at San Jose will repay the State the matching portion of the funding by making either annual or semi-annual installments starting at July 1 after one full year of the Project being opened and having commenced its educational program. The loan matures in 30 years and requires an assumed interest rate determined by the rate paid on monies in the Pooled Money Investment Account described in the California Government Code 16840 et seq. which is currently estimated to be 2.75%. The amount of the loan for matching funds and unused funding was \$8,849,508 as of June 30, 2016.

VOICES COLLEGE-BOUND LANGUAGE ACADEMIES

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

NOTE 5: FACILITY GRANT/LOAN

Voices at San Jose also entered into a Memorandum of Understanding (MOU) between the State and Franklin-McKinley Elementary School District (FMSD) intended to tie together two separate legal agreements: (i) a Funding Agreement by and between the State and the Academies and (ii) a Facilities Use Agreement by and between FMSD and the Academies.

NOTE 6: OPERATING LEASE

The CMO and Voices at Mt. Pleasant rent facilities under and operating lease agreement. Rent expense under the agreement was \$100,000 for the year ended June 30, 2016. The minimum lease payments will be as follows:

Year Ended <u>June 30,</u>	
2017	\$ 200,000
2018	300,000
2019	400,000
2020	<u>400,000</u>
Total	<u>\$ 1,300,000</u>

NOTE 7: CONTINGENCIES

The Academies have received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate disallowances under terms of the grants, it is believed that any required reimbursement would not be material.

SUPPLEMENTARY INFORMATION

VOICES COLLEGE-BOUND LANGUAGE ACADEMIES
LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
For the Year Ended June 30, 2016

The Academies San Jose School began serving students in September 2007 and is sponsored by the Franklin- McKinley School District (the District).

Charter School number authorized by the State: 846

The Academies Morgan Hill School began serving students in September 2015 and is sponsored by the Santa Clara County Office of Education (the Sponsor).

Charter School number authorized by the State: 1716

The Academies Mt. Pleasant School began serving students in September 2015 and is sponsored by the Santa Clara County Office of Education (the Sponsor).

Charter School number authorized by the State: 1743

VOICES COLLEGE-BOUND LANGUAGE ACADEMIES

**LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE (continued)
For the Year Ended June 30, 2016**

The Board of Directors and the Administrators for the year ended June 30, 2016 were as follows:

BOARD OF DIRECTORS

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
David Richards	Chair	2017
Sara Reyes	Member	Indefinite
Alice Miller	Member	Indefinite
Cathy Holley	Member	Resigned
Servando Sandoval	Member	2018

ADMINISTRATORS

Frances Teso	President/Chief Executive Officer
Lizzette Ramirez	Secretary
Michael Buerger	Treasurer

VOICES COLLEGE-BOUND LANGUAGE ACADEMIES

**SCHEDULE OF INSTRUCTIONAL TIME
For the Year Ended June 30, 2016**

San Jose:

	<u>Instructional Minutes</u>		<u>Instructional</u>	<u>Status</u>
	<u>Requirement</u>	<u>Actual</u>	<u>Days</u>	
Kindergarten	36,000	76,170	180	In compliance
Grade 1	50,400	71,115	180	In compliance
Grade 2	50,400	71,115	180	In compliance
Grade 3	50,400	71,115	180	In compliance
Grade 4	54,000	71,115	180	In compliance
Grade 5	54,000	71,115	180	In compliance
Grade 6	54,000	71,230	180	In compliance
Grade 7	54,000	71,230	180	In compliance
Grade 8	54,000	71,230	180	In compliance

Morgan Hill:

	<u>Instructional Minutes</u>		<u>Instructional</u>	<u>Status</u>
	<u>Requirement</u>	<u>Actual</u>	<u>Days</u>	
Kindergarten	36,000	43,200	180	In compliance
Grade 1	50,400	71,115	180	In compliance

Mt. Pleasant:

	<u>Instructional Minutes</u>		<u>Instructional</u>	<u>Status</u>
	<u>Requirement</u>	<u>Actual</u>	<u>Days</u>	
Kindergarten	36,000	44,580	180	In compliance
Grade 1	50,400	71,115	180	In compliance

See auditor's report and the notes to the supplementary information.

VOICES COLLEGE-BOUND LANGUAGE ACADEMIES

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
For the Year Ended June 30, 2016**

	<u>Second Period Report</u>		<u>Annual Report</u>	
	<u>Classroom</u>		<u>Classroom</u>	
	<u>Based</u>	<u>Total</u>	<u>Based</u>	<u>Total</u>
San Jose:				
Grades K-3	207.66	207.66	208.22	208.22
Grades 4-6	160.15	160.15	160.58	160.58
Grades 7-8	<u>77.93</u>	<u>77.93</u>	<u>78.78</u>	<u>78.78</u>
ADA Totals	<u>445.74</u>	<u>445.74</u>	<u>447.58</u>	<u>447.58</u>
Morgan Hill:				
Grades K-3	<u>73.97</u>	<u>73.97</u>	<u>77.93</u>	<u>77.93</u>
ADA Totals	<u>73.97</u>	<u>73.97</u>	<u>77.93</u>	<u>77.93</u>
Mt.Pleasant:				
Grades K-3	<u>92.43</u>	<u>92.43</u>	<u>92.40</u>	<u>92.40</u>
ADA Totals	<u>92.43</u>	<u>92.43</u>	<u>92.40</u>	<u>92.40</u>
Total:				
Grades K-3	374.06	374.06	378.55	378.55
Grades 4-6	160.15	160.15	160.58	160.58
Grades 7-8	<u>77.93</u>	<u>77.93</u>	<u>78.78</u>	<u>78.78</u>
ADA Totals	<u>612.14</u>	<u>612.14</u>	<u>617.91</u>	<u>617.91</u>

See auditor's report and the notes to the supplementary information.

VOICES COLLEGE-BOUND LANGUAGE ACADEMIES
RECONCILIATION OF ANNUAL FINANCIAL REPORT
WITH AUDITED FINANCIAL STATEMENTS
For the Year Ended June 30, 2016

There were no differences between the annual financial report and the audited financial statements.

See auditor's report and the notes to the supplementary information.

VOICES COLLEGE-BOUND LANGUAGE ACADEMIES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	San Jose	Morgan Hill	Mt. Pleasant	Total Federal Expenditures
Pass Through Program From California Department of Education:						
No Child Left Behind Act						
Title I, Part A, Basic Grants						
Low-Income and Neglected	84.010	14329	\$ 115,909	\$ 17,575	\$ 20,829	\$ 154,313
Title II, Part A, Teacher Quality	84.367	14341	2,083	299	366	2,748
Title III	84.365	N/A	15,500	-	-	15,500
Special Ed	84.027	N/A	51,081	-	-	51,081
Public Charter Schools Grant Program	84.282A	14941	-	285,286	323,577	608,863
<i>Total U.S Department of Education</i>			<u>184,573</u>	<u>303,160</u>	<u>344,772</u>	<u>832,505</u>
<i>U.S. Department of Agriculture:</i>						
Pass Through Program From California Department of Education:						
Child Nutrition Programs	10.555	N/A	121,295	24,337	25,033	170,665
<i>Total U.S Department of Agriculture</i>			<u>121,295</u>	<u>24,337</u>	<u>25,033</u>	<u>170,665</u>
Total Federal Expenditures			<u>\$ 305,868</u>	<u>\$ 327,497</u>	<u>\$ 369,805</u>	<u>\$ 1,003,170</u>

See auditor's report and the notes to the supplementary information.

VOICES COLLEGE-BOUND LANGUAGE ACADEMIES

NOTES TO THE SUPPLEMENTARY INFORMATION For the Year Ended June 30, 2016

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Instructional Time

This schedule presents information on the amount of instructional time offered by the Academies and whether the Academies complied with the provisions of the Education Code.

Schedule of Average Daily Attendance

Average daily attendance is a measurement of the number of pupils attending classes of the Academies. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to charter schools. This schedule provides information regarding the attendance of students at various grade levels.

Reconciliation of Annual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the net assets of the charter schools as reported on the Annual Financial Report form to the audited financial statements.

Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Academies under programs of the federal governmental for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of operations of the Academies, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Academies.

Indirect Cost Rate

The Academies has elected to use a rate other than the 10-percent de minimus indirect cost rate allowed under the Uniform Guidance.

**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***

Board of Directors
Voices College-Bound Language Academies
San Jose, CA

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 Voices College-Bound Language Academies (the Academies), a nonprofit California public benefit corporation, which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, cash flows and functional expenses for the year then ended, the related notes to the financial statements, and have issued our report thereon dated September 5, 2016.

Internal Control Over Financial Reporting

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

**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***

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academies' financial statements are free from 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 non-compliance 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
September 5, 2016

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE**

Board of Directors
Voices College-Bound Language Academies
San Jose, CA

Report on Compliance for Each Major Federal Program

We have audited the compliance of Voices College-Bound Language Academies (the Academies), with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016. The Academies' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Academies' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Academies' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Academies' compliance.

Opinion on Each Major Federal Program

In our opinion, the Academies complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
FOR EACH MAJOR FEDERAL PROGRAM; AND REPORT ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED
BY THE UNIFORM GUIDANCE**

Report on Internal Control Over Compliance

Management of the Academies is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Academies' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance, for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Academies' internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance such that there is a reasonable possibility, that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
September 5, 2016



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Directors
Voices College-Bound Language Academies
San Jose, CA

We have audited Voices College-Bound Language Academies' (the Academies) compliance with the types of compliance requirements described in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel for the year ended June 30, 2016. The Academies' State compliance requirements are identified in the table below.

Management's Responsibility

Management is responsible for the compliance with the State laws and regulations as identified below.

Auditor's Responsibility

Our responsibility is to express an opinion on the Academies' compliance based on our audit of the types of compliance requirements referred to below. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the specific areas listed below has occurred. An audit includes examining, on a test basis, evidence about the Academies' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion on state compliance. Our audit does not provide a legal determination of the Academies' compliance.

Compliance Requirements Tested

In connection with the audit referred to above, we selected and tested transactions and records to determine the Academies' compliance with the laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures Performed</u>
School Districts, County Offices of Education, and Charter Schools:	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Not applicable
After School Education and Safety Program	Not applicable
Proper Expenditure of Education Protection Account Funds	Yes

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

<u>Description</u>	<u>Procedures Performed</u>
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based	Not applicable
Immunizations	Yes
Charter Schools:	
Attendance	Yes
Mode of Instruction	Yes
Nonclassroom-based instructional/independent study	Not applicable
Determination of funding for nonclassroom-based instruction	Not applicable
Annual instructional minutes – classroom based	Yes
Charter School Facility Grant Program	Not applicable

Opinion on State Compliance

In our opinion, the Academies complied with the laws and regulations of the state programs referred to above in all material respects for the year ended June 30, 2016.

Purpose of this Report

The purpose of this report on state compliance is solely to describe the results of testing based on the requirements of the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel. Accordingly, this report is not suitable for any other purpose.



VICENTI, LLOYD & STUTZMAN LLP
Glendora, CA
September 5, 2016

VOICES COLLEGE-BOUND LANGUAGE ACADEMIES

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major federal awards:

Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified? Yes X None Reported

Type of auditor’s report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? Yes X No

Identification of Major Federal Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.242A	Public Charter School Grant Program

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes X No

VOICES COLLEGE-BOUND LANGUAGE ACADEMIES

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016**

All audit findings must be identified as one or more of the following categories:

<u>Five Digit Code</u>	<u>Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
42000	Charter School Facilities Program
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
62000	Local Control Accountability Plan
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

There were no findings and questioned costs for the year ended June 30, 2016.

VOICES COLLEGE-BOUND LANGUAGE ACADEMIES

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2016**

There were no findings and questioned costs for the year ended June 30, 2015.