

12/15/2018



Certified Public Accountants
and Financial Advisors

KEY Academy Charter School
Charter School #1514
Financial Statements
June 30, 2018

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
KEY Academy Charter School
Hayward, California

Report on the Financial Statements

We have audited the accompanying financial statements of KEY Academy Charter School (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, and cash flows for the fiscal year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KEY Academy Charter School as of June 30, 2018, and the changes in its net assets and its cash flows for the fiscal 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 financial statements as a whole. The supplementary information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. 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 our report dated December 17, 2018, on our consideration of KEY Academy Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of KEY Academy Charter School's 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 KEY Academy Charter School's internal control over financial reporting and compliance.

SQUAR MILNER LLP

San Diego, California
December 17, 2018

KEY ACADEMY CHARTER SCHOOL
STATEMENT OF FINANCIAL POSITION
June 30, 2018

ASSETS

Current assets:

Cash	\$ 1,098,781
Accounts receivable	587,568
Prepaid expenses	50,544
Total current assets	<u>1,736,893</u>

Fixed assets, net	<u>4,986</u>
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TOTAL ASSETS	<u><u>\$ 1,741,879</u></u>
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LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 213,573
Accrued expenses	634,661
Total current liabilities	<u>848,234</u>

Net assets:

Unrestricted	<u>893,645</u>
Total net assets	<u>893,645</u>

TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,741,879</u></u>
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KEY ACADEMY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2018

REVENUES

Revenue limit sources:	
State aid	\$ 3,385,015
Education protection account	104,540
In-lieu of property taxes	1,433,092
Federal revenues	171,564
State revenues	547,726
Local revenues:	
Donations	46,052
Fundraising	16,282
Miscellaneous	258,888
TOTAL REVENUES	<u>5,963,159</u>

EXPENSES

Program services:	
Education	4,825,262
Support services:	
Management and general	<u>1,093,897</u>
TOTAL EXPENSES	<u>5,919,159</u>

CHANGE IN NET ASSETS 44,000

NET ASSETS, BEGINNING OF YEAR 849,645

NET ASSETS, END OF YEAR \$ 893,645

KEY ACADEMY CHARTER SCHOOL
STATEMENT OF CASH FLOWS
For the Fiscal Year Ended June 30, 2018

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ 44,000
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Depreciation	7,479
(Increase) decrease in operating assets:	
Accounts receivable	(9,847)
Prepaid expenses	(38,059)
Increase (decrease) in operating liabilities:	
Accounts payable	156,962
Accrued expenses	(235,608)
Net cash flows used in operating activities	<u>(75,073)</u>
NET DECREASE IN CASH	(75,073)
CASH, BEGINNING OF YEAR	<u>1,173,854</u>
CASH, END OF YEAR	<u><u>\$ 1,098,781</u></u>

KEY ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

1. ORGANIZATION AND MISSION

KEY Academy Charter School (the Organization), a nonprofit organization, was organized in the State of California. The Organization's mission is to provide quality education to students in kindergarten through eighth grade. The Organization was formed as a charter school pursuant to California Education Code Section 47600 under a charter agreement with the Hayward Unified School District.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The accounting policies of the Organization conform to generally accepted accounting principles in the United States of America. Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Financial statements are prepared using the accrual basis of accounting, under which revenues are recognized when they are earned and expenditures are recognized in the accounting period in which the liability is recorded.

Basis of Presentation

The financial statements are presented in conformity with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-205, *Not-For-Profit Entities – Presentation of Financial Statements*. Under ASC 958-205, the Organization reports information regarding its financial position and activities according to three classes of net assets:

Unrestricted Net Assets: Unrestricted net assets are available to support all activities of the Organization, and are not subject to donor-imposed stipulations. These generally result from revenues generated by providing services, receiving unrestricted contributions, and receiving interest from investments, less expenses incurred in providing program-related services, raising contributions, and performing administrative functions.

Temporarily Restricted Net Assets: Net assets that are subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions. As of June 30, 2018, the Organization had no temporarily restricted net assets.

Permanently Restricted Net Assets: Net assets that are subject to donor-imposed stipulations that the restrictions be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on the related investments for general or specific purposes. There were no permanently restricted assets as of June 30, 2018.

KEY ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Allocation of Expenses

The Organization reports expenses by function. The costs of providing and supporting educational programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the instructional program and supporting services benefited.

Use of Estimates

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

Income Taxes

The Organization is exempt from income taxes under Internal Revenue Code Section 501(c)(3). It is, however, subject to income taxes from activities unrelated to its tax-exempt purpose. The Organization uses the same accounting methods for tax and financial reporting.

GAAP provides accounting and disclosure guidance about positions taken by an entity in its tax returns that might be uncertain. Management has considered its tax positions and believes that all of the positions taken in its federal and state exempt organization tax returns are more likely than not to be sustained upon examination. The Organization's returns are subject to examination by federal and state taxing authorities, generally for three years and four years, respectively, after they are filed.

Cash

Cash is from time to time variously composed of cash on hand and in banks. The Organization considers all highly liquid instruments with maturities of three months or less at time of acquisition to be cash equivalents. As of June 30, 2018, there were no cash equivalents.

Fixed Assets

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Organization maintains a capitalization threshold of \$5,000. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

KEY ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fixed Assets (continued)

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Equipment	5 years

Revenue Sources and Recognition

The Organization primarily receives funds from the California Department of Education (CDE). Revenue limit sources and state revenues received from the CDE are determined based on the Organization's average daily attendance (ADA) of students and recognized in the period the ADA occurs.

In addition, the Organization receives federal, state and local revenues for the enhancement of various educational programs. This assistance is generally received based on applications submitted to and approved by various granting agencies.

The Organization recognizes federal revenue to the extent that eligible expenditures have been incurred.

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.

New Accounting Pronouncements

In February 2016, FASB issued Accounting Standards Update (ASU) 2016-02, Leases (ASU 2016-02). ASU 2016-02 requires a lessee to recognize a lease asset representing its right to use the underlying asset for the lease term, and a lease liability for the payments to be made to lessor, on its statement of financial position for all operating leases greater than 12 months. ASU 2016-02 will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Although the full impact of this Update on the Organization's financial statements has not yet been determined, the future adoption of this guidance will require the Organization to record assets and liabilities on its statement of financial position relating to facility and other leases currently being accounted for as operating leases (See Note 8).

In August 2016, The FASB issued ASU No. 2016-14, Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities (ASU 2016-14). ASU 2016-14 change presentation and disclosure requirements for not-for-profit entities to provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. These include qualitative and quantitative requirements in the following areas: (1) net asset classes; (2) investment return; (3) expenses; (4) liquidity and availability of resources; and (5) presentation of operating cash flows. ASU 2016-14 will be effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application of the amendments is permitted. The Organization has not yet completed its assessment of the impact of this guidance on its financial statements. However, under this Update, the Organization will be required to present two classes of net assets (net assets with donor restrictions and net assets without donor restrictions) and changes in each of these two classes, on the face of the statement of financial position and statement of activities, respectively, rather than the current required three classes (unrestricted, temporarily restricted and permanently restricted).

KEY ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

3. CASH

Cash at June 30, 2018 consisted of cash in banks in the amount of \$1,098,781. Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The Organization maintains its cash in bank deposit accounts that at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts. At June 30, 2018, the Organization had \$1,231,308 of cash in excess of FDIC limits.

4. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018, consisted of the following:

Revenue limit sources:	
State apportionments	\$ 304,080
Education protection account	26,577
In-lieu of property taxes	141,878
Federal revenues	3,473
State revenues	98,155
Local revenues:	
Miscellaneous	13,405
Total accounts receivable	<u>\$ 587,568</u>

5. FIXED ASSETS

Fixed assets at June 30, 2018 consisted of the following:

Equipment	\$ 37,396
Less: accumulated depreciation	<u>(32,410)</u>
Total fixed assets, net	<u>\$ 4,986</u>

During the fiscal year ended June 30, 2018, depreciation expense totaled \$7,479.

**KEY ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2018**

6. EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS).

Plan Description and Funding Policy

STRS

Plan Description

The Organization contributes to STRS, a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. 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 actuarial valuation report as of June 30, 2017, total plan net assets are \$197.7 billion, the total actuarial present value of accumulated plan benefits is \$362.4 billion, contributions from all employers totaled \$4.0 billion and the plan is 62.6% funded. The Organization 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 are required to contribute 9.20% of their salary and the Organization 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. The required employer contribution rate for fiscal year 2017-2018 was 14.43% of annual payroll. The contribution requirements of the plan members are established by state statute. The Organization's contributions to STRS for the fiscal year ending June 30, 2018, were \$358,167 and equal 100% of the required contributions for the year.

7. COMMITMENTS AND CONTINGENCIES

State Allowances, Awards, and Grants

The Organization has received federal and state 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, management believes that any required reimbursement will not be material.

KEY ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

8. OPERATING LEASES

The Organization entered into an operating lease agreement with the Hayward Unified School District on October 9, 2013 to lease approximately 8,156 square feet at Faith Ringgold School, a school site which is part of the District. The terms of the initial written agreement expired June 30, 2014; however, terms are annually renewable. The agreement was renewed in 2014-15 and required payments of \$10,195, due and payable in advance on the first day of each month. On July 1, 2016, the Organization entered into a three-year term facility use agreement with Hayward Unified School District. The Organization pays the District an oversight fee of 3% of LCFF Entitlement instead of lease payment.

In August 2015, the Organization entered into an annual operating lease agreement with Mobile Modular Management Corporation to lease six portable classroom buildings to be placed on premises leased from Epiphany Lutheran Church. The agreement required payments of \$7,093 each month. In June 2016, the Organization renewed its lease for another year. In November 2017, the Organization renewed its lease for another year with monthly payments of \$7,729 each month.

In December 2018, the Organization renewed its lease for another year.

In August 2015, the Organization entered into a Lease Agreement for a new location with Epiphany Lutheran Church in San Leandro, California to place six portable classroom buildings leased from Mobile Modular Management. The agreement required payments of \$8,200, due and payable on the first day of each month. In August 2016, the Organization renewed its lease for another year with the monthly payments of \$8,364 due at the beginning of each month. In August 2017, the Organization renewed its lease for four years with the monthly payments of \$8,615 due at the beginning of each month and an annual increase rate of 3%.

Total operating lease payments as of June 30, 2018 for the year were \$206,683.

The future minimum lease payments as of June 30, 2018 are as follows:

Year Ending June 30,	Lease payments
2019	\$ 136,915
2020	109,410
2021	112,692
2022	9,414
Total future lease payments	<u>\$ 368,431</u>

KEY ACADEMY CHARTER SCHOOL
NOTES TO FINANCIAL STATEMENTS
June 30, 2018

9. RELATED PARTIES

On June 24, 2016, the Organization entered into an Agreement for Management Services with KEY Educational Group, a California nonprofit public benefit corporation (“CMO”), to provide the Organization with certain management services. CMO is the Sole Statutory Member of the Organization, and during the year ended June 30, 2018, they shared a common director and one employee. The Organization and CMO entered into amended agreement on July 6, 2017. Under the new agreement, CMO can perform the charitable functions as well as day-to-day school management, program support services, staff development and supervisory oversight. The Organization pays CMO 12.5% of the school’s revenue. The Organization paid \$705,242 in management services to CMO, which is included in administrative expenses of the Organization’s accompanying Statement of Activities.

10. SUBSEQUENT EVENTS

Events subsequent to June 30, 2018 have been evaluated through December 17, 2018, the date at which the Organization's audited financial statements were available to be issued. Management has determined that there were no subsequent events or transactions that would have a material impact on the current year financial statements.

SUPPLEMENTARY INFORMATION

**KEY ACADEMY CHARTER SCHOOL
ORGANIZATION
JUNE 30, 2018**

KEY Academy Charter School (Charter No. 1514) was formed pursuant to Education Code Section 47600 under an agreement with Hayward Unified School District granted in January, 2013. The agreement expires on June 30, 2021.

The Board of Directors for the fiscal year ended June 30, 2018, was comprised of the following members:

<u>Name</u>	<u>Office</u>	<u>Term</u>	<u>Term Expiration</u>
Sufian Al Khalidi	President	5 years	June 2018
Linda Mohammed	VP	5 years	June 2018
Kevin Symes	Treasurer	5 years	June 2018
Anthony Vu	Secretary	5 years	August 2020
Eric Gomke	Member	5 years	November 2023

Administration

<u>Name</u>	<u>Position</u>
Krista Kastriotis	Executive Director
David Ramirez	Principal

**KEY ACADEMY CHARTER SCHOOL
SCHEDULE OF AVERAGE DAILY ATTENDANCE
For the Fiscal Year Ended June 30, 2018**

	Second Period Report		Annual Report	
	Classroom Based	Independent Study	Classroom Based	Independent Study
Elementary				
Kindergarten				
Transitional Kindergarten/ Kindergarten - Grade 3	256.20	1.14	257.83	1.16
Grades 4 - 6	162.90	0.43	161.97	0.93
Grades 7 - 8	101.75	0.28	101.20	0.64
Total Elementary	520.85	1.85	521.00	2.73

The Organization is 99.56% classroom-based and generates 0.44% ADA from a full-time independent study program.

**KEY ACADEMY CHARTER SCHOOL
SCHEDULE OF INSTRUCTIONAL TIME
For the Fiscal Year Ended June 30, 2018**

Grade Level	2017-18 Minutes Requirements	2017-2018 Actual Minutes	Number of Days Traditional Calendar	Status
Transitional Kindergarten	36,000	58,290	180	In compliance
Kindergarten	36,000	58,290	180	In compliance
Grade 1	50,400	58,290	180	In compliance
Grade 2	50,400	58,500	180	In compliance
Grade 3	50,400	58,500	180	In compliance
Grade 4	54,000	58,500	180	In compliance
Grade 5	54,000	60,030	180	In compliance
Grade 6	54,000	60,030	180	In compliance
Grade 7	54,000	60,030	180	In compliance
Grade 8	54,000	60,030	180	In compliance

**KEY ACADEMY CHARTER SCHOOL
STATEMENT OF FUNCTIONAL EXPENSES
For the Fiscal Year Ended June 30, 2018**

	<u>Program Services</u>	<u>Support Services</u>	
	<u>Education</u>	<u>Management and General</u>	<u>Total</u>
Certificated salaries	\$ 2,297,751	\$ 89,100	\$ 2,386,851
Classified salaries	423,423	40,157	463,580
Employee benefits	613,622	24,544	638,166
Books and supplies	305,453	11,309	316,762
Travel and conferences	35,174	-	35,174
Dues and Memberships	8,168	48,820	56,988
Operation and housekeeping services	-	96,476	96,476
Rental, leases, repairs, and non-capitalized improvements	18,049	251,971	270,020
Direct Costs	-	147,696	147,696
Professional/consulting services and operating expenditures	1,107,109	374,510	1,481,619
Communications	16,513	1,835	18,348
Depreciation	-	7,479	7,479
Total expenses	<u>\$ 4,825,262</u>	<u>\$ 1,093,897</u>	<u>\$ 5,919,159</u>

**KEY ACADEMY CHARTER SCHOOL
RECONCILIATION OF CHARTER SCHOOL UNAUDITED ACTUALS FINANCIAL
REPORT - ALTERNATIVE FORM WITH AUDITED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2018**

	<u>Charter School</u>
June 30, 2018, Charter School Unaudited Actuals Financial Report -- Alternative Form, Ending Fund Balance	\$ 909,625
Adjustments and reclassifications:	
Increasing (decreasing) the fund balance:	
Account receivable overstatement	(3,039)
Accounts payable understatement	<u>(12,941)</u>
June 30, 2018, audited financial statement net assets	<u>\$ 893,645</u>

OTHER INDEPENDENT AUDITOR'S REPORTS

**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
KEY Academy Charter School
Hayward, California

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 KEY Academy Charter School (a nonprofit Organization), which comprise the statement of financial position as of June 30, 2018, and the related statements of activities, and cash flows for the fiscal year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 17, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered KEY Academy Charter School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of KEY Academy Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of KEY Academy Charter School's internal control.

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

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



Compliance and Other Matters

As part of obtaining reasonable assurance about whether KEY Academy Charter School's 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 noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

SQUAR MILNER LLP

San Diego, California
December 17, 2018

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Directors
KEY Academy Charter School
Hayward, California

Report on Compliance for Each State Program

We have audited KEY Academy Charter School's (the Organization) compliance with the types of compliance requirements described in the *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, published by the Education Audit Appeals Panel, that could have a direct and material effect on each of KEY Academy Charter School's state programs for the fiscal year ended June 30, 2018. KEY Academy Charter School's state programs are identified below.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of KEY Academy Charter School's state 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 State's Audit Guide, *2017-18 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 types of compliance requirements referred to above that could have a direct and material effect on a state program occurred. An audit includes examining, on a test basis, evidence about KEY Academy Charter School's 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 state program. However, our audit does not provide a legal determination of KEY Academy Charter School's compliance. In connection with the audit referred to above, we selected transactions and records to determine the Organization's compliance with the state laws and regulations applicable to the following items:



<u>Description</u>	<u>Procedures Performed</u>
Educator Effectiveness	Not Applicable
California Clean Energy Jobs Act	Not Applicable
After/Before School Education and Safety Program	Not Applicable
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control and Accountability Plan	Yes
Independent Study-Course Based Attendance	Not Applicable
Mode of Instruction	Yes
Nonclassroom-Based Instruction/Independent Study for Charter Schools	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction	Not Applicable
Annual Instructional Minutes - Classroom Based	Yes
Charter School Facility Grant Program	Yes

The term “Not Applicable” is used above to mean either that the Organization did not offer the program during the current fiscal year, or that the program applies only to a different type of local education agency.

Opinion on State Programs

In our opinion, KEY Academy Charter School 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 state programs for the fiscal year ended June 30, 2018.

The purpose of this report on state compliance is solely to describe the scope of our testing of state compliance and the results of that testing based on the requirements of *2017-18 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. Accordingly, this report is not suitable for any other purpose.

SQUAR MILNER LLP

San Diego, California
December 17, 2018

FINDINGS AND RECOMMENDATIONS

KEY ACADEMY CHARTER SCHOOL
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2018

A. Summary of Auditor's Results

1 Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

2 Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes N/A No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes N/A None Reported

Type of auditor's report issued on compliance for major programs: N/A

Any audit findings disclosed that are required to be reported under section 200.516 Audit Findings paragraph (a) of OMB Uniform Guidance? Yes N/A No

Identification of major programs:

CFDA Number(s) Name of Federal Program or Cluster

The Organization did not have over \$750,000 in Federal Expenditures.

Dollar threshold used to distinguish between Type A and Type B programs: N/A

Auditee qualified as low-risk auditee? Yes N/A No

**KEY ACADEMY CHARTER SCHOOL
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2018**

3 State Awards

Internal control over state programs:

One or more material weaknesses identified? Yes No

One or more significant deficiencies identified that
are not considered to be material weaknesses? Yes None Reported

Type of auditor's report issued on compliance
for state programs:

B. Financial Statement Findings

None

C. Federal Award Findings and Questioned Costs

None

D. State Award Findings and Questioned Costs

None

**KEY ACADEMY CHARTER SCHOOL
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2018**

<u>Findings/Recommendations</u>	<u>Current Status</u>	<u>Explanation If Not Implemented</u>
None	N/A	N/A