

**KEY ACADEMY CHARTER SCHOOL  
AUDIT REPORT  
For the Fiscal Year Ended  
June 30, 2014**



Received by MLaMar  
December 15, 2014

**KEY ACADEMY CHARTER SCHOOL**  
*For the Fiscal Year Ended June 30, 2014*  
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***Financial Section***

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## INDEPENDENT AUDITORS' 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 California nonprofit Organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, cash flows, and functional expenses 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.

### Auditors' 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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*. 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, 2014, 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***Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information 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 12, 2014 on our consideration of the 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 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 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 Academy's internal control over financial reporting and compliance.

Handwritten signature in black ink that reads "Nigro & Nigro, PC". The signature is written in a cursive style with a large initial 'N'.

Murrieta, California  
December 12, 2014

**KEY ACADEMY CHARTER SCHOOL**  
*Statement of Financial Position*  
*June 30, 2014*

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**ASSETS**

**Current assets:**

|                      |    |                |
|----------------------|----|----------------|
| Cash                 | \$ | 105,265        |
| Accounts receivable  |    | 440,622        |
| Prepaid expenses     |    | 26,610         |
| Total current assets |    | <u>572,497</u> |

**Capital assets:**

|                               |  |                |
|-------------------------------|--|----------------|
| Equipment                     |  | 37,396         |
| Less accumulated depreciation |  | <u>(2,493)</u> |
| Total capital assets          |  | <u>34,903</u>  |

|              |    |                       |
|--------------|----|-----------------------|
| Total assets | \$ | <u><u>607,400</u></u> |
|--------------|----|-----------------------|

**LIABILITIES AND NET ASSETS**

**Liabilities**

**Current liabilities:**

|                                 |    |                |
|---------------------------------|----|----------------|
| Accounts payable                | \$ | 152,685        |
| Payroll liabilities             |    | 68,539         |
| Revolving loan, current portion |    | 100,000        |
| Total current liabilities       |    | <u>321,224</u> |

**Long-term liabilities:**

|                                   |  |                |
|-----------------------------------|--|----------------|
| Revolving loan, long-term portion |  | <u>100,000</u> |
| Total long term liabilities       |  | <u>100,000</u> |

**Net assets**

|              |  |                |
|--------------|--|----------------|
| Unrestricted |  | <u>186,176</u> |
|--------------|--|----------------|

|                                  |    |                       |
|----------------------------------|----|-----------------------|
| Total liabilities and net assets | \$ | <u><u>607,400</u></u> |
|----------------------------------|----|-----------------------|

**KEY ACADEMY CHARTER SCHOOL**  
*Statement of Activities*  
*For the Fiscal Year Ended June 30, 2014*

|  | Unrestricted      | Temporarily<br>Restricted | Total             |
|--|-------------------|---------------------------|-------------------|
| <b>REVENUES, GAINS, AND OTHER SUPPORT</b>              |                   |                           |                   |
| LCFF state aid   | \$ 728,075        | \$ -                      | \$ 728,075        |
| Education protection account                           | -                 | 28,454                    | 28,454            |
| Transfers to charter schools in lieu of property taxes | 265,402           | -                         | 265,402           |
| Public charter schools grant program                   | -                 | 366,312                   | 366,312           |
| Other federal revenues                                 | -                 | 37,518                    | 37,518            |
| Lottery  | 17,504            | 4,412                     | 21,916            |
| Other local sources                                    | 18,284            | -                         | 18,284            |
| Net assets released from restrictions                  | 436,696           | (436,696)                 | -                 |
| Total Revenues, Gains, and Other Support               | <u>1,465,961</u>  | <u>-</u>                  | <u>1,465,961</u>  |
| <b>EXPENSES</b>  |                   |                           |                   |
| Program Services:                                      |                   |                           |                   |
| Instruction  | 1,065,858         | -                         | 1,065,858         |
| Management and General:                                |                   |                           |                   |
| General administration                                 | 211,434           | -                         | 211,434           |
| Depreciation   | 2,493             | -                         | 2,493             |
| Total Management and General                           | <u>213,927</u>    | <u>-</u>                  | <u>213,927</u>    |
| Total Expenses   | <u>1,279,785</u>  | <u>-</u>                  | <u>1,279,785</u>  |
| Change in Net Assets                                   | 186,176           | -                         | 186,176           |
| Net Assets, July 1, 2013                               | <u>-</u>          | <u>-</u>                  | <u>-</u>          |
| Net Assets, June 30, 2014                              | <u>\$ 186,176</u> | <u>\$ -</u>               | <u>\$ 186,176</u> |

**KEY ACADEMY CHARTER SCHOOL**  
*Statement of Cash Flows*  
*For the Fiscal Year Ended June 30, 2014*

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**CASH FLOWS FROM OPERATING ACTIVITIES**

|  |    |                |
|--|----|----------------|
| Change in Net Assets   | \$ | 186,176        |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities |    |                |
| Depreciation expense   |    | 2,493          |
| (Increase) decrease in operating assets:   |    |                |
| Accounts receivable  |    | (440,622)      |
| Prepaid expenses   |    | (26,610)       |
| Increase (decrease) in operating liabilities:  |    |                |
| Accounts payable   |    | 152,685        |
| Payroll liabilities  |    | 68,539         |
|  |    | <hr/>          |
| Net cash provided (used) by operating activities   |    | <hr/> (57,339) |

**CASH FLOWS FROM INVESTING ACTIVITIES**

|                        |  |                |
|------------------------|--|----------------|
| Purchases of equipment |  | <hr/> (37,396) |
|------------------------|--|----------------|

**CASH FLOWS FROM FINANCING ACTIVITIES**

|   |    |                     |
|---|----|---------------------|
| Proceeds from charter school revolving loan |    | <hr/> 200,000       |
| Net increase (decrease) in cash             |    | 105,265             |
| Beginning Cash, July 1, 2013                |    | <hr/> -             |
| Ending Cash, July 1, 2014                   | \$ | <hr/> <hr/> 105,265 |

**KEY ACADEMY CHARTER SCHOOL**  
*Statement of Functional Expenses*  
*For the Fiscal Year Ended June 30, 2014*

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|  | Program<br>Services | Management<br>and General | Total<br>Expenses   |
|--|---------------------|---------------------------|---------------------|
| Certificated salaries                        | \$ 331,761          | \$ 133,424                | \$ 465,185          |
| Classified salaries                          | 56,235              | 63,221                    | 119,456             |
| Employee benefits                            | 112,236             | 14,789                    | 127,025             |
| <b>Total Salaries and Benefits</b>           | <b>500,232</b>      | <b>211,434</b>            | <b>711,666</b>      |
| Books and supplies                           | 97,111              | -                         | 97,111              |
| Services and other operating expenses        | 468,515             | -                         | 468,515             |
| Depreciation                                 | -                   | 2,493                     | 2,493               |
| <b>Total Supplies and Operating Expenses</b> | <b>565,626</b>      | <b>2,493</b>              | <b>568,119</b>      |
| <b>Totals</b>                                | <b>\$ 1,065,858</b> | <b>\$ 213,927</b>         | <b>\$ 1,279,785</b> |

## KEY ACADEMY CHARTER SCHOOL

### Notes to Financial Statements

June 30, 2014

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#### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

##### A. Reporting Entity

KEY Academy Charter School (the “Academy”), a nonprofit organization, was organized in the State of California. The Academy’s mission is to provide quality education to students in kindergarten through eighth grade. The Academy was formed as a charter school pursuant to California Education Code Section 47600 under a charter agreement with the Hayward Unified School District. The Academy provides non-classroom-based and classroom-based instruction.

##### B. Accounting Policies

The Academy accounts for its financial transactions in accordance with the policies and procedures of the Department of Education’s *California School Accounting Manual*. The accounting policies of the Academy conform to generally accepted accounting principles as prescribed by the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA).

##### C. Basis of Accounting

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.

##### Revenues – exchange and non-exchange transactions

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place.

Non-exchange transactions, in which the Academy receives value without directly giving equal value in return, include property taxes, grants and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the Academy must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the Academy on a reimbursement basis.

##### Expenses

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred.

When both restricted and unrestricted resources are available for use, it is the Academy’s policy to use restricted resources first, then unrestricted resources as they are needed.

##### D. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

##### E. Net Assets

**Unrestricted:** These generally result from revenues generated by receiving unrestricted contributions, providing services, and receiving interest from investments less expenses incurred in providing program related services, raising contributions and performing administrative functions.

## KEY ACADEMY CHARTER SCHOOL

### *Notes to Financial Statements*

*June 30, 2014*

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#### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

##### **E. Net Assets (continued)**

**Temporarily Restricted:** The Academy reports gifts of cash and other assets as temporarily restricted support when they are received with donor stipulations that limit the use of the donated assets. When the donor restriction expires, i.e. the stipulated time restriction ends or the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

##### **F. Cash**

Cash consists of funds held in financial institutions. The Academy considers certificates of deposit with a maturity date of 90 days or longer to be investments. At year-end and throughout the year, the Academy's cash balances were deposited in one financial institution. As of June 30, 2014 the Academy did not hold any cash as investments.

##### **G. Contributions**

The Academy has adopted SFAS No. 116, "Accounting for Contributions Received and Contributions Made." Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of any donor restrictions.

##### **H. Non-Cash Donations**

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Academy reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Academy reclassifies temporarily restricted net assets to unrestricted net assets at that time.

##### **I. Estimates**

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

##### **J. Capital Assets**

Property and equipment are recorded at cost, or estimated fair value at the date of donation, and are updated for additions and retirements during the year. The Academy's policy is to capitalize all assets costing \$5,000 or more; all other assets are expensed in the year incurred. All capital assets, except for land and construction in progress, are depreciated.

##### **K. Income Taxes**

The Academy is a non-profit public-benefit corporation and has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code and Section 23701(d) of the California Revenue and Taxation Code. Accordingly, no provision has been made for income taxes.

## KEY ACADEMY CHARTER SCHOOL

### Notes to Financial Statements

June 30, 2014

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#### NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

##### K. Income Taxes (continued)

Management has evaluated its tax positions and the certainty as to whether those positions will be sustained in the event of an audit by taxing authorities at the federal and state levels. The primary tax positions evaluated are related to the Academy's continued qualification as a tax-exempt organization and whether there are unrelated business income activities conducted that would be taxable. 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 Academy files informational returns in the U.S. federal jurisdiction and the state of California.

#### NOTE 2 – CASH

Cash at June 30, 2014 is reported at fair value and consisted of cash on hand and in banks in the amount of \$105,265.

##### Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Academy's deposits may not be returned to it. The Academy does not have a policy for custodial credit risk for deposits. Deposits held in noninterest bearing transaction accounts are fully insured regardless of the amount in the account through December 31, 2013, and other cash balances held in banks are insured up to \$250,000 by the Federal Depository Insurance Corporation (FDIC) and are collateralized by the respective financial institutions. As of June 30, 2014, none of the Academy's bank balance was exposed to custodial credit risk.

#### NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable outstanding at June 30, 2014 consisted of the following:

|                                     |                   |
|-------------------------------------|-------------------|
| Federal Government:                 |                   |
| Public charter school grant program | \$ 118,812        |
| Title I                             | 7,341             |
| State Government:                   |                   |
| LCFF state aid                      | 236,250           |
| Charter in-lieu property taxes      | 47,314            |
| Education protection account        | 8,989             |
| Lottery                             | 21,916            |
| Total                               | <u>\$ 440,622</u> |

##### Sale of Receivables

On June 25, 2014, the Academy entered into an agreement with Charter Asset Management Fund, LP to sell a group of its receivables without recourse. The gross receivable amount purchased was valued at \$51,275. The factor charged a net program fee of \$949 and a discount fee of \$326. The total loss on sale of receivables was \$1,275 resulting in net cash proceeds of \$50,000. The purpose was to supplement cash flows.

**KEY ACADEMY CHARTER SCHOOL**  
*Notes to Financial Statements*  
*June 30, 2014*

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**NOTE 4 - CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for the year ended June 30, 2014 was as follows:

|   | Balance,<br>July 1, 2013 | Additions | Retirements | Balance,<br>June 30, 2014 |
|---|--------------------------|-----------|-------------|---------------------------|
| Capital assets being depreciated:           |                          |           |             |                           |
| Equipment                                   | \$ -                     | \$ 37,396 | \$ -        | \$ 37,396                 |
| Total capital assets being depreciated      | -                        | 37,396    | -           | 37,396                    |
| Accumulated depreciation for:               |                          |           |             |                           |
| Equipment                                   | -                        | (2,493)   | -           | (2,493)                   |
| Total accumulated depreciation              | -                        | (2,493)   | -           | (2,493)                   |
| Total capital assets being depreciated, net | -                        | 34,903    | -           | 34,903                    |
| Capital assets, net                         | \$ -                     | \$ 34,903 | \$ -        | \$ 34,903                 |

Depreciation on all equipment is provided on the straight-line basis over an estimated useful life of 5 years.

**NOTE 5 - LONG TERM LIABILITY**

A schedule of changes in long-term liabilities for the year ended June 30, 2014 is shown below:

|                               | Balance,<br>July 1, 2013 | Additions  | Deductions | Balance,<br>June 30, 2014 | Amount Due<br>Within One Year |
|-------------------------------|--------------------------|------------|------------|---------------------------|-------------------------------|
| Charter School Revolving Loan | \$ -                     | \$ 200,000 | \$ -       | \$ 200,000                | \$ 100,000                    |

**Charter School Revolving Loan**

The Academy entered into an agreement with the California Department of Education for a revolving fund loan to fund the initial functions of the charter school. The loan is unsecured and bears interest at a rate of 0.24% per annum. The loan principal is \$200,000 and the term of repayment is two years, with the first payment coming due on September 20, 2014.

| Fiscal Year | Principal  | Interest | Total      |
|-------------|------------|----------|------------|
| 2014-15     | \$ 100,000 | \$ 763   | \$ 100,763 |
| 2015-16     | 100,000    | 146      | 100,146    |
| Total       | \$ 200,000 | \$ 909   | \$ 200,909 |

## KEY ACADEMY CHARTER SCHOOL

### Notes to Financial Statements

June 30, 2014

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#### NOTE 6 – EMPLOYEE RETIREMENT PLANS

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), classified employees are members of the Public Employees' Retirement System (PERS).

##### Plan Description and Provisions

##### **Public Employees' Retirement System (PERS)**

###### **Plan Description**

The Academy contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the comprehensive annual financial report may be obtained from the CalPERS Executive Office, 400 Q Street, Sacramento, California 95811.

###### **Funding Policy**

Active plan members are required to contribute 7.0% of their salary and the Academy is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution for fiscal year 2013-14 was 11.442%. The contribution requirements of the plan members are established by State statute. The Academy's contributions to CalPERS for the last three fiscal years were as follows:

|         | <u>Contribution</u> | <u>Percent of Required<br/>Contribution</u> |
|---------|---------------------|---|
| 2013-14 | \$ 11,917           | 100%  |

##### **State Teachers' Retirement System (STRS)**

###### **Plan Description**

The Academy contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. 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. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the comprehensive annual financial report may be obtained from CalSTRS, 100 Waterfront Place, West Sacramento, California 95605, or at [www.calstrs.com](http://www.calstrs.com).

###### **Funding Policy**

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2013-14 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The Academy's contributions to STRS for the last three fiscal years were as follows:

|         | <u>Contribution</u> | <u>Percent of Required<br/>Contribution</u> |
|---------|---------------------|---|
| 2013-14 | \$ 39,049           | 100%  |

## **KEY ACADEMY CHARTER SCHOOL**

*Notes to Financial Statements*

*June 30, 2014*

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### **NOTE 7 – COMMITMENTS AND CONTINGENCIES**

#### **State and Federal Allowances, Awards, and Grants**

The Academy 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, it is believed that any required reimbursement will not be material.

### **NOTE 8 – SUBSEQUENT EVENTS**

Events subsequent to June 30, 2014 have been evaluated through December 12, 2014, the date at which the School's audited financial statements were available to be issued.

On September 25, 2014, the Academy entered into an agreement with Charter Asset Management Fund, LP to sell a group of its receivables without recourse. The gross receivable amount purchased was valued at \$82,744. The factor charged a net program fee of \$1,531 and a discount fee of \$1,213. The total loss on sale of receivables was \$2,744 resulting in net cash proceeds of \$80,000. The purpose was to supplement cash flows.

### **NOTE 9 – RELATED PARTY**

A member of the Academy's governing board since inception, is related to the Executive Director as a member of the immediate family. During board discussions and decisions regarding the Executive Director, this member is excused so as not to create a conflict of interest.

### **NOTE 10 – OPERATING LEASE**

The Academy entered into an operating lease agreement with the Hayward Unified School District on October 9, 2013 to lease approximately 8,156 square feet at Markham School, a school site which is part of the District. The terms of the initial written agreement expired June 30, 2014 and required payments of \$10,195, due and payable in advance on the first day of each month. The Academy is currently in negotiations for an extension of the agreement; however, the District is permitting the Academy to continue leasing its facilities in the interim under the current terms. Total lease payments for the year was \$91,755.

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***Supplementary Information***

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## **KEY ACADEMY CHARTER SCHOOL**

### *Organizational Structure*

*June 30, 2014*

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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, 2016.

#### **BOARD OF DIRECTORS**

| <u>Name</u>        | <u>Office</u>  | <u>Term and Term Expiration</u>   |
|--------------------|----------------|-----------------------------------|
| Linda Mohammed     | President      | 5 Year Term<br>Expires June, 2018 |
| Sufian Al Khalidi  | Vice President | 5 Year Term<br>Expires June, 2018 |
| Kevin Symes        | Treasurer      | 5 Year Term<br>Expires June, 2018 |
| Nabeegah Shakir    | Secretary      | 5 Year Term<br>Expires June, 2018 |
| Dimitri Kastriotis | Board Member   | 5 Year Term<br>Expires June, 2018 |

#### **ADMINISTRATION**

Krista Kastriotis,  
*Executive Director*

**KEY ACADEMY CHARTER SCHOOL**  
*Schedule of Average Daily Attendance*  
*For the Fiscal Year Ended June 30, 2014*

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**KEY ACADEMY CHARTER SCHOOL, INC.**

**Second Period Report - Certificate No. (F077A248)**

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| <b>Regular ADA:</b>   | <b>TK/K-3</b> | <b>Grades 4-6</b> | <b>Grades 7-8</b> | <b>Total</b> |
|---|---------------|-------------------|-------------------|--------------|
| Regular ADA   | 71.57         | 60.04             | 10.70             | 142.31       |
| Classroom-based ADA   | 70.89         | 59.57             | 10.70             | 141.16       |
| Other (included in Regular ADA amounts):<br>Transitional Kindergarten | 6.84          |                   |                   |              |

**Annual Report - Certificate No. (3249246C)**

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| <b>Regular ADA:</b>   | <b>TK/K-3</b> | <b>Grades 4-6</b> | <b>Grades 7-8</b> | <b>Total</b> |
|---|---------------|-------------------|-------------------|--------------|
| Regular ADA   | 75.21         | 63.50             | 12.01             | 150.72       |
| Classroom-based ADA   | 74.74         | 63.17             | 12.01             | 149.92       |
| Other (included in Regular ADA amounts):<br>Transitional Kindergarten | 7.09          |                   |                   |              |

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the School. 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 and in different programs.

**KEY ACADEMY CHARTER SCHOOL**  
*Schedule of Instructional Time*  
*For the Fiscal Year Ended June 30, 2014*

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KEY Academy Charter School provides both classroom and non-classroom based instruction. The following is the Schedule of Instructional Time for the Academy's classroom-based classes.

| Grade Level  | 1986-87 Minutes        |          | 2013-14<br>Actual<br>Minutes | Number of Days<br>Traditional<br>Calendar | Status   |
|--------------|------------------------|----------|------------------------------|---|----------|
|              | Previously<br>Required | Reduced* |                              |   |          |
| Kindergarten | 36,000                 | 34,971   | 60,760                       | 175                                       | Complied |
| Grade 1      | 50,400                 | 48,960   | 57,260                       | 175                                       | Complied |
| Grade 2      | 50,400                 | 48,960   | 57,260                       | 175                                       | Complied |
| Grade 3      | 50,400                 | 48,960   | 57,260                       | 175                                       | Complied |
| Grade 4      | 54,000                 | 52,457   | 58,340                       | 175                                       | Complied |
| Grade 5      | 54,000                 | 52,457   | 58,340                       | 175                                       | Complied |
| Grade 6      | 54,000                 | 52,457   | 58,340                       | 175                                       | Complied |
| Grade 7      | 54,000                 | 52,457   | 58,340                       | 175                                       | Complied |
| Grade 8      | 54,000                 | 52,457   | 58,340                       | 175                                       | Complied |

\* Amounts reduced as permitted by Education Code Section 46201.2 (a).

**KEY ACADEMY CHARTER SCHOOL**  
*Schedule of Expenditures of Federal Awards*  
*For the Fiscal Year Ended June 30, 2014*

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| Federal Grantor/Pass-Through<br>Grantor/Program or Cluster Title | Federal<br>CFDA<br>Number | Pass-Through<br>Entity Identifying<br>Number | Federal<br>Expenditures |
|--|---------------------------|--|-------------------------|
| U.S. Department of Education:                                    |                           |  |                         |
| Passed through California Dept. of Education (CDE):              |                           |  |                         |
| No Child Left Behind (NCLB):                                     |                           |  |                         |
| Title I, Part A, Basic Grants Low-Income and Neglected           | 84.010                    | 14329  | \$ 36,865               |
| Title II, Part A, Improving Teacher Quality Local Grants         | 84.367                    | 14341  | 653                     |
| Title V, Part B, Public Charter Schools Grant Program (PCSGP)    | 84.282A                   | 14941  | 366,312                 |
| Total Expenditure of Federal Awards                              |                           |  | \$ 403,830              |

The schedule of expenditures of federal awards includes the federal grant activity of the Academy and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States of America Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

**KEY ACADEMY CHARTER SCHOOL**

*Reconciliation of Annual Financial and Budget Report with Audited Financial Statements  
For the Fiscal Year Ended June 30, 2014*

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|   |    |                       |
|---|----|-----------------------|
| June 30, 2014 annual financial and budget report net assets | \$ | 136,375               |
| Adjustments and reclassifications:                          |    |                       |
| Accounts payable overstated                                 |    | <u>49,801</u>         |
| June 30, 2014 audited financial statement net assets        | \$ | <u><u>186,176</u></u> |

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***Other Independent Auditors' Reports***

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**INDEPENDENT AUDITORS' 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 the governmental activities, each major fund, and the aggregate remaining fund information of KEY Academy Charter School as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise KEY Academy Charter School's basic financial statements, and have issued our report thereon dated December 12, 2014.

**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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the KEY Academy Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 Academy'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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Handwritten signature in cursive script that reads "Nigro & Nigro, PC".

Murrieta, California  
December 12, 2014

**INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE**

Board of Directors  
KEY Academy Charter School  
Hayward, California

**Report on Compliance for State Programs**

We have audited KEY Academy Charter School's compliance with the types of compliance requirements described in the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*, published by the Education Audit Appeals Panel, for the year ended June 30, 2014. 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.

**Auditors' 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 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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*. 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 below 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.

| Description   | Procedures in Audit Guide | Procedures Performed |
|---|---------------------------|----------------------|
| Local Control Funding Formula Certification             | 1                         | Yes                  |
| California Clean Energy Jobs Act                        | 3                         | Not Applicable       |
| After School Education and Safety Program               |                           |                      |
| General Requirements                                    | 4                         | Not Applicable       |
| After School  | 5                         | Not Applicable       |
| Before School   | 6                         | Not Applicable       |
| Education Protection Account Funds                      | 1                         | Yes                  |
| Common Core Implementation Funds                        | 3                         | Not Applicable       |
| Unduplicated Local Control Funding Formula Pupil Counts | 3                         | Yes                  |

| Description   | Procedures in Audit Guide | Procedures Performed |
|---|---------------------------|----------------------|
| Charter Schools:  |                           |                      |
| Contemporaneous Records of Attendance                       | 8                         | Yes                  |
| Mode of Instruction   | 1                         | Yes                  |
| Nonclassroom-Based Instruction/Independent Study            | 15                        | Yes                  |
| Determination of Funding for Nonclassroom-Based Instruction | 3                         | Yes                  |
| Annual Instructional Minutes – Classroom Based              | 4                         | Yes                  |
| Charter School Facility Grant Program                       | 1                         | Not Applicable       |

***Opinion on Compliance with State Programs***

In our opinion, KEY Academy Charter School complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2014.

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 the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2013-14*. Accordingly, this report is not suitable for any other purpose.

*Nigro & Nigro, PC*

Murrieta, California  
December 12, 2014

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## ***Findings and Recommendations***

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**KEY ACADEMY CHARTER SCHOOL**  
*Schedule of Findings and Recommendations*  
*For the Fiscal Year Ended June 30, 2014*

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**SECTION I - SUMMARY OF AUDITORS' RESULTS**

***Financial Statements***

|   |                   |
|---|-------------------|
| Type of auditors' report issued   | <u>Unmodified</u> |
| Internal control over financial reporting:  |                   |
| Material weakness(es) identified?   | <u>No</u>         |
| Significant deficiency(s) identified not considered<br>to be material weaknesses? | <u>No</u>         |
| Noncompliance material to financial statements noted?                             | <u>No</u>         |

***Federal Awards***

Not applicable; the Academy expended less than \$500,000 in federal awards in the fiscal year 2013-14.

***State Awards***

|   |                   |
|---|-------------------|
| Internal control over state programs:   |                   |
| Material weakness(es) identified?   | <u>No</u>         |
| Significant deficiency(s) identified not considered<br>to be material weaknesses? | <u>No</u>         |
| Type of auditors' report issued on compliance for<br>state programs:              | <u>Unmodified</u> |

**KEY ACADEMY CHARTER SCHOOL**  
*Schedule of Findings and Recommendations*  
*For the Fiscal Year Ended June 30, 2014*

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**SECTION II - FINANCIAL STATEMENT FINDINGS**

This section identifies the significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

| <u>Five Digit Code</u> | <u>AB 3627 Finding Types</u>      |
|------------------------|-----------------------------------|
| 10000                  | Attendance                        |
| 20000                  | Inventory of Equipment            |
| 30000                  | Internal Control                  |
| 40000                  | State Compliance                  |
| 41000                  | CalSTRS                           |
| 50000                  | Federal Compliance                |
| 60000                  | Miscellaneous                     |
| 61000                  | Classroom Teacher Salaries        |
| 70000                  | Instructional Materials           |
| 71000                  | Teacher Misassignments            |
| 72000                  | School Accountability Report Card |

***There were no financial statement findings in 2013-14.***

**KEY ACADEMY CHARTER SCHOOL**  
*Schedule of Findings and Recommendations*  
*For the Fiscal Year Ended June 30, 2014*

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**SECTION III - FEDERAL AWARD FINDINGS AND RECOMMENDATIONS**

This section identifies the audit findings pertaining to noncompliance with State program rules and regulations.

*The Academy expended less than \$500,000 on federal awards in 2013-14, therefore, a Single Audit pursuant to OMB Circular A-133 was not performed.*

**KEY ACADEMY CHARTER SCHOOL**  
*Schedule of Findings and Recommendations*  
*For the Fiscal Year Ended June 30, 2014*

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**SECTION IV - STATE AWARD FINDINGS AND RECOMMENDATIONS**

This section identifies the audit findings pertaining to noncompliance with State program rules and regulations.

*There were no state award findings or questioned costs in 2013-14.*

**KEY ACADEMY CHARTER SCHOOL**  
*Summary Schedule of Prior Audit Findings*  
*For the Fiscal Year Ended June 30, 2014*

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***The Academy did not operate in 2012-13.***



To the Board of Directors  
and Management of KEY Academy Charter School, Inc.

In planning and performing our audit of the financial statements of KEY Academy Charter School, Inc. as of and for the year ending June 30, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered KEY Academy's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the basic financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy's internal control.

However, during our audit we noted matters that are an opportunity for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 12, 2014, on the financial statements of KEY Academy Charter School, Inc.

#### **Cash controls**

In our review of the cash controls at the Business Office, we noted the following:

**Observation:** During the inquiry into and subsequent testing of cash receipts, we discovered some control weaknesses. There is a weakness in separation of duties in that the office assistant is not logging checks or cash prior to submitting them to the Executive Director for further processing and preparation of the deposit. This could lead to greater risk of misappropriation of assets as no record of receipt would be kept.

Also, there is a weakness in the physical controls over cash in that the lock box is not physically secured and could be stolen. This creates additional risk of misappropriation of assets.

Further, during the testing of cash receipts, there were five total exceptions of ten receipts tested. One deposit was not made in a timely manner, two deposits did not have a clear audit trail from point of collection to deposit in the bank, and two deposits did not have adequate point of sale documentation. These control deficiencies could lead to misappropriation of assets and inability to prevent or detect material misstatements to the financial statements.

**Recommendation:** The Academy should require that the office administrator log all cash receipts upon opening the mail so as to provide additional segregation of duties in the cash receipts cycle. The Academy should also require that all cash collections activities be accompanied by some form of cash controls documentation as well as a clear audit trail from point of collection to final deposit in the bank.

The Academy should obtain a more secure physical storage method for cash in the interim before deposit to minimize the risk of theft.

## **Expenditures**

In our review of the expenditures process at the Business Office, we noted the following:

**Observation:** During the inquiry into the procedures for and testing of cash disbursements, we found nine exceptions due to lack of evidence of pre-approval for certain disbursements. We also found one disbursement, immaterial in amount, that was improperly capitalized that should have been recorded as a non-capitalized expense. Without a system of consistent pre-approval for disbursements, there is greater risk of prohibited purchases, spending in excess of budgeted amounts, and management override of controls. Risk is mitigated as the board currently approves the check register each month.

We also found that the Academy is not cancelling invoices after they are paid which increases risk of duplicate payment.

**Recommendation:** The Academy should implement a system of internal controls for purchasing whereby it obtains preapproval for all expenditures through some form of written approval. This could come in the form of a purchase order or a purchase requisition.

The Academy should design and implement a system for cancelling invoices by indicating they are paid so that duplicate payment does not occur.

This communication is intended solely for the information and use of management, the Board of Directors, and others within the Academy, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Nigro & Nigro, PC*

Murrieta, California  
December 12, 2014