

LOUISIANA KEY ACADEMY

Baton Rouge, Louisiana

FINANCIAL REPORT

June 30, 2020 and 2019

LOUISIANA KEY ACADEMY

Baton Rouge, Louisiana

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June 30, 2020 and 2019

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**SCHEDULES REQUIRED BY STATE LAW
(R.S. 24:514 - PERFORMANCE AND STATISTICAL DATA)**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Louisiana Key Academy
Baton Rouge, Louisiana

Report on the Financial Statements

We have audited the accompanying financial statements of **LOUISIANA KEY ACADEMY** (a non-profit organization) (the School) which comprise the statements of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years 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 responsibility 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 audits. We conducted our audits 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 audits 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 auditors' 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 auditors consider 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 **LOUISIANA KEY ACADEMY** as of June 30, 2020 and 2019, and the changes in net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of a Matter

As discussed in Notes 1 to the financial statements, the School has adopted Financial Accounting Standards Board's Accounting Standards Update No. 2014-09 (Topic 606): *Revenue from Contracts with Customers* and No. 2018-08 Not-for-Profit Entities (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made*. Our opinion is not modified with respect to this matter.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The Schedule of Compensation, Benefits and Other Payments to Agency Head on page 18 is presented for purpose 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.

The Performance and Statistical Data, included on pages 27 and 28, is not a required part of the basic financial statements but is supplementary information required by Louisiana State Law (R.S. 24:514). We have applied limited procedures, which are described in the Independent Accountants' Report on Applying Agreed-Upon-Procedures. However, we did not audit this information and, accordingly, express no opinion on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 19, 2021, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 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 School's internal control over financial reporting and compliance.

Faulk & Winkler, LLC
Certified Public Accountants

Baton Rouge, Louisiana
February 19, 2021

LOUISIANA KEY ACADEMY

Baton Rouge, Louisiana

STATEMENTS OF FINANCIAL POSITION

June 30, 2020 and 2019

(See Independent Auditors' Report)

ASSETS

	<u>2020</u>	<u>2019</u>
CURRENT ASSETS		
Cash	\$ 1,599,719	\$ 935,873
Receivables:		
Grants	70,289	46,884
Current portion of unconditional promises to give	200,000	125,000
Prepaid and other	<u>-</u>	<u>9,289</u>
Total current assets	1,870,008	1,117,046
UNCONDITIONAL PROMISES TO GIVE	-	100,000
PROPERTY, net	<u>4,104,614</u>	<u>2,367,860</u>
Total assets	<u>\$ 5,974,622</u>	<u>\$ 3,584,906</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Accounts payable and accrued expenses	\$ 248,708	\$ 60,174
Contract payable	-	7,718
Lines of credit	2,037,404	903,696
Capital lease obligations, current portion	<u>38,232</u>	<u>31,803</u>
Total current liabilities	2,324,344	1,003,391
LONG-TERM LIABILITIES		
Notes payable - Payroll Protection Program	711,708	-
Capital lease obligations, less current portion	<u>15,925</u>	<u>33,838</u>
Total long-term liabilities	<u>727,633</u>	<u>33,838</u>
Total liabilities	3,051,977	1,037,229
NET ASSETS		
Without donor restrictions		
Undesignated	2,734,271	2,311,980
Board designated - capital campaign	30,000	-
With donor restrictions	<u>158,374</u>	<u>235,697</u>
Total net assets	<u>2,922,645</u>	<u>2,547,677</u>
Total liabilities and net assets	<u>\$ 5,974,622</u>	<u>\$ 3,584,906</u>

The accompanying notes to financial statements
are an integral part of this statement.

LOUISIANA KEY ACADEMY
Baton Rouge, Louisiana

STATEMENTS OF ACTIVITIES

For the years ended June 30, 2020 and 2019

(See Independent Auditors' Report)

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Totals	Without Donor Restrictions	With Donor Restrictions	Totals
REVENUES AND SUPPORT						
Grants:						
State MFP grant	\$ 5,131,087	\$ -	\$ 5,131,087	\$ 4,290,997	\$ -	\$ 4,290,997
Federal grants	282,619	-	282,619	275,071	-	275,071
Other state and local grants	190,928	-	190,928	221,135	-	221,135
Contributions and events	111,897	126,815	238,712	159,714	338,201	497,915
Beforecare and aftercare	68,232	-	68,232	62,060	-	62,060
Food and other	56,268	-	56,268	62,425	-	62,425
Total revenues and support	5,841,031	126,815	5,967,846	5,071,402	338,201	5,409,603
NET ASSETS RELEASED FROM RESTRICTIONS:						
Satisfaction of purpose restrictions	204,138	(204,138)	-	278,385	(278,385)	-
Total revenues, support, and net assets released from restrictions	6,045,169	(77,323)	5,967,846	5,349,787	59,816	5,409,603
EXPENSES						
Instructional	3,596,850	-	3,596,850	3,175,322	-	3,175,322
Operations and maintenance	998,103	-	998,103	658,296	-	658,296
Food services	171,627	-	171,627	191,154	-	191,154
Fundraising	16,312	-	16,312	8,644	-	8,644
General and administrative	809,986	-	809,986	849,157	-	849,157
Total expenses	5,592,878	-	5,592,878	4,882,573	-	4,882,573
Change in net assets, before nonoperating income	452,291	(77,323)	374,968	467,214	59,816	527,030
NONOPERATING INCOME (See Note 1)	-	-	-	35,712	-	35,712
Change in net assets	452,291	(77,323)	374,968	502,926	59,816	562,742
NET ASSETS						
Beginning of year	2,311,980	235,697	2,547,677	1,809,054	175,881	1,984,935
End of year	\$ 2,764,271	\$ 158,374	\$ 2,922,645	\$ 2,311,980	\$ 235,697	\$ 2,547,677

The accompanying notes to financial statements
are an integral part of this statement.

LOUISIANA KEY ACADEMY

Baton Rouge, Louisiana

STATEMENTS OF CASH FLOWS

For the years ended June 30, 2020 and 2019

(See Independent Auditors' Report)

	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 374,968	\$ 562,742
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	332,649	217,574
Change in operating assets and liabilities:		
(Increase) decrease in receivables	1,595	(149,334)
Decrease in prepaid and other	9,289	3,138
(Decrease) increase in accounts payable and accrued expenses	<u>31,727</u>	<u>(35,010)</u>
Net cash provided by operating activities	<u>750,228</u>	<u>599,110</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property	(126,439)	-
Payments on construction in progress	<u>(1,764,858)</u>	<u>(229,195)</u>
Net cash used by investing activities	<u>(1,891,297)</u>	<u>(229,195)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from lines of credit	1,299,533	221,477
Proceeds from Payroll Protection Program note payable	711,708	-
Repayments of lines of credit	(165,825)	(220,000)
Payments on capital lease obligation	<u>(40,501)</u>	<u>(29,941)</u>
Net cash provided (used) by financing activities	<u>1,804,915</u>	<u>(28,464)</u>
Net increase in cash	663,846	341,451
CASH		
Beginning of year	<u>935,873</u>	<u>594,422</u>
End of year	<u>\$ 1,599,719</u>	<u>\$ 935,873</u>
Supplemental disclosure of noncash investing and financing activities:		
Assets acquired through capital lease obligation	<u>\$ 29,017</u>	<u>\$ 95,582</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	<u>\$ 102,718</u>	<u>\$ 49,056</u>

The accompanying notes to financial statements
are an integral part of this statement.

LOUISIANA KEY ACADEMY

Baton Rouge, Louisiana

STATEMENTS OF FUNCTIONAL EXPENSES

For the year ended June 30, 2020

	Program				General and Administrative	Total
	Instructional	Operations and Maintenance	Food Services	Fundraising		
Salaries and wages	\$ 2,742,174	\$ -	\$ -	\$ -	\$ 366,063	\$ 3,108,237
Payroll taxes	207,084	-	-	-	23,022	230,106
Retirement contributions	78,078	-	-	-	14,571	92,649
Insurance	248,695	25,059	-	-	71,441	345,195
Depreciation	-	332,649	-	-	-	332,649
Rent	-	256,549	-	-	-	256,549
Repairs and maintenance	-	234,448	-	-	-	234,448
Food and beverage	-	-	171,627	6,138	-	177,765
Materials and supplies	114,406	25,285	-	-	35,632	175,323
Professional services	58,944	-	-	3,000	79,477	141,421
Technology	28,363	46,677	-	-	38,630	113,670
Interest	-	-	-	-	107,437	107,437
Professional development	73,464	-	-	-	16,916	90,380
Utilities	-	77,436	-	-	5,955	83,391
Nurse and psychologist	37,395	-	-	-	-	37,395
Advertising	-	-	-	7,174	27,852	35,026
Dues and subscriptions	-	-	-	-	17,974	17,974
LDOE administrative fees	800	-	-	-	-	800
Other	7,447	-	-	-	5,016	12,463
Total expenses	\$ 3,596,850	\$ 998,103	\$ 171,627	\$ 16,312	\$ 809,986	\$ 5,592,878

The accompanying notes to financial statements
are an integral part of this statement.

LOUISIANA KEY ACADEMY

Baton Rouge, Louisiana

STATEMENTS OF FUNCTIONAL EXPENSES

For the year ended June 30, 2019

	<u>Program</u>				<u>General and</u>	<u>Total</u>
	<u>Instructional</u>	<u>Operations and</u> <u>Maintenance</u>	<u>Food Services</u>	<u>Fundraising</u>		
Salaries and wages	\$ 2,312,533	\$ -	\$ -		\$ 397,110	\$ 2,709,643
Payroll taxes	170,505	-	-	-	30,104	200,609
Retirement contributions	69,246	-	-	-	17,375	86,621
Insurance	370,248	-	-	-	106,523	476,771
Depreciation	-	217,574	-	-	-	217,574
Professional services	35,605	6,137	-	1,740	158,794	202,276
Food and beverage	-	-	191,154	4,604	-	195,758
Rent	-	193,297	-	-	-	193,297
Materials and supplies	125,090	16,609	-	2,157	25,251	169,107
Repairs and maintenance	-	121,520	-	-	-	121,520
Utilities	-	49,604	-	-	21,891	71,495
Technology	-	53,555	-	-	6,628	60,183
Nurse and psychologist	49,860	-	-	-	-	49,860
Interest	-	-	-	-	46,897	46,897
Professional development	30,175	-	-	-	-	30,175
Advertising	-	-	-	143	28,016	28,159
Dues and subscriptions	-	-	-	-	4,300	4,300
LDOE administrative fees	3,481	-	-	-	-	3,481
Other	8,579	-	-	-	6,268	14,847
Total expenses	\$ 3,175,322	\$ 658,296	\$ 191,154	\$ 8,644	\$ 849,157	\$ 4,882,573

The accompanying notes to financial statements
are an integral part of this statement.

LOUISIANA KEY ACADEMY

Baton Rouge, Louisiana

NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Louisiana Key Academy (the School) was incorporated on June 18, 2012, as a non-profit corporation under the laws of the State of Louisiana. The School operates under a contract with the Louisiana Department of Education as a Type 2 charter school with a contract term from July 1, 2014 through June 30, 2018, and may be extended for a maximum term of ten years, contingent upon the results of the School's operations and compliance with regulatory and contractual requirements after the completion of the fourth year of operation. The contract was renewed for three years on July 1, 2018 and expires on June 30, 2021. The School is a public, tuition free, primary charter school for dyslexic students in first through sixth grade and increased to the seventh and eighth grade for the 2018-2019 and 2019-2020 school years, respectively.

Financial statement presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States. The School reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions, which are described as follows:

Net assets without donor restrictions - net assets that are not subject to donor-imposed stipulations and are available for use at the School's discretion. Net assets without donor restrictions may be designated for specific purposes by the School's governing authority.

Net assets with donor restrictions - net assets subject to donor-imposed stipulations that may or will be met by actions of the School and/or the passage of time or include assets to be held in perpetuity with income earnings on the related investments to be used for general or specific purposes. When a restriction expires, donor restricted net assets are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

The statements of activities and functional expenses presents expenses of the School's operations functionally between instructional, operations and maintenance, food services, fundraising, and general and administrative.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently adopted accounting pronouncements

During the year ended June 30, 2020, the School adopted the requirements of the Financial Accounting Standards Board's (FASB) Accounting Standards Update (ASU) No. 2014-09 (*Topic 606*): *Revenue from Contracts with Customers* (ASU 2014-09), which addresses how an entity should recognize revenue derived from various contracts with customers. Primarily, the update requires the School to evaluate the various performance obligations related to its contracts with customers, allocate the transaction price to the various performance obligations, and recognize revenue as performance obligations are satisfied.

Additionally, during the year ended June 30, 2020, the School adopted the requirements of the FASB's ASU No. 2018-08 Not-for-Profit Entities (*Topic 958*): *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. The FASB issued this ASU to assist entities in evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, or as exchange (reciprocal) transactions subject to other guidance and determining whether a contribution is conditional.

As discussed further in Note 1, the School's revenue is primarily derived from federal and local grants. The School receives contributions from various individuals and organizations in the local community. The adoption of ASUs 2014-09 and 2018-08 does not materially change the way the School recognizes revenue or contributions, therefore, there was no restatement required to net assets as of July 1, 2018 or 2019.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates are used primarily when accounting for depreciation, receivables and personal time off.

Revenue recognition, contributions and contributions receivable

The School receives a large portion of its revenue from the Minimum Foundation Program (MFP) through the Louisiana State Board of Elementary and Secondary Education (BESE). The amount of MFP funding is based on an allocation of funds provided by the State of Louisiana and local taxes. The School also receives federal and private sector funding. Federal funds are received through the Louisiana Department of Education.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition, contributions and contributions receivable (Continued)

Private sector funding consists of donations from private foundations and individuals. Contributions are recognized at estimated fair value when the donor makes a pledge to give that is, in substance, an unconditional promise. The School does not recognize a conditional promise to give until the conditions upon which the promise depends are substantially met. A promise to give that calls for specific outcomes to be achieved is treated as a conditional promise to give. Contributions are recorded as support with or without donor restrictions, depending on the nature of donor restrictions.

Fair value financial instruments

The carrying value of cash, receivables, prepaid expenses, accounts payable, accrued expenses and the lines of credit approximate fair value due to the short-term maturity of these instruments. None of the financial instruments are held for trading purposes.

Cash

Cash, for purposes of the statement of cash flows, consists of cash on hand, demand deposit and savings accounts. The School typically maintains cash in a local bank that may, at times, exceed FDIC insured limits of \$250,000. The School deposits cash funds in high quality institutions to mitigate the risk due to uninsured exposure. The School's uninsured exposure was \$1,240,481 and \$685,873 at June 30, 2020 and 2019, respectively.

Receivables

The receivables are stated at the amount management expects to collect. Management considers these amounts to be collectible; therefore, no allowance has been recorded. The School had no receivables outstanding for longer than 90 days as of June 30, 2020 and 2019, respectively. Unconditional promises to give are recorded at present value.

Property

Property is recorded at cost. Depreciation is recorded using the straight-line method over the estimated useful life of the asset. A capitalization threshold of \$5,000 has been established. Expenses for maintenance, repairs and minor renewals that do not extend the useful life of the asset are expensed as incurred.

Personal time off

During 2019, the School amended its personal time off (PTO) policy to only allow administrative employees and program coordinators the privilege of carrying forward PTO and receiving payout upon separation from the School. The School's policy states that full-time regular, salaried employees with at least one month of service are awarded the benefit of PTO. Administrative employees and program coordinators may carry forward PTO from year to year, although no more than 15 days of accrued PTO will be considered for payout in the event of an employee separation from the School.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Personal time off (Continued)

PTO is awarded as follows:

Employee Service Lives	PTO Days Per Year	
	Instructional Personnel	Administrative and Program Coordinators
One month but less than one year	5	5
One year or more	10	10
Annual carryover limit	-	Unlimited

A PTO liability of \$22,112 has been recorded at June 30, 2020 and 2019, recorded as accrued expenses. Additionally, the School recognized a nonoperating of \$35,712 recorded as other income for the year ending June 30, 2019, as a result of the change in the PTO policy.

Functional expenses

The financial statements report certain expense categories that are attributable to more than one service or support function. Program service expenses, fundraising, and management and general expenses are based on specific identification of the direct costs. Costs not directly attributable to a function, including depreciation, amortization, interest, and other occupancy costs, are allocated to general and administrative expenses. Salaries are allocated based on estimated time spent for each function.

Tax-exempt status

The School is a non-profit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The School follows the provisions of FASB ASC 740-10, *Accounting for Uncertainty in Income Taxes*. The School's open audit periods are 2017 through 2020.

NOTE 2 - PROMISES TO GIVE

Unconditional promises to give are recorded at present value. At June 30, 2020 and 2019, the value of promises to give are as follows:

	2020	2019
Receivable in less than one year	\$ 200,000	\$ 125,000
Receivable in one to five years	-	100,000
Total	\$ 200,000	\$ 225,000

NOTE 3 - PROPERTY

Equipment, related service lives, and accumulated depreciation at June 30, 2020 and 2019 were as follows:

	Estimated Service Lives	2020	2019
Leasehold improvements	15	\$ 4,776,319	\$ 2,778,972
Playground equipment	10	83,278	83,278
Equipment	5 - 7 years	425,290	124,039
Construction in progress	-	-	229,195
		5,284,887	3,215,484
Less accumulated depreciation		(1,180,273)	(847,624)
Property and equipment, net		\$ 4,104,614	\$ 2,367,860

Depreciation expense was \$332,649 and \$217,574 for the years ended June 30, 2020 and 2019, respectively.

Capital lease obligations

As of June 30, 2020, the School has capitalized equipment acquired through capital leases with a cost of \$124,599 and has a corresponding accumulated depreciation of \$43,553. Depreciation for these assets of \$24,436 was recognized in 2019. The School has two capital lease obligations as of June 30, 2020.

NOTE 4 - LINES OF CREDIT

The School has a revolving line of credit with a borrowing limit of \$600,000. Interest is payable monthly at a rate of LIBOR plus 2.25%, which was 2.41% and 4.34% at June 30, 2020 and 2019, respectively. The outstanding balance on the line of credit was \$528,229 and \$582,219 at June 30, 2020 and 2019, respectively. This debt is secured by assets of the School.

The School has an additional revolving line of credit with a borrowing limit of \$100,823. Interest is payable monthly at a rate of prime interest rate published in the money rate section of the Wall Street Journal Prime Rate of 3.25% and 5.50%, plus 1.00%, which was 4.25% and 6.50% at June 30, 2020 and 2019, respectively. The outstanding balance on the line of credit was \$75,000 and \$100,000 as of June 30, 2020 and 2019, respectively. This line of credit was paid in full in September 2020 and matured on November 20, 2020, without renewal. This debt is secured by a certificate of deposit held in the name of a local supporter at the financial institution.

NOTE 4 - LINES OF CREDIT (CONTINUED)

The School has a third revolving line of credit with a borrowing limit of \$500,000 as of June 30, 2020. Interest is payable monthly at a rate of prime interest rate published in the money rate section of the Wall Street Journal Prime Rate plus a 5.00% floor, which was 5.16% and 7.40% at June 30, 2020 and 2019, respectively. The outstanding balance on the line of credit was \$440,000 at June 30, 2020. The School had no outstanding balance at June 30, 2019. This line of credit expired May 2020 and was renewed with a maturity date of May 2021. This debt is unsecured.

During 2019, the School entered into a fourth revolving line of credit with a borrowing limit of \$1,000,000 with a maturity date of April 2021. Interest is payable monthly at a rate of 6.00% at June 30, 2020 and 2019. The outstanding balance on the line of credit was \$994,175 and \$221,477 at June 30, 2020 and 2019, respectively. The remaining balance is on this debt is unsecured.

NOTE 5 - LONG-TERM LIABILITIES

Coronavirus Aid, Relief and Economic Security Act Funding (CARES Act)

Paycheck Protection Program (PPP)

On April 3, 2020, the School received loan proceeds in the amount of \$711,708 under the PPP. The PPP, established as a part of the CARES Act, provides for loans to qualifying businesses for amounts up to 2.5 times of the average monthly payroll expenses of the qualifying businesses. The loans and accrued interest may be forgivable as long as the borrower uses the loan proceeds for eligible purposes, including payroll, certain employee benefits, rent and utilities, and maintains certain payroll levels. The amount of loan forgiveness may be reduced if the borrower terminates employees or reduces salaries. At June 30, 2020, the School has a note payable balance of \$711,708 for the PPP.

Capital lease obligations

The School's capital lease obligations for technology equipment at June 30, 2020 and 2019 are as followed:

	2020	2019
Capital lease obligation of \$95,582, due in monthly installments of \$2,950 including interest at 7.4% through May 14, 2021. The lease is secured by the equipment.	\$ 31,785	\$ 65,641
Capital lease obligation of \$29,017, due in monthly installments of \$691 including interest of 6.9% through July 16, 2021. The lease is secured by the equipment.	<u>22,372</u>	<u>-</u>
Total	<u>\$ 54,157</u>	<u>\$ 65,641</u>

NOTE 5 - LONG-TERM LIABILITIES (CONTINUED)

Capital lease obligations (Continued)

Future maturities of long-term debt are as follows:

Year ending June 30,	Amount
2020	\$ 38,232
2021	15,925
Total	\$ 54,157

NOTE 6 - NET ASSETS

Net assets with donor restrictions

During 2020 and 2019, changes in donor restricted net assets subject to satisfaction of purpose restrictions were as follows:

	June 30, 2019	Increases	Decreases	June 30, 2020
Capital Campaign - Renovations	\$ 185,000	\$ 89,415	\$ 185,000	\$ 89,415
Student laptops	-	37,400	-	37,400
Summer Pilot Program	24,033	-	15,744	8,289
STEM	9,493	-	606	8,887
Academic Lab Program	7,482	-	42	7,440
Drama Program	7,018	-	75	6,943
Robotics	1,471	-	1,471	-
Classroom furniture	1,200	-	1,200	-
Total	\$ 235,697	\$ 126,815	\$ 204,138	\$ 158,374

	June 30, 2018	Increases	Decreases	June 30, 2019
Capital Campaign - Renovations	\$ 105,000	\$ 300,000	\$ 220,000	\$ 185,000
Summer Pilot Program	47,500	-	23,467	24,033
STEM	12,500	-	3,007	9,493
Academic Lab Program	-	15,000	7,518	7,482
Drama Program	8,488	-	1,470	7,018
Robotics	-	6,803	5,332	1,471
Classroom furniture	1,200	-	-	1,200
Library furniture and books	-	7,500	7,500	-
Unum grant - Computers	-	7,250	7,250	-
Technology Program	1,073	-	1,073	-
Basketball and cheer	-	1,648	1,648	-
Courtyard renovation	120	-	120	-
Total, restated	\$ 175,881	\$ 338,201	\$ 278,385	\$ 235,697

NOTE 6 - NET ASSETS (CONTINUED)

Net assets without donor restrictions

Net assets without donor restrictions at June 30, 2020 and 2019 were as follows:

	2020	2019
Undesignated	\$ 2,734,271	\$ 2,311,980
Board designated - capital campaign	30,000	-
Total	\$ 2,764,271	\$ 2,311,980

Board designated net assets are comprised of funds designated by the Board of Directors for capital campaign purposes which will be used to fund the School's building renovations.

NOTE 7 - CONCENTRATIONS

The School receives the majority of its operating revenue from state and federal grants, and contributions from private foundations and individuals. The remaining revenue is received for meal services and reimbursement for after-school care. The percentage of revenue from these sources is as follows:

	Revenue	
	2020	2019
State and local grants	86%	84%
Contributions	4%	9%
Federal grants	8%	5%
Other	2%	2%
Total	100%	100%

NOTE 8 - RISKS AND UNCERTAINTIES

The COVID-19 outbreak in the United States has caused business disruption through mandated closings and the reduction of School operations and activities such as field trips and extracurricular activities. While the disruption is currently expected to be temporary, there is considerable uncertainty around the duration of the closings. Therefore, the School expects this matter to negatively impact its resources from contributions and grants, along with its operating results. However, the related financial impact and duration cannot be reasonably estimated at this time.

NOTE 9 - COMMITMENTS

Building Lease

The School has extended its lease agreement in February 2019 for school space. The lease expires in July 2024. Lease payments are based on 41,801 square feet of occupancy of the premises. The annual rental rate is \$4.50 for units No. 1 – 5 (26,809 square feet) and \$7.00 per square foot for units No. 6 – 10 (14,992 square feet). All units have an increase in price per square foot of \$0.50 each August. Additionally, the rental payment each month will include \$4,668 of common area expenses for maintenance, taxes and insurance. Rental expense under the lease for 2020 and 2019 was \$256,549 and \$193,297 annually.

The future operating lease agreement commitments are as follows:

Fiscal Year <u>Ending June 30,</u>	<u>Amount</u>
2021	258,143
2022	279,046
2023	299,950
2024	345,428
2025	<u>29,117</u>
Total	<u>\$ 1,211,684</u>

The lease has an option to be extended for two immediately successive periods of five years each upon the same terms, covenants and conditions of the current lease agreement.

Technology and Technology Service Agreement

The School entered into a service agreement related to servicing of its IT equipment and network. In August 2018, the School elected to terminate the service agreement and move to a month-to-month agreement. The expense relating to this IT service agreement was approximately \$29,400 and \$42,300 for 2020 and 2019, respectively.

Suits and Claims

Various suits and claims arising in the ordinary course of operations are pending against the School. The majority of the cases are either covered by insurance or other defenses; however, the ultimate effect of such litigation cannot be ascertained at this time. However, the School has not recorded the estimated liability for the potential exposure for claims which were not considered to be measurable and probable.

NOTE 10 - PENSION PLAN

The School sponsors a salary deferral plan that has been established under Section 403(b) of the Internal Revenue Code. Under the provisions of the plan, employees may elect to defer a maximum of \$19,500 annually for calendar year 2020. Salary deferrals, contributions and the related earnings are 100% vested and non-forfeitable. The School makes contributions to the Plan for employees with a written employment contract and in the amount stipulated by the contract, which is in accordance with the plan document. Contributions by the School totaled \$92,649 and \$86,621 for 2020 and 2019, respectively.

The assets are held in a trust fund established under the Plan. The Plan is administered by Voya Retirement Insurance and Annuity Company (formerly operating as ING).

NOTE 11 - FUNDRAISING INCOME AND EXPENSES

The funds raised by the School's gala are included in operations and totaled \$36,349 and \$42,205 for 2020 and 2019, respectfully. The expenses attributable to the annual gala were \$11,276 and \$8,644 for 2020 and 2019, respectfully.

NOTE 12 - SUBSEQUENT EVENTS

In preparing these financial statements, the School has evaluated events and transactions for potential recognition or disclosure through February 19, 2021, which was the date the financial statements were available to be issued.

NOTE 13 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following reflects the School's financial assets as of June 30, 2020 and 2019, excluding amounts not available for general use within one year of the balance sheet date due to contractual or donor-imposed restrictions or internal designations.

	2020	2019
Financial assets, at year-end:		
Cash	\$ 1,599,719	\$ 935,873
Receivables	70,289	171,884
Less those unavailable for general expenditures within one year, due to:		
Board designations	(30,000)	-
Contractual or donor imposed restrictions	(158,374)	(235,697)
Financial assets available for general expenditures within on year	\$ 1,670,008	\$ 1,107,757

As part of the School's liquidity management, the School maintains sufficient cash funds during the year attributable to the annual cash receipts from federal, state, and local grants, contributions from foundations and individuals, and utilizing the available lines of credit balances.

SUPPLEMENTARY INFORMATION

LOUISIANA KEY ACADEMY

Baton Rouge, Louisiana

**SCHEDULE OF COMPENSATION, BENEFITS AND
OTHER PAYMENTS TO AGENCY HEAD**

For the year ended June 30, 2020

Agency Head: Heather Bourgeois, Principal

<u>Purpose</u>	<u>Amount</u>
Salary	\$ 96,270
Benefits - insurance	5,842
Benefits - retirement	3,002
Bonus	750
	<u>\$ 105,864</u>

See Independent Auditors' Report

Report on Internal Control and Compliance

LOUISIANA KEY ACADEMY
Baton Rouge, Louisiana

June 30, 2020

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*

To the Board of Directors
Louisiana Key Academy
Baton Rouge, Louisiana

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 **LOUISIANA KEY ACADEMY** (the School) (a non-profit organization) which comprise the statement of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 19, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) 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 School's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and recommendations as 2020-001, which we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Louisiana Key Academy's Responses to Findings

The School's responses to the finding identified in our audit are described in the accompanying schedule of findings and recommendations. The School's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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

This report is intended for the information of the Board of Directors, management, state and federal granting agencies, and the Louisiana Legislative Auditor and is not intended to be and should not be used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

Faulk & Winkler, LLC
Certified Public Accountants

Baton Rouge, Louisiana
February 19, 2021

LOUISIANA KEY ACADEMY
Baton Rouge, Louisiana

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

For the year ended June 30, 2020

1) Summary of Auditors' Results:

- A) The type of report issued on the financial statements: **Unmodified opinion.**

- B) A significant deficiency in internal control was disclosed by the audit of financial statements: **2020-001.**

Material weaknesses: **None.**

- C) Noncompliance that is material to the financial statements: **None.**

- D) Findings relating to the financial statements reported in accordance with *Government Auditing Standards*: **2020-001.**

LOUISIANA KEY ACADEMY
Baton Rouge, Louisiana

SUMMARY OF FINDINGS AND RECOMMENDATIONS

For the year ended June 30, 2020

2) Findings – Financial Statement Audit

2020-001 Lack of Segregation of Duties

Criteria: There is not sufficient staff to achieve segregation of duties to have effective internal control over financial reporting.

Condition: Personnel responsible for preparing and approving transactions also have the responsibility for recording and reconciling transactions in the accounting records.

Cause: The business office has a limited number of staff.

Effect: Errors or misstatements could occur and not be identified.

Recommendation: We recommend that management continue to delegate responsibilities to other administrative staff to enhance internal control through segregation of duties. Specifically, we recommend management continue and/or incorporate procedures as follows:

- Review of unopened bank statements, including cancelled checks, by a board member and member of management who is independent of cash disbursements and bank reconciliation processes,
- Purchase of a fidelity bond,
- Review all journal entries recorded in the accounting system.

Views of responsible officials and corrective action plan: Management intends to pursue segregation of responsibilities for personnel assigned to prepare and approve transactions.

LOUISIANA KEY ACADEMY

Baton Rouge, Louisiana

SUMMARY OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

For the year ended June 30, 2020

2019-001 Lack of Segregation of Duties

This matter has been reclassified to Item 2020-001.

2019-002 Public Bid Law

This matter is considered resolved.

SCHEDULES REQUIRED BY STATE LAW

(R.S. 24:514 - PERFORMANCE AND STATISTICAL DATA)

**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED-UPON PROCEDURES**

To the Board of Directors
Louisiana Key Academy
Baton Rouge, Louisiana

Dear Board Members:

We have performed the procedures enumerated below, which were agreed to by the management of **LOUISIANA KEY ACADEMY** (the School), and the Louisiana Legislative Auditor, on the performance and statistical data accompanying the annual financial statements of the School as of June 30, 2020 and to determine whether the specified schedules are free of obvious errors and omissions as required by the Board of Elementary and Secondary Education (BESE) Bulletin. The School's management is responsible for its performance and statistical. The sufficiency of these procedures is solely the responsibility of the specified parties. Consequently, we make no representation regarding the sufficiency of the procedures enumerated below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and associated findings are as follows:

Schedule B-1: General Fund Instructional and Support Expenditures and Certain Local Revenue Sources

1. We selected a random sample of 25 transactions and reviewed supporting documentation to determine if the sampled expenditures/revenues are classified correctly and are reported in the proper amounts for each of the following amounts reported on the schedule:

- Total General Fund Instructional Expenditures
- Total General Fund Equipment Expenditures
- Total Local Taxation Revenue
- Total Local Earnings on Investment in Real Property
- Total State Revenue in Lieu of Taxes
- Nonpublic Textbook Revenue
- Nonpublic Transportation Revenue

Exceptions Noted: None.

Schedule B-2: Class Size Characteristics

2. We obtained a list of classes by school, school type, and class size as reported on the schedule. We then traced a sample of 10 classes to the October 1st roll books for those classes and observed that the class was properly classified on the schedule.

Exceptions Noted: None.

This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Governmental Auditing Standards*, issued by the United States Comptroller General. We were not engaged to, and did not, perform an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the performance and statistical data. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely to describe the scope of testing performed on the performance and statistical data accompanying the annual financial statements of the Academy, as required by Louisiana Revised Statute 24: 5141.I, and the result of that testing, and not to provide an opinion on control or compliance. Accordingly, this report is not suitable for any other purpose. Under Louisiana Revised Statute 24:513, this report is distributed by the Louisiana Legislative Auditor as a public document.

Faulk & Winkler, LLC
Certified Public Accountants

Baton Rouge, Louisiana
February 19, 2021

LOUISIANA KEY ACADEMY

Baton Rouge, Louisiana

SCHEDULES REQUIRED BY STATE LAW (R.S. 24:514 - PERFORMANCE AND STATISTICAL DATA)

AS OF AND FOR THE YEAR ENDED JUNE 30, 2020

Schedule B-1 - General Fund Instructional and Support Expenditures and Certain Local Revenue Sources

This schedule includes general fund instructional and equipment expenditures. It also contains local taxation revenue, earnings on investments, revenue in lieu of taxes, and nonpublic textbook and transportation revenue. This data is used either in the Minimum Foundation Program (MFP) formula or is presented annually in the MFP 70% Expenditure Requirement Report.

Schedule B-2 - Class Size Characteristics

This schedule includes the percent and number of classes with student enrollment in the following ranges: 1-20, 21-26, 27-33, and 34+ students.

LOUISIANA KEY ACADEMY

Baton Rouge, Louisiana

General Fund Instructional and Support Expenditures and Certain Local Revenue Sources

For the year ended June 30, 2020

General Fund Instructional and Equipment Expenditures**General Fund Instructional Expenditures:**

Teacher and Student Interaction Activities:

Classroom Teacher Salaries	\$ 2,166,424	
Other Instructional Staff Activities	267,906	
Instructional Staff Employee Benefits	536,321	
Purchased Professional and Technical Services	2,191	
Instructional Materials and Supplies	101,882	
Instructional Equipment	<u>-</u>	
Total Teacher and Student Interaction Activities		3,074,724

Other Instructional Activities	<u>46,046</u>	46,046
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Pupil Support Activities	37,515	
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Less: Equipment for Pupil Support Activities	<u>-</u>	
Net Pupil Support Activities		37,515

Instructional Staff Services	-	
Less: Equipment for Instructional Staff Services	<u>-</u>	
Net Instructional Staff Services		-

School Administration	904,480	
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Less: Equipment for School Administration	<u>-</u>	
Net School Administration		<u>904,480</u>

Total General Fund Instructional Expenditures		<u>\$ 4,062,765</u>
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Total General Fund Equipment Expenditures		<u>\$ -</u>
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Certain Local Revenue Sources

Local Taxation Revenue:

Constitutional Ad Valorem Taxes	\$ -	
Renewable Ad Valorem Tax	-	
Debt Service Ad Valorem Tax	-	
Up to 1% of Collections by the Sheriff on Taxes Other than School Taxes	-	
Sales and Use Taxes	<u>-</u>	
Total Local Taxation Revenue		<u>-</u>

Local Earnings on Investment in Real Property:

Earnings from 16th Section Property	-	
Earnings from Other Real Property	<u>-</u>	
Total Local Earnings on Investment in Real Property		<u>-</u>

State Revenue in Lieu of Taxes:

Revenue Sharing - Constitutional Tax	-	
Revenue Sharing - Other Taxes	-	
Revenue Sharing - Excess Portion	-	
Other Revenue in Lieu of Taxes	<u>-</u>	
Total State Revenue in Lieu of Taxes		<u>\$ -</u>

Nonpublic Textbook Revenue		<u>\$ -</u>
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Nonpublic Transportation Revenue		<u>\$ -</u>
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See independent accountants' report on applying agreed-upon procedures.

LOUISIANA KEY ACADEMY

Baton Rouge, Louisiana

Class Size Characteristics

As of October 1, 2019

School Type	Class Size Range							
	1 - 20		21 - 26		27 - 33		34+	
	%	Number	%	Number	%	Number	%	Number
Elementary	93	27	7	2	-	-	-	-
Elementary Activity Classes	-	-	-	-	-	-	-	-
Middle/Jr. High	-	-	-	-	-	-	-	-
Middle/Jr. High Activity Classes	-	-	-	-	-	-	-	-
High	-	-	-	-	-	-	-	-
High Activity Classes	-	-	-	-	-	-	-	-
Combination	-	-	-	-	-	-	-	-
Combination Activity Classes	-	-	-	-	-	-	-	-

Note: The Board of Elementary and Secondary Education has set specific limits on the maximum size of classes at various grade levels. The maximum enrollment in grades K-3 is 26 students and maximum enrollment in grades 4-12 is 33 students. These limits do not apply to activity classes such as physical education, chorus, band, and other classes without maximum enrollment standards. Therefore, these classes are included only as separate line items.

LOUISIANA KEY ACADEMY

Baton Rouge, Louisiana

MANAGEMENT LETTER

December 31, 2020 and 2019

FAULK & WINKLER

CPAs - BUSINESS ADVISORS

To the Board of Directors
Louisiana Key Academy
Baton Rouge, Louisiana

In planning and performing our audit of the financial statements of **LOUISIANA KEY ACADEMY** (the School) as of and for the years ended December 31, 2020 and 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the School'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 consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 School's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be a material weakness.

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. We consider the deficiency listed as item 2020-001 in Attachment A to be a significant deficiency.

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

Faulk & Winkler, LLC
Certified Public Accountants

Baton Rouge, Louisiana
February 19, 2021

2020-001 Timeliness of Retirement Plan Deferral Remittances

Observation: During 2020, employee withholdings for 6 pay periods were not remitted timely under the Employee Retirement Income Security Act (ERISA), which is due as soon as administratively possible. As such, these remittances should be made immediately as payroll is processed which is similar to payroll tax remittances. As a result, plan participants may have lost investment earnings on retirement deferrals.

Recommendation: The School should ensure amounts are deposited into participant accounts in a timely manner. Additionally, management should ensure all issues causing delay in remittance deposits have been resolved between the School's finance director, payroll provider and custodian of assets.

Additionally, management should consult with its third-party administrator to determine self-correction through a lost earnings calculation and remittance on behalf of plan participants is required.

Management's response: The School is in contact with its third-party administrator and custodian of assets to determine if self-correction is necessary through lost earnings calculation and remittance.