

**KANU O KA `ĀINA NEW CENTURY
PUBLIC CHARTER SCHOOL (KANU)**

**FINANCIAL STATEMENTS AND SCHEDULE
And Independent Auditors' Reports
For the Year Ended June 30, 2012**



CW Associates

A Hawaii Certified Public Accounting Corporation

**KANU O KA `ĀINA NEW CENTURY
PUBLIC CHARTER SCHOOL (KANU)**

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INDEPENDENT AUDITORS' REPORT

Kanu o ka `Aina New Century Public Charter School (KANU):

We have audited the accompanying statement of net assets of Kanu o ka `Aina New Century Public Charter School (KANU), a business-type governmental entity as of June 30, 2012, and the related statements of revenue, expenses, and changes in net assets and of cash flows for the year then ended. These financial statements are the responsibility of KANU's management. Our responsibility is to express an opinion on these financial statements based on our audit. Because we were not engaged to audit the financial statements of KANU Support Group, a component unit of Kanu o ka `Aina Learning Ohana (KALO), and a discretely presented component unit of KANU, we did not extend our auditing procedures to enable us to express an opinion on those financial statements and, accordingly, we express no opinion on them.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained within *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KANU as of June 30, 2012, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information in the accompanying schedule of functional expenses 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2012, on our consideration of the KANU's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

CW ASSOCIATES, CPAs

November 30, 2012

**KANU O KA `ĀINA NEW CENTURY
PUBLIC CHARTER SCHOOL (KANU)**

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended of June 30, 2012

Our discussion and analysis of the financial performance of Kanu o ka `Aina New Century Public Charter School (KANU), provides an overview of KANU's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with KANU's financial statements and related notes to financial statements, which follow.

The School as a Whole

KANU is a public charter school that is administered by KANU Support Group, a component unit of Kanu O Ka `Aina Learning `Ohana (KALO), under an agreement with KANU's Governing Board (formerly the Local School Board), and serves 219 students in grades kindergarten through twelve. KANU was organized primarily to provide students of Hawaiian ancestry residing in the Hamakua and North Hawaii areas on the Island of Hawai'i with an equal opportunity to quality education that addresses their distinctive cultural learning styles. KANU has a unique balance of culturally-driven curriculum and standards-based assessment.

Using This Annual Report

This annual report includes a series of financial statements and a supplemental schedule. In accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statement – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34), KANU issues a Statement of Net Assets, Statement of Revenue, Expenses and Changes in Net Assets, and a Statement of Cash Flows. These financial statements and the supplemental schedule provide information about the financial activities of KANU, as a whole. This annual report also includes the independent auditors' report on internal controls over financial reporting and on compliance and other matters based on an audit of financial statement performed in accordance with *Government Auditing Standards*.

Financial Highlights

For the year ended June 30, 2012, the School reported operating revenue of \$2,098,474 and operating expenses of \$2,470,257, resulting in a loss from operations of \$371,783. The School also reported nonoperating revenue of \$13,236, resulting in a decrease in net assets of \$358,547.

Financial Statements and Supplemental Schedule

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets include the assets, liabilities, revenue, and expenses of KANU. This activity is recorded using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. Under the accrual basis of accounting all revenue and expenses are recognized when earned or incurred regardless of when the related cash is received or paid. In addition, these statements report the net assets of KANU and the related changes in them. Net assets are the difference between assets and liabilities and represent one way to measure the financial health or financial position KANU. Over time, increases or decreases in the net assets are one indicator of whether the financial health is improving or declining. However, one should consider other non-financial factors when considering the overall health of KANU.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Financial Statements and Supplemental Schedule (Continued)

The Statement of Revenues, Expenses, and Changes in Net Assets reports all of the financial activity of KANU as business-type activity and divides it into two categories: Operating activities and Nonoperating activities. Operating activities include all financial activities associated with the operation of KANU and its related programs. Consequently, nonoperating activities include all financial activities not related to the operation of KANU.

The Supplemental Schedule of Functional Expenses reports KANU's operating expenses in matrix format for its instructional, pupil services, administrative, and facilities services.

Budgetary Highlights

For the fiscal year ended June 30, 2012, KANU incurred \$2,470,257 in actual expenses compared to budgeted expenses of \$2,459,678. The difference between the budgeted and actual expenses is attributable to budgeted salaries and benefits, and supplies expense in excess of the related actual amounts.

Financial Activities

A substantial portion of KANU's funding is received from the State of Hawaii, Department of Education, and is based on a standard rate per pupil. During the fiscal year ended June 30, 2012, KANU received \$1,254,816 in per pupil funding, which represents 59% of its operating revenue. In addition, KANU received private, federal, and State grants totaling \$404,083, \$259,128, and \$162,069, respectively.

Contacting the School's Financial Management

This financial report is designed to provide the reader with a general overview of KANU's finances and to demonstrate the accountability for the funds it received. If you have questions about this report or need additional information, contact KANU's Administrative Office.

**KANU O KA `ĀINA NEW CENTURY
PUBLIC CHARTER SCHOOL (KANU)**

STATEMENT OF NET ASSETS

As of June 30, 2012

	<u>KANU</u>	<i>Unaudited</i> Component Unit KANU <u>Support Group</u>
ASSETS		
CURRENT ASSETS		
Cash (including interest-bearing accounts)	\$ 146,481	\$ 305,057
Grants, contracts, and pledges receivable – net	72,907	-
Total current assets	<u>219,388</u>	<u>305,057</u>
PROPERTY AND EQUIPMENT		
Buildings and improvements	41,151	-
Transportation equipment	154,985	-
Furniture and equipment	71,298	-
Total	267,434	-
Accumulated depreciation	(199,032)	-
Property and equipment – net	<u>68,402</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 287,790</u>	<u>\$ 305,057</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 10,959	\$ -
Accrued liabilities	97,948	-
Due to KALO	99,435	-
Total current liabilities	<u>208,342</u>	<u>-</u>
NET ASSETS		
Unrestricted – undesignated	79,448	305,057
Total net assets	<u>79,448</u>	<u>305,057</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 287,790</u>	<u>\$ 305,057</u>

See accompanying notes to financial statements.

**KANU O KA `ĀINA NEW CENTURY
PUBLIC CHARTER SCHOOL (KANU)**

**STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS**

For the Year Ended June 30, 2012

	<u>KANU</u>	<i>Unaudited</i> Component Unit KANU <u>Support Group</u>
OPERATING REVENUE		
Revenue and support		
State per pupil funding	\$ 1,254,816	\$ -
Private grants	404,083	558,158
Federal grants	259,128	-
State grants	162,069	-
Food service	18,378	-
Total revenue and support	<u>2,098,474</u>	<u>558,158</u>
OPERATING EXPENSES		
School-related operating expenses		
Salaries and benefits	1,526,235	625,986
Contract services	397,426	2,050
Occupancy	261,653	5,687
Supplies	78,321	40,153
Depreciation	52,559	-
Travel and subsistence	51,011	30,129
Equipment	35,654	265
Repairs and maintenance	33,009	-
CSAO administrative fees	24,099	-
Other administrative fees	-	50,097
Miscellaneous	10,290	7,892
Total school-related operating expenses	<u>2,470,257</u>	<u>762,259</u>
LOSS FROM OPERATIONS	<u>(371,783)</u>	<u>(204,101)</u>
NONOPERATING REVENUE		
Contributions and other income	<u>13,236</u>	<u>66,810</u>
Total nonoperating revenue	<u>13,236</u>	<u>66,810</u>
DECREASE IN NET ASSETS	(358,547)	(137,291)
NET ASSETS – Beginning of year	<u>437,995</u>	<u>442,348</u>
NET ASSETS – End of year	<u>\$ 79,448</u>	<u>\$ 305,057</u>

See accompanying notes to financial statements.

**KANU O KA `ĀINA NEW CENTURY
PUBLIC CHARTER SCHOOL (KANU)**

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from grants and contracts	\$ 2,376,808
Receipts from other revenue and support	18,378
Payments to employees	(1,541,063)
Payments to vendors and suppliers	<u>(817,230)</u>
Net cash provided by operating activities	<u>36,893</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Additions to property and equipment	<u>(9,472)</u>
Net cash used by investing activities	<u>(9,472)</u>
NET INCREASE IN CASH	27,421
CASH – Beginning of year	<u>119,060</u>
CASH – End of year	<u>\$ 146,481</u>
RECONCILIATION OF DECREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Decrease in net assets	\$ (358,547)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation	52,559
(Increase) decrease in:	
Grants, contracts, and pledges receivable	283,476
Increase (decrease) in:	
Accounts payable	1,758
Accrued liabilities	(14,828)
Due to Kanu o ka `Āina New Learning `Ohana	<u>72,475</u>
Net cash provided by operating activities	<u>\$ 36,893</u>

See accompanying notes to financial statements.

**KANU O KA `ĀINA NEW CENTURY
PUBLIC CHARTER SCHOOL (KANU)**

**STATEMENT OF CASH FLOWS – COMPONENT UNIT
KANU SUPPORT GROUP
(UNAUDITED)**

For the Year Ended June 30, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Decrease in net assets	\$ (137,291)
Adjustments to reconcile decrease in net assets to net cash used by operating activities:	
(Increase) decrease in:	
Grants, contracts, and pledges receivable	19,055
Increase (decrease) in:	
Due to Kanu o ka `Āina New Century Public Charter School	<u>(161,782)</u>
Net cash used by operating activities	<u>(280,018)</u>
 NET DECREASE IN CASH	 (280,018)
 CASH – Beginning of year	 <u>585,075</u>
 CASH – End of year	 <u>\$ 305,057</u>

See accompanying notes to financial statements.

**KANU O KA `ĀINA NEW CENTURY
PUBLIC CHARTER SCHOOL (KANU)**

NOTES TO FINANCIAL STATEMENTS

For the Year Ended June 30, 2012

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Activity

Kanu o ka `Aina New Century Public Charter School (KANU), is a public charter school that is administered by a Governing Board. Financial support is provided in part by Kanu O Ka `Aina Learning `Ohana (KALO) through its component unit, the KANU Support Group. KANU serves 219 students in grades kindergarten through twelve. It was organized primarily to provide students of Hawaiian ancestry residing in the Hamakua and North Hawaii areas on the Island of Hawai`i with an equal opportunity to quality education that addresses their distinctive cultural learning styles. KANU has a unique balance of culturally-driven curriculum and standards-based assessment.

Basis of Accounting

In accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statement – and Management’s Discussion and Analysis – for State and Local Governments* (GASB No. 34), KANU is considered a special purpose government entity that engages in only business-type activities. It allocates its expenses on a functional basis between its instructional program and support services based on estimates by management. Expenses that can be identified with the instructional program or support services are charged directly to the program or supporting services. Other expenses that are common to several functions are allocated by various bases. Expenses are recognized when the related liability is incurred.

Use of Estimates

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates, and it is reasonably possible that such estimates may change within the near term.

Concentrations of Credit Risk

KANU maintains cash at two financial institutions. These balances, at times, may exceed the Federal Deposit Insurance Corporation insured limit of \$250,000. Management acknowledges the possibility of risk in this arrangement. However, the size and longevity of the depository institution minimized such risk. As required by Governmental Accounting Standards Board Statement No. 40, *Deposits and Investment Risk Disclosures*, the following represents a summary of deposits as of June 30, 2012:

Fully insured deposits	\$201,948
Uncollateralized deposits	<u>-</u>
Total cash on deposit	<u>\$201,948</u>

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations of Credit Risk (Continued)

Financial instruments that potentially subject the KANU Support Group to credit risk include cash and receivables. At June 30, 2012, cash on deposit with financial institutions for the KANU Support Group were fully insured. Management evaluates the credit standings of these financial institutions to ensure that all funds are adequately safeguarded. Receivables, the collectability of which is assessed by management based on the individual accounts, have been adjusted for all known doubtful accounts.

Property and Equipment

Property and equipment is stated at cost or, if donated, at estimated fair market value at the date of donation. Depreciation is computed using the straight-line method over estimated useful lives of 39 years for buildings and improvements, and 5 years for technology equipment and other equipment. Improvements are capitalized. Repairs and maintenance are expensed.

Pension

KANU sponsors a simplified employee pension (SEP) plans covering all employees who have worked in at least two of the preceding five years. Pension expense amounted to \$0 for the year ended June 30, 2012.

Component Unit KANU Support Group

KANU Support Group, a component unit of KANU, is also a component unit of Kanu O Ka 'Aina Learning 'Ohana (KALO), a nonprofit Hawaii corporation exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. Accordingly, qualifying contributions to KALO and the KANU Support Group are tax deductible. KALO was established in December 2000 to administer programs for the advancement of the education, culture, and traditions of Hawaiian people. KANU utilizes facilities owned by KALO during the school day under an operating lease agreement. Lease rent expense amounted to \$156,000 for the year ended June 30, 2012. Amounts due to KALO consist primarily of rent or other expenses payable by KANU to KALO.

KANU Support Group reports in accordance with Financial Accounting Standards Board pronouncements, certain presentation features of which are different from GASB presentation features. Consequently, the statement of cash flows for KANU Support Group is presented as a separate financial statement using the indirect method.

Financial Statement Presentation

Management has evaluated subsequent events through the date of the independent auditors' report, which is the date the financial statements were available to be issued. KANU and the KALO Support Group operate in the State of Hawaii. National and international events can have severe, adverse effects on economic conditions in Hawaii. The effects, if any, on their financial statements from such changes in economic conditions are not presently determinable.

**KANU O KA `ĀINA NEW CENTURY
PUBLIC CHARTER SCHOOL (KANU)**

SCHEDULE OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2012

	<u>Instructional</u>	<u>Pupil Services</u>	<u>Admini- stration</u>	<u>Facilities</u>	<u>Total</u>
Salaries and benefits	\$ 1,347,000	\$ -	\$ 82,794	\$ 96,441	\$ 1,526,235
Contract services	6,189	192,055	199,182	-	397,426
Occupancy	-	-	-	261,653	261,653
Supplies	31,078	-	46,705	538	78,321
Depreciation	-	-	-	52,559	52,559
Travel and subsistence	8,873	28,799	13,339	-	51,011
Equipment	18,046	-	-	17,608	35,654
Repair and maintenance	-	-	-	33,009	33,009
CSAO administrative fee	-	-	18,168	5,931	24,099
Miscellaneous	-	270	10,020	-	10,290
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$1,411,186</u>	<u>\$221,124</u>	<u>\$370,208</u>	<u>\$467,739</u>	<u>\$2,470,257</u>

**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***

Kanu o ka `Aina New Century Public Charter School (KANU):

We have audited the financial statements of Kanu o ka `Aina New Century Public Charter School (KANU), a business-type governmental entity, as of and for the year ended June 30, 2012, and have issued our report thereon dated November 30, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

The management of KANU is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered KANU's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness KANU's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of KANU's internal control over financial reporting.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KANU'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*.

This report is intended solely for the information and use of the Governing Board, management, and others within KANU, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

CW ASSOCIATES, CPAs

November 30, 2012