

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

**FINANCIAL STATEMENTS AND SCHEDULE  
For the Years Ended June 30, 2021 and 2020  
And Independent Auditor's Reports**



**CW Associates**  
*A Hawaii Certified Public Accounting Corporation*

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

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## **INDEPENDENT AUDITOR'S REPORT**

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Kanu o ka `Āina New Century Public Charter School (KANU), a business-type governmental entity, which comprise the statements of net assets as of June 30, 2021 and 2020, and the related statements of revenue, expenses, and changes in net assets, 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 includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluation of 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 on the Financial Statements*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KANU as of June 30, 2021 and 2020, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matter – Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the accompanying management’s discussion and analysis be presented to supplement the financial statements. Such information, although not a part of the 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.

### *Other Matter – Unaudited Component Unit KANU Support Group*

Because we were not engaged to audit the financial statements of KANU Support Group, a component unit of Kanu o ka `Āina Learning Ohana (KALO), and a discretely presented component unit of KANU, as of and for the years ended June 30, 2021 and 2020, 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.

### *Other Matter – Other Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Functional Expenses for the year ended June 30, 2021, with prior year comparative information, 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 October 8, 2021 on our consideration of KANU'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 KANU's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering KANU's internal control over financial reporting and compliance.

CW ASSOCIATES, CPAs

Honolulu, Hawaii  
October 8, 2021

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the Years Ended June 30, 2021 and 2020**

Management's discussion and analysis of the financial performance of Kanu o ka `Āina New Century Public Charter School (KANU), a business-type governmental entity, provides an overview of the financial activities of KANU for the years ended June 30, 2021 and 2020. Please read it in conjunction with the financial statements and the related notes to the financial statements of KANU, which follow.

KANU as a Whole

KANU is a public charter school with students in grades kindergarten through twelve, organized as a community-based learning `ohana serving the State of Hawaii. With a mission of *kūlia i ka nu`u*, or strive for the highest, KANU is steadfast in cultivating compassionate, empowered, highly competent learners of all ages, grounded in Native Hawaiian culture and language. Student enrollment was 618 and 591 for the years ended June 30, 2021 and 2020, respectively.

KANU's instructional strategies for its learners include place-based, project, or inquiry-based learning as well as blended and virtual learning approaches. The Ka Oha Virtual Program is a form of distance education that uses the Internet and computer technologies to connect teachers and students. KANU's Blended Program offers additional instruction at a supervised brick and mortar school site location and in part through a virtual learning program or alternative learning experience in which students have some element of control over time, place, path, and/or pace. Various vendors are used for the virtual delivery in an effort to meet the unique needs, capabilities, and interests of students.

KANU has an affiliation with Kanu o ka `Āina Learning `Ohana (KALO), a nonprofit Hawaii corporation, through its component unit, KANU Support Group, which provides financial support for KANU. Accordingly, KANU Support Group is reported as a discrete component unit in the accompanying financial statements. The financial statements of KALO are audited annually; however, the financial statements of KANU Support Group were not independently audited as of and for the years ended June 30, 2021 and 2020.

Using This Annual Report

This annual report consists of 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; a 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 auditor's report required by the Government Accountability Office's (GAO) *Government Auditing Standards* for the year ended June 30, 2021.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**For the Years Ended June 30, 2021 and 2020**

Financial Highlights

For the year ended June 30, 2021, KANU reported operating revenue of \$6,658,146 and operating expenses of \$5,727,450, resulting in income from operations of \$930,696. KANU reported total nonoperating revenue of \$4,304 for the year ended June 30, 2021, resulting in an increase in net assets of \$935,000. For the year ended June 30, 2020, KANU reported operating revenue of \$6,355,440 and operating expenses of \$5,805,628, resulting in income from operations of \$549,812. KANU reported total nonoperating revenue of \$11,447 for the year ended June 30, 2020, resulting in an increase in net assets of \$561,259.

KANU reported cash provided by operating activities of \$1,148,087 and cash used by investing activities of \$6,173, resulting in an increase in cash of \$1,141,914 for the year ended June 30, 2021. KANU reported cash provided by operating activities of \$497,175, resulting in an increase in cash of \$497,175 for the year ended June 30, 2020.

Financial Statements and Supplemental Schedule

The Statement of Net Assets and the Statement of Revenue, 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 of KANU. Over time, increases or decreases in net assets are one indicator of whether KANU's financial health is improving or declining. Management believes that a comprehensive assessment of KANU's financial health based on historic trends and near-term financial results, and of its future viability, would include an assessment of the additional financial support from the component unit KANU Support Group and other reliable sources that are needed to supplement shortfalls in charter school funding from the State of Hawaii.

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

The Statement of Cash Flows reports KANU's sources and uses of cash using the direct method in three categories: cash flows from operating activities (exclusive of noncash expenses such as depreciation), cash flows from investing activities (none in 2020), and cash flows from financing activities (none in 2021 and 2020). The supplemental Schedule of Functional Expenses reports KANU's operating expenses in matrix format for its instructional, pupil services, administration, and facilities activities. The supplemental schedule includes prior year comparative information.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**

**For the Years Ended June 30, 2021 and 2020**

Financial Activities

A substantial portion of the funding for KANU is received from the State of Hawaii, Department of Education, and is based on a standard rate per pupil. During the year ended June 30, 2021, KANU received \$4,864,939 in per pupil funding, which represents 73% of its revenue and support. In addition, KANU received private, federal, and State grants totaling \$765,135, \$699,917, and \$326,001, respectively. During the year ended June 30, 2020, KANU received \$4,648,477 in per pupil funding, which represents 73% of its revenue and support. In addition, KANU received private, federal, and State grants totaling \$1,019,551, \$349,314, and \$316,497, respectively. Due to the COVID-19 pandemic, during the years ended June 30, 2021 and 2020, KANU received additional Impact Aid from federal grants of \$457,720 (\$387,720 recognized as revenue and \$70,000 in refundable advances) and \$132,219, respectively.

Budgetary Highlightss

For the fiscal years ended June 30, 2021 and 2020, the School incurred \$5,727,450 and \$5,805,628 in actual expenses compared to budgeted expenses of \$6,185,041 and \$6,586,445, respectively. The majority of the difference between actual and budgeted expenses for the year ended June 30, 2021 is attributable to actual expenditures incurred for educational supplies, food services, transportation, contracted services, education service, rental, professional development and travel being less than budgeted. The majority of the difference between actual and budgeted expenses for the year ended June 30, 2020 is attributable to actual expenditures incurred for classroom instructional technology, supplies, and building rental being less than budgeted. The reduction in expenses below budget in 2021 and 2020 is partially attributable to the impact of the COVID-19 pandemic on in-person learning and activities.

Contacting KANU's Financial Management

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

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

**STATEMENTS OF NET ASSETS**

**As of June 30, 2021 and 2020**

|                                            | <u>2021</u>               | <u>2020</u>                | <i>Unaudited</i><br>Component Unit |                         |
|--------------------------------------------|---------------------------|----------------------------|------------------------------------|-------------------------|
|                                            |                           |                            | <u>2021</u>                        | <u>2020</u>             |
| <b>ASSETS</b>                              |                           |                            |                                    |                         |
| <b>CURRENT ASSETS</b>                      |                           |                            |                                    |                         |
| Cash (including interest-bearing accounts) | \$4,199,570               | \$ 3,057,656               | \$377,503                          | \$259,119               |
| Grants and contracts receivable – net      | 137,439                   | 311,349                    | -                                  | -                       |
| Prepaid expenses and other current assets  | 22,432                    | 27,137                     | -                                  | -                       |
| Total current assets                       | <u>4,359,441</u>          | <u>3,396,142</u>           | <u>377,503</u>                     | <u>259,119</u>          |
| <b>PROPERTY AND EQUIPMENT</b>              |                           |                            |                                    |                         |
| Leasehold improvements                     | 394,542                   | 394,542                    | -                                  | -                       |
| Transportation equipment                   | -                         | 123,950                    | -                                  | -                       |
| Furniture and equipment                    | 152,950                   | 22,827                     | -                                  | -                       |
| Total                                      | <u>547,492</u>            | <u>541,319</u>             | -                                  | -                       |
| Accumulated depreciation                   | (279,474)                 | (254,680)                  | -                                  | -                       |
| Property and equipment – net               | <u>268,018</u>            | <u>286,639</u>             | -                                  | -                       |
| <b>TOTAL ASSETS</b>                        | <u><u>\$4,627,459</u></u> | <u><u>\$ 3,682,781</u></u> | <u><u>\$377,503</u></u>            | <u><u>\$259,119</u></u> |
| <b>LIABILITIES AND NET ASSETS</b>          |                           |                            |                                    |                         |
| <b>CURRENT LIABILITIES</b>                 |                           |                            |                                    |                         |
| Accounts payable                           | \$ 24,585                 | \$ 21,572                  | \$ -                               | \$ -                    |
| Accrued liabilities                        | 235,830                   | 252,776                    | -                                  | -                       |
| Refundable advance                         | 70,000                    | -                          | -                                  | -                       |
| Due to Kanu o ka `Āina Learning `Ohana     | 37,482                    | 83,871                     | -                                  | -                       |
| Total current liabilities                  | <u>367,897</u>            | <u>358,219</u>             | -                                  | -                       |
| <b>NET ASSETS</b>                          |                           |                            |                                    |                         |
| Unrestricted – undesignated                | <u>4,259,562</u>          | <u>3,324,562</u>           | <u>377,503</u>                     | <u>259,119</u>          |
| Total net assets                           | <u>4,259,562</u>          | <u>3,324,562</u>           | <u>377,503</u>                     | <u>259,119</u>          |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>    | <u><u>\$4,627,459</u></u> | <u><u>\$ 3,682,781</u></u> | <u><u>\$377,503</u></u>            | <u><u>\$259,119</u></u> |

See accompanying notes to the financial statements.

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

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

**For the Years Ended June 30, 2021 and 2020**

|                                       | <u>2021</u>        | <u>2020</u>        | <i>Unaudited</i><br>Component Unit |                  |
|---------------------------------------|--------------------|--------------------|------------------------------------|------------------|
|                                       |                    |                    | <u>2021</u>                        | <u>2020</u>      |
| <b>OPERATING REVENUE</b>              |                    |                    |                                    |                  |
| State per pupil funding               | \$4,864,939        | \$4,648,477        | \$ -                               | \$ -             |
| Private grants                        | 765,135            | 1,019,551          | 139,447                            | 63,587           |
| Federal grants                        | 699,917            | 349,314            | -                                  | -                |
| State grants                          | 326,001            | 316,497            | -                                  | -                |
| Food service                          | 2,154              | 21,601             | -                                  | -                |
| Total operating revenue               | <u>6,658,146</u>   | <u>6,355,440</u>   | <u>139,447</u>                     | <u>63,587</u>    |
| <b>OPERATING EXPENSES</b>             |                    |                    |                                    |                  |
| Salaries and benefits                 | 3,261,196          | 3,168,408          | 98                                 | 22               |
| Classroom instructional technology    | 937,144            | 935,505            | -                                  | -                |
| Occupancy                             | 632,519            | 680,215            | 41                                 | 4,310            |
| Contract services                     | 481,602            | 479,040            | 500                                | -                |
| Supplies                              | 158,750            | 187,304            | 11,654                             | 17,329           |
| Repairs and maintenance               | 150,637            | 145,037            | -                                  | -                |
| Insurance                             | 48,737             | 44,958             | -                                  | -                |
| Depreciation                          | 24,794             | 24,701             | -                                  | -                |
| Equipment                             | 16,149             | 57,932             | -                                  | -                |
| Administrative fees                   | -                  | -                  | 270                                | 1,277            |
| Miscellaneous                         | 9,947              | 14,163             | 8,500                              | 27,623           |
| Travel and subsistence                | 5,975              | 68,365             | -                                  | 7,569            |
| Total operating expenses              | <u>5,727,450</u>   | <u>5,805,628</u>   | <u>21,063</u>                      | <u>58,130</u>    |
| <b>INCOME FROM OPERATIONS</b>         | <u>930,696</u>     | <u>549,812</u>     | <u>118,384</u>                     | <u>5,457</u>     |
| <b>NONOPERATING REVENUE</b>           |                    |                    |                                    |                  |
| Contributions and other income        | 4,304              | 11,447             | -                                  | -                |
| Total nonoperating revenue            | <u>4,304</u>       | <u>11,447</u>      | <u>-</u>                           | <u>-</u>         |
| <b>INCREASE IN NET ASSETS</b>         | 935,000            | 561,259            | 118,384                            | 5,457            |
| <b>NET ASSETS – Beginning of year</b> | <u>3,324,562</u>   | <u>2,763,303</u>   | <u>259,119</u>                     | <u>253,662</u>   |
| <b>NET ASSETS – End of year</b>       | <u>\$4,259,562</u> | <u>\$3,324,562</u> | <u>\$377,503</u>                   | <u>\$259,119</u> |

See accompanying notes to the financial statements.

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

**STATEMENTS OF CASH FLOWS**

**For the Years Ended June 30, 2021 and 2020**

|                                                                                                  | <u>2021</u>         | <u>2020</u>         |
|--------------------------------------------------------------------------------------------------|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                                      |                     |                     |
| Receipts from grants and contracts                                                               | \$ 6,904,206        | \$ 6,209,317        |
| Receipts from food service                                                                       | 2,154               | 21,601              |
| Payments to employees                                                                            | (3,278,142)         | (3,125,622)         |
| Payments to vendors and suppliers                                                                | (2,480,131)         | (2,608,121)         |
| Net cash provided by operating activities                                                        | <u>1,148,087</u>    | <u>497,175</u>      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                                      |                     |                     |
| Additions to property and equipment                                                              | <u>(6,173)</u>      | -                   |
| Net cash used by investing activities                                                            | <u>(6,173)</u>      | -                   |
| <b>NET INCREASE IN CASH</b>                                                                      | 1,141,914           | 497,175             |
| <b>CASH – Beginning of year</b>                                                                  | <u>3,057,656</u>    | <u>2,560,481</u>    |
| <b>CASH – End of year</b>                                                                        | <u>\$ 4,199,570</u> | <u>\$ 3,057,656</u> |
| <b>RECONCILIATION OF INCREASE IN NET ASSETS TO<br/>NET CASH PROVIDED BY OPERATING ACTIVITIES</b> |                     |                     |
| Increase in net assets                                                                           | \$ 935,000          | \$ 561,259          |
| Adjustments to reconcile increase in net assets to<br>net cash provided by operating activities  |                     |                     |
| Depreciation                                                                                     | 24,794              | 24,701              |
| (Increase) decrease in                                                                           |                     |                     |
| Grants and contracts receivable – net                                                            | 173,910             | (135,969)           |
| Prepaid expenses and other current assets                                                        | 4,705               | (1,838)             |
| Increase (decrease) in                                                                           |                     |                     |
| Accounts payable                                                                                 | 3,013               | (64,901)            |
| Accrued liabilities                                                                              | (16,946)            | 42,786              |
| Refundable advance                                                                               | 70,000              | -                   |
| Due to Kanu o ka `Āina Learning `Ohana                                                           | <u>(46,389)</u>     | <u>71,137</u>       |
| Net cash provided by operating activities                                                        | <u>\$ 1,148,087</u> | <u>\$ 497,175</u>   |

See accompanying notes to the financial statements.

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

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

**For the Years Ended June 30, 2021 and 2020**

|                                           | <u>2021</u>      | <u>2020</u>      |
|-------------------------------------------|------------------|------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES      |                  |                  |
| Increase in net assets                    | \$ 118,384       | \$ 5,457         |
| Net cash provided by operating activities | <u>118,384</u>   | <u>5,457</u>     |
| NET INCREASE IN CASH                      | 118,384          | 5,457            |
| CASH – Beginning of year                  | <u>259,119</u>   | <u>253,662</u>   |
| CASH – End of year                        | <u>\$377,503</u> | <u>\$259,119</u> |

See accompanying notes to the financial statements.

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

**NOTES TO THE FINANCIAL STATEMENTS**

**For the Years Ended June 30, 2021 and 2020**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Activity

Kanu o ka `Āina 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 `Āina Learning `Ohana (KALO) through its component unit, KANU Support Group. KANU was organized as a community-based learning `ohana, in the Hamakua and North Hawaii areas on the Island of Hawaii, and is steadfast in cultivating compassionate, empowered, highly competent learners across the State of Hawaii, grounded in Native Hawaiian culture and language.

Basis of Presentation

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

In accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – 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.

The majority of KANU’s revenue is received from the State of Hawaii, Department of Education (DOE). Revenue from State per pupil funding, other State funding, and private grants are recognized when earned. Revenue from Federal grants is recognized to the extent of expenditures made in accordance with the related agreements (including expenditures for property and equipment, which may be capitalized and depreciated for financial reporting purposes). Food service revenue is recognized when the required services are performed.

KANU allocates its expenses on a functional basis between its instructional program, pupil services, administration, and facilities based on estimates by management. Expenses that can be identified with its instructional program, pupil services, administration, and facilities are charged directly to instructional program, pupil services, administration, and facilities. Other expenses that are common to several functions are allocated based on management estimates of time spent by personnel. Expenses are recognized when the related liability is incurred.

Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires 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, it is reasonably possible that such estimates may change within the near term, and such differences could be material to the financial statements.

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**For the Years Ended June 30, 2021 and 2020**

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations of Credit Risk

Financial instruments that potentially subject KANU to credit risk include cash on deposit with financial institutions at June 30, 2021 and 2020 (see below), and grants and contracts receivable. Grants and contracts receivable, which are determined to be collectible or uncollectible based on an assessment by management of the facts and circumstances related to the individual accounts, including historical experience, an assessment of economic conditions, and a review of subsequent collections, have been adjusted for all known doubtful accounts (none at June 30, 2021 and 2020).

KANU maintains cash at two financial institutions. These balances, at times, may exceed the Federal Deposit Insurance Corporation insured limit of \$250,000 per depositor. Management acknowledges the possibility of risk in this arrangement. However, the size and longevity of the depository institutions minimized such risk. As required by GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, the following represents a summary of deposits as of June 30, 2021 and 2020:

|                                   | <u>2021</u>             | <u>2020</u>             |
|-----------------------------------|-------------------------|-------------------------|
| Fully insured deposits            | \$ 500,000              | \$ 500,000              |
| Uninsured deposits                | 3,703,145               | 2,610,216               |
| Reconciling items                 | <u>(3,575)</u>          | <u>(52,560)</u>         |
| <br>Cash per financial statements | <br><u>\$ 4,199,570</u> | <br><u>\$ 3,057,656</u> |

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 five to 15 years for leasehold improvements, five years for transportation equipment, and three years for furniture and equipment. Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that their related carrying amounts may not be recoverable. Major improvements and expenditures in excess of \$5,000 are capitalized. Repairs and maintenance are expensed as incurred.

KANU Support Group – Component Unit

KANU Support Group is a nonprofit organization that reports in accordance with Financial Accounting Standards Board standards. As such, certain presentation features are different from GASB presentation features. There has been no modification to KANU Support Group’s unaudited financial information in KANU’s financial statements for these differences. Consequently, KANU Support Group’s statement of cash flows is presented as a separate financial statement using the indirect method.

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**For the Years Ended June 30, 2021 and 2020**

**NOTE B – RETIREMENT PLANS**

The employees of the School are employees of the State of Hawaii. Substantially all eligible employees of the State of Hawaii are required to become members of the Employees' Retirement System (ERS) of the State of Hawaii. Prior to June 30, 1984, the plan consisted of only a contributory plan. In 1984, a new non-contributory plan was added for members of the ERS who are also covered under Social Security. The non-contributory plan provides for reduced benefits and covers most eligible employees hired after June 30, 1984.

Employees hired before that date were allowed to continue under the contributory plan or to elect the new non-contributory plan and receive a refund of employee contributions. On July 1, 2007, a new hybrid contributory plan became effective pursuant to Act 170, SLH of 2004. All members of the non-contributory plan and certain members of the contributory plan are eligible to join the new hybrid plan. Most of the new employees hired from July 1, 2006, are required to join the hybrid plan. Employer contributions to the plans are made by the DOE.

**NOTE C – COMPONENT UNIT – KANU SUPPORT GROUP**

KANU Support Group, a component unit of KANU, is also a component unit of Kanu o ka `Āina 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 a month-to-month operating lease agreement. Lease rent expense amounted to \$576,831 and \$600,584 for the years ended June 30, 2021 and 2020, respectively. Amounts due to KALO consist primarily of rent or other expenses payable by KANU to KALO.

**NOTE D – TRANSACTIONS WITH THE STATE OF HAWAII, DEPARTMENT OF EDUCATION**

A substantial portion of the funding for KANU is received from the DOE, and is based on a standard rate per pupil. During the years ended June 30, 2021 and 2020, KANU received \$4,864,939 and \$4,648,477, respectively, in per pupil funding, which represents about 73% of operating revenue for each of those years. Federal grants and State grants received by KANU from the DOE were \$699,917 and \$326,001, respectively, for the year ended June 30, 2021 and \$349,314 and \$316,497, respectively, for the year ended June 30, 2020.

KANU receives reimbursement from the DOE for the employer portion of payroll taxes for employees that were not enrolled in the DOE's payroll system. Such reimbursements, included in State grants in the Statements of Revenue, Expenses, and Changes in Net Assets, amounted to \$211,985 and \$204,984 for the years ended June 30, 2021 and 2020, respectively.

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

**NOTES TO THE FINANCIAL STATEMENTS (Continued)**

**For the Years Ended June 30, 2021 and 2020**

**NOTE E – CONTINGENCIES**

The State Public Charter School Commission (Commission) monitors Hawaii’s public charter schools against standards and other measures in the areas of financial, academic and operating performance. The Commission has the authority to revoke a school’s charter should the Commission determine that the school is not meeting the standards and measures. Revocation of a school’s charter would result in the closure of the school. Management believes that KANU is performing in accordance with the Commission’s standards and measures. However, it is reasonably possible that the operations and operating results of the School could change within the near term, particularly if there was a reduction in the per pupil funding.

KANU may be subject to legal proceedings, claims, or litigation arising in the ordinary course of business for which it may seek the advice of the Attorney General of the State of Hawaii. Management estimates that the cost to resolve such matters, if any, would not be material to the financial statements. However, it is reasonably possible that such estimates may change within the near term.

KANU operates in the State of Hawaii. Local, national, and international events (such as the COVID-19 pandemic) can have severe, adverse effects on economic conditions in Hawaii. These financial statements do not include the adjustments that would result if KANU were to account for future losses or asset impairments, as the effects on the financial statements of KANU from such changes in economic conditions are not presently determinable.

The COVID-19 pandemic has caused business disruption from government-mandated and voluntary closings or reductions in services for all industries. While the disruption is currently expected to be temporary, there is considerable uncertainty as to the duration of the impact from such disruption. KANU expects this matter may continue to impact its operating results, however, the related financial impact cannot be reasonably estimated at this time.

**NOTE F – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through October 8, 2021, which is the date the financial statements were available to be issued, and determined that KANU did not have any subsequent events requiring adjustment to the financial statements or disclosure in notes to the financial statements.



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

**SCHEDULE OF FUNCTIONAL EXPENSES**

**For the Year Ended June 30, 2021  
(With Prior Year Comparative Information)**

|                                    | <u>Instructional</u> | <u>Pupil<br/>Services</u> | <u>Admini-<br/>stration</u> | <u>Facilities</u> | <u>2021<br/>Total</u> | <u>2020<br/>Total</u> |
|------------------------------------|----------------------|---------------------------|-----------------------------|-------------------|-----------------------|-----------------------|
| Salaries and benefits              | \$2,887,397          | \$ -                      | \$373,799                   | \$ -              | \$3,261,196           | \$3,168,408           |
| Classroom instructional technology | 937,144              | -                         | -                           | -                 | 937,144               | 935,505               |
| Occupancy                          | 57                   | -                         | 591                         | 631,871           | 632,519               | 680,215               |
| Contract services                  | 92,212               | 11,519                    | 305,964                     | 71,907            | 481,602               | 479,040               |
| Supplies                           | 154,176              | -                         | 3,086                       | 1,488             | 158,750               | 187,304               |
| Repair and maintenance             | -                    | -                         | -                           | 150,637           | 150,637               | 145,037               |
| Insurance                          | -                    | -                         | 48,737                      | -                 | 48,737                | 44,958                |
| Depreciation                       | -                    | -                         | 24,794                      | -                 | 24,794                | 24,701                |
| Equipment                          | 718                  | -                         | -                           | 15,431            | 16,149                | 57,932                |
| Miscellaneous                      | -                    | -                         | 9,947                       | -                 | 9,947                 | 14,163                |
| Travel and subsistence             | 70                   | 5,905                     | -                           | -                 | 5,975                 | 68,365                |
|                                    | <u>          </u>    | <u>          </u>         | <u>          </u>           | <u>          </u> | <u>          </u>     | <u>          </u>     |
| Total                              | <u>\$4,071,774</u>   | <u>\$ 17,424</u>          | <u>\$766,918</u>            | <u>\$871,334</u>  | <u>\$5,727,450</u>    | <u>\$5,805,628</u>    |



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

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

We have audited, 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, the financial statements of Kanu o ka `Āina New Century Public Charter School (KANU), a business-type governmental entity, which comprise the statement of net assets as of June 30, 2021, and the related statements of revenue, expenses, and changes in net assets, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 8, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered KANU'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 financial statements, but not for the purpose of expressing an opinion on the effectiveness of KANU's internal control. Accordingly, we do not express an opinion on the effectiveness of KANU's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and would not necessarily 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 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 financial statements. 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 KANU's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

CW ASSOCIATES, CPAs

Honolulu, Hawaii  
October 8, 2021