

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

**FINANCIAL STATEMENTS
And Independent Auditors' Report
For the Year Ended June 30, 2010**

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

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For the Year Ended June 30, 2010

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CW Associates

A Hawaii Certified Public Accounting Corporation

CARLETON L. WILLIAMS, MANAGING PARTNER

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), the "School", a business-type governmental entity as of June 30, 2010, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the year then ended. These financial statements are the responsibility the School's management. Our responsibility is to express an opinion on these financial statements based on our audit. We have also audited the financial statements of Kanu o ka `Aina Learning Ohana (KALO), a discretely presented component unit, as of and for the year ended August 31, 2010, and we expressed an unqualified opinion on those financial statements.

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 the School as of June 30, 2010, 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 supplemental schedule of functional expenses for the year ended June 30, 2010 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

CW ASSOCIATES, CPAs

April 19, 2011

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

MANAGEMENT DISCUSSION AND ANALYSIS

For the Year Ended of June 30, 2010

Our discussion and analysis of the financial performance of Kanu o ka `Aina New Century Public Charter School (KANU), the “School”, provides an overview of the School’s financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with School’s financial statements and the related notes to the financial statements, which begin on page 5.

The School as a Whole

The School is a public charter school that is administered by Kanu O Ka `Aina Learning `Ohana (KALO) under an agreement with the School’s Local School Board and serves 218 students in grades kindergarten through twelve. The School 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. The School has a unique balance of culturally-driven curriculum and standards-based assessment.

Using This Annual Report

This annual report includes 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), the School issues a Statement of Net Assets, Statement of Revenues, 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 the School, as a whole. This annual report also includes the 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*.

Financial Highlights

For the year ended June 30, 2010, the School reported operating revenues of \$3,054,050 and operating expenses of \$3,293,315, resulting in an operating loss of \$239,265 that was funded by private grants received in prior years. The School also reported nonoperating revenue of \$3,005, resulting in a decrease in net assets of \$236,260.

Financial Statements

The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets include the assets, liabilities, revenue, and expenses of the School. 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 the School 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 the School. 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 the School.

MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

Financial Statements (Continued)

The Statement of Revenues, Expenses, and Changes in Net Assets reports all of the financial activity of the School 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 the School and its related programs. Consequently, nonoperating activities include all financial activities not related to the operation of the School.

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

Budgetary Highlights

For the fiscal year ended June 30, 2010, the School incurred \$3,293,315 in actual expenses compared to budgeted expenses of \$3,599,987. The difference between the budgeted and actual expenses is attributable to budgeted salaries and benefits expense in excess of the related actual amounts.

Financial Activities

A substantial portion of the funding for the School 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, 2010, the School received \$1,788,385 in per pupil funding, which represents 59% of its revenue. In addition, the School received private and federal grants, which totaled \$1,017,302 and \$182,893, respectively.

Contacting the School's Financial Management

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

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

STATEMENT OF NET ASSETS

As of June 30, 2010

	KANU	Component Unit KALO
	June 30,	August 31,
	<u>2010</u>	<u>2010</u>
ASSETS		
CURRENT ASSETS		
Cash (including interest-bearing accounts)	\$ 16,194	\$1,339,220
Grants, contracts, and pledges receivable – net	238,092	166,927
Due from KALO	206	-
Investments in marketable securities	-	148,806
Prepaid expenses and other current assets	-	30,267
Total current assets	<u>254,492</u>	<u>1,685,220</u>
PROPERTY AND EQUIPMENT	<u>112,758</u>	<u>6,378,255</u>
TOTAL ASSETS	<u>\$367,250</u>	<u>\$8,063,475</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$179,028	\$ 67,367
Accrued liabilities	181,051	79,135
Due to KANU	-	257,591
Notes payable – current	-	31,000
Total current liabilities	<u>360,079</u>	<u>435,093</u>
NOTES PAYABLE – Noncurrent	<u>-</u>	<u>2,917,809</u>
NET ASSETS		
Unrestricted – undesignated	7,171	4,081,331
Temporarily restricted	-	629,242
Total net assets	<u>7,171</u>	<u>4,710,573</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$367,250</u>	<u>\$8,063,475</u>

See accompanying notes to financial statements.

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

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

For the Year Ended June 30, 2010

	KANU June 30, <u>2010</u>	Component Unit KALO August 31, <u>2010</u>
OPERATING REVENUE		
Revenues and support		
State per pupil funding	\$ 1,788,385	\$ -
Private grants	1,017,302	-
Federal grants	182,893	-
Food service	65,470	-
Private grants	-	3,143,518
Government grants	-	1,123,639
Total revenue and support	<u>3,054,050</u>	<u>4,267,157</u>
OPERATING EXPENSES		
School-related operating expenses		
Salaries and benefits	2,270,288	862,910
Contract services	397,107	21,179
Facilities	368,740	46,837
Supplies	56,840	60,795
Program projects	41,463	-
Travel and subsistence	38,960	6,628
Equipment	35,524	913
Auto expenses	31,152	-
Training and conferences	22,483	-
Depreciation	17,867	-
Insurance	6,298	-
Miscellaneous	6,593	36,883
Total school-related operating expenses	<u>3,293,315</u>	<u>1,036,145</u>

(Continued)

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

**STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS (Continued)**

For the Year Ended June 30, 2010

	KANU June 30, <u>2010</u>	Component Unit KALO August 31, <u>2010</u>
OPERATING EXPENSES (Continued)		
Other operating expenses		
Salaries and benefits	\$ -	\$1,453,894
Contract services	-	1,479,616
Depreciation	-	296,551
Supplies	-	77,223
Travel and subsistence	-	58,084
Equipment	-	55,617
Facilities	-	43,877
Program projects	-	9,021
Miscellaneous	-	158,376
Total other operating expenses	<u>-</u>	<u>3,632,259</u>
Total operating expenses	<u>3,293,315</u>	<u>4,668,404</u>
LOSS FROM OPERATIONS	<u>(239,265)</u>	<u>(401,247)</u>
NONOPERATING REVENUE		
Contributions and other income	<u>3,005</u>	<u>351,707</u>
Total nonoperating revenue	<u>3,005</u>	<u>351,707</u>
DECREASE IN NET ASSETS	(236,260)	(49,540)
NET ASSETS – Beginning of year	<u>243,431</u>	<u>4,760,113</u>
NET ASSETS – End of year	<u>\$ 7,171</u>	<u>\$4,710,573</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, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from grants and contracts	\$3,110,139
Receipts from other revenue and support	10,598
Payments to employees	(2,273,549)
Payments to vendors and suppliers	<u>(1,000,235)</u>
Net cash used by operating activities	<u>(153,047)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Additions to property and equipment	<u>(80,825)</u>
Net cash used by investing activities	<u>(80,825)</u>
 NET DECREASE IN CASH	 (233,872)
 CASH – Beginning of year	 <u>250,066</u>
 CASH – End of year	 <u>\$ 16,194</u>
 RECONCILIATION OF DECREASE IN NET ASSETS TO NET CASH USED BY OPERATING ACTIVITIES	
Decrease in net assets	\$ (236,260)
Adjustments to reconcile decrease in net assets to net cash used by operating activities:	
Depreciation	17,867
(Increase) decrease in:	
Grants, contracts, and pledges receivable	56,089
Due from KALO	7,593
Increase (decrease) in:	
Accounts payable	(3,260)
Accrued liabilities	4,942
Due to Kanu o ka `Āina New Learning `Ohana	<u>(18)</u>
 Net cash used by operating activities	 <u>\$ (153,047)</u>

See accompanying notes to financial statements.

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

**STATEMENT OF CASH FLOWS – COMPONENT UNIT
KANU O KA `ĀINA LEARNING OHANA (KALO)**

For the Year Ended June 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES	
Decrease in net assets	\$ (49,540)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation	296,552
Unrealized gain on investments in marketable securities	(1,668)
Loss on sale of property	65,369
(Increase) decrease in:	
Grants, contracts, and pledges receivable	201,088
Prepaid expenses and other current assets	(19,467)
Increase (decrease) in:	
Accounts payable	(112,137)
Accrued liabilities	(4,988)
Due to Kanu o ka `Āina New Century Public Charter School	<u>5,276</u>
Net cash provided by operating activities	<u>380,485</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Sales of investments in marketable securities	65,066
Additions to investments in marketable securities	(61,546)
Additions to property and equipment	(70,584)
Payments for construction-in-progress	<u>(548,157)</u>
Net cash used by investing activities	<u>(615,221)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES	
Additions to notes payable	2,964,000
Repayments of notes payable	<u>(2,956,856)</u>
Net cash provided by financing activities	<u>7,144</u>
 NET DECREASE IN CASH	 (227,592)
 CASH – Beginning of year	 <u>1,566,812</u>
 CASH – End of year	 <u>\$ 1,339,220</u>
 SUPPLEMENTAL CASH FLOW INFORMATION	
Cash paid during the year for interest	\$ 122,024

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, 2010

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Activity

Kanu o ka `Aina New Century Public Charter School (KANU), the “School”, is a public charter school that is administered by a Local School Board. Financial support is provided in part by Kanu O Ka `Aina Learning `Ohana (KALO). The School serves 218 students in grades kindergarten through twelve. The School 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. The School 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), the School is considered a special purpose government entity that engages in only business-type activities. The School 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

The School 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, 2010:

Fully insured deposits	\$16,194
Uncollateralized deposits	<u> -</u>
Total cash	<u>\$16,194</u>

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Concentrations of Credit Risk (Continued)

Financial instruments that potentially subject KALO to credit risk include cash, receivables, and investments. At August 31, 2010, KALO's cash on deposit with financial institutions exceeded the related federal deposit insurance by approximately \$902,800. Management evaluates the credit standings of these financial institutions to ensure that all funds are adequately safeguarded. Receivables, assessed by management based on the individual accounts, been adjusted for all known doubtful accounts. Investments in are stated at fair value using quoted market prices, are fully insured.

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 permanent buildings and improvements, and 5 years for portable buildings and improvements, and for technology equipment and other equipment. Improvements are capitalized. Repairs and maintenance are expensed.

Pension

The School and KALO sponsor simplified employee pension (SEP) plans covering all employees who have worked in at least two of the immediately preceding five years. Pension expense amounted to \$24,172 for the School for the year ended June 30, 2010 and \$36,700 for KALO for the year ended August 31, 2010.

Component Unit – Kanu o ka `Āina Learning `Ohana (KALO)

KALO is a not-for-profit organization that reports in accordance with Financial Accounting Standards Board pronouncements. As such, certain of its presentation features are different from GASB presentation features. There have been no modifications to KALO's financial information for these differences. Consequently, KALO's statement of cash flows is presented as a separate financial statement using the indirect method.

NOTE B – PROPERTY AND EQUIPMENT

At June 30, 2010 and August 31, 2010, property and equipment consisted of the following:

	KANU June 30, 2010	Component Unit KALO August 31, 2010
Buildings and improvements	\$ 41,151	\$5,579,838
Equipment	163,825	770,544
Construction-in-progress	-	771,678
Total	<u>204,976</u>	<u>7,122,060</u>
Accumulated depreciation	<u>(92,218)</u>	<u>(743,805)</u>
Property and equipment – net	<u>\$112,758</u>	<u>\$6,378,255</u>

NOTE C – NOTES PAYABLE

At August 31, 2010, KALO’s notes payable consisted of the following:

Notes payable to the United States Department of Agriculture in monthly installments of \$12,389 through February 2050, including interest at 4%. Collateralized by buildings and improvements.	\$ 2,948,809
Notes payable – current	<u>(31,000)</u>
Notes payable – noncurrent	<u>\$ 2,917,809</u>

At August 31, 2010, scheduled maturities of long-term debt by years ending August 31 approximated \$31,000 in 2011, \$33,000 in 2012, \$34,000 in 2013, \$35,000 in 2014, \$37,000 in 2015, and \$2,779,000 thereafter.

NOTE D – COMPONENT UNIT – KANU O KA `ĀINA LEARNING `OHANA (KALO)

Kanu O Ka `Aina Learning `Ohana (KALO) is a nonprofit Hawaii corporation established in December 2000 primarily to administer programs for the advancement of the education, culture, and traditions of Hawaiian people. In addition to supporting Kanu o ka `Aina New Century Public Charter School (grades K-12), KALO administers the Malamapoki`i Family-based Early Childhood Education Program (for ages 0-5) and Halau Wanana Native Hawaiian Center for Higher Learning (post secondary). KALO also provides support to Na Lei Na`auao – Native Hawaiian Charter School Alliance. In an effort to address the facility needs for these schools, KALO is incubating a Native Community Development Funding Institution (CDFI) expected to launch in the Spring of 2011. KALO provided \$3,632,259 in support to these programs while also providing \$1,036,145 in support to Kanu o ka `Aina New Century Public Charter School. KALO operates in the State of Hawaii and is exempt under Section 501(c)(3) of the U.S. Internal Revenue Code and is not a private foundation. Accordingly, qualifying contributions to KALO are tax deductible.

KALO owns fixed assets of \$6,378,255 consisting primarily of a 9,300 square foot Community Resource Center built on Department of Hawaiian Home Lands to service the Waimea community on the Big Island. Funding for this facility was provided by a loan from the United States Department of Agriculture and private contributions. Kanu o ka `Aina New Century Public Charter School utilizes this facility during the school day under an operating lease agreement. For the year ended June 30, 2010, the School’s facilities rent expense amounted to \$252,566. Amounts due from KALO to the School consist primarily of grant income accrued or received by KALO that is remitted to the School on a quarterly basis.

NOTE E – 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. The School operates in the State of Hawaii. National and international events can have severe, adverse effects on economic conditions in Hawaii. The effects, if any, on the financial statements of the School from such changes in economic conditions are not presently determinable.

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

SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2010

	<u>Instructional</u>	<u>Pupil Services</u>	<u>Admini- stration</u>	<u>Facilities</u>	<u>Total</u>
Salaries and benefits	\$ 1,825,993	\$ -	\$444,295	\$ -	\$2,270,288
Contract services	276,379	-	120,728	-	397,107
Facilities	-	-	-	368,740	368,740
Supplies	39,854	-	16,986	-	56,840
Program projects	-	41,463	-	-	41,463
Travel and subsistence	1,603	-	37,357	-	38,960
Equipment	35,524	-	-	-	35,524
Auto expenses	31,152	-	-	-	31,152
Training and conferences	-	-	22,483	-	22,483
Depreciation	17,867	-	-	-	17,867
Insurance	4,303	-	1,995	-	6,298
Miscellaneous	5,946	-	647	-	6,593
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$2,238,621</u>	<u>\$41,463</u>	<u>\$644,491</u>	<u>\$368,740</u>	<u>\$3,293,315</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), the "School", a business-type governmental entity, as of and for the year ended June 30, 2010, and have issued our report thereon dated April 19, 2011. 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

In planning and performing our audit, we considered the School'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 of School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School'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 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*.

This report is intended solely for the information and use of the Local School Board, management, and others within the School, and awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



April 19, 2011