

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

**FINANCIAL STATEMENTS AND SCHEDULE
And Independent Auditors' Reports
For the Year Ended June 30, 2013**



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):

Report on the Financial Statements

We have audited the accompanying financial statements of Kanu o ka `Aina New Century Public Charter School (KANU), a business-type governmental entity, which comprise the statement of net assets as of June 30, 2013, and the related statements of revenue, expenses, and changes in net assets and of cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purposes 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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KANU as of June 30, 2013, 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.

Report on Management's Discussion and Analysis

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 basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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.

Report on 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 `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.

Report on Schedule of Functional Expenses

Our audit was conducted for the purpose of forming an opinion on the financial statements that comprise KANU's basic financial statements. The accompanying schedule of functional expenses for the year ended June 30, 2013 is presented for purposes of additional analysis and is not a required part of the basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic 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 basic 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 November 14, 2013 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 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 read in conjunction with this report in considering the results of our audit.

CW ASSOCIATES, CPAs

November 14, 2013

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended June 30, 2013

Our discussion and analysis of the financial performance of Kanu o ka `Aina New Century Public Charter School (KANU), a business-type governmental entity, provides an overview of the KANU's financial activities for the year ended June 30, 2013. Please read it in conjunction with the KANU's financial statements and the related notes to the financial statements, which follow.

The School as a Whole

KANU is a public charter school that serves approximately 250 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.

KANU has an affiliation with Kanu O Ka `Aina Learning `Ohana (KALO), a nonprofit Hawaii corporation, through its component unit, KANU Support Group, which provides financial support for the School. Accordingly, KANU Support Group is reported as a discrete component unit in the accompanying financial statements. The audit of KANU Support Group as of and for the year ended June 30, 2013 had not been completed and issued as of November 14, 2013.

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 auditors' report required by the Government Accountability Office's (GAO) *Government Auditing Standards* for the year ended June 30, 2013.

Financial Highlights

For the year ended June 30, 2013, KANU reported operating revenue of \$2,314,146 and operating expenses of \$2,384,933, resulting in a loss from operations of \$70,787. KANU reported nonoperating revenue of \$97,280, resulting in an increase in net assets of \$26,493. Nonoperating revenue includes a federal grant from USDOE Charter School Program Office of Innovation Dissemination of Best Practices Grant passed-through to selected native Hawaiian charter schools to improve productivity, data-driven decision making, and organizational viability. The grant serves to restore to the originally envisioned goal both financial and student information accountability and oversight components through data-driven decision making at the selected schools. KANU reported cash provided by operating activities of \$23,878 and cash used by investing activities of \$82,018, resulting in a decrease in cash of \$53,640 for the year ended June 30, 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

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 the 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 is 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 KANU as business-type activity 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 (principally purchases of property and equipment), and Cash flows from financing activities (none in 2013). The Schedule of Functional Expenses reports KANU's operating expenses in matrix format for its instructional, pupil services, administrative, and facilities activities.

Budgetary Highlights

For the fiscal year ended June 30, 2013, the School incurred \$2,384,933 in actual expenses compared to budgeted expenses of \$2,457,544. The majority of the difference between the actual and budgeted expenses is attributable to actual expenses relating to employee salaries and benefits being less than the budgeted amount.

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, 2013, the School received \$1,449,105 in per pupil funding, which represents 60% of its revenue. In addition, KANU received private, federal, and State grants totaling \$537,568, \$213,649, and \$94,614, respectively.

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.

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

STATEMENT OF NET ASSETS

As of June 30, 2013

	<u>KANU</u>	<i>Unaudited</i> Component Unit KANU <u>Support Group</u>
ASSETS		
CURRENT ASSETS		
Cash (including interest-bearing accounts)	\$ 92,841	\$138,768
Grants, contracts, and pledges receivable – net	424,893	-
Total current assets	<u>517,734</u>	<u>138,768</u>
PROPERTY AND EQUIPMENT		
Modular office	41,151	-
Transportation equipment	154,985	-
Furniture and equipment	153,316	-
Total	349,452	-
Accumulated depreciation	(257,477)	-
Property and equipment – net	<u>91,975</u>	<u>-</u>
TOTAL ASSETS	<u>\$609,709</u>	<u>\$138,768</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 4,882	\$ -
Accrued liabilities	88,685	-
Due to Kanu o ka `Āina New Learning `Ohana	410,201	-
Total current liabilities	<u>503,768</u>	<u>-</u>
NET ASSETS		
Unrestricted – undesignated	<u>105,941</u>	<u>138,768</u>
Total net assets	<u>105,941</u>	<u>138,768</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$609,709</u>	<u>\$138,768</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, 2013

	<u>KANU</u>	<i>Unaudited</i> Component Unit KANU <u>Support Group</u>
OPERATING REVENUE		
Revenue and support		
State per pupil funding	\$ 1,449,105	\$ -
Private grants	537,568	727,919
Federal grants	213,649	-
State grants	94,614	-
Food service	19,210	-
Total revenue and support	<u>2,314,146</u>	<u>727,919</u>
OPERATING EXPENSES		
School-related operating expenses		
Salaries and benefits	1,368,055	397,987
Occupancy	427,843	121,352
Contract services	322,310	280,203
Supplies	75,211	13,750
Depreciation	58,445	-
Travel and subsistence	51,916	12,567
CSAO administrative fees	28,525	-
Equipment	24,348	84,008
Repairs and maintenance	18,804	-
Other administrative fees	-	24,350
Miscellaneous	9,476	21,284
Total school-related operating expenses	<u>2,384,933</u>	<u>955,501</u>
LOSS FROM OPERATIONS	<u>(70,787)</u>	<u>(227,582)</u>
NONOPERATING REVENUE (EXPENSES)		
Nonoperating federal grant income	117,604	-
Nonoperating federal grant expenses	(117,604)	-
Contributions and other income	97,280	61,293
Total nonoperating revenue	<u>97,280</u>	<u>61,293</u>
INCREASE (DECREASE) IN NET ASSETS	26,493	(166,289)
NET ASSETS – Beginning of year	<u>79,448</u>	<u>305,057</u>
NET ASSETS – End of year	<u>\$ 105,941</u>	<u>\$138,768</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, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from grants and contracts	\$2,040,230
Receipts from other revenue and support	19,210
Payments to employees	(1,377,318)
Payments to vendors and suppliers	<u>(653,744)</u>
Net cash provided by operating activities	<u>28,378</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Additions to property and equipment	<u>(82,018)</u>
Net cash used by investing activities	<u>(82,018)</u>
NET DECREASE IN CASH	(53,640)
CASH – Beginning of year	<u>146,481</u>
CASH – End of year	<u>\$ 92,841</u>
RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Increase in net assets	\$ 26,493
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	58,445
(Increase) decrease in:	
Grants, contracts, and pledges receivable	(351,986)
Increase (decrease) in:	
Accounts payable	(6,077)
Accrued liabilities	(9,263)
Due to Kanu o ka `Āina New Learning `Ohana	<u>310,766</u>
Net cash provided by operating activities	<u>\$ 28,378</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, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Decrease in net assets	<u>\$ (166,289)</u>
Net cash used by operating activities	<u>(166,289)</u>
NET DECREASE IN CASH	(166,289)
CASH – Beginning of year	<u>305,057</u>
CASH – End of year	<u>\$ 138,768</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, 2013

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 approximately 250 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, 2013:

Fully insured deposits	\$ 121,359
Reconciling items	<u>(28,518)</u>
Total cash on deposit	<u>\$ 92,841</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 on deposit with financial institutions, which were fully insured at June 30, 2013. Grants, contracts, and pledges receivable, 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 5 years for the modular office, 5 years for transportation equipment, and 3 years for furniture and equipment. Improvements are capitalized. Repairs and maintenance are expensed.

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.

KANU also 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, 2013.

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 \$370,362 for the year ended June 30, 2013. 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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2013

	<u>Instructional</u>	<u>Pupil Services</u>	<u>Admini- stration</u>	<u>Facilities</u>	<u>Total</u>
Salaries and benefits	\$ 1,286,407	\$ -	\$ 78,383	\$ 3,265	\$ 1,368,055
Occupancy	-	-	-	427,843	427,843
Contract services	19,817	170,656	131,837	-	322,310
Supplies	30,409	-	43,650	1,152	75,211
Depreciation	-	-	-	58,445	58,445
Travel and subsistence	9,450	30,431	12,035	-	51,916
CSAO administrative fee	-	-	28,525	-	28,525
Equipment	5,152	-	-	19,196	24,348
Repair and maintenance	-	-	-	18,804	18,804
Miscellaneous	-	-	9,476	-	9,476
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Total	<u>\$ 1,351,235</u>	<u>\$ 201,087</u>	<u>\$ 303,906</u>	<u>\$ 528,705</u>	<u>\$ 2,384,933</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, 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 `Aina New Century Public Charter School (KANU), a business-type governmental entity, which comprise the statement of net assets as of June 30, 2013, and the related statements of revenue, expenses, and changes in net assets and of cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 14, 2013.

Internal Control over Financial Reporting

The management of KANU is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered KANU's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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

November 14, 2013