

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

**FINANCIAL STATEMENTS
And Accountants' Review Report**

**As of June 30, 2006 and 2005, and
For the Year Ended June 30, 2006**



Certified Public Accountants | A Professional Corporation

ACCOUNTANTS' REVIEW REPORT

Kanu o ka `Āina New Century Public Charter School:

We have reviewed the accompanying statements of financial position of Kanu o ka `Āina New Century Public Charter School (an instrumentality of the State of Hawaii, Department of Education) as of June 30, 2006 and 2005, and the related statements of activities and of cash flows for the year ended June 30, 2006, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. All information included in these financial statements is the representation of the management of Kanu o ka `Āina New Century Public Charter School.

A review consists principally of inquiries of company personnel and analytical procedures applied to financial data. It is substantially less in scope than an audit in accordance with auditing procedures generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "DETOR & WILLIAMS".

August 21, 2007

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

STATEMENTS OF FINANCIAL POSITION

As of June 30, 2006 and 2005

	<u>2006</u>	<u>2005</u>
ASSETS		
CURRENT ASSETS		
Cash (including interest-bearing accounts)	\$ 88,312	\$ 69,582
Grants and contracts receivable – net	15,837	47,509
Prepaid expenses and other assets	<u>5,701</u>	<u>5,583</u>
Total current assets	<u>109,850</u>	<u>122,674</u>
PROPERTY AND EQUIPMENT		
Portable buildings and improvements	41,151	41,151
Equipment	10,376	-
Furniture and fixtures	<u>1,146</u>	<u>-</u>
Total	52,673	41,151
Accumulated depreciation	<u>(17,648)</u>	<u>(8,230)</u>
Property and equipment – net	<u>35,025</u>	<u>32,921</u>
TOTAL ASSETS	<u>\$144,875</u>	<u>\$155,595</u>
LIABILITIES AND NET ASSETS (DEFICIT)		
CURRENT LIABILITIES		
Accounts payable	\$ 3,178	\$ 7,661
Accrued liabilities	112,955	53,484
Due to Kanu o ka `Āina Learning `Ohana (KALO)	<u>80,509</u>	<u>70,905</u>
Total current liabilities	<u>196,642</u>	<u>132,050</u>
NET ASSETS (DEFICIT)		
Unrestricted – undesignated	<u>(51,767)</u>	<u>23,545</u>
Total net assets (deficit)	<u>(51,767)</u>	<u>23,545</u>
TOTAL LIABILITIES AND NET ASSETS (DEFICIT)	<u>\$144,875</u>	<u>\$155,595</u>

See accompanying notes and accountants' review report.

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

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2006

CHANGES IN UNRESTRICTED NET ASSETS

Revenue and support

State of Hawaii charter school funding	\$ 732,227
Federal government grants and contracts	218,062
Grants from the Office of Hawaiian Affairs	117,994
Rent received from Kanu o ka `Āina Learning `Ohana (KALO)	103,130
Rent contributed by Department of Hawaiian Home Lands	56,790
Tuition and fees	39,580
Grants from The Kamehameha Schools Bishop Estate	23,307
Other contributions	<u>1,660</u>
Total revenue and support	<u>1,292,750</u>

Expenses

Salaries and wages	982,990
Payroll taxes and benefits	116,599
Rent	56,996
Food service	38,833
Administrative fee	37,111
Utilities	33,923
Student services	25,420
Repairs and maintenance	21,235
Contract services	11,299
Depreciation	9,418
Travel and subsistence	8,736
Office supplies	7,781
Equipment	7,251
Training	6,181
Curriculum supplies	<u>4,289</u>
Total expenses	<u>1,368,062</u>

DECREASE IN NET ASSETS (75,312)

NET ASSETS – Beginning of year 23,545

NET ASSETS (DEFICIT) – End of year \$ (51,767)

See accompanying notes and accountants' review report.

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

STATEMENT OF CASH FLOWS

For the Year Ended June 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES	
Decrease in net assets	\$(75,312)
Adjustments to reconcile decrease in net assets to net cash provided by operating activities:	
Depreciation	9,418
(Increase) decrease in:	
Grants and contracts receivable	31,672
Prepaid expenses and other assets	(118)
Increase (decrease) in:	
Accounts payable	(4,483)
Accrued liabilities	59,471
Due to Kanu o ka `Āina Learning `Ohana (KALO)	<u>9,604</u>
Net cash provided by operating activities	<u>30,252</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Additions to property and equipment	(11,522)
Net cash used by investing activities	<u>(11,522)</u>
 NET INCREASE IN CASH	 18,730
 CASH – Beginning of year	 <u>69,582</u>
 CASH – End of year	 <u>\$88,312</u>

See accompanying notes and accountants' review report.

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

NOTES TO FINANCIAL STATEMENTS

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Activity

Kanu o ka `Āina New Century Public Charter School was organized primarily to provide students of Hawaiian ancestry residing in the Hamakua and North Hawaii areas on the Island of Hawaii with an equal opportunity to quality education that addresses their distinctive cultural learning styles. The School presently serves approximately 150 students. Kanu o ka `Āina New Century Public Charter School, as an instrumentality of the State of Hawaii, Department of Education, is exempt from federal income taxes under Section 115(1) of the Internal Revenue Code. Accordingly, qualifying contributions to the School are tax deductible.

Revenue and support is derived principally from State of Hawaii funding for charter schools, federal government grants and contracts, grants from the Office of Hawaiian Affairs, and grants from The Kamehameha Schools Bishop Estate, the loss of which could have a material adverse effect on the School. Amounts received from government agencies are subject to audit and adjustment. Any disallowed claim, including amounts already collected, may constitute a liability. Management expects such amounts, if any, to be immaterial to the financial statements. In addition, the School was granted a license by the State of Hawaii, Department of Hawaiian Home Lands, for the use of land to operate a cultural learning. The license, which is effective through November 2011, had an estimated fair value of \$56,790 for the year ended June 30, 2006.

Basis of Accounting

The School reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets (none in 2006 and 2005), and permanently restricted net assets (none in 2006 and 2005). Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. When a temporary restriction is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets. Revenue from government grants and contracts 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). Expenses are recorded when the related liability is incurred. Expenses are allocated on a functional basis among the various program and support services based on estimates by management. Expenses that can be identified with the program or supporting service are charged directly to the program or supporting service using natural expense classifications. Other expenses that are common to several functions are allocated by various bases. Expenses by functional classification for the year ended June 30, 2006 consisted of \$1,318,310 for educational services, \$33,168 for management and general, and \$16,584 for fundraising.

A substantial number of unpaid volunteers have made significant contributions of their time to the School. The value of this time is not reflected in these financial statements because it is not susceptible to objective measurement and valuation.

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

Financial instruments that potentially subject the School to credit risk include cash and receivables. The School's cash on deposit with financial institutions exceeded the related federal deposit insurance by approximately \$8,200 and \$10,700 at June 30, 2006 and 2005, respectively. Grants and contracts receivable have been adjusted for all known doubtful accounts. They are determined to be collectible or uncollectible based on an assessment by management of the facts and circumstances related to the individual accounts.

Kanu o ka `Āina Learning `Ohana (KALO)

Kanu o ka `Āina Learning `Ohana (KALO), which is related by common management, acts as the fiscal manager for the School. Cash collections by the fiscal manager decrease the amounts due, while cash disbursements by the fiscal manager increase the amounts due. The School leases vehicles and facilities to Kanu o ka `Āina Learning `Ohana (KALO) on a day-to-day basis for after-school programs. Rental income amounted to \$103,130 for the year ended June 30, 2006. The School pays an administrative fee to Kanu o ka `Āina Learning `Ohana (KALO) for management and other services based on a percentage of certain expenses. The administrative fee amounted to \$37,111 for the year ended June 30, 2006.

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. Property and equipment and other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Expenditures for property and equipment in excess of \$1,000 are capitalized. The costs of repairs and maintenance are expensed as incurred.

Pension

The School sponsors a simplified employee pension plan (SEP) covering all employees who have worked at the School in at least two of the immediately preceding five years. Pension expense (included in payroll taxes and benefits) amounted to \$11,201 for the year ended June 30, 2006.

Financial Statement Presentation

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 Kanu o ka `Āina New Century Public Charter School from such changes in economic conditions are not presently determinable.