

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

**FINANCIAL STATEMENTS  
INDEPENDENT AUDITORS' REPORTS,  
AND SUPPLEMENTAL SCHEDULES**

**For the Year Ended June 30, 2011**

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

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statement of net assets of Kanu o ka `Aina New Century Public Charter School (KANU), a business-type governmental entity as of June 30, 2011, and the related statements of revenue, expenses, and changes in net assets and of cash flows for the year then ended. These financial statements are the responsibility of KANU's management. Our responsibility is to express an opinion on these financial statements based on our audit. Because we were not engaged to audit the financial statements of KANU Support Group, a component unit of Kanu o ka `Aina Learning Ohana (KALO), and a discretely presented component unit of KANU, we did not extend our auditing procedures to enable us to express an opinion on those financial statements and, accordingly, we express no opinion on them.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of KANU as of June 30, 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information in the accompanying schedule of functional expenses for the year ended June 30, 2011 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2012, 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 considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the accompanying management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the 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.

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January 10, 2012

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**For the Year Ended of June 30, 2011**

Our discussion and analysis of the financial performance of Kanu o ka `Aina New Century Public Charter School (KANU), provides an overview of KANU's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with KANU's financial statements and related notes to financial statements, which follow.

**The School as a Whole**

The School is a public charter school that is administered by KANU Support Group, a component unit of Kanu O Ka `Aina Learning `Ohana (KALO), under an agreement with KANU's Local School Board, and serves 220 students in grades kindergarten through twelve. KANU was organized primarily to provide students of Hawaiian ancestry residing in the Hamakua and North Hawaii areas on the Island of Hawai'i with an equal opportunity to quality education that addresses their distinctive cultural learning styles. KANU has a unique balance of culturally-driven curriculum and standards-based assessment.

**Using This Annual Report**

This annual report includes a series of financial statements and a supplemental schedule. In accordance with Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statement – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34), KANU issues a Statement of Net Assets, Statement of Revenue, Expenses and Changes in Net Assets, and a Statement of Cash Flows. These financial statements and the supplemental schedule provide information about the financial activities of KANU, as a whole. This annual report also includes the independent auditors' reports required by the Government Accountability Office's (GAO) *Government Auditing Standards*, and the schedule of expenditures of federal awards and independent auditors' reports required by Office of Management and Budget (OMB) Circular A-133, for the year ended June 30, 2011. Findings, questioned costs, and a corrective action (if any) are reported under those captions in the final sections of this report.

**Financial Highlights**

For the year ended June 30, 2011, the School reported operating revenue of \$3,090,011 and operating expenses of \$2,721,100, resulting in income from operations of \$368,911. The School also reported nonoperating revenue of \$61,913, resulting in an increase in net assets of \$430,824.

**Financial Statements and Supplemental Schedule**

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

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

### **Financial Statements and Supplemental Schedule (Continued)**

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

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

### **Federal Awards**

KANU received federal awards during the year ended June 30, 2011 from the U.S. Department of Education passed through the State of Hawaii, Charter School Administrative Office and through KALO. These awards included a one-time appropriation under the American Recovery and Reinvestment Act of 2009, State Fiscal Stabilization Fund, to help stabilize local and state budgets by minimizing and avoiding a reduction in educational services. This annual report includes the results of a single audit of KANU conducted in accordance with auditing standards generally accepted in the United States of America; the *Government Auditing Standards* issued by the Comptroller General of the United States; and the provisions of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The Supplemental Schedule of Expenditures of Federal Awards reports KANU's expenditures of federal awards on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as required by OMB Circular A-133.

### **Budgetary Highlights**

For the fiscal year ended June 30, 2011, KANU incurred \$2,721,100 in actual expenses compared to budgeted expenses of \$2,770,226. 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 KANU's funding is received from the State of Hawaii, Department of Education, and is based on a standard rate per pupil. During the fiscal year ended June 30, 2011, KANU received \$1,185,223 in per pupil funding, which represents 39% of its operating revenue. In addition, KANU received federal, private, and State grants totaling \$769,078, \$755,925, and \$297,194, respectively.

### **Contacting the School's Financial Management**

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

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

**STATEMENT OF NET ASSETS**

**As of June 30, 2011**

	<u>KANU</u>	<i>Unaudited</i> Component Unit KANU <u>Support Group</u>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash (including interest-bearing accounts)	\$ 119,060	\$ 585,075
Grants, contracts, and pledges receivable – net	356,383	19,055
Total current assets	<u>475,443</u>	<u>604,130</u>
<b>PROPERTY AND EQUIPMENT</b>		
Buildings and improvements	41,151	-
Transportation equipment	154,986	-
Other equipment	61,825	-
Total	<u>257,962</u>	-
Accumulated depreciation	<u>(146,473)</u>	-
Property and equipment – net	<u>111,489</u>	-
<b>TOTAL ASSETS</b>	<u><b>\$586,932</b></u>	<u><b>\$604,130</b></u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 9,201	\$ -
Accrued liabilities	112,776	-
Due to KANU	-	161,782
Due to KALO	26,960	-
Total current liabilities	<u>148,937</u>	<u>161,782</u>
<b>NET ASSETS</b>		
Unrestricted – undesignated	<u>437,995</u>	<u>442,348</u>
Total net assets	<u>437,995</u>	<u>442,348</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$586,932</b></u>	<u><b>\$604,130</b></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, 2011**

	<u>KANU</u>	<i>Unaudited</i> Component Unit KANU <u>Support Group</u>
<b>OPERATING REVENUE</b>		
Revenue and support		
State per pupil funding	\$ 1,185,223	\$ -
Federal grants	769,078	203,948
Private grants	755,925	972,993
State grants	297,194	-
Food service	82,591	-
Total revenue and support	<u>3,090,011</u>	<u>1,176,941</u>
<b>OPERATING EXPENSES</b>		
School-related operating expenses		
Salaries and benefits	1,791,689	565,273
Contract services	311,352	366,398
Facilities	293,167	34,130
Supplies	70,147	16,541
Program projects	57,658	27,828
Depreciation	54,255	-
Travel and subsistence	38,345	30,899
Equipment	29,534	1,562
Auto expenses	28,785	33,514
CSAO administrative fees	19,734	-
Other administrative fees	-	39,298
Training and conferences	13,532	-
Miscellaneous	12,902	2,867
Total school-related operating expenses	<u>2,721,100</u>	<u>1,118,310</u>
<b>INCOME FROM OPERATIONS</b>	<u>368,911</u>	<u>58,631</u>
<b>NONOPERATING REVENUE</b>		
Contributions and other income	<u>61,913</u>	<u>83,432</u>
Total nonoperating revenue	<u>61,913</u>	<u>83,432</u>
<b>INCREASE IN NET ASSETS</b>	430,824	142,063
<b>NET ASSETS – Beginning of year</b>	<u>7,171</u>	<u>300,285</u>
<b>NET ASSETS – End of year</b>	<u>\$ 437,995</u>	<u>\$ 442,348</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, 2011**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Receipts from grants and contracts	\$2,951,248
Receipts from other revenue and support	82,591
Payments to employees	(1,859,964)
Payments to vendors and suppliers	(1,018,023)
Net cash provided by operating activities	<u>155,852</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Additions to property and equipment	<u>(52,986)</u>
Net cash used by investing activities	<u>(52,986)</u>
<b>NET INCREASE IN CASH</b>	102,866
<b>CASH – Beginning of year</b>	<u>16,194</u>
<b>CASH – End of year</b>	<u>\$ 119,060</u>
<b>RECONCILIATION OF DECREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	
Increase in net assets	\$ 430,824
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	54,255
(Increase) decrease in:	
Grants, contracts, and pledges receivable	(118,291)
Due from KALO	206
Increase (decrease) in:	
Accounts payable	(121,627)
Accrued liabilities	(68,275)
Due to Kanu o ka `Āina New Learning `Ohana	<u>(21,240)</u>
Net cash provided by operating activities	<u>\$ 155,852</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, 2011**

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Increase in net assets	\$ 142,063
(Increase) decrease in:	
Grants, contracts, and pledges receivable	147,872
Prepaid expenses and other current assets	30,267
Increase (decrease) in:	
Accounts payable	(67,367)
Accrued liabilities	(79,135)
Due to Kanu o ka `Āina New Century Public Charter School	<u>(95,809)</u>
Net cash provided by operating activities	<u>77,891</u>
<b>NET INCREASE IN CASH</b>	77,891
<b>CASH – Beginning of year</b>	<u>507,184</u>
<b>CASH – End of year</b>	<u><u>\$585,075</u></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, 2011**

**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 Local School 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 220 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, 2011:

Fully insured deposits	\$119,060
Uncollateralized deposits	<u>          -</u>
Total cash	<u>\$119,060</u>

## NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Concentrations of Credit Risk (Continued)

Financial instruments that potentially subject the KANU Support Group to credit risk include cash and receivables. At June 30, 2011, cash on deposit with financial institutions for the KANU Support Group were fully insured. Management evaluates the credit standings of these financial institutions to ensure that all funds are adequately safeguarded. Receivables, assessed by management based on the individual accounts, been adjusted for all known doubtful accounts.

### Property and Equipment

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

### Pension

KANU sponsors a simplified employee pension (SEP) plans covering all employees who have worked in at least two of the immediately preceding five years. Pension expense amounted to \$18,419 for the year ended August 31, 2011.

### Component Unit KANU Support Group

KANU Support Group, a component unit of KANU, is also a component unit of Kanu O Ka 'Aina Learning 'Ohana (KALO), a nonprofit Hawaii corporation exempt from income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code. Accordingly, qualifying contributions to KALO and the KANU Support Group are tax deductible. KALO was established in December 2000 to administer programs for the advancement of the education, culture, and traditions of Hawaiian people. KANU utilizes facilities owned by KALO during the school day under an operating lease agreement. Lease rent expense amounted to \$156,000 for the year ended June 30, 2011. Amounts due from KALO consist primarily of grant income received by KALO that are remitted to KANU on a quarterly basis.

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

### Financial Statement Presentation

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

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

**SCHEDULE OF FUNCTIONAL EXPENSES**

**For the Year Ended June 30, 2011**

	<u>Instructional</u>	<u>Pupil Services</u>	<u>Admini- stration</u>	<u>Facilities</u>	<u>Total</u>
Salaries and benefits	\$ 1,268,535	\$ -	\$ 523,154	\$ -	\$ 1,791,689
Contract services	306,355	-	4,997	-	311,352
Facilities	-	-	-	293,167	293,167
Supplies	56,655	-	13,492	-	70,147
Program projects	-	57,658	-	-	57,658
Depreciation	54,255	-	-	-	54,255
Travel and subsistence	30,361	-	7,984	-	38,345
Equipment	27,304	-	2,230	-	29,534
Auto expenses	28,785	-	-	-	28,785
CSAO administrative fee	19,734	-	-	-	19,734
Training and conferences	13,532	-	-	-	13,532
Miscellaneous	<u>12,902</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,902</u>
<b>Total</b>	<u><b>\$ 1,818,418</b></u>	<u><b>\$ 57,658</b></u>	<u><b>\$ 551,857</b></u>	<u><b>\$ 293,167</b></u>	<u><b>\$ 2,721,100</b></u>

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

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

We have audited the financial statements of Kanu o ka `Aina New Century Public Charter School (KANU), a business-type governmental entity, as of and for the year ended June 30, 2011, and have issued our report thereon dated January 10, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether KANU's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Handwritten signature in black ink that reads "CW ASSOCIATES, CPAs". The signature is written in a cursive, slightly slanted style.

January 10, 2012



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH  
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL  
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133  
AND ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

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

Compliance

We have audited the compliance of Kanu o ka `Aina New Century Public Charter School (KANU), a business-type governmental entity, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2011. KANU's major federal programs are identified in the summary of audit results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal programs is the responsibility of KANU's management. Our responsibility is to express an opinion on KANU's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about KANU's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of KANU's compliance with those requirements.

In our opinion, KANU complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2011.



### Internal Control over Compliance

The management of KANU is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered KANU's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of KANU's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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.

### Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of KANU, a business-type governmental entity, as of and for the year ended June 30, 2011, and have issued our report thereon dated January 10, 2012. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Expenditures of Federal Awards for the year ended June 30, 2011 is presented for purposes of additional analysis as required by U.S. Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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.

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



January 10, 2012

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

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the Year Ended June 30, 2011**

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Agency or Pass-through Number</u>	<u>Federal Expenditures</u>
<u>U.S. Department of Education</u>			
Passed Through State of Hawaii, Charter School Administrative Office:			
State Fiscal Stabilization Fund – Government Services (ARRA)*	84.397*		\$ 431,793 *
State Fiscal Stabilization Fund – Education Stabilization Fund (ARRA)*	84.394*		123,788 *
Improving Basic Programs Operated by Local Educational Agencies – Title I, Part A	84.010		54,020
Federal Impact Aid	84.041		41,629
Improving Teacher Quality State Grants – Title II, Part A	84.367		<u>8,850</u>
Total			<u>660,080</u>
Passed Through Kanu O Ka 'Aina Learning 'Ohana (KALO):			
Native Hawaiian Education	84.362A	S362A080031	<u>108,998</u>
Total U.S. Department of Education			<u>769,078</u>
Total Expenditures of Federal Awards			<u>\$ 769,078</u>

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The accompanying schedule of expenditures of federal awards was prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

(\*) Denotes major programs, comprising 72% of total expenditures of federal awards.

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**For the Year Ended June 30, 2011**

**SUMMARY OF AUDIT RESULTS**

The auditors expressed an unqualified opinion on Kanu o ka `Aina New Century Public Charter School (KANU)'s financial statements.

No deficiencies or combinations of deficiencies material to KANU's internal control over financial reporting were reported by the auditors.

No instances of noncompliance material to KANU's financial statements were reported by the auditors.

The auditors expressed an unqualified opinion on compliance for KANU's major federal award programs.

No deficiencies or combinations of deficiencies material to KANU's internal control over compliance were reported by the auditors.

No audit findings relative to KANU's major federal award programs are reported in this schedule.

The programs tested as a major programs were the State fiscal Stabilization Fund – Government Services Fund (federal CFDA #84.397) and State fiscal Stabilization Fund Education Stabilization Fund (federal CFDA #84.394), both passed through the State of Hawaii, Department of Education. The major programs comprised 72% of total expenditures of federal awards.

The threshold for distinguishing Types A and B programs was \$300,000.

Entities may be eligible for consideration as a low-risk auditee after two consecutive years of annual single audits that report no material weaknesses in internal control or compliance, and no material questioned costs, after submitting the reporting packages and data collection forms to the Federal Audit Clearinghouse by the due dates. KANU was not eligible for consideration as a low-risk auditee because the single audit for the year ended June 30, 2011 was its initial single audit.

**FINDINGS – FINANCIAL STATEMENTS AUDIT**

In the current year, no deficiencies or combinations of deficiencies material to KANU's internal control over financial reporting and no instances of noncompliance material to the KANU's financial statements were reported by the auditors.

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

In the current year, the auditors expressed an unqualified opinion on compliance for KANU's major federal award programs. No deficiencies or combinations of deficiencies material to KANU's internal control over compliance were reported by the auditors in the current year.

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

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**For the Year Ended June 30, 2011**

**FINDINGS – FINANCIAL STATEMENTS AUDIT**

Not applicable – the single audit for the year ended June 30, 2011 was the initial single audit of the Kanu o ka `Aina New Century Public Charter School (KANU).

**FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT**

Not applicable – the single audit for the year ended June 30, 2011 was KANU's initial single audit.

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

**CORRECTIVE ACTION PLAN**

**For the Year Ended June 30, 2011**

**CORRECTIVE ACTION PLAN**

A corrective action plan for the year ended June 30, 2011 for Kanu o ka `Aina New Century Public Charter School (KANU) was not required because there were no current year findings or questioned costs.

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