



## **KUALAPU'U SCHOOL**

**FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION  
WITH INDEPENDENT AUDITOR'S REPORTS**

Fiscal Years Ended June 30, 2019 and 2018



# KUALAPU‘U SCHOOL

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**PART I**  
**FINANCIAL SECTION**

## INDEPENDENT AUDITOR'S REPORT

To the Governing Board  
Kualapu'u School

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the general fund, and agency fund of Kualapu'u School (School), a component unit of the Department of Education, State of Hawaii, as of and for the fiscal years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion

on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating 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 opinions.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the general fund, and agency fund of the School as of June 30, 2019 and 2018, and the respective changes in financial position for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 11 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 who 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.

Management has omitted the budgetary comparison information for the general fund that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2019 on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the School's internal control over financial reporting and compliance.

*N&K CPAs, Inc.*

Honolulu, Hawaii  
October 31, 2019

**Kualapu‘u School**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**June 30, 2019**

The following discussion and analysis provides an overview of the financial activities of Kualapu‘u School (School), for the fiscal year ended June 30, 2019. Readers should also review the basic financial statements and accompanying notes to enhance their understanding of the School’s financial performance.

**Introduction to Basic Financial Statements**

The basic financial statements of the School include (1) the *Statements of Net Position and Governmental Fund Balance Sheets* which summarizes assets, liabilities, and fund balance and presents an overall picture of the financial position of the School; (2) the *Statements of Activities* which summarizes the financial results of operations for each fiscal year; (3) the *Statements of Revenues, Expenditures, and Change in Fund Balance - Governmental Fund* which summarizes the financial results of operations for each fiscal year at the fund level using a current financial resources measurement focus; (4) *Reconciliations of the Statement of Revenues, Expenditures, and Change in Fund Balance of the Governmental Fund to the Statements of Activities*, and (5) the *Statements of Fiduciary Net Position - Agency Fund* which summarizes funds held in a custodial capacity for student activities that take place outside of the formal class period and are not requirements for class work or credit; and (6) notes to the basic financial statements.

**Financial Analytical Overview**

The following discussion highlights management’s understanding of the key aspects of the School’s financial activities.

**Analysis of Net Position**

The statements of net position includes all of the assets and liabilities of the School, with the difference between the two reported as net position. These statements are similar to that of the balance sheet of a private-sector business. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the School is improving or deteriorating. The statements also provide information on how services were financed in the short-term as well as what remains for future spending.

Net position increased from the prior fiscal year by approximately 11%. As of June 30, 2019 and 2018, total current and other assets were comprised primarily of cash and receivables representing approximately 90% and 89% of total assets, respectively. Capital assets accounted for approximately 10% and 11%, respectively, of total assets as of June 30, 2019 and 2018.

**Kualapu‘u School**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)**  
**June 30, 2019**

Table 1 provides condensed statements of net position as of June 30, 2019 and 2018.

**Table 1**  
**Condensed Statements of Net Position**

	<u>2019</u>	<u>2018</u>	<u>Percent Change</u>
<b>Assets</b>			
Current and other assets	\$ 2,470,411	\$ 2,283,600	8.18%
Capital assets	<u>261,731</u>	<u>290,664</u>	-9.95%
Total assets	\$ <u>2,732,142</u>	\$ <u>2,574,264</u>	6.13%
<b>Liabilities</b>			
Current liabilities	\$ 519,445	\$ 567,503	-8.47%
Noncurrent liabilities	<u>42,383</u>	<u>53,517</u>	-20.80%
Total liabilities	<u>561,828</u>	<u>621,020</u>	-9.53%
<b>Net position</b>			
Net investment in capital assets	261,731	290,664	-9.95%
Unrestricted	<u>1,908,583</u>	<u>1,662,580</u>	14.80%
Total net position	<u>2,170,314</u>	<u>1,953,244</u>	11.11%
Total liabilities and net position	\$ <u>2,732,142</u>	\$ <u>2,574,264</u>	6.13%

**Analysis of Changes in Net Position**

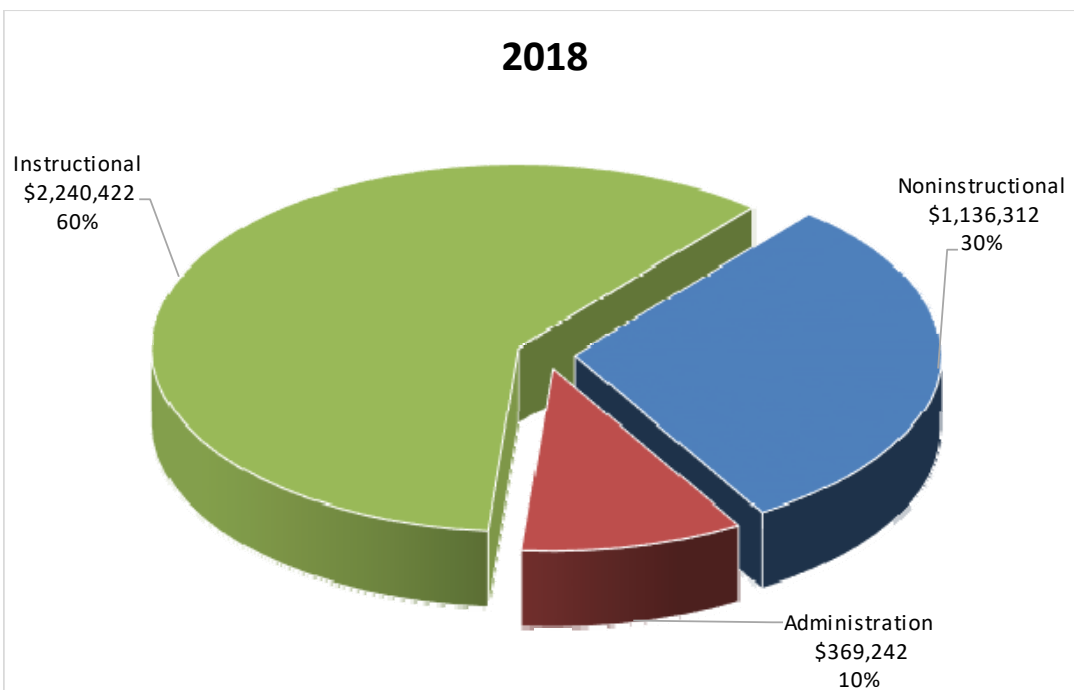
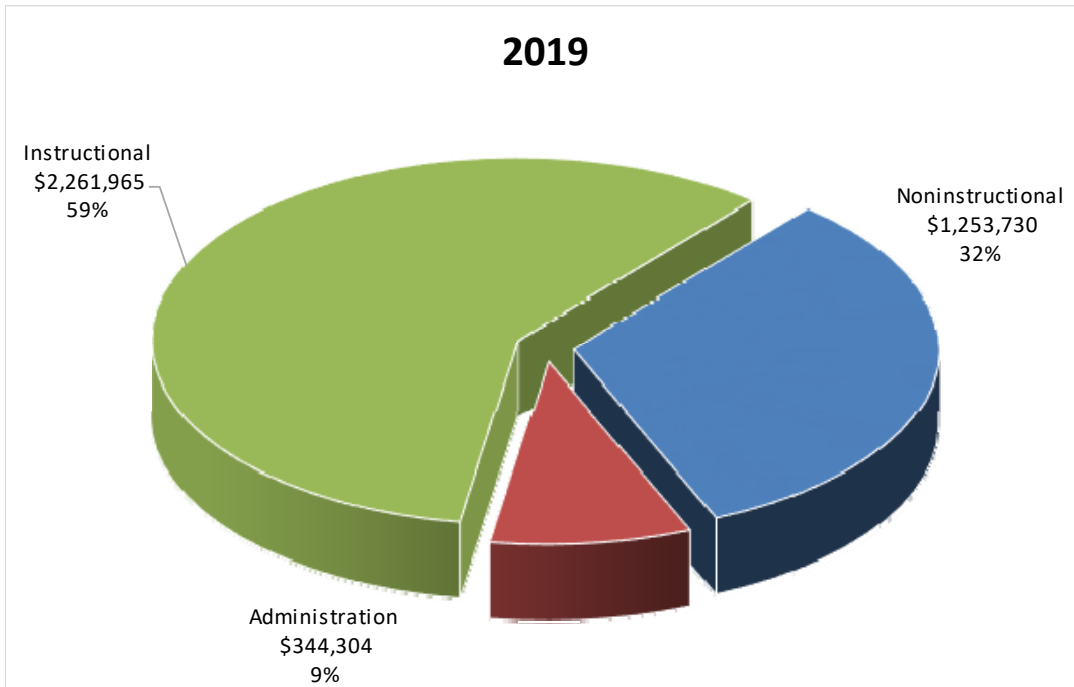
For the fiscal years ended June 30, 2019 and 2018, the State of Hawaii (State) per pupil allocation amounted to 58% and 56% of total revenues, respectively. The State per pupil allocation amount increased from \$7,355 for fiscal year 2018 to \$7,454 in fiscal year 2019. The School’s enrollment decreased to 315 students for 2019 from 319 students for 2018.

Expenses for the fiscal year ended June 30, 2019, totaled \$3,859,999 with instructional, administration, and non-instructional services accounting for 59%, 9%, and 32% of total expenses, respectively. Expenses for the fiscal year ended June 30, 2018, totaled \$3,745,976 with instructional, administration, and non-instructional services accounting for 60%, 10%, and 30% of total expenses, respectively.



**Kualapu'u School  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
June 30, 2019**

The following chart presents each expense category as a percent of the total expenses for all the School's activities:



Most expenses were for salaries and wages that amounted to \$2,677,261 or 69% of total expenses for fiscal year 2019, and \$2,617,341 or 70% for fiscal year 2018.

**Kualapu‘u School**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)**  
**June 30, 2019**

The statements of activities present information showing how net position changed during the fiscal years. The changes in net position are reported using the accrual method of accounting, similar to the method used by most private-sector businesses. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are reported when the goods or services are received, regardless of the timing of the related cash flows. The activities of the School are principally supported by the State per pupil allocation. The School does not recover any portion of its costs through tuition but does collect some charges for services related to school lunches. Table 2 provides condensed summary statements of activities for the fiscal years ended June 30, 2019 and 2018.

**Table 2**  
**Condensed Statements of Activities**

	<u>2019</u>	<u>2018</u>	<u>Percent Change</u>
<b>Revenues</b>			
State per pupil allocation	\$ 2,346,228	\$ 2,346,127	0.00%
Program grant, contribution and fee revenue	1,721,574	1,833,596	-6.11%
Other revenue	<u>9,267</u>	<u>3,006</u>	208.28%
Total revenues	<u>4,077,069</u>	<u>4,182,729</u>	-2.53%
<b>Expenses</b>			
Instructional	2,261,965	2,240,422	0.96%
Administration	344,304	369,242	-6.75%
Noninstructional services	<u>1,253,730</u>	<u>1,136,312</u>	10.33%
Total expenses	<u>3,859,999</u>	<u>3,745,976</u>	3.04%
Change in net position	217,070	436,753	-50.30%
Beginning net position	<u>1,953,244</u>	<u>1,516,491</u>	28.80%
Ending net position	\$ <u>2,170,314</u>	\$ <u>1,953,244</u>	11.11%

**Fiduciary Funds**

Fiduciary funds or “local school funds” are held for students in a custodial capacity. The fund contains monies collected and maintained by the School for students. Examples include yearbook, newspaper fund, student government dues, physical education uniform sales, and excursions. The funds are used for school activities that take place outside formal class periods and are not required for class work or credit.

Fiduciary fund assets and liabilities were \$42,361 and \$40,619 as of June 30, 2019 and 2018, respectively.

**Kualapu‘u School**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)**  
**June 30, 2019**

**Capital Assets**

The School is a conversion charter school. The net book value of the School’s capital assets amounted to \$261,731 and \$290,664 as of June 30, 2019 and 2018, respectively. Annual depreciation charges totaled \$69,506 and \$67,077 for the fiscal years ended June 30, 2019 and 2018, respectively. See Note E to the School’s financial statements for a description of capital asset activities for the fiscal years ended June 30, 2019 and 2018.

**Factors Impacting Future Periods**

The School is heavily dependent on the State per pupil allocation and related contributions to fund operations. For 2020, the per pupil funding amounts is expected to increase to \$7,882 from \$7,454 in 2019. Enrollment at the School has increased from 310 in 2017 to 319 in 2018, but decreased to 315 in 2019. Enrollment for 2020 is expected to slightly decrease to an estimated enrollment of approximately 313 students, leading to a projected per pupil funding of approximately \$2,467,000.

**Kualapu'u School**  
**STATEMENTS OF NET POSITION AND**  
**GOVERNMENTAL FUND BALANCE SHEETS**  
**June 30, 2019**

	<b>General Fund</b>	<b>Adjustments (Note C)</b>	<b>Statement of Net Position</b>
<b>ASSETS</b>			
Cash	\$ 2,182,490	\$ --	\$ 2,182,490
Accounts receivable	60,025	--	60,025
Grants receivable	<u>213,129</u>	<u>--</u>	<u>213,129</u>
Total current assets	<u>2,455,644</u>	<u>--</u>	<u>2,455,644</u>
Capital assets, net of accumulated depreciation	--	261,731	261,731
Deposits and other assets	<u>14,767</u>	<u>--</u>	<u>14,767</u>
	<u>\$ 2,470,411</u>	<u>\$ 261,731</u>	<u>\$ 2,732,142</u>
<b>LIABILITIES</b>			
Accounts payable	\$ 125,333	\$ --	\$ 125,333
Accrued payroll and expenses	292,126	--	292,126
Refundable advance	64,371	--	64,371
Compensated absences	<u>--</u>	<u>37,615</u>	<u>37,615</u>
Total current liabilities	481,830	37,615	519,445
Compensated absences, less current portion	<u>--</u>	<u>42,383</u>	<u>42,383</u>
Total liabilities	<u>481,830</u>	<u>79,998</u>	<u>561,828</u>
<b>FUND BALANCE/NET POSITION</b>			
Fund balance			
Unassigned	<u>1,988,581</u>	<u>(1,988,581)</u>	<u>--</u>
Total fund balance	<u>1,988,581</u>	<u>(1,988,581)</u>	<u>--</u>
Total liabilities and fund balance	<u>\$ 2,470,411</u>		
Net position			
Net investment in capital assets		261,731	261,731
Unrestricted		<u>1,908,583</u>	<u>1,908,583</u>
Total net position		<u>\$ 2,170,314</u>	<u>\$ 2,170,314</u>

See accompanying notes to the basic financial statements.

**Kualapu'u School**  
**STATEMENTS OF NET POSITION AND**  
**GOVERNMENTAL FUND BALANCE SHEETS (Continued)**  
**June 30, 2018**

	<b>General Fund</b>	<b>Adjustments (Note C)</b>	<b>Statement of Net Position</b>
<b>ASSETS</b>			
Cash	\$ 1,832,898	\$ --	\$ 1,832,898
Accounts receivable	49,090	--	49,090
Grants receivable	386,845	--	386,845
Total current assets	2,268,833	--	2,268,833
Capital assets, net of accumulated depreciation	--	290,664	290,664
Deposits and other assets	14,767	--	14,767
	\$ 2,283,600	\$ 290,664	\$ 2,574,264
<b>LIABILITIES</b>			
Accounts payable	\$ 261,564	\$ --	\$ 261,564
Accrued payroll and expenses	250,757	--	250,757
Refundable advance	16,864	--	16,864
Compensated absences	--	38,318	38,318
Total current liabilities	529,185	38,318	567,503
Compensated absences, less current portion	--	53,517	53,517
Total liabilities	529,185	91,835	621,020
<b>FUND BALANCE/NET POSITION</b>			
Fund balance			
Unassigned	1,754,415	(1,754,415)	--
Total fund balance	1,754,415	(1,754,415)	--
Total liabilities and fund balance	\$ 2,283,600		
Net position			
Net investment in capital assets		290,664	290,664
Unrestricted		1,662,580	1,662,580
Total net position		\$ 1,953,244	\$ 1,953,244

See accompanying notes to the basic financial statements.

**Kualapu‘u School**  
**STATEMENTS OF ACTIVITIES**  
**Fiscal Year Ended June 30, 2019**

	<u>Total</u>	<u>Instructional</u>	<u>Administration</u>	<u>Noninstructional Services</u>	
				<u>Support Services</u>	<u>Operations</u>
<b>Expenses</b>					
Salaries and wages	\$ 2,677,261	\$ 1,962,018	\$ 133,648	\$ 374,078	\$ 207,517
Professional fees	338,877	53,108	82,915	202,854	--
Supplies - materials	362,385	106,448	17,573	215,877	22,487
Contracted buyback services	137,615	--	--	137,615	--
Fees	147,600	45,756	101,844	--	--
Depreciation	69,506	44,830	69	3,292	21,315
Occupancy expense	67,718	--	--	--	67,718
Travel	57,639	49,805	6,857	977	--
Fringe benefits	<u>1,398</u>	<u>--</u>	<u>1,398</u>	<u>--</u>	<u>--</u>
Total expenses	<u>3,859,999</u>	<u>2,261,965</u>	<u>344,304</u>	<u>934,693</u>	<u>319,037</u>
<b>Program revenues</b>					
Operating grants and contributions	1,232,582	942,087	--	290,495	--
Charges for services	<u>11,592</u>	<u>--</u>	<u>--</u>	<u>11,592</u>	<u>--</u>
Net program expense	<u>2,615,825</u>	<u>\$ 1,319,878</u>	<u>\$ 344,304</u>	<u>\$ 632,606</u>	<u>\$ 319,037</u>
<b>General revenues</b>					
State per pupil allocation	2,346,228				
Ho‘okako‘o contribution	477,400				
Other income	7,926				
Interest income	<u>1,341</u>				
Total general revenues	<u>2,832,895</u>				
Change in net position	217,070				
Net position at June 30, 2018	<u>1,953,244</u>				
Net position at June 30, 2019	<u>\$ 2,170,314</u>				

See accompanying notes to the basic financial statements.

**Kualapu‘u School**  
**STATEMENTS OF ACTIVITIES (Continued)**  
**Fiscal Year Ended June 30, 2018**

	<u>Total</u>	<u>Instructional</u>	<u>Administration</u>	<u>Noninstructional Services</u>	
				<u>Support Services</u>	<u>Operations</u>
<b>Expenses</b>					
Salaries and wages	\$ 2,617,341	\$ 1,933,553	\$ 165,149	\$ 347,682	\$ 170,957
Supplies - materials	393,272	144,487	12,791	219,376	16,618
Contracted buyback services	265,121	--	--	265,121	--
Fees	147,692	45,756	101,921	15	--
Professional fees	142,828	47,898	59,596	35,134	200
Depreciation	67,077	44,311	2,723	4,029	16,014
Occupancy expense	59,294	--	--	260	59,034
Travel	48,119	24,417	21,830	1,872	--
Fringe benefits	<u>5,232</u>	<u>--</u>	<u>5,232</u>	<u>--</u>	<u>--</u>
Total expenses	<u>3,745,976</u>	<u>2,240,422</u>	<u>369,242</u>	<u>873,489</u>	<u>262,823</u>
<b>Program revenues</b>					
Operating grants and contributions	1,324,574	1,023,994	--	300,580	--
Charges for services	<u>13,522</u>	<u>--</u>	<u>--</u>	<u>13,522</u>	<u>--</u>
Net program expense	<u>2,407,880</u>	<u>\$ 1,216,428</u>	<u>\$ 369,242</u>	<u>\$ 559,387</u>	<u>\$ 262,823</u>
<b>General revenues</b>					
State per pupil allocation	2,346,127				
Ho‘okako‘o contribution	495,500				
Other income	2,718				
Interest income	<u>288</u>				
Total general revenues	<u>2,844,633</u>				
Change in net position	436,753				
Net position at June 30, 2017	<u>1,516,491</u>				
Net position at June 30, 2018	\$ <u>1,953,244</u>				

See accompanying notes to the basic financial statements.

**Kualapu‘u School**  
**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE -**  
**GOVERNMENTAL FUND**  
**Fiscal Years Ended June 30, 2019 and 2018**

	<b>General Fund</b>	
	<b>2019</b>	<b>2018</b>
<b>Revenues</b>		
State per pupil allocation	\$ 2,346,228	\$ 2,346,127
Other grants and contributions	806,341	754,128
Federal grants	689,986	923,889
State grants	213,655	142,057
Charges for services	11,592	13,522
Other income	7,926	2,718
Interest income	1,341	288
	<u>4,077,069</u>	<u>4,182,729</u>
 <b>Expenditures</b>		
Salaries and wages	2,689,098	2,613,794
Professional fees	338,877	142,828
Supplies - materials	362,385	393,272
Fees	147,600	147,692
Contracted buyback services	137,615	265,121
Occupancy expense	67,718	59,294
Travel	57,639	48,119
Capital outlay	40,573	97,034
Fringe benefits	1,398	5,232
	<u>3,842,903</u>	<u>3,772,386</u>
 Net change in fund balance	 234,166	 410,343
 <b>Fund balance at beginning of fiscal year</b>	 <u>1,754,415</u>	 <u>1,344,072</u>
 <b>Fund balance at end of fiscal year</b>	 <u>\$ 1,988,581</u>	 <u>\$ 1,754,415</u>

See accompanying notes to the basic financial statements.



**Kualapu'u School**  
**RECONCILIATIONS OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGE IN**  
**FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENTS OF ACTIVITIES**  
**Fiscal Year Ended June 30, 2019**

<b>Net change in fund balance - governmental fund</b>		<b>\$ 234,166</b>
<b>Amounts reported for governmental activities in the statement of activities are different because:</b>		
Change in compensated absences reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.		11,837
Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets are depreciated over their estimated useful lives as depreciation expense.		
Expenditures for capital outlay	\$ 40,573	
Less current year depreciation	<u>(69,506)</u>	<u>(28,933)</u>
<b>Change in net position of governmental activities</b>		<b>\$ <u>217,070</u></b>

See accompanying notes to the basic financial statements.

**Kualapu'u School**  
**RECONCILIATIONS OF THE STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGE IN**  
**FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENTS OF ACTIVITIES**  
**(Continued)**  
**Fiscal Year Ended June 30, 2018**

<b>Net change in fund balance - governmental fund</b>		<b>\$ 410,343</b>
 <b>Amounts reported for governmental activities in the statement of activities are different because:</b>		
Change in compensated absences reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.		(3,547)
 Governmental funds report capital outlays as expenditures, however, in the statement of activities, the cost of those assets are depreciated over their estimated useful lives as depreciation expense.		
Expenditures for capital outlay	\$ 97,034	
Less current year depreciation	<u>(67,077)</u>	<u>29,957</u>
 <b>Change in net position of governmental activities</b>		 <b>\$ <u>436,753</u></b>

See accompanying notes to the basic financial statements.

**Kualapu'u School**  
**STATEMENTS OF FIDUCIARY NET POSITION - AGENCY FUND**  
**June 30, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 32,385	\$ 35,776
Due from general fund	9,976	4,843
Total assets	\$ 42,361	\$ 40,619
<b>LIABILITIES</b>		
Due to student groups and others	\$ 42,361	\$ 40,619
Total liabilities	\$ 42,361	\$ 40,619

See accompanying notes to the basic financial statements.

**Kualapu‘u School**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

**NOTE A - FINANCIAL REPORTING ENTITY**

Hawaii’s charter schools are authorized by Chapter 302D of the Hawaii Revised Statutes (HRS). Charter schools are publicly funded, managed and operated by governing boards and held accountable by the Hawaii State Charter School Commission (Commission). The Commission is appointed by the State of Hawaii Board of Education (BOE) and has the powers and duties of approving, denying or revoking a charter between the State of Hawaii (State) and the governing board. In Hawaii, there are two types of charter schools: new century charter schools and new century conversion charter schools. New century charter schools are newly formed schools that secured their own facilities or use facilities of existing public schools. New century conversion charter schools are existing public schools whose management and operations are transferred from the State of Hawaii, Department of Education (DOE) to a governing board approved by the Commission. Charter schools are considered state agencies.

Kualapu‘u School (School) is a new century conversion charter school for grades Pre-k to 6 and is located in Kualapu‘u, Hawaii. The School received its charter on June 24, 2004, and its mission is to, “Build a strong foundation for lifelong learning so with proper nurturing our keiki will be able to discover and grow, develop skills and confidence, and, like the ‘uala, withstand adversity and thrive in an ever-changing world.” The School receives a substantial amount of its support from the State and Ho‘okako‘o Corporation (HC), a nonprofit organization. Significant reductions, if any, in the level of this support, may have an adverse effect on the School’s programs and activities.

The DOE administers the statewide system of public schools and public libraries. The DOE is part of the executive branch of the State. The State Comptroller maintains the central accounts for all state funds and publishes financial statements for the State annually which includes the DOE’s financial activities. As discussed in Note G, the BOE approved HC to manage and operate the School as a new century conversion charter school. The accompanying basic financial statements present only the accounts managed by the School. Accordingly, the accompanying basic financial statements are not intended to present fairly the financial position of the DOE or the State, and the changes in its financial position in conformity with accounting principles generally accepted in the United States of America.

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES**

- (1) ***Basis of Presentation*** - The financial statements of the School have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

The government-wide financial statements report all assets, liabilities, and activities of the School as a whole. They include all funds of the reporting entity except for fiduciary funds.

**Kualapu‘u School**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The statements of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include charges to customers who purchase, use, or directly benefit from goods or services provided by a given function. Program revenues also include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. State funding is reported as general revenues. Resources that are dedicated internally are reported as general revenues rather than program revenues.

Net position is restricted when constraints placed on it are either externally imposed or imposed by constitutional provisions or enabling legislation. Internally imposed designations of resources is not presented as restricted net position. When both restricted and unrestricted resources are available for use, it is generally the School's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund financial statements are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each accounting fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures. The School uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate the legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

**Governmental Fund Type**

The School has only one governmental fund, which is the general fund. The general fund is used to account for all of the School's financial resources. The annual operating budget as approved by management provides the basic framework within which the resources and obligations of the general fund are accounted for.

**Fiduciary Fund Type**

The financial statement of fiduciary funds is reported using the economic resources measurement focus and the accrual basis of accounting, similar to the government-wide statements described above. Agency funds do not have a measurement focus and report only assets and liabilities.

(2) ***Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

**Government-wide Financial Statements**

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recorded at the time liabilities are incurred or economic assets are used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

**Kualapu‘u School**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

In addition, amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements rather than reported as expenditures. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than an expenditure.

**Fund Financial Statements**

Governmental funds: Governmental fund financial statements are reported using the current financial resources management focus and on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues other than federal grants and assistance awards to be available if they are collected within 60 days of the end of the current fiscal year. Revenues susceptible to accrual include federal grants and funds appropriated by the State Legislature and allotted by the Governor, such as the State per pupil allocation. Expenditures are generally recorded when the related fund liabilities are incurred.

Amounts expended to acquire capital assets are recorded as expenditures in the fiscal year that resources were expended, rather than as fund assets. Expenditures related to compensated absences are recorded only when payment is due.

Fiduciary funds: Fiduciary funds are used to account for resources held by the School as an agent for the students. Fiduciary funds are custodial in nature (i.e., assets equal liabilities) and do not involve measurement of results of operations.

- (3) **Use of Estimates** - The preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.
- (4) **Capital Assets** - The School records the acquisition of capital assets, costing \$1,000 or more and theft-sensitive items that are \$250 or more, which are primarily comprised of furniture and equipment, that are used in operations and that have initial lives extending beyond a single reporting period. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Capital assets consist of those acquired by the School since charter school inception.

**Kualapu‘u School**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- (5) **Fund Balance** - In the governmental fund financial statements, fund balances are classified based on the extent to which the School is bound to follow constraints on the specific purposes for which amounts in the funds may be spent.

Fund balances are classified as follows:

**Nonspendable** - Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.

**Restricted** - Amounts that can be spent only for specific purposes because of state or federal laws, or externally imposed conditions by grantors or creditors.

**Committed** - Amounts that can be used only for specific purposes determined by a formal action by the School's governing board resolution.

**Assigned** - Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes.

**Unassigned** - All amounts not included in other spendable classifications.

- (6) **Compensated Absences** - Non-certificated employees are credited with vacation at the rate of 96 to 168 hours per calendar year. Accumulation of such vacation credits is limited to 720 hours at calendar year-end and is convertible to pay upon termination of employment.
- (7) **Government Allotments** - The State per pupil allocation, other State allocations and federal funds allotted to the School are recorded as revenue when allocated or earned. Funds received that are not earned as of year-end are recorded as unearned revenue.
- (8) **Program Revenues** - Program revenues are derived directly from the programs of the School or from parties outside of the School and are categorized as charges for services or operating grants and contributions.

Charges for services - Charges for services include revenues based on exchange or exchange-like transactions. These revenues arise from charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided. Revenues in this category are comprised of fees charged for meals served. The School is prohibited from assessing tuition.

Operating grants and contributions - Program-specific operating grants and contributions include revenues arising from mandatory and voluntary non-exchange transactions with governments, organizations, or individuals that are restricted for use in a particular program.

**Kualapu‘u School**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**  
**June 30, 2019 and 2018**

**NOTE C - EXPLANATION OF DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEETS AND THE STATEMENTS OF NET POSITION**

Total fund balance of the School’s general fund of \$1,988,581 and \$1,754,415 reported in the governmental fund balance sheets as of June 30, 2019 and 2018, respectively, differs from the total net position of governmental activities of \$2,170,314 and \$1,953,244, as of June 30, 2019 and 2018, respectively. This difference primarily results from the long-term economic focus of the statements of net position and the current financial resources focus of the governmental fund balance sheets.

- (1) Capital asset related items: When capital assets that are to be used in governmental activities are consumed by the School, the costs of those activities are reported as expenditures in governmental funds. However, the statements of net position includes those capital assets among the assets of the School as a whole.

	2019	2018
Capital assets	\$ 1,830,411	\$ 1,789,838
Less accumulated depreciation	<u>(1,568,680)</u>	<u>(1,499,174)</u>
	<u>\$ 261,731</u>	<u>\$ 290,664</u>

- (2) Long-term liabilities: Long-term liabilities applicable to the School’s governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the statements of net position. The balance of compensated absences payable at June 30, 2019 and 2018, were \$79,998 and \$91,835, respectively.

**NOTE D - CONCENTRATION OF CREDIT RISK**

The School does not have a deposit policy addressing concentration of credit risk and maintains its operating and agency-type cash accounts in a commercial bank. Cash balances in accounts are insured up to \$250,000 per account holder by the Federal Deposit Insurance Corporation (FDIC). In assessing its concentration of credit risk related to cash, the School places its cash in a financial institution that may at times exceed FDIC insurance limits. The amount of uninsured and uncollateralized cash was approximately \$2,106,000 and \$1,638,000 as of June 30, 2019 and 2018, respectively.

**NOTE E - CAPITAL ASSETS**

The changes in capital assets for the fiscal years ended June 30, 2019 and 2018 were as follows:

	Balance July 1, 2018	Additions	Deductions	Balance June 30, 2019
Governmental activities:				
Furniture and equipment	\$ 1,789,838	\$ 40,573	\$ --	\$ 1,830,411
Less accumulated depreciation	<u>(1,499,174)</u>	<u>(69,506)</u>	<u>--</u>	<u>(1,568,680)</u>
Governmental activities capital assets, net	<u>\$ 290,664</u>	<u>\$ (28,933)</u>	<u>\$ --</u>	<u>\$ 261,731</u>



**Kualapu'u School**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2019**

**NOTE E - CAPITAL ASSETS (Continued)**

	<u>Balance</u> <u>July 1, 2017</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2018</u>
Governmental activities:				
Furniture and equipment	\$ 1,692,804	\$ 97,034	\$ --	\$ 1,789,838
Less accumulated depreciation	<u>(1,432,097)</u>	<u>(67,077)</u>	<u>--</u>	<u>(1,499,174)</u>
Governmental activities capital assets, net	\$ <u>260,707</u>	\$ <u>29,957</u>	\$ <u>--</u>	\$ <u>290,664</u>

**NOTE F - LONG-TERM LIABILITIES**

The School's long-term liability for governmental activities consists of compensated absences. Long-term liability activity during the fiscal years ended June 30, 2019 and 2018, were as follows:

	<u>2018</u>	<u>2018</u>
Balance at beginning of year	\$ 91,835	\$ 88,288
Additions	48,198	49,864
Reductions	<u>(60,035)</u>	<u>(46,317)</u>
Balance at end of year	\$ <u>79,998</u>	\$ <u>91,835</u>

Compensated absences due within one year were \$37,615 and \$38,318 as of June 30, 2019 and 2018, respectively.

**NOTE G - RELATED PARTY TRANSACTIONS**

**State Per Pupil Allocation**

According to Chapter 302D of the HRS, the Commission staff submits a request for State general fund appropriations for the School based upon (1) the actual and projected enrollment figures in the current school year; and (2) a per pupil amount for each regular and special education student, which shall be equivalent to the total per pupil cost based upon average enrollment in all cost categories. The State Legislature shall make an appropriation based upon the budget request; provided that the State Legislature may make additional appropriations for collective bargaining increases for charter school employee members of collective bargaining units, fringe and other employee benefits, facility costs, and for other requested amounts.

**Kualapu'u School**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2019**

**NOTE G - RELATED PARTY TRANSACTIONS (Continued)**

For the 2018 - 2019 and 2017 - 2018 school years, the State Legislature determined that the allocation of State general funds to charter schools should be based upon a per pupil allocation of \$7,454 and \$7,355, respectively. The total per pupil allocation provided to the School for the 2018 - 2019 and 2017 - 2018 school years amounted to \$2,346,228 and \$2,346,127, respectively.

**Related Party Contribution**

HC, a nonprofit organization, was incorporated in the State on October 10, 2002, and organized exclusively for the educational and other charitable purposes set forth in Section 501(c)(3) of the United States Internal Revenue Code. HC's mission is to collaborate with communities, educators and families for educational excellence by leveraging available expertise and resources in order to provide exemplary early childhood programs, conversion charter schools and other new and innovative education services aimed at improving student achievement and educational outcomes in high-need communities in the State. To effectuate its mission, HC applied with the BOE and was approved to manage and operate the School as a new century conversion charter school under the provisions of Section 302B of the HRS.

As the governing body of the School, the board of directors of HC has significant influence over the operations of the School. However, the School is a public school and the Hawaii Charter School Commission, which was created under the provisions of Act 159 (2013), may revoke the charter of HC to manage and operate the School as a new century conversion charter school. A new century conversion charter school is also prohibited from assessing tuition.

HC has a Memorandum of Agreement (MOA) with the Trustees of the Estate of Bernice Pauahi Bishop dba Kamehameha Schools (KS). The MOA defines the management, reporting, and service responsibilities of the two entities. Under this MOA, KS made payments to HC to support the programs and services of the School. HC made contributions to the School totaling \$477,400 and \$495,500 for the fiscal years ended June 30, 2019 and 2018, respectively.

HC provides personnel, management, and leadership development services to the School under a management service agreement. The management service fee is calculated based on total enrollment and amounted to \$147,600 each for the fiscal years ended June 30, 2019 and 2018. Payments are made on a quarterly basis in four equal installments. An installment of \$36,900 each is included in accounts payable as of June 30, 2019 and 2018. HC is reimbursed for the expenditures paid on behalf of the School, including certain personnel-related costs, travel costs, recruitment/advertising costs, and accounting and bookkeeping services provided by the Charter School Management Corporation along with other consulting and travel costs. For the fiscal years ended June 30, 2019 and 2018, the School paid \$49,182 and \$44,521, respectively to HC as a reimbursement of these costs. Payables due to HC for these costs were \$12,282 and \$8,053 and are included in accounts payable, as of June 30, 2019 and 2018, respectively.

**Kualapu'u School**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2019**

**NOTE G - RELATED PARTY TRANSACTIONS (Continued)**

**Contracted Buyback of Services**

Under the MOA with the DOE, the DOE provides support services to the School. The MOA was designed to communicate the timeline for allocation of funds to the School and to define the specific cost and kinds of goods and services that the DOE will provide to the School and the payment terms. Support services that are required to be purchased consist of infrastructure services from the BOE and the Superintendent's Office. While not required, the School purchases other support services from the DOE such as payroll preparation and processing, courier services, human resource file maintenance, processing of employee benefits, information technology services, DOE administrative communication system applications, and school bus transportation. The amounts paid to the DOE for these services under the MOA amounted to \$137,615 and \$265,121 for the fiscal years ended June 30, 2019 and 2018, respectively. Amounts due as of June 30, 2019 and 2018 amounted to \$165,304 and \$259,428, respectively.

**NOTE H - RETIREMENT BENEFITS**

All School employees are covered by the applicable collective bargaining agreements with the Hawaii Government Employees Association, the Hawaii State Teachers Association, and the United Public Workers. Section 302D of the HRS requires the State to fund fringe benefit costs for charter schools. Payroll fringe benefits costs that are funded by State appropriations are assumed by the State and are not charged to the School's operating funds. The amount of these costs were not available for the School.

**Pension Plan**

***Plan description*** - All eligible employees of the DOE are required by Chapter 88, HRS, to become members of the Employees' Retirement System of the State of Hawai'i (ERS), a cost-sharing, multiple-employer public employee retirement plan. The ERS provides retirement, survivor and disability benefits with multiple benefit structures known as the contributory, hybrid and noncontributory plans. All contributions, benefits, and eligibility requirements are established by Chapter 88, HRS, and can be amended by legislative action.

Employees covered by Social Security in June 30, 1984 were given the option of joining the noncontributory plan or remaining in the contributory plan. All new employees hired after June 30, 1984 and before July 1, 2006, who are covered by Social Security, were generally required to join the noncontributory plan. Qualified employees in the contributory and noncontributory plans were given the option of joining the hybrid plan effective July 1, 2006, or remaining in their existing plan. Starting July 1, 2006, all new employees covered by Social Security are required to join the hybrid plan.

**Kualapu'u School**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2019**

**NOTE H - RETIREMENT BENEFITS (Continued)**

The three plans provide a monthly retirement allowance equal to the benefit multiplier percentage multiplied by the Average Final Compensation (AFC) multiplied by the years of credited service. The AFC is the average salary earned during the five highest paid years of service, including the payment of salary in lieu of vacation, or three highest paid years of service, excluding the payment of salary in lieu of vacation, if the employee became a member prior to January 1, 1971. The AFC for members hired on or after this date is based on the three highest paid years of service, excluding the payment of salary in lieu of vacation.

A post-retirement allowance, which is an automatic annual increase of 1.5% (if the employee became a member after June 30, 2012) or 2.5% (if the employee became a member before July 1, 2012), is provided to all retirees beginning July 1 of the calendar year following retirement and on each July 1 thereafter.

The following summarizes the three plan provisions relevant to the general employees of the respective plan:

*Contributory Plan* - Membership date prior to July 1, 2012: Employees are generally required to contribute 7.8% of their salary and are fully vested for benefits upon receiving 5 years of credited service. Employees may retire with full benefits at age 55 and 5 years of credited service, or may retire early at any age with at least 25 years of credited service and reduced benefits. The benefit multiplier is 2.0% for employees covered by Social Security.

Membership date after June 30, 2012: Employees are generally required to contribute 9.8% of their salary and are fully vested for benefits upon receiving 10 years of credited service. Employees may retire with full benefits at age 60 and 10 years of credited service, or may retire early at age 55 and 25 years of credited service with reduced benefits. The benefit multiplier is 1.75% for employees covered by Social Security.

*Hybrid Plan* - Membership date prior to July 1, 2012: Employees are generally required to contribute 6.0% of their salary and are fully vested for benefits upon receiving 5 years of credited service. Employees may retire with full benefits at age 62 and 5 years of credited service or at age 55 and 30 years of credited service, or may retire at age 55 and 20 years of credited service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 2.0%.

Membership date after June 30, 2012: Employees are generally required to contribute 8.0% of their salary and are fully vested for benefits upon receiving 10 years of credited service. Employees may retire with full benefits at age 65 and 10 years of credited service or at age 60 and 30 years of credited service, or may retire at age 55 and 20 years of credited service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 1.75%.

*Noncontributory Plan* - Employees in the noncontributory plan are fully vested upon receiving 10 years of credited service. The DOE is required to make all contributions for these members. Employees may retire with full benefits at age 62 years and 10 years of credited service or age 55 and 30 years of credited services or age 55 years and 20 years of credited service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 1.25%.

**Kualapu'u School**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2019**

**NOTE H - RETIREMENT BENEFITS (Continued)**

The ERS funding policy provides for periodic employer contributions at actuarially determined rates, expressed as a percentage of annual covered payroll, such that the employer contributions, along with employee contributions and an actuarially determined rate of investment return, are adequate to accumulate sufficient assets to pay benefits when due. The funding method used to calculate the total employer contribution required is the entry age normal actuarial cost method. Effective July 1, 2005, employer contribution rates are a fixed percentage of compensation, including the normal cost plus amounts required to pay for the unfunded actuarial accrued liability. As of June 30, 2019 and 2018, employers contribute 19% and 18%, respectively, for all general employees. Employer rates are set by statute based on the recommendation of the ERS actuary resulting from an experience study conducted every five years.

The pension contributions by the DOE for the fiscal year ended June 30, 2018 was approximately \$259,670,000, which equal the required contributions for the year plus DOE-paid employee contributions that are also classified as employer contributions pursuant to IRC section 414(h)(2). The contribution requirement for the fiscal year ended June 30, 2019 was not yet available.

The ERS issues a Comprehensive Annual Financial Report that includes financial statements and required supplementary information, which may be obtained from the following address:

Employees' Retirement System of the State of Hawai'i  
201 Merchant Street, Suite 1400  
Honolulu, Hawai'i 96813

**Post-Retirement Health Care and Life Insurance Benefits**

In addition to providing pension benefits, the State also provides certain health care and life insurance benefits to all qualified employees. Pursuant to Act 88, SLH 2001, the State contributes to the Employer-Union Health Benefits Trust Fund (EUTF), an agent multiple-employer defined benefit plan that replaced the Hawaii Public Employees Health Fund effective July 1, 2003. The EUTF was established to provide a single delivery system of health benefits for State and county workers, retirees and their dependents. The EUTF issues an annual financial report that is available to the public. That report may be obtained by writing to the EUTF at P.O. Box 2121, Honolulu, Hawaii 96805-2121.

For employees hired before July 1, 1996, the State pays the entire base monthly contribution for employees retiring with 10 or more years of credited service, and 50% of the base monthly contribution for employees retiring with fewer than 10 years of credited service. A retiree can elect a family plan to cover dependents.

For employees hired after June 30, 1996 but before July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly

**Kualapu'u School**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2019**

**NOTE H - RETIREMENT BENEFITS (Continued)**

contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Retirees in this category can elect a family plan to cover dependents.

For employees hired on or after July 1, 2001, and who retire with less than 10 years of service, the State makes no contributions. For those retiring with at least 10 years but fewer than 15 years of service, the State pays 50% of the base monthly contribution. For those retiring with at least 15 years but fewer than 25 years of service, the State pays 75% of the base monthly contribution. For those employees retiring with at least 25 years of service, the State pays 100% of the base monthly contribution. Only single plan coverage is provided for retirees in this category. Retirees can elect family coverage but must pay the difference.

Measurement of the actuarial valuation and the Annual Required Contribution (ARC) are made for the State as a whole and are not separately computed for the individual state departments and agencies. The State allocates the ARC to the State component units and proprietary funds based upon a systematic methodology.

For active employees, the employees' contributions are based upon negotiated collective bargaining agreements. Employer contributions for employees not covered by collective bargaining agreements and for retirees are prescribed by the HRS.

The DOE's share of the expense for post-retirement health care and life insurance benefits for the fiscal year ended June 30, 2018 was approximately \$132,182,000. The DOE's share of the expense for the fiscal year ended June 30, 2019 was not yet available.

**Deferred Compensation Plan**

The State offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all state employees, permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All plan assets are held in a trust fund to protect them from claims of general creditors. The State has no responsibility for loss due to the investment or failure of investment of funds and assets in the plan, but does have the duty of due care that would be required of an ordinary prudent investor. Accordingly, the assets and liabilities of the State's deferred compensation plan are not reported in the basic financial statements of the State or the School.

**Kualapu'u School**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2019**

**NOTE I - RISK MANAGEMENT**

As a public school, the School is covered for property and liability insurance by the State.

The State is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; and workers' compensation. The State generally retains the first \$1,000,000 per occurrence of property losses, the first \$4,000,000 with respect to general liability claims, and the first \$500,000 of losses due to crime. Losses in excess of those retention amounts are insured with commercial insurance carriers. The limit per occurrence of property losses is \$200,000,000, except for terrorism, which is \$50,000,000 per occurrence. The annual aggregate limit for general liability losses is \$5,000,000 per occurrence and for crime losses, the limit per occurrence is \$10,000,000 with no aggregate limit. The State also has an insurance policy to cover medical malpractice risk in the amount of \$35,000,000 per occurrence and \$39,000,000 in the aggregate.

The State is generally self-insured for workers' compensation and automobile claims. The DOE administers its workers' compensation losses.

**NOTE J - COMMITMENTS**

Employees earn sick leave credits at the rate of one and three-quarters working days for each month of service without limit, but can be taken only in the event of illness and are not convertible to pay upon termination of employment. However, a School employee who retires or leaves government service in good standing with 60 days or more of unused sick leave is entitled to additional service credit in the ERS. At June 30, 2019 and 2018, accumulated sick leave was approximately \$742,000 and \$725,500, respectively.

**PART II**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS**



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

To the Governing Board  
Kualapu'u School

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 the governmental activities, general fund, and agency fund of Kualapu'u School (School) as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated October 31, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control. Accordingly, we do not express an opinion on the effectiveness of the School's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the School's basic financial statements are free from 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 communication is not suitable for any other purpose.

*N & K CPAs, Inc.*

Honolulu, Hawaii  
October 31, 2019