KUALAPU‘U SCHOOL

FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
WITH INDEPENDENT AUDITOR’S REPORTS

Fiscal Year Ended June 30, 2022

N&K CPAs, Inc.
ACCOUNTANTS|CONSULTANTS

999 BISHOP STREET, SUITE 2200 | HONOLULU, HAWAII 96813
T (808) 524-2255 F (808) 523-2090 | nkcpa.com

KUALAPU'U SCHOOL

TABLE OF CONTENTS

KUALAPU‘U SCHOOL

TABLE OF CONTENTS

PART I

FINANCIAL SECTION

N&K CPAs, Inc.
ACCOUNTANTS | CONSULTANTS

999 BISHOP STREET, SUITE 2200
HONOLULU, HAWAII 96813
T (808) 524-2255 F (808) 523-2090

INDEPENDENT AUDITOR'S REPORT

To the Governing Board
Kualapuʻu School

Reports on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities and general fund of Kualapuʻu School (School) as of and for the fiscal year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the School's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and general fund of the School, as of June 30, 2022, and the respective changes in financial position for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the School and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 School's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the School's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 9 through 13 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the School's basic financial statements. The schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2022 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, Hawai'i
November 14, 2022

The following discussion and analysis provides an overview of the financial activities of Kualapu‘u School (School) for the fiscal year ended June 30, 2022. 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 *Statement of Net Position and Governmental Fund Balance Sheet*, which summarizes assets, liabilities, and net position/fund balance and presents an overall picture of the financial position of the School; (2) the *Statement of Activities* which summarizes the financial results of operations for the fiscal year; (3) the *Statement of Revenues, Expenditures, and Change in Fund Balance - Governmental Fund* which summarizes the financial results of operations for the fiscal year at the fund level using a current financial resources measurement focus; (4) *Reconciliation of the Statement of Revenues, Expenditures, and Change in Fund Balance of the Governmental Fund to the Statement of Activities*, and (5) 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 statement of net position includes all of the assets and liabilities of the School, with the difference between the two reported as net position. This statement is 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 statement also provides 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 3%. As of June 30, 2022 and 2021, total current and other assets were comprised primarily of cash and receivables representing approximately 90% and 92% of total assets, respectively. Capital assets accounted for approximately 10% and 8%, respectively, of total assets as of June 30, 2022 and 2021.

Table 1 provides condensed statements of net position as of June 30, 2022 and 2021.

Table 1
Condensed Statements of Net Position

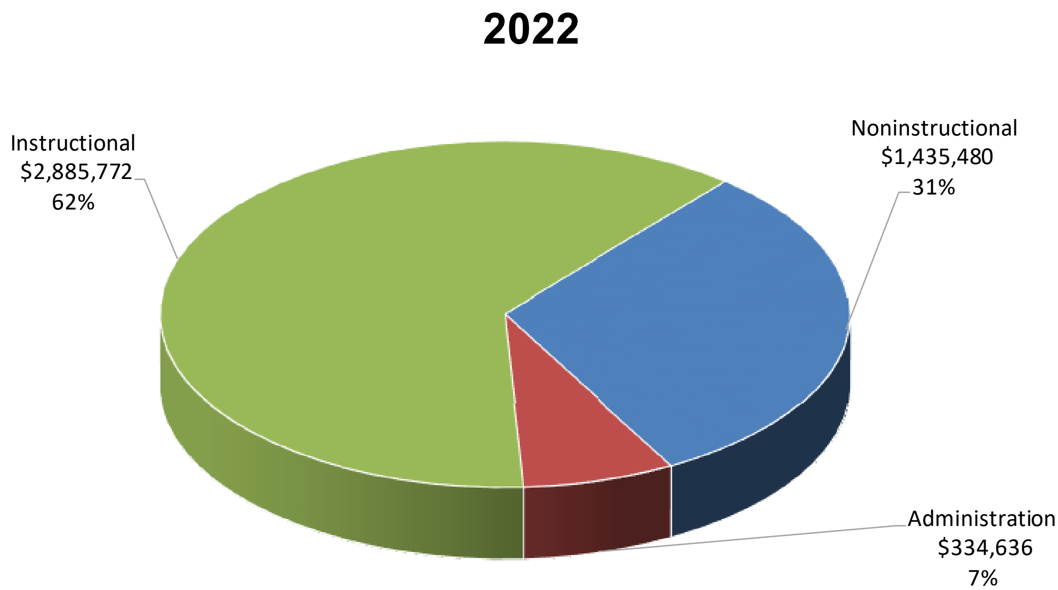
	2022	2021
Assets		
Current and other assets	$ 2,928,774	$ 2,862,045
Capital assets	335,696	257,639
Total assets	$ 3,264,470	$ 3,119,684
Liabilities		
Current liabilities	$ 910,228	$ 834,109
Noncurrent liabilities	100,368	98,151
Total liabilities	1,010,596	932,260
Net position		
Investment in capital assets	335,696	257,639
Unrestricted	1,918,178	1,929,785
Total net position	2,253,874	2,187,424
Total liabilities and net position	$ 3,264,470	$ 3,119,684

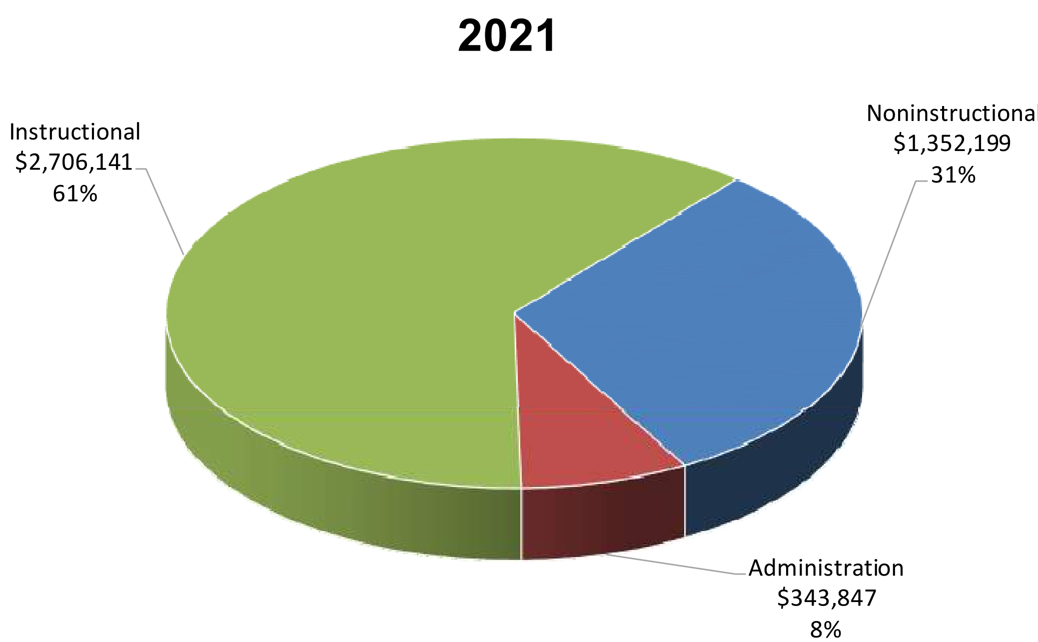
Analysis of Changes in Net Position

For the fiscal years ended June 30, 2022 and 2021, the State of Hawaiʻi (State) per pupil allocation amounted to 58% and 57% of total revenues, respectively. The State per pupil allocation amount increased from $7,872 for fiscal year 2021 to $8,033 in fiscal year 2022. The School's enrollment increased to 341 students for 2022 from 301 students for 2021.

Expenses for the fiscal year ended June 30, 2022, totaled $4,655,888 with instructional, administration, and non-instructional services accounting for 62%, 7%, and 31% of total expenses, respectively. Expenses for the fiscal year ended June 30, 2021, totaled $4,402,187 with instructional, administration, and non-instructional services accounting for 61%, 8%, and 31% of total expenses, respectively.

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 $3,235,950 or 70% of total expenses for fiscal year 2022, and $3,181,602 or 72% for fiscal year 2021.

The statement of activities presents information showing how net position changed during the fiscal year. 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 statements of activities for the fiscal years ended June 30, 2022 and 2021.

Table 2
Condensed Statements of Activities

	2022	2021
Revenues		
State per pupil allocation	$ 2,739,101	$ 2,369,493
Program grant, contribution and fee revenue	1,725,265	1,544,385
Non-imposed employee fringe benefits	245,855	239,238
Other income	12,117	6,270
Total revenues	4,722,338	4,159,386
Expenses		
Instructional	2,885,772	2,706,141
Non-instructional services	1,435,480	1,352,199
Administration	334,636	343,847
Total expenses	4,655,888	4,402,187
Change in net position	66,450	(242,801)
Beginning net position	2,187,424	2,430,225
Ending net position	$ 2,253,874	$ 2,187,424

Capital Assets

The School is a new century conversion charter school. Investment in capital assets amounts to $335,696 and $257,639 as June 30, 2022 and 2021, respectively. Depreciation totaled $60,346 and $62,161 for the fiscal years ended June 20, 2022 and 2021, respectively. See Note E to the School’s financial statements for a description of capital asset activities for the fiscal year ended June 30, 2022.

Long-Term Debt

Long-term debt is comprised of amounts for compensated absences. At June 30, 2022 and 2021, compensated absences was $133,872. See Note F to the School’s financial statements for additional information on long-term debt activity for the fiscal year ended 2022.

Factors Impacting Future Periods

The School is heavily dependent on the State per pupil allocation and related contributions to fund operations. For fiscal year 2023, the State per pupil funding amount is expected to increase to $8,745 from $8,033 in 2022. Enrollment at the School was 341 and 301 students in fiscal years 2022 and 2021, respectively.

Kualapu‘u School
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
June 30, 2022

	General Fund	Adjustments (Note C)	Statement of Net Position
ASSETS			
Cash	$ 2,736,475	$ --	$ 2,736,475
Accounts receivable	60,199	--	60,199
Grants receivable	117,333	--	117,333
Total current assets	2,914,007	--	2,914,007
Capital assets, net	--	335,696	335,696
Deposits and other assets	14,767	--	14,767
	$ 2,928,774	$ 335,696	$ 3,264,470
LIABILITIES			
Accounts payable	$ 78,373	$ --	$ 78,373
Accrued payroll and expenses	437,886	--	437,886
Refundable advance	360,465	--	360,465
Compensated absences	--	33,504	33,504
Total current liabilities	876,724	33,504	910,228
Compensated absences, less current portion	--	100,368	100,368
Total liabilities	876,724	133,872	1,010,596
FUND BALANCE/NET POSITION			
Fund balance			
Unassigned	2,052,050	(2,052,050)	--
Total fund balance	2,052,050	(2,052,050)	--
Total liabilities and fund balance	$ 2,928,774		
Net position			
Net investment in capital assets		335,696	335,696
Unrestricted		1,918,178	1,918,178
Total net position		$ 2,253,874	$ 2,253,874

See accompanying notes to the basic financial statements.

Kualapu‘u School
STATEMENT OF ACTIVITIES
Fiscal Year Ended June 30, 2022

	Total	Instructional	Administration	Non-Instructional Services: Support Services	Non-Instructional Services: Operations
Expenses					
Salaries and wages	$ 3,235,950	$ 2,441,920	$ 144,907	$ 451,434	$ 197,689
Supplies - materials	441,400	106,226	12,624	287,888	34,662
Contracted buyback services	251,239	--	--	251,239	--
Non-imposed employee fringe benefits	245,855	185,112	11,085	34,535	15,123
Fees	198,169	66,942	120,967	10,260	--
Professional fees	126,736	66,710	44,891	12,994	2,141
Occupancy expense	77,317	--	--	--	77,317
Depreciation	60,346	--	148	--	60,198
Travel	18,876	18,862	14	--	--
Total expenses	4,655,888	2,885,772	334,636	1,048,350	387,130
Program revenues					
Operating grants and contributions	1,718,105	1,342,004	--	376,101	--
Charges for services	7,160	--	--	7,160	--
Net program expense	2,930,623	$ 1,543,768	$ 334,636	$ 665,089	$ 387,130
General revenues					
State per pupil allocation	2,739,101				
Non-imposed employee fringe benefits	245,855				
Other income	11,774				
Interest income	343				
Total general revenues	2,997,073				
Change in net position	66,450				
Net position at June 30, 2021	2,187,424				
Net position at June 30, 2022	$ 2,253,874				

See accompanying notes to the basic financial statements.

Kualapu‘u School
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE - GOVERNMENTAL FUND
Fiscal Year Ended June 30, 2022

	General Fund
Revenues	
State per pupil allocation	$ 2,739,101
Federal grants	1,059,015
State grants	333,448
Other grants and contributions	325,642
Non-imposed employee fringe benefits	245,855
Charges for services	7,160
Interest income	343
Other income	11,774
	4,722,338
Expenditures	
Salaries and wages	3,235,950
Supplies - materials	441,400
Non-imposed employee fringe benefits	245,855
Fees	198,169
Contracted buyback services	251,239
Professional fees	126,736
Capital outlay	138,403
Occupancy expense	77,317
Travel	18,876
	4,733,945
Net change in fund balance	(11,607)
Fund balance at June 30, 2021	2,063,657
Fund balance at June 30, 2022	$ 2,052,050

See accompanying notes to the basic financial statements.

Kualapuʻu School
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
Fiscal Year Ended June 30, 2022

Net change in fund balance - governmental fund			$	(11,607)
Amounts reported for governmental activities in the statement of activities are different because:				
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	$	138,403		
Less current year depreciation		(60,346)		78,057
Change in net position of governmental activities			$	66,450

See accompanying notes to the basic financial statements.

NOTE A - FINANCIAL REPORTING ENTITY

Hawaiʻi's charter schools are authorized by Chapter 302D of the Hawaiʻi Revised Statutes (HRS). Charter schools are publicly funded, managed and operated by governing boards and held accountable by the Hawaiʻi State Charter School Commission (Commission). The Commission is appointed by the State of Hawaiʻi Board of Education (BOE) and has the powers and duties of approving, denying or revoking a charter between the State of Hawaiʻi (State) and the governing board. In Hawaiʻi, 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 Hawaiʻi, Department of Education (DOE) to a governing board approved by the Commission. Charter schools are considered state agencies.

Kualapuʻu School (School) is a new century conversion charter school for grades Pre-k to 6 and is located in Kualapuʻu, Hawaiʻi. 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 ʻuala, withstand adversity and thrive in an ever-changing world." The School receives a substantial amount of its support from the State and Hoʻokakoʻo 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.

The statement 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

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 per pupil allocation 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 are 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.

(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.

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 as an expenditure.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

(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. Depreciation on all assets is provided for on the straight-line basis over the following useful lives:

Building and improvements	10 to 30 years
Furniture and equipment	5 to 10 years

(5) ***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.

(6) ***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.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

(7) ***General Revenues*** - 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 refundable advances.

(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.

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.

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.

(9) ***New Accounting Pronouncement*** - In June 2017, the GASB issued Statement No. 87, Leases (GASBS 87). The objective of this Statement is to improve accounting and financial reporting for leases by governments.

This Statement requires the recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The provisions of this Statement are effective for reporting periods beginning after June 15, 2021. Management has determined that this Statement does not have a material impact on the School’s financial statements.

NOTE C - EXPLANATION OF DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE STATEMENT OF NET POSITION

Total fund balance of the School’s general fund of $2,052,050 reported in the governmental fund balance sheet as of June 30, 2022, respectively, differs from the total net position of governmental activities of $2,253,874, as of June 30, 2022. This difference primarily results from the long-term economic focus of the statement of net position and the current financial resources focus of the governmental fund balance sheet.

(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 statement of net position includes those capital assets among the assets of the School as a whole.

	2022
Capital assets	$ 2,099,467
Less accumulated depreciation	(1,763,771)
	$ 335,696

(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 statement of net position. The balance of compensated absences payable at June 30, 2022 was $133,872.

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 $2,585,000 as of June 30, 2022.

NOTE E - CAPITAL ASSETS

The changes in capital assets for the fiscal year ended June 30, 2022 was as follows:

	Balance July 1, 2021	Additions	Deductions	Balance June 30, 2022
Governmental activities:				
Furniture and equipment	$ 1,823,026	$ 124,551	$ --	$ 1,947,577
Building and improvements	138,038	13,852	--	151,890
Less accumulated depreciation	(1,703,425)	(60,346)	--	(1,763,771)
Capital assets, net	$ 257,639	$ 78,057	$ --	$ 335,696

NOTE F - LONG-TERM LIABILITIES

The School's long-term liability for governmental activities consists of compensated absences of $100,368 as of June 30, 2022. No activity was reporting in the statement of activities during 2022 as the amounts were immaterial.

Compensated absences due within one year was $35,504 as of June 30, 2022.

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.

For the 2021 - 2022 school year, the State Legislature determined that the allocation of State general funds to charter schools should be based upon a per pupil allocation of $8,033. The total per pupil allocation provided to the School for the 2021 - 2022 school year amounted to $2,739,101.

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 Hawaiʻi 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.

NOTE G - RELATED PARTY TRANSACTIONS (Continued)

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 $240,100 for the fiscal year ended June 30, 2022.

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 $165,000 for the fiscal year ended June 30, 2022. Payments are made on a quarterly basis in four equal installments. An installment of $43,069 is included in accounts payable as of June 30, 2022. 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 year ended June 30, 2022, the School paid $41,246, to HC as a reimbursement of these costs. There were no payables due to HC for these costs as of June 30, 2022.

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 amount paid to the DOE for these services under the MOA amounted to $3,000 for the fiscal year ended June 30, 2022. Amounts due as of June 30, 2022 amounted to approximately $325,300.

NOTE H - RETIREMENT BENEFITS

All School employees are covered by the applicable collective bargaining agreements with the Hawaiʻi Government Employees Association, the Hawaiʻi 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.

NOTE H - RETIREMENT BENEFITS (Continued)

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 Hawaiʻi (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.

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.

NOTE H - RETIREMENT BENEFITS (Continued)

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 and 10 years of credited service or age 55 and 30 years of credited service or age 55 and 20 years of credited service with reduced benefits. The benefit multiplier used to calculate retirement benefits is 1.25%.

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, 2022, employers contribute 24.00%, 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, 2021 was approximately $367,936,000, 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, 2022 was not yet available.

The ERS issues an Annual Comprehensive 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

NOTE H - RETIREMENT BENEFITS (Continued)

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 Hawaiʻi 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, Hawaiʻi 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 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, 2021 was approximately $161,756,000. The DOE's share of the expense for the fiscal year ended June 30, 2022 was not yet available.

NOTE H - RETIREMENT BENEFITS (Continued)

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.

NOTE I - RISK MANAGEMENT

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

The DOE 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 such as fires and 3% of a property's replacement cost value for catastrophic losses such as hurricanes, earthquakes, and floods, the first $5,000,000 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 $100,000,000 per occurrence. The annual aggregate limit for general liability losses is $9,000,000 per occurrence, $50,000,000 for cyber liability losses 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, 2022, accumulated sick leave was approximately $838,000.

NOTE K - NON-IMPOSED EMPLOYEE FRINGE BENEFITS

Payroll fringe benefit costs for employees of the School are funded and assumed by the Commission and are not charged to the School’s operating funds. These costs, totaling $245,855 for the fiscal year ended June 30, 2022, have been reported as revenues and expenditures of the School’s general fund.

SUPPLEMENTARY INFORMATION

Kualapuʻu School
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2022

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
DEPARTMENT OF AGRICULTURE PROGRAMS			
Child Nutrition Cluster			
Pass-through Ho'okako'o Corporation			
School Breakfast Program	10.553	1443-5	$ 62,483
National School Lunch Program	10.555	1443-5	283,098
Summer Food Service Program for Children	10.559	1443-5	34,924
Fresh Fruit and Vegetable Program	10.582	1443-5	22,733
Total Child Nutrition Cluster			403,238
Total Department of Agriculture Programs			403,238
DEPARTMENT OF DEFENSE PROGRAMS			
COVID-19 Department of Defense Impact Aid	12.558	--	202,669
Total Department of Defense Programs			202,669
DEPARTMENT OF EDUCATION PROGRAMS			
Title I Grants to Local Educational Agencies	84.010	--	145,938
Special Education Grants to States	84.027	--	7,662
Impact Aid	84.041	--	99,988
Twenty-First Century Community Learning Centers	84.287	--	9,815
Native Hawaiian Education	84.362A	--	147,868
Supporting Effective Instruction State Grants	84.367	--	3,067
Education Stabilization Fund	84.425	--	38,771
Total Department of Education Programs			453,109
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,059,016

The accompanying notes are an integral part of this schedule.

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Kualapuʻu School (School) under programs of the federal government for the fiscal year ended June 30, 2022. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the School, it is not intended to and does not present the financial position, or changes in financial position of the School.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE C - INDIRECT COST RATE

The School has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

PART II

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

N&K CPAs, Inc.
ACCOUNTANTS | CONSULTANTS

999 BISHOP STREET, SUITE 2200
HONOLULU, HAWAII 96813
T (808) 524-2255 F (808) 523-2090

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 (*Government Auditing Standards*), the financial statements of the governmental activities and general fund of Kualapu'u School (School) as of and for the fiscal year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated November 14, 2022.

Report on 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) as a basis for designing 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 or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the School's 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 financial statements. 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, Hawai'i
November 14, 2022

PART III

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

N&K CPAs, Inc.
ACCOUNTANTS | CONSULTANTS

999 BISHOP STREET, SUITE 2200
HONOLULU, HAWAII 96813
T (808) 524-2255 F (808) 523-2090

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Governing Board
Kualapu'u School

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Kualapu'u School's (School) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the School's major federal programs for the fiscal year ended June 30, 2022. The School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the School complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the fiscal year ended June 30, 2022.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the School and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the School's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the School's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the School's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the School's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the School's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the School's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the School's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on 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 a 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

N&K CPAs, Inc.

Honolulu, Hawaii
November 14, 2022

PART IV

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Kualapu'u School
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Fiscal Year Ended June 30, 2022

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	___ yes ✓ no
Significant deficiency(ies) identified?	___ yes ✓ none
Noncompliance material to financial statements noted?	___ yes ✓ no

Federal Awards

Internal control over major federal programs:	
Material weakness(es) identified?	___ yes ✓ no
Significant deficiency(ies) identified?	___ yes ✓ none
Type of auditor's report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?	___ yes ✓ no

Identification of major federal programs:

Assistance Listing Number	Name of Federal Programs or Cluster
10.553/10.555/10.559/10.582	Child Nutrition Cluster
84.010	Title I Grants to Local Educational Agencies

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	___ yes ✓ no

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters were reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.

PART V

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

KUALAPU'U SCHOOL
STATUS REPORT
Fiscal Year Ended June 30, 2022

This workpaper contains the current status of the prior audit recommendations. The recommendations are referenced to the page of the prior audit report for the fiscal year ended June 30, 2021, dated October 29, 2021.

Recommendations	Status
SECTION II - FINANCIAL STATEMENT FINDINGS	
2021-001 Properly Account for Grant Revenues (page 41)	
Management should implement procedures for the timely update and review of the grant revenue schedule througout the year as opposed to just once at year end. Unspent grant funds received should be properly recorded as refundable advances. Revenues should be recognized to account for expenditures of grant funds received in advance from the previous period with a corresponding reduction to refundable advances.	Accomplished.
2021-002 Prior Period Adjustment (page 42)	
Management should ensure that a process is established in which management-level fiscal personnel are actively involved in both the determination of the accounting treatment of cut-off transactions in the proper period and a timely review of the transactions being posted.	Accomplished.