

# Ho'okāko'o Corporation

## HO'OKAKO'O CORPORATION AND AFFILIATE

CONSOLIDATED FINANCIAL STATEMENTS WITH  
INDEPENDENT AUDITOR'S REPORT

Fiscal Years Ended June 30, 2020 and 2019



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**HO‘OKAKO‘O CORPORATION AND AFFILIATE**

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

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Ho'okako'o Corporation

### Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Ho'okako'o Corporation (a nonprofit entity) and Affiliate, which comprise the consolidated statements of financial position as of June 30, 2020 and 2019, and the related consolidated statements of activities, and cash flows for the fiscal years then ended, and the related notes to the consolidated financial statements.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## **Opinion**

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ho'okako'o Corporation and Affiliate as of June 30, 2020 and 2019, and the changes in their net assets and their cash flows for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Other Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying 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 consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated 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 March 29, 2021, on our consideration of Ho'okako'o Corporation and Affiliate's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Ho'okako'o Corporation and Affiliate'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 Ho'okako'o Corporation and Affiliate's internal control over financial reporting and compliance.

*N & K CPAs, Inc.*

Honolulu, Hawaii  
March 29, 2021

**Ho'okako'o Corporation and Affiliate**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 816,661	\$ 699,202
Grants receivable	200,557	3,026
Accounts receivable - other	--	5,228
Receivable from Kamaile Academy	122,302	183,360
Receivable from Kualapu'u School	62,009	49,182
Receivable from Waimea Middle School	<u>87,714</u>	<u>104,467</u>
Total current assets	<u>1,289,243</u>	<u>1,044,465</u>
<b>PROPERTY AND EQUIPMENT</b>		
Furniture and equipment	19,596	19,596
Less accumulated depreciation	<u>19,596</u>	<u>19,152</u>
	<u>--</u>	<u>444</u>
<b>OTHER ASSETS</b>		
Security deposit	<u>8,896</u>	<u>8,896</u>
	<u>\$ 1,298,139</u>	<u>\$ 1,053,805</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 4,740	\$ 82,298
Accrued liabilities	37,985	46,153
Payable to Kamaile Academy	105,692	--
Payable to Kualapu'u School	69,049	31,464
Payable to Waimea Middle School	491	9,278
Deferred revenue	<u>68,728</u>	<u>--</u>
Total current liabilities	<u>286,685</u>	<u>169,193</u>
<b>NET ASSETS</b>		
Without donor restrictions	886,792	816,240
With donor restrictions	<u>124,662</u>	<u>68,372</u>
	<u>1,011,454</u>	<u>884,612</u>
	<u>\$ 1,298,139</u>	<u>\$ 1,053,805</u>

See accompanying notes to consolidated financial statements.



**Ho‘okako‘o Corporation and Affiliate**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**Fiscal Year Ended June 30, 2020**

	Without Donor Restrictions	With Donor Restrictions	Total
<b>REVENUES AND SUPPORT</b>			
Contract revenues	\$ 717,479	\$ --	\$ 717,479
Grant revenues	3,238,847	--	3,238,847
Contributions	39,733	67,295	107,028
Interest income	4,079	--	4,079
Net assets released from restrictions satisfied by stipulated usage	11,005	(11,005)	--
Total revenues and support	4,011,143	56,290	4,067,433
<b>EXPENSES</b>			
Program services			
Kamaile Academy	1,987,299	--	1,987,299
Kualapu‘u School	952,293	--	952,293
Waimea Middle School	573,826	--	573,826
System and standards development	238,709	--	238,709
	3,752,127	--	3,752,127
Supporting services			
Management and general	163,716	--	163,716
Fundraising	24,748	--	24,748
Total expenses	3,940,591	--	3,940,591
<b>CHANGE IN NET ASSETS</b>	70,552	56,290	126,842
<b>NET ASSETS AT BEGINNING OF FISCAL YEAR</b>	816,240	68,372	884,612
<b>NET ASSETS AT END OF FISCAL YEAR</b>	\$ 886,792	\$ 124,662	\$ 1,011,454

See accompanying notes to consolidated financial statements.

**Ho‘okako‘o Corporation and Affiliate**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES (Continued)**  
**Fiscal Year Ended June 30, 2019**

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
<b>REVENUES AND SUPPORT</b>			
Contract revenues	\$ 2,361,902	\$ --	\$ 2,361,902
Grant revenues	1,345,548	--	1,345,548
Contributions	37,957	32,936	70,893
Interest income	2,529	--	2,529
Net assets released from restrictions satisfied by stipulated usage	<u>76,159</u>	<u>(76,159)</u>	<u>--</u>
Total revenues and support	<u>3,824,095</u>	<u>(43,223)</u>	<u>3,780,872</u>
<b>EXPENSES</b>			
Program services			
Kamaile Academy	1,870,455	--	1,870,455
Kualapu‘u School	1,000,608	--	1,000,608
Waimea Middle School	546,199	--	546,199
System and standards development	<u>173,891</u>	<u>--</u>	<u>173,891</u>
	3,591,153	--	3,591,153
Supporting services			
Management and general	180,643	--	180,643
Fundraising	<u>23,417</u>	<u>--</u>	<u>23,417</u>
Total expenses	<u>3,795,213</u>	<u>--</u>	<u>3,795,213</u>
<b>CHANGE IN NET ASSETS</b>	28,882	(43,223)	(14,341)
<b>NET ASSETS AT BEGINNING OF FISCAL YEAR</b>	<u>787,358</u>	<u>111,595</u>	<u>898,953</u>
<b>NET ASSETS AT END OF FISCAL YEAR</b>	<u>\$ 816,240</u>	<u>\$ 68,372</u>	<u>\$ 884,612</u>

See accompanying notes to consolidated financial statements.

**Ho'okako'o Corporation and Affiliate**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**Fiscal Years Ended June 30, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>Cash flows from operating activities</b>		
Change in net assets	\$ <u>126,842</u>	\$ <u>(14,341)</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	444	443
Decrease (increase) in:		
Grants receivable	(197,531)	314,313
Accounts receivable - other	5,228	(4,508)
Receivable from Kamaile Academy	61,058	(57,603)
Receivable from Kualapu'u School	(12,827)	(4,229)
Receivable from Waimea Middle School	16,753	(60,997)
Increase (decrease) in:		
Accounts payable	(77,558)	49,312
Accrued liabilities	(8,168)	3,769
Payable to Kamaile Academy	105,692	(161,310)
Payable to Kualapu'u School	37,585	(36,381)
Payable to Waimea Middle School	(8,787)	9,278
Deferred revenue	<u>68,728</u>	<u>--</u>
Total adjustments	<u>(9,383)</u>	<u>52,087</u>
Net cash provided by operating activities	<u>117,459</u>	<u>37,746</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>117,459</b>	<b>37,746</b>
<b>Cash and cash equivalents at beginning of fiscal year</b>	<u>699,202</u>	<u>661,456</u>
<b>Cash and cash equivalents at end of fiscal year</b>	<b>\$ <u>816,661</u></b>	<b>\$ <u>699,202</u></b>

See accompanying notes to consolidated financial statements.

**Ho'okako'o Corporation and Affiliate**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2020 and 2019**

**NOTE A - NATURE OF ACTIVITIES**

The Ho'okako'o Corporation was incorporated in the State of Hawaii (State) on October 10, 2002, and organized exclusively for the educational and other charitable purposes set forth in Section 501(c)(3) of the Internal Revenue Code. Ho'okako'o Corporation's mission is helping public schools in high-need communities reinvent themselves for the purpose of improving the academic achievement and personal growth of their students. Collaborating with communities, educators and families, Ho'okako'o Corporation leverages expertise and resources in order to provide exemplary conversion charter schools, early childhood programs and other new and innovative education services. To effectuate its mission, Ho'okako'o Corporation applied with the State Board of Education (BOE) and was approved as the local school board to manage and operate the Waimea Middle School (WMS), Kualapu'u School (Kualapu'u) and Kamaile Academy (Kamaile), (collectively Charter Schools) as new century conversion charter schools under the provisions of Chapter 302D of the Hawaii Revised Statutes (HRS) in the State.

Ho'okako'o Corporation receives support from programs sponsored by State agencies and other grantors. Significant reductions, if any, in this level of support may have an adverse effect on its programs and activities.

Ho'okako'o LLC, a limited liability company, was formed in April 2018. Ho'okako'o Corporation is the sole member of Ho'okako'o LLC. It was formed to provide educational management and administrative services to public charter schools.

**NOTE B - SIGNIFICANT ACCOUNTING POLICIES**

- (1) ***Principles of consolidation*** - The consolidated financial statements include the accounts of Ho'okako'o Corporation and the accounts of Ho'okako'o LLC (collectively HC). All material intercompany transactions and balances have been eliminated in consolidation.
- (2) ***Basis of accounting and financial statement presentation*** - The consolidated financial statements of HC have been prepared on the accrual basis of accounting consistent with accounting principles generally accepted in the United States of America. Net assets, public support and revenues are classified based upon the existence or absence of donor-imposed restrictions. Accordingly, net assets of HC and changes therein are classified and reported as follows:

*Net Assets Without Donor Restrictions* - Net assets available for use in general operations and not subject to donor-imposed restrictions.

*Net Assets With Donor Restrictions* - Net assets subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

**Ho'okako'o Corporation and Affiliate**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2020 and 2019**

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

- (3) **Use of estimates** - The preparation of consolidated financial statements in accordance 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 disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- (4) **Cash and cash equivalents** - HC considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.
- (5) **Property and equipment** - Property and equipment are recorded at cost or the estimated fair value at the date of donation. HC capitalizes expenditures for property and equipment costing over \$1,000. Property and equipment are depreciated using the straight-line method over the estimated useful lives of the assets which range from 3 to 10 years.

Expenditures for maintenance, repairs, and minor renewals are charged to expense; expenditures for betterments are capitalized. Property and equipment retired or otherwise disposed of is removed from the appropriate asset and related accumulated depreciation accounts. Gains and losses on sale of assets are reflected in current operations.

Long-lived assets held and used by HC are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In the event that facts and circumstances indicate that the cost of any long-lived assets may be impaired, an evaluation of recoverability would be performed.

- (6) **Contributions** - Unconditional contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions.

Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor-restricted contributions are reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statement of activities as net assets released from restrictions.

A conditional contribution contains a donor-imposed condition that represents a barrier that must be overcome before the recipient is entitled to the assets transferred or promised. Failure to overcome the barrier gives the contributor a right of return of the assets it has transferred or gives the promisor a right of release from its obligation to transfer its assets. Conditional contributions are recognized when the condition or conditions on which they depend are substantially met, that is, when a conditional promise becomes unconditional.

**Ho'okako'o Corporation and Affiliate**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2020 and 2019**

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

Grant revenues are generally determined to be conditional contributions. Revenue on government grants are generally derived on a cost reimbursement basis and contain barriers that limit HC's discretion over the manner in which an activity can be conducted due to a requirement that HC must follow specific guidelines about incurring qualifying expenses. Revenue on cost reimbursement grants and contracts are recognized when allowable and reasonable qualifying expenses that are based on specific requirements of an agreement are incurred. Amounts received in advance of the applicable revenue recognition criteria is recorded as deferred revenue in the consolidated statements of financial position.

- (7) **Contract revenues** - Contract revenues are considered exchange transactions, and are thereby recorded as revenues without donor restrictions.
- (8) **Functional allocation of expenses** - The consolidated financial statements report certain categories of expenses that are attributable to various programs and other activities. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The costs of providing the various programs and other activities are summarized on a functional basis in the consolidated statements of activities. Expenses are presented by their natural classification by function in Note J. Accordingly, certain costs have been allocated based on direct costs incurred and management's estimates of resources consumed by these functions to the benefited programs and supporting services.
- (9) **Income taxes** - HC is recognized by the Internal Revenue Service as an exempt entity under Section 501(c)(3) of the Internal Revenue Code.

HC is not subject to income taxes in the U.S. Federal jurisdiction and the State. Tax regulations within each jurisdiction are subject to interpretation of the related tax laws and regulations and require significant judgment to apply.

- (10) **Subsequent events** - Management has evaluated subsequent events through March 29, 2021, the date on which the consolidated financial statements were available to be issued. There were no subsequent events that required adjustment of or disclosure in the consolidated financial statements.
- (11) **New accounting pronouncements** - During the fiscal year ended June 30, 2020, HC adopted the requirements of the Financial Accounting Standards Board's Accounting Standards Update No. 2018-08, *Not-for-Profit Entities (Topic 958), Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08) which clarifies and improves the scope and the accounting guidance for contributions received and made, primarily by not-for-profit organizations. This update provides a more robust framework for determining whether a transaction, such as a government grant or similar contract, should be accounted for as a contribution or as an exchange transaction. The amendments in ASU 2018-08 also require that an entity

**Ho'okako'o Corporation and Affiliate**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2020 and 2019**

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

determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. The amendments in ASU 2018-08 were applied on a modified prospective basis to agreements that either were not completed as of the effective date, that is, July 1, 2019, or entered into after the effective date. Transactions previously accounted for as exchange transactions and classified as "Contract revenues" in 2019 are now accounted for as contributions and classified as "Grant revenues" in fiscal year 2020. This resulted in an increase in "Grant revenues" and a corresponding decrease in "Contract revenues" of approximately \$1,616,000 in fiscal year 2020 as compared with the prior period.

The Financial Accounting Standards Board has issued Accounting Standards Update No. 2014-09 (ASU 2014-09), *Revenue from Contracts with Customers (Topic 606)*, and Accounting Standards Update No. 2016-02 (ASU 2016-02), *Leases (Topic 842)*. ASU 2014-09 amends guidance to clarify the principles for recognizing revenue from contracts with customers. The update requires an entity to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services and also requires expanded disclosures relating to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, as well as other disclosures.

ASU 2016-02 is expected to impact the statement of financial position of many entities by adding lease-related assets and liabilities which may affect compliance with contractual agreements and loan covenants.

As permitted by the provisions in Accounting Standards Update No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, management has elected to defer the adoption of the amendments in ASU 2014-09 and ASU 2016-02 until the fiscal year ended June 30, 2021 and June 30, 2023, respectively. The effect on HC's consolidated financial statements and the implementation of these pronouncements are still being evaluated by management.

**NOTE C - LIQUIDITY AND AVAILABILITY OF RESOURCES**

HC regularly monitors liquidity required to meet its operating needs and other contractual commitments. HC has various sources of liquidity at its disposal, including cash and accounts receivable. For purposes of analyzing resources available to meet general expenditures over a 12-month period, HC considers all expenditures related to its ongoing activities of educational and other charitable programs and services, as well as the conduct of services undertaken to support those activities to be general expenditures.

In addition to financial assets available to meet general expenditures over the next 12 months, HC operates with a balanced budget. Refer to the consolidated statements of cash flows which identify the sources and uses of HC's cash and show positive cash generated by operations for fiscal year 2020.

**Ho'okako'o Corporation and Affiliate**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2020 and 2019**

**NOTE C - LIQUIDITY AND AVAILABILITY OF RESOURCES (Continued)**

As of June 30, 2020 and 2019, the following table shows the amount of those financial assets that could be made readily available within one year of the consolidated statements of financial position date to meet general expenditures:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 816,661	\$ 699,202
Grants receivable	200,557	3,026
Receivable from Kamaile Academy	122,302	183,360
Receivable from Kualapu'u School	62,009	49,182
Receivable from Waimea Middle School	87,714	104,467
Accounts receivable - other	--	5,228
	<u>\$ 1,289,243</u>	<u>\$ 1,044,465</u>

**NOTE D - RELATED PARTY TRANSACTIONS**

Hawaii's charter schools are authorized by Chapter 302D of the HRS. Charter schools are publicly funded and are managed and operated by governing boards and are held accountable by the State of Hawaii Public Charter School Commission (PCSC). The PCSC is appointed by the BOE and has the powers and duties of approving, denying or revoking a charter between the 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 PCSC. Charter schools are considered state agencies.

Chapter 302D of the HRS allows the governing board of the new century conversion charter schools to be composed of the board of directors of a nonprofit entity.

As the governing body of WMS, Kualapu'u, and Kamaile (Schools), the board of directors of HC has significant influence over the operations of the Schools. However, these Schools are public schools and the PCSC has the authority to revoke the charter of HC to manage and operate these Schools as new century conversion charter schools. A new century conversion charter school is prohibited from assessing tuition.

HC provides personnel, management, and leadership development services to the Schools under management service agreements. The management service fee is calculated based on total enrollment. Payments are required to be made on a quarterly basis in four equal installments. The final installments are included in receivables from the Schools as of June 30, 2020 and 2019. Contract revenue under the management service agreements are summarized below:

	<u>2020</u>	<u>2019</u>
WMS	\$ 128,000	\$ 128,000
Kualapu'u	\$ 147,600	\$ 147,600
Kamaile	\$ 432,716	\$ 432,716



**Ho'okako'o Corporation and Affiliate**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2020 and 2019**

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

HC is reimbursed for expenditures paid on behalf of the Schools, 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. The receivables from the Schools for reimbursable expenditures and management service fees are presented as a receivable from the Schools on the consolidated statements of financial position.

Amounts payable to the Schools represent adjustments to reimbursements, outstanding matching contributions, and payments to support programs and services.

**NOTE E - COMMITMENTS**

HC leases office space under a long term lease expiring in June 2022. Total rent expense for the fiscal years ended June 30, 2020 and 2019, amounted to \$23,235 and \$22,961, respectively.

As of June 30, 2020, the future minimum lease rental payments are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2021	\$ 12,300
2022	<u>12,300</u>
	<u>\$ 24,600</u>

**NOTE F - NET ASSETS WITH DONOR RESTRICTIONS**

At June 30, 2020 and 2019, net assets with donor restrictions were available for the following purposes:

	<u>2020</u>	<u>2019</u>
KS HCBE Math Funds	\$ 46,694	\$ --
Kualapu'u School Donations	39,083	39,083
Waimea Middle School Donations	24,665	18,952
Kualapu'u School Robotics	4,625	4,625
Waimea Middle School Fun Run	3,884	--
Waimea Middle School Music Program	2,869	2,869
Waimea Middle School Take a Lap	1,601	1,602
Molokai Metric	978	978
Waimea Middle School ELA Program	<u>263</u>	<u>263</u>
	<u>\$ 124,662</u>	<u>\$ 68,372</u>

**Ho'okako'o Corporation and Affiliate**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2020 and 2019**

**NOTE G - CONCENTRATION OF CREDIT RISK**

HC maintains its cash and cash equivalents in a commercial bank located in the State. Cash and cash equivalent balances in accounts at the bank 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 and cash equivalents, HC places its cash and cash equivalents with financial institutions, which may at times exceed FDIC insurance limits. At June 30, 2020, cash and cash equivalents in excess of insurance limits totaled approximately \$713,000. Management believes HC is not exposed to any significant credit risk related to its cash and cash equivalents.

**NOTE H - CONDITIONAL PROMISE TO GIVE**

As of June 30, 2020, HC is a recipient of a conditional promise to give of \$446,250 for the Hawaiian Arts and Early Literacy Project.

**NOTE I - COVID-19**

In March 2020, the World Health Organization declared the outbreak of novel coronavirus disease (COVID-19) as a pandemic, resulting in federal, state, and local governments and private entities mandating various restrictions, including travel restrictions, restrictions on public gatherings, temporary closures of nonessential businesses, and stay at home orders. While the disruption is expected to be temporary, there is uncertainty around the duration and severity of this pandemic. The related financial impact on HC's financial position, results of operations, and cash flows cannot be reasonably determined at this time.

**Ho'okako'o Corporation and Affiliate**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2020 and 2019**

**NOTE J - EXPENSES**

The following tables present expenses by both the nature and the function for the fiscal years ended June 30, 2020 and 2019:

	2020							
	Program Services					Supporting Services		
	Kamaile Academy	Kualapu'u School	Waimea Middle School	Systems and Standards Development	Total Program Services	Management and General	Fundraising	Total
Grant Expense	\$ 818,527	\$ 462,843	\$ 408,608	\$ --	\$ 1,689,978	\$ --	\$ --	\$ 1,689,978
Grant Expense - Meals/Equip Grant	729,770	255,080	84,691	--	1,069,541	--	--	1,069,541
Salaries	169,164	68,529	43,126	153,508	434,327	59,314	--	493,641
Contracted Services	221,074	151,259	18,602	36,000	426,935	6,407	9,571	442,913
Supplies and Materials	11,475	888	3,499	1,264	17,126	8,058	8,314	33,498
Health and Welfare Benefits	17,879	5,767	5,191	18,499	47,336	(2,099)	--	45,237
Other Dues/Fees	559	180	1,926	5,256	7,921	20,342	4,100	32,363
OASDI	--	--	--	--	--	30,380	--	30,380
Audit Services	--	--	--	--	--	12,565	--	12,565
Rental of Buildings and Grounds	7,635	2,463	2,216	7,900	20,214	3,021	--	23,235
Travel and Other Expenses	--	1,867	1,828	3,551	7,246	--	--	7,246
Travel Ground	1,807	387	1,408	835	4,437	911	--	5,348
Employer Retirement	--	--	--	--	--	10,334	--	10,334
Parking	2,477	799	719	2,563	6,558	980	--	7,538
Travel Hotel	--	--	--	2,176	2,176	--	--	2,176
Medicare	--	--	--	--	--	7,105	--	7,105
Non Employee Insurance	1,062	343	308	1,099	2,812	2,837	--	5,649
Networking and Telecommunications	1,988	641	577	2,058	5,264	1,012	--	6,276
Rental of Equipment	1,730	558	503	1,791	4,582	685	--	5,267
Workers Compensation Insurance	1,984	640	576	2,052	5,252	785	--	6,037
Fundraising Expense	--	--	--	--	--	--	2,111	2,111
Bank and Payroll Fees	16	--	4	--	20	275	652	947
Depreciation Expense	--	--	--	--	--	444	--	444
Water/Sewage	--	--	--	--	--	300	--	300
Unemployment Insurance	152	49	44	157	402	60	--	462
	<u>\$ 1,987,299</u>	<u>\$ 952,293</u>	<u>\$ 573,826</u>	<u>\$ 238,709</u>	<u>\$ 3,752,127</u>	<u>\$ 163,716</u>	<u>\$ 24,748</u>	<u>\$ 3,940,591</u>

**Ho'okako'o Corporation and Affiliate**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**June 30, 2020 and 2019**

**NOTE J - EXPENSES (Continued)**

	2019							
	Program Services					Supporting Services		
	Kamaile Academy	Kualapu'u School	Waimea Middle School	Systems and Standards Development	Total Program Services	Management and General	Fundraising	Total
Grant Expense	\$ 832,246	\$ 508,044	\$ 350,695	\$ --	\$ 1,690,985	\$ --	\$ --	\$ 1,690,985
Grant Expense - Meals/Equip Grant	712,793	290,496	80,525	--	1,083,814	--	--	1,083,814
Salaries	150,291	74,755	37,379	133,040	395,465	51,437	--	446,902
Contracted Services	128,721	106,966	25,473	--	261,160	36,198	10,279	307,637
Supplies and Materials	10,823	1,482	11,362	402	24,069	8,207	5,444	37,720
Health and Welfare Benefits	14,404	4,646	4,182	14,903	38,135	(998)	--	37,137
Other Dues/Fees	847	1,548	14,421	4,985	21,801	8,307	5,736	35,844
OASDI	--	--	--	--	--	27,191	--	27,191
Audit Services	--	--	--	--	--	24,188	--	24,188
Rental of Buildings and Grounds	7,545	2,434	2,190	7,807	19,976	2,985	--	22,961
Travel and Other Expenses	812	4,984	8,368	2,520	16,684	705	--	17,389
Travel Ground	3,465	796	4,366	1,807	10,434	112	--	10,546
Employer Retirement	--	--	--	--	--	10,530	--	10,530
Parking	2,477	799	719	2,564	6,559	980	--	7,539
Travel Hotel	377	1,496	4,824	--	6,697	--	--	6,697
Medicare	--	--	--	--	--	6,359	--	6,359
Non Employee Insurance	1,063	630	359	1,100	3,152	2,268	--	5,420
Networking and Telecommunications	1,625	531	478	1,703	4,337	670	--	5,007
Rental of Equipment	1,765	569	512	1,826	4,672	299	--	4,971
Workers Compensation Insurance	1,150	371	334	1,190	3,045	455	--	3,500
Fundraising Expense	--	--	--	--	--	--	1,102	1,102
Bank and Payroll Fees	7	47	--	--	54	97	856	1,007
Depreciation Expense	--	--	--	--	--	443	--	443
Water/Sewage	--	--	--	--	--	193	--	193
Unemployment Insurance	44	14	12	44	114	17	--	131
	<u>\$ 1,870,455</u>	<u>\$ 1,000,608</u>	<u>\$ 546,199</u>	<u>\$ 173,891</u>	<u>\$ 3,591,153</u>	<u>\$ 180,643</u>	<u>\$ 23,417</u>	<u>\$ 3,795,213</u>

## **SUPPLEMENTARY INFORMATION**

**Ho‘okako‘o Corporation**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2020**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Provided To Subrecipients</u>	<u>Total Federal Expenditures</u>
<b>DEPARTMENT OF AGRICULTURE PROGRAMS</b>				
Pass-through State of Hawaii, Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553	1443-5	\$ 195,626	\$ 195,626
COVID-19 School Breakfast Program	10.553	1443-5	74,604	74,604
National School Lunch Program	10.555	1443-5	597,480	597,480
COVID-19 National School Lunch Program	10.555	1443-5	<u>148,413</u>	<u>148,413</u>
Total Child Nutrition Cluster			<u>1,016,123</u>	<u>1,016,123</u>
Fresh Fruit and Vegetable Program	10.582	1443-5	48,402	48,402
COVID-19 Fresh Fruit and Vegetable Program	10.582	1443-5	<u>5,016</u>	<u>5,016</u>
<b>Total Department of Agriculture Programs</b>			<u>1,069,541</u>	<u>1,069,541</u>
<b>DEPARTMENT OF EDUCATION PROGRAMS</b>				
Native Hawaiian Education	84.362		<u>460,381</u>	<u>460,381</u>
<b>Total Department of Education Programs</b>			<u>460,381</u>	<u>460,381</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 1,529,922</u>	<u>\$ 1,529,922</u>

The accompanying notes are an integral part of this schedule.

**Ho'okako'o Corporation**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**Fiscal Year Ended June 30, 2020**

**NOTE A - BASIS OF PRESENTATION**

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Ho'okako'o Corporation (HC) under programs of the federal government for the fiscal year ended June 30, 2020. 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 of Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of HC, it is not intended to, and does not, present the financial position, changes in net assets, or cash flows of HC.

**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**

HC 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**



**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 Board of Directors  
Ho'okako'o Corporation

We have audited, in accordance with the 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 consolidated financial statements of Ho'okako'o Corporation (a nonprofit entity) and Affiliate, which comprise the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities, and cash flows for the fiscal year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated March 29, 2021.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered Ho'okako'o Corporation and Affiliate'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 opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Ho'okako'o Corporation and Affiliate's internal control. Accordingly, we do not express an opinion on the effectiveness of Ho'okako'o Corporation and Affiliate'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 Ho'okako'o Corporation and Affiliate's consolidated 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 consolidated 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, Hawaii  
March 29, 2021

**PART III**

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

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

To the Board of Directors  
Ho'okako'o Corporation

### Report on Compliance for Each Major Federal Program

We have audited Ho'okako'o Corporation's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Ho'okako'o Corporation's major federal programs for the fiscal year ended June 30, 2020. Ho'okako'o Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

### Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Ho'okako'o Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Ho'okako'o Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination on Ho'okako'o Corporation's compliance.

### **Opinion on Each Major Federal Program**

In our opinion, Ho'okako'o Corporation complied, in all material respects, with the types of 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, 2020.

### **Report on Internal Control Over Compliance**

Management of Ho'okako'o Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Ho'okako'o Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Ho'okako'o Corporation's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

N&K CPAs, Inc.

ACCOUNTANTS | CONSULTANTS

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

March 29, 2021

**PART IV**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**Ho‘okako‘o Corporation and Affiliate  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Fiscal Year Ended June 30, 2020**

**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     no

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 reported

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:

CFDA Number
10.553
10.555

Name of Federal Program
Child Nutrition Cluster: School Breakfast Program National School Lunch Program

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 reported.

**SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

No matters reported.



**PART V**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**Ho'okako'o Corporation and Affiliate  
STATUS REPORT  
Fiscal Year Ended June 30, 2020**

No prior audit findings which apply under the current criteria of the Uniform Guidance were noted.