April 8, 2019

To the Governing Board and Management of
Kona Pacific Public Charter School
P.O. Box 115
Kealakekua, HI 96750-0115

Ladies and Gentlemen:

Per your request, this letter will serve to address two areas of concern noted in a March 18, 2019 letter sent to the School by the Hawaii Public Charter School Commission (the Commission), specifically (1) rent transactions by and between Kona Pacific Public Charter School (KPPCS) (the School) and its related entity, Friends of Kona Pacific Public Charter School (FKPPCS), and (2) the suggested "comingling of funds" between these same two entities.

Concern "Continuous overpayment of lease rent from KPPCS to FKPPCS every year except school year 2016-2017."

On October 25, 2011, KPPCS and FKPPCS executed a 40 year lease. This contract sets forth monthly terms which are adjustable at any time by mutual agreement of the parties. Since inception of the lease, KPPCS has frequently prepaid rent for up to three months in advance. The prepayments are properly noted as an asset on the School's books, and FKPPCS recognizes those same prepayments as a liability. The concept of prepaid rent is exceedingly common in general practice, and the transactions have been correctly accounted for on the books of each separate entity.

The enclosed schedule was prepared by KPPCS and provides a six-year history of rent transactions, indicating the amount of prepaid or past-due rent in any given month. As noted above, KPPCS frequently pays rent in three month increments, and will recognize an asset on the Balance Sheet both during and at the end of the fiscal year as applicable. We again note that the paying advanced rent is a common practice, and at no time did the amount of rent paid exceed the valid, agreed-upon lease amount set by the two parties. An "overpayment" of rent suggests that amounts were provided by KPPCS to FKPPCS which exceeded the lease terms. To define prepaid rent as an "overpayment" confuses the concept of proper accrual accounting.

Concern "Commingling of funds between the school and the non-profit"

The term comingling implies that assets of KPPCS and FKPPCS are jointly held and managed. KPPCS and FKPPCS maintain separate bank accounts, separate accounting systems, and are managed by a separate board of directors. At no time were School funds maintained in the bank account of FKPPCS, and similarly, no funds of FKPPCS were held by the School. All transactions occurring between the two entities were properly accounted for and include normal, course-of-business dealings which have been properly recognized on each organization's accounting records.

Over 80% of the revenues earned by KPPCS are from government sources. Government funds are passed through to KPPCS by the Commission via ACH transfer. The Commission should clearly be aware of any such transfer where funds were directed to an account not owned by KPPCS. All related party transactions occurring between KPPCS and FKPPCS are subject to an annual audit, and properly disclosed in the financial statements, none of which would constitute a comingling of funds.

Those charter schools working in tandem with a supporting non-profit have found effective ways of navigating the labyrinth of challenges faced by Hawaii Public Charter Schools. The Governing Board for KPPCS and the Board of Director for FKPPCS each make decisions that are mutually beneficial for both entities, all of which are fully documented in board minutes and subjected to oversight and transparency. A close working relationship between two separate entities with the shared goal of supporting the students, staff, and school should in no way be mistaken for comingling of assets.

We hope this letter serves to address some of the concerns noted by the Commission.

Sincerely yours,

Carbonaro CPAs & Management Group