Financial Statements and Report of Independent Certified Public Accountants

Kupu

September 30, 2017 and 2016

Executive Summary

Aloha Kākou,

It has been an amazing 2017 and 10th anniversary year. I cannot believe only ten years ago, Kupu was a small non-profit with a handful of employees working a small office in Kaimuki. Today, with nearly 40 employees based out of our Kaka‘ako office, Kupu has become the largest youth conservation-focused non-profit in the state.

Since serving a handful of youth our first year, we have welcomed more than 3,500 youth and young adults to our Kupu ohana. Together, with our more than 150 partners throughout Hawai‘i and the Pacific, we have generated nearly $100 million in economic benefits for the state through conservation work, scholarships, education and career opportunities. What a milestone to mark our first decade.

Last year, Kupu removed 10,600 acres of invasive species, restored 117,800 native plants, distributed $662,600 in educational money, and awarded 18 alternative high school diplomas. We also created opportunities to inspire change for over 400 youth.

But more important than our impact on the environment or economy, is the impression we are making on our youth. As one of our participants Kawailehua Santiago shared, “This experience has been truly life changing...it has awakened a fire within me to create a change.”

So many of our program participants share similar sentiments and feedback. This is really the best measure of success - seeing youth mature into young adults through service. Our programs are helping the next generation find their passion and purpose while creating lasting relationships, developing a heart for service and community, and growing their confidence to succeed in life. We are changing lives.

Our 10th anniversary is a celebration of their incredible stories and journeys. It is also a testament to our staff, partners, donors and supporters who are making these stories possible. They say it takes a village to raise a child. Together, we are raising the next generation of environmental stewards and leaders for tomorrow. They will build stronger and more resilient communities.

While so much has been done over the last ten years, there is much left to do and we are excited about what lays ahead for our world as we help more young adults succeed. Mahalo for your support and joining Kupu in helping to mālama ‘āina and our youth.

Aloha,

John Leong,
Chief Executive Officer

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Report of Independent Certified Public Accountants

To the Board of Directors,
Kupu:

Report on the Financial Statements

We have audited the accompanying financial statements of Kupu (the “Organization”), which comprise the statement of financial position as of September 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kupu as of September 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter – Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the 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 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the 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 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 February 13 2018, on our consideration of the Organization'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 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 Organization’s internal control over financial reporting and compliance.

Verity CPAs

February 13, 2018

Kupu

STATEMENTS OF FINANCIAL POSITION

As of September 30,

	2017	2016
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 2,722,204	$ 2,318,777
Accounts receivable, net	785,597	772,995
Pledges receivable, current portion	202,428	138,381
Prepaid expenses and other assets	85,696	20,444
Total current assets	3,795,925	3,250,597
PROPERTY AND EQUIPMENT, net	650,907	453,092
RESTRICTED CERTIFICATE OF DEPOSIT	120,402	160,334
PLEDGES RECEIVABLE, less current portion	62,650	75,500
TOTAL ASSETS	$ 4,629,884	$ 3,939,523
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 56,886	$ 41,249
Accrued expenses	378,086	226,603
Deferred revenue	1,417,014	1,159,142
Deferred rent	132,690	68,146
Total current liabilities	1,984,676	1,495,140
Total liabilities	1,984,676	1,495,140
NET ASSETS		
Unrestricted net assets	2,064,785	1,908,382
Temporarily restricted net assets	580,423	536,001
Total net assets	2,645,208	2,444,383
TOTAL LIABILITIES AND NET ASSETS	$ 4,629,884	$ 3,939,523

The accompanying notes are an integral part of these financial statements.

Kupu

STATEMENT OF ACTIVITIES

For the year ended September 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND SUPPORT:				
Government grants and contracts	$ 3,603,145	$ -	$ -	$ 3,603,145
Private grants and contracts	1,763,712	-	-	1,763,712
Program service fees	637,055	-	-	637,055
Donations and contributions	197,792	402,096	-	599,888
Special event revenue	-	31,505	-	31,505
Other revenue and support	3,336	-	-	3,336
Loss on sale of fixed asset	(99)	-	-	(99)
Net assets released from restrictions	389,179	(389,179)	-	-
Total revenue and support	6,594,120	44,422	-	6,638,542
EXPENSES:				
Program services	4,832,073	-	-	4,832,073
Management and general	1,298,702	-	-	1,298,702
Fundraising	306,942	-	-	306,942
Total expenses	6,437,717	-	-	6,437,717
Change in net assets	156,403	44,422	-	200,825
NET ASSETS AT BEGINNING OF YEAR	1,908,382	536,001	-	2,444,383
NET ASSETS AT END OF YEAR	$ 2,064,785	$ 580,423	$ -	$ 2,645,208

The accompanying notes are an integral part of this financial statement.

Kupu

STATEMENT OF ACTIVITIES

For the year ended September 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES AND SUPPORT:				
Government grants and contracts	$ 2,013,361	$ -	$ -	$ 2,013,361
Private grants and contracts	2,013,549	-	-	2,013,549
Program service fees	675,568	-	-	675,568
Donations and contributions	166,916	179,925	-	346,841
Special event revenue	9,960			9,960
Other revenue and support	1,099	-	-	1,099
Net assets released from restrictions	190,189	(190,189)	-	-
Total revenue and support	5,070,642	(10,264)	-	5,060,378
EXPENSES:				
Program services	3,875,569	-	-	3,875,569
Management and general	914,503	-	-	914,503
Fundraising	118,524	-	-	118,524
Total expenses	4,908,596	-	-	4,908,596
Change in net assets	162,046	(10,264)	-	151,782
NET ASSETS AT BEGINNING OF YEAR	1,746,336	546,265	-	2,292,601
NET ASSETS AT END OF YEAR	$ 1,908,382	$ 536,001	$ -	$ 2,444,383

The accompanying notes are an integral part of this financial statement.

Kupu

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended September 30, 2017

	Program Services	Management and General	Fundraising	Total
Salaries and wages	$ 4,057,125	$ 806,987	$ 228,287	$ 5,092,399
Occupancy and utilities	154,406	239,325	3,134	396,865
Contracted services	139,022	93,934	24,725	257,681
Travel expenses	214,036	20,525	1,557	236,118
Supplies and equipment	146,211	37,384	11,910	195,505
Training expenses	76,822	7,710	1,528	86,060
Marketing	351	34,066	30,136	64,553
Other expenses	12,675	15,711	718	29,104
Depreciation	21,697	5,810	162	27,669
Insurance expenses	1,375	21,220	-	22,595
Other employee benefits	1,199	15,074	595	16,868
Recruiting	7,154	956	50	8,160
Special event expense	-	-	4,140	4,140
Total expenses	$ 4,832,073	$ 1,298,702	$ 306,942	$ 6,437,717

The accompanying notes are an integral part of this financial statement.

Kupu

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended September 30, 2016

	Program Services	Management and General	Fundraising	Total
Salaries and wages	$ 3,248,720	$ 597,974	$ 70,948	$ 3,917,642
Occupancy and utilities	151,708	124,296	300	276,304
Contracted services	54,055	79,530	44,415	178,000
Travel expenses	187,720	5,318	107	193,145
Supplies and equipment	123,933	21,663	125	145,721
Training expenses	72,351	6,668	157	79,176
Marketing	3,616	46,308	2,366	52,290
Other expenses	9,147	787	15	9,949
Depreciation	14,791	3,627	-	18,418
Insurance expenses	2,397	15,045	-	17,442
Other employee benefits	348	12,191	91	12,630
Recruiting	6,783	1,096	-	7,879
Total expenses	$ 3,875,569	$ 914,503	$ 118,524	$ 4,908,596

The accompanying notes are an integral part of this financial statement.

Kupu

STATEMENTS OF CASH FLOWS

For the years ended September 30,

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 200,825	$ 151,782
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation	27,669	18,418
Loss on sale of property and equipment	99	173
Changes in assets and liabilities:		
Accounts receivable	(12,602)	(62,605)
Pledges receivable	(51,197)	90,486
Prepaid expenses and other assets	(65,252)	13,207
Restricted certificate of deposit	39,932	40,167
Accounts payable	15,637	24,788
Accrued expenses	151,483	(2,459)
Deferred revenue	257,872	384,964
Deferred rent	64,544	5,774
Net cash provided by operating activities	629,010	664,695
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(225,583)	(60,714)
Net cash used in investing activities	(225,583)	(60,714)
NET INCREASE IN CASH AND CASH EQUIVALENTS	403,427	603,981
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	2,318,777	1,714,796
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 2,722,204	$ 2,318,777

The accompanying notes are an integral part of these financial statements.

NOTE 1 – ORGANIZATION BACKGROUND

Kupu (the “Organization”) is a Hawaii nonprofit corporation chartered in January 2007 to provide a home organization for the Hawaii Youth Conservation Corps (“HYCC”), which was originally developed in 1995 by the State of Hawaii, Department of Land and Natural Resources. Kupu was formed to help HYCC grow and become a self-sustaining organization. Today, there are three programs: Team-based Initiatives, Individual-based Initiatives, and Sustainability Initatives. These programs are training young adults in the emerging "green" job sector to help make Hawaii more self-sustaining, while engaging these youth members in relevant and important community service throughout the State. Program focuses include conservation, renewable energy, sustainable agriculture, energy audits, and Hawaiian cultural conservation and agriculture activities.

Kupu is exempt from federal income taxes under Section 501(c)(3) of the U.S. Internal Revenue Code and is not a private foundation. Accordingly, qualifying contributions to Kupu are tax deductible.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Organization’s significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

Basis of accounting and financial statement presentation

The financial statements of the Organization have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Net assets, revenues and support, and expenses are classified based upon the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

- *Unrestricted* – Net assets for which the board of directors has discretionary control.
- *Temporarily restricted* – Net assets whose use by the Organization is limited by donor-imposed stipulations that either expire by the passage of time or that can be fulfilled by actions of the Organization pursuant to those stipulations.
- *Permanently restricted* – Net assets whose use are limited by donor-imposed restrictions that neither expire with the passage of time nor can be fulfilled or otherwise removed by the actions of the Organization.

Use of estimates

The preparation of financial statements in conformity with U.S. GAAP 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

The Organization considers all highly liquid investments purchased with maturities of three months or less and money market funds to be cash equivalents.

The Organization maintains cash and cash equivalent balances at several financial institutions. Accounts at these institutions are insured by the Federal Deposit Insurance Corporation up to $250,000. As of September 30, 2017 and 2016, there were $2,026,460 and $1,889,175, respectively, in uninsured bank balances.

Accounts receivable, net

Accounts receivable consists primarily of grants receivable. Accounts receivable are recorded at the invoiced amount, net of an allowance for doubtful accounts.

The Organization provides an allowance for doubtful collections, which is based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Normal receivables are unsecured, do not accrue interest, and are due upon receipt of the invoice. Delinquent receivables are written off based on individual credit evaluation and specific circumstances. Based upon this analysis, the Organization did not record an allowance as of September 30, 2017 and 2016.

Restricted certificate of deposit

The Organization maintains a $120,402 certificate of deposit at a financial institution in lieu of a security deposit for the office space maintained at 677 Ala Moana Blvd. The certificate of deposit is assigned to the landlord. After twelve months past the commencement date of the lease, the certificate can be reduced by $40,000 annually.

Pledges receivable

The Organization recognizes unconditional promises to give as pledges receivable when they are received.

The Organization provides an allowance for doubtful collections, which is based upon a review of outstanding pledge receivables, historical collection information, and existing economic conditions. Normal pledge receivables are unsecured, do not accrue interest, and are due upon date specified when the pledge is made. Delinquent pledge receivables are written off based on individual credit evaluation and specific circumstances. Based upon this analysis, the Organization did not record an allowance as of September 30, 2017 and 2016.

Property and equipment, net

Property and equipment are recorded at cost and depreciated over the shorter of the remaining lease term or estimated useful lives of the related assets using the straight-line method. Donated assets are recorded at their estimated fair market value at the date of donation.

The estimated useful lives of property and equipment for purposes of computing depreciation are as follows:

Vehicles	5
Furniture, fixtures, and equipment	3 to 7
Leasehold improvements	7 to 11
Machinery and equipment	3 to 7

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment, net (continued)
It is the Organization's policy to capitalize purchased or donated assets in excess of $400 with an estimated useful life of at least one year. Expenditures for maintenance, repairs, and renewals of minor items are charged to earnings as incurred. Major renewals and improvements are capitalized. Upon disposition, the cost and related accumulated depreciation are removed from the accounts, and the resulting gain or loss is reflected in the financial statements.

Property and equipment are reviewed for impairment whenever events or changes in business circumstances indicate that the carrying value of the assets may not be recoverable. Impairment losses are recognized if expected future cash flows from the assets are less than their carrying values.

Restricted and unrestricted revenues and support
Contributions and revenues and support are recorded in the period earned as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the financial statements.

Recognition of governmental grant revenue
The Organization records grant awards accounted for as exchange transactions as deferred revenue until the related services are performed, at which time they are recognized as revenue. Revenues on cost reimbursement contracts are recognized when allowable and reimbursable expenses are incurred, and upon meeting the legal and contractual requirements of the funding source. Revenues of fee for service contracts are recognized when the services required by the contractual agreements are satisfactorily performed. Exchange transactions are recorded as revenues of the unrestricted net asset class.

Donated property and equipment
Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use and cash contributions that must be used to acquire property and equipment are reported as temporarily restricted support. The Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service unless donors stipulate how long the donated assets must be maintained.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated services and facilities

Donated use of services and facilities are recorded as support at their estimated fair value at the date of donation. Contributed services are recognized at fair value, except for the work of volunteers for which no monetary value has been assigned.

Donated services and facilities are reported as unrestricted support unless the donor has restricted the donations to a specific purpose. Expenses in the same amount are reflected in the financial statements.

Income taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified as an organization that is not a private foundation as defined in Section 509(a) of the Internal Revenue Code. The Organization is also exempt from state income taxes under Section 235 of the Hawaii Revised Statutes.

In evaluating a tax position for recognition, the Organization evaluates whether it is more-likely-than-not that a tax position will be sustained upon examination, including resolution of related appeals or litigation processes, based on the technical merits of the position. If the tax position meets the more-likely-than-not recognition threshold, the tax position is measured and recognized as the largest amount of tax benefit that, in management's judgment, is greater than 50% likely of being realized upon ultimate settlement.

The Organization files information returns in the United States ("U.S.") Federal jurisdiction. The Organization's evaluation of tax positions was performed for the fiscal years September 30, 2015 through 2017, for the U.S. Federal jurisdiction, the tax years which remain subject to examination by the Internal Revenue Service as of September 30, 2017.

It is the Organization's policy to recognize accrued interest related to any unrecognized tax benefits, as well as, any related penalties in other expenses. The Organization did not recognize any interest or penalties associated with unrecognized tax benefits as of September 30, 2017 and 2016.

Functional classification of expenses

In accordance with generally accepted accounting principles, expenses are categorized principally in terms of the Organization's individual program activities or functions.

Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of time spent, square footage, and other applicable variables. Management and general expenses include those expenses that are not directly identifiable with any other specific function, but provide for the overall support and direction of the Organization.

NOTE 3 – PLEDGES RECEIVABLE

The Organization received 1-3 year pledges to help fund the Ho’ahu Capital Campaign. The following is the summary of unconditional promises to give for the Organization as of September 30:

	2017	2016
Pledges receivable due in less than one year	$ 202,428	$ 138,381
Pledges receivable due in one to five years	62,650	75,500
Total pledges receivable	$ 265,078	$ 213,881

NOTE 4 – GOVERNMENT GRANTS AND CONTRACT REVENUE

The following is a reconciliation between the total government grant and contract revenue listed on the Statement of Activities and total Federal Expenditures listed on the Schedule of Expenditures of Federal Awards as of September 30:

	2017	2016
Federal expenditures per the Schedule of Expenditures of Federal Awards	$ 2,670,612	$ 1,417,820
Accounts receivable recognized on the Schedule of Expenditures and Federal Awards and not on the financial statements	(44,017)	(1,857)
Current year grant receivable recognized on the financial statements and not on the Schedule of Expenditures and Federal Awards	11,783	45,433
Revenue from federal sources - per financial statements	2,638,378	1,461,396
Other government contract and grant revenue sources	964,767	551,965
Total government grants and contracts - per financial statements	$ 3,603,145	$ 2,013,361

NOTE 5 – PROPERTY AND EQUIPMENT, net

Property and equipment, net, consists of the following as of September 30:

	2017	2016
Vehicles	$ 131,836	$ 95,953
Furniture, fixtures, and equipment	73,713	59,690
Machinery and equipment	4,875	4,875
	210,424	160,518
Less accumulated depreciation	(116,951)	(89,282)
	93,473	71,236
Construction-in-progress	557,434	381,856
	$ 650,907	$ 453,092

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of the following as of September 30:

	2017	2016
Temporarily restricted for:		
Ho 'ahu Capital Campaign	$ 481,606	$ 437,134
Various programs	98,817	98,867
	$ 580,423	$ 536,001

Ho 'ahu Capital Campaign

Kupu's vision is to transform the Kewalo Basin Park facility and the surrounding waterfront area into an open and inclusive space to be used for the public benefit and serve as the model of sustainability, environmental restoration, and community and cultural collaboration. The project is intended to provide a center for appreciation and respect for the past, coupled with the renewal and vitality for Hawaii's future.

NOTE 7 – LEASES

Kewalo Basin Park

The Organization is on a month-to-month lease for an open air facility located at Kewalo Basin Park from the Hawaii Community Development Authority for one dollar per year, which it utilizes as a training center. Donated rent (included in in-kind contributions) was $96,000 for the years ended September 30, 2017 and 2016, respectively.

NOTE 7 – LEASES (continued)

Ala Moana Blvd.

The Organization entered into an operating lease for office space on Ala Moana Blvd. on February 1, 2014. This lease expires on July 31, 2024, with monthly base rent of $11,540. Rent expense under this lease was $154,472 and $69,345 for the year ended September 30, 2017 and 2016, respectively.

Maturities

Future minimum rental payments under non-cancellable operating leases are as follows for the years ending:

September 30,	Amount
2018	$ 99,234
2019	102,211
2020	105,278
2021	108,436
2022	111,689
Thereafter	233,531
	$ 760,379

NOTE 8 – LINE OF CREDIT

The Organization has a revolving line of credit with a financial institution, which allows for the Organization to draw up to $1,500,000, at a floating rate equal to the institution's base rate plus 0.5% (4.5% and 4.375% as of September 30, 2017 and 2016, respectively), maturing on June 24, 2018. The outstanding balance on this line of credit was $0 as of September 30, 2017 and 2016. The line of credit is collateralized by assets of the Organization. Pursuant to the agreement, the Organization is required to be in compliance with certain covenants. All debt covenants were met as of September 30, 2017.

NOTE 9 – RELATED PARTY TRANSACTIONS

Pono Pacific Land Management, LLC

Under a joint agreement, Pono Pacific Management, LLC, (a related party through common management, "Pono Pacific") and Kupu share office space and other overhead costs. Under the terms of this agreement, office space is shared based upon the square footage occupied by each entity and common space is split evenly between each entity. The Organization paid $17,792 and $16,189 for reimbursement of costs incurred on Pono Pacific's behalf for the year ended December 31, 2017 and 2016, respectively. A receivable balance related to these costs of $5,349 and $1,431 was outstanding as of September 30, 2017 and 2016, respectively.

In addition, Kupu is subcontracted by Pono Pacific to assist with one of their internship programs. Revenues earned related to the contract were $293,627 and $236,437 for the years ending September 30, 2017 and 2016, respectively. A receivable balance related to the contract of $88,111 and $45,132 was outstanding as of September 30, 2017 and 2016, respectively.

NOTE 9 – RELATED PARTY TRANSACTIONS (continued)

Due from employees

Due from employees of $0 and $1,517 as of September 30, 2017 and 2016, respectively, are typically repaid within one month and do not accrue interest. Due from employees is presented in accounts receivable in the statements of financial position.

NOTE 10 – CONCENTRATION OF CREDIT RISK

The majority of the Organization’s activities are with Corporation of National and Community Service (“CNCS”). Revenues earned on its grants with CNCS were $1,890,465 and $1,210,542 for the years ended September 30, 2017 and 2016, respectively. Receivables under this grant were $317,256 and $229,664 as of September 30, 2017 and 2016, respectively.

NOTE 11 – RETIREMENT SAVINGS PLAN

The Organization participates in a multiple-employer plan for the benefit of their eligible employees. The Organization’s employees are eligible to participate in the plans after one full year of employment and attaining the age of 21. Eligible employees may make voluntary pre-tax and Roth contributions to the plan.

The Organization provides for matching of 100% of the participants first 4% of contributions. These matching contributions vest over a six-year grading schedule. For the years ended September 30, 2017 and 2016, contributions by the Organization under this plan were $21,157 and $17,924, respectively.

NOTE 12 – SUBSEQUENT EVENTS

The Organization evaluated its September 30, 2017 and 2016, financial statements for subsequent events through February 13, 2018, the date the financial statements were available to be issued and was not aware of any subsequent events that would require additional recognition or disclosure in the financial statements.

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Supplementary Information

KUPU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended September 30, 2017

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Identifying Number	Total Federal Expenditures	
Corporation for National and Community Service				
Passed through the Hawaii Commission for National and Community Services:				
AmeriCorps		16ACHHI001	1,822,974	
AmeriCorps		16ACHHI001	67,491	
Total Corporation for National and Community Service	94.006		1,890,465	*
Department of Agriculture, Forest Service				
Direct Program:				
Forestry Research	none	14-PA-11272136-059	96,266	
Pacific Southwest Region Lake, Tahoe Basin Management Unit Blue Waters Exchange Program	10.699	17-PA-11051900-032	19,498	
Pacific Rim Resiliency Project	10.664	16-DG-11052021-228	9,188	
Total Department of Agriculture Forest Service			124,952	
Office of Naval Research				
Passed through the Pacific International Center for High Technology Research:				
Basic and Applied Scientific Research	12.300	3315-233	149,479	
Total Office of Naval Research			149,479	
Department of the Interior National Park Service				
Direct programs:				
Cooperative Research and Training Programs - Resources of the National Park System	15.931	P13AC00132	56,651	
Conservation Activities by Youth Service Organizations	15.931	P15AC00049	35,805	
Oahu Wildlife Refuge Complex YCC Team	15.676	F16AC00230	40,042	
Pacific West Region Biological Science Technician Experience in Conservation	15.676	F16AC00450	257,093	*
Total Department of the Interior National Park Service			389,591	
Department of Commerce				
Direct programs:				
National Oceanic and Atmospheric Administration Environmental Education Program	11.473	NA16NOS4730178	116,125	
Total Department of Commerce			116,125	
Total Expenditures of Federal Awards			$ 2,670,612	

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

September 30, 2017

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award activity of Kupu (the "Company") under programs of the federal government for the year ended September 30, 2017. The information on this Schedule is prepared 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 Company, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Company.

NOTE 2 – 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 OMB Circular A-122 Cost Principles for Non-Profit Organizations (codified in 2 CFR Part 225) and Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The Company has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 3 - MATCHING REQUIREMENTS

Certain Federal programs require the Organization to contribute non-Federal funds, matching funds to support the Federally-funded programs. The Company has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

NOTE 4 – MAJOR PROGRAMS

* Denotes major programs, which compromise 80% of total expenditures of federal awards.

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Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Directors,
Kupu:

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 financial statements of Kupu (a nonprofit organization; the "Organization"), which comprise the statement of financial position as of September 30, 2017, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated February 13, 2018

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Verity CPAs

February 13, 2018

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

VERITY
Certified Public Accountants

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance required by the Uniform Guidance

To the Board of Directors,
Kupu:

Report on Compliance for Each Major Federal Program

We have audited Kupu's (the "Organization") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Organization's major federal programs for the year ended September 30, 2017. The Organization'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 the Organization'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 the Organization'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 of the Organization's compliance.

Opinion on Each Major Federal Program

In our opinion, the Organization 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 year ended September 30, 2017.

Report on Internal Control over Compliance

Management of the Organization 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 the Organization'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 the Organization's internal control over compliance.

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

Purpose of this Report

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.

Verity CPAs

February 13, 2018

Schedule of Findings and Questioned Costs

Kupu

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

September 30, 2017

Section 1 – Summary of Auditor's Results

Financial Statements

Type of Auditor's report issued:	Unmodified	
Internal control over financial reporting:		
• Material weakness(es) identified?	______ Yes	__√__ No
• Significant deficiencies identified that are not considered to be material weaknesses?	______ Yes	__√__ No
Noncompliance material to financial statements noted?	______ Yes	__√__ No

Federal Awards

Internal control over major programs:		
• Material weakness(es) identified?	______ Yes	__√__ No
• Significant deficiencies identified that are not considered to be material weaknesses?	______ Yes	__√__ No
Type of Auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) of the Uniform Guidance?	______ Yes	__√__ No

Identification of major programs:

CFDA No.	Name of Federal Program or Cluster
94.006	AmeriCorps
15.676	Biological Science Technician Experience in Conservation

Dollar threshold used to distinguish between type A and type B programs:	$750,000	
Auditee qualified as low-risk auditee?	__√__ Yes	______ No

Section 2 – Financial Statement Findings

None.

Section 3 – Federal Award Findings and Questioned Costs

None.

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