Consolidated Financial Statements and Report of Independent Certified Public Accountants

# Kupu and its Wholly-Owned Subsidiary, ʻĀina & Innovation Workforce Hawaii

September 30, 2021 and 2020

# Executive Summary

Aloha,

***He poʻi na kai uli, kai koʻo, ʻaʻohe hina pūkoʻa***
**Though the sea be deep and rough, the coral rock remains standing. (Said of those who remain calm and resilient in the face of difficulty.)**

As a Hawaiʻi-based, Hawaiʻi-founded nonprofit, Kupu draws inspiration and guidance from the moʻolelo (stories) and ʻike (wisdom) originating in these islands. In the Kumulipo, perhaps Hawaiʻi's most revered creation chant, we are told that the pūkoʻa, a coral rock, rose from the ocean in the formation of these islands we call home. There are seemingly limitless lessons to take from this and other aspects of this chant, but one of them is this: small beginnings can lead to abundance and life. And what grows from small beginnings can one day serve others in great ways, as these islands support and nurture all of us who live here.

This period was a time of challenge for many of us. We chose this year's report theme -- He poʻi na kai uli, kai koʻo, ʻaʻohe hina pūkoʻa -- because it reflects what we strive to make Kupu. In the midst of the difficulties our communities faced - economic crisis, a global pandemic, climate change, massive learning disruption at our schools - we sought to be a place where youth weathered well these "deep and rough seas". We also hoped that our young leaders would serve their community and take some of the lessons from these challenging times and use them to create lasting change that outlives the crisis of the moment.

Reading through this report, I hope you will agree with me when I say that our staff, partners and participants exceeded all reasonable expectations of this unique period in history. Over the last fiscal year we enrolled over 650+ individuals who served across the Hawaiian Islands and other parts of the Pacific region. We started this season in the full swing of the newly formed Kupu ʻĀina Corps - a program we created to administer the State of Hawaiʻi's displaced worker program, hiring over 350 people harmed by the Covid economic downturn and employing them through the remainder of 2020. Inspired by the success of this program, by the summer of 2021 Governor Ige signed Act 181, creating a new state program, the Green Job Youth Corps, modeled after our 2020 efforts. I am pleased to share that Kupu is administering the Green Job Youth Corps, once again under the brand of the Kupu ʻĀina Corps.

In many other areas, our staff followed the same pattern of looking for areas where we could help with crisis response and seek ways to build lasting models to serve youth and restore ʻāina (land). Our Community program continues to support opportunity youth to graduate through our alternative diploma program, while our Environmental Education programs are doing more than ever to support our schools and teachers through these trying times where hands on education is more needed than ever. Our Hawaii Youth Conservation Corps Summer program got teens and young adults out into nature again, while our Conservation Leadership Development Program provided year-long opportunities for young adults to start their careers in conservation while earning money and receiving scholarship funds to pay for college. All of this is possible because our participants, our partners, our funders, and our staff come together and put their passion and gifts to use for a higher purpose.

At the close of this fiscal year, we started to realize that in some ways we are not the same organization that we were at the beginning of the Covid pandemic. Like a phoenix that rises from ashes, Kupu has emerged a stronger and more robust organization. Yet, with this growth that Ke Akua has allowed, comes an acute sense of responsibility to do our best to serve and restore the communities we work in. We are also certain that it is only by the support and partnership of others, that we have been able to make a difference. It is with this heart of unity that we gratefully and humbly ask for your continued support, prayers, and aloha as we endeavor forward together.

Mālama Pono,

John Leong
Kupu, Chief Executive Officer

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VERITY
Certified Public Accountants

# Report of Independent Certified Public Accountants

To Management and the Board of Directors, Kupu and its wholly-owned subsidiary, ‘Āina & Innovation Workforce Hawaii:

**Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of Kupu and its wholly owned subsidiary, ‘Āina & Innovation Workforce Hawaii, LLC, (collectively, the “Organization”), which comprises the consolidated statements of financial position as of September 30, 2021 and 2020, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

***Management's Responsibility for the Consolidated 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 consolidated 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 opinions.

***Opinion***

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Kupu as of September 30, 2021 and 2020, and the changes in its consolidated net assets and its consolidated 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 audits were 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 June 28, 2022, 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

June 28, 2022

Kupu and its Subsidiary

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As of September 30,

| | 2021 | 2020 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | $ 685,567 | $ 5,221,447 |
| Accounts receivable, net | 3,757,509 | 1,407,335 |
| Pledges receivable, current portion | 40,077 | 20,169 |
| Prepaid expenses and other assets | 88,310 | 51,894 |
| Inventory | 28,486 | 44,612 |
| Investments in marketable securities | 166,664 | - |
| Total current assets | 4,766,613 | 6,745,457 |
| PROPERTY AND EQUIPMENT, net | 5,287,144 | 5,402,961 |
| PLEDGES RECEIVABLE, less current portion | 205,000 | 202,500 |
| RESTRICTED CERTIFICATE OF DEPOSIT | 40,552 | 40,501 |
| TOTAL ASSETS | $ 10,299,309 | $ 12,391,419 |
| **LIABILITIES AND NET ASSETS** | | |
| CURRENT LIABILITIES | | |
| Accounts payable | $ 91,819 | $ 66,418 |
| Accrued expenses | 677,486 | 533,175 |
| Deferred revenue | 386,622 | 3,203,470 |
| Deferred rent | 98,616 | 85,793 |
| Total current liabilities | 1,254,543 | 3,888,856 |
| SBA's PAYROLL PROTECTION PROGRAM LOAN | 1,428,852 | 1,034,300 |
| COMMITMENTS AND CONTINGENCIES | - | - |
| Total liabilities | 2,683,395 | 4,923,156 |
| NET ASSETS | | |
| Without donor restrictions | 7,305,953 | 6,869,329 |
| With donor restrictions | 309,961 | 598,934 |
| Total net assets | 7,615,914 | 7,468,263 |
| TOTAL LIABILITIES AND NET ASSETS | $ 10,299,309 | $ 12,391,419 |

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

Kupu and its Subsidiary

CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended September 30, 2021

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| REVENUES AND SUPPORT: | | | |
| Government grants and contracts | $ 6,867,012 | $ - | $ 6,867,012 |
| Private grants and contracts | 1,423,156 | 227,505 | 1,650,661 |
| Program service fees | 1,234,920 | - | 1,234,920 |
| Gain on debt extinguishment | 1,034,300 | - | 1,034,300 |
| Donations and contributions | 406,763 | 208,741 | 615,504 |
| Other revenue and support | 4,720 | - | 4,720 |
| Gains on investments in marketable securities, net | 2,003 | - | 2,003 |
| Net assets released from restrictions | 725,219 | (725,219) | - |
| Total revenue and support | 11,698,093 | (288,973) | 11,409,120 |
| EXPENSES: | | | |
| Youth program services | 9,229,106 | - | 9,229,106 |
| Management and general | 1,841,290 | - | 1,841,290 |
| Fundraising | 191,073 | - | 191,073 |
| Total expenses | 11,261,469 | - | 11,261,469 |
| Change in net assets | 436,624 | (288,973) | 147,651 |
| NET ASSETS AT BEGINNING OF YEAR | 6,869,329 | 598,934 | 7,468,263 |
| NET ASSETS AT END OF YEAR | $ 7,305,953 | $ 309,961 | $ 7,615,914 |

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

Kupu and its Subsidiary

## CONSOLIDATED STATEMENT OF ACTIVITIES

For the year ended September 30, 2020

| | Without Donor Restrictions | With Donor Restrictions | Total |
|---|---|---|---|
| REVENUES AND SUPPORT: | | | |
| Government grants and contracts | $ 4,066,065 | $ - | $ 4,066,065 |
| Private grants and contracts | 2,057,966 | 1,095,849 | 3,153,815 |
| Program service fees | 1,115,395 | - | 1,115,395 |
| Donations and contributions | 510,949 | 25,631 | 536,580 |
| Special event revenue | 20,374 | - | 20,374 |
| Other revenue and support | 4,871 | - | 4,871 |
| Net assets released from restrictions | 765,771 | (765,771) | - |
| Total revenue and support | 8,541,391 | 355,709 | 8,897,100 |
| EXPENSES: | | | |
| Youth program services | 6,440,138 | - | 6,440,138 |
| Management and general | 1,497,290 | - | 1,497,290 |
| Fundraising | 254,367 | - | 254,367 |
| Total expenses | 8,191,795 | - | 8,191,795 |
| Change in net assets | 349,596 | 355,709 | 705,305 |
| NET ASSETS AT BEGINNING OF YEAR | 6,519,733 | 243,225 | 6,762,958 |
| NET ASSETS AT END OF YEAR | $ 6,869,329 | $ 598,934 | $ 7,468,263 |

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

Kupu and its Subsidiary

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended September 30, 2021

| | Youth Program Services | Management and General | Fundraising | Total |
|---|---|---|---|---|
| Salaries and wages | $ 7,417,653 | $ 1,396,105 | $ 155,768 | $ 8,969,526 |
| Occupancy and utilities | 421,616 | 124,272 | 14,582 | 560,470 |
| Contracted services | 180,329 | 185,924 | 11,748 | 378,001 |
| Supplies and equipment | 315,502 | 55,325 | 4,418 | 375,245 |
| Depreciation | 275,683 | 4,792 | 252 | 280,727 |
| Other expenses | 199,284 | 19,804 | 4,148 | 223,236 |
| Training expenses | 188,025 | 5,238 | 19 | 193,282 |
| Travel expenses | 176,840 | 4,349 | - | 181,189 |
| Insurance expenses | 34,357 | 26,658 | 37 | 61,052 |
| Other employee benefits | 7,585 | 12,362 | 101 | 20,048 |
| Recruiting | 9,359 | 630 | - | 9,989 |
| Bad debt expense | 2,501 | 2,998 | - | 5,499 |
| Marketing | 372 | 2,833 | - | 3,205 |
| Special event expense | - | - | - | - |
| Total expenses | $ 9,229,106 | $ 1,841,290 | $ 191,073 | $ 11,261,469 |

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

Kupu and its Subsidiary

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the year ended September 30, 2020

| | Youth Program Services | Management and General | Fundraising | Total |
|---|---|---|---|---|
| Salaries and wages | $ 5,029,110 | $ 1,013,731 | $ 207,472 | $ 6,250,313 |
| Occupancy and utilities | 276,950 | 184,473 | 5,244 | 466,667 |
| Contracted services | 207,758 | 143,556 | 25,778 | 377,092 |
| Supplies and equipment | 413,331 | 44,834 | 6,931 | 465,096 |
| Depreciation | 278,396 | 6,731 | 356 | 285,483 |
| Other expenses | 59,674 | 21,396 | 5,710 | 86,780 |
| Training expenses | 30,154 | 8,514 | 1,828 | 40,496 |
| Travel expenses | 60,878 | 14,146 | - | 75,024 |
| Insurance expenses | 36,117 | 21,817 | 14 | 57,948 |
| Other employee benefits | 2,818 | 21,685 | 59 | 24,562 |
| Recruiting | 16,653 | 433 | - | 17,086 |
| Bad debt expense | 28,299 | 500 | - | 28,799 |
| Marketing | - | 15,474 | - | 15,474 |
| Special event expense | - | - | 975 | 975 |
| Total expenses | $ 6,440,138 | $ 1,497,290 | $ 254,367 | $ 8,191,795 |

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

Kupu and its Subsidiary

## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended September 30,

| | 2021 | 2020 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Change in net assets | $ 147,651 | $ 705,305 |
| Adjustments to reconcile the change in net assets to net cash (used in) provided by operating activities: | | |
| Gain on debt extinguishment | (1,034,300) | - |
| Gains on investments in marketable securities, net | (2,003) | - |
| Depreciation | 280,727 | 285,483 |
| Bad debt expense | 5,499 | 28,799 |
| Loss on disposal of property and equipment | - | 7,191 |
| Changes in assets and liabilities: | | |
| Accounts receivable | (2,355,673) | (483,887) |
| Pledges receivable | (22,408) | 10,689 |
| Prepaid expenses and other assets | (36,416) | (34,037) |
| Inventory | 16,126 | - |
| Restricted certificate of deposit | (51) | (481) |
| Accounts payable | 25,401 | (77,432) |
| Accrued expenses | 144,311 | 199,361 |
| Deferred revenue | (2,816,848) | 2,269,795 |
| Deferred rent | 12,823 | (24,792) |
| Net cash (used in) provided by operating activities | (5,635,161) | 2,885,994 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (164,910) | (240,556) |
| Purchase of investments in marketable securities | (170,893) | - |
| Proceeds from sale of investments of marketable securities | 6,232 | - |
| Net cash used in investing activities | (329,571) | (240,556) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from SBA's payroll protection program loan | 1,428,852 | 1,034,300 |
| Net cash provided by financing activities | 1,428,852 | 1,034,300 |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (4,535,880) | 3,679,738 |
| CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR | 5,221,447 | 1,541,709 |
| CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR | $ 685,567 | $ 5,221,447 |

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

## NOTE 1 – ORGANIZATION BACKGROUND

Kupu 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, Kupu 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, culinary training, 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.

In July 2020, Kupu formed ‘Āina & Innovation Workforce Hawaii, LLC, as a wholly-owned subsidiary for the purpose of providing and managing an internship program for a potential subcontract. This program never came to fruition and ‘Āina & Innovation Workforce Hawaii, LLC, was dissolved on November 30, 2020.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### Basis of accounting and financial statement presentation

The consolidated financial statements of Kupu and its wholly-owned subsidiary ‘Āina & Innovation Workforce Hawaii, LLC, (collectively, the “Organization”), have been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). All significant inter-organization accounts and transactions have been eliminated in consolidation. 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:

- *Net assets without donor restrictions* - Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the organization’s management and the board of directors.

- *Net assets with donor restrictions* - Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Use of estimates

The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

On March 11, 2020, a novel strain of coronavirus known as “COVID-19” was declared a pandemic by the World Health Organization. COVID-19 has surfaced in nearly all regions around the world and is having a significant impact on global markets driven by significant job losses, supply chain and production disruptions, workforce restrictions, travel restrictions, and reduced customer spending and sentiment, among other factors, which are negatively impacting the overall economy. Although the impact of the virus is evolving rapidly and its future effects are uncertain, the Company evaluated its assets and liabilities as of September 30, 2021, and no impairments were recognized resulting from the COVID-19 pandemic. As the extent and duration of the impacts from COVID-19 remain unclear, the Company’s estimates and assumptions may evolve as conditions change and actual results could differ significantly from these estimates.

Going concern

Management has evaluated the Organization’s ability to continue as a going concern for one year after the consolidated financial statement issuance date and has determined that no conditions or events that would raise substantial doubt exist.

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, 2021 and 2020, there were $393,316 and $4,905,396, respectively, in uninsured bank balances.

Investments in marketable securities

Investments in marketable securities consist of equity investments in publicly traded companies. Investments are presented in the financial statements at fair value and consists of investments held in the Organization’s investment brokerage account. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Realized and unrealized gains and losses, determined using the specific identification method, are included in earnings. Investment income and losses, including unrealized gains and losses, are reported as changes in net assets without donor restrictions.

Securities are carried in the consolidated financial statements at fair value. Declines in value that are judged to be other-than-temporary are included in other income.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 of $3,757,509 and $1,407,335 as of September 30, 2021 and 2020, respectively.

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. The Organization recorded bad debt expense related to these receivables in the amount of $5,499 and $28,799 for the years ended September 30, 2021 and 2020, respectively.

Restricted certificate of deposit

The Organization maintains a $40,552 (2021) and $40,501 (2020) certificate of deposit at a financial institution in lieu of a security deposit for their office space. 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 until the amount reaches $25,752, which must be maintained for the remainder of the lease term.

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, 2021 and 2020. The Organization recorded bad debt expense related to these pledges in the amount of $2,998 and $2,561 for the years ended September 30, 2021 and 2020, respectively.

Property and equipment, net

Property and equipment, including leasehold improvements, are recorded at cost and depreciated over the shorter of the remaining lease term and automatic extension options 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:

| | |
|---|---|
| Ho’okupu Center | 15 |
| Furniture, fixtures, and equipment | 3 to 7 |
| Vehicles | 5 |
| Machinery and equipment | 3 to 7 |
| Leasehold improvements | 25 |

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 $2,500 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 consolidated 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.

Revenues and support

Contributions and revenues and support are recorded in the period earned as with or without donor restrictions, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is 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 statements of activities as net assets released from restrictions. Contributions with donor restrictions whose restrictions are met within the same year as received are reflected as contributions without donor restrictions in the consolidated 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 net assets without donor restrictions.

As of September 30, 2021 and 2020, contract receivables which are included in account receivables (contract assets) amounted to $3,596,766 and $1,212,903, respectively, and deferred revenue (contract liabilities) amounted to $386,622 and $3,203,470, respectively. These amounts were included in grants and contract receivables and deferred revenue in the accompanying consolidated Statements of Financial Position.

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 support without donor restrictions 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 support with donor restrictions. 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 support without donor restrictions unless the donor has restricted the donations to a specific purpose. Expenses in the same amount are reflected in the consolidated 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. However, Kupu is subject to tax on income unrelated to its exempt purpose, unless that income is otherwise excluded by the Internal Revenue Code.

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 determined that it had no uncertain tax positions required to be reported in accordance with U.S. GAAP as of September 30, 2021 and 2020.

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, 2021 and 2020.

Hawaii general excise tax

The State of Hawaii imposes a general excise tax of 4.0% on certain gross receipts, such as fundraising income generated within the State, plus an additional 0.5% on such gross receipts within the City and County of Honolulu. The Organization reported Hawaii general excise tax on catering revenues, product sales, and room rental revenues in the amount of $15,979 and $14,098, for the years ended September 30, 2021 and 2020, respectively.

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 based on 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 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurements

U.S. GAAP establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Company has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodology used for assets measured at fair value. There have been no changes in methodologies during the year ended September 30, 2021.

*Equity securities.* These investments are valued at the closing price reported on the active market on which the individual securities are traded.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recently adopted accounting standards

FASB also issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606),* which amends guidance to clarify the principles for recognizing revenue from contracts with customers. The guidance in ASU No. 2014-09 requires the Organization to recognize revenue to depict the transfer of goods and services to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services and also requires expended disclosures related to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, as well as other disclosures.

In June 2020, the FASB approved a deferral for non-profits that have not yet issued financial statements reflecting the adoption of this ASU No. 2014-09. For these entities, the FASB deferred the effective date to annual reporting periods beginning after December 15, 2019. This ASU was effective for the Organization as of October 1, 2020.

In evaluating the impact of the above ASUs, the Organization determined that the consolidated financial statements were not materially impacted by the new guidance.

Other recent accounting pronouncements to be adopted in future periods

In February 2016, the FASB issued ASU No. 2016-02, *Leases.* This ASU requires management to recognize lease assets and lease liabilities for all leases. ASU No. 2016-02 retains a distinction between finance leases and operating leases. The classification criteria for distinguishing between finance leases and operating leases are substantially similar to the classification criteria for distinguishing between capital leases and operating leases in the previous leases guidance. The result of retaining a distinction between finance leases and operating leases is that under the lessee accounting model, the effect of leases in the statement of income and the statement of cash flows is largely unchanged from previous U.S. GAAP.

In November 2019, the FASB issued ASU No. 2019-10, *Financial Instruments – Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842): Effective Dates.* This ASU deferred the effective date of ASU No. 2016-02, *Leases (Topic 842),* for non-public business entities and other entities do not file with the Securities and Exchange Commission. In June 2020, the FASB issued ASU No. 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities.* The ASU deferred the effective date of Topic 842 to fiscal years beginning after December 15, 2021. This ASU is effective for the Organization as of October 1, 2022. Early application is allowed. The Organization is currently evaluating the impact this ASU on the Organization's consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which modifies how expected credit losses on financial instruments are developed. ASU No. 2016-13 changes the impairment model for most financial assets that are measured at amortized costs and certain other instruments from an incurred loss model to an expected loss model. Entities will be required to estimate credit losses over the entire contractual term of an instrument. In November 2018, the FASB issued ASU No. 2018-19, *Codification Improvements to Topic 326, Financial Instruments – Credit Losses (Topic 326)*, which provides amendments to ASU No. 2016-13 and defers the effective date to years beginning after December 15, 2021. The ASU is effective for the Organization beginning October 1, 2022. The Organization is currently evaluating the impact that this ASU has on the Organization's consolidated financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other recent accounting pronouncements to be adopted in future periods (continued)

In September 2020, the FASB issued ASU No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, requiring an organization to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash and other financial assets. ASU No. 2020-07 includes additional disclosure requirements about contributed nonfinancial assets for not-for-profit entities, including additional disclosure requirements for recognized contributed services. The ASU should be applied on a retrospective basis and is effective for annual periods beginning after June 15, 2021, with early adoption permitted. The ASU is effective for the Organization beginning October 1, 2021. The Organization is currently evaluating the impact that this ASU has on the consolidated Organization's financial statements.

NOTE 3 – AVAILABILITY AND LIQUIDITY

The Organization regularly monitors liquidity required to meet its operating needs and other financial commitments. For purposes of analyzing resources available to meet these requirements over the next twelve-month period, the Organization considers all youth program services, management and general, and fundraising to be general expenses. The Organization's liquidity is maintained in interest and non-interest bearing checking, savings, and money market accounts.

The Organization is substantially supported by contributions, pledges and grants from individuals, foundations, and government entities. The contributions from individuals and foundations are received with and without donor restrictions. The Organization prepares an annual operating budget, which is used to plan the level of fundraising activity and other sources of funding required for the coming twelve months for general and capital expenses. The Organization operates within its annual operating budget and anticipates collecting sufficient funds to cover general and capital expenses.

The following represents the Organization's financial assets available for general expenditures, without donor restrictions limiting their use, within one year as of September 30:

| | 2021 | 2020 |
|---|---|---|
| Cash and cash equivalents | $ 685,567 | $ 5,221,447 |
| Accounts receivable, net | 3,757,509 | 1,407,335 |
| Pledges receivable, current portion | 40,077 | 20,169 |
| Total financial assets at year-end | 4,483,153 | 6,648,951 |
| Less amounts not available to be used within one year: | | |
| Net assets with donor restrictions | (309,961) | (598,934) |
| | $ 4,173,192 | $ 6,050,017 |

## NOTE 4 – INVESTMENTS IN MARKETABLE SECURITIES

The following sets forth, within the fair value hierarchy the Organization's investments in marketable securities at fair value as of September 30, 2021:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Equity securities | $ 166,664 | $ - | $ - | $ 166,664 |
| Total investments at fair value | $ 166,664 | $ - | $ - | $ 166,664 |

The Organization held no investments in marketable securities as of and during the year ended September 30, 2020.

The Organization's investments are exposed to risks, such as market and credit risks. Because of the risk associated with such investments, it is possible those changes in fair values will occur and that such changes would materially affect the Organization's consolidated financial statements.

## NOTE 5 – PLEDGES RECEIVABLE

The following is the summary of unconditional promises to give for the Organization as of September 30:

| | 2021 | 2020 |
|---|---|---|
| Pledges receivable due in less than one year | $ 40,077 | $ 20,169 |
| Pledges receivable due in one to five years | 205,000 | 202,500 |
| Total pledges receivable | 245,077 | 222,669 |
| Less current portion | (40,077) | (20,169) |
| Total long term portion | $ 205,000 | $ 202,500 |

## NOTE 6 – GOVERNMENT GRANTS AND CONTRACTS REVENUE

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

| | 2021 | 2020 |
|---|---|---|
| Federal expenditures per the Schedule of Expenditures of Federal Awards | $ 5,850,233 | $ 3,195,382 |
| Revenue from federal sources - per consolidated financial statements | 5,850,233 | 3,195,382 |
| Other government grants and contracts revenue sources | 1,016,779 | 870,683 |
| Total government grants and contracts revenue - per Consolidated Statement of Activities | $ 6,867,012 | $ 4,066,065 |

## NOTE 7 – PROPERTY AND EQUIPMENT, net

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

| | 2021 | 2020 |
|---|---|---|
| Ho'okupu Center | $ 5,248,995 | $ 5,248,995 |
| Furniture, fixtures, and equipment | 357,871 | 357,871 |
| Vehicles | 313,576 | 148,666 |
| Machinery and equipment | 6,320 | 6,320 |
| Leasehold improvements | 220,555 | 220,555 |
| | 6,147,317 | 5,982,407 |
| Less accumulated depreciation | (860,173) | (579,446) |
| | $ 5,287,144 | $ 5,402,961 |

## NOTE 8 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of the following as of September 30:

| | 2021 | 2020 |
|---|---|---|
| Specific purpose: | | |
| Various programs | $ 309,961 | $ 598,934 |
| | $ 309,961 | $ 598,934 |

## NOTE 9 – LEASES

Kewalo Basin Park

The Organization has a long term 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 $147,420 for both of the years ended September 30, 2021 and 2020.

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 $12,989. Rent expense under this lease was $131,867 and $76,525 for the years ended September 30, 2021 and 2020, respectively.

NOTE 9 – LEASES (continued)

Future minimum lease commitments

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

| September 30, | Amount |
|---|---|
| 2022 | $ 122,616 |
| 2023 | 126,294 |
| 2024 | 130,083 |
| | $ 378,993 |

NOTE 10 – LINE OF CREDIT

The Organization had a revolving line of credit with a financial institution, which allows the Organization to draw up to $1,500,000, at an interest rate of 3.75% maturing on June 1, 2021. On June 1, 2021, the Organization renewed this line of credit which then matured on June 1, 2022. There were no borrowings or outstanding amounts under the revolving line of credit during and as of both fiscal years ending September 30, 2021 and 2020. This line of credit was not renewed after its maturity date.

NOTE 11 – SBA's PAYROLL PROTECTION PROGRAM LOAN

Small Business Administration's ("SBA") Paycheck Protection Program ("PPP") Loan 1

The Organization received $1,034,300 from the SBA under its PPP. Under the terms of this program up to 100% may be forgiven if certain terms and conditions are met. The unforgiven amount, if any, matures in April 2022 and accrues interest at 1.0% annual percentage rate with principal and interest payments starting in October 2020. The Organization was eligible for and received forgiveness of the full loan amount in August 2021. The forgiveness amount of $1,034,300 is recorded as a gain on debt extinguishment in the Consolidated Statement of Activities for the year ended September 30, 2021.

SBA's PPP Loan 2

During the year ended September 30, 2021, the Company received a second round of PPP from the Small Business Administration's ("SBA") Paycheck Protection Program ("PPP") in the amount of $1,428,852. Under the terms of this second PPP loan, up to 100% may be forgiven if certain terms and conditions are met. Principal and interest payments have now been deferred by the SBA to whenever the bank is notified how much, if any, of the loan will be forgiven.

NOTE 12 – 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, both office space and common space are allocated based upon the square footage occupied by each entity.

NOTE 12 – RELATED PARTY TRANSACTIONS (continued)

Pono Pacific Land Management, LLC (continued)

The Organization paid $51,252 and $40,422 for reimbursement of costs incurred on Pono Pacific's behalf for the years ended September 30, 2021 and 2020, respectively. An outstanding balance related to these costs amounted to $24,711 and $23,868 as of September 30, 2021 and 2020, respectively.

NOTE 13 – 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 $1,976,172 and $2,155,619, for the years ended September 30, 2021 and 2020, respectively. Receivables under this grant were $1,917,391 and $442,823, as of September 30, 2021 and 2020, respectively.

NOTE 14 – RETIREMENT SAVINGS PLAN

The Organization participates in a multiple-employer defined contribution 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, 2021 and 2020, contributions by the Organization under this plan were $37,865 and $31,110, respectively.

NOTE 15 – COMMITMENTS AND CONTINGENCIES

During the year ended September 30, 2021, the Organization received a real property tax bill for the 2017, 2018, and 2019 property tax assessment years amounting to $119,811 related to the Ho'okupu Center. This expense was not paid or accrued for as of September 30, 2020 and 2021, as the Organization believes their 501(c)3 not for profit status and timely refiling of property tax exemptions exempts the Organization from real property tax expenses and liabilities.

NOTE 16 – SUBSEQUENT EVENTS

The Organization evaluated its September 30, 2021 and 2020, consolidated financial statements for subsequent events through June 28, 2022, the date the financial statements were available to be issued. Management is not aware of any subsequent events that would require additional recognition or disclosure in the consolidated financial statements.

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# Supplementary Information

**KUPU AND ITS SUBSIDIARY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**For the year ended September 30, 2021**

| Federal Grantor/Pass-Through Grantor/Program or Cluster Title | Assistance Listing Number | Agency or Pass-through Number | Total Federal Expenditures | |
|---|---|---|---|---|
| Corporation for National and Community Service | | | | |
| Passed through the Hawaii Commission for National and Community Services | | | | |
| AmeriCorps | 94.006 | 19ACHHI001 Amendment No. 1 | $ 1,913,910 | |
| AmeriCorps | 94.006 | 19ACHHI001 Amendment No. 2 MA1504 | 62,262 | |
| Total Americorps | | | 1,976,172 | * |
| Passed through the Hawaii Commission for National and Community Services | | | | |
| VISTA Support and Training | 94.013 | 17VSPHI003 | 851 | |
| Total Corporation for National and Community Service | | | 1,977,022 | |
| Department of Agriculture, Forest Service | | | | |
| Direct Programs: | | | | |
| Pacific Southwest Region Lake, Tahoe Basin Management Unit Blue Waters Exchange Program | 10.699 | 17-PA-11051900-032 | 135 | |
| Hawaii Experimental Tropical Forest Program | None | 18-PA-11272136-065 | 27,834 | |
| Kupu Urban Forest Inventory and Agroforestry Project | 10.675 | 21-DG-11052021-260 | 22,835 | |
| Urban Forest Inventory of Honolulu - Youth Pilot | 10.699 | 18-PA-11052021-203 | 30,618 | |
| Passed through National Fish and Wildlife Foundation: | | | | |
| Protecting Hawaii Island's Threatened Dry Forest at Puuwaawaa Forest Reserve | 10.683 | 17-CA-11132422-343 | 12,053 | |
| Passed through Research Corporation of University of Hawaii, State of Hawaii University of Hawaii, Experiential Learning 4 Resilient C | 10.310 | P.O.#Z10216970 | 4,635 | |
| Total Department of Agriculture Forest Service | | | 98,110 | |
| Department of the Interior | | | | |
| Direct programs: | | | | |
| Conservation Activities by Youth Service Organizations | 15.931 | P15AC00049 | 392,959 | |
| Conservation Activities by Youth Hawaii Volcanoes National Park | 15.931 | P20AC00129 | 190,267 | |
| Conservation Activities by Youth National Wildlife Refuge Systems | 15.676 | F18AC00994 | 291,012 | |
| Total Department of the Interior | | | 874,238 | |
| Department of Treasury | | | | |
| Passed through the County of Kauai Coronavirus Relief Funds (CRF) | 21.019 | GA CAREB3-0002 | 107,598 | |
| Passed through the Department of Business, Economic Development & Tourism, State of Hawaii Coronavirus Relief Funds (CRF) Training and Workforce Development Program | 21.019 | N/A | 2,670,094 | * |
| Passed through Hawaii Investment Ready Honolulu Small Business Innovation Fund Grant Program | 21.019 | HIRF-37 | 12,650 | |
| Passed through the City and County of Honolulu Coronavirus Relief Funds (CRF) | 21.019 | PO-May-2100222,v4 | 101,754 | |
| Total Department of Treasury | | | 2,892,096 | |
| Department of Education, OESE | | | | |
| Passed through Research Corporation of University of Hawaii, State of Hawaii Governor's Emergency Education Relief Fund | 84.425C | N/A | 8,767 | |
| Total Department of Education, OESE | | | 8,767 | |
| Total Expenditures of Federal Awards | | | $ 5,850,233 | |

## NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of Kupu and its wholly-owned subsidiary, ʻĀina & Innovation Workforce Hawaii, LLC, (collectively the "Organization") under programs of the federal government for the years ended September 30, 2021 and 2020. 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 Organization, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Organization.

## NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the Organization's significant accounting policies consistently applied in the preparation of the accompanying Schedule of Expenditures of Federal Awards.

### Basis of accounting

Expenditures reported on the Schedule have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP").

### Cost principles

Expenditures are recognized following the cost principles contained in 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.

### Indirect cost rate

The Organization 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 Organization has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

## NOTE 4 – MAJOR PROGRAMS

* Denotes major program, which comprised 79% 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 Consolidated Financial Statements Performed in Accordance with Government Auditing Standards

VERITY
Certified Public Accountants

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

To Management and the Board of Directors, Kupu and its wholly-owned subsidiary, ʻĀina & Innovation Workforce Hawaii:

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 Kupu and its wholly-owned subsidiary, ʻĀina & Innovation Workforce Hawaii, LLC, (collectively the "Organization"), which comprise the consolidated statements of financial position as of September 30, 2021 and 2020, and the related consolidated statement of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated June 28, 2022.

**Internal Control over Financial Reporting**

In planning and performing our audit of the consolidated financial statements, we considered the Organization'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 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 consolidated 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 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 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

June 28, 2022

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

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

To Management and the Board of Directors, Kupu and its wholly-owned subsidiary, ʻĀina & Innovation Workforce Hawaii:

**Report on Compliance for Each Major Federal Program**

We have audited Kupu's and its wholly-owned subsidiary, ʻĀina & Innovation Workforce Hawaii, LLC's, (collectively 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, 2021. 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, 2021.

**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

June 28, 2022

# Schedule of Findings and Questioned Costs

## Section 1 – Summary of Auditor's Results

**Consolidated 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 consolidated 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:

| Assistance Listing No. | Name of Federal Program or Cluster |
|---|---|
| 94.006 | AmeriCorps |
| 21.019 | Coronavirus Relief Funds (CRF) Training and Workforce Development Program |

Dollar threshold used to distinguish between type A and type B programs: $750,000

| | | |
|---|---|---|
| Auditee qualified as low-risk auditee? | __√__ Yes | ______ No |

## Section 2 – Consolidated Financial Statement Findings

None.

## Section 3 – Federal Award Findings and Questioned Costs

None.

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