Financial Statements and Report of Independent Certified Public Accountants

Kupu

September 30, 2019 and 2018

Executive Summary

Aloha Kākou,

It has been an amazing 2019 with tremendous impact! Kupu‘s impact has created environmental, community, and life changing results this last year. Additionally, Kupu is a financially sound organization that continues to steward contracts, grants, and donations with the utmost care to multiply our impact across the Pacific.

Since serving a handful of youth our first year, we have welcomed nearly 4,000 youth and young adults to our Kupu ohana. Together, with our more than 150 partners throughout Hawaiʻi 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 cleared nearly 6,000 acres of invasive species, restored 81,122 native plants, distributed $630,433 in education awards, and awarded 11 HiSET alternative high school diplomas. We also created opportunities to inspire change for 323 participants.

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

The best measures of success is seeing youth mature to become young adults through service. Kupu is helping the next generation to find their passion and purpose while creating lasting relationships, develop a heart for service and community, and grow their confidence to succeed in life. We are changing lives.

This audit report is a celebration of their incredible stories and journeys. We are also excited to bring Kupu‘s new Harry and Jeanette Weinberg Ho`okupu center and culinary program online this year. The contributions the community has made to make this a reality is reflected in the generous support for our capital campaign that is reflected in the following report. This report 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 twelve 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 ʻāina and our youth.

Aloha,

John Leong
Kupu, Chief Executive Officer

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Report of Independent Certified Public Accountants

To Management and 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, 2019 and 2018, 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 opinions.

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, 2019 and 2018, 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.

Emphasis of Matter – Accounting Standard Adoption

As discussed in Note 2 to the financial statements, the Organization adopted new accounting guidance, Accounting Standards Update 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*, during the year ended September 30, 2019, which was retrospectively applied to financial statements for the year ended September 30, 2018. Our opinion is not modified with respect to this matter.

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 January 31, 2020, 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

January 31, 2020

Kupu

STATEMENTS OF FINANCIAL POSITION

As of September 30,

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,541,709	$ 2,951,594
Accounts receivable, net	952,247	1,536,200
Pledges receivable, current portion	23,571	18,193
Prepaid expenses and other assets	62,469	72,223
Total current assets	2,579,996	4,578,210
PROPERTY AND EQUIPMENT, net	5,455,079	2,005,829
PLEDGES RECEIVABLE, less current portion	209,787	1,000
RESTRICTED CERTIFICATE OF DEPOSIT	40,020	80,984
TOTAL ASSETS	$ 8,284,882	$ 6,666,023
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	$ 143,850	$ 107,836
Accrued expenses	333,814	563,984
Deferred revenue	933,675	1,242,808
Deferred rent	110,585	123,126
Total current liabilities	1,521,924	2,037,754
COMMITMENTS AND CONTINGENCIES	-	-
Total liabilities	1,521,924	2,037,754
NET ASSETS		
Without donor restrictions	6,519,733	3,504,705
With donor restrictions	243,225	1,123,564
Total net assets	6,762,958	4,628,269
TOTAL LIABILITIES AND NET ASSETS	$ 8,284,882	$ 6,666,023

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

Kupu

STATEMENT OF ACTIVITIES

For the year ended September 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT:			
Government grants and contracts	$ 4,314,157	$ -	$ 4,314,157
Private grants and contracts	1,997,671	1,998,500	3,996,171
Program service fees	826,670	-	826,670
Donations and contributions	181,049	424,936	605,985
Other revenue and support	7,720	-	7,720
Special event revenue	2,080	-	2,080
Net assets released from restrictions	3,303,775	(3,303,775)	-
Total revenue and support	10,633,122	(880,339)	9,752,783
EXPENSES:			
Youth program services	5,985,410	-	5,985,410
Management and general	1,386,143	-	1,386,143
Fundraising	246,541	-	246,541
Total expenses	7,618,094	-	7,618,094
Change in net assets	3,015,028	(880,339)	2,134,689
NET ASSETS AT BEGINNING OF YEAR	3,504,705	1,123,564	4,628,269
NET ASSETS AT END OF YEAR	$ 6,519,733	$ 243,225	$ 6,762,958

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

Kupu

STATEMENT OF ACTIVITIES

For the year ended September 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND SUPPORT:			
Government grants and contracts	$ 4,998,837	$ -	$ 4,998,837
Private grants and contracts	1,787,213	658,000	2,445,213
Program service fees	549,010	-	549,010
Donations and contributions	288,260	323,100	611,360
Other revenue and support	49,184	-	49,184
Special event revenue	4,375	3,467	7,842
Net assets released from restrictions	441,426	(441,426)	-
Total revenue and support	8,118,305	543,141	8,661,446
EXPENSES:			
Youth program services	5,138,367	-	5,138,367
Management and general	1,209,840	-	1,209,840
Fundraising	330,178	-	330,178
Total expenses	6,678,385	-	6,678,385
Change in net assets	1,439,920	543,141	1,983,061
NET ASSETS AT BEGINNING OF YEAR	2,064,785	580,423	2,645,208
NET ASSETS AT END OF YEAR	$ 3,504,705	$ 1,123,564	$ 4,628,269

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

Kupu

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended September 30, 2019

	Youth Program Services	Management and General	Fundraising	Total
Salaries and wages	$ 4,780,923	$ 992,940	$ 174,565	$ 5,948,428
Occupancy and utilities	252,893	197,080	11,986	461,959
Travel expenses	268,791	7,870	73	276,734
Contracted services	140,676	101,215	21,038	262,929
Supplies and equipment	213,791	22,691	22,219	258,701
Depreciation	146,634	8,670	519	155,823
Other expenses	62,855	12,553	7,235	82,643
Training expenses	73,813	3,678	185	77,676
Insurance expenses	22,665	21,559	-	44,224
Other employee benefits	4,659	12,754	120	17,533
Marketing	3,205	4,867	8,151	16,223
Recruiting	12,596	70	-	12,666
Bad debt expense	1,909	196	-	2,105
Special event expense	-	-	450	450
Total expenses	$ 5,985,410	$ 1,386,143	$ 246,541	$ 7,618,094

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

Kupu

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended September 30, 2018

	Youth Program Services	Management and General	Fundraising	Total
Salaries and wages	$ 4,133,180	$ 801,070	$ 190,943	$ 5,125,193
Occupancy and utilities	219,059	192,842	8,636	420,537
Travel expenses	256,371	14,170	238	270,779
Contracted services	208,948	104,955	50,587	364,490
Supplies and equipment	115,767	27,564	61,485	204,816
Depreciation	23,291	7,312	268	30,871
Other expenses	49,659	12,076	12,611	74,346
Training expenses	79,038	2,906	521	82,465
Insurance expenses	9,325	18,567	-	27,892
Other employee benefits	4,058	14,812	588	19,458
Marketing	2,925	13,220	1,384	17,529
Recruiting	15,390	196	-	15,586
Bad debt expense	21,356	150	2,000	23,506
Special event expense	-	-	917	917
Total expenses	$ 5,138,367	$ 1,209,840	$ 330,178	$ 6,678,385

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

Kupu

STATEMENTS OF CASH FLOWS

For the years ended September 30,

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 2,134,689	$ 1,983,061
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation	155,823	30,871
Changes in assets and liabilities:		
Accounts receivable, net	583,953	(750,603)
Pledges receivable	(214,165)	245,885
Prepaid expenses and other assets	9,754	13,473
Restricted certificate of deposit	40,964	39,418
Accounts payable	36,014	50,950
Accrued expenses	(230,170)	185,898
Deferred revenue	(309,133)	(174,206)
Deferred rent	(12,541)	(9,564)
Net cash provided by operating activities	2,195,188	1,615,183
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(3,605,073)	(1,385,793)
Net cash used in investing activities	(3,605,073)	(1,385,793)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(1,409,885)	229,390
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	2,951,594	2,722,204
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 1,541,709	$ 2,951,594

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

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, 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.

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:

- *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, where by the donor has stipulated the funds be maintained in perpetuity.

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, 2019 and 2018, there were $1,244,575 and $2,224,622, 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 of $952,247 and $1,536,200 as of September 30, 2019 and 2018, 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. Based upon this analysis, the Organization did not record an allowance as of September 30, 2019 and 2018. The Organization recorded bad debt expense related to these receivables in the amount of $915 and $7,300 for the years ended September 30, 2019 and 2018, respectively.

Restricted certificate of deposit

The Organization maintains a $40,020 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, 2019 and 2018. The Organization recorded bad debt expense related to these pledges in the amount of $1,190 and $16,206 for the years ended September 30, 2019 and 2018, respectively.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

Hookupu Center	15
Furniture, fixtures, and equipment	3 to 7
Vehicles	5
Machinery and equipment	3 to 7

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 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 statement 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 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 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 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 files information returns in the United States ("U.S.") Federal jurisdiction. The Organization's evaluation of tax positions were performed for the fiscal years September 30, 2017 through 2019, which remain subject to examination by the Internal Revenue Service as of September 30, 2019.

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, 2019 and 2018.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 $3,911 and $0, for the years ended September 30, 2019 and 2018, 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.

Recently adopted accounting standards

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities.* The standard changes the financial reporting requirements for not-for-profit organizations by reducing the number of net asset classes from three to two ("with donor restriction" and "without donor restriction"); requiring expenses to be reported by function and nature; and providing disclosures on the entity's operating measures and liquidity. ASU No. 2016-14 is effective for the Organization as of October 1, 2018, and requires a retrospective transition approach for its adoption. The ASU was implemented retrospectively to all periods presented.

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 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. ASU No. 2016-02 is effective for the Organization as of October 1, 2021. The Organization is currently evaluating the impact of this ASU on the Organization's financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 23).* The amendments of ASU No. 2016-18 require that a statement of cash flow explain the change during a period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU No. 2016-18 is effective for the Organization as of October 1, 2019, and requires a retrospective transition approach for its adoption. The Organization is currently evaluating the impact of this ASU on the Organization's financial statements.

In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made.* ASU No. 2018-08 clarifies and improves the scope and accounting guidance for contributions received and made. The amendments in this ASU should assist Organizations in (1) evaluating whether transactions should be accounting for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determine whether a contribution is conditional. The guidance in ASU No. 2018-08 is effective for transactions in which an entity is neither a public business entity nor a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market and serve as the resource recipient. For transactions in which an entity is neither a public business entity nor a not-for-profit entity that has issued, or is a conduit bond obligor for, securities that are traded, listed, or quoted on an exchange or an over-the-counter market and serves as the resource provider. ASU No. 2018-08 is effective for the Organization as a recipient and provider as of October 1, 2019 and October 1, 2020, respectively. The Organization is currently evaluating the impact of this ASU on the 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 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.

NOTE 3 – AVAILABILITY AND LIQUIDITY (continued)

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

	2019	2018
Cash and cash equivalents	$ 1,541,709	$ 2,951,594
Accounts receivable, net	952,247	1,536,200
Pledges receivable, current portion	23,571	18,193
Total financial assets at year-end	2,517,527	4,505,987
Less amounts not available to be used within one year:		
Net assets with donor restrictions	(243,225)	(1,123,564)
	$ 2,274,302	$ 3,382,423

NOTE 4 – PLEDGES RECEIVABLE

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

	2019	2018
Pledges receivable due in less than one year	$ 23,571	$ 18,193
Pledges receivable due in one to five years	209,787	1,000
Total pledges receivable	233,358	19,193
Less current portion	(23,571)	(18,193)
Total long term portion	$ 209,787	$ 1,000

NOTE 5 – 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:

	2019	2018
Federal expenditures per the Schedule of Expenditures of Federal Awards	$ 2,934,713	$ 2,692,657
Accounts receivable recognized on the Schedule of Expenditures and Federal Awards and not on the financial statements	-	(26)
Revenue from federal sources - per financial statements	2,934,713	2,692,631
Other government grants and contracts revenue sources	1,379,444	2,306,206
Total government grants and contracts - per financial statements	$ 4,314,157	$ 4,998,837

NOTE 6 – PROPERTY AND EQUIPMENT, net

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

	2019	2018
Hookupu Center	$ 5,248,995	$ -
Furniture, fixtures, and equipment	354,192	96,569
Vehicles	148,666	131,836
Machinery and equipment	6,320	6,320
	5,758,173	234,725
Less accumulated depreciation	(303,094)	(147,271)
	5,455,079	87,454
Construction-in-progress	-	1,918,375
	$ 5,455,079	$ 2,005,829

NOTE 7 – NET ASSETS WITH DONOR RESTRICTIONS

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

	2019	2018
Specific purpose:		
Ho'ahu Capital Campaign	$ 14,359	$ 1,084,289
Various programs	228,866	39,275
	$ 243,225	$ 1,123,564

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 Kupu programming and public benefit and serve as the model of sustainability, environmental restoration, and community and cultural collaboration. The project was intended to provide a center for appreciation and respect for the past, coupled with the renewal and vitality for Hawaii's future and was substantially completed in 2019.

NOTE 8 – 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, 2019 and 2018.

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 $12,243. Rent expense under this lease was $89,670 for both of the years ended September 30, 2019 and 2018.

Future minimum lease commitments

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

September 30,	Amount
2020	$ 105,278
2021	108,436
2022	111,689
2023	115,040
2024	118,491
	$ 558,934

NOTE 9 – LINE OF CREDIT

The Organization has a revolving line of credit with a financial institution, which allows the Organization to draw up to $1,500,000, at a floating rate equal to the institution's base rate plus 0.5% maturing on June 1, 2020.

NOTE 10 – 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 $25,081 and $26,419 for reimbursement of costs incurred on Pono Pacific's behalf for the years ended September 30, 2019 and 2018, respectively. An outstanding balance related to these costs amounted to $4,960 and $11,613 as of September 30, 2019 and 2018, respectively.

In addition, in fiscal year 2017, Kupu was subcontracted by Pono Pacific to assist with one of their internship programs. The contract ended in fiscal year 2018. Revenues earned related to the contract were $0 and $23,724 for the years ending September 30, 2019 and 2018, respectively. A receivable balance outstanding related to the contract amounted to $0 as of September 30, 2019 and 2018.

NOTE 11 – 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 $1,777,355 and $1,850,350 for the years ended September 30, 2019 and 2018, respectively. Receivables under this grant were $58,504 and $341,209 as of September 30, 2019 and 2018, respectively.

NOTE 12 – 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, 2019 and 2018, contributions by the Organization under this plan were $22,505 and $21,800, respectively.

NOTE 13 – SUBSEQUENT EVENTS

The Organization evaluated its September 30, 2019 and 2018, financial statements for subsequent events through January 31, 2020, 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, 2019

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	94.006	16ACHHI001	$ 1,718,851	
AmeriCorps	94.006	16ACHHI001	58,504	
Total AmeriCorps			1,777,355	*
Passed through the Hawaii Commission for National and Community Services:				
VISTA Support and Training	94.013	17VSPHI003	4,479	
Total Corporation for National and Community Service			1,781,834	
Department of Agriculture, Forest Service				
Direct Programs:				
Forestry Research	None	14-PA-11272136-059	47,914	
Pacific Southwest Region Lake, Tahoe Basin Management Unit Blue Waters Exchange Program	10.699	17-PA-11051900-032	83,912	
Pacific Rim Resiliency Project	10.664	16-DG-110522021-228	1,670	
Hawaii Experimental Tropical Forest Program	None	18-PA-11272136-065	47,868	
Passed through Corp Network:				
USFS Resource Assistant Program	10.699	17-PA-11132424197	11,143	
Urban Forest Inventory of Honolulu - Youth Pilot	10.699	18-PA-11052021-203	29,560	
Passed through National Fish and Wildlife Foundation:				
Protecting Hawaii Island's Threatened Dry Forest at Puuwaawaa Forest Reserve	10.683	17-CA-11132422-343	27,132	
Total Department of Agriculture, Forest Service			249,199	
Department of the Interior				
Direct programs:				
Conservation Activities by Youth Service Organizations	15.931	P15AC00049	323,953	
Conservation Activities by Youth National Wildlife Refuge Systems	15.676	F18AC00994 Mod. 001	371,400	
Total Conservation Activities by Youth Cluster			695,353	*
Conservation Activities by Youth Research & Data Collection at Hakalau National Wildlife Refuge	15.808	G18AC00134	18,500	
Total Department of the Interior			713,853	
Balance carried forward to next page			$ 2,744,886	

KUPU

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)

For the year ended September 30, 2019

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Agency or Pass-Through Identifying Number	Total Federal Expenditures
Balance carried forward from previous page			$ 2,744,886
Department of Commerce			
Direct programs:			
National Oceanic and Atmospheric Administration Mission-Related Education Awards	11.008	NA17NMF0080306	24,879
National Oceanic and Atmospheric Administration Office for Coastal Management	11.473	NA18NOS4730189	150,000
National Oceanic and Atmospheric Administration Unallied Industry Projects	11.452	NA18NMF4520228	14,948
Total Department of Commerce			189,827
Total Expenditures of Federal Awards			$ 2,934,713

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

September 30, 2019

NOTE 1 – BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards (the "Schedule") includes the federal award activity of Kupu (the "Organization") under programs of the federal government for the year ended September 30, 2019. 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.

<u>Basis of accounting</u>

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

<u>Cost principles</u>

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.

<u>Indirect cost rate</u>

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 programs, which comprise 84% 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

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 Financial Statements Performed in Accordance with Government Auditing Standards

To Management and 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, 2019, 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 January 31, 2020.

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

January 31, 2020

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:

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, 2019. 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, 2019.

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

January 31, 2020

Schedule of Findings and Questioned Costs

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, 15.931	Conservation Activities by Youth Cluster

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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