

Financial Statements and Report of Independent  
Certified Public Accountants

Kupu

September 30, 2015 and 2014

# Executive Summary

Aloha Kākou,

Since 2007, Kupu has dedicated its work to growing the minds and hearts of our youth by connecting them with the land and culture in which we live. Today, our mission remains the same: to educate and mentor youth, positively impact our local communities, and create a more sustainable, pono Hawai'i.

Growth transcends throughout Kupu, and over the past fiscal year, we're proud to share that we continued to grow and expand our programs in order to create a broader and deeper impact across the state. In fact, during this past fiscal year alone, Kupu partnered with over 150 organizations and environmental sites, to help protect our precious natural and cultural resources while providing meaningful hands-on opportunities to youth and young adults. In 2015, Kupu supported 323 youth, helped 13 individuals receive their high school diploma equivalency, and leveraged close to 6,000 volunteers. Altogether, Kupu's programs had an economic benefit of \$8 million.

On behalf of Kupu, we are deeply grateful to our partners, donors, supporters, board of directors, staff, volunteers, alumni and community who truly believe in our organization and make our work possible. Mahalo for your continued support.

Aloha,



John Leong,  
Chief Executive Officer

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## Report of Independent Certified Public Accountants

To the Board of Directors,  
Kupu:

### Report on the Financial Statements

We have audited the accompanying financial statements of Kupu (the "Organization"), which comprise the statement of financial position as of September 30, 2015 and 2014, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

*Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kupu as of September 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Other Matter – Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations 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 April 7, 2016, 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*

April 7, 2016

Kupu

STATEMENTS OF FINANCIAL POSITION

As of September 30,

ASSETS	<u>2015</u>	<u>2014</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 1,714,796	\$ 1,288,663
Accounts receivable, net	710,390	289,908
Current portion of pledges receivable	149,867	1,600
Prepaid expenses and other assets	<u>33,651</u>	<u>14,684</u>
Total current assets	2,608,704	1,594,855
PROPERTY AND EQUIPMENT, net	410,969	22,652
RESTRICTED CERTIFICATE OF DEPOSIT	200,501	200,000
PLEDGES RECEIVABLE	<u>154,500</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 3,374,674</u>	<u>\$ 1,817,507</u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 16,461	\$ 4,485
Accrued expenses	229,062	133,002
Deferred revenue	774,178	608,200
Deferred rent	<u>62,372</u>	<u>57,226</u>
Total current liabilities	1,082,073	802,913
Total liabilities	<u>1,082,073</u>	<u>802,913</u>
 <b>NET ASSETS</b>		
Unrestricted net assets	1,746,336	875,786
Temporarily restricted net assets	<u>546,265</u>	<u>138,808</u>
Total net assets	<u>2,292,601</u>	<u>1,014,594</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,374,674</u>	<u>\$ 1,817,507</u>

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

Kupu

STATEMENT OF ACTIVITIES

For the year ended September 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and support:				
Government grants and contracts	\$ 2,465,519	\$ -	\$ -	\$ 2,465,519
Private grants and contracts	1,345,653	-	-	1,345,653
Program service fees	1,023,911	-	-	1,023,911
Donations and contributions	145,925	534,857	-	680,782
Other revenue and support	1,407	-	-	1,407
Net assets released from restrictions	<u>127,400</u>	<u>(127,400)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>5,109,815</u>	<u>407,457</u>	<u>-</u>	<u>5,517,272</u>
Expenses:				
Program services	3,399,569	-	-	3,399,569
Management and general	710,195	-	-	710,195
Fundraising	<u>129,501</u>	<u>-</u>	<u>-</u>	<u>129,501</u>
Total expenses	<u>4,239,265</u>	<u>-</u>	<u>-</u>	<u>4,239,265</u>
Change in net assets	870,550	407,457	-	1,278,007
Net assets at the beginning of the year	<u>875,786</u>	<u>138,808</u>	<u>-</u>	<u>1,014,594</u>
Net assets at the end of the year	<u>\$ 1,746,336</u>	<u>\$ 546,265</u>	<u>\$ -</u>	<u>\$ 2,292,601</u>

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

## Kupu

## STATEMENT OF ACTIVITIES

For the year ended September 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and support:				
Government grants and contracts	\$ 1,418,034	\$ -	\$ -	\$ 1,418,034
Private grants and contracts	949,420	-	-	949,420
Program service fees	944,223	-	-	944,223
Donations and contributions	111,906	150,240	-	262,146
Other revenue and support	3,978	-	-	3,978
Net assets released from restrictions	<u>57,874</u>	<u>(57,874)</u>	<u>-</u>	<u>-</u>
Total revenue and support	<u>3,485,435</u>	<u>92,366</u>	<u>-</u>	<u>3,577,801</u>
Expenses:				
Program services	2,720,376	-	-	2,720,376
Management and general	468,779	-	-	468,779
Fundraising	<u>70,593</u>	<u>-</u>	<u>-</u>	<u>70,593</u>
Total expenses	<u>3,259,748</u>	<u>-</u>	<u>-</u>	<u>3,259,748</u>
Change in net assets	225,687	92,366	-	318,053
Net assets at the beginning of the year	<u>650,099</u>	<u>46,442</u>	<u>-</u>	<u>696,541</u>
Net assets at the end of the year	<u>\$ 875,786</u>	<u>\$ 138,808</u>	<u>\$ -</u>	<u>\$ 1,014,594</u>

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



Kupu

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended September 30, 2015

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 2,884,532	\$ 457,256	\$ 63,658	\$ 3,405,446
Occupancy and utilities	145,686	108,710	177	254,573
Travel expenses	159,457	1,826	20	161,303
Contracted services	9,584	60,078	60,427	130,089
Training expenses	100,147	2,163	725	103,035
Supplies and equipment	77,538	18,217	964	96,719
Marketing	1,635	22,438	2,011	26,084
Depreciation	3,622	10,556	-	14,178
Insurance expenses	2,382	10,017	-	12,399
Recruiting	6,127	681	25	6,833
Other expenses	8,859	18,253	1,494	28,606
Total expenses	<u>\$ 3,399,569</u>	<u>\$ 710,195</u>	<u>\$ 129,501</u>	<u>\$ 4,239,265</u>

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

Kupu

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended September 30, 2014

	Program Services	Management and General	Fundraising	Total
Salaries and wages	\$ 2,340,218	\$ 302,302	\$ 24,732	\$ 2,667,252
Occupancy and utilities	94,301	78,014	-	172,315
Travel expenses	102,455	51	24	102,530
Contracted services	19,274	40,904	44,825	105,003
Training expenses	90,852	4,160	-	95,012
Supplies and equipment	59,894	8,213	768	68,875
Marketing	94	914	-	1,008
Depreciation	761	14,752	-	15,513
Insurance expenses	2,412	10,343	-	12,755
Recruiting	4,703	-	-	4,703
Other expenses	5,412	9,126	244	14,782
Total expenses	<u>\$ 2,720,376</u>	<u>\$ 468,779</u>	<u>\$ 70,593</u>	<u>\$ 3,259,748</u>

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

## Kupu

## STATEMENTS OF CASH FLOWS

For the years ended September 30,

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,278,007	\$ 318,053
Adjustments to reconcile the change in net assets to net cash provided by operating activities:		
Depreciation	14,178	15,513
Provision (recovery) for the allowance of doubtful accounts	5	(566)
Loss on sale of property and equipment	-	251
Changes in assets and liabilities:		
Accounts receivable	(420,487)	(119,268)
Prepaid expenses and other assets	(18,967)	3,042
Restricted certificate of deposit	(501)	(200,000)
Pledges receivable	(302,767)	3,966
Deposits	-	3,621
Accounts payable	11,976	(3,433)
Accrued expenses	96,060	19,686
Deferred revenue	165,978	42,571
Deferred rent	5,146	57,226
Net cash provided by operating activities	<u>828,628</u>	<u>140,662</u>
Cash flows from investing activities:		
Purchases of property and equipment	<u>(402,495)</u>	<u>(11,019)</u>
Net cash used in investing activities	<u>(402,495)</u>	<u>(11,019)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	426,133	129,643
Cash and cash equivalents at the beginning of the year	<u>1,288,663</u>	<u>1,159,020</u>
Cash and cash equivalents at the end of the year	<u>\$ 1,714,796</u>	<u>\$ 1,288,663</u>

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

## Kupu

### NOTES TO THE FINANCIAL STATEMENTS

September 30, 2015 and 2014

#### NOTE 1 – ORGANIZATION BACKGROUND

Kupu (the “Organization”) is a Hawaii nonprofit corporation chartered in January 2007 to provide a home organization for the Hawaii Youth Conservation Corps (“HYCC”), which was originally developed in 1995 by the State of Hawaii, Department of Land and Natural Resources. Kupu was formed to help HYCC grow and become a self-sustaining organization. Today, there are four programs: HYCC, RISE, E2U, and CommunityU. These programs are training young adults in the emerging “green” job sector to help make Hawaii more self-sustaining, while engaging these youth members in relevant and important community service throughout the State. Program focuses include conservation, renewable energy, sustainable agriculture, energy audits, and Hawaiian cultural conservation and agriculture activities.

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

#### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

##### Basis of accounting and financial statement presentation

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

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

##### Use of estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO THE FINANCIAL STATEMENTS (continued)

September 30, 2015 and 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

The Organization considers all highly liquid investments purchased with original 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, 2015 and 2014, there were \$1,320,262 and \$913,311, respectively, in uninsured bank balances.

Accounts receivable, net

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

The Organization provides an allowance for doubtful collections, which is based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Normal receivables are unsecured, do not accrue interest, and are due upon receipt of the invoice. Delinquent receivables are written off based on individual credit evaluation and specific circumstances. Based upon this analysis, the Organization did not record an allowance as of September 30, 2015 and 2014.

Restricted certificate of deposit

The Organization maintains a \$200,000 certificate of deposit at a financial institution in lieu of a security deposit for the office space maintained at 677 Ala Moana Blvd. The certificate of deposit is assigned to the landlord. After twelve months past the commencement date of the lease, the certificate can be reduced to \$40,000.

Pledges receivable

The Organization recognizes unconditional promises to give as pledges receivable when it is received. Based on the Organization's collection experience, the Organization has not recorded a reserve as of September 30, 2015 and 2014.

Property and equipment, net

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

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

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

September 30, 2015 and 2014

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 \$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.

Restricted and unrestricted revenues and support

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

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

Recognition of governmental grant revenue

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

Donated property and equipment

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

NOTES TO THE FINANCIAL STATEMENTS (continued)

September 30, 2015 and 2014

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Donated services and facilities

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

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

Income taxes

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

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

The Organization files information returns in the United States ("U.S.") Federal jurisdiction. The Organization's evaluation of tax positions was performed for the fiscal years September 30, 2013 through 2015, for the U.S. Federal jurisdiction, the tax years which remain subject to examination by the Internal Revenue Service as of September 30, 2015.

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, 2015 and 2014.

Functional classification of expenses

In accordance with U.S. GAAP, expenses are categorized principally in terms of the Organization's individual program activities or functions.

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

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NOTES TO THE FINANCIAL STATEMENTS (continued)

September 30, 2015 and 2014

NOTE 3 – PLEDGES RECEIVABLE

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

	<u>2015</u>	<u>2014</u>
Pledges receivable due in less than one year	\$ 149,867	\$ 1,600
Pledges receivable due in one to five years	<u>154,500</u>	<u>-</u>
Total pledges receivable	<u>\$ 304,367</u>	<u>\$ 1,600</u>

NOTE 4 – PROPERTY AND EQUIPMENT, net

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

	<u>2015</u>	<u>2014</u>
Vehicles	\$ 95,953	\$ 50,680
Furniture, fixtures, and equipment	31,515	25,260
Machinery and equipment	<u>3,561</u>	<u>2,514</u>
	131,029	78,454
Less accumulated depreciation	<u>(71,134)</u>	<u>(56,957)</u>
	59,895	21,497
Construction-in-progress	<u>351,074</u>	<u>1,155</u>
	<u>\$ 410,969</u>	<u>\$ 22,652</u>

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2015</u>	<u>2014</u>
Temporarily restricted for:		
Ho 'ahu Capital Campaign	\$ 486,241	\$ 122,952
Various programs	<u>60,024</u>	<u>15,856</u>
	<u>\$ 546,265</u>	<u>\$ 138,808</u>



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NOTES TO THE FINANCIAL STATEMENTS (continued)

September 30, 2015 and 2014

NOTE 5 – TEMPORARILY RESTRICTED NET ASSETS (continued)

Ho 'ahu Capital Campaign

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

Kupu's long-term vision of the Kewalo Basin Park facility is to create, in the center of the Island of Oahu, a modern day sustainable *kauhale*, or separate buildings, that house different functions and together create an integrated community to expand program impact, equip members, and provide collaborative space for partnerships. Kupu's Kewalo Basin Park facility initiatives are consistent with the master plan for the waterfront being developed in conjunction with the Hawaii Community Development Authority.

NOTE 6 – LEASES

Kewalo Basin Park

The Organization is on a month-to-month lease for an open air facility located at Kewalo Basin Park from the Hawaii Community Development Authority for one dollar per year, which it utilizes as a training center. Donated rent (included in in-kind contributions) was \$96,000 and \$79,997 for the years ended September 30, 2015 and 2014, respectively.

New Hope Diamond Head

The Organization leased office space from New Hope Diamond Head under an operating lease that expired in December 2013 and became a month-to-month agreement through January 2014. Rent expense under this lease was \$0 and \$15,035, for the years ended September 30, 2015 and 2014, respectively.

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. Rent expense under this lease was \$64,216, for the year ended September 30, 2015 and 2014, respectively.

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NOTES TO THE FINANCIAL STATEMENTS (continued)

September 30, 2015 and 2014

NOTE 6 – LEASES (continued)

Maturities

Future minimum rental payments under non-cancellable operating leases are as follows:

<u>Year ended September 30,</u>	<u>Amount</u>
2016	\$ 61,916
2017	63,774
2018	65,687
2019	67,658
2020	69,668
Thereafter	<u>300,293</u>
	<u>\$ 628,996</u>

NOTE 7 – LINE OF CREDIT

On April 12, 2012, the Organization entered into an unsecured line of credit with a financial institution, which allows for the Organization to draw up to \$75,000, at the prime rate plus 1.75% (5% as of September 30, 2014). This line of credit matured on April 30, 2015, and was not renewed. As of September 30, 2014, the outstanding balance of the line of credit was \$0.

On May 6, 2015, the Organization signed an advisement letter regarding an unsecured line of credit with a financial institution, which allows for the Organization to draw up to \$1,500,000, at a floating rate equal to the institution's base rate plus 0.5% (4.375% as of September 30, 2015). All principal and interest outstanding are due twelve months upon the line approval by the financial institution.

NOTE 8 – RELATED PARTY TRANSACTIONS

Pono Pacific Land Management, LLC

Under a joint agreement, Pono Pacific Management, LLC, (a related party through common management) 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.

Due from employees

Due from employees of \$204 and \$721 as of September 30, 2015 and 2014, respectively, are typically repaid within one month and do not accrue interest. Due from employees is presented in accounts receivable in the statements of financial position.

NOTES TO THE FINANCIAL STATEMENTS (continued)

September 30, 2015 and 2014

NOTE 9 – 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 \$1,294,678 and \$1,190,806 for the years ended September 30, 2015 and 2014, respectively. Receivables under this grant were \$195,185 and \$125,131 as of September 30, 2015 and 2014, respectively.

NOTE 10 – RETIREMENT SAVINGS PLAN

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

The Organization provides for matching of 100% of the participants first 4% of contributions. These matching contributions vest over a six-year grading schedule. For the years ended September 30, 2015 and 2014, contributions by the Organization under this plan were \$17,347 and \$14,896, respectively.

NOTE 11 – SUBSEQUENT EVENTS

The Organization evaluated its September 30, 2015 and 2014, financial statements for subsequent events through April 7, 2016, 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, 2015

Program Title	Federal CFDA Number	Agency or Pass-through Number	Federal Expenditures
<u>Corporation for National and Community Service</u>			
Passed through the Hawaii Commission for National and Community Services			
AmeriCorps		13ACHHI001	\$ 1,269,740
AmeriCorps		13ACHHI001	<u>24,938</u>
Total Corporation for National and Community Service	94.006		<u>1,294,678</u> *
<u>Department of Agriculture, Forest Service</u>			
Direct Program:			
Forestry Research	none	14-PA-11272136-059	<u>317,143</u>
Total Department of Agriculture Forest Service			<u>317,143</u> *
<u>Office of Naval Research</u>			
Passed through the Pacific International Center for High Technology Research			
Basic and Applied Scientific Research	12.300	3315-985	<u>153,554</u>
Total Office of Naval Research			<u>153,554</u> *
<u>Department of the Interior National Park Service</u>			
Direct programs:			
Cooperative Research and Training Programs - Resources of the National Park System	15.931	P13AC00132	45,530
Conservation Activities by Youth Service Organizations	15.931	P11AC80334	<u>13,942</u>
Total Department of the Interior National Park Service			<u>59,472</u>
<u>Department of Commerce</u>			
Direct programs:			
National Oceanic and Atmospheric Administration Bay Watershed Education and Training Program	11.473	NA14NOS4730146	22,834
Passed through Hawai'i Community Foundation National Oceanic and Atmospheric Administration Restoration Center	11.463	13HCF-62993	<u>6,039</u>
Total Department of Commerce			<u>28,873</u>
Total Expenditures of Federal Awards			<u>\$ 1,853,720</u>

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The accompanying scheduled of expenditures and federal awards was prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

\* Denotes major programs, which compromise 95% of total expenditures of federal awards.

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



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

To the Board of Directors,  
Kupu:

We have audited the financial statements of Kupu (a nonprofit organization; the "Organization"), which comprise the statement of financial position as of September 30, 2015, 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 April 7, 2016. We conducted our audit 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 the Organization were not audited in accordance with Government Auditing Standards and accordingly this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Organization.

**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*

April 7, 2016



**Independent Auditor's Report on Compliance for  
Each Major Program and on Internal Control  
Over Compliance Required by  
OMB Circular A-133**



**Independent Auditor's Report on Compliance for  
Each Major Program and on Internal Control  
Over Compliance required by  
OMB Circular A-133**

To the Board of Directors,  
Kupu:

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

We have audited Kupu's (the "Organization") compliance with the types of compliance requirements described in the OMB Circular A-133 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, 2015. The Organization's major federal program is 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 the requirements of laws, regulations, contracts, and grants applicable to each of 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 OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 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, 2015.

### **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, we considered the Organization's internal control over compliance with the 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 our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Verity CPAs*

April 7, 2016

## Schedule of Findings and Questioned Costs

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

September 30, 2015

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 section 510(a) of OMB Circular A-133?  Yes  No

Identification of major programs:

<u>CFDA No.</u>	<u>Name of Federal Program or Cluster</u>
94.006	AmeriCorps
None	Forestry Research
12.300	Basic and Applied Scientific Research

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? (OMB Circular A-133, Section 530)  Yes  No

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)

September 30, 2015

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Section 2 - Financial Statement Findings

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None.

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Section 3 - Federal Award Findings and Questioned Costs

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None.

\* The material weakness identified was related to a reclassification of a contract to a grant and was not related to, nor does it impact, our compliance with government grants, private grants, or restricted contributions.