

FINANCIAL AUDIT OF
HO'IKE: KAUAI COMMUNITY TELEVISION, INC.
December 31, 2002

SONODA & ISARA, LLP
Certified Public Accountants

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PART I
FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Board of Directors
Ho'ike: Kauai Community Television, Inc.

We have audited the accompanying statement of financial position of Ho'ike: Kauai Community Television, Inc. (a nonprofit organization) as of December 31, 2002, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Organization as of December 31, 2002, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Honolulu, Hawaii
April 29, 2004

Ho'ike: Kauai Community Television, Inc.
STATEMENT OF FINANCIAL POSITION
December 31, 2002

ASSETS

CURRENT ASSETS

Cash	\$ 192,231
Accounts receivable	27,419
Prepaid expenses	<u>4,815</u>
Total current assets	<u>224,465</u>

PROPERTY AND EQUIPMENT, AT COST

Office furniture and equipment	24,517
Computers	48,621
Production equipment	182,758
Playback and switching equipment	114,598
Teen TV equipment	30,163
Leasehold improvements	<u>34,245</u>
	434,902
Less accumulated depreciation	<u>(339,705)</u>
	<u>95,197</u>
	<u><u>\$ 319,662</u></u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 723
Accrued liabilities	<u>6,217</u>
Total current liabilities	<u>6,940</u>

NET ASSETS

Unrestricted	176,935
Temporarily restricted	135,787
Permanently restricted	<u>-</u>
	<u>312,722</u>
	<u><u>\$ 319,662</u></u>

See accompanying notes and independent auditors' report.

Ho'ike: Kauai Community Television, Inc.
STATEMENT OF ACTIVITIES
Year Ended December 31, 2002

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES AND OTHER SUPPORT				
Access fees	\$ 270,570	\$ 27,000	-	\$ 297,570
Government grants	-	42,342	-	42,342
Contributions	766	-	-	766
Workshop fees	1,136	-	-	1,136
Net sales	1,234	-	-	1,234
Interest	3,989	796	-	4,785
Capital gain	408	-	-	408
Net assets released from restrictions:				
Restrictions satisfied by payments	62,450	(62,450)	-	-
	<u>340,553</u>	<u>7,688</u>	<u>-</u>	<u>348,241</u>
EXPENSES				
Program services				
Education	29,253	-	-	29,253
Government	75,633	-	-	75,633
Public production	81,531	-	-	81,531
Public outreach	59,277	-	-	59,277
Supporting services				
Management and general	<u>126,888</u>	<u>-</u>	<u>-</u>	<u>126,888</u>
	<u>372,582</u>	<u>-</u>	<u>-</u>	<u>372,582</u>
CHANGE IN NET ASSETS	(32,029)	7,688	-	(24,341)
NET ASSETS AT BEGINNING OF YEAR	<u>208,964</u>	<u>128,099</u>	<u>-</u>	<u>337,063</u>
NET ASSETS AT END OF YEAR	<u>\$ 176,935</u>	<u>\$ 135,787</u>	<u>\$ -</u>	<u>\$ 312,722</u>

See accompanying notes and independent auditors' report.

Ho'ike: Kauai Community Television, Inc.
STATEMENT OF CASH FLOWS
Year Ended December 31, 2002

Cash flows from operating activities	
Decrease in net assets	\$ (24,341)
Adjustments to reconcile increase in net assets to net cash used by operating activities:	
Depreciation	36,563
Gain on sale of assets	(408)
Increase in accounts receivable	(24,584)
Increase in prepaid expenses	(2,183)
Decrease in accounts payables	(2,528)
Decrease in accrued liabilities	<u>(513)</u>
Net cash used in operating activities	<u>(17,994)</u>
Cash flows from investing activities	
Purchase of property and equipment	(15,527)
Proceeds from sale of fixed assets	<u>3,498</u>
Net cash used in investing activities	<u>(12,029)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(30,023)
Cash and cash equivalents at beginning of year	<u>222,254</u>
Cash and cash equivalents at end of year	<u><u>\$ 192,231</u></u>

See accompanying notes and independent auditors' report.

Ho'ike: Kauai Community Television, Inc.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended December 31, 2002

	<u>Program Services</u>					<u>Supporting Services</u>	<u>Total Expenses</u>
	<u>Education</u>	<u>Government</u>	<u>Public Production</u>	<u>Public Outreach</u>	<u>Total</u>	<u>Administration</u>	
Salaries and wages	\$ 10,814	\$ 34,636	\$ 39,707	\$ 29,580	\$ 114,737	\$ 66,743	\$ 181,480
Employee benefits	1,568	4,967	5,751	4,182	16,468	9,671	26,139
Payroll taxes	<u>1,013</u>	<u>3,207</u>	<u>3,712</u>	<u>2,700</u>	<u>10,632</u>	<u>6,244</u>	<u>16,876</u>
Total salaries and related expenses	13,395	42,810	49,170	36,462	141,837	82,658	224,495
Administrative	-	-	-	-	-	1,458	1,458
Automobile	49	153	177	129	508	298	806
Depreciation	3,385	8,753	9,436	6,861	28,435	8,128	36,563
Dues and fees	13	42	48	35	138	81	219
Education and training	4,617	-	-	-	4,617	-	4,617
General excise taxes	-	-	-	-	-	404	404
Insurance	580	1,838	2,128	1,548	6,094	3,579	9,673
Licenses and fees	-	-	-	-	-	2,648	2,648
Office supplies and postage	413	1,308	1,514	1,101	4,336	3,075	7,411
Printing and duplication	6	19	22	16	63	37	100
Production supplies	-	-	6,737	-	6,737	749	7,486
Professional fees / outside services	4,108	12,203	1,329	5,961	23,601	2,236	25,837
Rent	1,898	6,010	6,959	5,061	19,928	11,705	31,633
Repairs and maintenance	133	420	1,606	354	2,513	1,932	4,445
Telephone and utilities	656	2,077	2,405	1,749	6,887	4,046	10,933
Travel and entertainment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,854</u>	<u>3,854</u>
Total functional expenses	<u>\$ 29,253</u>	<u>\$ 75,633</u>	<u>\$ 81,531</u>	<u>\$ 59,277</u>	<u>\$ 245,694</u>	<u>\$ 126,888</u>	<u>\$ 372,582</u>

See accompanying notes and independent auditors' report.

Ho'ike: Kauai Community Television, Inc.
NOTES TO FINANCIAL STATEMENTS
December 31, 2002

NOTE A - ORGANIZATION

Ho'ike - Kauai Community Television, Inc. (Organization) was incorporated in the State of Hawaii In April 1992 to promote the creation, production and cablecasting of programs by, for, and about Hawaii.

Services provided include management of three cable channels for public, educational, and governmental programs on the island of Kauai. Other services include training workshops to the general public for television production and use of video equipment.

The Organization is primarily funded by an operating agreement with the Department of Commerce and Consumer Affairs of the State of Hawaii.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

1. **Basis of accounting** - The financial statements of HO'IKE: Kauai Community Television, Inc., have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.
2. **Basis of presentation** - Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.
3. **Use of estimates** - The preparation of financial statements in conformity with generally accepted accounting principles 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.
4. **Promises to give** - Contributions are recognized when the donor makes a promise to give the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in

Ho'ike: Kauai Community Television, Inc.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2002

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

5. **Functional classification of expenses** - The costs of providing the various programs and other activities are summarized on a functional basis in the statement of activities. Accordingly, costs are allocated to the benefited program and supporting services.
6. **Fixed assets and depreciation** - Property and equipment acquisitions are recorded at cost. Donated fixed assets are capitalized and recorded at their fair value at the date of the gift. Depreciation and amortization of property and equipment is provided over the estimated useful lives of the respective assets on a straight-line basis.
7. **Donated goods and services** - Donated materials and equipment are reflected as contributions at their estimated value at date of receipt.
8. **Advertising costs** - The Organization expenses the production costs of advertising the first time the advertising takes place.
9. **Income taxes** - The Organization is a nonprofit organization exempt from taxation under Section 501(c)(3) of the Internal Revenue Code.
10. **Restricted and unrestricted revenues and support** - Contributions received are recorded 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 unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support 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.

Ho'ike: Kauai Community Television, Inc.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2002

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

11. **Statement of Cash Flows** - For purposes of the statement of cash flows, the Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents

NOTE C - DESCRIPTION OF PROGRAMS

Education - The production and airing of educational programs such as adult and high school classes, science, math, cultural and safety and health programs.

Government - The airing of County of Kauai Council meetings, planning council meetings and mayoral press conferences.

Public Production - The airing of productions by private individuals.

Public Outreach - The training of private individuals on the use of video equipment needed to produce programs to be aired.

NOTE D - OPERATING AGREEMENT

The Organization has been engaged by the Department of Commerce and Consumer Affairs, State of Hawaii, to manage access channels facilities, and equipment for the island of Kauai. This agreement provides the Organization with its main revenue source consisting of an annual access fee and capital funds revenue received from three major cable companies on Kauai. The future annual access fee revenue is based on an agreed upon percentage of the cable companies gross revenue and is due December 31 of each year. The Organization recognizes the funds during the calendar year following its due date and shall be held in separate accounts.

NOTE E - EMPLOYEES' PENSION PLAN

The Organization has a noncontributory defined contribution pension plan covering full-time employees who have attained the age of 21 and have completed 2080 hours of service. The plan is a Simplified Employee Pension (SEP) plan which is an

Ho'ike: Kauai Community Television, Inc.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
December 31, 2002

NOTE E - EMPLOYEES' PENSION PLAN (CONTINUED)

Individual Retirement Annuity owned by the employee which may accept an expanded rate of contributions from the employer. The Organization's minimum contributions to the plan is 3% of the employees annual salary during the year to all eligible participants. The Company's pension expense for the twelve months ended December 31, 2002, amounted to approximately \$4,952.

NOTE F - LEASE COMMITMENTS

Ho'ike leases office space located at 4211 Rice Street, Lihue, Hawaii. The lease provides for monthly rents of \$2,272 and expires on February 1, 2003.

Since February, 2003, Ho'ike has leased the office space on a month to month basis.

In 2002, total lease expenses were \$31,634.

NOTE G - TEMPORARILY RESTRICTED NET ASSETS

At December 31, 2002, temporarily restricted net assets consisted of grants and other revenues which are restricted for various purposes by the grantors in the amounts of \$135,787.