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PARTNERS
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April 15, 2005

Mr. Mark E. Recktenwald
Director
Department of Commerce and Consumer Affairs
State of Hawaii
335 Merchant Street
Honolulu, Hawaii 96809

Dear Mr. Recktenwald:

The Department of Commerce and Consumer Affairs (DCCA) engaged Merina & Company, LLP to apply agreed-upon procedures on the four Public, Educational and Governmental (PEG) access organizations in the State of Hawaii.

The purpose of the engagement was to assist you with evaluating the financial, operating, and equipment records, and PEGs compliance with their agreements with DCCA. DCCA has a contractual relationship with PEGs on behalf of the communities served by the PEGs.

Based on our observations while performing the agreed-upon procedures, we have comments and recommendations that may be applied to all of the PEGs. Some of our recommendations apply to all of the PEGs while others of these suggested processes are already used at some of the PEGs. This letter is organized as follows:

- Introduction
- Financial Reporting
- Equipment Inventory
- Operations
- Operational Reporting

Introduction

Goals

DCCA wants to determine if the PEGs are providing the "highest and best use" of the funds they receive from the cable franchisee. DCCA has stated they have no wish to run the PEGs, but simply ensure PEG compliance with their agreements with DCCA which DCCA administers on behalf of the communities served by the PEGs.

Each PEG is an independent organization serving a unique community. Each PEG is run by dedicated employees and oversight is provided by local Boards of Directors with the ultimate goal to provide the best access services possible tailored to the needs of their respective communities.

We found that the PEGs are open to suggestions that can help meet the current and future needs of their individual communities. To assist the PEGs in understanding how successful they are in providing the best service available to the public, the PEGs need to be able to gauge their success in serving the community. These same measures can assist DCCA in evaluating compliance with its contractual relationship with the PEGs.

Planning and reporting are two overarching tools that will accomplish the PEG's missions and DCCA's responsibilities to the communities. Valid metrics can assist each PEG in determining where they have been, plan where they need to go, and evaluate the success of planning. Although each PEG currently does planning, we feel there is room for improvement. Along with improved planning, the reporting currently required by DCCA can be improved and result in opportunities for the PEGs and DCCA to demonstrate how well they are serving their communities.

In this letter we will provide observations and recommendations for improvement in planning and reporting in: 1) financial reporting; 2) equipment inventory; 3) operations; and 4) operational reporting. All stakeholders would benefit from improvement in these areas. Foremost is the opportunity for increasing, through reporting improvements, the capability of DCCA to make meaningful comparisons across the PEGs through standardization of terminology and reporting metrics across these areas, while taking into account the uniqueness of each PEG. Ultimately, financial and operational reporting should provide useful information to DCCA, PEG Management, and Board of Directors, and the communities served without being overly burdensome on the PEGs. It should be recognized that each PEG is as unique as the communities they serve. The information they provide should reflect that.

Financial Reporting

Observation: The financial reporting done by the PEGs varies in both content and format. Standardization of the types and format of financial information reported would significantly increase the usefulness of the reported information. Standardized financial reporting would permit stakeholders to make meaningful comparisons among the Hawaii PEGs as well as to other PEGs in the CATV industry. We are particularly concerned about how and when franchise fee revenues are recorded and how the Net Assets of the PEGs are measured and reported.

Recommendation: DCCA should consider establishing a chart of accounts for use by the PEGs that prescribes the types of financial information that should be captured and reported. DCCA should look to the accounting systems maintained by other PEGs as well as those available from industry trade groups in developing the standardized chart of accounts.

Along with prescribing a standard chart of accounts, we suggest DCCA establish a financial reporting format. This would permit increased comparability among the various PEGs. The reporting format that we recommend is that set out in Statement of Financial Accounting Standard (SFAS) No. 117.

SFAS No. 117 is Generally Accepted Accounting Principles (GAAP) for non-profit companies and requires three financial statements. These are listed below, with an indication in parentheses of the similar and generally more familiar types of statements commonly used by for-profit organizations:

- Statement of Financial Position (cf. Balance Sheet)
- Statement of Activities (cf. Income Statement)
- Statement of Cash Flows

A fourth statement, Statement of Functional Expenses shows expenses by function and natural classifications. Although not required for organizations like the PEGs, it is recommended. Currently one (Hō'ike) PEG presents this statement.

SFAS No. 117 requires reporting of three classes of Net Assets (Permanently Restricted, Temporarily Restricted, and Unrestricted).

- Permanently Restricted - includes resources that must be invested permanently and certain assets such as Fixed Assets (Capital Assets) that must be maintained or used in a certain way. PEG equipment purchased with Capital Funds and unspent Capital Funds fall in this category. DCCA contracts with the PEGs indicate that assets funded by Capital Funds revert to the State of Hawaii if the contract is terminated.

- Temporarily Restricted - includes unexpended resources that are to be used for a particular purpose or at a time in the future. For the PEGs, donated funds and equipment designated for a specific use, such as a grant to fund a time-specified program, fall in this category.

- Unrestricted - includes resources and assets that are not restricted. Donor-restricted contributions where the restrictions have been met during the same

accounting period may also be reported as unrestricted. For the PEGs, funds and equipment not designated for a specific use, fall in this category.

Currently, reporting of Net Assets is not consistent between the PEGS. None of the PEGs use all three Net Asset classifications. A synopsis of the classification and treatment followed by the PEGs includes:

- Permanently Restricted assets includes net Capital Assets, while funds held for future capital expenses are designated Unrestricted (Na Leo `O).

- Temporarily Restricted assets are non-capital funds set aside by the Board of Directors for a specific purpose, while funds held for future capital expenses and Capital Assets are designated Unrestricted (Akakū).

- Temporarily Restricted assets are Capital Funds held for future capital expenses, while Capital Assets are designated Unrestricted (`Ōlelo and Hō´ike).

SFAS No. 117 requires that the Statement of Activities provide organization-wide totals for revenues, expenses, gains, losses, and reclassifications and to provide the change in Net Assets for each of the three classes (Permanently Restricted, Temporarily Restricted, and Unrestricted). Expenses must be reported by functional classification (i.e., program services and support activities). Again, the PEGs Statement of Activities vary from compliant (Hō´ike, `Ōlelo) to non-compliant (Akakū, Na Leo `O).

The financial statement notes vary in adequacy among the PEGs. The most common problem concerned lack of restricted cash disclosure and information about deferred revenues. If not provided on the Statement of Financial Position, the cash note should include an explanation of cash designated for purchase of capital assets. The detail of deferred revenues, operational and capital should also be included in the notes.

Observation: Financial reporting by the four Hawaii PEGs is not readily comparable in many areas. This is due to different interpretations by each of the PEGs regarding Generally Accepted Accounting Principles (GAAP). Revenues are an important metric used in evaluating the financial viability of an organization. Without a common revenue recognition policy, it is very difficult to accurately compare the financial results of the PEGs. Current revenue policies vary among the PEGs. These diverse policies, as disclosed in the audited financial statements for each of the PEGs, are:

- Deferral of revenue recognition until the funds are spent (Na Leo `O).

- Financial statement notes indicates franchise fee revenue is designated deferred to the following fiscal year rather than income in the year payment is received (Akakū).

- No discussion of the revenue recognition policy in the Financial Statement notes (`Ōlelo), and/or no evidence of deferred revenue on the financial statements (Hō'ike).

- Methods of revenue deferral vary from spent (Na Leo `O) vs. received (Akakū).

Recommendation: GAAP typically allow for a choice from a number of alternatives for accounting for and reporting on a variety of transactions. There is, however, consensus on limiting choices on GAAP for transactions that are unique or common to a particular industry. This is particularly true of GAAP related to revenue recognition.

We suggest DCCA establish a revenue recognition policy for Access Fees and Capital Funding. We believe accounting and reporting would be enhanced if those revenues were recorded as Deferred Revenue when received and released to income as the funds are spent. This would permit easy measurement of unspent proceeds and would allow for easy measurement of the extent of compliance with the requirement that the unspent proceeds be deposited in separate bank accounts since the reserved Cash and Deferred Revenue accounts would offset each other.

Observation: The DCCA requires the PEGs to submit their audited financial statements. Occasionally the PEGs receive a management letter from their auditors which describe conditions relating to accounting matters and financial systems which the auditors feel must or should be improved.

Recommendation: We suggest the DCCA require the PEGs to submit copies of those letters when they are received along with a corrective action plan that includes a timetable.

Observation: We noted that there were excessive periods of time between the fiscal year end and when audited and un-audited annual financial statements were issued at two of the PEGS (Na Leo `O and Hō'ike). In one instance, the December 2003 audit had not been completed by November 2004 (Na Leo `O). For one PEG, monthly financial reporting to management lagged by three months (Na Leo `O). It is difficult for management to take appropriate or opportune actions to situations presented in the financial results of an organization without timely financial reporting.

Recommendation: Current DCCA agreements require that audited financial statement be submitted to DCCA within 30 days of acceptance by the Board of Directors. We believe this language should be revised to require submission to the PEG Board of Directors of the audited financial statements within 90 days of fiscal year end and to DCCA within 30 days after Board Acceptance. Individual PEGs should include the 90 day reporting schedule in contracts with the Certified Public Accounting firm engaged to perform the audit. Penalties for late submission by the CPA should also be included in the audit contract. We believe these audit contract requirements will encourage timelier reporting to the PEGs and DCCA.

Current DCCA directives require that year-end un-audited financial statement be submitted to DCCA within 90 days of the fiscal year end. Along with the change for audited financial statement submission, this requirement should be moved up to 45 days. This date is reasonable as the auditor

will also need the year end financial information in order to complete the audit in time. Although not audited, financial reporting should be available to the Board of Directors and Management shortly after year end.

Observation: Upon dissolution of a PEG, assets purchased with either Operating income or Capital income revert to the State of Hawaii. Some PEGs, partly in response to the DCCA's requirement that they plan for self-sufficiency, are developing, or plan to develop, alternative sources of income. There is the potential for controversy if there is no plan in place to contemporaneously identify the source of funds used to acquire capital assets.

Recommendation: We recommend the PEGs be required to establish a means for identifying the source of funds used for equipment purchases.

Observation: Some of the PEGs have substantial sums of money concentrated in financial institutions. These amounts exceed the FDIC insurance limit of $100,000 for class of account (i.e. demand deposits, savings, and Time Certificates of Deposit). A large amount of public money is at risk.

Recommendation: The DCCA should consider requiring the PEGs to either diversify their banking institutions or seek collateralization concessions from the financial institutions.

Observation: We found that the accounting records at two of the PEGs contained differences from the audited financial statements (Hō'ike, Na Leo 'O). Traditionally, after an audit is completed, the auditor provides adjusting journal entries to the client. At Hō'ike, we found that depreciation was not included in the onsite QuickBooks accounts. We were unable to tie the QuickBooks records to the audited financial statements.

Na Leo 'O uses an outside bookkeeper. Net Assets on the financial statements provided by the bookkeeper differed from the audited statements and, beginning in 2001, the IRS Form 990 does not reconcile to the audited statements. These issues raise the question of the accuracy of the monthly financial reporting provided to the PEG managers and its Board of Directors.

Recommendation: We recommend that each PEG verify to DCCA in its cover letter accompanying its audited financial statements that all audit adjustments have been made to all bookkeeping accounting records.

Observation: At Hō'ike, one long-time employee has full time use of a 1990 van. According to the current Managing Director, this personal use has been in place since before the current Managing Director began in mid-2001 and is known to the Board of Directors. The employee provides maintenance and fuel for the van. Currently Hō'ike pays insurance on the vehicle. Due to the age and condition of the van, it has little monetary value. There is a potential liability to Hō'ike if the vehicle is involved in an accident.

Recommendation: We recommend that the title be formally transferred to the employee and Hō'ike cease paying insurance on it.

Observation: While examining the insurance files provided by 'Ōlelo, we noted a pattern of lag in time between the renewal payments of certain polices and the prior year-end date due to the insurance agent negotiating for better terms for 'Ōlelo. The insurance agent has assured 'Ōlelo that there have been no lapses in coverage, but we are concerned that if a claim for a period with a lapse occurred, insurance coverage may not be assured.

Recommendation: We recommend that 'Ōlelo pay for insurance coverage prior to the expiration of annual policies unless a letter assuring continued coverage is provided by the insurance companies rather than the insurance agent.

Equipment Inventory

Observation: An accurate equipment inventory is an important management tool for the PEGs. Although three of the PEGs (`Ōlelo, Hō'ike, Akakū) have single, complete computerized inventory systems, the data held in the current systems are not consistent across the PEGs and do not include all elements we believe are necessary. This information is used for decisions on:

- Equipment replacement and purchasing.
- Adequate insurance coverage.
- Ability to conduct and inventory.
- Ability to report inventory to DCCA.
- Financial reporting - depreciation.

Recommendation: We recommend that DCCA encourage each PEG to implement a single, complete computerized inventory system. Each PEG may include any additional data as they deem as needed. Required elements should include, at a minimum:

- Asset tag number (or equivalent)
- Manufacturer
- Model #
- Purchase Date
- Original purchase price
- Funding source
- Location
- Serial number
- Purchase Vendor
- Insurance status
- Ability to print inventory reports with these fields for inclusion with annual reporting

Observation: In addition to implementing a single, complete computerized inventory system we noted other equipment-related areas for improvement. During our evaluation, we found data input errors and with the practice of entering a total system rather than the individual items that make up the system. Management practices that will assist in accurate inventory management include affixing asset tags to equipment, as currently practiced by three of the PEGS.

Recommendation: Each PEG should develop and implement a plan to get rid of any equipment out of service with no role for future use or parts. For equipment that is obsolete or inoperative; such equipment should be designated appropriately in the inventory system and should not be insured. Periodically, each PEG should test the accuracy of the inventory system.

Operations

Observation: There are a number of PEG actions and activities which should be discussed and ratified by the Board of Directors. These include, for example, approval of operating and capital budgets, acceptance of auditor's reports, approval of amendments to by-laws, etc. During our reading of the minutes of the various Board of Directors meetings we found only sporadic mention of these important actions. The Hawaii Nonprofit Corporation Act (HRS 414D-301) requires minimum record keeping such as resolutions adopted by the board of directors and minutes of all meetings of members and records of all actions approved by the members.

Recommendation: DCCA should consider promulgating a list of actions that must be documented by the various Boards of Directors along with a time line for taking such action when appropriate.

Observation: Only one PEG has a written policy in regard to the Americans with Disabilities Act (ADA) and employment (`Ōlelo). None of the PEGs appear to have a documented policy related to accommodation of users. Two of the PEGs rent their main buildings (Hō'ike and Akakū) and do not have the resources to make needed changes; each moves equipment and furniture as needed, but the public restrooms are not readily accessible. Both of these PEGs hope to buy or build their own buildings and plan to make the facilities fully accessible. The two PEGs that have their own buildings are fully accessible (`Ōlelo and Na Leo `O).

Recommendation: We suggest all the PEGs adopt written plans and policies (both employment and accommodation) that address the ADA. US Department of Justice documents indicate that businesses are not *required to* make an "Undue Hardship" action requiring significant difficulty or expense.

In addition to accessibility, the ADA prohibits discrimination in all employment practices (including applications). Employment discrimination is prohibited against qualified individuals with disabilities. From our discussions and observations of PEG staff and management, all are willing to accommodate all potential users and employees of the PEG facilities and would not knowingly discriminate. We feel it is important that each of the PEGs have written policies regarding this assertion.

Observation: Some of the PEGs have an Employee Manual, some have a Policies and Procedures Manual, and some have both. We believe governance is improved and businesses are run more efficiently when there is appropriate guidance available. The following written policies are in place at the indicated PEGs:

- Cash disbursements (Akakū, `Ōlelo, Hō'ike)
- Investment policies (Akakū, `Ōlelo)
- Travel Policies (Akakū, `Ōlelo, Hō'ike)
- Credit Card Policies (Akakū)
- Reimbursement Policy (`Ōlelo)
- Fiscal Procedures (Hō'ike)

Recommendation: We suggest the PEGs establish best practices through the development of basic operating manuals. These manuals should include, at a minimum, an Employee Manual, a Policies and Procedures Manual, an Accounting Manual, and an Operations Manual.

Observation: Terms of employment are not consistently set out by the PEGS. An employment contract for the executive in charge was used by only one of the PEGs (`Ōlelo). The other PEGs used job descriptions from the mid-1990s. Likewise, we found annual reviews were conducted by only two of the PEGS (Hō'ike, `Ōlelo); while the others did not conduct regular reviews (the last manager reviews were done in 1999 and 2001). Copies of annual reviews were available at only one of the PEGs (Hō'ike).

Recommendation: We recommend that:

- Each PEG should have employment agreements with the executive in charge of each PEG.
- Job descriptions be kept up-to-date and be reviewed by the Board of Directors annually.
- Evaluations occur yearly.

Observation: The PEG organizations all have mission statements, and the equivalent of strategic goals. We generally observed evidence of an effort to integrate annual planning and budgeting to reflect these principles. However, with only limited exceptions, we found a lack of particular objectives expressed in clearly measurable terms, and a lack of action plans with specified tasks, responsible agents, and completion dates.

Recommendation: While detailed action planning may or may not be called for in all circumstances, we feel that an effort to develop measurable criteria of success in achieving goals, quantified where possible, would be an improvement in facilitating the execution of the PEGs' missions.

Observation: The current agreements between the PEGs and DCCA require each PEG to develop a self-sufficiency plan to deal with the contingency that there be a reduction or elimination of fees from the cable operator. During our time on site we found there is general confusion about the definition of self-sufficiency and what constitutes an acceptable self-sufficiency plan. Currently, the requirement is interpreted quite differently by each of the PEGs.

Recommendation: We suggest DCCA continue to encourage the PEGs to develop a realistic self-sufficiency plan. DCCA may also want to consider clarifying the extent to which the self-sufficiency plan must be developed in detail, with specified goals, triggers for implementation, action plans with a projected implementation timetable, and perhaps a discussion of the likelihood of success in continuing to serve the PEG's mission under the plan.

Observation: In the event of a reduction or termination of Access, Facilities and Equipment Fees the PEGs would have to depend on other revenues to remain in operation. This is at the core of the requirement to develop self-sufficiency plans. As is discussed more fully below, replacement funds could potentially come from charging for PEG services, possibly along with diversifying the range of PEG services, along with obtaining grants and pursuing other alternatives.

Recommendation: In order to fully address the issue of self-sufficiency for the PEGs, DCCA should consider discussing with the PEGs the question of the appropriateness of the diversification of PEG services (e.g., cable TV, web-streaming, community radio, community ISP service, etc.). This diversification is also known as the "community media center" concept, which has been adopted nationally by many organizations like the PEGs in an effort to ensure continued relevance and importance in their services to the community within the limits of cost and capability. There are currently differences of opinion among the PEGs and DCCA regarding the appropriate extent of service diversification. To the extent that resolution of these differences can be achieved, it would be useful to consider reflecting the resolution in the agreements with the PEGs.

Observation: PEG centers that need to raise revenue for a part of their budget have a limited number of options under the current regulatory schema. It should be noted that we are aware of no PEG centers nationally that are fully or even largely self-sufficient in the sense of relying on sources other than the local franchising authority or the cable operator.

Recommendation: In addressing the issue of self-sufficiency for the PEGs, DCCA may benefit from consideration of a number of alternative revenue sources that have been developed at other PEGs nationally. These are described and discussed in the following paragraphs.

- "Assisted access" may provide an alternative for the PEGs raise a part of their revenue budget, since it brings programs to the channels and involves groups that cannot find volunteers or afford to commit staff on such specialized, infrequently used skills. Assisted access can be total or just the technical aspects.
- Some centers also charge training and equipment use fees, but have to be careful to avoid prohibitive amounts. It is unlikely that any one would contest the ability of a PEG center to charge for training at the center.
- Grant agencies like to provide funds that will have impact (preferably lasting), will accomplish a specific purpose through a project (e.g., school drop out prevention, AIDS awareness, cultural preservation), or start a project that the recipient will continue. Granting entities like to share the credit for high impact work. Capital grants or operating start-ups are far easier to obtain than sustainable funding for something as general as PEG access. The island centers have capital funds restricted to this use by contract, so their capital needs are met. Realistically, however, the Hawaii PEG centers need the type of funding that most grant providers want to avoid.
- Channel use for paid PEG access center production services is clearly within the PEG mission, provides related business income, and the production would not exist without the PEG center management of the channels. Commercial entities can provide the same production service, but without the PEG center, the service-for-hire in question would not exist. Channel use eliminates the argument of unfair competition. The

same is not true for other for-hire productions such as wedding videos. They exist independent of the channels. Some centers also offer non-channel production for hire. This is a tougher issue on all counts because it does not meet any of the tests above.

- If the PEG center has to begin to raise an increased percentage of its budget from non-cable operator sources, the center could start guiding the public toward for-hire production and away from training and facilitation. As a safeguard, if the PEG center has substantial franchise fee funding, we believe it is permissible to require that the centers promote and provide the "you-do-it" option of training classes and equipment use with either no fees or affordable fees either as the first option or at least as prominently as production for hire. It is important to provide these types of safeguards to avoid loss of mission if DCCA wants to promote self-sufficiency.

Observation: Some of the PEGs, to a greater or lesser extent, are moving in a direction, consistent with the national trend, of providing a variety of media services. These include FM radio, webstreaming, etc. It may soon become important to be able to measure the amount of capital used in these alternative media services as well as the cost to operate the variety of media services provided to the public.

Recommendation: Accordingly, we suggest the DCCA require PEGs joining this trend to develop an accounting model that adequately accounts for the assets and cost required to provide these services. If DCCA is interested in tracking the resources expended on various types of activities in the future (e.g., web streaming, print publishing, FM radio transmission, the development of community ISPs, or other services in addition to cable TV video programming) then appropriate items requiring such tracking should be added to reporting requirements.

Operational Reporting

Observation: DCCA has instructed the PEGs to provide an Executive Summary as a part of the Annual Activity Report. Further, DCCA also provided direction on the contents of the Executive Summary. As a result, there is increased comparability among the State's PEGs within the Executive Summary section of the Annual Activity Report. This enhanced comparability is not available for the rest of the Annual Activity Report due to a lack of direction as to the types, amount, and positioning of the required information. Ultimately reporting should provide useful information to DCCA, PEG Management, their Boards of Directors, and the communities served by each PEG without being burdensome. It must be recognized that each PEG is as unique as the communities they serve.

Recommendation: We suggest the DCCA expand on the improvements represented in the Executive Summary by specifying the content and form in which the contents of the Annual Activity Report is to be reported, and providing a number of crucial definitions of terms. This will result in increased comparability among the PEGs. However, the limit of the value of comparison needs to be recognized, particularly in operational matters, given the differing missions and circumstances of the PEGs. In the interest of meaningful comparability, special attention needs to be paid to definitions of key terms. We recommend the following changes to the required reports:

- Combine Annual Activity Reports and "Year-end Activity Report" required in contracts, as well as the "Executive Summary" now required by DCCA.

- Ask only for annual summaries, making backup material such as quarterly records of programming, facility, and equipment usage, and training available on a "by request" basis. Current activity reports are often unnecessarily detailed and contain quite voluminous detail on programming, training, and facility usage on a quarterly and sometimes monthly or bi-monthly basis, which we believe should be eliminated or provided in sample form only.

- Encourage attention to and concrete coordination of mission statements, strategic plans, annual budgets, and annual operational plans; also consider requiring efforts to create action plans identifying responsible agents, specific tasks, and completion dates for elements of operational plans.

- For reports from the PEGs on programming activity, it imperative to provide standardized definitions for such terms as "original programming," "locally produced programming," "complaint," "user" (does this mean individual person using facilities and equipment, or discrete individual use). Currently, many terms are interpreted differently by each PEG, so that comparison of results for the different PEGs is difficult or impossible.

- In addition to standardized definitions of programming activity, we believe comparability would be strengthened if there were a common set of statistics for types of programming. The seven metrics we recommend are:

    1. Hours of new/first-run locally produced programs
    2. Hours of repeat locally produced programs

3. Hours of new/first-run non-locally produced programs
4. Hours of repeat non-locally produced programs
5. Hours new/first-run state or local government produced programs
6. Hours of repeat state or local government produced programs
7. Hour of total programs (sum of the six above).

- For reporting on facility and equipment usage, it would be useful to specify three distinct reporting categories: a) number of individual persons using the facilities and equipment, regardless of whether they use them once or more than once; b) number of individual uses of the facilities and equipment; and c) number of hours the facilities and equipment are being used. Currently, asked to report on the number of "users" and "new users," different PEGs are reporting different combinations of these figures, so that reasonable comparison is not possible.

- With regard to training figures, it is critical to specify whether reporting should represent the number of actual individuals certified, number of certifications, number of individuals participating in classes, number of class registrations, individuals completing classes, number of class completions, and the like. Since current reporting requirements are not clear in this area, the PEGs report quite different figures, and comparing the four is not possible.

- DCCA may want to compile and transmit a reporting checklist with due dates annually for each PEG. As a PEG provides reports to DCCA, a copy of this checklist, with the appropriate items checked off, should accompany each submission of materials. The check list will serve as a tool for the PEGs and DCCA for tracking submitted reports as will as a reminder of reports still to completed during the year.

Observation: Doing customer satisfaction surveys and various forms of needs assessment can be prohibitively expensive for a PEG organization; yet it is critically important.

Recommendation: We suggest that some form of cooperation in funding needs assessment studies may be arranged among the PEGs, and the participation of the cable company may also be explored. Only `Ōlelo, among the PEGs, has been doing more than occasional surveys for needs assessment and customer satisfaction regarding aspects of their operations.

Observation: As a part of its oversight of the PEGs, the DCCA monitors each PEG's complaint process. Each of the PEGs has a different process to accept, resolve, and document the complaint process.

Recommendation: The process would be improved if the best practices of each PEG's complaint process were synthesized into a common process with common documentation. We recommend DCCA establish the guidelines for a common process and common documentation.

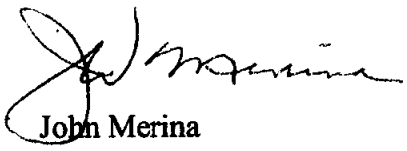
Observation: During our performance of the procedures related to the complaint process, we noticed that neither nature of the resolution of recorded complaints nor the actual time to resolve complaints is readily available.

Recommendation: We believe the complaint process could be improved if this information is made part of it and, therefore we suggest DCCA include this in the common documentation.

Observation: The DCCA requires the PEGs to submit their equipment inventory annually along with the PEG budget. Since this reporting requirement is a month before the fiscal year end, including the equipment inventory prior to year end may present an incomplete picture of PEG Capital Assets.

Recommendation: We suggest that DCCA should change the equipment reporting date to coincide with transmittal of the Annual Activity Report.

Sincerely,



John Merina
Managing Partner
Merina & Company, LLP
Certified Public Accountants and Consultants

Attachment 1

Comparative Common Sized Financial Statements

Statement of Financial Position

	`Ōlelo 2001	Akakū 2001/02	NaLeo`O 2001	Hō'ike 2001	Without NaLeo`O PEG Average 2001	With NaLeo`O PEG Average 2001
Assets						
Current Assets	56%	86%	54%	66%	69%	66%
Capital Assets	76%	48%	34%	121%	82%	70%
Less Depreciation	-32%	-34%	-9%	-87%	-51%	-41%
Total Capital Assets (net)	44%	14%	25%	34%	31%	29%
Due from Permanently Restricted Net Assets	0%	0%	21%	0%	0%	5%
Total Assets	100%	100%	100%	100%	100%	100%
Liabilities and Net Assets						
Current Liabilities	3%	39%	54%	3%	15%	25%
Due to Unrestricted Net Assets	0%	0%	21%	0%	0%	5%
Total Liabilities	3%	39%	75%	3%	15%	30%
Net Assets						
Restricted	0%	0%	25%	0%	0%	6%
Temporarily Restricted	21%	39%	0%	37%	32%	24%
Unrestricted	76%	22%	0%	60%	53%	40%
Total Net Assets	97%	61%	25%	97%	85%	70%
Total Liabilities and Net Assets	100%	100%	100%	100%	100%	100%

Statement of Financial Position

	`Ōlelo 2002	Akakū 2002/03	NaLeo`O 2002	Hō'ike 2002	Without NaLeo`O PEG Average 2002	With NaLeo`O PEG Average 2002
Assets						
Current Assets	58%	87%	52%	70%	72%	67%
Capital Assets	80%	52%	34%	136%	89%	75%
Less Depreciation	-38%	-39%	-9%	-106%	-61%	-48%
Total Capital Assets (net)	42%	13%	25%	30%	28%	27%
Due from Permanently Restricted Net Assets	0%	0%	23%	0%	0%	6%
Total Assets	100%	100%	100%	100%	100%	100%
Liabilities and Net Assets						
Current Liabilities	3%	43%	51%	2%	16%	25%
Due to Unrestricted Net Assets	0%	0%	23%	0%	0%	6%
Total Liabilities	3%	43%	74%	2%	16%	31%
Net Assets						
Restricted	0%	0%	25%	0%	0%	6%
Temporarily Restricted	20%	37%	0%	42%	33%	25%
Unrestricted	77%	20%	1%	56%	51%	38%
Total Net Assets	97%	57%	26%	98%	84%	69%
Total Liabilities and Net Assets	100%	100%	100%	100%	100%	100%

Statement of Financial Position

	`Ōlelo 2003	Akakū 2003/04	NaLeo`O 2003	Hō'ike 2003	Without NaLeo`O PEG Average 2003	With NaLeo`O PEG Average 2003
Assets						
Current Assets	60%	87%	70%	43%	63%	65%
Capital Assets	85%	58%	43%	160%	101%	87%
Less Depreciation	-45%	-45%	-13%	-103%	-64%	-52%
Total Capital Assets (net)	40%	13%	30%	57%	37%	35%
Due from Permanently Restricted Net Assets	0%	0%	0%	0%	0%	0%
Total Assets	100%	100%	100%	100%	100%	100%
Liabilities and Net Assets						
Current Liabilities	3%	47%	51%	3%	18%	26%
Due to Unrestricted Net Assets	0%	0%	0%	0%	0%	0%
Total Liabilities	3%	47%	51%	3%	18%	26%
Net Assets						
Restricted	0%	0%	31%	0%	0%	8%
Temporarily Restricted	21%	37%	0%	21%	26%	20%
Unrestricted	76%	16%	18%	76%	56%	46%
Total Net Assets	97%	53%	49%	97%	82%	74%
Total Liabilities and Net Assets	100%	100%	100%	100%	100%	100%

Statement of Financial Position

Three Year	`Ōlelo Average	Akakū Average	NaLeo`O Average	Hō'ike Average	Without NaLeo`O PEG Average	With NaLeo`O PEG Average
Assets						
Current Assets	58%	86%	58%	60%	68%	66%
Capital Assets	80%	53%	37%	139%	91%	77%
Less Depreciation	-38%	-39%	-10%	-99%	-59%	-47%
Total Capital Assets (net)	42%	14%	27%	40%	32%	30%
Due from Permanently Restricted Net Assets	0%	0%	15%	0%	0%	4%
Total Assets	100%	100%	100%	100%	100%	100%
Liabilities and Net Assets						
Current Liabilities	3%	43%	52%	3%	16%	25%
Due to Unrestricted Net Assets	0%	0%	15%	0%	0%	4%
Total Liabilities	3%	43%	67%	3%	16%	29%
Net Assets						
Restricted	0%	0%	27%	0%	0%	7%
Temporarily Restricted	21%	38%	0%	33%	31%	23%
Unrestricted	76%	19%	6%	64%	53%	41%
Total Net Assets	97%	57%	33%	97%	84%	71%
Total Liabilities and Net Assets	100%	100%	100%	100%	100%	100%

Statement of Activities

	`Ōlelo 2001	Akakū 2001/02	NaLeo`O 2001	Hō'ike 2001	Without Na Leo `O PEG Average 2001	With Na Leo `O PEG Average 2001
Revenues						
Operating						
Franchise Fees	63%	62%	32%	66%	64%	56%
Capital Fund Fees	16%	12%	59%	10%	13%	24%
Other Income	0%	22%	1%	21%	14%	11%
Total Operating	79%	96%	92%	97%	91%	91%
Non-operating	21%	4%	8%	3%	9%	9%
Total Revenues	100%	100%	100%	100%	100%	100%
Expenses						
Program Services	47%	53%	26%	50%	50%	44%
Managing & General	28%	33%	6%	25%	29%	23%
Depreciation	15%	11%	1%	8%	11%	9%
Total Expenses	90%	97%	33%	83%	90%	76%
Change in Net Assets	10%	3%	67%	17%	10%	24%

	`Ōlelo 2002	Akakū 2002/03	NaLeo`O 2002	Hō'ike 2002	Without Na Leo `O PEG Average 2002	With Na Leo `O PEG Average 2002
Revenues						
Operating						
Franchise Fees	68%	62%	65%	77%	69%	68%
Capital Fund Fees	9%	11%	28%	8%	9%	14%
Other Income	0%	25%	1%	14%	13%	10%
Total Operating	77%	98%	94%	99%	91%	92%
Non-operating	23%	2%	6%	1%	9%	8%
Total Revenues	100%	100%	100%	100%	100%	100%
Expenses						
Program Services	55%	52%	49%	62%	56%	55%
Managing & General	28%	39%	17%	35%	34%	30%
Depreciation	15%	9%	10%	10%	11%	11%
Total Expenses	98%	100%	76%	107%	101%	96%
Change in Net Assets	2%	0%	24%	-7%	-1%	4%

Statement of Activities

	`Ōlelo 2003	Akakū 2003/04	NaLeo`O 2003	Hō´ike 2003	Without Na Leo `O PEG Average 2003	With Na Leo `O PEG Average 2003
Revenues						
Operating						
Franchise Fees	74%	65%	85%	71%	70%	74%
Capital Fund Fees	10%	11%	11%	19%	13%	13%
Other Income	0%	22%	1%	9%	11%	8%
Total Operating	84%	98%	97%	99%	94%	95%
Non-operating	16%	2%	3%	1%	6%	5%
Total Revenues	100%	100%	100%	100%	100%	100%
Expenses						
Program Services	59%	56%	NA	48%	54%	NA
Managing & General	34%	35%	NA	32%	34%	NA
Depreciation	17%	9%	11%	9%	12%	12%
Total Expenses	110%	100%	83%	89%	100%	96%
Change in Net Assets	-10%	0%	17%	11%	0%	4%

Note: Since Functional expenses are not reported for Na Leo `O in 2003, the PEG average with Na Leo `O for 2003 expenses do not total.

Three Year	`Ōlelo Average	Akakū Average	NaLeo`O Average	Hō´ike Average	Without Na Leo `O PEG Average	With Na Leo `O PEG Average
Revenues						
Operating						
Franchise Fees	68%	63%	60%	71%	67%	66%
Capital Fund Fees	12%	11%	33%	12%	12%	17%
Other Income	0%	23%	1%	15%	13%	10%
Total Operating	80%	97%	94%	98%	92%	93%
Non-operating	20%	3%	6%	2%	8%	7%
Total Revenues	100%	100%	100%	100%	100%	100%
Expenses						
Program Services	54%	54%	38%	53%	54%	50%
Managing & General	30%	36%	11%	31%	32%	27%
Depreciation	16%	10%	7%	9%	11%	11%
Total Expenses	100%	100%	56%	93%	97%	87%
Change in Net Assets	1%	1%	36%	7%	3%	13%

Note: Since 2003 not available, Na Leo `O averages are only for 2001 and 2002 for Program and M&G services. For individual PEG three year averages in change in Net Assets may not equal Revenues less Expenses.

Attachment 2

Revenues and Expenses Per Subscriber

	Per Avg. Number of Subscribers				Without Na Leo 'O Average	With NaLeo 'O Average
	'Ōlelo 2001	Akakū 2001/02	NaLeo'O 2001	Hō'ike 2001	2001	2001
Avg. No. Subscribers	263,926	48,373	35,705	18,563		
Revenues						
Operating						
Franchise Fees	$ 12.73	$ 11.76	$ 10.88	$ 14.65	$ 13.05	$ 12.51
Capital Fund Fees	3.23	2.27	20.05	2.14	2.55	6.92
Other Income	0.45	4.28	-	4.55	3.09	2.32
Total Operating	16.41	18.31	30.93	21.34	18.69	21.75
Non-operating	3.92	0.72	2.88	0.74	1.79	2.07
Total Revenues	20.33	19.03	33.81	22.08	20.48	23.82
Expenses						
Program Services	9.65	12.16	9.09	12.68	11.50	10.90
Managing & General	8.72	6.30	2.03	5.64	6.89	5.67
Total Expenses	18.37	18.46	11.12	18.32	18.38	16.57
Change in Net Assets	$ 1.96	$ 0.57	$ 22.69	$ 3.76	$ 2.10	$ 7.25

	Per Avg. Number of Subscribers				Without Na Leo 'O Average	With NaLeo 'O Average
	'Ōlelo 2002	Akakū 2002/03	NaLeo'O 2002	Hō'ike 2002	2002	2002
Avg. No. Subscribers	267,276	49,010	37,089	19,852		
Revenues						
Operating						
Franchise Fees	$ 13.95	$ 12.42	$ 10.17	$ 13.63	$ 13.33	$ 12.54
Capital Fund Fees	1.80	2.24	4.31	1.36	1.80	2.43
Other Income	0.98	4.97	-	2.46	2.80	2.10
Total Operating	16.72	19.63	14.48	17.45	17.93	17.07
Non-operating	3.65	0.31	1.03	0.26	1.41	1.31
Total Revenues	20.37	19.94	15.51	17.71	19.34	18.38
Expenses						
Program Services	11.20	13.28	8.96	12.38	12.29	11.45
Managing & General	8.75	8.42	2.81	6.48	7.88	6.62
Total Expenses	19.95	21.70	11.77	18.86	20.17	18.07
Change in Net Assets	$ 0.42	$ (1.76)	$ 3.74	$ (1.15)	$ (0.83)	$ 0.32

	Per Avg. Number of Subscribers				Without Na Leo `O Average 2003	With NaLeo `O Average 2003
	`Ōlelo 2003	Akakū 2003/04	NaLeo`O 2003	Hō´ike 2003		
Avg. No. Subscribers	272,049	49,809	37,831	21,058		
Revenues						
Operating						
Franchise Fees	$ 13.71	$ 13.23	$ 15.27	$ 13.50	$ 13.48	$ 13.93
Capital Fund Fees	1.90	2.21	1.91	3.56	2.56	2.40
Other Income	0.25	4.75	-	1.82	2.27	1.71
Total Operating	15.87	20.19	17.18	18.88	18.31	18.04
Non-operating	2.65	0.31	0.74	0.13	1.03	0.96
Total Revenues	18.52	20.50	17.92	19.01	19.34	19.00
Expenses						
Program Services	10.92	14.40	NA	10.70	12.01	NA
Managing & General	9.36	7.75	NA	6.34	7.82	NA
Total Expenses	20.28	22.15	12.61	17.04	19.82	18.02
Change in Net Assets	$ (1.76)	$ (1.65)	$ 5.31	$ 1.97	$ (0.48)	$ 0.98

Note: Since Functional Expenses are not reported for Na Leo `O in 2003, the averages for PEG Expenses do not total.

	Per Avg. Number of Subscribers				Without Na Leo `O Average PEG	With NaLeo `O Average PEG
Average for	`Ōlelo 3 Years	Akakū 3 Years	NaLeo`O 3 Years	Hō´ike 3 Years		
Avg. No. Subscribers	267,750	49,064	36,875	19,824		
Revenues						
Operating						
Franchise Fees	$ 13.46	$ 12.47	$ 12.11	$ 13.93	$ 13.29	$ 12.99
Capital Fund Fees	2.31	2.24	8.75	2.36	2.30	3.92
Other Income	0.56	4.66	-	2.94	2.72	2.04
Total Operating	16.33	19.37	20.86	19.23	18.31	18.95
Non-operating	3.41	0.45	1.55	0.38	1.41	1.44
Total Revenues	19.74	19.82	22.41	19.61	19.72	20.39
Expenses						
Program Services	10.59	13.28	9.03	11.92	11.93	NA
Managing & General	8.94	7.49	2.42	6.16	7.53	NA
Total Expenses	19.53	20.77	11.83	18.08	19.46	17.55
Change in Net Assets	$ 0.21	$ (0.95)	$ 10.58	$ 1.53	$ 0.26	$ 2.84

Note: For three year average, since Functional Expenses are not reported for Na Leo `O in 2003, the PEG average with Na Leo `O for Expenses do not total and Na Leo `O Expenses do not total.

Attachment 3

Comparative Travel and Board Expenses

	Travel and Board of Director Expenses			
	`Ōlelo	Akakū	Hō'ike	Na Leo `O
2001	$ 14,051	$ 31,085	$ 8,008	$ 2,652
2002	24,823	26,170	10,570	2,836
2003	31,489	24,147	6,823	5,599
Total	$ 70,363	$ 81,402	$ 25,401	$ 11,087

Attachment 4

Salary and Benefit Expenses

Salary and Benefits by Category

	`Ōlelo 2001	Akakū 2001/02	Hō'ike 2001	Na Leo `O 2001
Salary				
Management	$ 240,228	$ 209,407	$ 60,818	$ 70,607
Administrative	111,633	26,244	16,800	19,215
Operational	1,007,223	207,754	83,976	115,350
Total Salary	1,359,084	443,405	161,594	205,172
Benefits				
Management	27,070	26,032	7,341	4,001
Administrative	14,354	1,325	2,314	4,536
Operational	140,660	20,405	10,996	10,274
Total Benefits	182,084	47,762	20,651	18,811
Total Salary and Benefits	$ 1,541,168	$ 491,167	$ 182,245	$ 223,983

Salary and Benefits by Category

	`Ōlelo 2002	Akakū 2002/03	Hō'ike 2002	Na Leo `O 2002
Salary				
Management	$ 236,212	$ 225,261	$ 74,816	$ 73,852
Administrative	109,657	28,815	18,192	25,982
Operational	1,001,680	275,478	97,228	117,278
Total Salary	1,347,549	529,554	190,236	217,112
Benefits				
Management	30,539	27,175	8,835	8,677
Administrative	16,381	130	2,116	6,777
Operational	162,592	31,802	10,771	16,340
Total Benefits	209,512	59,107	21,722	31,794
Total Salary and Benefits	$ 1,557,061	$ 588,661	$ 211,957	$ 248,906

Salary and Benefits by Category

	`Ōlelo 2003	Akakū 2003/04	Hō'ike 2003	Na Leo `O 2003
Salary				
Management	$ 253,779	$ 254,241	$ 77,764	$ 74,780
Administrative	122,378	30,073	16,567	26,463
Operational	1,100,237	317,588	82,052	120,660
Total Salary	1,476,393	601,902	176,383	221,903
Benefits				
Management	33,630	30,871	10,367	9,175
Administrative	17,883	168	2,181	3,883
Operational	186,420	41,479	10,801	21,489
Total Benefits	237,933	72,518	23,349	34,547
Total Salary and Benefits	$ 1,714,326	$ 674,420	$ 199,732	$ 256,450

Attachment 5

Programming

Programming Hours

Total hours of:	`Ōlelo	Akakū	Hō'ike	Na Leo `O	Average of Hawaii PEGs
Total Programming	43,799	43,920	16,629	70,080	43,607
Locally produced programming	27,807	15,301	7,621	10,994	15,431
Local original programming	3,070	1,942	2,167	9,555	4,184
First run programming	4,260	1,944	7,201	6,619	5,006
Repeat programming	16,305	17,906	9,428	15,153	14,698
Programming submitted but not aired	NA	-	-	-	-

Definitions for programming categories used in reporting vary between the PEGs. The amounts of each type of programming do not necessarily equal total programming. `Ōlelo reports Programming submitted but not aired as NA.