

**INDEPENDENT ACCOUNTANT'S REPORT  
ON APPLYING AGREED-UPON PROCEDURES**

Department of Commerce and Consumer Affairs  
State of Hawaii  
335 Merchant Street 1st Floor  
Honolulu, Hawaii 96813

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CABLE DIVISION  
COMMERCE AND  
CONSUMER AFFAIRS

We have performed the procedures enumerated below, which were agreed to by the Department of Commerce and Consumer Affairs (DCCA), solely to assist you with respect to the financial, operating, and equipment records, and DCCA agreement compliance of **Na Leo 'O Hawai'i, Inc.** (Na Leo 'O) as of December 31, 2003. Na Leo 'O is a Public, Education, and Governmental access facility (PEG). We were assisted by specialists when performing certain operational, equipment, and DCCA agreement compliance related procedures. Na Leo 'O's management is responsible for the PEG's financial, operating, and equipment records. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

Our procedures and findings are as follows:

## **GENERAL PROCEDURES**

**Procedure 1:** Read and review the following in preparation for performance of the procedures:

- a. Agreements between the PEG and DCCA.
- b. Financial statements for the past three years.
- c. Current operating policies and procedures, mission statements, and strategic plan.
- d. Board of Directors' meeting minutes for the past two years.
- e. The most recent Activity Report submitted to DCCA.
- f. Web site.

**Finding 1:** We read and reviewed the following documents in preparation for performance of the procedures:

- a. The 1999 agreement between Na Leo 'O and the DCCA, with the Supplemental Agreements extending the Agreement through June 30th, 2004.
- b. The 2001 and 2002 audited financial statements, and 2003 unaudited financial statements.
- c. Current operating policies and procedures, mission statement, and strategic plan.
- d. Board of Directors' meeting minutes for 2002 and 2003.
- e. Na Leo 'O's most recent Activity Report submitted to DCCA (2003).
- f. This procedure is not applicable because Na Leo 'O does not have a website.

## **FINANCIAL PROCEDURES**

**Procedure 2:** Present an overview of audited, reviewed, and compiled financial statements. Inspect the PEG's financial statements examined by an independent CPA during the past three fiscal years and determine if the financial statements were audited, reviewed, or compiled.

- a. If the financial statements were audited, document the type of opinions.
- b. If a management letter was issued in connection with the audit, obtain a copy and:
  - (1) Inquire if the comments have been addressed.
  - (2) Determine if any of the comments rose to the level of a reportable condition.

**Finding 2:** Auditors can render three basic levels of conclusions about financial statements. These three conclusions are known as levels of assurance. The three levels of assurance are described in the following explanations.

### **Financial Statement Audit**

The purposes of a financial audit is to express an independent unqualified opinion on whether the financial statements are fairly presented, in all material respects and are in conformity with Generally Accepted Accounting Principles (GAAP). A financial statement audit is a systematic process which includes tests of the accounting records and other procedures. Materiality relates to the overall size of the financial operation, and is set at a level that may not detect all errors and fraud. A common misperception of the public is that a financial statement audit will detect all fraud. Financial statement audits are not specifically designed to detect fraud, particularly immaterial or low levels of fraud. An unqualified audit report indicates that in the opinion of the auditor, the financial statements are materially correct.

The accuracy and completeness of the financial statements, including the related footnotes, are the responsibility of the client's management. Management also is responsible for selecting sound accounting principles, and for maintaining an adequate internal control structure. The independent auditor's responsibility is to express an opinion on the financial statements based on their audit work.

### **Reviewed Financial Statements**

A review is service in which some evidence gathering work is performed, but which is lesser in scope than an audit. The primary source of reliance for a CPA in a review engagement is: 1) to perform analytical procedures and ratio testing; 2) make inquires of management; and 3) determine that subsidiary ledgers agree to the general ledger. The independent CPA's report indicates they are not aware of any material modifications that should be made to the

accompanying financial statements and further alerts users that a review is substantially less in scope than an audit. This is also termed negative assurance.

### **Compilation of Financial Statements**

A compilation consists of drafting the financial statements from a client's books and records, without verification or performing any evidence gathering work. There is no assurance in a compilation, and the CPA's report explicitly states no opinion and no assurance, thus taking no responsibility for a report on the fair presentation of accurate financial statements in conformity with GAAP.

Na Leo 'O's financial statements were annually audited.

- a. The audit opinion for 2001 and 2002 was unqualified. The 2003 audit was not completed as of our last site visit in November 2004.
- b. Management letters were not issued in connection with the audits.
  - (1) This procedure is not applicable because management letters were not issued in connection with the audits.
  - (2) This procedure is not applicable because management letters were not issued in connection with the audits.

**Procedure 3:** Present an overview of non-profit financial reporting and provide an explanation of common-size financial statements to accompany PEG common-size financial statements for the past three years. Include a comparison column showing the average amounts for the Hawaii PEGs. Describe the major financial statement categories for the PEG and compare to the Hawaii PEG averages.

**Finding 3:** We prepared an overview of non-profit financial reporting and an explanation of common-size financial statements to accompany the common-size Na Leo 'O financial statements for 2001, 2002, and 2003. The average amounts for the Hawaii PEGs are provided for comparison purposes. Additionally, the major financial statement categories for Na Leo 'O are described and compared to the Hawaii PEG averages below.

Na Leo 'O's 2003 audited financial statements were not available at the date of our last site visit, so we used the financial statements prepared by Na Leo 'O's outside bookkeeper. These statements do not reflect the beginning Net Asset balance per the 2002 audit. When compared to the other Hawaii PEGs, amounts on Na Leo 'O's financial statements, both audited and unaudited, vary between years and from the other PEGs. Due to these differences, Na Leo 'O's financials were not included in the "Average of Hawaii PEGs."

### **Non-profit Financial Reporting**

All four Hawaii PEGs are non-profit organizations, and accordingly have financial statements that differ in certain respects from those used by for-profit companies. Generally Accepted Accounting Principles (GAAP) requires three statements for non-profits. 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 (Balance Sheet)
- Statement of Activities (Income Statement)
- Statement of Cash Flows

Non-profits generally measure success in terms of both financial and non-financial outcomes. Financial measures only tell us how much money is raised and spent, and do not give us a direct measure of how efficiently or effectively the money is translated into mission-based results. Financial results do, however, provide an objective tool to compare similar non-profit organizations, such as the Hawaii PEGs.

### **Common-size Financial Statements**

Common-size statements display financial data not as dollar amounts, but as percentages. These statements provide the user with two key benefits:

- They allow for comparison between companies that are different sizes.
- They can aid in spotting important trends which may otherwise be obscured by the absolute dollar amounts.

A common-sized Statement of Activities (Income Statement) shows all the data as a percentage of the company's total revenues. A common-sized Statement of Financial Position (Balance Sheet) shows all the data as a percentage of the company's total assets. The Statement of Cash Flows is not presented as a common-sized statement.

### **Assets**

Na Leo 'O's assets fall into two categories: Current Assets and Fixed Assets.

Current Assets are composed of cash, investments, and assets, such as accounts receivable, which are expected to be converted to cash within a year. Na Leo 'O's Current Assets are largely cash and investments set aside for current operating needs and future capital equipment. See **Finding 7** for more about Na Leo 'O's cash and investments. As shown in the following table, Na Leo 'O's Current Assets as a percent of total assets have been lower than the Hawaii average over the past three years. For the three year period Na Leo 'O's Current Assets averaged 60% of total assets. The amount for 2003 is relatively high, due to the lack of recognition of a long term asset Due from Permanently Restricted Net Assets in the unaudited statements. Amounts due from Permanently Restricted Net Assets will be discussed in the following Net Assets section.

Fixed Assets are also known as Capital Assets or property, plant, and equipment. Property, plant, and equipment are assets of a durable nature used in the regular operations of the business. These assets consist of physical property such as land, buildings, equipment, and furniture. With the exception of land, these assets are depreciable.

The majority of Na Leo 'O's Fixed Assets are production and related equipment, and its main building in Hilo. See **Finding 9** for more specific detail on Na Leo 'O's Capital Assets. As shown in the following table, Na Leo 'O's Fixed Assets are more than the Hawaii PEG average for the past three years.

Depreciation is an accounting method used to recognize the expense of Fixed Assets over their useful lives. Accumulated depreciation is the sum of past depreciation. Comparison of accumulated depreciation to the total investment in Fixed Assets provides an approximation of how much useful life remains in those assets. On this basis, Na Leo 'O's Fixed Assets have more remaining life than the PEG average. Na Leo 'O constructed a new facility in Hilo during 2001.

#### Liabilities

Liability is the accounting term for debt. Debt expected to be paid within a year is classified as short term. As shown in the following table, Na Leo 'O's total liabilities are higher than what the other Hawaii PEGs have held over the past three years due mostly to the recognition of deferred revenues, a short term liability, by two of the Hawaii PEGs. Na Leo 'O does not recognize deferred revenues. See the discussion on *Revenues* for more on deferred revenues. Amounts due to Unrestricted Net Assets will be discussed in the following Net Assets section.

#### Net Assets

There are three classes of Net Assets (equity) reported by non-profit companies:

- 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 agreement with the PEGs indicate that assets funded by Capital Funds revert to the State of Hawaii if the agreement 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.

The Hawaii PEGs do not all treat capital funds and equipment purchased with capital funds in the same way. Na Leo 'O treats these assets as Permanently Restricted, while the other PEGs treat the capital funds for future capital purchases as Temporarily Restricted and Capital Assets

purchased with capital funds as Unrestricted. Na Leo 'O used non-capital funds to finance building its main facility and set up a receivable and payable between Permanently Restricted and Unrestricted Net Assets to recognize that the building was constructed with Permanently Restricted funds. Na Leo 'O is the only Hawaii PEG to have such an arrangement between its net asset accounts.

Na Leo 'O's total average Net Assets for three years is 33%, lower than the 84% average of Hawaii PEGs reported over the past three years. This difference is due to Na Leo 'O's method of accrual of deferred revenues and recognizing an internal liability to Unrestricted Net Assets.

	<u>Audited 2001</u>	<u>Audited 2002</u>	<u>Not Audited 2003</u>	<u>Average of Hawaii PEGs</u>
<b>Statement of Financial Position</b>				
<b><u>ASSETS:</u></b>				
<b>Total Current Assets</b>	<u>54%</u>	<u>52%</u>	<u>70%</u>	<u>68%</u>
<b>Capital Assets</b>				
Total Capital Assets	34%	34%	43%	91%
Less: Accumulated Depreciation	<u>-9%</u>	<u>-9%</u>	<u>-13%</u>	<u>-59%</u>
Total Capital Assets (net)	25%	25%	30%	32%
Due from Permanently Restricted Net Assets	<u>21%</u>	<u>23%</u>	<u>0%</u>	<u>0%</u>
<b>TOTAL ASSETS</b>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
<b><u>LIABILITIES AND NET ASSETS:</u></b>				
<b>Liabilities</b>				
Current Liabilities	54%	51%	51%	16%
Due to Unrestricted Net Assets	<u>21%</u>	<u>23%</u>	<u>0%</u>	<u>0%</u>
Total Liabilities	<u>75%</u>	<u>74%</u>	<u>51%</u>	<u>16%</u>
<b>Net Assets</b>				
Permanently Restricted	25%	25%	31%	0%
Temporarily restricted	0%	0%	0%	31%
Unrestricted	<u>0%</u>	<u>1%</u>	<u>18%</u>	<u>53%</u>
Total Net Assets	<u>25%</u>	<u>26%</u>	<u>49%</u>	<u>84%</u>
<b>TOTAL LIABILITIES &amp; NET ASSETS</b>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>

### Revenues

Revenues fall into two main categories, operating and non-operating. PEG operating revenues include operating and capital funds provided by the cable operator, grants, and other sources directly related to the operation of PEG cablecasting and other mission-based activities. Non-operating revenues include funds from areas not directly related to those operations, such as rental and investment income.

Revenue recognition methods vary among the PEGs. Two of the PEGs recognize funds received by the cable operator as revenue when received, while the other two PEGs defer revenue recognition but use different methods of deferral. Of the two PEGs that defer revenue, one defers revenue recognition of funds received to the following fiscal year, while Na Leo `O defers recognition until the expenses related to cablecasting activities occur. Deferred revenue is shown as a current liability on the balance sheets of the PEGs that defer franchise and capital revenues. A discussion on the fluctuation in Na Leo `O's revenues is included in the section on *Change in Net Assets*.

Over the past three years, about 6% of Na Leo `O's total revenues include non-operating sources. This is close to the 8% in non-operating revenues that the Hawaii PEGs as a group averaged over the past three years. The largest Hawaii PEG receives 20% of its total revenues from rental income, skewing the Hawaii PEG average for non-operating revenue sources. Na Leo `O's non-operating revenues are mainly investment income.

### Expenses

On individual PEG financial statements, various levels of expense detail were reported. Accordingly, in order to compare expenses between PEGs we used the functional expense classification. If the functional expense classification was not provided by the company financial statements, we used the functional expenses reported by each PEG for its required non-profit reporting to the IRS (Form 990). Additionally, we show depreciation expense as a separate item on the common-size financial statements to further enhance comparability of expenses between the PEGs. Since Na Leo `O's 2003 audited financial statements were not available, the allocation between Program Services and Management and General (combined total of 72%) for 2003 cannot be separated in the following comparison. On average for the two year period ending in 2002, Na Leo `O spent 37% on Program Services and 11% on Management and General Expenses. In comparison, the Hawaii PEG average for Program Services is 54% and for Managing and General expenses is 32% over the past three years. During the same three year period, Na Leo `O averaged 7% in depreciation expenses which is lower than the PEG three year average of 11%.

### Change in Net Assets

Change in Net Assets is analogous to net income in for-profit company reporting. On average for the three year period ending in 2003, Na Leo `O had a 36% change in Net Assets, which is higher than the average of Hawaii PEGs. During this same period Na Leo `O's change in Net Assets decreased from 67% to 17%. This large change is the result of Na Leo `O having large capital expenditures in 2001 and 2002, resulting in the recognition of revenues previously deferred and an internal liability between Unrestricted and Permanently Restricted Net Assets.

These capital expenditures include construction of a new building \$675,000 in 2001, \$91,000 in new production equipment in 2002, and \$73,000 for building furnishings in 2002.

As has been noted, success for a non-profit company is not solely measured by an organization's income, so that relatively small increases, decreases, or material fluctuations in Net Assets are not necessarily cause for concern. There is a large range in change in Net Assets between the four Hawaii PEGs (they range from 1% to 36%). If the depreciation expense (a non-cash item) is backed out, Na Leo `O's average increases to 43% and the PEG average increases to 14%. As discussed above, Na Leo `O's change in Net Assets in 2001 and 2002 reflects the purchase and outfitting of its new facility rather than regular cablecasting operations. Since Na Leo `O's 2003 audited financial statements were not available at the date of our last site visit, the accuracy of the 2003 Change in Net Assets is not known.

	<u>Audited 2001</u>	<u>Audited 2002</u>	<u>Not Audited 2003</u>	<u>Average of Hawaii PEGs</u>
<b><u>Revenues</u></b>				
<b>Operating Revenues</b>				
Access Operating Fees	32%	65%	85%	67%
Facilities & Equipment Fees	59%	28%	11%	12%
Other income	1%	1%	1%	13%
<b>Total Operating Revenues</b>	<b>92%</b>	<b>94%</b>	<b>97%</b>	<b>92%</b>
<b>Non-operating Revenues</b>	<b>8%</b>	<b>6%</b>	<b>3%</b>	<b>8%</b>
<b>Total Revenues</b>	<b><u>100%</u></b>	<b><u>100%</u></b>	<b><u>100%</u></b>	<b><u>100%</u></b>
<b><u>Expenses</u></b>				
<b>Program Expenses</b>	26%	49%	NA	54%
<b>Management &amp; General</b>	6%	17%	NA	32%
<b>Depreciation</b>	1%	10%	11%	11%
<b>Total Expenses</b>	<b>33%</b>	<b>76%</b>	<b>83%</b>	<b>97%</b>
<b>Change in Net Assets</b>	<b><u>67%</u></b>	<b><u>24%</u></b>	<b><u>17%</u></b>	<b><u>3%</u></b>

**Procedure 4:** Examine the PEG's *Federal Returns of Organization Exempt From Income Tax* (Form 990) for the last three years and document the following:

- a. Any unrelated business income.

- b. Any direct or indirect political or lobbying expenditure.
- c. Any fund raising revenues or expenditures.
- d. Verify that the Form 990 reconciles to the financial statements submitted to DCCA and the PEG's Board of Directors.

**Finding 4:** We examined copies of Form 990 prepared for Na Leo 'O for 2001 and 2002. The 2003 form has not been prepared. We found:

- a. No unrelated business income.
- b. No direct or indirect political or lobbying expenditures.
- c. Fund raising revenues are not shown on Form 990 Part I Line 1a (direct public support), and no fundraising expenses are reported on Form 990 Part II (statement of functional expenses). On the Na Leo 'O trial balance, no donations were reported for 2001 or 2002.
- d. Na Leo 'O's Form 990 does not reconcile to the 2001 and 2002 audited financial statements submitted to DCCA and the Board of Directors. The Form 990 "Reconciliation per Audited Financial Statements" (Part IV-A) indicated no difference between the audited financial statements and the Form 990 presentations. The Form 990 beginning balance sheet balances for 2001 are the same as the 2000 year end audited balance sheet amounts. The December 31, 2001 and December 31, 2002 Form 990 ending Net Assets do not include the internal liability represented in the difference between Unrestricted and Permanently Restricted Net Assets of \$779,872 for 2001 and \$939,232 for 2002.

**Procedure 5:** Obtain the information required to prepare a schedule of revenues and expenses per average number of subscribers for the last three fiscal years. Include a comparison column showing average amounts for the Hawaii PEGs. Compare the PEG to the group average.

**Finding 5:** We obtained the information required to prepare a schedule of revenues and expenses per average number of subscribers for the last three fiscal years. We calculated the average amounts for the Hawaii PEGs as a group to provide comparison to the PEG.

Revenues and expenses per subscriber provide a measure of comparability between years as well as between PEGs. The main source of operating revenues for the PEGs is franchise fees paid by the cable operator. On a per-subscriber basis, franchise fees are approximately the same for each Hawaii PEG. However, not all operating revenues for all of the PEGs come from franchise fees. In addition, there are differences in revenue recognition policies among the Hawaii PEGs. For these reasons, revenue per subscriber, recognized for any particular year, differs between Hawaii PEGs.

Na Leo 'O's average operating revenue per subscriber from 2001 to 2003 of \$20.86 is higher than the Hawaii PEGs as a group, but fluctuated during that period due to the revenue recognition issues discussed in the **Finding 3 Change in Net Assets** section above. Non-operating revenues are mostly investment income and are higher than the Hawaii average. Expenses for the three year period are lower than the Hawaii PEG Average. See **Finding 3 Expenses** for further discussion of Na Leo 'O's 2001 to 2003 expenses. The three year average change in net assets per subscriber is \$10.58, which is significantly higher than the Hawaii PEG average during the same period, and is a reflection the large capital investment made during the period.

**Revenues and Expenses Per Subscriber**

	<u>Audited 2001</u>	<u>Audited 2002</u>	<u>Not Audited 2003</u>	<u>Average of Hawaii PEGs</u>
<b>Avg. Number of Subscribers</b>	35,705	37,089	37,831	
<b>Revenues</b>				
Operating	\$ 30.93	\$ 14.48	\$ 17.18	\$ 18.31
Non-operating	<u>2.88</u>	<u>1.03</u>	<u>0.74</u>	<u>1.41</u>
Total Revenues	33.81	15.51	17.92	19.72
<b>Expenses</b>				
Program Services	9.09	8.96	NA	11.93
Management & General	<u>2.03</u>	<u>2.81</u>	<u>NA</u>	<u>7.53</u>
Total Expenses	<u>11.12</u>	<u>11.77</u>	<u>12.61</u>	<u>19.46</u>
<b>Change in Net Assets</b>	<u>\$ 22.69</u>	<u>\$ 3.74</u>	<u>\$ 5.31</u>	<u>\$ 0.26</u>

**Procedure 6:** Prepare a schedule of revenues for the last three years that document the amount of revenues and revenue sources.

**Finding 6:** We prepared a schedule of revenues for the years 2001, 2002, and 2003. As discussed in **Finding 3 Change in Net Assets**, Na Leo 'O recognized a large amount Facilities & Equipment Fees revenue due to large capital expenditures in 2001 and 2002 for construction and furnishing a new building. The resulting schedule of revenues types shows:

<b>Revenues</b>			
	<b>Audited 2001</b>	<b>Audited 2002</b>	<b>Not Audited 2003</b>
<b>Operating Revenues</b>			
Access Operating Fees	\$ 388,590	\$ 377,330	\$ 577,812
Facilities & Equipment Fees	<u>715,730</u>	<u>159,756</u>	<u>72,309</u>
Total Operating Revenues	<u>1,104,320</u>	<u>537,086</u>	<u>650,121</u>
<b>Non-operating Revenues</b>			
Interest Income	99,694	32,536	20,457
Other Income	<u>3,031</u>	<u>5,635</u>	<u>7,669</u>
Total Non-operating Revenues	<u>102,725</u>	<u>38,171</u>	<u>28,126</u>
<b>Total Revenues</b>	<u><u>\$ 1,207,045</u></u>	<u><u>\$ 575,257</u></u>	<u><u>\$ 678,247</u></u>

**Procedure 7:** Prepare a three year schedule of cash and investments.

**Finding 7:** We prepared a three-year schedule of cash and investments for the fiscal years 2001, 2002, and 2003. *Permanently Restricted* funds represent capital funds that will be used for future equipment purchases, while *Unrestricted* funds are derived from franchise fees and other revenue. The restricted capital funds have not been included in the balance of Permanently Restricted Net Assets.

<b>Cash and Investments</b>			
Year Ending Dec. 31	2001	2002	2003
Account			
<i>Unrestricted</i>			
Checking	\$ (5,586)	\$ 11,487	\$ 20,935
Savings	275,358	394,555	381,903
Certificates of Deposit	800,000	700,000	900,000
Petty	200	200	200
	<u>1,069,972</u>	<u>1,106,242</u>	<u>1,303,038</u>
<i>Permanently Restricted</i>			
Checking	1,002	1,002	1,002
Savings	274,406	326,363	380,238
Certificates of Deposit	660,000	660,000	660,000
	<u>935,408</u>	<u>987,365</u>	<u>1,041,240</u>
Total	<u>\$ 2,005,380</u>	<u>\$ 2,093,607</u>	<u>\$ 2,344,278</u>

**Procedure 8:** Prepare a schedule of capital funds received and expended for the last three years.

- a. Compare to the schedule of cash and investments and determine if the unspent capital funds are properly segregated.
- b. Document the capital revenues received, spent, and held for future capital additions. Explain differences, if any, between capital funds used for additions to Capital Assets and spent.

**Finding 8:** We prepared a schedule of capital funds received and expended for the last three years.

- a. The ending unspent capital funds have been properly segregated and agree to the schedule of cash and investments shown in **Finding 7**.

- b. We documented the capital revenues received, spent, and held for future capital additions in the following schedule. Note that the amount shown as Transferred Out in prior years is net after interest earned and bank fees. The amounts shown as Transferred Out differ from the capital additions reported in **Finding 9** since funds for equipment purchased at the end of the fiscal years was transferred out of the capital account in the following fiscal year and non-capital funds were used to pay for some capitalized equipment. Amounts paid for capital equipment from other funds were \$677,133 in 2001, \$78,696 in 2002, and \$9,401 in 2003. An inter-fund Due to Unrestricted Net Assets from Restricted Net Assets is used to show that all Capital Assets are considered to be financed by capital funds and would revert to the State of Hawaii if operation of the PEG by Na Leo 'O ceased.

**Capital Funds Received From Cable Franchisee**

	Received	Transferred Out	Earnings	Held for Future
Prior Years	\$ 934,412	\$(151,112)	\$ -	\$ 783,300
2001	150,000	(30,992)	33,100	935,408
2002	125,000	(86,110)	13,067	987,365
2003	125,000	(77,045)	5,920	\$ 1,041,240
	<u>\$ 1,334,412</u>	<u>\$(345,259)</u>	<u>\$ 52,087</u>	

**Procedure 9:** From the previous procedures and the audited financial statements, compile a schedule of Capital Assets (Fixed Assets) beginning, additions, deletions, and ending balances for the past three years. Indicate the source of funds for capital additions.

**Finding 9:** We compiled a schedule of Capital Assets beginning, additions, deletions, and ending balances for the past three years. Capital additions during 2001, 2002, and 2003 were purchased with a combination of capital and other funds. Since the 2003 audited financial statements were not available during our fieldwork, the ending balance of Capital Assets at 2003 differs slightly from the audited amounts

We noted that prior to 2001, Na Leo 'O used funds other than capital funds for the purchase of some Capital Assets. Na Leo 'O had approximately \$1,478,000 of capitalized assets as of December 31, 2003 which exceeds the cumulative capital funds, adjusted for earnings and fees. The PEGs are allowed to use operating funds for the purchase of Capital Assets at their discretion. When adjusted for the internal amount Due to From Permanently Restricted net assets, approximately \$200 thousand in capitalized assets were purchased with non-capital funds. The detail needed to identify the assets purchased with capital versus other funds prior to 2001 is not readily available. The funding sources for individual assets have not been tracked. As indicated in **Finding 8**, Na Leo 'O classifies net Capital Assets as Permanently Restricted. We noted that the balance of Restricted Net Assets at January 1, 2001, as restated in the 2001 Audited Financial Statements equals the Net Property and Equipment (net Capital Assets). The

ending Restricted Net Assets for 2001 and 2002 differs from the net Capital Assets by a gain on disposal when an asset was disposed of in 2001. The capital funds held for future purchases are not included in the balance of Restricted Net Assets.

**Schedule of Capital Assets**

	<u>12/31/00</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/01</u>
Production Equipment	\$ 292,928	\$ 48,571	\$ -	\$ 341,499
Office Equipment & Furniture	39,471	847	(2,544)	37,774
Leasehold Improvements	2,119	-	(374)	1,745
Building	-	675,476	-	675,476
Land	190,198	-	-	190,198
<b>Total Capital Assets</b>	<b>524,716</b>	<b>724,894</b>	<b>(2,918)</b>	<b>1,246,692</b>
Less: Accumulated Depreciation	<u>(304,263)</u>	<u>(17,757)</u>	<u>2,542</u>	<u>(319,478)</u>
<b>Total Capital Assets (net)</b>	<b><u>\$ 220,453</u></b>	<b><u>\$ 707,137</u></b>	<b><u>\$ (376)</u></b>	<b><u>\$ 927,214</u></b>
	<u>12/31/01</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/02</u>
Production Equipment	\$ 341,499	\$ 91,013	\$ -	\$ 432,512
Office Equipment & Furniture	37,774	73,776	-	111,550
Leasehold Improvements	1,745	-	(1,276)	469
Building	675,476	-	(5,033)	670,443
Land	190,198	-	-	190,198
<b>Total Capital Assets</b>	<b>1,246,692</b>	<b>164,789</b>	<b>(6,309)</b>	<b>1,405,172</b>
Less: Accumulated Depreciation	<u>(319,478)</u>	<u>(57,341)</u>	<u>1,276</u>	<u>(375,543)</u>
<b>Total Capital Assets (net)</b>	<b><u>\$ 927,214</u></b>	<b><u>\$ 107,448</u></b>	<b><u>\$ (5,033)</u></b>	<b><u>\$ 1,029,629</u></b>
	<u>12/31/02</u>	<u>Additions</u>	<u>Reductions</u>	<u>12/31/03</u>
Production Equipment	\$ 432,512	\$ 71,525	\$ -	\$ 504,037
Office Equipment & Furniture	111,550	865	-	112,415
Leasehold Improvements	469	-	-	469
Building	670,443	704	-	671,147
Land	190,198	-	-	190,198
<b>Total Capital Assets</b>	<b>1,405,172</b>	<b>73,094</b>	<b>-</b>	<b>1,478,266</b>
Less: Accumulated Depreciation	<u>(375,543)</u>	<u>(75,579)</u>	<u>-</u>	<u>(451,122)</u>
<b>Total Capital Assets (net)</b>	<b><u>\$ 1,029,629</u></b>	<b><u>\$ (2,485)</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 1,027,144</u></b>

**Procedure 10:** Document whether the PEG owns or leases its facilities.

- a. Document the terms if leased.
- b. Document source of purchase funds if owned.

**Finding 10:** Na Leo 'O owns the building where it conducts most of its operations. Additionally, Na Leo 'O has one satellite location at Kona.

- a. The Kona facility is leased for \$1,700 per month. The five year lease expires December 31, 2004. This step is not applicable for the Hilo facility since Na Leo 'O owns it.
- b. Na Leo 'O built its main building (Hilo) in 2001. The combined land purchase and building construction costs of \$860,640 were financed from capital funds. As discussed in **Finding 8**, Na Leo 'O set up an inter-fund Due to Unrestricted Net Assets from Restricted Net Assets to show that although funds from the operating account were used purchase land and construct the facility, Na Leo 'O considers it to have been financed by capital funds. This step is not applicable for the Kona facility since Na Leo 'O does not own it.

**Procedure 11:** Prepare a schedule of salaries and benefits for the prior three years.

**Finding 11:** We prepared a schedule of salaries and benefits for 2001, 2002, and 2003. The schedule of salary and benefits by category is presented below:

<b>Salary and Benefits by Category</b>			
	2001	2002	2003
<b>Salary</b>			
Management	\$ 70,607	\$ 73,852	\$ 74,780
Administrative	19,215	25,982	26,463
Operational	115,350	117,278	120,660
<b>Total Salary</b>	<b>205,172</b>	<b>217,112</b>	<b>221,903</b>
<b>Benefits</b>			
Management	4,001	8,677	9,175
Administrative	4,536	6,777	3,883
Operational	10,274	16,340	21,489
<b>Total Benefits</b>	<b>18,811</b>	<b>31,794</b>	<b>34,547</b>
<b>Total Salary and Benefits</b>	<b>\$ 223,983</b>	<b>\$ 248,906</b>	<b>\$ 256,450</b>

**Procedure 12:** Obtain and examine the employment contract(s) for the managing director or equivalent. From the information used to prepare the salary and benefit schedule in **Finding 11**, determine the amount of compensation paid to the managing director during the most recent fiscal year. Document the following amounts and agree to terms of employment contracts, if any:

- a. Salaries
- b. Bonuses
- c. Benefits
- d. Non-cash benefits

**Finding 12:** From our examination of the employment conditions for the managing director (General Manager) and the information used to prepare the salary and benefit schedule, we determined the amount of compensation paid to the managing director. We documented the salary and benefits on the following chart. The General Manager does not have a contract with Na Leo 'O, and expresses preference for the ongoing "handshake" arrangement with the Board. There is a job description for the General Manager, approved by the Board of Directors on September 16, 1996. The salary and benefits paid fell within the terms of the job description.

<u>Procedure</u>	<u>Per job description</u>	<u>Amount for 2003</u>
a. Salary	Annual salary increases at the sole discretion of the Board of Directors.	\$43,280
b. Bonus	Not specified.	\$0
c. Benefits	Participation in employee benefit plans on same basis as other employees, including: <ul style="list-style-type: none"> <li>▪ Pension plan (up to 5% of salary contributed by the employer)</li> <li>▪ 20 days of paid vacation per year</li> <li>▪ Health insurance</li> </ul>	\$722  NA  \$4,106
d. Non-cash benefits	No non-cash benefits were noted.	

**Procedure 13:** Determine the procedures in place for:

- a. Authorization of expense accounts or other allowances paid to officers and directors.
- b. Document procedures if PEG credit card is used for personal expenses.

**Finding 13:** We found that expense accounts or other allowances paid to officers and directors consist of travel and board meeting expenses.

- a. Authorization and documentation of top management purchases are maintained through use of vendor invoices and receipts and cosigning of checks over \$100.
- b. This procedure is not applicable since there are no Na Leo 'O credit cards.

**Procedure 14:** Obtain the PEG's travel policy and tabulate the travel expenses for the last three years for staff and expenses for the Board of Directors.

**Finding 14:** Na Leo 'O has no written travel policy. We tabulated travel and entertainment expenses for staff and Board of Directors. In **Finding 13** we determined that reimbursement require an expense report with vendor invoices and/or receipts, and if greater than \$100 require cosigning by at least one board member.

**Travel and Board Expenses**

	Travel	Public Relations	Entertainment	Conferences and Seminars	Total
2001	\$ 1,052	\$ 609	\$ 991	\$ -	\$ 2,652
2002	1,572	526	738	-	2,836
2003	1,741	305	2,257	1,296	5,599

The individual PEGs do not maintain travel and board expenses in the same way. Na Leo 'O uses four accounts--Travel, Public Relations, Entertainment, and Conferences and Seminars--to track these expenses. We combined the allocations for the Hilo and Kona locations.

**Procedure 15:** Obtain sample evidence of costs reimbursed by the PEG for travel and Board of Directors' expenses for at least 25% of total reimbursed expenses. This evidence may include receipts marked paid, cancelled checks, contracts marked paid, vendor statements, or reports from vendors. Test the samples for compliance with the PEG's travel reimbursement policy. Document evidence of non-compliance with the policy. From the general ledger detail,

document per person and per trip costs, number of mainland and inter-island trips, average cost per trip, average hotel and daily meal costs.

**Finding 15:** We selected 15 samples, testing at least 25% of total costs reimbursed by Na Leo 'O for travel and Board of Directors' expenses. Since there is no travel policy we documented the supporting evidence. This evidence included receipts and expense reports.

We found that one (6.7%) of the 15 samples was signed by the employee but not by the supervisor (managing director), and was missing approval on the expense report for reimbursement for mileage reimbursement and a lunch.

We found that airfare class for two (13.3%) of the 15 samples was not documented for two inter-island flights, and the reason for one inter island flight was not documented.

We found that general ledger detail does not contain the information needed to break down per person trip details or total costs of trips including:

- Number of inter-island trips
- Number of mainland trips
- Average cost per trip
- Average hotel costs
- Average meal costs

From the 15 samples that were tested we were able to document the average per-person costs of airline travel (all inter-island), noting the date, location and purpose of the travel, as follows:

- \$187 (2001, HNL, ISYS Exhibition)
- \$157 (2001, HNL, 'Ölelo studio light grid)
- \$134 (2002, HNL, not documented)
- \$150 (2003, HNL, 'Ölelo and DCCA meeting)
- \$157 (2003, HNL, 'Ölelo meeting)

**Procedure 16:** Obtain a list of the current Board of Directors and document:

- a. Total number of directors.
- b. Number of inside directors.
- c. Number of outside directors.

**Finding 16:** The current list of Board of Directors includes:

- a. Twelve directors including one inside director.
- b. One inside (non-voting) director.

- c. Eleven outside directors.

**Procedure 17:** From an examination of the last two years of Board of Director meeting notes, document:

- a. Approval of capital and operating budgets.
- b. Presentation of financial reporting and comparisons to plans/budgets.
- c. Presentation and acceptance of the annual audit.

**Finding 17:** We read the minutes of the 2002 and 2003 meetings of the Board of Directors and found:

- a. Approval of capital and operating budgets for 2003 and 2004.
- b. Sporadic presentation of financial reporting and comparisons to plans and budgets.
- c. Presentation of the annual audits for 2001 and 2002. Approval is not indicated in the minutes, but the transmittal letter to DCCA indicates approval by the Board.

**Procedure 18:** Inquire if there have been any self-dealing transactions between the PEG and its management or Board of Directors.

**Finding 18:** The bylaws specifically prohibit loans to directors or officers, or self-dealing transactions. Self-dealing transactions may be allowed only when the board determines that the transaction is in the best interest of the corporation and is fair and reasonable.

We inquired and were told there have been no self-dealing transactions. The 2001 and 2002 audited financial statements do not disclose any related party transactions.

**Procedure 19:** In order to determine if up-to-date financial information is available to PEG management and Board of Directors, obtain a copy of the most recent financial statements available on the date of the site visit.

**Finding 19:** During our first site visit in September 2004, the most recent available financial statements were for May 2004. This indicates that up-to-date financial information is not available to Na Leo 'O's management and Board of Directors.

**Procedure 20:** Obtain the PEG's investment policy and determine:

- a. If it has been approved by the Board of Directors.
- b. The PEG has been in compliance with the policy.

**Finding 20:** Na Leo 'O has no separate investment policy; its practice is to follow the guidelines for investment indicated in the agreement with DCCA.

- a. This procedure is not applicable since there is no separate investment policy.
- b. Na Leo 'O has been in compliance with the DCCA agreement language in regards to investments.

**Procedure 21:** Obtain the PEG's policy on approval for cash disbursements and determine if:

- a. It has been approved by the Board of Directors.
- b. If the PEG has been in compliance with the policy.

**Finding 21:** Na Leo 'O does not have a written cash disbursement policy.

- a. This procedure is not applicable since there is no written cash disbursement policy.
- b. Although this procedure is not applicable since there is no written cash disbursement policy, we read the Board of Director minutes which indicated that checks over \$100 must be co-signed by a board member and that expense reports and receipts are required for reimbursement. We found one exception to the unwritten reimbursement policy as indicated in **Finding 15**.

**Procedure 22:** Determine if the PEG organization has a website and, if so:

- a. Does the Web site include operating and financial plans and results?
- b. Inquire and document how operating and financial plans and results are disseminated to the public without internet access or if the PEG does not have a web site.
- c. Aside from operating and financial plans and results, document the content of the website.

**Finding 22:** Na Leo 'O does not have a web site.

- a. This procedure is not applicable since Na Leo 'O does not have a web site.
- b. Operating and financial plans and results are presented to the Board of Directors during public meetings. Requests for information are fulfilled when requested.
- c. This procedure is not applicable since Na Leo 'O does not have a web site.

### EQUIPMENT PROCEDURES

**Procedure 23:** Obtain a description of each type of system available at the PEG, the quantity of each type of system, and a description of the users of each type of system.

**Finding 23:** We obtained a description of each type of system available at Na Leo `O, the quantity of each type of system, and a description of the users of each type of systems as shown in the following table:

<u>System Location and Description</u>	<u>Quantity</u>	<u>Users</u>
<u>Hilo</u>		
Studio	2	General public
Camcorder	8	General public
Non-linear edit	5	General Public
Linear edit	1	General Public
Master Control	1	Staff
Dubbing Station	1	Staff
<u>Kona</u>		
Camcorder	11	General public
Non-linear edit	5	General Public
Linear edit	3	General Public
Master Control	1	Staff

**Procedure 24:** Obtain an inventory listing of equipment sorted by system type and location. The listing must include the item description, date of purchase, and original cost.

**Finding 24:** We obtained listings of Na Leo `O equipment by system type and location. The accounting inventory includes groupings of equipment, with no detail on individual items. An older inventory of equipment purchased in the 1990s exists for each location. While the older inventory is well organized, only five of the items listed are still in use. A listing by date of purchase, and location, as reported to us, is appended to this report as Attachment 1.

**Procedure 25:** Select a sample of items from the inventory listing comprising a minimum of 10% of the total cost in each category of equipment in each location. For systems exceeding \$25,000, sample for existence by counting individual items. Compare the sample selected to vendor's catalogue prices at the time of acquisition for the same or similar equipment. Note all instances where the PEG's cost differs by +/- 20% or \$500 from:

- a. Other PEG centers.
- b. Vendor catalogs.

**Finding 25:** We selected a sample of items from the inventory listing, and found approximately 97% of items selected were available for inspection. In performance of this procedure, we tested a minimum of 10% of the total costs. There is no indication of actual missing equipment. Rather, the items selected but not tested were simply not tagged.

- a. Na Leo 'O purchases equipment for prices comparable to other PEG centers. For items tested, Na Leo 'O is within the tested 20% or \$500 tolerance.
- b. Na Leo 'O buys primarily from two national discount houses, using their catalog prices. On tested items, Na Leo 'O is within the tested 20% or \$500 tolerance.

**Procedure 26:** Obtain a copy of the PEG's long range technology plan and documentation of the level of use of systems. Determine if the plan considers future facilities and equipment requirements.

**Finding 26:** Na Leo 'O has no written technology plan. The staff informed us they plan to move to digital technology.

**Procedure 27:** Obtain a description of the PEG's facilities which includes the location, purpose, square footage, and services offered at each facility.

**Finding 27:** Primary Location: 91 Mohouli Street, Hilo  
Purpose: PEG  
Size: 5,582 Square feet  
Services: Training, equipment, production, and transmission.

Additional facility location:

Satellite Location: 74-5590 Eho Street, Suite #115, Kailua-Kona  
Purpose: PEG  
Size: 1,250 Square feet  
Services: Training, equipment, and production.

**Procedure 28:** Document the process the PEG follows to add and remove items from the equipment inventory.

**Finding 28:** Na Leo 'O has no written procedure to add and remove items from the equipment inventory. We documented the following processes from discussions with staff:

Equipment purchasing is approved by management with consultation of the Board of Directors.

For inventory changes, administration checks deliveries against purchase orders and enters into Microsoft Access database. Asset tags are not used. To remove assets, administration pulls from list and disposes.

**Procedure 29:** Tour the PEG's facility(ies) and describe the safeguards in place to secure and maintain the equipment.

**Finding 29:** We toured the PEG's facilities and observed the following safeguards:

- Na Leo 'O requires signed contracts for public users.
- Members of the public are responsible for return of equipment in working condition or are financially liable.
- Na Leo 'O risk insurance covers loss of any kind.
- Na Leo 'O staff trains public on use of equipment.
- Na Leo 'O Hilo operates in a separate locked facility. Front door access requires members of the Public to press a buzzer and be admitted by administrative staff. The equipment room has separate locking cabinet for small portable items.
- At both Kona and Hilo each equipment room locks separately and small items are locked in a cabinet.

## **OPERATING PROCEDURES**

**Procedure 30:** Determine the types of media services the PEG is involved in and document the percentage and cost of staff, equipment and facilities devoted to each of the media services.

**Finding 30:** From our review of Na Leo 'O facilities, equipment inventories, Annual Activity Reports, and interviews with staff, we determined that the media service provided by Na Leo 'O is exclusively cable television programming. We found no indication that Na Leo 'O is currently planning or actually engaged in print publishing, FM radio transmission, the development of a community ISP, or other services.

Consistent with these findings, we found no indication that there is expenditure of operating funds on, nor devotion of physical space or capital resources to, services to services other than those associated with community cable television activities.

**Procedure 31:** Examine the performance evaluations of the CEO and senior management staff. Determine if:

- a. Work performance has been evaluated by the Board of Directors at least annually or as documented in the job descriptions.
- b. The evaluations include any agreement or incentives to improve on performance, and if so, is there evidence of follow up by the board and management?

**Finding 31:** We examined the performance evaluations for the Managing Director, and found:

- a. The last recorded performance evaluation was done in 1999, prior to the GM's last salary increase. None has been done since, and it appears that no regular evaluations are currently scheduled by the Board.
- b. No specific evaluation criteria for the evaluation of the General Manager were available, nor were there available records of any particular incentives for performance improvement.

**Procedure 32:** Read the most recent version of the PEG vision statement, strategic goals, and action plans.

**Finding 32:** We read the most recent version of the Na Leo 'O vision and mission statements, statement of organizational values, statement of strategic role, statement of strategic imperatives, statement of strategic focus and strategic goals, as they appear in the *Na Leo 'O Hawai'i Strategic Plan 1999-2004*.

Na Leo 'O's Mission Statement is as follows:

*The Mission of Na Leo 'O Hawai'i ("Na Leo") is to facilitate diverse community, education and government dialog and expression through electronic media for the people of the County of Hawai'i.*

Na Leo 'O's summary Vision Statement is as follows:

*Our vision and desired legacy as an organization is to get everyone in the County of Hawai'i involved in community television. We will create a level of participation that transforms Public, Education and Government access ("PEG Access") television into public service—expanding communication and learning, and ultimately strengthening the community we serve.*

Na Leo 'O's Strategic Plan includes a summary of its Strategic Goals:

- Provide the means for individuals and organizations in the community to produce and present opportunities for public dialog and public expression through television.
- Encourage the creation of programs that address community, education and government issues that emanate from and involve the broadest segments of the community.
- Increase viewer-ship by developing public awareness.

Na Leo 'O's Strategic Plan includes no action plans. However, the Five Year Operational Plan, described in **Finding 33**, does include lists of specific activities identified to implement short-range goals for the year 2003-04. These lists do not include assigned responsibility, nor target completion dates for each activity.

Current and currently planned activities are exclusively associated with the provision of community television.

**Procedure 33:** Document the following PEG written objectives and means to measure them for:

- a. Vision and strategic goals.
- b. Short-range goals.
- c. Action plans.

**Finding 33:** We have documented the following in regard to Na Leo 'O's objectives and the means to measure them:

- a. Vision and Strategic Goals – Na Leo 'O's has made efforts to articulate and update its long range planning. As indicated in **Finding 32**, it has defined in written form its mission, in its Strategic Plan 1999-2004. The strategic goals set forth in the Strategic Plan constitute written long-range objectives. However, they are not expressed in quantitative terms, and no specific means of measuring their realization is provided. Na Leo 'O's effort in the Operational Plan ties specific activities to written goals, and has an indication of progress in each activity. However, goals are not quantitatively stated, and no means of measuring their realization is offered except for the presence of the activities described.
- b. Short-Range Goals – We reviewed Na Leo 'O's Five Year Operational Plan 2000-2004. In its most recent configuration, the plan outlines in written form the principal activities planned for each year, and for the short term (one year), lists specific goals and the means to achieve them. Goals for 2003 to 2004 were:
  - Training: A training program to meet the needs of the community, producers and Na Leo 'O.
  - Promotion: Initiate an aggressive promotion and marketing campaign.
  - Scheduling: To provide easy identification and viewing of programming.
  - Production: Provide a greater variety and quantity of quality programming.

Each of these goals is followed the description of several activities by means of which the goals are to be implemented, with each bearing the notation "done," "ongoing," or "under discussion."

- c. Action Plans – There is no regular process of developing action plans which identify specific tasks, assign specific responsibility to individuals, specify dates for completion of tasks, and provide quantitative or qualitative criteria for measuring success.

**Procedure 34:** Obtain the results of any community surveys or results of objective tools that may measure "customer satisfaction".

- a. Document the surveys and/or measurement tools and results.
- b. Inquire if the PEG made changes in services as a response to the outcome of the measurement results.
- c. Document any changes and/or follow-up to the results.

**Finding 34:** No community surveys or other formal means of obtaining community feedback have been undertaken by Na Leo `O during 2001, 2002, or 2003. According to our interview with staff, there are no current plans for community surveys in the immediate future.

- a. This procedure is not applicable because no community surveys were conducted during the past three years.
- b. This procedure is not applicable because no community surveys were conducted during the past three years.
- c. This procedure is not applicable because no community surveys were conducted during the past three years.

**Procedure 35:** Obtain and examine the documentation of the PEG's customer complaint process. Along with complaint information documented in the annual activity reports and PEG records, perform the following activities:

- a. Document the PEG complaint process.
- b. Examine the PEG customer complaint records and compare with the PEG complaint process.
- c. If exceptions to the complaint process are noted, document and request an explanation from PEG staff.
- d. Document the amount of staff time and other resources used by the PEG's customer complaint process.
- e. Summarize complaints by type.

**Finding 35:** We obtained and examine the documentation of Na Leo `O's customer complaint process:

- a. Na Leo `O's customer complaint process is to file the written complaint together with the appropriate staff responses.
- b. We examined the complaint files and found that they reflected the Na Leo `O's complaint process as described to us.
- c. No exceptions were noted.
- d. The PEG staff does not keep track of time spent on specific tasks. No other resources were considered to have been consumed in the complaint process.

- e. The following summary of complaints by type was compiled from the available activity reports (2002 and 2003):

Year	Technical-Viewer	Technical-User	Program Content
2001	NA	NA	NA
2002	5	1	3
2003	10	3	2
Totals	15	4	5

**Procedure 36:** Obtain the record of programming cablecasts made during the past fiscal year. Report on the major types of programming provided on PEG channels, and the hours of programming provided for each type. Compare to the Hawaii PEG averages.

**Finding 36:** We examined the record of services provided, as presented in the 2003 Activity Report. The major types of programming provided on PEG channels, and the hours of programming provided for each type are presented below. Na Leo 'O's total programming hours are higher than the average of the Hawaii PEGs. For Na Leo 'O, total programming hours represent 24 hours per day broadcasting over eight channels (four channels each at Hilo and Kona) for a year. Not all the PEGs broadcast on this many channels, thus the average total programming for Hawaii PEGs is lower than Na Leo 'O. It should also be noted that this account of programming, and this comparison with the average of the PEGs, must be taken as provisional, pending a future clarification and regularization of definitions for programming categories used in reporting by the PEGs. The amounts of each type of programming do not necessarily equal total programming.

	Na Leo'O					Average of Hawaii PEGs
	Public	Educational	Government	Other	Total	
Total Programming	17,520	35,040	17,520	-	70,080	43,607
Locally produced programming	9,555	-	1,439	-	10,994	15,431
Local original programming	9,555	-	-	-	9,555	4,184
First run programming	3,388	-	3,231	-	6,619	5,006
Repeat programming	14,132	-	1,021	-	15,153	14,698
Programming submitted but not aired	-	-	-	-	-	-

## **DCCA Agreement Compliance Procedures**

**Procedure 37:** Obtain the PEG's insurance policies currently in force.

- a. Determine that the insurance coverage is current and covers the replacement of all facilities and equipment.
- b. Document that insurance requirements in the agreements between the PEG and DCCA have been met.

**Finding 37:** We obtained the insurance files provided by Na Leo 'O.

- a. We determined that coverage is current and covers the replacement of all facilities and equipment.
- b. We documented that insurance requirements in the agreements between the Na Leo 'O and DCCA have been met.

**Procedure 38:** Document efforts underway and the success to date for achieving financial self-sufficiency partial independence from DCCA and TWE funds.

**Finding 38:** We inquired and learned that Na Leo 'O has no plans for achieving self-sufficiency should the funds provided by TWE fail to support the operation. Management informed us that the Board does not see it as appropriate for Na Leo 'O to engage in serious fundraising. Should current funding sources become inadequate, plans are to accumulate some months of revenues to fund the complete phasing out of Na Leo 'O's operations. We learned from an examination of records that a plan for self-sufficiency had been adopted by the Board at a November 12, 1999 meeting. Our understanding is that it consists of the outlines of the phase-out plan just described. However, no written version of the plan was available for us to review.

**Procedure 39:** Through inquiry, document:

- a. Any support by the PEG of any outside groups or individuals, including grants, sponsorships, financial or in-kind assistance or support, and web sites.
- b. Associations with other non-profit organizations.

**Finding 39:** We inquired and documented that:

- a. Na Leo `O does not provide direct in-kind financial support, grants, sponsorships, or web sites to other groups or individuals.
- b. In its most recent outreach report, Na Leo `O lists 23 separate outreach initiatives, many of which refer to new or ongoing cooperation with schools, local government agencies and other non-profit organizations. Staff informed us that Na Leo `O has in the past provided training classes for teachers; however, for lack of current interest from the schools, this program is not currently in effect. Staff is exploring the possibility of similar initiatives with charter schools.

**Procedure 40:** Obtain and review the documentation regarding the PEG's compliance with the Americans with Disabilities Act (ADA). Inquire as to accessibility to the facility and equipment.

**Finding 40:** Na Leo `O did not have documentation regarding compliance with the ADA. We inquired as to accessibility to the facility and equipment and were informed that the architectural plan used to build the facility to its current use included plans on accessibility. Wheelchair accessibility and Braille labeling was noted during our tour of the main facility. Management indicated that the Kona facility is reasonably accessible.

**Procedure 41:** Document compliance by the PEG with the agreement made with DCCA regarding the reporting requirements (within 30 days of approval) for amendments to the articles of incorporation and by-laws during the last three fiscal years. Document any exceptions noted.

**Finding 41:** Amendments to the articles of incorporation and by-laws are to be reported within 30 days of approval by the Board of Directors. We read the Board of Directors' meeting minutes, the articles of incorporation, and the by-laws to determine if the board approved changes during 2001, 2002, and 2003. The board did not make any changes to the articles of incorporation and by-laws during this period.

**Procedure 42:** Document compliance by the PEG with the agreement made with DCCA regarding the reporting requirements (within 30 days) for changes to the roster of the Board of Directors and officers and their terms of office during the last three fiscal years. Document any exceptions noted.

**Finding 42:** We documented compliance and tested changes to the roster of Board of Directors during 2001, 2002, and 2003. We found no exceptions to compliance with the 30 day reporting requirement during this period.

**Procedure 43:** Document compliance by the PEG with the agreement made with DCCA regarding the reporting requirements (within 90 days of the fiscal year end) for annual (unaudited) financial statements for the last three fiscal years. Document any exceptions noted.

**Finding 43:** We documented compliance with the reporting requirements (within 90 days of the fiscal year end of December 31) for annual (unaudited) 2001, 2002, and 2003 financial statements. We found three exceptions. The unaudited 2001, 2002, and 2003 financial statements were received on August 26, 2002, June 17, 2003, and September 10, 2004 respectively.

**Procedure 44:** Document compliance by the PEG with the agreement made with DCCA regarding the reporting requirements for audited financial statements (within 30 days of approval by the Board of Directors) for the last three fiscal years. Document any exceptions noted.

**Finding 44:** We documented compliance and found that the audited 2001 and 2002 financial statements were received within 30 days of approval. The 2003 audit was not completed as of the date of our field visit. We did note that the 2001 and 2002 audits were dated October 20, 2003 and were approved by the Board of Directors in November 2003.

**Procedure 45:** Document compliance by the PEG with the agreement made with DCCA regarding the reporting requirements for its most recent annual operational plan and budget. Document any exceptions noted.

**Finding 45:** We found that Na Leo 'O did not meet the November 1, 2003 deadline for the 2004 budget and operating plans. The 2004 budget was submitted on December 1, 2004. We also noted that an error was discovered and corrected on the 2003 budget in April 2004, but the revised budget was not sent to DCCA until October 2004.

**Procedure 46:** Document compliance by the PEG with the agreement made with DCCA regarding the reporting requirements for a complete equipment inventory for the most recent fiscal year. Document any exceptions noted.

**Finding 46:** We documented and tested compliance and found that Na Leo 'O did not meet the November 1, 2003 deadline for submitting a complete equipment inventory. Na Leo 'O submitted the 2003 inventory list to DCCA on December 1, 2003.

**Procedure 47:** Document compliance by the PEG with the agreement made with DCCA regarding the submission of its most recent Annual Activity report. Document any exceptions noted.

**Finding 47:** Our understanding is that the Activity Reports are currently due February 28<sup>th</sup> following the end of the calendar year, due to a policy change altering the requirement in the agreement with DCCA that the reports be due 30 days following the end of each calendar year. We documented and tested compliance and found that Na Leo 'O submitted its annual Activity Report for 2003 to DCCA by the February 28 deadline.

**Procedure 48:** Document compliance by the PEG with the agreement made with DCCA regarding the reporting requirements in its most recent annual Activity Report for total hours of Public Access Programming; Governmental Programming; and Educational Programming, in the following categories:

- a. Total programming.
- b. Locally produced original programming.
- c. Repeat programming.
- d. Programming submitted but not aired and reasons therefore.

**Finding 48:** We documented compliance by Na Leo 'O with the agreement made with DCCA regarding the reporting requirements for its most recent annual Activity Report for total hours of Public Access Programming; Governmental Programming; and Educational Programming as shown in the following table. According to the 2003 activity report, less than 10 hours of programming was submitted and not aired due to technical difficulties. The programs were eventually aired.

<u>Hours of Programming</u>	<u>Programming</u>		
	<u>Public Access</u>	<u>Governmental</u>	<u>Educational</u>
a. Total Hours	Reported	Reported	Reported
b. Locally Produced Original	Reported	Reported	Not Reported
c. Repeated	Reported	Reported	Not Reported
d. Submitted but not aired and reasons not aired	Reported	Reported	Reported

**Procedure 49:** Document compliance by the PEG with the agreement made with DCCA regarding the requirements for the most recent Annual Activity Report for:

- a. Summary of all channel outages from maintenance records including total hours and reasons therefore.
- b. Facility Use:
  - (1) Number of new users.
  - (2) Number of repeat users.
- c. Training:
  - (1) Number of persons certified to use the access equipment.
  - (2) Number of persons who failed to be certified or did not complete certification to use the access equipment.
- d. Summary of complaints including the nature of the complaints and the action taken.
  - (1) Length of time to respond to complaint.
  - (2) Disposition of complaint.
- e. Summary of outreach and marketing efforts.
- f. Summary of revenues from sources other than TCI and TWE including the amounts, sources, and purpose of funds.

**Finding 49:** We documented compliance by Na Leo 'O with the agreement made with DCCA regarding the 2003 annual Activity Report requirements for the following. According to staff, usage of the new studio has so far been negligible, due to lack of people trained to use it, and thus is not reported in the 2003 report.

- |  |          |
|--|----------|
| a. Summary of all channel outages from maintenance records including total hours and reasons.                    | Reported |
| b. Facility use:   |          |
| (1) Number of new users  | Reported |
| (2) Facility use - number of repeat users  | Reported |
| c. Training:   |          |
| (1) Number of persons certified to use the access equipment  | Reported |
| (2) Number of persons who failed to be certified or did not complete certification                               | Reported |
| d. Summary of complaints:  |          |
| (1) Length of time to respond  | Reported |
| (2) Disposition of complaint   | Reported |
| e. Summary of outreach and marketing efforts.  | Reported |
| f. Summary of revenues from sources other than TCI and TWE including the amounts, sources, and purpose of funds. | Reported |

**Procedure 50:** Document compliance by the PEG with the agreement made with DCCA regarding the submission of any additional information that the Director deems necessary.

**Finding 50:** The Director requested an "Executive Summary" of programming hours and other operational statistics as part of the 2003 Annual Report to DCCA, which was provided by Na Leo 'O. We did not note other additional requests for reporting by the Director.

**Procedure 51:** Document compliance by the PEG with the agreement made with DCCA regarding the submission of a *Plan for Self Sufficiency*.

**Finding 51:** We were unable to complete this procedure. We inquired and learned that a self-sufficiency plan had been adopted by the Na Leo 'O Board of Directors at a November 12, 1999 meeting, and reported to DCCA on November 18, 1999 (according to PEG staff). However, a written version of the plan was not part of the Strategic Plan we examined, nor available for our review at Na Leo 'O.

**Procedure 52:** Through inquiry, document any contracting or delegation of any PEG duties, obligations, or responsibilities to others. Examine contracts and if the PEG has contracted/assigned any of its duties to others.

**Finding 52:** From our examination of documents and discussions with staff we found no evidence that PEG duties, obligations, or responsibilities are contracted or delegated to others by Na Leo 'O.

We were not engaged to, and did not conduct an audit, the objective of which would be the expression of an opinion, on the accounting record. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you

*Merina & Company, LLP*

Merina & Company, LLP  
West Linn, Oregon  
February 25, 2005

## Attachment 1



Attachment 1  
 Na Leo `O Hawai`i, Inc. Equipment Inventory  
 Equipment Summary Part 1

**Equipment Inventory-Kona**

<b>Analog Bays #1 &amp; 2</b>	
2ea. Panasonic	1384 Monitor
2ea. Panasonic	1384 Monitor
1ea. Panasonic	WJ-MX30 Mixer
1ea. Sony	EC-C100 Hi8VCR
1ea. Panasonic	WJ-MX30 Mixer
1ea. Panasonic	WJ-KB50 CG
1ea. TEAC	W600R Dual Cassette Deck/or TEAC PD1200 CD Player
<b>Edit Bays #3, 4 &amp; 5 Digital</b>	
1ea. Sony	KV20 Trinitron
1ea. Screenplay w/60or 80GB HDD	
1 ea. Acard SCSI Adapter w/ 60/80 or 120GB Hdd	
1ea. JVC	RS-VS20 VCR
1ea. Panasonic MMR-E50 DVD Burner	
1ea. Panasonic 1384 Monitor	
<b>Edit Bay # 6 Analog</b>	
2ea. JVC	BR-S500u Player
1ea. JVC	BR-S800U Edit Recorder
1ea. Sony	FXE 100 Editor
3ea. Panasonic	1384 Monitor

**Edit Bays 7 & 8 Digital**

Same configuration as Hilo Edit Bay 2 & 3

Attachment 1  
 Na Leo 'O Hawai'i, Inc. Equipment Inventory  
 Equipment Summary Part 2

System\_Playback

Hilo

**Fiber Optics**  
 Siescor Fiber Optic Distributor  
 Radiant Communications VABX 6 Channel  
 ALS Fiber Optics System  
 Optivision I-Net System (Hilo/Kona Hybrid WAN I-Net)  
 DSU for WAN

(Na Leo/Cable Headend)  
 (UH/DOE Statewide Program Reception)

**Matrix Switch System**

1 ea.  
 1 ea.  
 1 ea.  
 1 ea.

Sony  
 PESA  
 PESA  
 PESA  
 ADDS

Rotary Switcher  
 RM4000 Video Switcher  
 RM4000 Audio Switcher  
 Terminal/Keyboard for programming PESA

**Control System**

1 ea.  
 28 ea.  
 3 ea.  
 3 ea.

Leighttronix  
 Leighttronix  
 Hotronic TBC  
 Furman, Audio Limiter/Compressor

TCD 1000  
 Interfaces

**Players**

1 ea.  
 8 ea.  
 3 ea.  
 5 ea.  
 2 ea.

Sony DVD  
 Sony DVD  
 JVC  
 JVC  
 JVC

SR-360U VCR  
 SR-365U VCR.  
 BR-S500U

315  
 325

**Preview System**

2 ea.  
 2 ea.  
 1 ea.  
 2 ea.

Sony Trinitron KV1354Q  
 ADA  
 Horita Video DA  
 12x2 Switcher

Audio Distr. Amps

**Bulletin Board System**

1 ea.  
 1 ea.  
 1 ea.  
 1 ea.

Gateway  
 Bogen AM/FM Tuner  
 Monitor & Keyboard  
 Televeyes

4sx-33 Computer

Scan Converter

**Misc.**

1 Lot  
 1 Lot

Racks, Cabinet, UPS, Power Conditioner  
 Misc Spare Parts

Attachment 1  
 Na Leo `O Hawai`i, Inc. Equipment Inventory  
 Equipment Summary Part 2

System\_Playback

Kona

**Fiber Optics**

ALS Fiber Optics System  
 Optivision I-Net System (Hilo/Kona Hybrid WAN I-Net)  
 DSU for WAN

**Matrix Switch System**

1ea.  
 1ea.  
 1ea.

PESA  
 PESA  
 PESA

Rotary Switcher  
 RM4000 Video Switcher  
 RM4000 Audio Switcher

**Control System**

1ea  
 28ea  
 2ea.  
 3ea.

Leightnix  
 Leightnix  
 Hotronic  
 Furman

TCD 1000  
 Interfaces  
 TBC  
 Audio/Limiter Compressor

**Players**

1ea  
 8ea  
 3ea  
 5ea  
 3ea

Sony/DVD  
 Sony/DVD  
 JVC  
 JVC  
 Panasonic

375  
 325

SR-360U VCR  
 SR-365U VCR  
 AG-730 VCR

**Preview System**

2ea  
 1ea  
 3ea  
 2ea

Tektronix  
 Horita  
 12x2

Dual LCD Monitors  
 Waveform/Phase Monitor  
 Video DA's  
 Switchers

**Bulletin Board System**

1ea  
 1ea  
 1ea  
 1ea

Computer  
 Monitor & Keyboard

**Misc.**

1 Lot

Racks, Cabinets, UPS, Power Conditioner

Attachment 1  
Na Leo `O Hawai'i, Inc. Equipment Inventory

**Field Prod Equipment 1**

**Hilo**

8ea	Sony	PDX10 Cameras, batteries, A/C adapter, ND filter
3ea	Panasonic	AG-456
8ea	Shure	Microphones
2ea	Realistic	PZM Mics
5ea	Sony	Headphones
8ea	Lenmar	Li-Ion Batteries
15ea.	Panasonic	Batteries
1ea	Sony	Lighting Kit
6ea	Bogen	Tripods w/bag
1ea.	Canon	GL-1 Camera
5ea.	Lenmar	Battery Chargers
3ea.		M32N LCD Monitors
4ea	ATUS	Wireless Microphones
3ea	Tiffen	Polarizing Filters
12ea	Doskocil	Camera Cases
1 Lot	Misc	Retired, obsolete, need-repair equipment

Attachment 1  
Na Leo `O Hawai`i, Inc. Equipment Inventory

Field Prod Equipment 1

Kona

8ea	Sony	PDX10 Cameras, batteries, A/C adapters, ND filter
2ea	Panasonic	AG-455/6

# Attachment 1 Na Leo `O Hawai'i, Inc. Equipment Inventory Studios

## Hilo Studio A

1ea	Electronics Diversified Light Board								
8ea	Buhl Fresnel Lights								
6ea	Buhl "Soft" Lights								
1ea	Buhl Spotlight								
1ea	Compix Character Generator								
1ea	Sony								17" LCD Monitor
1ea	Panasonic								1384 Monitor
1ea	Mackie								12 Ch Audio Mixer
1ea	Panasonic WJ-MX50A								A/V Mixer
3ea	Sony								PVM5041Q Monitors
1ea	JVC								SR-VS20VCR
1ea	JVC								SR-S 365U VCR
2ea	Canon								GL-1 Cameras
1 lot	Mic stands, cables, tripods&dollies, etc.								

## Hilo Studio B

1ea	Electronics Diversified Light Board								
12ea	Buhl Fresnel Lights								
6ea	Buhl "Soft" Lights								
2ea	Buhl Spotlights								
3ea	Sony								PVM5041Q Monitors
1ea	Sony								17" LCD Monitor
1ea	Sony								20" LCD Monitor
2ea	Panasonic								1384 Monitor
1ea	Newtek								VT3 Studio System
1ea	Newtek								VT3 SX-8 Breakout Box
1ea	TEAC								PD-D860 5 disc CD Player
1 lot	Mic stands, cables, intercoms, tripods & dollies, etc								