EXECUTIVE SUMMARY

Performance Audit of Na Leo O Hawai'i, Inc. (Na Leo O)

In April 2011, the Governor signed into law Act 19 (SLH 2011) which, among other things, requires the Department of Commerce and Consumer Affairs (DCCA), through its Cable Television Division (CATV), to conduct an annual performance audit, also known as a management audit, of each of the state's four public, educational, and governmental ("PEG") access organizations for the three years from July 1, 2011 through June 30, 2014. In response to the Act's requirement, CATV contracted with the Certified Public Accounting firm of Merina & Company, LLP (MCO) to conduct the performance audits.

MCO has organized their audit and reporting into five sections

- Introduction
- Management and Oversight
- Operations
- Financial
- Compliance

The performance audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards for performance audits contained in *Government Auditing Standards* (Yellow Book), issued by the Comptroller General of the United States.

The most significant comments and recommendations for improvement resulting from our audit are presented below.

Management and oversight significant comments and one recommendation include:

- For the period from January 1, 2006 through June 30, 2011:
  - Na Leo O maintained detailed meeting minutes that show the Board of Directors due diligence and governance of the organization.
  - Na Leo O's management team appears to have the appropriate experience and knowledge.
  - Na Leo O should separately track the data used to compile the Annual Activity Reports for the Hilo and Kona locations in order to evaluate the performance of each location.

- Na Leo O should develop a strategic plan, for a period not less than 3 years, which includes a detailed plan, measurable goals and triggers to implement the plan.

- Na Leo O should consider using experienced outside consultants to aid them in developing a strategic plan.

Operations significant comments and recommendations include:

- The manner in which Na Leo O has reached out and been involved in community needs across the Island, indicate an evident commitment to fulfilling what Na Leo O sees as the organization's core purposes.

- Na Leo O has adapted well to changing user needs and the opportunities for service brought about by the Internet.

- Na Leo O's success in building community awareness to meet the needs on the Island which are informational and also social, is one of the positive marks of its particular character, and is arguably well in line with its mission and what Na Leo O sees as the organization's core purpose.

- Na Leo O should develop a marketing strategy to focus on drawing new residents in to use Na Leo O services and equipment.

Transition from Analog to Digital and High Definition (HD)

- The transition to digital has been entirely necessary, for reasons indicated in the background and findings above. Although there's no timeline for the conversion to HD, this places Na Leo O in a position to provide these services in the future, when necessary.

Metrics: The Measurement of Results

- Na Leo O has been successful in keeping and reporting statistics useful for both regulators and management in the past.

Financial significant comments and recommendations include:

Financial Ratios

- Overall, Na Leo O's financial metrics shows a consistent pattern of a conservative use of funds.

- Per Na Leo O's Managers, the organization has been discussing options for a new location for its Kona office. The savings over the years could contribute to the purchase of a new Kona location.

Items Identified By Na Leo O's Independent External Auditors

- For the period from January 1, 2006 through June 30, 2011 Na Leo O has resolved the management advisory comments for the years ended December 31, 2006 through 2009. No SAS 112/115 reports indicating deficiencies in internal control were noted. Also, Na Leo O did not receive the same comments in the years following the original comment. This indicates that Na Leo O has been taking corrective action with regard to its auditor's comments.

- The audit for the fiscal year December 31, 2010 identified a material weakness in internal control. It was noted that the Board of Directors were not reviewing financial reports on a regular basis at Board meetings. The recommendation was made in a letter dated June 30, 2011. MCO reviewed the Board minutes after this date (on September 9, 2011) and noted the Board did approved the audited financial statements.

Compliance significant comments and recommendations include:

- It appears that Na Leo'O is submitting the required reports; however reports are not being submitted by deadlines outlined in its June 17, 1999 agreement with DCCA and December 22, 2003 letter from DCCA.

- Na Leo O is required to maintain one bank account for operations and another account for capital acquisitions (facilities and equipment). MCO reviewed bank accounts held by Na Leo'O to verify bank accounts were being properly maintained. All payments out of the capital acquisitions account appear appropriate; however cashier's checks are being use to pay vendors. Cashier's checks charge a fee for each check and require Na Leo O's designated personnel to go to the bank to obtain the cashier's check. MCO recommends Na Leo O look into obtaining a checkbook for the capital account to save on the costs associated with using cashier's checks.

Response from Na Leo O

Recommendation: Na Leo O should separately track the data used to compile the Annual Activity Reports for the Hilo and Kona locations in order to evaluate the performance of each location.

Response: Separate annual statistics are in fact maintained for Hilo and Kona and are contained in the package forwarded to the DCCA. However, former DCCA Director Mark Recktenwald had requested an executive summary combining both sites for easier comprehension and comparison with other PEGs.

Recommendation: All payments out of the capital acquisitions account appear appropriate; however cashier's checks are being use to pay vendors. Cashier's checks charge a fee for each check and require Na Leo O's designated personnel to go to the bank to obtain the cashier's check. MCO recommends Na Leo O look into obtaining a checkbook for the capital account to save on the costs associated with using cashier's checks.

Response: According to former General Manager, Juergen Denecke, the reasons for using $8 Cashier's Checks instead of regular checks are:

"Because of dollar amounts involved, vendors very often will specify Cashier's Check or cash bank transfers. After all, we are talking of thousands or tens of thousands of $$ in equipment. Once a trading relationship has been established and the vendor is assured that he will get paid promptly, Na Leo has some leverage for discounts and preferential pricing that can amount to hundreds of dollars saved."

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MERINA
& COMPANY, LLP
Certified Public Accountants and Consultants

CERTIFIED PUBLIC ACCOUNTANTS AND CONSULTANTS

PARTNERS
KAMALA K. AUSTIN, CPA • TONYA M. MOFFITT, CPA

INDEPENDENT AUDITOR'S REPORT

We have completed the performance audit, also referred to as a management audit, of Na Leo O Hawai'i, Inc. (Na Leo O) for the period January 1, 2006 through June 30, 2011. The purpose of the performance audit was to examine and report on the sufficiency of Na Leo O's organizational, planning, budget and operating documents, Na Leo O's compliance with applicable laws, regulations, and its contract with DCCA, and to analyze selected operational and financial parameters.

We conducted our performance audit as required pursuant to Act 19 (SLH 2011) which was passed by the Hawaii State Legislature in April 2011 and in accordance with auditing standards generally accepted in the United States of America and the standards applicable to performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Merina & Company

Merina & Company, LLP
June 5, 2012

5499 AMY STREET • WEST LINN, OREGON 97068 • PHONE: (503) 723-0300 • FAX: (503) 723-9946 WWW.MERINACPAS.COM

Chapter 1

INTRODUCTION

Section 1(h) of Act 19 (SLH 2011)[1] sets out audit requirements for each Public, Educational, and Governmental (PEG) access organization as follows:

> "The department [meaning DCCA] shall conduct an annual management and financial audit of the access organization designated under this section."

The performance audit, also known as a management audit, for Na Leo O Hawai'i, Inc. (Na Leo O) has been completed. This performance audit does not include the financial audit called for in the HRS.

We performed the performance audit for the five years ended December 31, 2006 through December 31, 2010 plus the six months ended June 30, 2011. This time frame was selected because if only one year is audited it would most likely give an inaccurate picture of the organization. At a minimum, three years of data should be analyzed but five years of data provides a more accurate picture when analyzing trends. Due to the value added in capturing the most current status of the organization, this audit included the first two quarters of 2011.

The performance audit objectives, scope, and methodology are detailed below:

Audit Objectives

The objectives of the performance audit were to:

- Assess the sufficiency of Na Leo O's organizational, planning, budget and operating documents
- Assess Na Leo O's compliance with applicable laws, regulations, and its contract with DCCA
- Document and report on selected operational and financial parameters
- Make recommendations as appropriate

[1] Hawaii Revised Statutes (HRS), codified as Chapter 440G §440G-8.3

Audit Scope

The scope of the performance audit covered:

- Organizational and governing documents currently in place

- Laws, regulations, and Decisions and Orders currently in force

- Operational and financial data for the last five years

Audit Methodology

Our audit was conducted between November and December 2011. We conducted interviews with Na Leo O personnel and representatives from the DCCA. We performed the majority of our procedures at Na Leo O's headquarters at its Hilo facility.

We obtained support to substantiate interviewees' statements. Audit procedures also included examination of pertinent policies and procedures, strategic and operating plans, reports, agreements, and other documents to assess adherence to those policies and procedures as well as adherence to various governing authorities. We also obtained and read the Board of Directors' minutes.

This audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards for performance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objects. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Auditor's Access to Information

At the onset of our audit we submitted an information request detailing the documents and other pertinent information we would require. We timely received that information in hard copy as well as by e-mail. Our performance audit was conducted with the full cooperation of all parties involved. We had unfettered access to all information we deemed necessary to conduct the performance audit.

Chapter 2

MANAGEMENT AND OVERSIGHT

Board of Directors, Management Team, and Oversight

Background

Since 1993, Na Leo O has provided PEG access on the island of Hawaii. Na Leo O's mission statement is:

- "To facilitate diverse community, education and government dialog and expression through television access for the people of the County of Hawai'i."

Findings

Board of Directors

In March 2007, Na Leo O amended its By-Laws to reduce the number of Directors from nine to seven and eliminate (1) the requirement that the Director of DCCA appoint six board of director members and (2) the authority of the Director of DCCA removal at any time, with cause, any member of the Board

In February 2010, Na Leo O amended its By-Laws to designate a seat for a cable server representative.

Na Leo O's Board of Director Committees, which are outline in its By-Laws, include:

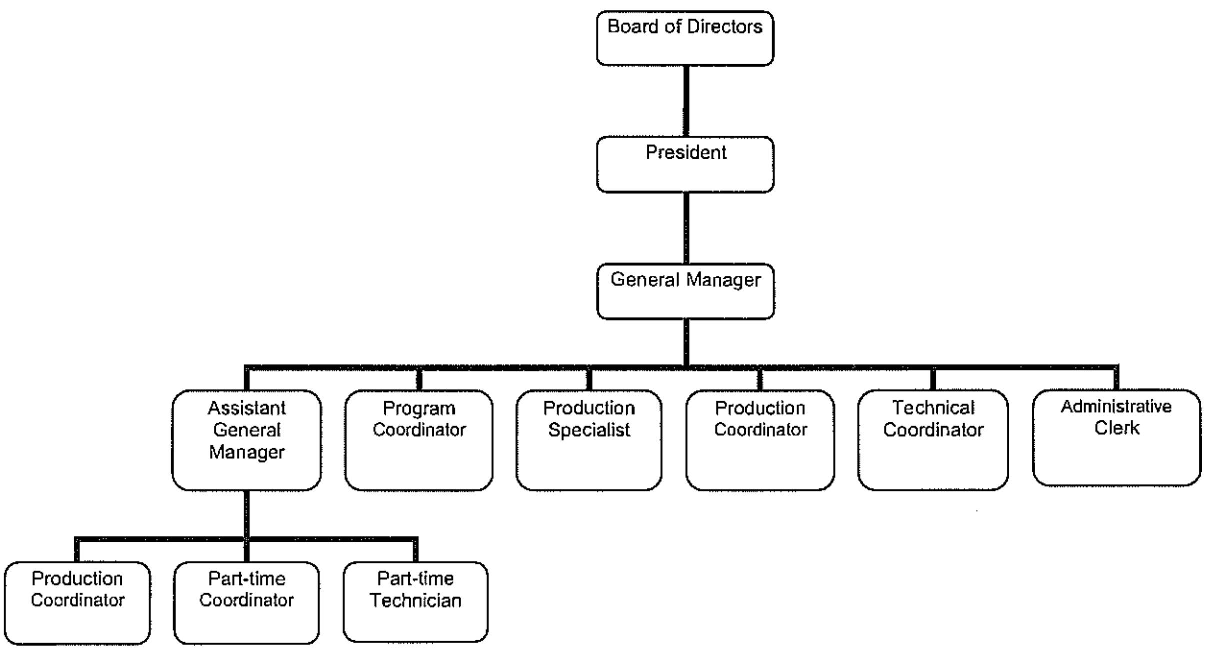
- Finance Committee;
- Development Committee;
- Program Committee
- Nominating Committee; and the
- Human Resource Committee.

The Finance Committee is responsible for all capital assets and other existing financial resources of the corporation and executive fiscal matters, including without limitation, procurement of facilities and equipment, care and maintenance of capital assets, allocation of assets, fiscal policy, the annual budgeting procedure, investment management and financial oversight and reporting. The Development Committee is responsible for long-term growth of the corporation, including without limitation, fundraising, long-term strategic planning, the annual operational plan and evaluation. The Program Committee is responsible for creating and enforcing the governance and standard operating procedures of the corporation that relate to programming, including without limitation, training and other services of the corporation, policies and procedures, rules and regulations, and codes and standards. The Nominating Committee is responsible considering the composition of the Board and developing a slate to fill any vacancies. The committee shall, as near as possible, nominate persons from the public, education and government sectors which will reflect the equal representation of these sectors and factor the gender, ethnic and geographical area from which the nominees arise so there is a fair and equitable representation of the Big Island community on the Board.

Na Leo O's Board of Directors meets a least four times a year, and the Board Committees meet on a regular basis and/or as needed. In November 2007, the Board decided to waive Committee appointments and to act as a Committee of the Whole. This was due to the fact that the Board is small and committee recommendations require full Board approval anyway.

Management Team

Na Leo O's organization chart is outlined below:



The personnel within Na Leo O have been relatively consistent during the period January 1, 2006 through June 30, 2011. However, the General Manager retired as of December 31, 2011 and the Assistant Manager has taken over his position. He is currently staying on as a consultant to assist with the transition.

Oversight

Na Leo O has not developed a strategic plan since prior to 1999, when Na Leo O developed a "Strategic Plan for 1999 - 2004" as required by DCCA. However, annually the General Manager, as approved by the Board, develops an operational plan that outlines goals for the upcoming year in the areas of administration, public access, education access and government access. The operational plan is presented by the General Manager to the board after each fiscal year end and submitted to DCCA.

The General Manager also prepares Annual Activity Reports after each fiscal year end. These include an analysis of programming hours for public, government and educational access channels, training and equipment usage statistics, an inventory listing, information on outages and other income sources, outreach and marketing efforts, and a summary of complaints for the fiscal year.

Subsequent Events

As of December 31, 2011 the General Manager retired and the Assistant Manager has taken over his position. The previous General Manager is however staying on as a consultant to assist with the transition.

Na Leo O's Board of Directors held a Strategic Planning retreat on March 2-3, 2012.

Comments/Recommendations

For the period from January 1, 2006 through June 30, 2011:

- Na Leo O maintained detailed meeting minutes that show the Board of Directors due diligence and governance of the organization.
- Na Leo O's management team appears to have the appropriate experience and knowledge for the size of the PEG.
- Na Leo O should separately track the data used to compile the Annual Activity Reports for the Hilo and Kona location in order to evaluate the performance of each location.
- The Annual Activity Reports are prepared by the General Manager but are not presented to the Board for review and approval. Na Leo O should ensure that the Annual Activity Reports are presented to and approved by the Board prior to submission to DCCA.
- Na Leo O should develop a strategic plan, for a period not less than 3 years, which includes a detailed plan, measurable goals and triggers to implement the plan.
- Na Leo O should consider using experienced outside consultants to aid them in developing a strategic plan.

Response

Chapter 3

OPERATIONS

Background

Since its incorporation in 1993, Na Leo O has maintained as part of its stated core purpose the "preservation, development and enhancement of the diversity of thought, culture and heritage within Hawaii," and with that, the facilitation of "lifelong learning and the community's participation in the democratic process." From a planning point of view, the strategy of how to achieve this purpose for the future years should be contained in Na Leo O's strategic planning process, described in Chapter 2 of this report.

Findings

Operationally, Na Leo O has sought to achieve its purposes, and carry out its mission, through establishing two operating facilities in Hilo and Kona and reaching out to communities around the island of Hawai'i. The General Manager manages the Hilo principal office and the Assistant General Manager manages the Kona location. Staff from both locations attend various community events throughout the year to build awareness about the organization, relationships with residents, and provide coverage as requested. Since 2009, Na Leo O has also hosted (in partnership with Hawaii Community College, its University of Hawaii Center, West Hawaii and its Educational Talent Search Program) an "Annual Summer Film Boot Camp" for 6^{th} to 9^{th} graders. At the end of the summer boot camp, Na Leo O co-hosted with Hawaii Community College a "Youth Film Premiere" and Boot Camp graduation to showcase boot camp students' productions.

In 2010, Na Leo O donated two editing stations (computers and monitors) to the Kohala community at the Kohala High School. Na Leo O supplied training materials and trained the individual who manages the site who will in turn trains students and members of the community on how to use the equipment. Although the editing stations are at the high school the location is open to the public. Per Na Leo O management, this is not a satellite location. Na Leo O only donated the equipment for the community to use in order to generate more programming in that area. Per the Assistant General Manager, the island is so large that Na Leo O just doesn't have the manpower to house locations all over the island.

Both of Na Leo O's operating facilities provide training for residents to become certified producers for access to Na Leo O facilities, equipment and assistance in producing. In this way, it attempts to provide its services according to the specific character and needs of particular local communities on the island, considering its diversity of social cultures, political traditions, economic situations, and ethnic makeup. Any member of the public or the representative of any social service agency may become trained in the use of production and editing equipment, and produce television programs intended for cable casting on local cable television channels. Government agencies may arrange for the use of Na Leo O staff and equipment to record legislative or other meetings for cable casting on cable channels.

Comments/Recommendations

- The manner in which Na Leo O has reached out and been involved in community needs across the Island, indicate an evident commitment to fulfilling what Na Leo O sees as the organization's core purposes.

- Na Leo O has adapted well to changing user needs and the opportunities for service brought about by the Internet.

- Na Leo O's success in building community awareness to meet the needs on the Island which are informational and also social, is one of the positive marks of its particular character, and is arguably well in line with its mission and what Na Leo O sees as the organization's core purpose.

- Na Leo O should develop a marketing strategy to focus on drawing new residents in to use Na Leo O services and equipment.

Transition from Analog to Digital and High Definition

Background

In 2010, the organization began its transition from using old analog equipment to using new equipment that processes electronic audio and video signals digitally, with the capability of transmitting video programming in High Definition (HD) with minimal additional equipment and cost. All of Na Leo O channels are still analog; however the system is digital and all editing and cameras are digital.

Findings

The transition to digital was smooth and overall the digital equipment has provided a number of efficiencies (i.e. reducing the amount of time editing, converting files, etc.). Prior to the transition, programs made with digital cameras and editing equipment have had to be translated back to analog format for distribution on the PEG channels on the Oceanic cable system. Lacking the digital server-based playback system that could accommodate and process programming by means of available digital telecommunications paths, Na Leo O had to have tapes, DVDs, hard drives and thumb drives brought physically to the facility for playback.

Na Leo O purchased the equipment with the capability of transmitting video programming in High Definition (HD) with minimal additional equipment and cost. However, it should be noted that in order for the transition to HD programming to become fully effective, it needs to be complemented by Oceanic system upgrades to permit transporting HD signals between Na Leo O and the Oceanic headend. Per Na Leo O's Managers, Oceanic has not indicated any time schedule for converting to HD.

Comment/Recommendations

- The transition to digital has been entirely necessary, for reasons indicated in the background and findings above. Although there's no timeline for the conversion to HD, this places Na Leo O in a position to provide these services in the future, when necessary.

Metrics: The Measurement of Results

Background

Na Leo O has kept records of its activities since its inception. Measurement and reporting of results is an integral part of the management and operation of any organization. However, this process was sharpened when DCCA required Na Leo O, as part of its contract, to provide a specific set of reports (i.e. an Annual Activity Report, a Year-End Activity Report, and an Executive Summary). In accordance with this requirement, Na Leo O, among other efforts of accounting for its activities, has been keeping and annually reporting to DCCA detailed statistics on the following key elements of its operations:

- Total Hours of Programming: First Run, Repeat, and Submitted but Not Aired
- Programming by Origin: Locally Produced, Non-Locally Produced, and Bulletin Board
- Programming By Source: First Run Hours from PEG Sectors in the Categories of Dropped off for Play, PEG Trained and Certified Producers, and Hours Created by Na Leo O (Open Mic and Created by PEG)
- Video Production Training: All Locations
- Number of Students Trained and Certified as Producers: All Locations

Findings

As a result, it is possible to identify operating trends useful for Na Leo O management to know as well as for regulators and other stakeholders. For example, the following information on trends could be constructed for analysis from some of the available statistics:

	2006	2007	2008	2009	2010
Total Hours of Programming	70,080*	26,280	26,352	26,280	26,280
Hours of Locally Produced Programming	12,691	19,002	19,498	18,375	9,251
Students trained in Na Leo O classes	344	377	377	1,413**	700

* In 2006 Na Leo O operated two separate systems (one in Hilo, one in Kona), each managing 4 channels each (2 Public, 4 Educational, 2 Government). In 2007, Oceanic Time Warner Cable moved its headend to Hilo and the two systems were combined for the entire Island of Hawaii, a total of 5 channels. This explains the difference in total hours of programming from 2006 to 2007.

** In 2009 Na Leo O's trainer went on-site to schools and trained students in production basics and camera use; therefore the number of students trained is significantly higher than previous years.

The reports provided to DCCA are based on the performance of Na Leo O as a whole. However, given that Na Leo O has two operating locations, it's a matter of interest how each location performs individually. Thus, we recommend that Na Leo O track the progress of both locations individually and monitor things like the number of hours that key items of equipment were used, the number of individuals visiting the site, students trained, etc. With this information, much more detailed, location-specific information about important trends is available to management, regulators and other stakeholders.

We found Na Leo O's focus on metrics lies primarily on the reporting requirements to DCCA. The Managing Director has consistently tracked and monitored the quantitative data and presents it to the Board in a way that is aligned with Na Leo O's mission. Although no strategic plan has been developed, Na Leo O is working on forecasting for the future, as represented in the planned Board retreat for strategic planning. Na Leo O needs to emphasize on setting goals and identifying measurable outcomes.

Comment/Recommendations

- Na Leo O has been successful in keeping and reporting statistics useful for both regulators and management in the past.
- Na Leo O should separately track the data used to compile the activity reports for the annual report for each of its locations in order to evaluate the performance of each location and the organization as a whole.

- As noted in Chapter 2, Na Leo O should develop a strategic plan, for a period not less than 3 years, which includes a detailed plan, measurable goals and triggers to implement the plan.

Chapter 4

FINANCIAL

This performance audit does not include a financial audit. A financial audit is the verification of the financial statements of an organization, with an expression of an audit opinion. This performance audit includes an analysis of Na Leo O's financial ratios and items identified by Na Leo O's independent external auditors and is not a verification of Na Leo O's financial statements.

Na Leo O's Financial Ratios

Background

Financial ratios are useful indicators of an organization's performance and financial health. Financial ratios can be used to analyze and to compare an organization's financials to those of similar organizations.

To be truly comparable, however, the organizations should be of similar size, age, located in the same area or locale, and have similar missions and programs. In the case of Na Leo O, there is a lack of organizations in the same locale of similar size and with similar programs. All four Hawaii PEGs differ in size and offer different programs. In addition, due to the widely varying situations of PEG organizations with respect to local needs, franchise requirements, levels of volunteer activity and other factors, there exists no set of standards for comparison of PEGs which is commonly accepted in the national PEG arena. Accordingly, the analysis conducted for this report will be limited to tracking Na Leo O's performance and financial position over time relative to itself. Accordingly, the ratios developed for Na Leo O include:

- Current Ratio

  The current ratio, also referred to as the working capital ratio, is current assets divided by current liabilities.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

  A high current ratio is of particular interest to creditors since it tends to reduce their risk. On the other hand, a high current ratio may indicate that an organization is either overfunded or that it is accumulating assets for future expansion.

- Quick Ratio

One drawback of the current ratio is that it includes inventory that may contain items that are used over several years or that are difficult to liquidate quickly or have uncertain liquidation values. The quick ratio is an alternative measure of liquidity that excludes inventory and prepaid expenses.

$$\text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventory} - \text{Prepaid Expenses}}{\text{Current Liabilities}}$$

Accordingly, the current assets used in the quick ratio are cash, investments, current accounts receivable, and current notes receivable. The quick ratio is also referred to as the acid test.

- Cash Ratio

The cash ratio is the most conservative of the liquidity ratios. It excludes all the current assets except the most liquid i.e. cash and cash equivalents, and investments (securities).

$$\text{Cash Ratio} = \frac{\text{Cash and Cash Equivalents} + \text{Investments}}{\text{Current Liabilities}}$$

The cash ratio is an indication of the organization's ability to pay off its current liabilities if for some reason immediate payment were demanded.

- Liquid Funds Indicator

The liquid funds indicator measures an organization's operating liquidity and is computed as follows:

$$\text{Liquid Funds Indicator} = \frac{(\text{Net Assets} - \text{Net Property and Equipment}) \times 12}{\text{Total Expenses}}$$

A high liquid funds indicator could point to a lower cash funding urgency and excessive savings. A lowering of the liquid funds indicator over time is likely a sign of a planned capital equipment improvement program.

- Program Ratio

  The program ratio measures the relationship between direct program expenses and the organization's total expenses. Total expenses account for direct program expenses and management and general expenses (overhead).

$$\text{Program Ratio} = \frac{\text{Program Services Expenses}}{\text{Total Expenses}}$$

  Younger organizations will likely have lower program ratios than more mature organizations as they set up the infrastructure to deliver their services. Over time, organizations should see increasingly higher program services ratios. If not, their overhead may need to be examined.

- Savings Ratio

  The savings ratio revels the rate of a nonprofit's cash and investments accumulation by measuring the relationship between savings (cash and cash equivalents, and investments balances) and total expenses.

$$\text{Savings Ratio} = \frac{\text{Total Revenue} - \text{Total Expenses}}{\text{Total Expenses}}$$

  The savings ratio is an important factor in an organization's long term viability, high ratios may indicate excess funding. The savings ratio should be considered in conjunction with the liquid funds indicator. If the organization has low liquid funds indicator, a higher savings ratio would be desirable.

Most ratios by themselves are not particularly meaningful. They should be viewed as indicators, with several of them combined to paint a picture of an organization's situation. Ratios of non-profit organizations are, by their nature, typically limited to measures of liquidity, program expenditures, and overhead.

Findings

We have computed the ratios described above for Na Leo O's fiscal years ended December 31, 2006 through 2010. The results are presented in the table below.

	2006	2007	2008	2009	2010
Current Ratio	1.1	1.1	1.1	1.1	1.1
Quick Ratio	1.1	1.1	1.1	1.1	1.1
Cash Ratio	1.1	1.1	1.1	1.1	1.1
Liquid Funds Indicator	7.4	9.3	9.4	9.7	9.3
Program Ratio	0.8	0.8	0.8	0.9	0.9
Savings Ratio	0.3	0.1	0.1	0.0	0.0

The first three ratios, the Current Ratio, Quick Ratio, and Cash Ratio, are known as liquidity ratios. Na Leo O's three liquidity ratios have remained the same from 2005 through 2010. This reflects the organization's consistency in maintaining assets and liabilities increasing at the same rate.

The last three ratios, the Liquid Funds Indicator, Program Ratio, and Savings Ratio, are measures of Na Leo O's operating efficiency in terms of utilization of available resources to meet its perceived needs of the community as set out in its Mission Statement.

The liquid funds indicator shows continual increase from 2006 through 2010. This is due to a continual increase in net assets and decrease in net property and equipment. Na Leo O's continual decrease in net property and equipment appears to be due to older assets continually depreciating and no significant purchases.

The program ratio has been relatively constant over the years. This indicates that Na Leo O has been able to hold general and administrative expenses from increasing in relation to total expenses.

The savings ratio shows a slight continual decrease from 2006 through 2010. This indicates that over the years Na Leo O's expenses are now pretty much in line with their revenues.

Comments/Recommendations

- Overall, Na Leo O's financial metrics shows a consistent pattern of a conservative use of funds.

- Per Na Leo O's Managers, the organization has been discussing options for a new location for its Kona office. The savings over the years could contribute to the purchase of a new Kona location.

- Na Leo O should develop a strategic plan, for a period not less than 3 years, which includes a detailed plan on how use of funds will contribute to achieving those future goals.

Items Identified By Na Leo O's Independent External Auditors

Background

Independent external auditors who complete a financial statement audit consider the organization's internal control over financial reporting (internal control) as a basis for designing auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the organizations internal controls. These financial statement audits are not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore there can be no assurance that all such deficiencies have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. The two reportable deficiencies include:

- A material weakness is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

- A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

External auditors of an entity's financial statements are required to document, in writing, if they identify internal control deficiencies that are considered material weaknesses or significant deficiencies. These reports are required by Statement on Auditing Standards 112 or Statement on Auditing Standards 115 (SAS 112/115).

If an independent external auditor identifies any internal control deficiencies that do not rise to the level of a material weakness or a significant deficiency, they may issue management advisory comments. These comments are typically made in writing to those charged with governance (i.e. Board of Directors). They generally include comments, suggestions and/or recommendations that strengthen internal controls and foster operating efficiencies.

Findings

For the period from January 1, 2006 through June 30, 2011 Na Leo O received the following items from its independent external auditors:

- For the year ended December 31, 2006 Na Leo O did not receive a SAS 112/115 report but there were four management advisory comments.
- For the year ended December 31, 2007, Na Leo O did not receive a SAS 112/115 report but there were four management advisory comments.
- For the years ended December 31, 2008 and 2009 Na Leo O did not receive a SAS 112/115 report or management advisory comments.
- For the year ended December 31, 2010 Na Leo O received a SAS 112/115 report with a material weakness and three management advisory comments.

The items identified in the SAS 112/115 reports and management advisory comments for the years ended December 31, 2006 through 2009 have all been resolved by Na Leo O. The material weakness and items identified in the management advisory comments for the year ended December 31, 2010 will be reevaluated by Na Leo O's independent external auditor's when they complete their financial statement audit for the fiscal year ending December 31, 2011.

Comments/Recommendations

- For the period from January 1, 2006 through June 30, 2011 Na Leo O has resolved the management advisory comments for the years ended December 31, 2006 through 2009. No SAS 112/115 reports indicating deficiencies in internal control were noted. Also, Na Leo O did not receive the same comments in the years following the original comment. This indicates that Na Leo O has been taking corrective action with regard to its auditor's comments.
- The audits for the fiscal year 2010 identified a material weakness in internal control. It was noted that the Board of Directors were not reviewing financial reports on a regular basis at Board meetings. The recommendation was made in a letter dated June 30, 2011. MCO reviewed the Board minutes after this date (on September 9, 2011) and noted the Board did approve the audited financial statements.

Chapter 5

COMPLIANCE

Analysis of Na Leo O's Compliance with Applicable Laws, Regulations, and its Contract with DCCA

Background

On June 17, 1999 Na Leo O entered into an agreement with the State of Hawaii through its DCCA. As part of the agreement, Na Leo O is responsible for the management and operations of the island of Hawaii PEG access facilities and equipment including channels, facilities and equipment, training, marketing, support services, and insurance. On December 3, 2003 Na Leo O agreed to some changes to the activity reports via a teleconference call with DCCA. These changes were summarized in a letter dated December 22, 2003, titled "Re: Renewal of Contracts and Changes to the Activity Report".

In addition, Na Leo O is required to file reports with DCCA in order for DCCA to monitor Na Leo O's compliance with the provisions of the agreement. The reporting requirements for the period January 1, 2006 through June 30, 2011 are as follows:

1. Amendments to the articles of incorporation and by-laws no later than 30 days after approval by the board of directors.

2. A roster of the board of directors and officers and their respective term of office no later than 30 days after Na Leo O's annual meeting or no later than 30 days after a change in board membership when the change occurs other than at the annual meeting.

3. Annual financial statements no later than 90 days following the close of each calendar year.

4. Annual audited financial statements no later than 30 days after acceptance by the board of directors.

5. An annual operational plan and budget on or before November 1.

6. Na Leo O shall also develop and periodically update a strategic or long-range planning document for a period of not less than three years, and shall submit a copy of such document no later than 30 days after acceptance by the board of directors.

7. Complete equipment inventory upon execution of the Agreement, and thereafter an annual update on or before November 1 of each year.

8. An annual activity report due February 28 of each calendar year which shall include, but not limited to, the following information:

   a. Executive Summary

   b. Public Access Programming

   c. Governmental Programming

   d. Educational programming

   e. Summary of all channel outages from maintenance records including total hours and reasons therefor.

   f. Facility Use

   g. Training

   h. Summary of complaints including the nature of the complaints and the actions taken.

   i. Summary of outreach and marketing efforts.

   j. Summary of revenues from sources other than GIT including the amounts, sources, and purpose of funds.

9. An annual year end activity report due February 28 of each calendar year.

Na Leo O is also required to designate one bank account for operations and another account for capital acquisitions (facilities and equipment). Na Leo O shall be responsible for administering the accounts, and shall not commingle operating funds with capital funds without prior written approval of the Director (DCCA).

Findings

As described in Chapter 1, Na Leo O's Board of Directors and their current and past management teams have taken their responsibility for the management and operations of the PEG access facilities and equipment including channels, facilities and equipment, training, marketing, support services, and insurance seriously.

Na Leo O's compliance with its reporting requirements for the period January 1, 2006 through June 30, 2011 is summarized in the below:

1. No amendments to the articles of incorporation were noted. Amendments to the by-laws were made in March 2007 and February 2010. Changes to the by-laws were submitted to DCCA on September 17, 2007, within 30 days after approval by the board of directors (on August 17, 2007) for the March 2007 changes. However the subsequent change to the by-laws was not submitted to DCCA.

2. Rosters of the Board of Directors and officers were submitted no later 30 days after Na Leo O's annual meeting in 2006 and 2007. However, no rosters were submitted to DCCA in 2008, 2009, and 2010. MCO also noted several instances where changes in board membership were made, during the period January 1, 2006 through June 30, 2011, and an updated roster of the Board of Directors and officers was not submitted to DCCA.

3. All the annual financial statements were not submitted within 90 days following the close of each calendar year.

   All of the annual audited financial statements were submitted no later than 30 days after acceptance by the board of directors, with the following exceptions:

   a. The 2007 annual audited financial statements were approved by the Board on August 1, 2008 but were submitted to DCCA late on September 3, 2008.

   b. The 2010 annual audited financial statements were approved by the Board on September 9, 2011 but were submitted to DCCA late on November 2, 2011.

4. Except for the 2011 annual operational plan and budget, all of the annual operational plans and budgets were not submitted on or before November 1.

5. The board of directors did not approve any strategic or long-range planning documents during the period.

6. Except for the 2011 equipment inventory update, all of the equipment inventories were not submitted on or before November 1.

7. Except for the 2008 annual activity report, all of the annual activity reports were not submitted by February 28 following the close of each calendar year.

8. Except for the 2008 annual year end activity report, all of the annual year end activity reports were not submitted by February 28.

During the performance audit nothing came to our attention to suggest that there were any other instances of non-compliance with laws or regulations.

<u>Comments/Recommendations</u>

- It appears that Na Leo'O is submitting the required reports; however reports are not being submitted by deadlines outlined in its June 17, 1999 agreement with DCCA and December 22, 2003 letter from DCCA.

- Na Leo'O should implement a tickler system on their calendar to notify them of reporting deadlines to ensure reports are timely submitted to DCCA.

- As noted in Chapter 2, Na Leo'O should develop a strategic plan, for a period not less than 3 years, which includes a detailed plan, measurable goals and triggers to implement the plan.

- As noted above, Na Leo O is required to maintain one bank account for operations and another account for capital acquisitions (facilities and equipment). MCO reviewed bank accounts held by Na Leo'O to verify bank accounts were being properly maintained. All payments out of the capital acquisitions account appear appropriate; however cashier's checks are being use to pay vendors. Cashier's checks charge a fee for each check and require Na Leo O's designated personnel to go to the bank to obtain the cashier's check. MCO recommends Na Leo O look into obtaining a checkbook for the capital account to save on the costs associated with using cashier's checks.