

**Akaku: Maui County Community Television, Inc.
And Subsidiary**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2007

(with summarized totals for the year ended June 30, 2006)

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Akaku: Maui County Community Television, Inc.
333 Dairy Road, Suite 104
Kahului, HI. 96732

We have audited the accompanying consolidating statement of financial position of Akaku: Maui County Community Television, Inc. (a Hawaii nonprofit corporation) and subsidiary as of June 30, 2007, and the related statements of activity, changes in net assets, and cash flows for the year then ended. These consolidating financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with accounting standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidating financial statements referred to above present fairly, in all material respects, the individual and consolidating financial position of Maui County Community Television, Inc. and subsidiary, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Wailuku, Hawaii
February 13, 2008

AKAKU:MAUI COUNTY COMMUNITY TELEVISION, INC.
AND SUBSIDIARY

Statement of Financial Position
For the Year Ended June 30, 2007
(with summarized totals for the year ended June 30, 2006)

	ASSETS			2007	2006
	Akaku	Akaku Holdings	Eliminations	Total	Total
CURRENT ASSETS					
Cash and Cash Equivalents:					
First Hawaiian Bank- Akaku	\$ 599,294	\$ -		\$ 599,294	\$ 711,750
First Hawaiian Bank- Akaku Holdings		140,448		140,448	98,635
Bank of Hawaii - Akaku	6,742			6,742	4,553
Bank of Hawaii - Akaku Holdings				-	-
Petty Cash	542			542	95
Total Cash and Cash Equivalents (Note 4)	606,578	140,448		747,026	815,033
Due from Akaku Holdings	301,787		(301,787)	-	-
Accounts Receivable	81,729	6,018	-	87,747	38,600
Interest Receivable	3,070			3,070	-
Deposits				-	-
Prepaid Expense	21,101			21,101	19,887
Total Current Assets	1,014,265	146,466	(301,787)	858,944	873,520
FIXED ASSETS (Notes 2 & 4)					
Building and Ground Lease (Note 9)		2,400,000		2,400,000	2,400,000
Program Equipment	487,146			487,146	417,851
Vehicles	15,600			15,600	15,600
Office Equipment & Furniture	184,492			184,492	161,045
Leasehold Improvements	82,149			82,149	58,324
Common Area Improvements	769,387	2,400,000	-	3,169,387	3,052,820
Less Accumulated Depreciation	(586,881)	(72,026)		(658,907)	(518,457)
Net Fixed Assets	182,506	2,327,974	-	2,510,480	2,534,363
OTHER ASSETS					
Building Acquisition Costs		67,800		67,800	67,800
Less Accumulated Amortization		(15,777)		(15,777)	(8,766)
Net Other Assets		52,023		52,023	59,034
TOTAL ASSETS	\$ 1,196,771	\$ 2,526,463	\$ (301,787)	\$ 3,421,447	\$ 3,466,917

The accompanying notes and Auditors' report are an integral part of these financial statements.

AKAKU:MAUI COUNTY COMMUNITY TELEVISION, INC.
AND SUBSIDIARY

Statement of Financial Position
For the Year Ended June 30, 2007
(with summarized totals for the year ended June 30, 2006)

LIABILITIES AND NET ASSETS

	Akaku	Akaku Holdings	Eliminations	2007 Total	2006 Total
CURRENT LIABILITIES					
Accounts Payable	\$ 3,981	\$ 14,880		\$ 18,861	\$ 19,493
Payroll Taxes Payable	8,371	-		8,371	5,733
Accrued Income Taxes (Note 2)	-	44,823		44,823	44,822
Accrued Wages	35,908	-		35,908	13,168
Security Deposits	-	38,201		38,201	36,290
Short Term Portion of Note Payable (Note 8)	-	51,124		51,124	47,844
Deferred Grant Income	-	-		-	16,019
Deferred Franchise Capital - (Note 5)	287,177	-		287,177	374,565
Deferred Franchise Access Fees - (Note 5)					
Total Current Liabilities	<u>335,437</u>	<u>149,028</u>		<u>484,465</u>	<u>557,934</u>
LONG TERM LIABILITIES					
Due to Akaku TV	-	301,787	(301,787)	-	-
Note Payable (Note 8)	-	1,648,459		1,648,459	1,700,061
Total Long Term Liabilities	<u>-</u>	<u>1,950,246</u>	<u>(301,787)</u>	<u>1,648,459</u>	<u>1,700,061</u>
NET ASSETS (Note 3)					
Unrestricted Net Assets	861,334	427,189		1,288,523	1,208,922
Temporarily Restricted Net Assets	-	-		-	-
Permanently Restricted Net Assets	-	-		-	-
Total Net Assets	<u>861,334</u>	<u>427,189</u>	<u>-</u>	<u>1,288,523</u>	<u>1,208,922</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,196,771</u>	<u>\$ 2,526,463</u>	<u>\$ (301,787)</u>	<u>\$ 3,421,447</u>	<u>\$ 3,466,917</u>

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AKAKU:MAUI COUNTY COMMUNITY TELEVISION, INC.
AND SUBSIDIARY

Statement of Activity
For the Year Ended June 30, 2007
(with summarized totals for the year ended June 30, 2006)

	<u>Akaku</u>	<u>Akaku Holdings</u>	<u>Eliminations</u>	2007 <u>Total</u>	2006 <u>Total</u>
SUPPORT AND REVENUE					
Access Operating Fees (Note 5)	\$ 907,873			\$ 907,873	661,971
Access Capital Fees (Note 5)	166,842			166,842	36,555
Rental Income		864,365	(82,411)	781,954	747,578
County of Maui Contracts	207,633			207,633	234,534
Grant Income	73,019			73,019	29,481
Investment Income	36,878	656		37,534	24,676
Program Fees	25,336			25,336	47,862
Other Income	5,154	718		5,872	6,701
Donations	1,366			1,366	16,807
Total Support and Revenue	1,424,101	865,739	(82,411)	2,207,429	1,806,165
EXPENSES					
Salaries and Wages	594,744			594,744	531,858
Education Settlement (Note 5)	299,598			299,598	142,238
Depreciation	107,834	39,627		147,461	121,990
Rent	91,693	179,963	(82,411)	189,245	179,091
Small Equipment	78,503			78,503	-
Professional Fees	70,727	58,693		129,420	123,414
Employee Medical	52,866			52,866	46,453
Payroll Taxes	52,856			52,856	47,431
Utilities	42,557	48,110		90,667	120,673
Insurance	31,999	42,003		74,002	54,571
Playback/Production Supplies	19,065			19,065	12,339
Repairs and Maintenance	14,560	137,025		151,585	56,319
Supplies	13,373	8,764		22,137	20,327
Employee Retirement (Note 10)	10,751			10,751	17,716
Travel Expense	9,918			9,918	3,561
Staff Development	8,395			8,395	3,165
Other Operating Expenses	6,382	752		7,134	11,458
Advertising and Promotion	6,199	1,340		7,539	7,496
Dues and Subscriptions	4,730			4,730	5,850
Vehicle Expense	3,808			3,808	3,039
Organizational Development	2,330			2,330	6,726
Interest/Investment Expense	2,300	114,327		116,627	124,473
General Excise Tax	1,991	27,393		29,384	28,607
Income / Property taxes		17,502		17,502	61,872
Commissions		7,561		7,561	1,000
Total Expenses	1,527,179	683,060	(82,411)	2,127,828	1,731,667
Excess Revenue Over (Under) Expenses	\$ (103,078)	\$ 182,679	\$ -	\$ 79,601	\$ 74,498

The accompanying notes and Auditors' report are an integral part of these financial statements.

AKAKU:MAUI COUNTY COMMUNITY TELEVISION, INC.
AND SUBSIDIARY

Statement of Changes in Net Assets
For the Year Ended June 30, 2007

	<u>Akaku:Maui County Community Television</u>					<u>Total Akaku</u>
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Akaku TV Total</u>	<u>Akaku Holdings, LLC</u>	
Net Assets - June 30, 2006	\$ 964,412	\$ -	\$ -	\$ 964,412	\$ 244,510	\$ 1,208,922
Excess of Revenue Over (Under) Expenses	(103,078)			(103,078)	182,679	79,601
Net Assets - June 30, 2007	<u>\$ 861,334</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 861,334</u>	<u>\$ 427,189</u>	<u>\$ 1,288,523</u>

The accompanying notes and Auditors' report are an integral part of these financial statements.

AKAKU:MAUI COUNTY COMMUNITY TELEVISION, INC.
AND SUBSIDIARY

Statement of Cash Flows
For the Year Ended June 30, 2007
(with summarized totals for the year ended June 30, 2006)

	Akaku	Akaku Holdings	2007 Total	2006 Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash Received Pursuant to Access Contract	\$ 987,327		\$ 987,327	\$ 717,214
Grant and Contract Income	264,633		264,633	236,824
Program Fees	25,336		25,336	47,862
Cash from Rentals	-	858,347	858,347	822,958
Other Cash Received	6,520	718	7,238	23,241
Interest Received	36,878	656	37,534	24,459
Cash Paid to Employees and Vendors	(1,313,947)	(769,586)	(2,083,533)	(1,654,948)
Net Cash Provided (Used) by Operating Activities (Note 6)	6,747	90,135	96,882	217,610
CASH FLOWS FROM INVESTING ACTIVITIES				
Net Investment Activity			-	410,016
Purchase of Equipment	(116,567)	-	(116,567)	(32,306)
Net Cash Provided (Used) by Investing Activities	(116,567)	-	(116,567)	377,710
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments on Loan Principal		(48,322)	(48,322)	(45,221)
Net Cash Provided (Used) by Investing Activities	-	(48,322)	(48,322)	(45,221)
Net Increase (Decrease) in Cash for the Year	(109,820)	41,813	(68,007)	550,099
CASH AT BEGINNING OF YEAR	716,398	98,635	815,033	264,934
CASH AT END OF YEAR	\$ 606,578	\$ 140,448	\$ 747,026	\$ 815,033

The accompanying notes and Auditors' report are an integral part of these financial statements.

AKAKU: MAUI COUNTY COMMUNITY TELEVISION, INC.
AND SUBSIDIARY

Notes to the Financial Statements
June 30, 2007

Note 1. ORGANIZATION

Maui County Community Television, Inc. (Akaku) was incorporated on June 15, 1992 as a nonprofit corporation under the laws of the State of Hawaii. The Company was formed for the purpose of promoting the creation, production, and cable casting of programs by, for, and about Hawaii.

Akaku is governed by no less than nine (9) and no more than fifteen (15) Board of Directors. All members of the Board are appointed by the Director of the DCCA, except for one to be appointed by the Chief Executive Officer of the cable operator(s) franchised to serve Maui County. The President/Chief Executive Officer of the corporation shall serve as an ex-officio, non-voting member of the Board of Directors.

Akaku Holdings, LLC is a limited liability company organized in April, 2005, under the laws of the State of Hawaii. Pursuant to the operating agreement, Akaku Holdings, LLC was formed for the purpose of the purchase of commercial rental property at 333 Dairy Road, Kahului, Hawaii and its associated ground lease. Its sole member is Maui County Community Television, Inc.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Financial Statement Presentation:

The Companies' consolidating financial statements are presented in conformity with U.S. generally accepted accounting principles. Net assets, revenues, gains and other support and expense are classified based on the existence or absence of donor-imposed restrictions. All net assets of the Companies and changes therein are classified and reported as unrestricted net assets as the assets are not subject to donor-imposed restrictions.

Contributions:

Contributions are recorded in the period received. Conditional contributions are recorded at their estimated fair value in the period the conditions are met or in the period received if there is only a remote likelihood that those conditions will not be met.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. As described in Note 5, Akaku is required to maintain capital funds received to be used to purchase replacement equipment. Funds received are estimated and actual replacement costs may exceed accumulated capital funds as of the date of replacement.

AKAKU: MAUI COUNTY COMMUNITY TELEVISION INC.
AND SUBSIDIARY

Notes to the Financial Statements
June 30, 2007

Fixed Assets:

Property and equipment are stated at cost. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets, which range from 3 to 30 years. Donated property and equipment are recorded as revenue at their estimated fair value. Such donations are reported as unrestricted revenue unless the donor has restricted the donated asset to a specific purpose. All assets purchased with franchise fees would revert back to the State of Hawaii upon discontinuance of their intended use.

Income Taxes:

Akaku is exempt from Federal income taxes pursuant to Internal Revenue Code section 501 (c) (3), and exempt from State income taxes under Section 416-19 and 416-20 of the Hawaii Revised Statutes. However, unrelated business income earned by Akaku Holdings, LLC is subject to Federal and State income taxes and is reflected in the financial statements. The Organization files a 990T annually.

Government and Other Grants and Contracts:

Government grants and contract revenues are recognized when allowable and reimbursable expenditures are incurred, and upon meeting the legal requirements of the funding source. These revenues are considered exchange transactions and are thereby recorded as revenues of the unrestricted net asset class. Expenditures of government and other grants and contracts are to be used for the purposes specified by the funding source.

Cash and Cash Equivalents:

Cash and cash equivalents are defined for the purposes of presenting the Statement of Cash Flows as checking accounts, savings accounts, certificates of deposit, and money market accounts that are readily converted to cash within one year.

Akaku maintains cash balances at financial institutions in excess of federally insured limits. Management believes that these financial institutions are stable and that the risk of loss is minimal.

Note 3. NET ASSETS

Akaku has conformed to Statement of Financial Accounting Standards (SFAS) No. 117, "Financial Statements of Not-for-Profit Organizations". Accordingly, the Association is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

There are no permanently restricted or temporarily restricted net assets as of June 30, 2007.

AKAKU: MAUI COUNTY COMMUNITY TELEVISION, INC.
AND SUBSIDIARY

Notes to the Financial Statements
June 30, 2007

Note 4. ASSET LIMITATIONS

An advisory opinion letter, OIP op. Ltr. No. 93-18 (1993), 1993 WL 531347, dated October 20, 1993 concluded that Akaku: Maui Television, Inc. is not an agency subject to UIPA because it was not "owned, operated, or managed" by the DCCA or any State or county agency. Thus, Akaku management holds that although there are relinquishment provisions in the DCCA agreement regarding PEG fee accounts, facilities and equipment acquired with PEG fees pursuant to Akaku's agreement with the DCCA, the DCCA may not have any present rights in this property. Akaku would however relinquish any and all claims to unspent cable access franchise fees and capital funds provided by the cable company and deposit such amounts into a trust account for the benefit of the successor-designated access organization if Akaku were no longer designated the access organization.

Note 5. DCCA CONTRACT

The cable franchise agreements to provide cable communications service in the County of Maui provide for the establishment of public, educational, and governmental (PEG) access and a related access operating fee of up to 3% of the cable franchises' gross revenues. The agreements also provide for specific payments for capital funds for PEG access facilities and equipment. As the currently designated access organization for all three programs (public, educational, and government) for the County of Maui, Akaku receives these funds through a contract with the DCCA.

Effective January 1, 1999 and automatically renewed yearly unless canceled, Akaku entered into a contract with the State of Hawaii - DCCA to provide public access production and cable casting as described above. As part of the agreement, Akaku receives operating funds and capital replacement funds. Pursuant to the contract, all funds received are restricted for the purposes as stated in the contract. Akaku records all contract funds received as deferred revenue until the funds are used to provide contract services. The contract requires Akaku to set aside cash at least equal to the balance of this account. Akaku received \$987,327 of franchise fees and recognized \$1,074,715 in franchise fees revenue for the year ended June 30, 2007.

In April 2006, Akaku negotiated an agreement with Maui Community College (MCC) and the Maui Department of Education (MDOE). This agreement stated that upon receipt of operating access fees, Akaku, in turn, is required to pay MCC and MDOE 33% of these funds, with the percentage decreasing to 25% in year 2008. As of June 30, 2007, Akaku paid a total of \$299,598 to the above recipients.

AKAKU: MAUI COUNTY COMMUNITY TELEVISION, INC.
AND SUBSIDIARY

Notes to the Financial Statements
June 30, 2007

Note 6. RECONCILIATION OF EXCESS REVENUE AND SUPPORT OVER (UNDER) EXPENSES WITH NET CASH PROVIDED BY OPERATING ACTIVITIES

	<u>Akaku</u>	<u>Akaku Holdings</u>	<u>Total</u>
Excess Support and Revenue Over (Under) Expenses	\$ (103,078)	\$ 182,679	\$ 79,601
Add Depreciation	107,834	39,627	147,461
Adjustments to reconcile:			
Change in Accounts Receivable	96,212	(6,018)	90,194
Change in Prepaid Expenses	(1,214)	-	(1,214)
Change in Accounts Payables	(6,607)	(128,065)	(134,672)
Change in Deposits	-	1,912	1,912
Change in Accruals	17,007		17,007
Change in Deferred Revenue	(103,407)		(103,407)
Net Cash Provided by Operating Activities	<u>\$ 6,747</u>	<u>\$ 90,135</u>	<u>\$ 96,882</u>

Note 7. FUNCTIONAL EXPENSES

Akaku allocates expenses on a functional basis among three categories: direct program services, management and general and fundraising. Most expenses are allocated directly to the program and support services benefited. Certain expenses are allocated using a percentage base computed on an applicable basis. The allocations for Akaku: Maui County Community Television are as follows:

Program	\$ 1,214,144
Admin and General	313,035
Fundraising	<u>-</u>
Total	<u>\$ 1,527,179</u>

AKAKU: MAUI COUNTY COMMUNITY TELEVISION, INC.
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Notes to the Financial Statements
June 30, 2007

Note 8. NOTE PAYABLE

The note payable at June 30, 2007, consists of a bank loan secured by the commercial rental building. The monthly principal and interest payments are \$13,554 per month. The interest rate on the loan is 6.65% per annum to be adjusted on April 15, 2008, 2011 and 2014. The final payment is due in June, 2014.

Balance due on Note Payable at June 30, 2007	\$ 1,699,583
Less Current Portion of Long Term Debt	<u>(51,124)</u>
Long-Term Portion of Debt	<u>\$ 1,648,459</u>

The future minimum principal payments due for the next five years are as follows:

Year ending June 30:

2008	\$ 54,629
2009	58,375
2010	62,377
2011	66,654
2012	71,224
Thereafter	<u>1,386,324</u>
Total principal payments	<u>\$ 1,699,583</u>

Note 9. GROUND LEASE ON DAIRY ROAD PROPERTY

In April, 2006, Akaku Holdings, LLC purchased commercial leasehold property in Kahului, Hawaii for the purpose of collecting rents to assist in the sustainability of Akaku: Maui County Community Television, Inc. The company is making payments on a non-cancelable operating ground lease on which the building is situated. The Lease will expire May 31, 2032.

The future minimum lease payments are as follows:

Year ending June 30:

2008	\$ 208,417
2009	208,417
2010	208,417
2011	208,417
Thereafter	<u>6,551,478</u>
Total future minimum lease payments	<u>\$7,385,146</u>

Note 10. 401(k) PLAN

During the year, the Organization was enrolled in a 401(k) retirement plan for all of its employees. The plan allows employees to contribute up to 20% of their salary and Akaku will contribute up to 5% of the employees' salary depending on eligibility. For the year ended June 30, 2007, the Organization contributed \$10,751 to the retirement plans.