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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

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 your evaluation of the financial, operating, and equipment records, and DCCA agreement compliance of **`Ōlelo: The Corporation for Community Television** (`Ōlelo) as of December 31, 2003. `Ōlelo 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. `Ōlelo'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 December 1998 agreement between `Ōlelo and the DCCA, with the Supplemental Agreements extending the Agreement through June 30th, 2004.

b. The 2001, 2002 and 2003 audited financial statements.

c. Current operating policies and procedures, mission statement, and strategic plan.

d. Board of Directors' meeting minutes for 2002 and 2003.

e. `Ōlelo's most recent Activity Report submitted to DCCA (2003).

f. The material on the `Ōlelo website—www.Olelo.org.

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.

`Ōlelo's financial statements were annually audited.

a. The audit opinions for 2001, 2002 and 2003 were unqualified.

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 `Ōlelo financial statements for 2001, 2002, and 2003. The average amounts for all the Hawaii PEGs are provided for comparison purposes. Additionally, the major financial statement categories for `Ōlelo are described and compared to the Hawaii PEG averages below.

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

Assets
`Ōlelo's assets fall into two categories: Current and Fixed Assets.

Current Assets are composed of cash, investments, and other assets, such as accounts receivable, which are expected to be converted to cash within a year. `Ōlelo's Current Assets are largely cash and investments set aside for current operating needs and future capital equipment. See **Finding 7** for more about `Ōlelo's cash and investments. As shown in the following table, `Ōlelo's Current Assets as a percent of total assets are lower than the Hawaii PEG average over the past three years. For the three year period `Ōlelo's Current Assets averaged 58% of total assets. 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 `Ōlelo's Fixed Assets are production equipment, and its main building in Mapunapuna. See **Finding 9** for more specific detail on `Ōlelo's Capital Assets. As shown in the following table, `Ōlelo'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, `Ōlelo's Fixed Assets have more remaining life than the PEG average. This is largely attributable to `Ōlelo's ownership of its building.

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, `Ōlelo's total liabilities are lower than what the other Hawaii PEGs have held over the past three years. This is due mostly to the recognition of deferred revenues, a short term liability, by two of the Hawaii PEGs. `Ōlelo 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 agreements with the PEGs provide 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. One of the PEGs 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. One of the PEGs 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. `Ōlelo does not have such an arrangement between its net asset accounts.

`Ōlelo reports Temporarily Restricted and Unrestricted Net Assets. `Ōlelo classifies assets for acquisition of property and equipment (a portion of its cash and investments) as Temporarily Restricted. All other Net Assets, including capital equipment are included in the Unrestricted Net Asset category. `Ōlelo's total average Net Assets for three years is 97% of total assets, higher than the 84% average Hawaii PEGs reported over the past three years. As indicated in the *Liabilities* discussion, this difference is mostly related to `Ōlelo not accruing deferred revenues.

	Audited 2001	Audited 2002	Audited 2003	Average of Hawaii PEGs
Statement of Financial Position				
ASSETS:				
Current Assets	56%	58%	60%	68%
Capital Assets				
Total Capital Assets	76%	80%	85%	91%
Less: Accumulated Depreciation	-32%	-38%	-45%	-59%
Total Capital Assets (net)	44%	42%	40%	32%
Due from Permanently Restricted Net Assets	0%	0%	0%	0%
TOTAL ASSETS	100%	100%	100%	100%
LIABILITIES AND NET ASSETS:				
Liabilities				
Current Liabilities	3%	3%	3%	16%
Due to Unrestricted Net Assets	0%	0%	0%	0%
Total Liabilities	3%	3%	3%	16%
Net Assets				
Permanently Restricted	0%	0%	0%	0%
Temporarily Restricted	21%	20%	21%	31%
Unrestricted	76%	77%	76%	53%
Total Net Assets	97%	97%	97%	84%
TOTAL LIABILITIES & NET ASSETS	100%	100%	100%	100%

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 mission-based 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 the other 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. `Ōlelo does not defer revenue.

Over the past three years, about 20% of `Ōlelo's total revenues are from non-operating sources. This is above the 8% non-operating revenues that the Hawaii PEGs as a group averaged over the past three years. `Ōlelo's non-operating revenues are mainly rental and 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. On average, for the three year period ending in 2003, `Ōlelo spent 54% on Program Services and 30% on Management and General expenses. In comparison, the Hawaii PEG average for Program Services is 54% and for Management and General expenses is 32% over the past three years. During the same period, `Ōlelo averaged 16% in deprecation expenses, which is higher than the PEG 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, `Ōlelo had a 1% change in Net Assets, which is lower than the average of Hawaii PEGs. 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, `Ōlelo's average increases to 17% and the PEG average increases to 14%.

	Audited 2001	Audited 2002	Audited 2003	Average of Hawaii PEGs
Statement of Activities				
Revenues				
Operating Revenues				
Franchise Fees	63%	68%	74%	67%
Capital Fund Fees	16%	9%	10%	12%
Other Income	0%	0%	0%	13%
Total Operating Revenues	79%	77%	84%	92%
Non-operating Revenues	21%	23%	16%	8%
Total Revenues	100%	100%	100%	100%
Expenses				
Program Services	47%	55%	59%	54%
Management & General	28%	28%	34%	32%
Depreciation	15%	15%	17%	11%
Total Expenses	90%	98%	110%	97%
Change in Net Assets	10%	2%	-10%	3%

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 `Ōlelo for 2001, 2002, and 2003 and found:

a. No unrelated business income.

b. No direct or indirect political or lobbying expenditures.

c. Fund raising revenues contributions and donations are shown on Form 990 Part I Line 2 (program service revenues). There were no fund raising expenditures reported on Form 990 Part II. On `Ōlelo's trial balance, donations of $1,245 were reported for 2001, $3,200 for 2002, and $119 for 2003.

d. `Ōlelo's Form 990 Part IV-A reconciles to the audited financial statements submitted to DCCA and the Board of Directors.

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.

`Ōlelo's revenues and expenses per subscriber are less than the Hawaii PEGs as a group, while Non-operating revenues are high due to rental and investment income. The three year average change in net assets per subscriber is $0.21, which is in line with the Hawaii PEG average during the same period.

Revenues and Expenses Per Subscriber

	2001	2002	2003	Average of Hawaii PEGs
Avg. Number of Subscribers	263,926	267,276	272,049	
Revenues				
Operating	$ 15.96	$ 16.72	$ 15.87	$ 18.31
Non-operating	4.37	3.65	2.65	1.41
Total Revenues	20.33	20.37	18.52	19.72
Expenses				
Program Services	9.65	11.20	10.92	11.93
Managing & General	8.72	8.75	9.36	7.53
Total Expenses	18.37	19.95	20.28	19.46
Change in Net Assets	$ 1.96	$ 0.42	$ (1.76)	$ 0.26

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. `Ōlelo's financial statements do not provide detail on other income. The Activity Reports indicate that Other Income includes grants, training fees, sales of production supplies and publications, and service income. The resulting schedule of revenues types shows:

Revenues

	Audited 2001	**Audited 2002**	**Audited 2003**
Operating Revenues			
Franchise Fees	$ 3,359,279	$ 3,728,009	$ 3,731,096
Capital Fund Fees	853,741	479,993	517,976
Other income	117,575	260,696	69,328
Total Operating Revenues	4,330,595	4,468,698	4,318,400
Non-operating Revenues			
Rental Revenue	476,893	499,217	517,775
Net unrealized gain (loss) on invest.	93,982	111,717	(130,407)
Interest Income	464,294	364,436	332,359
Total Non-operating Revenues	1,035,169	975,370	719,727
Total Revenues	$ 5,365,764	$ 5,444,068	$ 5,038,127

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. *Temporarily Restricted* funds represent capital funds that will be used for future equipment purchases, while *Unrestricted* funds are derived from franchise fees and other revenue.

Cash and Investments

	2001	2002	2003
Unrestricted			
Cash and Cash Equivalents	$ 2,285,803	$ 2,029,043	$ 2,401,405
Investments	2,694,556	3,285,661	2,994,300
	4,980,359	5,314,704	5,385,705
Temporarily Restricted			
Cash and Cash Equivalents	462,226	462,226	462,226
Investments	2,628,116	2,547,369	2,549,476
	$ 3,090,342	$ 3,009,595	$ 3,011,702
Total	$ 8,070,701	$ 8,324,299	$ 8,407,408

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.** We did note that the ending unspent capital funds do equal the Temporarily Restricted Net Assets.

b. We documented the capital revenues received, spent, and held for future capital additions in the following schedule. The amount shown as Transferred Out in prior years is net after earnings and bank fees. The amounts shown as Transferred Out for 2001 and 2003 agree to the additions to Capital Assets shown in **Finding 9**. During 2002, $25,712 of capital funds was expensed as Wai`anae improvements. The remaining $566,135 was spent on capital additions as shown in **Finding 9.**

Capital Funds Received From Cable Franchisee

	Received	Transferred Out	Earnings & Fees	Held for Future
Prior Years	$ 9,371,910	$ (6,384,260)	$ -	$ 2,987,650
2001	853,441	(791,627)	40,905	3,090,369
2002	479,993	(591,847)	31,080	3,009,595
2003	517,976	(444,772)	(71,097)	$ 3,011,702
	$ 11,223,320	$ (8,212,506)	$ 888	

Procedure 9: From the results of the previous procedures and the audited financial statements, compile a schedule of Capital Assets (Fixed Assets) with 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 with beginning, additions, deletions, and ending balances for the past three years. All the capital additions during 2001, 2002, and 2003 were purchased with capital funds.

We noted that prior to 2001, `Ōlelo used funds other than capital funds for the purchase of some Capital Assets. `Ōlelo has $12,272,114 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 and just over $4 million 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. As indicated in **Finding 10,** `Ōlelo's Mapunapuna facility was purchased with capital funds in 1994 for $2,500,000. The funding sources for individual assets have not been tracked.

Schedule of Capital Assets

	12/31/00	Additions	Reductions	12/31/01
Automobile	$ 96,945	$ -	$ -	$ 96,945
Production Equipment	4,651,416	675,994	-	5,327,410
Office furniture and Equipment	262,992	66,211	(8,103)	321,100
Leasehold Improvements	5,506,011	49,422	-	5,555,433
Total Capital Assets	$10,517,364	$ 791,627	$ (8,103)	$11,300,888
Less: Accumulated Depreciation	(4,020,834)	(781,587)	7,787	(4,794,634)
Total Capital Assets (net)	$ 6,496,530	$ 10,040	$ (316)	$ 6,506,254

	12/31/01	Additions	Reductions	12/31/02
Automobile	$ 96,945	$ 44,267	$ -	$ 141,212
Production Equipment	5,327,410	381,177	-	5,708,587
Office furniture and Equipment	321,100	71,836	(22,506)	370,430
Leasehold Improvements	5,555,433	68,855	-	5,624,288
Total Capital Assets	11,300,888	566,135	(22,506)	11,844,517
Less: Accumulated Depreciation	(4,794,634)	(831,820)	21,519	(5,604,935)
Total Capital Assets (net)	$ 6,506,254	$(265,685)	$ (987)	$ 6,239,582

	12/31/02	Additions	Reductions	12/31/03
Automobile	$ 141,212	$ 23,384	$ -	$ 164,596
Production Equipment	5,708,587	334,328	(2,912)	6,040,003
Office furniture and Equipment	370,430	53,816	(14,262)	409,984
Leasehold Improvements	5,624,288	33,243	-	5,657,531
Total Capital Assets	11,844,517	444,771	(17,174)	12,272,114
Less: Accumulated Depreciation	(5,604,935)	(860,246)	17,174	(6,448,007)
Total Capital Assets (net)	$ 6,239,582	$(415,475)	$ -	$ 5,824,107

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: `Ōlelo owns the building where it conducts most of its operations. Additionally, `Ōlelo has seven satellite locations at various educational and governmental facilities (Kahuku, Leeward Community College, Palolo, Wai`anae, City Council, Mayor's Office/Hale, and at the State Capitol).

a. `Ōlelo's main building (Mapunapuna) is located on leased land under a non-cancelable operating lease. The operating lease terminates in October 2044. The lease provides for payment of specified annual rent up to September 30, 2008. The rent for the remaining term of the lease shall be determined by mutual agreement. Total rent expense was $405,847 for 2001, $429,132 in 2002, and $429,232 in 2003. The minimum rental commitments are:

Minimum Rental Commitments

Year Ended December 31	
2004	$ 419,386
2005	443,125
2006	443,125
2007	443,125
2008	332,343
Total	$ 2,081,104

For the Leeward Community College location `Ōlelo provides funds for two half-time University of Hawaii Media Specialists and a half-time student aide. The agreement with the University of Hawaii was established in 1997, and is renewed annually.

For the Kakuku High School and Intermediate School location `Ōlelo provides training staff and production equipment, including insurance, engineering support, and maintenance. `Ōlelo pays up to $100 a month for utility costs beyond regular classroom use, and provides telephone lines. `Ōlelo is responsible for damage caused by the general public. Kahuku provides the space, limited capital improvement funds, security system, administrative support and compensation for equipment loss or damage by students. If feasible, Kahuku provides vocational staff support for student work during the school day. The agreement with the Department of Education was established in 1999 and is for a period of five years. Upon expiration, the contract becomes month-to month.

For the Wai`anae High School location, `Ōlelo provides training staff and production equipment, including insurance, engineering support and maintenance. `Ōlelo pays up to $100 a month for utility costs beyond regular classroom use, provides telephone lines and limited capital improvement funds. `Ōlelo is responsible for damage caused by the general public. Wai`anae provides the space, security system, administrative support and compensation for equipment loss or damage by students. Wai`anae provides a teacher or qualified supervisor for any class or group of three or more students. Teachers or supervisors are responsible for any student in the center. The agreement with the Department of Education was established in 2001 and is for a period of five years. Upon expiration, the contract becomes month-to-month.

For the Palolo Center at Jarrett Middle School, `Ōlelo provides training staff and production equipment, including insurance, engineering support and maintenance. `Ōlelo pays up to $100 a month for utility costs beyond regular classroom use, provides telephone lines and limited capital improvement funds. `Ōlelo is responsible for damage caused by the general public. Jarrett provides the space, administrative support and compensation for equipment loss or damage by students. Jarrett provides a teacher or qualified supervisor for any class or group of three or more students. Teachers or supervisors are responsible for any student in the center. `Ōlelo and Jarrett share security system costs. The agreement with the Department of Education was established in 2003 and is for a period of five years. Upon expiration, the contract becomes month-to month.

For the City council, Mayor's office, and the state capital locations, `Ōlelo provides and maintains equipment. Municipal and state staff operates the equipment.

b. In 1994, `Ōlelo used capital funds to purchase the Mapunapuna building, where it conducts most of its operations, for $2,500,000. This step is not applicable for the satellite facilities since `Ōlelo does not own them.

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:

Salary and Benefits by Category

	2001	2002	2003
Salary			
Management	$ 240,228	$ 236,212	$ 253,779
Administrative	111,633	109,657	122,378
Operational	1,007,223	1,001,680	1,100,237
Total Salary	1,359,084	1,347,549	1,476,393
Benefits			
Management	27,070	30,539	33,630
Administrative	14,354	16,381	17,883
Operational	140,660	162,592	186,420
Total Benefits	182,084	209,512	237,933
Total Salary and Benefits	$ 1,541,168	$ 1,557,061	$ 1,714,326

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 the employment contract for the managing director and the information used to prepare the salary and benefit schedule, we determined the amount of compensation paid to the managing director. The current director was not in the position for all of 2003. We documented the salary and benefits on the following chart. The salary and benefits paid fell within the terms of the employment agreement.

Procedure	Per employment contract	Amount for 2003
a. Salary	Annual salary increases at the sole discretion of the Board of Directors.	$76,875
b. Bonus	Not specified.	$0
c. Benefits	Participation in employee benefit plans on same basis as other employees, including:	
	▪ Pension plan (4% of salary contributed by the employer)	$3,075
	▪ 20 days of paid vacation per year	Not Available
	▪ Health insurance	$6,797
	▪ Agreement to investigate long-term insurance options	Not Available
e. 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 a reimbursement form, vendor invoices and receipts and cosigning of checks over $500.

   In addition to the employment conditions documented in **Finding 12**, we examined `Ōlelo's *Reimbursement Policy, Disbursement Policy,* and *Personnel Policies Handbook* for procedures in place for authorization of expense accounts or other allowances paid to officers and directors.

b. Personal expenses are not allowed on PEG credit cards. Management is responsible for reviewing credit card statements and associated purchase orders to ensure that personal items are not charged. For this procedure, we examined reimbursement as covered under `Ōlelo's Personnel Policies Handbook ("Other Reimbursements") and a Reimbursement policy dated August 12, 2004.

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

Finding 14: We examined travel and Board of Director reimbursement as covered under `Ōlelo's *Personnel Policies Handbook* ("Other Reimbursements") and a *Reimbursement policy* dated August 12, 2004. We tabulated travel expenses for staff and expenses for the Board of Directors. While completing **Procedure 13** we determined that reimbursement requires an expense report with vendor invoices and/or receipts, and if greater than $500 requires cosigning and approval of disbursement by the President CEO and a staff Director. Checks over $15,000 require approval by the Board of directors Chair or Treasurer. The reimbursement policy requires use of a purchase order, supervisor approval, and receipt.

Travel and Board Expenses

	Travel	Board	Total
2001	$ 11,414	$ 2,637	$ 14,051
2002	20,148	4,675	24,823
2003	18,837	12,652	31,489

The PEGs do not track travel and board expenses in the same way. `Ōlelo uses two accounts--Travel, and Public/Board Relations--to track these expenses.

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 17 samples, testing at least 25% of total costs reimbursed by `Ōlelo for travel and Board of Directors' expenses. We tested the evidence for compliance with the PEG's reimbursement policy. This evidence included receipts and purchase orders.

We found that seven (41%) of the 17 samples were missing required documentation or proof of authorization as required by the reimbursement policies.

- In three cases, travel agency invoices did not include trip details such as dates, destination, and number of people, airfare, and room costs; nor did the associated purchase order include the details.

- Three samples did not have a signed purchase order; the check signers ultimately gave approval by signing the checks.

- A single sample was missing documentation on the length of the trip, number of people, and airfare class; this sample had a note on the purchase order indicating the credit card receipt did not have the needed detail and that the employee should submit additional receipts. No additional receipts were attached.

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 17 samples that were tested we were able to document per-person costs of:

- Hotel costs per night, date, state, and purpose:
  - $141 (2001, CA, DV Expo)
  - $137 (2001, NM, ACM conference)

- Mainland airline costs, date, state, and purposes:
  - $562 (2001, NM, ACM conference)
  - $1,112 (2002, KY, Mac OSG)
  - $956 (2003, WA, ACM conference)
  - $628 (2003, CO, ACM conference)

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. Ten directors.

b. One inside (non-voting) director.

c. Nine 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. No presentation of financial reporting and comparisons to plans/budgets.

c. Presentation and acceptance of the annual audits for 2001 and 2002.

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, 2002, and 2003 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 site visit in September 2004, the most recent available financial statements were for August 2004. This indicates that up-to-date financial information is available to `Ōlelo'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. If the PEG has been in compliance with the policy.

Finding 20: We obtained `Ōlelo's investment policy and determined.

a. It has been approved by the Board of Directors.

b. ` Ōlelo has been in compliance with the investment policy.

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. The PEG has been in compliance with the policy.

Finding 21: We obtained `Ōlelo's cash disbursement policy and:

a. Determined it has been approved by the Board of Directors.

b. Determined through observation that the PEG has been in compliance with the policy with exceptions noted 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: `Ōlelo has a web site (www.Olelo.org).

a. The web site includes operating and financial plans and results reported in the 2002 Annual Report.

b. Operating and financial plans and results are presented to the Board of Directors during public meetings. Requests for information are fulfilled when requested, including requests from members of the public who do not have Internet access.

c. Aside from operating and financial plans and results, we documented the following content:

- 2001 Strategic Plan and 2002 update
- Operating Procedures
- Web streaming
- Channel Schedules
- Training
- Location and contact
- Volunteering
- How to submit tape, register for training
- DCCA PEG plan
- Mission statements
- Bylaws
- Board meeting minutes and news
- Staff
- News
- Descriptions of production equipment and facilities

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 `Ōlelo, the quantity of each type of system, and a description of the users of each type of systems as shown in the following table:

System Location and Description	Quantity	Users
Mapunapuna		
Studio	1	General Public
Mini/robotic	1	Staff
Featherpack	2	General Public
Production truck/van	1	Staff
Camcorder	15	General Public
Non-linear edit	16	General Public
Linear edit	3	General Public
Master Control	1	Staff
Dubbing/transfer	3	General Public
Kahuku		
Studio	1	General Public
Featherpack	1	General Public
Camcorder	10	General Public
Non-linear edit	6	General Public
Linear edit	1	General Public
Dubbing/transfer	1	General Public
Palolo		
Studio	1	General Public
Featherpack	1	General Public
Camcorder	6	General Public
Non-linear edit	6	General Public
Linear edit	1	General Public
Dubbing/transfer	1	General Public

System Location and Description	Quantity	Users
Wai`anae		
Studio	1	General Public
Featherpack	1	General Public
Camcorder	20	General Public
Non-linear edit	11	General Public
Linear edit	1	General Public
Dubbing/transfer	1	General Public
Leeward Community. College		
Studio	1	General Public
Featherpack	1	General Public
Camcorder	9	General Public
Non-linear edit	2	General Public
Linear edit	1	General Public
City Council		
Mini/robotic	1	City staff
Mayor/Hale		
Camcorder	1	City staff
Non-linear edit	1	City staff
Dubbing/transfer	1	City staff
State Capital		
Featherpack	2	State 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 `Ōlelo equipment by system type and location. The listings had all the required information. A listing without date of purchase, and original cost 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 actual presence 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 that approximately 97% of items selected were available for inspection. In performance of this procedure, we tested a minimum of 10% of the total costs.

a. In general, `Ōlelo purchases equipment for prices comparable to other PEG centers. For items with prices tested, `Ōlelo is within the tested 20% or $500 tolerance. The inventory had several entry errors or price combinations that appear to exceed the tolerance prior to explanation. Errors include four Master Control items with incorrect price entry and linear tape editing equipment with full system prices entered instead of individual item prices. `Ōlelo has purchased higher end production equipment including video switchers with options that increase the price beyond traditional range, but within tolerance given the price of the added features.

b. `Ōlelo buys most equipment from four vendors in Honolulu. On tested items, taking into account the exceptions listed in **Finding 25a**, `Ōlelo 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: `Ōlelo has a five year Technology Plan that was commissioned in 2003. We determined that the plan considers future facilities and equipment requirements. As indicated in the plan document, the plan was developed specifically to meet the requirements of D&O 261 to plan for the capital requirements for the remainder of the franchise agreement. In addition to a general recapitalization schedule, the plan includes changes in new technologies and the addition of new satellite locations.

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: 1122 Mapunapuna, Honolulu
Purpose: PEG
Size: 18,812 Square feet
Services: Training, equipment, production, and transmission.

Additional facility locations:

Satellite Location: Kahuku High and Intermediate School
Purpose: PEG
Size: 2,812 Square feet
Services: Training, equipment, and production.

Satellite Location: Palolo Center at Jarrett Middle School
Purpose: PEG
Size: 1,651 Square feet
Services: Training, equipment, and production.

Satellite Location: Wai`anae High School
Purpose: PEG
Size: 2,090 Square feet
Services: Training, equipment, and production.

Satellite Location: Leeward Community College
Purpose: PEG
Size: 150 Square feet (`Ōlelo) and 4,500 Square feet (Shared)
Services: Production.

Satellite Location: City Council
Purpose: Governmental
Size: NA (`Ōlelo supplies equipment)
Services: Production.

Satellite Location: Mayor's office/Hale
Purpose: Governmental
Size: NA (`Ōlelo supplies equipment)
Services: Production.

Satellite Location: State Capital
Purpose: Governmental
Size: NA (`Ōlelo supplies equipment)
Services: Production.

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

Finding 28: `Ōlelo 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.

For inventory changes, engineering tags and enters new items into computer inventory using the *Facil* software, files paperwork, and is responsible for removal and disposal of equipment no longer in service or needed for parts.

Engineering provides written documentation of equipment changes to accounting. Within a month, accounting enters the information on equipment changes into the accounting software used for insurance and depreciation purposes.

Obsolete equipment that retains usefulness is permanently loaned to other Hawaii PEGs.

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:

- `Ōlelo requires signed contracts for public users.
- Members of the public are responsible for return of equipment in working condition or are financially liable.
- `Ōlelo risk insurance covers loss of any kind.
- `Ōlelo staff trains the public on use of equipment.
- `Ōlelo Mapunapuna operates in a separate locked facility. Public must sign in at front desk upon entering. Interior locks separate Master Control and administration.
- Satellite facilities are divided from partner space and lock independently.
- Facility equipment rooms have locking doors.
- All facilities have interior surveillance cameras, and Kahuku has an exterior camera.

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 `Ōlelo's facilities, equipment inventories, Annual Activity Reports, and interviews with staff, we determined that the media service provided by `Ōlelo is exclusively cable television programming, and related activities, supplemented by the live web streaming of its five access channels. We found no indication that `Ōlelo is currently planning or actually engaged in print publishing, FM radio transmission, the development of a community ISP, or other services.

We found no existing breakdown of capital equipment, or of salaries and operational expenses, by media type. Currently, there is no practical way to estimate how costs are allocated between direct cable television activities and the live web streaming performed by `Ōlelo.

Consistent with these findings, we found no indication that there is expenditure of operating funds or devotion of physical space or capital resources to services other than those associated with community cable television activities and web streaming.

Procedure 31: Examine the performance evaluations for the managing director or equivalent position. Determine if:

a. Work performance has been evaluated by the board at least annually or as documented in the job description.

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. This procedure is not applicable for the current managing director (executive) because the current executive has been in the position for less than a year. We learned in interviews that the Board of Directors is currently working on establishing evaluation criteria. There are no records regarding performance evaluations for the prior executive.

b. This procedure is not applicable for the current managing director (executive) because the current executive has been in the position for less than a year. There are no records regarding performance evaluations for the prior executive.

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 PEG vision statement, strategic goals, and action plans.

\`Ōlelo's mission statement as it appears in the \`Ōlelo website (www.Olelo.org) is:

> *- promote lifelong learning through the creation, production and cablecasting of programs that are aimed at the preservation, development and enhancement of the diversity of thought, culture and heritage on O\`ahu;*
>
> *- facilitate communication through electronic media technology for community empowerment; and*
>
> *- increase civic participation in the democratic process by promoting understanding and informed use of electronic media.*

Explicitly developed strategic goals and action plans are in \`Ōlelo's Strategic Plan 2001-2005, which sets forth four "Strategic Initiatives," each of which is associated with strategic goals, which in turn are associated with more specific objectives.

Strategic Initiative 1. *Diversity of Voices* To achieve strong representation in the creation of programming from all groups in the community which leads to issues being addressed, community connectivity and positive change.

- Strategic Goal 1.A. *Variety of Methods to Access Resources* \`Ōlelo provides access to its resources through a variety of methods to increase participation in the creation of programming by and for the community.

- Strategic Goal 1.B. Demographic *Diversity of Clientele* \`Ōlelo participants reflect the diversity of the community.

Strategic Initiative 2. *Diversity of Programming* To build diversity of thought by ensuring exposure to diversity issues facing our community.

- Strategic Goal 2.A. *Program Content Valued by Community* Programming is valued by community because it connects viewers to their community by reflecting the diversity of causes and issues.

Strategic Initiative 3. *Informed and Engaged Community and Viewers* Build increasing civic participation in community issues as people realize they can influence change.

- Strategic Goal 3.A. *Positive Awareness of \`Ōlelo* \`Ōlelo is broadly recognized as a valuable resource to the community.

- Strategic Goal 3.B. *Community Catalyst* `Ōlelo serves as a catalyst and resource for increased diversity and positive change in the community.

Strategic Initiative 4. *Building Community* To engage individuals in addressing issues and creating positive change by increasing shared understanding and realization of their impact on each other.

- Strategic Goal 4.A. *Networking Communities* `Ōlelo fosters community connectivity through the programming on the cable access channels.

In 2003, `Ōlelo developed two new Strategic Initiatives, which it is currently pursuing. These initiatives are:

- Additional Satellites (seeking to establish one or two additional satellite operations).

- Mentorship Program Development (seeking to establish two additional mentoring options).

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 `Ōlelo's objectives and the means to measure them:

a. Vision and Strategic Goals – `Ōlelo has made efforts to articulate and update its long range planning. As indicated in **Finding 32**, it has defined in written form its mission, and in its Strategic Plan 2001-2005, Strategic Initiatives and Strategic Goals. These are stated without specific means to measure them, but are accompanied by a list of more specific objectives. In addition, specific targets have been developed in the action planning discussed in (c) below. `Ōlelo's "Strategic Plan Project Matrix" provides quarterly updates of each of the Strategic Initiatives and Goals from the Strategic Plan.

b. Short-Range Goals – Annually, the Operating Budget includes specific short-term goals. The 2004 budget includes a recap of 2003 goals and the progress in meeting those goals. `Ōlelo bases its annual operating plan on its ongoing implementation of its strategic goals (**Finding 32** - listed in order of priority). Goals for 2004 were:

   - Open three new satellite centers.
   - Hire a full time Community Development Specialist.

- Do a Vote! 2004 campaign.

c. Action Plans – `Ōlelo does not have a plan specifically designated an "Action Plan". Action planning is included in "Draft 2004 Strategic Goals Implementation Matrix," which identifies specific goals and 2004 target measures, rationales for the goals and links to the Strategic Plan, possible methods of implementation, and the lead and support departments responsible for implementation. The matrix does not identify individual agents responsible for specific tasks (departments are identified) or completion dates. Otherwise, this matrix includes the main elements of what would be included in an action plan tied to the organization's mission and strategic goals.

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: We obtained the results of four recent community surveys or results of objective tools that may measure "customer satisfaction" and documented the following:

a. We examined the results of the most recent surveys and a focus group study of client and viewer perceptions provided by `Ōlelo. The surveys and the focus groups were all conducted by Ward Research. The surveys, with a summary of their key findings (and, in one case, recommendations) were the following:

   1) *Exploring the Perceptions of the `Ōlelo Training Program*, series of four Focus Groups, each with six to eight producers or producer-trainees, May 2002. Key findings:

      - New producers lack confidence.
      - More in-depth instruction is desired.
      - Mentoring is strongly backed.
      - Current services for clients are too limited.
      - Better communication with potential producers is needed.

      Key recommendations:

      - Consider a tiered training curriculum.
      - Provide opportunities for more hands-on practice with equipment.
      - Encourage use of the `Ōlelo website for communications.
      - Establish a strong mentorship program.

2) *Survey among `Ōlelo Trainees*, telephone survey of 350 past trainees, (reported 4.3% error margin at 95% level of confidence), December, 2001. Key findings:

   - Overall satisfaction with the program is high.
   - Quality of instructors and hands-on training rated most effective.
   - Training schedule rated lowest, for lack of opportunities for hands-on learning.
   - Training programs at the satellite centers were rated significantly higher than those at Mapunapuna.
   - Post-training help most desired: more access to equipment, more assistance, networking help, advanced classes, and user-friendly equipment.

3) *Interest in `Ōlelo Training Facilities*, telephone survey of approximately 100 residents each in Wai`anae, Kahuku, Waimanalo, Waialua and Ewa Beach (reported 9.8% margin of error at 95% level of confidence), June, 2002. The survey was meant to provide information to assist in a decision on a site for a future satellite Access center. Key findings:

   - About 80% in all surveyed communities but Ewa Beach were aware of access channels, and 40%-50% tuned in recently.
   - About one third of respondents in Wai`anae and Kahuku, where training facilities exist, were aware of the facilities; of these, half found them "very valuable", with ten people saying they would sign up for training.
   - Waimanalo appears the best candidate based on interest displayed by residents in having community-based programming and future training facilities.

4) *Viewer Awareness of and Response to Voter Information Programming*, telephone survey of 191 cable subscribers who are registered voters (reported 7.1% margin of error at 95% level of confidence), taken from a larger previous survey, November, 2002. Selected key findings:

   - One in six registered voters tuned in to at least one of the three voter information programs cablecast prior to the elections; one in three were aware of the programs. The commercial network debates drew approximately twice the number of viewers.
   - A greater percentage of access voter information program watchers than commercial network debate watchers reported having their votes influenced on the basis of their viewing.
   - Voters surveyed most preferred a debate format, followed by a panel format led by journalists.

b. We inquired if the PEG made changes in services as a response to the outcome of the measurement results. The following are selected current developments related to findings and recommendations of the surveys:

Exploring the Perceptions of the `Ōlelo Training Program:

- Ten E-Macs have been provided for hands-on use in training and mentoring. PCs have been provided in the lobby area for email access and general web access.
- An advanced production class was instituted in 2002. There are current discussions to provide opportunities for trainees to enter at a variety of levels in the training and mentorship programs.
- A pilot mentoring program in non-linear editing has been expanded to include production, camera operation and other areas.

Survey among `Ōlelo Trainees:

- Staff pursues suggestion that personalization of service is key reason for high rating of satellite centers.
- Ten E-Macs have been provided for hands-on use in training and mentoring. PCs have been provided in the lobby area for email access and general web access.
- A new staff member has been added as a non-linear editor mentor, to provide more hands-on training nights and weekends.

Interest in `Ōlelo Training Facilities:

- Waimanalo is currently being considered for a satellite center on the windward side of O`ahu.

Viewer Awareness of and Response to Voter Information Programming:

- `Ōlelo did regular voter information programming on Channel 54 in the form of candidate debates for the September, 2004 local elections.

c. Changes in service are documented in **Finding 34b**. There has been no quantifiable follow-up to these changes at this time.

In addition to the quantitative surveys we reviewed, we were informed by staff that additional methods of getting feedback on operations were frequently employed by `Ōlelo staff, including informal focus groups, individual interviews and meetings, training course evaluations, client forums, and follow-up surveys of clients certified as producers through `Ōlelo classes. We were able to review the instruments used in some of these methods.

Procedure 35: Obtain and examine the documentation of the PEG's customer complaint process. Along with reviewing 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 were informed that `Ōlelo had an informal customer complaint process during the years 2001, 2002, and 2003. During those years complaints received were taken by the receptionist and e-mailed to the appropriate manager for disposition.

In March 2004 a new complaint process was documented in writing with a complaint form and a specific series of steps in the process from intake to disposition or resolution. The process includes a provision for summarizing complaints by type for reporting.

The "Compliments, Suggestions and Complaints Handling Procedure" was implemented in April 2004. `Ōlelo's goal is to improve and streamline feedback from the public.

a. The new process is:

- Upon receipt of a verbal or written compliment, suggestion or complaint, complete an intake form.
- Forward the completed form to the appropriate Department Director within 24 business hours of receipt. (Note: Not every complaint or suggestion requires an acknowledgement or action. However, the specific feedback still needs to be documented on an intake form.)
- A written acknowledgement should be issued by the Department Director within 48 business hours of receipt of the completed intake form, noting receipt of the complaint. A verbal acknowledgment may also be made, if appropriate.
- The Department Director will work with appropriate staff to investigate the complaint and suggestion and determine its validity and the appropriate resolution and response.
- Resolution is communicated to the originating source, verbally and/or in writing within 10 business days of the Director's receipt of the intake form. If the investigation and/or resolution requires more than 10 business days, the originating source will be notified and given a new resolution date.
- Completed intake forms, along with copies of associated documentation are maintained by the Department Director and reported out on a quarterly basis to the Administrative Services Department.

b. This procedure is not applicable because the complaint process was informal during the period tested and, accordingly, it is not possible to measure the process against specific guidelines.

c. This procedure is not applicable because the complaint process was informal during the period tested.

d. This procedure is not applicable because the `Ōlelo staff did not keep track of time spent on specific tasks. No other resources were considered to have been consumed in the complaint process.

e. Complaints are summarized in the 2003 Activity Report. Numbers of complaints are not quantified for 2001 and 2002. A summary of complaints by type is presented below:

Year	Technical-Viewer	Technical-User	Program Content
2001	NA	NA	NA
2002	NA	NA	NA
2003	1	18	22
Totals	1	18	22

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. `Ōlelo's total programming hours are higher than the average of the Hawaii PEGs. However, this is accounted for in part by the fact that `Ōlelo cablecasts over five channels, while some if the PEGs broadcast on fewer channels. 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.

	`Ōlelo					
Total hours of:	Public	Educational	Government	Other	Total	Average of Hawaii PEGs.
Total Programming	13,891	12,496	6,673	10,739	43,799	43,607
Locally produced programming	12,499	8,754	6,554	NA	27,807	15,431
Local original programming	1,651	32	1,387	NA	3,070	4,184
First run programming	2,810	NA	1,450	NA	4,260	5,006
Repeat programming	11,081	NA	5,224	NA	16,305	14,698
Programming submitted but not aired	NA	NA	NA	NA	NA	NA

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 `Ōlelo. We noted a pattern of lag in time between the renewal payments of certain polices and the prior year-end date due to the insurance agent negotiating for better terms for `Ōlelo.

a. We determined that coverage is current and covers the replacement of all facilities and equipment.

b. We documented that insurance requirement in the agreements between the `Ōlelo 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: `Ōlelo's strategic plan does not include self-sufficiency as a goal. In its 2003 Audited Financial Statements, `Ōlelo reported $850,134 in revenues from sources other than capital funds or franchise fees. Approximately 95% of this total is from rent and related services provided to the tenants using part of the Mapunapuna building, and from investment income.

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 learned that:

a. Except for the arrangements described in **Finding 52**, `Ōlelo does not provide direct in-kind financial support, grants, sponsorships, or web sites to other groups or individuals. Staff informed us that possibilities for such activities are being explored for the future.

b. In its Annual Report, `Ōlelo lists approximately 200 organizations it worked with in some manner during 2003. More than 300 organizations utilized the bulletin board Island Info. In addition, `Ōlelo provided many hours of staff-facilitated video production for organizations and the public. In interviews, staff emphasized the associations it has developed with the schools and the University, as well as local government and the political institutions on O`ahu. Two of `Ōlelo's satellite community media centers are at high schools, and one is at a middle school, with students participating in media activities.

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: We obtained and reviewed `Ōlelo's documentation regarding compliance with the ADA. `Ōlelo's *Personnel Polices Handbook* includes a section on the ADA and Reasonable Accommodation. Wheelchair accessibility and Braille labeling was noted during our tour of the main facility. We inquired as to accessibility to the facility and equipment and were informed that the architectural plan used to convert the facility to its current use included plans on accessibility.

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 during this time. We documented compliance and tested Board approved amendments to the by-laws, and found that amendments were submitted to DCCA within 30 days of approval.

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. We found one exception to the 30 day reporting requirement. Nominations for board members made on October 29, 2003 were received by DCCA on January 13, 2004.

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 December 31) for annual (unaudited) 2001, 2002, and 2003 financial statements. We found two exceptions to the 90 day reporting requirement. The unaudited 2001 and 2002 financial statements were received by DCCA on April 12, 2002 and May 20, 2003, 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 found that the audited 2003 financial statements were approved by the board on June 22, 2004 and had not been received by DCCA as of December 21, 2004. The audited 2001 and 2002 financial statements were received within 30 days of approval.

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 documented compliance and found that `Ōlelo submitted its 2004 budget and operating plans to DCCA by the November 1 deadline.

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 `Ōlelo submitted its 2003 inventory list to DCCA by the November 1 deadline.

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 28th 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 `Ōlelo submitted its 2003 Annual Activity report 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 the PEG with the agreement made with DCCA regarding the reporting requirements for the 2003 annual Activity Report for total hours of Public Access Programming, Governmental Programming, and Educational Programming as shown in the following table. `Ōlelo indicates N/A for hours of programming submitted but not aired.

Hours of Programming	Programming		
	Public Access	Governmental	Educational
a. Total Hours	Reported	Reported	Reported
b. Locally Produced Original	Reported	Reported	Reported
c. Repeated	Reported	Reported	Not Reported
d. Submitted but not aired and reasons not aired	Not Reported	Not Reported	Not 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 the PEG with the agreement made with DCCA regarding the 2003 annual Activity Report requirements for the following:

a.	Summary of all channel outages from maintenance records including total hours and reasons.	Reported
b.	Facility use:	
	(1) Number of new users	Not Reported
	(2) Facility use - number of repeat users	Not 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 to complaint.	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 `Ōlelo. We did not note additional reporting requests from 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: This procedure is not applicable because according to `Ōlelo staff, a *Plan for Self Sufficiency* has not been developed.

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

Finding 52: `Ōlelo contracts with the Hawaii Educational Network Consortium, which includes the University of Hawaii and the Department of Education, to manage and program its two educational channels, channels 55 and 56. Twenty-five percent of `Ōlelo's franchise fee revenues ($932,774 for 2003) are devoted to funding this arrangement, which as been in place in some form since 1998. `Ōlelo also contracts to provide grants to the Honolulu City Council and the Honolulu City and County Administration to supply programming for Government Access. These grants were for $44,000 and $42,779 respectively for 2003.

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