

KEKAHU FOUNDATION, INC.,
dba Kauai Community Radio

FINANCIAL STATEMENTS
As of and for the Year Ended September 30, 2013
With Prior Year Comparative Information
And Independent Auditors' Report



CW Associates
A Hawaii Certified Public Accounting Corporation



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INDEPENDENT AUDITORS' REPORT

Kekahu Foundation, Inc., *dba Kauai Community Radio*:

Report on the Financial Statements

We have audited the accompanying financial statements of Kekahu Foundation, Inc., (Foundation), *dba Kauai Community Radio*, a nonprofit Hawaii corporation, which comprise the statement of financial position as of September 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to an entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of September 30, 2013, 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.

Report on Prior Year Comparative Information

We previously audited the financial statements of the Foundation as of and for the year ended September 30, 2012, and our report dated January 23, 2013, expressed an unmodified opinion on those audited financial statements. In our opinion, the accompanying prior year comparative information is consistent, in all material respects, with the audited financial statements from which it has been derived.

CW ASSOCIATES, CPAs

March 28, 2014



KEKAHU FOUNDATION, INC.,
dba Kauai Community Radio

STATEMENT OF FINANCIAL POSITION

As of September 30, 2013
(With Prior Year Comparative Information)

	<u>2013</u>	<u>2012</u>
ASSETS		
CURRENT ASSETS		
Cash (including interest-bearing accounts)	\$ 176,212	\$ 179,913
Accounts receivable – net	2,687	10,500
Prepaid expenses	6,568	4,309
Total current assets	<u>185,467</u>	<u>194,722</u>
PROPERTY AND EQUIPMENT		
Leasehold improvements	24,395	23,184
Broadcast equipment	488,922	456,100
Software	13,670	13,670
Total	<u>526,987</u>	<u>492,954</u>
Accumulated depreciation	<u>(418,081)</u>	<u>(403,333)</u>
Property and equipment – net	<u>108,906</u>	<u>89,621</u>
TOTAL ASSETS	<u>\$294,373</u>	<u>\$284,343</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 9,765	\$ 5,308
Accrued liabilities	-	861
Deferred revenue	15,775	21,506
Total current liabilities	<u>25,540</u>	<u>27,675</u>
NET ASSETS		
Unrestricted – undesignated	267,408	248,745
Temporarily restricted for capital improvements	1,425	7,923
Total net assets	<u>268,833</u>	<u>256,668</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$294,373</u>	<u>\$284,343</u>

See accompanying notes to financial statements.

KEKAHU FOUNDATION, INC.,
dba Kauai Community Radio

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2013
(With Prior Year Comparative Information)

	<u>2013</u>	<u>2012</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue and support		
Underwriting	\$ 112,336	\$ 99,809
CPB grants	108,058	112,281
Membership	104,664	93,035
Unrestricted contributions	17,063	112,406
Net assets released from restrictions	14,223	41,906
Fundraising	1,166	1,223
Interest and other income	2,369	25
Total revenue and support	<u>359,879</u>	<u>460,685</u>
Expenses		
Program services	237,223	212,325
Fundraising and development	79,161	60,308
Management and general	24,832	33,150
Total expenses	<u>341,216</u>	<u>305,783</u>
Increase in unrestricted net assets	<u>18,663</u>	<u>154,902</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Temporarily restricted contributions	7,725	1,425
Net assets released from restrictions	<u>(14,223)</u>	<u>(41,906)</u>
Decrease in temporarily restricted net assets	<u>(6,498)</u>	<u>(40,481)</u>
INCREASE IN NET ASSETS	12,165	114,421
NET ASSETS – Beginning of the year	<u>256,668</u>	<u>142,247</u>
NET ASSETS – Ending of the year	<u>\$268,833</u>	<u>\$256,668</u>

See accompanying notes to financial statements.

KEKAHU FOUNDATION, INC.,
dba Kauai Community Radio

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2013
(With Prior Year Comparative Information)

	Program Services	Fundraising and Development	Management and General	2013 Total	2012 Total
Salaries and wages	\$ 43,706	\$40,031	\$12,230	\$ 95,967	\$ 78,317
Utilities	49,765	104	59	49,928	44,399
Rent	25,033	38	22	25,093	24,930
Professional services	15,269	4,381	2,473	22,123	16,832
Program support	20,000	-	-	20,000	28,978
Office	15,527	1,532	865	17,924	17,354
Repairs and maintenance	15,769	20	12	15,801	16,964
Depreciation	14,700	31	17	14,748	13,895
Employee benefits	7,488	3,712	2,095	13,295	10,407
Payroll taxes	6,917	3,429	1,935	12,281	9,000
Telephone and internet	8,374	2,447	1,381	12,202	10,993
Membership supplies	-	11,399	-	11,399	6,316
Insurance	5,814	2,882	1,627	10,323	10,613
Bank and merchant fees	-	5,291	-	5,291	4,618
Dues and subscriptions	3,318	-	770	4,088	2,771
Equipment rental	2,068	1,025	579	3,672	3,672
Webcasting	3,475	-	-	3,475	3,006
Postage and delivery	-	2,160	733	2,893	2,525
Events	-	679	-	679	193
Board meetings	-	-	34	34	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u>\$237,223</u>	<u>\$79,161</u>	<u>\$24,832</u>	<u>\$341,216</u>	<u>\$305,783</u>

See accompanying notes to financial statements.

KEKAHU FOUNDATION, INC.,
dba Kauai Community Radio

STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2013
(With Prior Year Comparative Information)

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 12,165	\$114,421
Adjustments to reconcile increase in net assets to net cash provided by operating activities		
Depreciation	14,748	13,895
(Increase) decrease in:		
Accounts receivable	7,813	1,580
Prepaid expenses	(2,259)	(1,222)
Increase (decrease) in:		
Accounts payable	4,457	(3,342)
Accrued liabilities	(861)	106
Deferred revenue	(5,731)	(6,085)
Net cash provided by operating activities	<u>30,332</u>	<u>119,353</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	<u>(34,033)</u>	<u>(42,083)</u>
Net cash used by investing activities	<u>(34,033)</u>	<u>(42,083)</u>
NET INCREASE (DECREASE) IN CASH	(3,701)	77,270
CASH – Beginning of the year	<u>179,913</u>	<u>102,643</u>
CASH – Ending of the year	<u>\$176,212</u>	<u>\$179,913</u>

See accompanying notes to financial statements.

KEKAHU FOUNDATION, INC.,
dba Kauai Community Radio

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2013
(With Prior Year Comparative Information)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Activity

Kekahu Foundation, Inc., (Foundation), *dba Kauai Community Radio*, was incorporated in the State of Hawaii on April 12, 1994 to instruct and disseminate educational and cultural material in the public interest through a community radio station and other means. The Foundation is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation. Accordingly, qualifying contributions to the Foundation are tax deductible. The radio station and all operations are conducted from facilities in Hanalei, Hawaii. Broadcasting is on the following frequencies from the following locations: 90.9 FM (KKCR) from Hanalei, Hawaii (regional) on the Island of Kauai, 91.9 FM (KKCR) from Kahili, Hawaii (island-wide) on the Island of Kauai, 92.7 FM (KQAQ) from Anahola, Hawaii (regional) on the Island of Kauai, 95.1 FM (KKCR) on cable, and 102.2 FM (KKCR) from Campbell, Hawaii (regional) on the Island of Oahu. Revenue is derived principally from grants from the Corporation for Public Broadcasting (CPB), the loss of which could have a material adverse effect on the Foundation.

In the wake of Hurricane Iniki in 1992, community members in Hanalei, Hawaii gathered to develop a plan to stay connected, informed, and safe. Their brainchild was *Kauai Community Radio*, an organization committed to providing relevant, accurate, and timely information during times of crisis. It is also dedicated to representing the unique character of the island community. The Kauai Island program schedule includes vintage and contemporary Hawaiian music, jazz, blues, and alternative, reggae, world, classical, and rock music. “Kauai Live” features in-studio performances from local and visiting artists. Public affairs programming includes weekly call-in talk shows, a Hawaiian entertainment calendar, a community calendar, and an arts and entertainment calendar. Special interest programs include gardening, island pets, health and wellness, and teen radio.

Basis of Accounting

The Foundation reports 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 (none in 2013 and 2012). Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted depending on the existence and/or nature of any donor restrictions. Support is reported when pledged and is considered to be available for unrestricted use unless restricted by the donor. Donor restricted support is reported when pledged as an increase in temporarily restricted or permanently restricted net assets, depending on the nature of the restriction. When a temporary restriction is satisfied or expires, temporarily restricted net assets are reclassified to unrestricted net assets. Revenue is recognized when earned, and expenses (including advertising expenses) are recognized when the related liability is incurred. Donated services are reflected as revenue and support at their estimated fair market value and are recorded as expenses in the same amount. For the years ended September 30, 2013 and 2012, underwriting revenue included donated services of \$23,053 and \$20,311, respectively. Expenses that can be identified with a specific program or supporting service are charged directly to the program or supporting service using natural expense classifications. Other expenses are allocated to program service or management and general expenses based on the estimates of management.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

CPB grant revenue is recognized to the extent of expenditures made in accordance with the CPB grant agreements (including expenditures for property and equipment, which are capitalized and depreciated for financial reporting purposes). Accounts receivable include grant expenditures in excess of the grant revenue recognized through that date. Deferred revenue includes grant amounts received and receivable in excess of the grant revenue recognized through that date. Grant expenditures are subject to audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability. The amount, if any, of expenditures that may be disallowed cannot be determined at this time. Management expects such amounts, if any, to be immaterial to the financial statements.

Donated services are recognized as contributions if the services create or enhance nonfinancial assets, or require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Foundation. A substantial number of unpaid volunteers have made significant contributions of their time for programming and other services. The value of their time, estimated to approximate \$180,000 annually for the years ended September 30, 2013 and 2012, is not reflected in these financial statements because it does not meet the criteria for recognition.

Use of Estimates

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America, which require management to make estimates and assumptions that affect the amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of changes in net assets during the reporting period. Actual results could differ from those estimates, and it is at least reasonably possible that such estimates may change within the near term.

Concentrations of Credit Risk

Financial instruments that potentially subject the Foundation to credit risk include cash and accounts receivable. At September 30, 2013 and 2012, the Foundation's cash on deposit was fully insured by federal deposit insurance. Accounts receivable, which have been adjusted for all known doubtful accounts, are determined to be collectible or uncollectible based on an assessment by management of the facts and circumstances related to the individual accounts.

Property and Equipment

Property and equipment is stated at cost or, if donated, at estimated fair market value at the date of donation. Depreciation is computed using the straight-line method over estimated useful lives of 3 to 10 years for leasehold improvements and broadcast equipment, and 3 years for software. Property and equipment and other long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their related carrying amounts may not be recoverable. Repairs and maintenance are expensed. Additions over \$200 are capitalized.

Hawaii General Excise Tax

The State of Hawaii imposes a general excise tax of 4% on certain gross receipts of the Foundation. The gross receipts of the Foundation for the years ended September 30, 2013 and 2012 were exempt from the Hawaii general excise tax.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Accounting principles generally accepted in the United States of America require uncertain tax positions to be recognized in the financial statements if they are more likely than not to fail upon regulatory examination. Management has evaluated the Foundation's tax positions as of September 30, 2013 and 2012 and for the years then ended by reviewing its income tax returns and conferring with its tax advisors, and determined that the Foundation had no uncertain tax positions required to be reported in accordance with such generally accepted accounting principles. Such returns are open for examination by taxing authorities until the statutes of limitations expire.

Financial Statement Presentation

The financial statements include certain prior year comparative information that is not in sufficient detail to constitute a complete presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the financial statements of the Foundation as of and for the year ended September 30, 2012, from which the information was derived.

Certain amounts in the prior year comparative information have been reclassified to conform to the current year presentation. Management has evaluated subsequent events through the date of the independent auditors' report, which is the date the financial statements were available to be issued. The Foundation operates in the State of Hawaii. National and international events can have severe, adverse effects on economic conditions in Hawaii. The effects on the financial statements of the Foundation, if any, from such changes in economic conditions are not presently determinable.
