

KEKAHU FOUNDATION, INC.,

dba Kauai Community Radio

FINANCIAL STATEMENTS

As of and for the Year Ended September 30, 2018

With Prior Year Comparative Information

And Independent Auditor's Report



CW Associates

A Hawaii Certified Public Accounting Corporation

INDEPENDENT AUDITOR'S 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, 2018, 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.

Auditor's 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 auditor's 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 auditor considers 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.

Opinion on the Financial Statements

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, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Prior Year Comparative Information

We have previously audited the financial statements of the Foundation as of and for the year ended September 30, 2017, and we expressed an unmodified opinion on those audited financial statements in our report dated February 2, 2018. In our opinion, the accompanying prior year comparative information presented herein is consistent, in all material respects, with the audited financial statements from which it has been derived.

CW ASSOCIATES, CPAs

Honolulu, Hawaii
February 12, 2019

KEKAHU FOUNDATION, INC.,
dba Kauai Community Radio

STATEMENT OF FINANCIAL POSITION

As of September 30, 2018
(With Prior Year Comparative Information)

	<u>2018</u>	<u>2017</u>
ASSETS		
CURRENT ASSETS		
Cash (including interest-bearing accounts)	\$162,890	\$114,154
Accounts receivable – net	3,650	3,952
Prepaid expenses and other current assets	19,241	17,280
Total current assets	<u>185,781</u>	<u>135,386</u>
PROPERTY AND EQUIPMENT		
Leasehold improvements	13,610	13,610
Broadcast equipment	474,579	461,114
Construction-in-progress	5,151	-
Total	493,340	474,724
Accumulated depreciation	<u>(379,119)</u>	<u>(356,142)</u>
Property and equipment – net	<u>114,221</u>	<u>118,582</u>
TOTAL ASSETS	<u>\$300,002</u>	<u>\$253,968</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 2,090	\$ -
Total current liabilities	<u>2,090</u>	<u>-</u>
NET ASSETS		
Unrestricted – undesignated	297,912	253,968
Total net assets	<u>297,912</u>	<u>253,968</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$300,002</u>	<u>\$253,968</u>

See accompanying notes to the financial statements.

KEKAHU FOUNDATION, INC.,
dba Kauai Community Radio

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018
(With Prior Year Comparative Information)

	<u>2018</u>	<u>2017</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue and support		
Membership	\$181,051	\$143,166
Underwriting	76,242	88,144
CPB grants	71,821	78,050
Unrestricted contributions	70,079	13,635
In-kind donation of property and equipment	-	22,640
In-kind donation of services	-	7,950
Fundraising	-	5,763
Interest and other income	27	172
Total revenue and support	<u>399,220</u>	<u>359,520</u>
Expenses		
Program services	278,703	251,188
Management and general	36,424	64,103
Fundraising and development	40,149	50,822
Total expenses	<u>355,276</u>	<u>366,113</u>
Increase (decrease) in unrestricted net assets	<u>43,944</u>	<u>(6,593)</u>
INCREASE (DECREASE) IN NET ASSETS	43,944	(6,593)
NET ASSETS – Beginning of the year	<u>253,968</u>	<u>260,561</u>
NET ASSETS – Ending of the year	<u>\$297,912</u>	<u>\$253,968</u>

See accompanying notes to the financial statements.

KEKAHU FOUNDATION, INC.,
dba Kauai Community Radio

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended September 30, 2018
(With Prior Year Comparative Information)

	Program <u>Services</u>	Management and <u>General</u>	Fundraising and <u>Development</u>	2018 <u>Total</u>	2017 <u>Total</u>
Salaries and wages	\$103,322	\$21,936	\$16,275	\$141,533	\$120,961
Utilities	30,442	322	239	31,003	24,693
Professional services	19,648	4,172	3,095	26,915	26,911
Rent	25,386	269	199	25,854	27,435
Depreciation	22,562	238	177	22,977	20,633
Employee benefits	15,943	3,385	2,512	21,840	18,042
Payroll taxes	10,866	2,307	1,712	14,885	13,136
Insurance	8,426	1,789	1,327	11,542	13,711
Repairs and maintenance	11,207	63	47	11,317	20,039
Events	-	-	-	-	7,344
Office	6,267	372	276	6,915	14,437
Equipment rental	6,740	-	-	6,740	4,205
Membership supplies	-	-	6,662	6,662	9,478
Convention	-	-	-	-	6,336
Telephone and internet	4,570	970	720	6,260	6,328
Program support	6,100	-	-	6,100	8,991
Bank and merchant fees	-	-	3,984	3,984	3,985
Dues and subscriptions	3,775	-	-	3,775	3,775
Webcasting	3,337	-	-	3,337	3,151
Postage and delivery	-	412	2,863	3,275	4,587
Advertising	-	-	-	-	2,518
Board meetings	-	-	-	-	314
Taxes and fees	112	67	61	240	-
Bad debts	-	122	-	122	5,103
Total expenses	<u>\$278,703</u>	<u>\$36,424</u>	<u>\$40,149</u>	<u>\$355,276</u>	<u>\$366,113</u>

See accompanying notes to the financial statements.

KEKAHU FOUNDATION, INC.,
dba Kauai Community Radio

STATEMENT OF CASH FLOWS

For the Year Ended September 30, 2018
(With Prior Year Comparative Information)

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 43,944	\$ (6,593)
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities		
In-kind donation of property and equipment	-	(22,640)
Depreciation	22,977	20,633
(Increase) decrease in:		
Accounts receivable – net	302	316
Prepaid expenses and other current assets	(1,961)	(4,999)
Increase (decrease) in:		
Accounts payable	2,090	-
Accrued liabilities	-	(859)
Deferred revenue	-	(5,737)
Net cash provided (used) by operating activities	<u>67,352</u>	<u>(19,879)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	<u>(18,616)</u>	<u>(7,358)</u>
Net cash used by investing activities	<u>(18,616)</u>	<u>(7,358)</u>
NET INCREASE (DECREASE) IN CASH	48,736	(27,237)
CASH – Beginning of the year	<u>114,154</u>	<u>141,391</u>
CASH – Ending of the year	<u>\$162,890</u>	<u>\$114,154</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Noncash operating and investing activities – In-kind donation of property and equipment	\$ -	\$ 22,640

See accompanying notes to the financial statements.

KEKAHU FOUNDATION, INC.,
dba Kauai Community Radio

NOTES TO THE FINANCIAL STATEMENTS

For the Year Ended September 30, 2018
(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 taxes 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: 90.9 FM (KKCR) from Hanalei (regional), 91.9 FM (KKCR) from Kahili (island-wide), and 92.7 FM (KQAG) from Anahola (regional) on the Island of Kauai; 95.1 FM (KKCR) on cable; and 102.2 FM (KKCR) from Campbell (regional) on the Island of Oahu.

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, 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 (none in 2018 and 2017), and permanently restricted net assets (none in 2018 and 2017). 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 are recognized when the related liability is incurred. Donated property and equipment, and donated services are reflected as revenue and support at their estimated fair market value. Donated services are recorded as expenses in the same amount. For the years ended September 30, 2018 and 2017, underwriting revenue included donated services of \$6,740 and \$12,001, respectively. Other in-kind donations of property and equipment, and of services, amounted to \$0 and \$30,590 for the years ended September 30, 2018 and 2017, 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 services, fundraising and development, or management and general based on the estimates of management.

KEKAHU FOUNDATION, INC.,
dba Kauai Community Radio

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018
(With Prior Year Comparative Information)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Accounting (Continued)

Corporation for Public Broadcasting (CPB) grant revenue is recognized to the extent of expenditures made in accordance with CPB grant agreements (including expenditures for property and equipment, which are capitalized and depreciated for financial reporting purposes). Accounts receivable may include grant expenditures in excess of the grant revenue recognized through that date. Deferred revenue may include grant amounts received and receivable in excess of the grant revenue recognized through that date.

Donated services are recognized as contributions if the services create or enhance nonfinancial assets, or require specialized skills that 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 \$190,000 for the years ended September 30, 2018 and 2017, 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. The preparation of financial statements in accordance with such generally accepted accounting principles requires 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 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, 2018 and 2017, the Foundation's cash on deposit was fully insured by federal deposit insurance. Accounts receivable, which have been reduced by estimated allowances for doubtful accounts (approximately \$1,400 and \$5,100 at September 30, 2018 and 2017, respectively), 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 three to 10 years for leasehold improvements and for broadcast equipment. Property and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amounts may not be recoverable. Repairs and maintenance are expensed as incurred. Additions over \$200 are capitalized.

KEKAHU FOUNDATION, INC.,
dba Kauai Community Radio

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018
(With Prior Year Comparative Information)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment (Continued)

In September 2016, the Foundation entered into an agreement with Cedar Cove Broadcasting (CCB) to exchange FCC licenses and assets used in connection with the operating of FCC licenses. The parties to the agreement are currently using the exchanged frequencies on a temporary basis pending final approval by the FCC. The exchange is expected to be recognized at the carrying value of the exchanged licenses and assets because it lacks commercial substance as defined by accounting principles generally accepted in United States of America.

Hawaii General Excise Tax

The State of Hawaii imposes a general excise tax of 4% on certain gross receipts on KKCR's gross receipts from special events within Hawaii. Hawaii general excise tax included in taxes and fees amounted to \$240 for the year ended September 30, 2018. The gross receipts of the Foundation for the year ended September 30, 2017 were exempt from the Hawaii general excise tax.

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 and for the years ended September 30, 2018 and 2017 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. The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any open tax periods.

On December 22, 2017 the Tax Cuts and Jobs Act of 2017 was signed into law. The law includes significant changes to the United States of America corporate income tax system, including a federal corporate rate reduction from 35% to 21% and limitations on the deductibility of certain expenses. Accounting principles generally accepted in the United States of America require the effect of a change in tax law to be recognized when enacted. The new tax law is not expected to have a significant financial impact on the Foundation.

NOTE B – LEASES

The Foundation leases land in Hanalei and Hanamaulu on the Island of Kauai under operating lease agreements expiring in December 2018 and July 2021, respectively. The Hanalei lease converted to a month-to-month basis as of January 1, 2019. The Foundation also leases other transmitter space on a month-to-month basis. Land and transmitter rent for the years ended September 30, 2018 and 2017 amounted to \$25,851 and \$27,435, respectively. At September 30, 2018, future minimum lease payments by years ending September 30th were expected to approximate \$9,400 in 2019, \$4,300 in 2020, and \$3,300 in 2021.

KEKAHU FOUNDATION, INC.,
dba Kauai Community Radio

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2018
(With Prior Year Comparative Information)

NOTE C – CONTINGENCIES

The Foundation may be subject to legal proceedings, claims, or litigation arising in the ordinary course of business for which it seeks the advice of legal counsel. Management estimates that the cost to resolve these matters, if any, would not be material to the financial statements. However, it is reasonably possible that such estimates may change within the near term.

Revenue derived from grants from CPB may be subject to audit and adjustment by CPB. Any disallowed amounts, including amounts already collected, may constitute a liability. Management expects such amounts, if any, to be immaterial to the financial statements. The loss of grants from CPB could have an adverse effect on the Foundation.

The Foundation operates throughout 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 from such changes in economic conditions in Hawaii, if any, are not presently determinable.

NOTE D – FINANCIAL STATEMENT PRESENTATION

The accompanying financial statements include certain prior year comparative information that is not in sufficient detail to constitute a complete presentation in accordance 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, 2017, from which the information was derived.

NOTE E – SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 12, 2019, which is the date the financial statements were available to be issued, and determined that the Foundation did not have any subsequent events requiring adjustment to the financial statements or disclosure in the notes to the financial statements.