

KEKAHU FOUNDATION, INC.,
dba Kauai Community Radio

FINANCIAL STATEMENTS

As of and for the Year Ended September 30, 2019

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, 2019, 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, 2019, 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.

Emphasis of Matter

As discussed in Note A to the financial statements, during the year ended September 30, 2019, the Foundation adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Our opinion is not modified with respect to this matter.

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, 2018, and we expressed an unmodified opinion on those audited financial statements in our report dated February 12, 2019. 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
December 18, 2019

KEKAHU FOUNDATION, INC.,
dba Kauai Community Radio

STATEMENT OF FINANCIAL POSITION

As of September 30, 2019
(With Prior Year Comparative Information)

	<u>2019</u>	<u>2018</u>
ASSETS		
CURRENT ASSETS		
Cash (including interest-bearing accounts)	\$115,986	\$162,890
Accounts receivable – net	2,679	3,650
Prepaid expenses and other current assets	9,904	19,241
Total current assets	<u>128,569</u>	<u>185,781</u>
PROPERTY AND EQUIPMENT		
Leasehold improvements	40,238	13,610
Broadcast equipment	502,740	474,579
Construction-in-progress	-	5,151
Total	542,978	493,340
Accumulated depreciation	<u>(402,096)</u>	<u>(379,119)</u>
Property and equipment – net	<u>140,882</u>	<u>114,221</u>
TOTAL ASSETS	<u>\$269,451</u>	<u>\$300,002</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ -	\$ 2,090
Deferred revenue	7,830	-
Total current liabilities	<u>7,830</u>	<u>2,090</u>
NET ASSETS		
Net assets without donor restrictions	<u>261,621</u>	<u>297,912</u>
Total net assets	<u>261,621</u>	<u>297,912</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$269,451</u>	<u>\$300,002</u>

See accompanying notes to the financial statements.

KEKAHU FOUNDATION, INC.,
dba Kauai Community Radio

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2019
(With Prior Year Comparative Information)

	<u>2019</u>	<u>2018</u>
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenue and support		
Membership	\$133,438	\$181,051
Underwriting	91,252	76,242
CPB grants	64,483	71,821
Unrestricted contributions	20,139	70,079
In-kind donation of property and equipment	9,000	-
Interest and other income	4,759	27
Total revenue and support	<u>323,071</u>	<u>399,220</u>
Expenses		
Program services	272,415	278,703
Management and general	33,545	36,424
Fundraising and development	53,402	40,149
Total expenses	<u>359,362</u>	<u>355,276</u>
Increase (decrease) in net assets without donor restrictions	<u>(36,291)</u>	<u>43,944</u>
INCREASE (DECREASE) IN NET ASSETS	(36,291)	43,944
NET ASSETS – Beginning of the year	<u>297,912</u>	<u>253,968</u>
NET ASSETS – Ending of the year	<u>\$261,621</u>	<u>\$297,912</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, 2019
(With Prior Year Comparative Information)

	Program <u>Services</u>	Management and <u>General</u>	Fundraising and <u>Development</u>	2019 <u>Total</u>	2018 <u>Total</u>
Salaries and wages	\$111,342	\$12,771	\$21,827	\$145,940	\$141,533
Rent	21,953	2,518	4,304	28,775	25,852
Utilities	21,691	2,488	4,252	28,431	31,003
Depreciation	17,530	2,011	3,436	22,977	22,977
Professional services	15,110	1,733	2,962	19,805	26,915
Employee benefits	14,295	1,640	2,802	18,737	21,840
Payroll taxes	10,484	1,202	2,055	13,741	14,885
Insurance	9,394	1,077	1,841	12,312	11,542
Repairs and maintenance	8,109	930	1,590	10,629	11,317
Program support	7,831	898	1,535	10,264	6,100
Office	7,164	822	1,404	9,390	6,917
Membership supplies	5,188	581	993	6,762	6,662
Equipment rental	5,142	590	1,008	6,740	6,740
Telephone and internet	4,363	500	855	5,718	6,260
Events	3,778	433	740	4,951	-
Bank and merchant fees	3,068	352	602	4,022	3,984
Dues and subscriptions	2,851	341	583	3,775	3,775
Bad debts	-	2,300	-	2,300	122
Webcasting	1,617	185	317	2,119	3,337
Postage and delivery	1,482	170	291	1,943	3,275
Taxes and fees	-	-	-	-	240
Board meetings	23	3	5	31	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total expenses	<u>\$272,415</u>	<u>\$33,545</u>	<u>\$53,402</u>	<u>\$359,362</u>	<u>\$355,276</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, 2019
(With Prior Year Comparative Information)**

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (36,291)	\$ 43,944
Adjustments to reconcile increase (decrease) in net assets to net cash provided (used) by operating activities		
In-kind donation of property and equipment	(9,000)	-
Depreciation	22,977	22,977
(Increase) decrease in		
Accounts receivable – net	971	302
Prepaid expenses and other current assets	9,337	(1,961)
Increase (decrease) in		
Accounts payable	(2,090)	2,090
Deferred revenue	7,830	-
Net cash provided (used) by operating activities	<u>(6,266)</u>	<u>67,352</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	<u>(40,638)</u>	<u>(18,616)</u>
Net cash used by investing activities	<u>(40,638)</u>	<u>(18,616)</u>
NET INCREASE (DECREASE) IN CASH	(46,904)	48,736
CASH – Beginning of the year	<u>162,890</u>	<u>114,154</u>
CASH – Ending of the year	<u>\$ 115,986</u>	<u>\$ 162,890</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Noncash operating and investing activities – In-kind donation of property and equipment	\$ 9,000	\$ -

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, 2019
(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 (KQAQ) 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 two classes of net assets: net asset without donor restrictions and net assets with donor restrictions (none in 2019 and 2018). Contributions received are recorded as net assets with donor restrictions or net assets without donor restrictions depending on the existence and/or nature of any time or purpose 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 net assets with donor restrictions, depending on the nature of the restriction. When a time or purpose restriction expires or is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions. Revenue is recognized when earned, and expenses are recognized when the related liability is incurred.

The Foundation allocates its expenses on a functional basis among its various programs and supporting services based on estimates of management. 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 that are common to several functions are allocated by various bases including the percentage of time spent by the Foundation’s personnel.

KEKAHU FOUNDATION, INC.,
dba Kauai Community Radio

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2019
(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 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, 2019 and 2018, underwriting revenue included donated services of \$6,740. In-kind donations of property and equipment amounted to \$9,000 and \$0 for the years ended September 30, 2019 and 2018, respectively.

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 governance, programming, and other services. The value of their time, estimated to approximate \$426,000 for the years ended September 30, 2019 and 2018, 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, 2019 and 2018, 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 of approximately \$1,400 at September 30, 2019 and 2018, are determined to be collectible or uncollectible based on an assessment by management of the facts and circumstances related to the individual accounts.

KEKAHU FOUNDATION, INC.,
dba Kauai Community Radio

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2019
(With Prior Year Comparative Information)

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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 the gross receipts of the Foundation's gross receipts from special events within the State, plus an additional 0.5% tax on such gross receipts within the County of Kauai from January 1, 2019. Hawaii general excise tax included in taxes and fees amounted to \$0 and \$240 for the years ended September 30, 2019 and 2018, respectively.

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, 2019 and 2018 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.

Adoption of New Accounting Pronouncements

In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. Under this ASU, there are two classes of net assets – net assets with donor restrictions and net assets without donor restrictions. This ASU also requires qualitative information on how the organization manages its liquid assets and associated liquidity risks and the availability of the organization's assets to meet cash needs for general expenditures within one year. The Foundation implemented this ASU during the year ended September 30, 2019.

KEKAHU FOUNDATION, INC.,
dba Kauai Community Radio

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2019
(With Prior Year Comparative Information)

NOTE B – LIQUIDITY

The Foundation monitors the financial assets needed for its operating needs and contractual commitments. The Foundation has various sources of liquidity available for its use, including cash and receivables. For purposes of analyzing resources available to meet general expenditures over the upcoming 12-month period, the Foundation considers all expenditures related to its ongoing activities. In addition to financial assets available to meet general expenditures over the next 12 months, the Foundation anticipates collecting sufficient revenues to cover general operating expenditures.

The Foundation’s financial assets and the amounts of those assets that are readily available within one year of the statement of financial position date to meet general expenditures amounted to the following:

	<u>2019</u>	<u>2018</u>
Cash (including interest-bearing accounts)	\$ 115,986	\$ 162,890
Accounts receivable – net	<u>2,679</u>	<u>3,650</u>
Total financial assets	118,665	166,540
Donor-imposed restrictions	<u>-</u>	<u>-</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 118,665</u>	<u>\$ 166,540</u>

NOTE C – LEASES

The Foundation leases land in Hanalei and Hanamaulu on the Island of Kauai under operating lease agreements expiring in March 2029 and July 2021, respectively. In addition, the Foundation leases land in Nanakuli on the island of Oahu under operating agreement expiring in February 2023. Land and transmitter rent for the years ended September 30, 2019 and 2018 amounted to \$28,775 and \$25,852, respectively.

At September 30, 2019, future minimum lease payments by years ending September 30th were expected to approximate the following:

Years Ending September 30th	
2020	\$ 33,700
2021	34,000
2022	32,100
2023	30,300
2024	29,300
Thereafter	<u>148,600</u>
Total	<u>\$ 308,000</u>

KEKAHU FOUNDATION, INC.,
dba Kauai Community Radio

NOTES TO THE FINANCIAL STATEMENTS (Continued)

For the Year Ended September 30, 2019
(With Prior Year Comparative Information)

NOTE D – 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. Local, 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 E – FINANCIAL STATEMENT PRESENTATION

Certain amounts in the prior year financial statements were reclassified to conform to the current year 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, 2018, from which the information was derived.

NOTE F – SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 18, 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.
