

**HAWAII PUBLIC TELEVISION FOUNDATION  
dba PBS HAWAII**

**FINANCIAL STATEMENTS  
AND ADDITIONAL INFORMATION**

**YEARS ENDED JUNE 30, 2016 AND 2015  
(With Independent Auditor's Report)**

## TABLE OF CONTENTS

	<u>Page</u>
Independent Auditor's Report	1 - 2
Financial Statements	
Statements of Financial Position	3
Statements of Activities	4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 14
Supplementary Information	
Schedule of Functional Expenses	15

**CHOO, OSADA & LEE, CPAs, INC.**

CERTIFIED PUBLIC ACCOUNTANTS

1136 12TH AVENUE  
SUITE 240  
HONOLULU, HAWAII 96816

TELEPHONE (808) 734-1921

**INDEPENDENT AUDITOR'S REPORT**

To the Board of Directors  
Hawaii Public Television Foundation  
dba PBS Hawaii  
Honolulu, Hawaii

We have audited the accompanying financial statements of Hawaii Public Television Foundation dba PBS Hawaii (a nonprofit corporation) which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years 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 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 audits. We conducted our audits 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 the 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**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hawaii Public Television Foundation dba PBS Hawaii as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

## Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 15 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Chuo, Osada's Lee, CPAs, Inc.*

Honolulu, Hawaii  
January 13, 2017

**HAWAII PUBLIC TELEVISION FOUNDATION**  
**dba PBS HAWAII**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 6,192,288	12,339,482
Investments in marketable securities	3,787,337	3,731,945
Accounts receivable	799,809	1,260,371
Contributions receivable	4,640,283	383,748
Prepaid expenses	-	6,131
Beneficial interest in assets held by others	104,074	109,431
Investment in limited liability company	98,135	105,834
Property and equipment, net of accumulated depreciation	27,191,122	11,768,950
Deposits - equipment and other	27,250	8,000
	<u>                    </u>	<u>                    </u>
Total assets	<u>\$ 42,840,298</u>	<u>29,713,892</u>
 <b>LIABILITIES AND NET ASSETS</b>		
Liabilities		
Accounts payable	\$ 2,642,794	1,290,398
Accrued liabilities	273,573	248,944
	<u>                    </u>	<u>                    </u>
Total liabilities	<u>2,916,367</u>	<u>1,539,342</u>
 Net assets		
Unrestricted		
Net investment in property and equipment	27,191,122	11,768,950
Undesignated	7,498,694	15,620,358
Temporarily restricted	5,133,130	684,257
Permanently restricted	100,985	100,985
	<u>                    </u>	<u>                    </u>
Total net assets	<u>39,923,931</u>	<u>28,174,550</u>
	<u>                    </u>	<u>                    </u>
Total liabilities and net assets	<u>\$ 42,840,298</u>	<u>29,713,892</u>

See accompanying notes.

**HAWAII PUBLIC TELEVISION FOUNDATION**  
**dba PBS HAWAII**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Unrestricted net assets		
Support and revenues		
Contributions	\$ 1,895,500	2,020,935
Grants and contracts - government agency	3,547,297	2,585,769
Telecasting and underwriting revenues	769,073	773,678
Community service grants from		
Corporation for Public Broadcasting	1,496,941	1,392,818
Franchise fee revenue	3,312,319	3,290,098
Noncash contributions	80,000	2,160
Investment income	77,079	91,117
Rent income	-	12,798
Total support and revenues	<u>11,178,209</u>	<u>10,169,373</u>
Net assets released from restrictions	<u>3,916,910</u>	<u>2,042,818</u>
	<u>15,095,119</u>	<u>12,212,191</u>
Expenses and losses		
Program services		
Programming and production	3,543,424	3,701,133
Broadcasting	1,391,239	1,309,496
Program information	541,005	503,393
Supporting services		
Management and general	1,343,443	1,157,254
Underwriting, grant solicitation, and fund raising	946,097	1,118,365
Loss on disposition of equipment	29,403	7,374
Total expenses and losses	<u>7,794,611</u>	<u>7,797,015</u>
Increase in unrestricted net assets	<u>7,300,508</u>	<u>4,415,176</u>
Temporarily restricted net assets		
Capital campaign contributions	7,534,367	1,121,304
Telecasting and underwriting contributions	831,416	173,822
Net assets released from restrictions	<u>(3,916,910)</u>	<u>(2,042,818)</u>
Increase (decrease) in temporarily restricted net assets	<u>4,448,873</u>	<u>(747,692)</u>
Increase in net assets	11,749,381	3,667,484
Nets assets		
At beginning of year	<u>28,174,550</u>	<u>24,507,066</u>
At end of year	<u>\$ 39,923,931</u>	<u>28,174,550</u>

See accompanying notes.

**HAWAII PUBLIC TELEVISION FOUNDATION**  
**dba PBS HAWAII**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities		
Change in net assets	\$ 11,749,381	3,667,484
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	633,640	597,769
Net realized and unrealized loss on marketable securities	33,079	14,705
Decrease in beneficial interest in assets held by others	5,357	4,259
Loss on disposition of equipment	29,403	7,374
Loss (income) in limited liability company	7,699	(2,150)
Decrease (increase) in		
Receivables	(3,795,973)	(802,256)
Prepaid expenses	6,131	(5,407)
Deposits - equipment and other	(19,250)	(8,000)
Increase (decrease) in		
Accounts payable and accrued liabilities	1,377,025	1,114,708
Net cash provided by operating activities	<u>10,026,492</u>	<u>4,588,486</u>
Cash flows from investing activities		
Purchases of marketable securities	(162,648)	(312,383)
Sales of marketable securities	74,177	230,094
Purchases of property and equipment	<u>(16,085,215)</u>	<u>(4,664,592)</u>
Net cash used by investing activities	<u>(16,173,686)</u>	<u>(4,746,881)</u>
Net increase decrease in cash and cash equivalents	(6,147,194)	(158,395)
Cash and cash equivalents at beginning of year	<u>12,339,482</u>	<u>12,497,877</u>
Cash and cash equivalents at end of year	<u>\$ 6,192,288</u>	<u>12,339,482</u>
Supplement disclosure of cash flow information		
Cash paid during the year for interest	<u>\$ 89</u>	<u>-</u>

See accompanying notes.

**HAWAII PUBLIC TELEVISION FOUNDATION**  
**dba PBS HAWAII**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**NOTE 1 – NATURE OF ORGANIZATION, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, AND USE OF ESTIMATES**

Nature of organization

Hawaii Public Television Foundation dba PBS Hawaii (Foundation) is a nonprofit corporation organized under the laws of the State of Hawaii. The Foundation operates a non-commercial public television network with two transmitters (KHET in Honolulu and KMEB on Maui) and a series of translators on Hawaii and Kauai. It is funded primarily by franchise fees, community service grants from the Corporation for Public Broadcasting, and contributions from individuals and organizations in Hawaii.

Basis of accounting and financial statement presentation

The financial statements of the Foundation have been prepared on the accrual basis of accounting.

Cash and cash equivalents

For the purposes of the statement of cash flows, the Foundation considers all highly liquid debt securities purchased with maturities of three months or less to be cash equivalents.

Investments in marketable securities

Investments in marketable securities are stated at fair value.

Accounts receivable

Accounts receivable are recorded when invoices are issued and are presented in the statements of financial position net of the allowance for doubtful accounts. Accounts receivable are written off when they are deemed uncollectible. An allowance for doubtful accounts is established when necessary and is based on historical trends.

Investment in limited liability company

Investment in limited liability company (LLC) is recorded under the equity method of accounting. Under the equity method, the Foundation's investment is increased for capital contributions and a proportionate share of the LLC's earnings, and is decreased for distributions from the LLC and a proportionate share of the LLC's losses.

Property and equipment

Property and equipment are recorded at cost or estimated fair value at the date of donation and depreciated under the straight-line method over the estimated useful lives of the assets. Renewals and improvements that extend the useful lives of assets are capitalized; maintenance and repairs are included as expenses in the statements of activities.

The Foundation's policy is to capitalize property and equipment over \$250.



**HAWAII PUBLIC TELEVISION FOUNDATION  
dba PBS HAWAII  
NOTES TO FINANCIAL STATEMENTS – continued  
JUNE 30, 2016**

**NOTE 1 – NATURE OF ORGANIZATION, SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, AND USE OF ESTIMATES – continued**

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Advertising costs

Advertising costs are expensed in the period they are incurred.

Contributed services

Contributed services are reflected in the financial statements at the fair value of the services received if the services create or enhance a nonfinancial asset, or require specialized skills and would typically be purchased by the Foundation if not donated.

General excise tax

General excise taxes, and the related amounts billed to customers for general excise taxes, are presented in the accompanying statements of activities at the gross amounts.

Income taxes

The Foundation is exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code and has been classified as an organization that is not a private foundation by the Internal Revenue Service. The Foundation is also exempt from Hawaii income taxes under Section 235 of the Hawaii Revised Statutes.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2 – CASH AND CASH EQUIVALENTS**

Cash and cash equivalents consist primarily of deposits in interest bearing accounts with three financial institutions in the State of Hawaii. At June 30, 2016 and 2015, deposits in excess of federally insured limits amounted to approximately \$5,625,000 and \$12,070,000, respectively.

**HAWAII PUBLIC TELEVISION FOUNDATION**  
**dba PBS HAWAII**  
**NOTES TO FINANCIAL STATEMENTS – continued**  
**JUNE 30, 2016**

**NOTE 3 – INVESTMENTS IN MARKETABLE SECURITIES**

At June 30, 2016 and 2015, the aggregate cost and fair value of investments in marketable securities were as follows:

	<b>2016</b>		<b>2015</b>	
	Cost	Fair Value	Cost	Fair Value
Equity security mutual funds	\$ 1,544,903	2,476,742	1,403,026	2,411,084
Government bond mutual funds	1,265,262	1,310,595	1,301,972	1,320,861
	\$ 2,810,165	3,787,337	2,704,998	3,731,945

Investment income for the years ended June 30, 2016 and 2015 consisted of the following:

	<b>2016</b>	<b>2015</b>
Interest and dividends	\$ 134,535	129,291
Net realized gains	16,697	112,338
Net unrealized gains (losses)	(49,776)	(127,043)
Increase (decrease) in beneficial interest in assets held by others	(5,357)	(4,259)
Custodial and investment advisory fees	(19,020)	(19,210)
	\$ 77,079	91,117

**HAWAII PUBLIC TELEVISION FOUNDATION**  
**dba PBS HAWAII**  
**NOTES TO FINANCIAL STATEMENTS – continued**  
**JUNE 30, 2016**

**NOTE 4 - CONTRIBUTIONS RECEIVABLE**

At June 30, 2016 and 2015, contributions receivable consisted of the following:

	<u>2016</u>	<u>2015</u>
Receivable in		
Less than one year	\$ 600,000	100,000
One to five years	2,600,000	300,000
Five to ten years	<u>2,000,000</u>	<u>-</u>
	5,200,000	400,000
Less discounts to net present value at 1.68% - 2.17%	<u>559,717</u>	<u>16,252</u>
	<u>\$ 4,640,283</u>	<u>383,748</u>

**NOTE 5 – BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS**

Prior to 2000, approximately \$101,000 was transferred to the Hawaii Community Foundation (HCF). HCF has been granted variance power for these assets; in the event that the Foundation ceases to exist, or if the Foundation is no longer necessary, HCF will have the power to redirect the funds to another beneficiary. Under terms of the transfer, the Foundation has specified itself as the beneficiary and receives the investment income earned on these funds on a quarterly basis. At June 30, 2016 and 2015, the fair value of the assets was \$104,074 and \$109,431, respectively and was included in the statements of financial position under the caption “Beneficial interest in assets held by others.” Investment income from these assets for each of the years ended June 30, 2016 and 2015 was approximately \$4,000.

The increase (decrease) in the beneficial interest in assets held by others for the years ended June 30, 2016 and June 30, 2015, of \$(5,357) and \$4,259, respectively, was included in investment income in the statements of activities.

**HAWAII PUBLIC TELEVISION FOUNDATION**  
**dba PBS HAWAII**  
**NOTES TO FINANCIAL STATEMENTS – continued**  
**JUNE 30, 2016**

**NOTE 6 – FAIR VALUE MEASUREMENTS**

The Financial Accounting Standards Board (FASB) has established a framework for measuring fair value in conformity with generally accepted accounting principles and for disclosures about fair value measurements. As a part of this framework, the FASB has established a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

- Level 1 – Observable inputs such as quoted prices in active markets. Such inputs have the highest priority.
- Level 2 – Inputs, other than quoted market prices in active markets, that are observable either directly or indirectly.
- Level 3 – Unobservable inputs in which there is little or no market data, and which require significant management judgment or estimation.

The Organization uses appropriate valuation techniques based on available inputs to measure fair value. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

There have been no changes in the methodology used for the years ended June 30, 2016 and June 30, 2015.

The following is a description of the valuation methodologies used for assets at fair value:

Beneficial interest in assets held by others – valued based on the Foundation’s share of the fair value of funds held by Hawaii Community Foundation (Level 2).

**HAWAII PUBLIC TELEVISION FOUNDATION**  
**dba PBS HAWAII**  
**NOTES TO FINANCIAL STATEMENTS – continued**  
**JUNE 30, 2016**

**NOTE 6 – FAIR VALUE MEASUREMENTS - continued**

The following table summarizes the fair values of the Foundation’s financial assets and liabilities that are measured on a recurring basis as of June 30, 2016 and 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>2016</u>				
Equity security mutual funds	\$ 2,476,742		-	2,476,742
Government bond mutual funds	1,310,595		-	1,310,595
Beneficial interest in assets held by others		104,074	-	104,074
	<u>\$ 3,787,337</u>	<u>104,074</u>	<u>-</u>	<u>3,891,411</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>2015</u>				
Equity security mutual funds	\$ 2,411,084	-	-	2,411,084
Government bond mutual funds	1,320,861	-	-	1,320,861
Beneficial interest in assets held by others	-	109,431	-	109,431
	<u>\$ 3,731,945</u>	<u>109,431</u>	<u>-</u>	<u>3,841,376</u>

**NOTE 7 – INVESTMENT IN LIMITED LIABILITY COMPANY**

The Foundation has a 20% interest in a Hawaii limited liability company (LLC) which was formed in September 2004; its members consist of the Foundation and four commercial television stations. The primary purpose of the LLC is to develop, operate and maintain a tower site on the island of Maui, Hawaii. The LLC is not expected to earn revenue; LLC expenditures are to be funded through the capital contributions of its members. For the years ended June 30, 2016 and 2015, the Foundation recorded losses from the LLC of \$113,679 and \$108,132, respectively.

**HAWAII PUBLIC TELEVISION FOUNDATION**  
**dba PBS HAWAII**  
**NOTES TO FINANCIAL STATEMENTS – continued**  
**JUNE 30, 2016**

**NOTE 8 – PROPERTY AND EQUIPMENT**

At June 30, 2016 and 2015, property and equipment consisted of the following:

	<u>2016</u>	<u>2015</u>
Buildings	\$ 18,382,235	1,494,170
Furniture, fixtures, and equipment	9,734,774	9,104,627
Construction in progress	-	5,546,284
	<u>28,117,009</u>	<u>16,145,081</u>
Less accumulated depreciation	4,669,905	8,120,149
	<u>23,447,104</u>	<u>8,024,932</u>
Land	3,744,018	3,744,018
	<u>\$ 27,191,122</u>	<u>11,768,950</u>

At June 30, 2016 and 2015, property and equipment included assets contributed by the State of Hawaii as follows:

	<u>2016</u>	<u>2015</u>
Furniture, fixtures, and equipment	\$ 116,805	348,215
Less accumulated depreciation	<u>116,805</u>	<u>348,215</u>
	<u>\$ -</u>	<u>-</u>

In the event that furniture, fixtures and equipment contributed by the State of Hawaii is no longer useful to the Foundation, or if the Foundation is dissolved or discontinues public broadcasting in Hawaii, the State of Hawaii has the first right to acquire these assets at no cost.

**HAWAII PUBLIC TELEVISION FOUNDATION  
 dba PBS HAWAII  
 NOTES TO FINANCIAL STATEMENTS – continued  
 JUNE 30, 2016**

**NOTE 9 – RESTRICTIONS ON NET ASSETS**

At June 30, 2016 and 2015, temporarily restricted net assets were restricted as follows:

	<b>2016</b>	<b>2015</b>
For Hiki No program	\$ 468,423	283,559
For construction of new facilities	4,640,284	383,748
Other	24,423	16,950
	\$ 5,133,130	684,257

Permanently restricted net assets consist of endowment fund investments to be held by the Hawaii Community Foundation indefinitely, the income from which is expendable to support program and supporting services.

**NOTE 10 – SUPPORT AND REVENUES**

Noncash contributions consist primarily of donated items from businesses. These contributions were recorded as revenue and expense in the accompanying statements of financial activities at estimated fair value.

**NOTE 11 – FUNCTIONAL ALLOCATION OF EXPENSES**

The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of financial activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**NOTE 12 – PROFIT-SHARING PLAN**

The Foundation has a profit-sharing plan (including salary reduction provisions under Section 401(k) of the Internal Revenue Code) covering all employees who meet the age requirements specified in the plan. An employee who is a member of the plan may elect to contribute a portion of his or her salary to the plan. The Foundation makes matching contributions equal to 50% of a plan member’s contributions. Contributions for the years ended June 30, 2016 and 2015 were approximately \$84,000 and \$130,000, respectively.

Effective July 1, 2016, the Foundation’s profit-sharing plan was amended to be a safe harbor 401(k) plan. Under terms of the plan, on an annual basis, the employer will elect to make one of two types of contributions for the following year, either a non-elective contribution based on a minimum of 3% of compensation to all eligible participants or a matching 100% contribution of up to the first 3% of participant compensation and a matching 50% of the next 2% of participant compensation that is contributed by the participant.

**HAWAII PUBLIC TELEVISION FOUNDATION  
dba PBS HAWAII  
NOTES TO FINANCIAL STATEMENTS – continued  
JUNE 30, 2016**

**NOTE 13 – ADVERTISING AND PRINTING**

Advertising and printing costs for the years ended June 30, 2016 and 2015 were approximately \$289,000 and \$304,000, respectively.

**NOTE 14 – INCOME TAXES**

Tax years that remain subject to examination are the years ended June 30, 2013 and forward.

**NOTE 15 - SUBSEQUENT EVENTS**

Under the terms of a capital campaign grant received in 2016, the Foundation is required to set aside \$120,000 a year beginning in 2017, (subject to increases based on the Consumer Price Index) into a separate maintenance reserve fund restricted for purposes of future maintenance, repairs and upkeep of a studio and learning zone.

**NOTE 16 – DATE OF MANAGEMENT’S REVIEW**

Subsequent events have been evaluated through January 13, 2017, the date the financial statements were available to be issued.



**HAWAII PUBLIC TELEVISION FOUNDATION**

**dba PBS HAWAII**

**SCHEDULE OF FUNCTIONAL EXPENSES**

**YEAR ENDED JUNE 30, 2016 (With Summarized Financial Information For Year Ended June 30, 2015)**

	Program Services			Supporting Services		2016 Total	2015 Total
	Programming and Production	Broadcasting	Program Information	Management and General	Underwriting, Grant Solicitation, and Fundraising		
Salaries, payroll taxes and employee benefits	\$ 994,064	292,389	226,515	744,754	399,003	2,656,725	2,768,580
Personal services	450,413	47,129	-	124,229	23,824	645,595	900,169
Advertising and printing	4,010	-	250,046	16,734	18,066	288,856	304,480
Office and other supplies	22,677	101,133	19,689	73,440	137,816	354,755	281,338
Information technology	59,049	16,249	5,132	8,768	28,651	117,849	95,410
Program acquisition	1,370,694	-	-	-	-	1,370,694	1,229,021
Occupancy	232,326	568,128	11,399	43,003	86,378	941,234	1,023,786
Transportation, travel and training	50,506	410	5,644	6,894	916	64,370	45,071
Interest	-	-	-	89	-	89	-
Depreciation	224,162	363,856	9,522	22,097	14,003	633,640	597,769
Insurance	46,889	-	12,763	35,371	29,292	124,315	123,533
Taxes, other than income	647	1,822	18	62,427	15,621	80,535	83,510
Premiums	-	-	-	-	142,749	142,749	157,087
Other	87,987	123	277	205,637	49,778	343,802	179,887
	<u>\$ 3,543,424</u>	<u>1,391,239</u>	<u>541,005</u>	<u>1,343,443</u>	<u>946,097</u>	<u>7,765,208</u>	<u>7,789,641</u>