

**INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES**

We have performed the procedures enumerated below, which were agreed to by the Hawaii Department of Commerce and Consumer Affairs (DCCA), solely to assist you with respect to the review of the franchise fee collection and payment process of Time Warner Entertainment Co., LP, (TWE) dba Hawaiian Cablevision (Hilo) for the period January 1, 2007 through December 31, 2008. Time Warner Entertainment Co., LP, dba Hawaiian Cablevision (Hilo)'s management is responsible for the company's accounting records which support the franchise fee collection and payment process. 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.

For the period January 1, 2007 through December 31, 2008, the procedures performed by Merina & Company, LLP and the accompanied findings are listed below:

Procedure 1: Review DCCA's applicable franchise fee requirements.

Finding 1: We reviewed DCCA's applicable franchise fee requirements as detailed in Decision and Order No. 261 and Administrative Rule 16-132.

Procedure 2: Document TWE's policies and procedures for preparing annual "Revenue Statements" that TWE submits to DCCA for franchise fee purposes.

Finding 2: TWE's policies and procedures for preparing the annual "Revenue Statements" submitted to DCCA for franchise fee purposes were documented.

Procedure 3: Determine if TWE's revenue calculation was made in accordance with the applicable Decision and Orders (D&O's).

Finding 3: We determined TWE's revenue calculations were made in accordance with DCCA Decision and Order No. 261 and Administrative Rule 16-132.

The Revenue Statements for the periods January 1, 2007 through December 31, 2008 are included in this report as Attachment I.

Procedure 4: Trace amounts used in each franchise fee computation to TWE's books of account.

Finding 4: The amounts used in each year's Revenue Statement for the franchise fee computation were traced to TWE's books of account and found to agree for the two years.

Procedure 5: Obtain or prepare a schedule of collections and remittances for each of the three elements of the franchise fee and determine the amount of over/ (under) collections from the period January 1, 2007 through December 31, 2008. Verify that the beneficiary has received the proper amount of franchise fees under the applicable D&O.

Finding 5: We prepared a schedule of collections and remittances for each of the three elements of the franchise fee, determined the amount of over/ (under) collections from the period January 1, 2007 through December 31, 2008 with consideration given to Decision and Order No. 331. Our procedures have disclosed no instances of PEG access organization, Hawaii Public Television, or DCCA not receiving the proper amount of franchise fees.

For the period January 1, 2007 through December 31, 2008 TWE collected different amounts of franchise fees from subscribers than it was required to pay to the designated recipients. The results of the Carry-Forward Analysis are summarized in the table below.

Hilo	Franchise Fee Element			
	Access Operating	HPBA	Administrative	Total
Accrual basis over/(under) collected balances	\$46,596	\$15,533	\$2,434	\$64,563

A detailed report of the "Carry-Forward Analysis" calculation is included as Attachment II.

Procedure 6: Inquire of TWE what their understanding is of the factors that give rise to the difference between amounts collected from subscribers and the amounts remitted to the beneficiary, if applicable.

Finding 6: TWE Revenue Statements, which are used to compute the Franchise Fees owed to the beneficiary are prepared based on TWE's calendar year revenues and are generated from the general ledger accounting system. The amounts actually collected from subscribers for the same year are generated from TWE's billing and collection system which is separate from the general ledger. Theoretically, collections during the year should equal the payments made in the following year. However, collections and remittances are going to differ for a variety reasons. Some are:

- The Revenue Statement is calculated using earned revenues for the calendar year, but customers billings can span three calendar years (i.e. a billing period that covers 12/06 – 1/07, 2007, 12/07-1/08). This causes a mismatch between the billing system and the general ledger accounting system, since the billing will straddle three calendar years.

Depending on when customers are actually billed and amounts are collected:

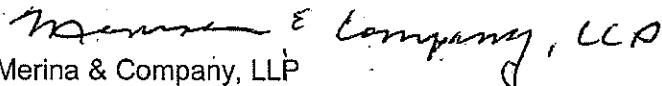
- Collections recorded in the billing system for the current fiscal period would reflect amounts that are actually applicable to the next fiscal period (i.e. \$2 of franchise fees billed for the period 12/15/07 – 1/15/08 were collected on 12/31/07; therefore \$1 of the franchise fees collected were for the 2008 fiscal period, but recorded in the billing system for the 2007 fiscal period), or
- Amounts applicable to the current fiscal period may not be collected and recorded until the next fiscal period (i.e. \$2 of franchise fees billed for the period 12/15/07 – 1/15/08 were collected at 1/1/08; therefore \$0 of the franchise fees were actually collected and recorded in the billing system for the 2007 fiscal period).

Independent Accountant's Report on Applying Agreed-Upon Procedures

- Bad debts are booked to an expense account in the general ledger accounting system and are netted against revenues for the Franchise fee calculation. However, amounts reported as billed to subscribers are based on the billing system, which is not reduced for bad debts. The disconnect between the two systems potentially creates another reconciling item between the amounts billed and collected from subscribers and amounts remitted to the beneficiary. For the purpose of this report, Attachment II, amounts reported as billed to subscribers were reduced for bad debts based on actual amounts reported on the general ledger.
- TWE uses a billing system to charge subscribers and adjustments are frequently made to subscriber billings for a wide variety of reasons, such as service charges, upgrades, downgrades, stops, starts, etc. This creates a constant stream of prorates and adjustments which in turn affects franchise fee charges and revenue recognition. Also, these adjustments may not always make their way to the general ledger accounting systems, as these two systems are not integrated. Per TWE, a continual effort is being made to reduce the reconciling differences between the two systems, especially as new products and services are being added.

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 records. 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.

This report is intended solely for the information and use of Department of Commerce and Consumer Affairs and Time Warner Entertainment Co., LP, dba Hawaiian Cablevision (Hilo) and is not intended to be and should not be used by anyone other than those specified parties.


Merina & Company, LLP
Certified Public Accountants and Consultants
West Linn, Oregon
May 13, 2009

**Time Warner Entertainment Co., LP, dba
Hawaiian Cablevision (Hilo)
Revenue Statements**

For the Year Ending December 31, 2007

	<u>PEG</u>	<u>Hawaii Public Broadcasting Authority</u>	<u>Administrative</u>
Total Revenues	\$ 14,849,752	\$ 14,849,752	\$ -
Basic Revenues	-	-	855,609
Revenues subject to Access Operating Fee Rate	14,849,752 3%	14,849,752 1%	855,609 1%
Access Operating Fee Due	<u>\$ 445,493</u>	<u>\$ 148,498</u>	<u>\$ 8,556</u>

For the Year Ending December 31, 2008

	<u>PEG</u>	<u>Hawaii Public Broadcasting Authority</u>	<u>Administrative</u>
Total Revenues	\$ 16,261,636	\$ 16,261,636	\$ -
Basic Revenues	-	-	10,672,665
Revenues subject to Access Operating Fee Rate	16,261,636 3%	16,261,636 1%	10,672,665 1%
Access Operating Fee Due	<u>\$ 487,849</u>	<u>\$ 162,616</u>	<u>\$ 106,727</u>

Time Warner Entertainment Co., LP, dba
Hawaiian Cablevision (Hilo)
Carry-Forward Analysis
As of December 31, 2008

	Access Operating	HPBA	Administrative	Total
Billed to subscribers 2007	\$ 470,755	\$ 156,919	\$ 8,488	\$ 636,162
Amounts remitted in 2008, based on 2007 revenues	(445,493)	(148,498)	(8,556)	(602,547)
Billed to subscribers 2008	509,183	169,728	109,229	788,140
Amounts remitted in 2009, based on 2008 revenues	(487,849)	(162,616)	(106,727)	(757,192)
Total accrual basis over/(under) collected balances	\$ 46,596	\$ 15,533	\$ 2,434	\$ 64,563