

MATA COMMUNITY MEDIA
Milwaukee, Wisconsin

AUDITED FINANCIAL STATEMENTS
Years Ended December 31, 2003 and 2002

TABLE OF CONTENTS

Independent Auditors' Report	DRAFT AS OF	<u>Page</u>
		1
Financial Statements:	FEB 23 2004	
Statements of Financial Position	TO BE USED ONLY FOR MANAGEMENT DISCUSSION PURPOSES. ENGAGEMENT IS INCOMPLETE; THIS DRAFT IS SUBJECT TO FINAL REVIEW AND POSSIBLE REVISION	2
Statements of Activities		3
Statements of Functional Expenses		4 - 5
Statements of Cash Flows		6
Notes to Financial Statements		7 - 9

INDEPENDENT AUDITORS' REPORT

DRAFT AS OF

Board of Directors
MATA Community Media
Milwaukee, Wisconsin

FEB 24 2004

"TO BE USED ONLY FOR MANAGEMENT
DISCUSSION PURPOSES. ENGAGEMENT
IS INCOMPLETE. THIS DRAFT IS SUBJECT
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We have audited the accompanying statements of financial position of MATA Community Media as of December 31, 2003 and 2002, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MATA Community Media as of December 31, 2003 and 2002 and the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As shown in the financial statements, MATA Community Media incurred a \$135,461 decrease in net assets during the year ended December 31, 2003. In addition, the organization has incurred similar decreases in recent years. Those factors, among others, as disclosed in note 9, raise substantial doubt about the Organization's ability to continue as a going concern. Management's plans in this regard also are described in note 9. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

January 15, 2004

MATA COMMUNITY MEDIA
Milwaukee, Wisconsin

Statements of Financial Position
For the Years Ended December 31, 2003 and 2002

<u>ASSETS</u>	<u>2003</u>	<u>2002</u>
<u>Current Assets:</u>		
Cash and equivalents	\$ 29,556	\$ 45,927
Accounts receivable	5,289	7,276
Prepaid expenses	11,140	15,360
Total current assets	<u>45,985</u>	<u>68,563</u>
<u>Property and Equipment:</u>		
Land	47,900	100,600
Land improvements	14,217	14,217
Building	81,116	667,116
Building improvements	457,645	1,458,672
Office equipment and furniture	392,878	395,400
Production equipment	1,570,786	1,562,555
Vehicles	12,367	12,367
Total	<u>4,076,909</u>	<u>4,210,927</u>
Accumulated depreciation and amortization	(1,968,684)	(1,850,758)
Total property and equipment	<u>2,108,225</u>	<u>2,360,169</u>
Total assets	<u>\$ 2,154,210</u>	<u>\$ 2,428,732</u>

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LIABILITIES AND NET ASSETS

<u>Current Liabilities:</u>		
Accounts payable	\$ 31,089	\$ 38,462
Notes payable	1,254,027	55,372
Accrued liabilities	8,663	11,534
Accrued interest	53,413	-
Deferred income	44,117	44,121
Total current liabilities	<u>1,391,309</u>	<u>149,489</u>
<u>Noncurrent Liabilities:</u>		
Notes payable (net of current portion of \$1,254,027 and \$55,372 for 2003 and 2002, respectively)	-	1,380,881
<u>Net Assets:</u>		
Unrestricted fund balance	762,901	898,362
Total net assets	<u>762,901</u>	<u>898,362</u>
Total liabilities and net assets	<u>\$ 2,154,210</u>	<u>\$ 2,428,732</u>

The accompanying notes to the financial statements
are an integral part of these statements.

MATA COMMUNITY MEDIA
Milwaukee, Wisconsin

Statements of Activities
Year Ended December 31, 2003 and 2002

FEB 25 2004

	2003	2002
Revenues:		
Operating grants	536,995	\$ 553,598
Other grants	34,500	26,249
Contributions and donations	4,264	4,138
Membership fees	11,105	12,685
Workshop fees	5,508	4,675
Cost recovery	22,703	19,801
Interest income	96	1,180
Loss on investments	-	(3,089)
Gain on disposal of assets	43,986	-
In-kind contributions	20,330	35,500
Total revenues and other support	<u>679,487</u>	<u>654,737</u>
Expenses:		
Program expenses	644,376	645,120
Supporting services expense:		
Membership	26,070	29,299
General and administration	144,502	185,006
Total supporting services	<u>170,572</u>	<u>214,305</u>
Total expenses	<u>814,948</u>	<u>859,425</u>
Decrease in net assets	(135,461)	(204,688)
Net Assets, beginning of year	<u>898,362</u>	<u>1,103,050</u>
Net Assets, end of year	<u>\$ 762,901</u>	<u>\$ 898,362</u>

The accompanying notes to the financial statements
are an integral part of these statements.

MATA COMMUNITY MEDIA
Milwaukee, Wisconsin

Statement of Functional Expenses
For the Year Ended December 31, 2003

	Program Expenses	Support Services		Total Expenses
		Membership	General and Administrative	
Salaries and wages	\$ 245,360	\$ 16,691	\$ 71,772	\$ 333,823
Grant and contract salaries	4,491	-	-	4,491
Fringe benefits	28,957	1,958	8,418	39,333
Payroll taxes	18,358	1,249	5,370	24,977
Contract expenses	263	-	-	263
Professional fees	28,341	-	4,314	32,655
Occupancy	34,398	-	140	34,538
Liability insurance	29,079	-	3,231	32,310
Production supplies and support	10,333	-	-	10,333
Repairs and maintenance	4,973	-	553	5,526
Transportation	1,069	-	-	1,069
Office administration	767	1,535	13,044	15,346
Office supplies	1,101	-	9,919	11,020
Postage and shipping	273	546	273	1,092
Telephone	14,781	-	1,642	16,423
Conferences, seminars and training	1,490	-	-	1,490
Interest expense	104,200	-	11,578	115,778
Miscellaneous	3,574	4,091	1,740	9,405
Depreciation and amortization	112,568	-	12,508	125,076
Total expenses	\$ 644,376	\$ 26,070	\$ 144,502	\$ 814,948

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MATA COMMUNITY MEDIA
Milwaukee, Wisconsin

Statement of Functional Expenses
For the Year Ended December 31, 2002

	Program Expenses	Support Services		Total Expenses
		Membership	General and Administrative	
Salaries and wages	\$ 258,520	\$ 17,586	\$ 75,621	\$ 351,727
Grant and contract salaries	5,470	-	-	5,470
Fringe benefits	44,987	3,060	13,159	61,206
Payroll taxes	19,343	1,316	5,658	26,317
Contract expenses	529	-	-	529
Professional fees	15,411	-	8,298	23,709
Marketing and promotions	516	-	-	516
Occupancy	24,070	-	5,428	29,498
Liability insurance	-	-	19,624	19,624
Production supplies and support	11,490	-	-	11,490
Repairs and maintenance	4,542	-	505	5,047
Transportation	846	-	-	846
Office administration	815	1,629	13,850	16,294
Office supplies	1,368	-	12,309	13,677
Postage and shipping	504	1,008	504	2,016
Telephone	12,952	-	1,439	14,391
Conferences, seminars and training	141	-	-	141
Interest expense	105,048	-	11,672	116,720
Miscellaneous	4,108	4,700	1,999	10,807
Depreciation and amortization	134,460	-	14,940	149,400
Total expenses	\$ 645,120	\$ 29,299	\$ 185,006	\$ 859,425

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MATA COMMUNITY MEDIA
Milwaukee, Wisconsin

Statements of Cash Flows
Years Ended December 31, 2003 and 2002

	<u>2003</u>	<u>2002</u>
<u>Cash Flows From Operating Activities:</u>		
Change in net assets	\$ (135,461)	\$ (204,688)
Adjustment to reconcile net activities to net cash provided (used) by operating activities:		
Depreciation and amortization	125,076	149,401
Realized loss on investments	-	3,089
Gain on disposal of assets	(38,533)	-
Changes in assets and liabilities:		
Investments	-	10,966
Accounts and grants receivables	1,987	(3,213)
Prepaid expenses	4,220	(2,767)
Accounts payable	(7,373)	(89,137)
Accrued expenses	50,542	(11,679)
Deferred revenue	(4)	(4)
Total adjustments	<u>135,915</u>	<u>56,656</u>
Net cash provided (used) by operating activities	<u>454</u>	<u>(148,032)</u>
<u>Cash Flows From Investing Activities:</u>		
Purchase of property and equipment	(8,408)	(40,768)
Proceeds from disposal of assets	173,809	1,026
Net cash provided (used) by investing activities	<u>165,401</u>	<u>(39,742)</u>
<u>Cash Flows From Financing Activities:</u>		
Proceeds from line of credit	99,997	25,000
Payments on line of credit	(99,997)	(25,000)
Payments on notes payable	(182,226)	(49,728)
Net cash used by financing activities	<u>(182,226)</u>	<u>(49,728)</u>
Net decrease in cash and equivalents	<u>(16,371)</u>	<u>(237,502)</u>
<u>Cash and Equivalents, beginning of year</u>	<u>45,927</u>	<u>283,429</u>
<u>Cash and Equivalents, end of year</u>	<u>\$ 29,556</u>	<u>\$ 45,927</u>
Interest expense	<u>\$ 9,405</u>	<u>\$ 116,720</u>

The accompanying notes to the financial statements
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MATA COMMUNITY MEDIA
Milwaukee, Wisconsin

Notes to Financial Statements
December 31, 2003 and 2002

DRAFT AS OF

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1. Description and Tax Status

MATA Community Media (Organization) is a nonprofit community service corporation organized to provide the City of Milwaukee public access to its cable system. The Organization is an independent organization created by the cable franchisee agreement between the City of Milwaukee and the franchiser, Warner Cable Communications of Milwaukee. The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the code.

2. Summary of Significant Accounting Policies

Method of Accounting

The records of the Organization are maintained in accordance with accounting principles generally accepted in the United States of America. Specific points are summarized below to assist the reader in understanding the financial information in this report.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, **Financial Statements of Not-for-Profit Organizations**. Under SFAS No. 117, the Organization is required to report information regarding the financial position and activities according to three classes of net assets, defined as follows:

Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization

Revenue Recognition

Operating grant: Funds are recognized as revenue when received.

Program service revenue: Funds are recognized as revenue when earned.

Contributions: Contributions are recognized as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions, when received.

Interest income: Interest is recognized as revenue when earned.

Investments

Investments are carried at fair value, which has been determined from broker's statements.

Accounts Receivables

Primarily represents amounts due from contract income. Substantially all amounts are expected to be collected within one year.

MATA COMMUNITY MEDIA
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DRAFT AS OF

Notes to Financial Statements
December 31, 2003 and 2002
(Continued)

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2. Summary of Significant Accounting Policies (Continued)

Property and Equipment

Property and equipment are recorded at original cost less accumulated depreciation. Leasehold improvements are amortized over the life of the lease while furniture and equipment are depreciated over the estimated life of the asset. Straight-line methods are used with one-half year taken in the year of acquisition. The Organization capitalized all operations equipment over \$250 and all office equipment and furnishings over \$500.

Cash Flows

For the purpose of the statement of cash flows, the Organization considers all cash in checking, savings and money markets as cash and equivalents.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

3. Public Access Grant Fund Payments

Under the terms of the new cable franchise agreement between the City of Milwaukee and the franchisee (Public and Educational Grant) the City of Milwaukee is obligated to make the following payments to the Organization:

Operating grant: Quarterly installments of \$125,000.
Four quarterly payments were received in 2003.

4. Retirement Plans

The Organization adopted a profit sharing plan, effective January 1, 1986, for the exclusive benefit of eligible employees and their beneficiaries. An employee is eligible for participation when the employee has completed one year (equivalent to a 12-month period with 1,000 hours or more of service) and is at least eighteen years of age. The Organization must have current or accumulated profits in order to make contributions to the Plan. Contributions are made at the discretion of the Board of Directors, depending on profits. For 2003 and 2002, the amount of contribution was \$- and \$-, respectively.

The Organization also provides a salary deferral plan for its executive director. Contributions to the Plan are not considered expenses because they are voluntary allocations of salary.

5. Advertising

The Organization expenses advertising costs when incurred. Total advertising expenses for the years ended December 31, 2003 and 2002 amounted to \$- and \$516.

MATA COMMUNITY MEDIA
Milwaukee, Wisconsin

DRAFT AS OF

Notes to Financial Statements
December 31, 2003 and 2002
(Continued)

FEB 24 2004

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6. Concentrations

The Organization has a revenue concentration in that 83% of revenues are received under its operating grant agreement.

The Organization maintains its cash balances in two financial institutions located in Milwaukee, Wisconsin. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$100,000.

7. Notes Payable

The Organization entered into a secured loan agreement with Firststar Bank during 2001 for the purchase and renovation costs of a building. The \$1,500,000 note is secured by the property. Since June 2003, the notes have been in forbearance.

Installments are due in monthly payments of \$4,799 with interest at 8.4% per annum, through March 2, 2008, with a final payment of \$451,483 on March 2, 2008. Past due principal and interest at December 31, 2003 are \$28,158. Loan covenants state that capital expenditures not exceed \$50,000 per fiscal year and require a cash flow coverage ratio of at least 1 to 1.

Installments are due in monthly payments of \$9,067, with interest at 7.55% per annum, through March 2, 2008, with a final payment of \$651,254 on March 2, 2008. Past due principal and interest at December 31, 2003 are \$56,462. Loan covenants state that capital expenditures not exceed \$50,000 per fiscal year and require a cash flow coverage ratio of at least 1 to 1.

The Organization is in the process of either receiving an advance from the City of Milwaukee to pay off the principal and interest of \$1,254,027 and \$53,413, respectively, or refinancing the notes through Firststar Bank.

8. In-Kind Donations

Contributions of noncash assets, supplies, and services are recorded at their fair market value in the period received. During the years ended December 31, 2003 and 2002, in-kind contributions were received in the amounts of \$20,330 and \$35,500, respectively. These contributions consisted of software, program supplies, and professional services. The software was capitalized and is being amortized over the useful life of three years.

9. Going Concern – Loan Covenant Violation

For the fiscal year ending December 31, 2003, the Organization has a net decrease in net assets of \$135,461 and a loan covenant violation of cash flow coverage ratio of at least 1 to 1. These contributing factors create an uncertainty about the Organization's ability to continue as a going concern. Management of MATA Community Media plans to cut general operations expenditures to ensure operations continue in the future. Management has cut back on the hours of operation the Organization is open, cut back on staff, and has decreased the business manager and executive director's wages. The financial statements do not include any adjustments that might be necessary if the Organization is unable to continue as a going concern.