

**Student Media Corporation**

A Component Unit of the University of Northern Colorado

Accountants' Report and Financial Statements

June 30, 2004 and 2003

**LEGISLATIVE AUDIT COMMITTEE**  
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(Effective August 2, 2004)

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**Student Media Corporation**  
**June 30, 2004 and 2003**

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**Student Media Corporation**  
**Auditor's Findings and Recommendations**  
**June 30, 2004 and 2003**

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**Segregation of Duties**

Segregation of accounting duties is an essential element of effective internal controls, involving the separation of custody of assets from related recording of transactions. Segregation of conflicting duties within the Corporation's accounting department is difficult because there is only one full-time employee. While management must consider the costs versus benefits of addition control procedures or the addition of new personnel, it is important for management and the Board of Directors to be aware of this risk.

**Recommendation No.1**

The Student Media Corporation should consider the costs versus benefits of addition control procedures or the addition of new personnel and the Board of Directors should consider potential risks related to conflicting duties when reviewing financial statements, transactions or other internal reports.

**Student Media Corporation Response**

Agree. The Corporation will evaluate current internal control measures and will ensure that the Board of Directors is made aware of the risks involved with our limited segregation of duties. However, it is financially unfeasible with present funding to add additional personnel primarily for the function of duty segregation. The Corporation will, however, review all of its control measures and implement procedures as necessary to make more adequate the control process.

## **Independent Accountants' Report**

Members of the Legislative Audit Committee:

We have audited the accompanying basic financial statements of the Student Media Corporation (the Corporation), a component unit of the University of Northern Colorado, as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the Corporation as of and for the year ended June 30, 2003, were audited by other accountants whose report dated September 12, 2003, expressed an unqualified opinion.

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 2004 financial statements referred to above present fairly, in all material respects, the financial position of the Student Media Corporation as of June 30, 2004 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying management's discussion and analysis, as listed in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

September 3, 2004

# **Student Media Corporation**

## **Management's Discussion and Analysis**

### **June 30, 2004 and 2003**

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#### ***Management's Discussion and Analysis***

This section of the of the Student Media Corporation annual financial report presents management's discussion and analysis of the financial performance of the Corporation during the fiscal year ended June 30, 2004. This discussion has been prepared by management along with the financial statements and related footnote disclosures and should be read in conjunction with the financial statements and footnotes.

The discussion and analysis is designed to focus on current activities, resulting changes and currently known facts. The financial statements, footnotes and this discussion are the responsibility of management.

#### ***Financial Highlights***

Selected financial highlights for the fiscal year ended June 30, 2004 include:

- Corporation assets totaled \$138,646 with liabilities of \$9,699 resulting in net assets of \$128,947.
- Capital assets of \$91,181 comprised 66% of Corporation assets.
- Total revenue was \$258,027, made up of \$219,615 in advertising revenue, \$37,500 in student fees and \$912 in interest income.
- Operating expenses totaled \$256,104, including \$142,800 in personnel expenses.
- Student-fee funding from the University of Northern Colorado (UNC) in the amount of \$37,500 was received and used to pay for part of the \$44,329 it costs to print The Mirror each year.

#### ***Using This Annual Report***

The three financial statements—the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows – present financial information using the economic resources measurement focus and the accrual basis of accounting. The information provided in these statements speaks to the financial health of the Corporation, with relevant non-financial facts provided in the Discussion and Analysis section.

The Statements of Net Assets includes all assets and liabilities. It is prepared under the accrual basis of accounting whereby revenues and assets are recognized when the service is provided and expenses and liabilities are recognized when others provide the service regardless of when cash is exchanged.

The Statement of Revenues, Expenses and Changes in Net Assets presents revenues earned and expenses incurred during the fiscal year. Activities are reported as either operating or nonoperating, in accordance with GASB Statement 34.

**Student Media Corporation**  
**Management's Discussion and Analysis**  
**June 30, 2004 and 2003**

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The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as, where did the cash come from, what was the cash used for and what was the change in cash and cash equivalents during the reporting period.

**Statement of Net Assets**

The Statement of Net Assets is a financial snapshot of the Student Media Corporation. It presents the Corporation's assets, liabilities and net assets. Assets and liabilities are classified by liquidity as either current or non-current. Net assets are classified by the ways in which they may be used for future operations. The following is a condensed statement of the Corporation's net assets at June 30, 2004, 2003 and 2002:

**Condensed Statement of Net Assets**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
<b>Assets</b>			
Current assets	\$ 47,465	\$ 32,138	\$ 61,204
Capital assets	<u>91,181</u>	<u>96,893</u>	<u>104,287</u>
Total assets	<u>\$ 138,646</u>	<u>\$ 129,031</u>	<u>\$ 165,491</u>
<b>Liabilities</b>			
Current liabilities	<u>\$ 9,699</u>	<u>\$ 2,007</u>	<u>\$ 34,024</u>
<b>Net Assets</b>			
Invested in capital assets, net of debt	91,181	96,893	73,359
Unrestricted	<u>37,766</u>	<u>30,131</u>	<u>58,108</u>
Total net assets	<u>128,947</u>	<u>127,024</u>	<u>131,467</u>
Total liabilities and net assets	<u>\$ 138,646</u>	<u>\$ 129,031</u>	<u>\$ 165,491</u>

Cash and cash equivalents of \$37,603 and \$31,162 comprised 27% and 24% of the Corporation's assets at June 30, 2004 and 2003, respectively.

The capital assets consist of the Corporation's single-largest fiscal resource, its building, land and equipment totaling \$91,181 and \$96,893 at June 30, 2004 and 2003, respectively. These amounts are net of accumulated depreciation of \$59,802 and \$67,528, respectively.

The Corporation's commitments of resources include amounts owed to vendors and accrued expenses. The single-largest liability in the past was \$30,928 in outstanding loan principal for The Mirror building. The Student Media Corporation's Board of Directors decided to pay off the building and the payoff was made September 30, 2002.

**Student Media Corporation**  
**Management's Discussion and Analysis**  
**June 30, 2004 and 2003**

Net assets which represent the difference between Corporation assets and liabilities, total \$128,947. The Corporation's largest class of assets is its capital assets, which comprise about 71% of the Corporation's net assets.

**Statement of Revenues, Expenses and Changes in Net Assets**

This statement presents the financial activity of the Corporation during fiscal years 2004, 2003 and 2002. The focus is on operating revenues and expenses:

	2004	2003	2002
<b>Operating Revenues</b>	\$ <u>219,615</u>	\$ <u>210,287</u>	\$ <u>194,368</u>
<b>Operating Expenses</b>			
Program services	177,515	171,493	150,828
Management and general	<u>78,589</u>	<u>82,537</u>	<u>82,833</u>
Total operating expenses	<u>256,104</u>	<u>254,030</u>	<u>233,661</u>
<b>Operating Loss</b>	(36,489)	(43,743)	(39,293)
<b>Nonoperating Revenues</b>			
Student fees	37,500	37,500	—
Other	<u>912</u>	<u>1,800</u>	<u>2,738</u>
<b>Increase (Decrease) in Net Assets</b>	1,923	(4,443)	(36,555)
<b>Net Assets, Beginning of Year</b>	<u>127,024</u>	<u>131,467</u>	<u>168,022</u>
<b>Net Assets, End of Year</b>	<u><u>\$ 128,947</u></u>	<u><u>\$ 127,024</u></u>	<u><u>\$ 131,467</u></u>

Revenue in fiscal year 2004 from all sources total \$258,027, with \$219,615 or 85% of that being advertising revenue. Advertising revenue was up 4.4% from \$210,287 in fiscal year 2003 primarily because of increased local advertising sales due to hard work by the Mirror staff members and the healthy Northern Colorado economy. In addition, classified ad rates were increased because a classified section was added to the Online Mirror.

Revenue in fiscal year 2003 from all sources totaled \$250,167, with \$210,287 or 84% of that being advertising revenue. Advertising revenue was up 8.2% from \$194,368 in fiscal year 2002 due to increased local advertising sales and improvement to the Corporation's twice-yearly coupon book.

**Student Media Corporation**  
**Management's Discussion and Analysis**  
**June 30, 2004 and 2003**

Operating expenses of \$256,104 and \$254,030 comprise the largest part of expenses during fiscal years 2004 and 2003:

	<b>2004</b>		<b>2003</b>	
Program services	\$ 177,515	69.3%	\$ 171,493	67.5%
Management and general	<u>78,589</u>	<u>30.7</u>	<u>82,537</u>	<u>32.5</u>
Total operating expenses	<u>\$ 256,104</u>	<u>100.0%</u>	<u>\$ 254,030</u>	<u>100.0%</u>

For a natural classification perspective, the largest expenditure in fiscal years 2004 and 2003 is for personnel.

	<b>2004</b>		<b>2003</b>	
Salaries and benefits	\$ 142,800	55.8%	\$ 136,409	53.7%
Other operating expenses	105,792	41.3	108,162	42.6
Depreciation	<u>7,512</u>	<u>2.9</u>	<u>9,459</u>	<u>3.7</u>
Total operating expenses	<u>\$ 256,104</u>	<u>100.0%</u>	<u>\$ 254,030</u>	<u>100.0%</u>

Other operating expenses were down due to a slight decrease in printing expense and the decrease in depreciation expense due to numerous assets becoming fully depreciated during fiscal year 2003.

**Statement of Cash Flows**

This statement provides information about the cash activity in fiscal years 2004, 2003 and 2002. A summary is presented here with more detail on the actual statement:

	<b>2004</b>		<b>2003</b>		<b>2002</b>	
<b>Cash Flows Provided By (Used in)</b>						
Operating activities	\$ (30,171)	\$ (25,658)	\$ (32,944)			
Noncapital financing activities	37,500	37,500	—			
Capital financing activities	(1,800)	(32,746)	(23,259)			
Investing	<u>912</u>	<u>1,360</u>	<u>4,484</u>			
<b>Net Increase (Decrease) in Cash</b>	6,441	(19,544)	(51,719)			
<b>Cash, Beginning of Year</b>	<u>31,162</u>	<u>50,706</u>	<u>102,425</u>			
<b>Cash, End of Year</b>	<u>\$ 37,603</u>	<u>\$ 31,162</u>	<u>\$ 50,706</u>			

# **Student Media Corporation**

## **Management's Discussion and Analysis**

### **June 30, 2004 and 2003**

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#### ***Economic Outlook***

The Corporation's financial future depends on support from UNC and successful advertising sales by the students who work at The Mirror. Student-fee funding was \$37,500 in fiscal year 2004 and fortunately is set for the same amount in fiscal year 2005 despite an approximately 40 percent student-fee funding cut. Student fees are critical to The Mirror's financial stability because the students who work at the newspaper cannot sell enough advertising to cover all expenses, which increase every year.

A subscription fee contract between UNC and the Corporation that will start July 1, 2005, will help the financial stability of the Corporation because student-fee funding will remain consistent from year to year. This stable revenue stream should allow the Corporation to replace outdated technology, provide more training for students and put out better product.

Successful advertising sales are also critical to the Corporation's financial future. UNC students sell all advertising in The Mirror. Depending on the talent of the student advertising staff in a given year, advertising revenues can go up or down. The health of the economy, both locally and nationally, also impacts sales.

**Student Media Corporation**  
**Statements of Net Assets**  
**June 30, 2004 and 2003**

**Assets**

	<b>2004</b>	<b>2003</b>
<b>Current Assets</b>		
Cash on deposit with the University of Northern Colorado	\$ 37,603	\$ 31,162
Accounts receivable, net of allowance; 2004 – \$500 and 2003 – \$500	3,974	771
Prepaid deposit	5,888	205
Total current assets	47,465	32,138
<b>Noncurrent Assets</b>		
Capital assets, net	91,181	96,893
Total assets	\$ 138,646	\$ 129,031

**Liabilities**

Accounts payable and accrued expenses	\$ 9,699	\$ 2,007
Total current liabilities	9,699	2,007
<b>Net Assets</b>		
Invested in capital assets, net of related debt	91,181	96,893
Unrestricted	37,766	30,131
Total net assets	128,947	127,024
Total liabilities and net assets	\$ 138,646	\$ 129,031

**Student Media Corporation**  
**Statements of Revenues, Expenses and Changes in Net Assets**  
**For the Years Ended June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>Operating Revenues</b>		
Display	\$ 194,753	\$ 191,497
Classified	<u>24,862</u>	<u>18,790</u>
Total operating revenues	<u>219,615</u>	<u>210,287</u>
<b>Operating Expenses</b>		
Program services	177,515	171,493
Management and general	<u>78,589</u>	<u>82,537</u>
Total operating expenses	<u>256,104</u>	<u>254,030</u>
<b>Operating Loss</b>	<u>(36,489)</u>	<u>(43,743)</u>
<b>Nonoperating Revenues (Expenses)</b>		
Student fees	37,500	37,500
Capital gift	—	1,020
Interest income	912	1,360
Interest expense on capital debt	<u>—</u>	<u>(580)</u>
Net nonoperating revenues	<u>38,412</u>	<u>39,300</u>
<b>Increase (Decrease) in Net Assets</b>	1,923	(4,443)
<b>Net Assets, Beginning of Year</b>	<u>127,024</u>	<u>131,467</u>
<b>Net Assets, End of Year</b>	<u>\$ 128,947</u>	<u>\$ 127,024</u>

**Student Media Corporation**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2004 and 2003**

	<u>2004</u>	<u>2003</u>
<b>Operating Activities</b>		
Cash received from customers	\$ 216,412	\$ 212,860
Payments to/for employees	(142,800)	(136,409)
Payments to suppliers	<u>(103,783)</u>	<u>(102,109)</u>
Net cash used in operating activities	<u>(30,171)</u>	<u>(25,658)</u>
<b>Noncapital Financing Activities</b>		
Student fees	<u>37,500</u>	<u>37,500</u>
Net cash provided by noncapital financing activities	<u>37,500</u>	<u>37,500</u>
<b>Capital Financing Activities</b>		
Interest paid	—	(773)
Payments on long-term debt	—	(30,928)
Purchase of property and equipment	<u>(1,800)</u>	<u>(1,045)</u>
Net cash used in capital financing activities	<u>(1,800)</u>	<u>(32,746)</u>
<b>Investing Activities</b>		
Interest received	<u>912</u>	<u>1,360</u>
Net cash provided by investing activities	<u>912</u>	<u>1,360</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	6,441	(19,544)
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>31,162</u>	<u>50,706</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 37,603</u>	<u>\$ 31,162</u>
<b>Reconciliation of Operating Income to Net Cash Used in Operating Activities</b>		
Operating loss	\$ (36,489)	\$ (43,743)
Depreciation	7,512	9,459
Changes in operating assets and liabilities		
Accounts receivable	(3,203)	4,180
Prepaid deposits and other	(5,683)	5,343
Accounts payable and accrued expenses	<u>7,692</u>	<u>(897)</u>
<b>Net Cash Used In Operating Activities</b>	<u>\$ (30,171)</u>	<u>\$ (25,658)</u>

# **Student Media Corporation**

## **Notes to Financial Statements**

**June 30, 2004 and 2003**

### **Note 1: Nature of Operations and Summary of Significant Accounting Policies**

#### ***Nature of Operations and Reporting Entity***

The Student Media Corporation (the Corporation), a component unit of the University of Northern Colorado (the University), was created in February 1989 as a not-for-profit Colorado organization and began operations on July 1, 1989. The Corporation's Board of Directors includes university students and faculty as well as community members. The Corporation publishes The Mirror, the official school newspaper of the University, three times a week during the academic year and weekly during summer sessions.

The Corporation grants unsecured credit to its advertising customers, substantially all of whom are local businesses or national agencies.

#### ***Basis of Accounting***

For financial reporting purposes, the Corporation is considered a special-purpose government engaged only in business-type activities. Accordingly, the Corporation's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation is incurred.

The Corporation prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Corporation has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989 and do not conflict with or contradict GASB pronouncements.

#### ***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.

#### ***Cash Equivalents***

The Corporation considers all liquid investments with original maturities of three months or less to be cash equivalents. At June 30, 2004 and 2003, cash equivalents consisted primarily of funds invested by the University through the State Treasurer's Cash Management Program.

#### ***Accounts Receivable***

Accounts receivable consist of advertising fees charged to individuals and businesses. Accounts receivable are recorded net of estimated uncollectible amounts.

# Student Media Corporation

## Notes to Financial Statements

June 30, 2004 and 2003

### **Capital Assets**

Capital assets are recorded at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. For equipment, the Corporation's capitalization policy includes all items with a unit cost of \$1,000 or more and an estimated useful life of greater than one year. Renovations to buildings and land improvements, that significantly increase the value or extend the useful life of the structure, are capitalized. Routine repairs and maintenance are charged to operating expense in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 25 years for buildings, 10 years for land improvements and three to five years for equipment.

### **Net Assets**

Net assets of the Corporation are classified in two components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

### **Classification of Revenues**

The Corporation has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues – Operating revenues include activities that have the characteristics of exchange transactions, such as display and classified advertising sales.

Nonoperating revenues – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Government Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as student fees appropriated by the University and interest income.

### **Income Taxes**

The Corporation is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code and is not classified as a private foundation. Accordingly, no provision is made in these financial statements for income taxes.

### **Note 2: Cash on Deposit with the University of Northern Colorado**

At June 30, 2004, the Corporation had deposits with the University of \$37,603 which were interest-bearing.



# Student Media Corporation

## Notes to Financial Statements

June 30, 2004 and 2003

### Note 4: Related Party Transactions

Advertising revenue from University-related entities for 2004 and 2003 was approximately \$35,387 and \$46,584, respectively.

The University provides various accounting, purchasing, payroll and banking services to the Corporation at a rate of 10.0% of the personnel costs. Administrative fees for 2004 and 2003 were \$12,658 and \$13,232, respectively.

### Note 5: Schedule of Functional Expenses

	2004		
	Program Services	Management and General	Total
<b>Personnel Expenses</b>			
Salaries and benefits	\$ 99,501	\$ 39,199	\$ 138,700
Payroll taxes	<u>—</u>	<u>4,100</u>	<u>4,100</u>
Total personnel expenses	<u>99,501</u>	<u>43,299</u>	<u>142,800</u>
<b>Other Expenses</b>			
Activities and travel	3,229	—	3,229
Administrative fees	—	12,658	12,658
Advertising	124	—	124
Bad debts	416	—	416
Books and subscriptions	332	—	332
Depreciation	5,372	2,140	7,512
Dues and memberships	685	—	685
Equipment maintenance	251	—	251
Building maintenance	7,545	—	7,545
Insurance	—	6,547	6,547
Miscellaneous	—	366	366
Postage	—	1,461	1,461
Professional Fees	—	5,198	5,198
Printing	44,404	—	44,404
Publicity	1,120	—	1,120
Rent	—	60	60
Supplies	8,903	—	8,903
Telephone	—	4,553	4,553
Property taxes	257	257	514
Utilities	2,050	2,050	4,100
Purchased services	<u>3,326</u>	<u>—</u>	<u>3,326</u>
Total other expenses	<u>78,014</u>	<u>35,290</u>	<u>113,304</u>
Total operating expenses	<u>\$ 177,515</u>	<u>\$ 78,589</u>	<u>\$ 256,104</u>

# Student Media Corporation

## Notes to Financial Statements

June 30, 2004 and 2003

2003			
	Program Services	Management and General	Total
<b>Personnel Expenses</b>			
Salaries and benefits	\$ 92,332	\$ 39,988	\$ 132,320
Payroll taxes	<u>—</u>	<u>4,089</u>	<u>4,089</u>
Total personnel expenses	<u>92,332</u>	<u>44,077</u>	<u>136,409</u>
<b>Other Expenses</b>			
Activities and travel	3,497	—	3,497
Administrative fees	—	13,232	13,232
Advertising	214	—	214
Bad debts	1,608	—	1,608
Books and subscriptions	416	—	416
Depreciation	7,319	2,140	9,459
Dues and memberships	911	—	911
Equipment maintenance	369	—	369
Building maintenance	3,435	—	3,435
Insurance	—	7,894	7,894
Miscellaneous	301	—	301
Postage	—	1,613	1,613
Professional Fees	—	5,040	5,040
Printing	45,317	—	45,317
Publicity	2,246	—	2,246
Rent	—	60	60
Supplies	10,212	—	10,212
Telephone	—	5,614	5,614
Property taxes	1,076	1,076	2,152
Utilities	1,791	1,791	3,582
Purchased services	<u>449</u>	<u>—</u>	<u>449</u>
Total other expenses	<u>79,161</u>	<u>38,460</u>	<u>117,621</u>
Total operating expenses	<u>\$ 171,493</u>	<u>\$ 82,537</u>	<u>\$ 254,030</u>

### **Note 6: Risk Management**

The Corporation is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Corporation carries commercial insurance for these and other risks of loss, including worker's compensation, employee fidelity and director liability. Settled claims have not exceeded this coverage since inception.

Members of the Legislative Audit Committee:

As part of our audit of the financial statements of the Student Media Corporation (the Corporation), a component unit of the University of Northern Colorado, as of and for the year ended June 30, 2004, we wish to communicate the following to you.

### ***Auditor's Responsibility Under Generally Accepted Auditing Standards***

An audit performed in accordance with generally accepted auditing standards (GAAS) is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing GAAS procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction.

### ***Significant Accounting Policies***

The Corporation's significant accounting policies are described in Note 1 of the audited financial statements.

### ***Management Judgments and Accounting Estimates***

Accounting estimates are an integral part of financial statement presentation by management, based on its judgments. The following areas involve significant areas of such estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Depreciation on capital assets and useful life of assets
- Allowance for doubtful accounts

### ***Audit Adjustments***

During the course of any audit, an auditor will propose adjustments of financial statement amounts. Management evaluates our proposals and records those adjustments, which in its judgment, are required to prevent the financial statements from being materially misstated.

Areas in which uncorrected misstatements were aggregated during the current engagement and pertaining to the latest period presented were determined by management to be immaterial, both individually and in the aggregate, to the financial statements as a whole, include accrual of telephone and payroll charges and reclassification of credit balances in accounts receivable. The effect of the uncorrected misstatements, had they been recorded, would have been to decrease net assets by \$2,527 for the year ended June 30, 2004, decrease current assets by \$2,686 and increase current liabilities by \$159.

Members of the Legislative Audit Committee

This letter is intended for the information and use of the Legislative Audit Committee, the Board of Directors and management of the Corporation and is not intended to be and should not be used by anyone other than these specified parties.

September 3, 2004

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