

**SAN JOSE COMMUNITY MEDIA
ACCESS CORPORATION dba
CREATV SAN JOSE**

Financial Statements and
Supplementary Financial Information
with
Independent Auditors' Report

For the Year Ended December 31, 2009

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CPAs & FINANCIAL ADVISORS

INDEPENDENT AUDITORS' REPORT

Board of Directors
San Jose Community Media Access Corporation
dba CreaTV San Jose
San Jose, California

We have audited the accompanying statement of financial position of *San Jose Community Media Access Corporation dba CreaTV San Jose* (the Organization), as of December 31, 2009, and the related statements of activities and change in net assets, functional expenses and cash flows for the year 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 *San Jose Community Media Access Corporation dba CreaTV San Jose* as of December 31, 2009, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 7, 2010 on our consideration of the Organization's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

San Jose, California
April 7, 2010

SAN JOSE COMMUNITY MEDIA ACCESS CORPORATION
dba CREATV SAN JOSE
STATEMENT OF FINANCIAL POSITION
December 31, 2009

ASSETS

Current assets:	
Cash and cash equivalents	\$ 1,090,823
Contract receivable, restricted for capital expenditures	316,632
Accounts receivable	35,492
Prepaid expenses	<u>18,845</u>
Total current assets	1,461,792
Investments	1,177,808
Investments restricted for capital expenditures	2,463,817
Capital assets, net	927,491
Deposits	<u>15,515</u>
Total assets	<u><u>\$ 6,046,423</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accounts payable	\$ 13,733
Accrued payroll and benefits	38,767
Deferred revenue	<u>67,134</u>
Total current liabilities	119,634
Commitments and contingencies	
Net assets, unrestricted	<u>5,926,789</u>
Total liabilities and net assets	<u><u>\$ 6,046,423</u></u>

SAN JOSE COMMUNITY MEDIA ACCESS CORPORATION
dba CREATV SAN JOSE
STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS
For the Year Ended December 31, 2009

Revenue, gains, and other support:	
Contract revenue	\$ 1,213,724
Contributions and grants	113,308
Investment income	89,019
Membership revenue	17,465
Other income	2,670
Production services revenue	121,185
Realized and unrealized gains on investments	<u>247,440</u>
Total revenue, gains, and other support	<u>1,804,811</u>
Expenses:	
Program services:	
Operations	204,844
Capital	507,871
Supporting services:	
Management and general	366,066
Fundraising	<u>39,900</u>
Total expenses	<u>1,118,681</u>
Change in net assets	686,130
Net assets, unrestricted:	
Beginning of year	<u>5,240,659</u>
End of year	<u><u>\$ 5,926,789</u></u>

SAN JOSE COMMUNITY MEDIA ACCESS CORPORATION
dba CREATV SAN JOSE
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended December 31, 2009

	Program Services		Supporting Services		Total
	Operations	Capital	Management and General	Fundraising	
Advertising, promotion, and outreach	\$ -	\$ -	\$ 114,269	\$ -	\$ 114,269
Bad debt	-	-	800	-	800
Benefits	10,426	11,008	9,095	2,661	33,190
Books, dues, and subscriptions	-	-	1,844	-	1,844
Credit card fees	-	-	17,462	-	17,462
Depreciation and amortization	20,477	135,667	-	-	156,144
Equipment rental	-	5,128	-	-	5,128
Facility lease	4,443	168,831	4,443	-	177,717
Insurance	1,512	3,560	-	-	5,072
Licenses and fees	-	-	305	-	305
Meetings, conferences, and trade shows	-	-	8,133	-	8,133
Merchant discount fees	1,880	-	-	-	1,880
Miscellaneous	-	-	220	-	220
Office supplies	-	-	11,793	-	11,793
Payroll	136,523	131,380	117,502	34,391	419,796
Payroll taxes	10,637	11,575	9,148	2,677	34,037
Printing	-	-	6,326	-	6,326
Production supplies and equipment	-	16,304	-	-	16,304
Professional services	18,279	-	62,345	-	80,624
Repairs and maintenance	-	2,984	-	-	2,984
Security	-	1,156	-	-	1,156
Telecommunications	-	6,665	-	-	6,665
Travel	-	-	1,799	-	1,799
Utilities	-	4,424	-	-	4,424
Website expenses	-	8,524	-	-	8,524
Workers' compensation insurance	667	665	582	171	2,085
	\$ 204,844	\$ 507,871	\$ 366,066	\$ 39,900	\$ 1,118,681

See notes to financial statements.

SAN JOSE COMMUNITY MEDIA ACCESS CORPORATION
dba CREATV SAN JOSE
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2009

Cash flows from operating activities:	
Change in net assets	\$ 686,130
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	156,144
Realized and unrealized gains on investments	(247,440)
Decrease (increase) in assets:	
Contract receivable	(34,929)
Accounts receivable	(33,384)
Accrued interest receivable	4,273
Prepaid expenses	(15,669)
Increase in liabilities:	
Accounts payable	105
Accrued payroll and benefits	3,656
Deferred revenue	67,134
	<u>586,020</u>
Net cash provided by operating activities	
Cash flows from investing activities:	
Purchase of investments	(1,412,904)
Proceeds from sale of investments	482,536
Purchase of investments restricted for capital expenditures	(358,232)
Purchase of capital assets	(302,785)
	<u>(1,591,385)</u>
Net cash used by investing activities	
Net decrease in cash and cash equivalents	(1,005,365)
Cash and cash equivalents:	
Beginning of year	<u>2,096,188</u>
End of year	<u>\$ 1,090,823</u>

SAN JOSE COMMUNITY MEDIA ACCESS CORPORATION
dba CREATV SAN JOSE
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose and Organization

San Jose Community Media Access Corporation dba CreaTV San Jose (the Organization) is a not-for-profit public benefit corporation whose mission is to inspire, educate and connect San Jose communities, using media to foster civic and social engagement. Founded in 2007, the Organization is located in San Jose, California.

The Board of Directors serves as an oversight and policy making body for the Organization.

The City of San Jose provides support for the public, educational, and governmental (PEG) access cable channels provided pursuant to federal law and has designated the Organization as the access management organization to operate and manage the public and educational access channels.

The Organization is responsible for operating one or more Community Media Centers (CMC). The Organization is also responsible for operating the public and educational access channels and distributing community based video content on the Comcast and AT&T cable/video systems.

The Organization provides training on video/computer techniques necessary to create videos that can be broadcast over the local public and educational access channels, streamed on the internet, or made available on DVD.

The Organization provides all of the necessary support services that will permit the CMC and the public and educational access channels to function, including broadcast of programming/content, equipment maintenance, developing and managing volunteers, outreach, promotion and public relations.

Basis of Accounting

The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Basis of Presentation

Classification of Net Assets

Accounting principles generally accepted in the United States of America require that the Organization report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted net assets. Accordingly, the net assets of the Organization are classified and reported as described below:

Unrestricted: Those net assets and activities which represent the portion of expendable funds that are available to support the Organization's operations. A portion of these net assets may be designated by the Board of Directors for specific purposes.

SAN JOSE COMMUNITY MEDIA ACCESS CORPORATION
dba CREATV SAN JOSE
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation (continued)

Classification of Net Assets (continued)

Temporarily Restricted: Those net assets and activities which are donor-restricted for (a) support of specific operating activities; (b) investment for a specified term; (c) use in a specified future period; or (d) acquisition of long-lived assets.

Permanently Restricted: Those net assets and activities which are permanently donor-restricted for holdings of (a) assets donated with stipulations that they be used for a specified purpose, be preserved, and not be sold; or (b) assets donated with stipulations that they be invested to provide a permanent source of income.

For the year ended December 31, 2009, the Organization did not have any temporarily or permanently restricted net assets.

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.

Fair Value of Financial Instruments

The carrying amounts of cash and cash equivalents, receivables, and accounts payable approximate fair value because of the short maturity of these instruments.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents restricted as to their use are not included as equivalents, regardless of liquidity. Cash and cash equivalents held in money market funds are intended for investment purposes and are classified under investments.

Investments

Marketable investments in equity and debt securities are carried at fair value based upon quoted market prices.

The Organization's Board of Directors is responsible for establishing investment criteria and overseeing the Organization's investments. The Board's Finance Committee has an Investment Subcommittee that uses Board approved investment policies as their guiding document.

SAN JOSE COMMUNITY MEDIA ACCESS CORPORATION
dba CREATV SAN JOSE
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

The Organization capitalizes acquisitions of property and equipment with a cost or value in excess of \$500 and with an estimated useful life beyond one year. Purchased assets are recorded at cost; donated assets are recorded at estimated fair value or appraised value at the date of acquisition. Depreciation and amortization is calculated using the straight-line method based upon estimated useful lives ranging from 3 to 10 years. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. The cost and accumulated depreciation and amortization of assets sold or retired are removed from the respective accounts and any gain or loss is reflected in the statement of activities and change in net assets.

The City of San Jose has a security interest in substantially all of the Organization's assets acquired with funds provided by the City of San Jose. Upon termination or non-renewal, the assets transfer to the City of San Jose or another non-profit organization designated by the City of San Jose.

Revenue Recognition

Contract Revenue

Income generated from the Organization's contract with the City of San Jose is recognized in accordance with the terms of the contract.

The Organization entered into a contract with the City of San Jose to operate public and educational access channels and locate, establish, and operate a CMC. Revenue is recognized as restricted for capital or operating expenditures, in accordance with the provisions of the contract. The contract is funded through a franchise agreement between the City of San Jose and Comcast and AT&T, and is based on 1% of gross revenue which, per the Federal Cable Act, can be used for public education and government (PEG) access capital purposes only. Payments to the Organization are contingent upon the City of San Jose receiving their funding from the franchise agreement.

The contract is in effect for a seven year period, ending in January 2015. The contract can then be renewed for a period of not less than three years.

There are certain reporting requirements related to this contract.

Production Services, Equipment Rental, and Membership Revenue

The Organization rents its production services and certain equipment to its members. Production services revenue is recorded when earned, and equipment rentals are generally for a short-term and revenue is recorded when received.

Residents, businesses and non-profit organizations within the City of San Jose are invited to become members of the Organization. Membership revenue is recorded when received.

SAN JOSE COMMUNITY MEDIA ACCESS CORPORATION
dba CREATV SAN JOSE
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition (continued)

Contributions

The Organization recognizes all contributions in the year of receipt, regardless of compliance with restrictions. Contributions without donor-imposed restrictions are reported as unrestricted support. Contributions with donor-imposed restrictions are reported as either temporarily restricted or permanently restricted support, depending upon the type of restriction.

Grants

The Organization records certain grants as performance-type grants and, accordingly, recognizes revenue when earned.

Investment Income

Realized and unrealized gains and losses and investment income derived from investment transactions are included as income in the year earned.

Advertising

The costs of advertising are charged to expense as incurred. Advertising expense for the year ended December 31, 2009 was \$114,269.

Included in advertising is an in-kind donation of advertising space valued by management at approximately \$85,000.

Income Taxes

The Organization is a qualified organization exempt from federal income taxes under §501(c)(3) of the Internal Revenue Code and §23701d of the California Revenue and Taxation Code.

Functional Expense Allocations

The costs of providing program services and supporting services have been summarized on a functional basis in the statement of activities and change in net assets and statement of functional expenses. Accordingly, certain costs have been allocated among program services and supporting services based on estimates of employees' time incurred and on other reasonable methods, such as usage of resources, and on estimates made by management.

SAN JOSE COMMUNITY MEDIA ACCESS CORPORATION
dba CREATV SAN JOSE
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentrations of Risk

Financial Instruments

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash and cash equivalents and investments. The Organization maintains its cash in various bank deposit accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts. The Organization attempts to limit its credit risk associated with cash equivalents and investments by utilizing outside investment managers to place the Organization's investments with highly rated corporate and financial institutions. Management believes that the Organization is not exposed to any significant credit risk related to concentrations.

Other Concentration

79% of the Organization's revenue for the year ended December 31, 2009 was generated from its contract with the City of San Jose.

Recent Accounting Pronouncements

In June 2009, the FASB issued FASB No. 168, *The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162* (SFAS No. 168) (FASB ASC 105-10). FASB ASC 105-10 replaces all previously issued accounting standards and establishes the FASB Accounting Standards CodificationTM (FASB ASC) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. FASB ASC 105-10 is effective for all interim and annual periods ending after September 15, 2009. The FASB ASC is not intended to change existing accounting principles generally accepted in the United States of America. The adoption of this pronouncement only resulted in changes to the Organization's financial statement disclosure references. As such, the adoption of this pronouncement has no effect on the Organization's financial position, results of operations or cash flows.

2. FAIR VALUE MEASUREMENTS

The Organization's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by SFAS No. 157, *Fair Value Measurements* (FASB ASC 820-10-xx). The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

Level 1 – Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

SAN JOSE COMMUNITY MEDIA ACCESS CORPORATION
dba CREATV SAN JOSE
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

2. FAIR VALUE MEASUREMENTS (CONTINUED)

Level 2 – Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable inputs reflect the Organization’s best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The following is a description of the valuation methodologies used for assets and liabilities measured at fair value.

Equity Securities and Corporate Bonds: Valued at the closing price reported on the active market on which the individual securities are traded. Common stocks, corporate bonds, and U.S. government securities are generally categorized in Level 1 of the fair value hierarchy.

Annuities: The fair value of annuities is estimated using the initial annuity amount and effective interest rate. Annuities are categorized in Level 2 of the fair value hierarchy.

The following table provides information as of December 31, 2009 about the Organization’s financial assets measured at fair value on a recurring basis.

	December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets at fair value:				
Equities	\$ 1,283,850	\$ 1,283,850	\$ -	\$ -
Corporate bonds	838,374	838,374	-	-
Annuities	1,519,401	-	1,519,401	-
Total assets at fair value	<u>\$ 3,641,625</u>	<u>\$ 2,122,224</u>	<u>\$ 1,519,401</u>	<u>\$ -</u>

SAN JOSE COMMUNITY MEDIA ACCESS CORPORATION
dba CREATV SAN JOSE
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

3. CAPITAL ASSETS

Capital assets at December 31, 2009 consist of the following:

Office furniture and equipment	\$	99,001
Production furniture and equipment		916,519
Leasehold improvements		111,004
Software		<u>6,667</u>
		1,133,191
Less accumulated depreciation and amortization		<u>(205,700)</u>
	<u>\$</u>	<u>927,491</u>

4. DEFERRED REVENUE

Deferred revenue in the amount of \$67,134 primarily represents unexpended grants at December 31, 2009.

5. RETIREMENT PLAN

The Organization maintains a Simple IRA Plan (the Plan) for eligible employees. The Organization's contribution to the Plan for the year ended December 31, 2009 is approximately \$8,000.

6. COMMITMENTS AND CONTINGENCIES

The Organization is obligated under a non-cancelable operating lease agreement for its facilities. The lease expires in June 2011, and may be extended for three years.

The following is a schedule of minimum lease commitments.

2010	\$	183,359
2011		<u>93,090</u>
	<u>\$</u>	<u>276,449</u>

Facility lease expense for the year ended December 31, 2009 was \$177,717.

The Organization has signed an employment contract for the services of its Executive Director. The contract expires in April, 2011. Compensation amounts are determined by the Board of Directors.

SAN JOSE COMMUNITY MEDIA ACCESS CORPORATION
dba CREATV SAN JOSE
NOTES TO FINANCIAL STATEMENTS
December 31, 2009

6. COMMITMENTS AND CONTINGENCIES (CONTINUED)

The Organization receives significant funding from the City of San Jose. Based on the terms of the contract, it is subject to audits by the City of San Jose, which could result in claims against the resources of the Organization. No provision has been made for any liabilities which may arise from such audits since the amounts, if any, cannot be determined at this time. Management believes the amount of such claims, if any, will not have a material impact on the Organization's financial position.

7. SUBSEQUENT EVENTS

The Organization has evaluated all subsequent events through April 7, 2010, the date the financial statements were available to be issued.

SAN JOSE COMMUNITY MEDIA ACCESS CORPORATION
dba CREATV SAN JOSE

SUPPLEMENTARY FINANCIAL INFORMATION
December 31, 2009



LAUTZE & LAUTZE
CPAs & FINANCIAL ADVISORS

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
San Jose Community Media Access Corporation
dba CreaTV San Jose
San Jose, California

We have audited the financial statements of *San Jose Community Media Access Corporation dba CreaTV San Jose* (the Organization) as of and for the year ended December 31, 2009, and have issued our report thereon dated April 7, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Organization's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described on pages 17 – 18, that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Board of Directors
San Jose Community Media Access Corporation
dba CreaTV San Jose
San Jose, California

This report is intended solely for the information and use of the Board of Directors, management, and the City of San Jose, and is not intended to be and should not be used by anyone other than these specified parties.

Lambert Lambert

San Jose, California
April 7, 2010



SAN JOSE COMMUNITY MEDIA ACCESS CORPORATION DBA CREATV SAN JOSE

SIGNIFICANT DEFICIENCIES

FINANCIAL ACCOUNTING AND REPORTING

OBSERVATION

In response to the auditing pronouncement, *Communicating Internal Control Related Matters Identified in an Audit*, we are required to communicate our assessment about certain components of the internal control process regarding financial reporting, namely that it is appropriately designed to provide reasonable assurance that the Organization's financial reporting is reliable and in compliance with applicable laws and regulations. The Auditing Standards Board's basis for this pronouncement was to clearly communicate to those in charge of governance, that the auditor may not be a compensating factor in the client's system of internal control.

The system of internal control over financial reporting requires management to detect material misstatements in the financial statements, which include all of the required accrual-based financial statements and footnote disclosures. As is common with many of our clients, the Organization does not have sufficient staff to prepare a comprehensive set of financial statements and disclosures required by U.S. generally accepted accounting principles and it therefore may not be possible to detect material misstatements in timely manner.

We believe that this deficiency is already known to management. There is a cost/benefit decision that must be weighed by management relative to this issue.

SAN JOSE COMMUNITY MEDIA ACCESS CORPORATION DBA CREATV SAN JOSE

SIGNIFICANT DEFICIENCIES

SEGREGATION OF DUTIES

OBSERVATION

Internal controls are designed to safeguard assets and help or detect losses from employee dishonesty or error. A fundamental concept in a good system of internal control is segregation of duties. It is noted that the size of the Organization's accounting staff prohibits complete adherence to this concept.

It is our understanding that management understands that this is an issue, but believes that there is a good enough system of checks and balances to minimize the risk of material misstatement due to fraud or error. At this time, it is not feasible to increase staff sufficiently to obtain proper segregation of duties.