

**SAN JOSE COMMUNITY MEDIA  
ACCESS CORPORATION dba**

**CREATV SAN JOSE**

**FINANCIAL STATEMENTS**

**For The Period From January 29, 2008 to  
December 31, 2008**

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## 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, 2008, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the period from January 29, 2008 to December 31, 2008. 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, 2008, and the changes in its net assets and its cash flows for the period from January 29, 2008 to December 31, 2008, 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 May 14, 2009 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 the financial reporting or on compliance. That report is an integral part of an audit considered in assessing the results of our audit.

San Jose, California  
May 14, 2009

**SAN JOSE COMMUNITY MEDIA ACCESS CORPORATION**  
**dba CREATV SAN JOSE**  
**STATEMENT OF FINANCIAL POSITION**  
**December 31, 2008**

Assets

Current assets:	
Cash and cash equivalents	\$ 2,096,188
Cash restricted for capital expenditures	2,105,585
Contract receivable, restricted for capital expenditures	281,703
Accounts receivable	2,108
Accrued interest receivable, restricted for capital expenditures	4,273
Prepaid expenses	<u>3,176</u>
Total current assets	4,493,033
Capital assets, net	780,850
Deposits	<u>15,515</u>
Total assets	<u><u>\$ 5,289,398</u></u>

Liabilities and Net Assets

Current liabilities:	
Accounts payable	\$ 13,628
Accrued payroll liabilities	<u>35,111</u>
Total current liabilities	48,739
Commitments and contingency	
Net assets, unrestricted	<u>5,240,659</u>
Total liabilities and net assets	<u><u>\$ 5,289,398</u></u>

**SAN JOSE COMMUNITY MEDIA ACCESS CORPORATION**  
**dba CREATV SAN JOSE**  
**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS**  
**For The Period From January 29, 2008 to December 31, 2008**

Support and revenue:		
Contract revenue	\$	5,556,561
Production service revenue		42,214
Interest income		41,849
Contributions		37,940
		5,678,564
Total support and revenue		5,678,564
Expenses:		
Program services:		
Operations		62,313
Capital		293,064
Supporting services:		
Management and general		82,528
		437,905
Total expenses		437,905
Change in net assets		5,240,659
Net assets, unrestricted:		
Beginning of period		-
End of period	\$	5,240,659

**SAN JOSE COMMUNITY MEDIA ACCESS CORPORATION**  
**dba CREATV SAN JOSE**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**For The Period From January 29, 2008 to December 31, 2008**

	<u>Program Services</u>		<u>Supporting Services</u>	<u>Total</u>
	<u>Operations</u>	<u>Capital</u>	<u>Management and General</u>	
Advertising, promotion, and outreach	\$ -	\$ -	\$ 2,037	\$ 2,037
Books, dues, and subscriptions	-	-	1,734	1,734
Depreciation and amortization	-	45,011	4,545	49,556
Equipment rental	-	1,285	-	1,285
Facilities lease	-	87,448	-	87,448
Insurance	2,365	1,477	-	3,842
Licenses and fees	-	-	918	918
Merchant discount fees	433	-	-	433
Miscellaneous	-	-	705	705
Office supplies	-	-	6,722	6,722
Payroll	57,415	127,146	50,305	234,866
Printing	-	-	5,353	5,353
Production supplies and equipment	-	10,289	-	10,289
Professional development	-	-	2,586	2,586
Professional services	2,100	-	6,095	8,195
Security	-	537	-	537
Telecommunications	-	3,603	-	3,603
Travel	-	-	1,528	1,528
Utilities	-	598	-	598
Website development	-	15,670	-	15,670
	<u>\$ 62,313</u>	<u>\$ 293,064</u>	<u>\$ 82,528</u>	<u>\$ 437,905</u>

**SAN JOSE COMMUNITY MEDIA ACCESS CORPORATION**  
**dba CREATV SAN JOSE**  
**STATEMENT OF CASH FLOWS**  
**For The Period From January 29, 2008 to December 31, 2008**

Cash flows from operating activities:	
Change in net assets	\$ 5,240,659
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	49,556
Donated capital assets	(37,860)
Increase in assets:	
Contract receivable	(281,703)
Accounts receivable	(2,108)
Accrued interest receivable	(4,273)
Prepaid expenses	(3,176)
Deposits	(15,515)
Increase in liabilities:	
Accounts payable	13,628
Accrued payroll liabilities	35,111
	<u>4,994,319</u>
Net cash provided by operating activities	<u>4,994,319</u>
Cash flows from investing activities:	
Change in cash restricted for capital expenditures	(2,105,585)
Purchase of capital assets	(792,546)
	<u>(2,898,131)</u>
Net cash used by investing activities	<u>(2,898,131)</u>
Net increase in cash and cash equivalents	2,096,188
Cash and cash equivalents:	
Beginning of period	<u>-</u>
End of period	<u>\$ 2,096,188</u>

**SAN JOSE COMMUNITY MEDIA ACCESS CORPORATION**  
**dba CREATV SAN JOSE**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2008**

**1. 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 run a media center for San Jose residents, organizations, and businesses. Founded in 2007, the Organization is located in San Jose, California. The Organization commenced operations on January 29, 2008.

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, 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 Presentation**

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

The significant accounting policies which follow are described to enhance the usefulness of the financial statements to the reader.

**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.

In 2008, 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.

**SAN JOSE COMMUNITY MEDIA ACCESS CORPORATION**  
**dba CREATV SAN JOSE**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2008**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue Recognition (Continued)**

**Contract Revenue** (Continued)

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.

**Membership Revenue**

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.

**Production Services and Equipment Rental 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.

**Contributions**

Donated materials and equipment are recorded as contributions at their estimated value on the date of receipt.

**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.

**Financial Statement Format**

The Organization classifies its net assets and activities into the designations of unrestricted, temporarily restricted and permanently restricted net assets. A description of these categories is as follows:

*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.

*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.

**SAN JOSE COMMUNITY MEDIA ACCESS CORPORATION**  
**dba CREATV SAN JOSE**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2008**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Financial Statement Format (Continued)**

*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 period from January 29, 2008 to December 31, 2008, the Organization did not have any temporarily or permanently restricted net assets.

**Concentrations of Risk**

**Financial Instruments**

The Organization maintains cash on deposit at financial institutions that may, at times, exceed federally insured limits. The Organization has not experienced any losses in such accounts. Management believes that it is not exposed to any significant credit risk on cash and cash equivalents.

**Other Concentration**

99% of the Organization's revenue for the period from January 29, 2008 to December 31, 2008 was generated from its contract with the City of San Jose.

**Fair Value of Financial Instruments**

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

**Income Taxes**

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

**Cash and Cash Equivalents**

The Organization considers all financial instruments with a maturity of three months or less, from the date of purchase, to be cash equivalents.

**SAN JOSE COMMUNITY MEDIA ACCESS CORPORATION**  
**dba CREATV SAN JOSE**  
**NOTES TO FINANCIAL STATEMENTS**  
**December 31, 2008**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Capital Assets**

Capital assets which cost \$500 or more and have an estimated useful life of more than one year are capitalized. Capital assets are carried at cost or, if donated, at estimated fair value on the date of the gift. Assets acquired by capital leases are carried at their present values on their acquisition dates. Maintenance, repairs, and minor renewals are charged against earnings. Additions and major renewals 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 earnings. Depreciation and amortization is calculated using the straight-line method over the following estimated useful lives:

Office furniture and equipment	3 – 7 years
Production furniture and equipment	3 – 10 years
Leasehold improvements	6 years
Software	3 years

Depreciation and amortization expense for the period from January 29, 2008 to December 31, 2008 was \$49,556.

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.

**Advertising**

Advertising costs are charged to operations when incurred. For the period from January 29, 2008 to December 31, 2008, advertising was \$2,037.

**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 changes 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, 2008**

**2. CAPITAL ASSETS**

Capital assets are summarized as follows:

Office furniture and equipment	\$ 69,408
Production furniture and equipment	661,545
Leasehold improvements	93,970
Software	5,483
	830,406
Less accumulated depreciation and amortization	(49,556)
Capital assets, net	\$ 780,850

**3. RETIREMENT PLAN**

The Organization maintains a Simple IRA Plan (the Plan) for eligible employees. The Organization's Plan contribution for the period from January 29, 2008 to December 31, 2008 is \$3,146.

**4. COMMITMENTS AND CONTINGENCY**

The Organization is obligated under noncancelable lease agreements for the use of its facilities. The terms of the lease require monthly base payments ranging from \$14,575 through \$15,515 and expires in June 2011 with one three-year renewal option available. In addition to the base rent, the terms of the lease require the payment of certain additional related expenses. The Organization also rents certain office equipment.

The following is a schedule of minimum lease commitments for the years ending December 31:

2009	\$ 177,717
2010	183,359
2011	93,090
	\$ 454,166

The Organization has signed a two year employment contract for the services of its Executive Director. The contract expires in April, 2010. Compensation amounts are determined by the Board of Directors.

The Organization receives significant funding from the City of San Jose. Based on the terms of the contract, they are 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.



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**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 December 31, 2008, and for the period from January 29, 2008 to December 31, 2008 and have issued our report thereon dated May 14, 2009. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the Organization's financial statements that is more than inconsequential will not be prevented or detected by the Organization's internal control. We consider the deficiencies described on pages 13 – 14 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Organization's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

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*.

This report is intended 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.

A handwritten signature in black ink that reads "Lambert Laube". The signature is written in a cursive style with a large initial "L".

San Jose, California  
May 14, 2009

**SAN JOSE COMMUNITY MEDIA ACCESS CORPORATION DBA CREATV SAN JOSE  
FINANCIAL ACCOUNTING AND REPORTING**

**OBSERVATION**

In compliance with auditing pronouncement, Statement on Auditing Standards No. 112, *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 new 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  
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.