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UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF WASHINGTON AT SEATTLE

In Re:
COURT REPORTING INSTITUTE, INC.,
Debtor.

NO. 06-14202

BANKRUPTCY ESTATE OF COURT
REPORTING INSTITUTE, INC., by and
through Michael B. McCarty, Bankruptcy
Trustee,
Plaintiff,

Adversary No. 07-01167

DECLARATION OF KAI MOLDSKRED
IN RESPONSE TO SECOND MOTION
FOR SUMMARY JUDGMENT

vs.

ALEN JANISCH, a single man; and KAI
MOLDSKRED and JOYCE MOLDSKRED,
husband and wife, and the marital community
comprised thereof,
Defendants.

My wife and I are Defendants in the adversary action brought by the Trustee for Court Reporting Institute Inc. here and after "CRI". I make this declaration in support of my response to the second summary judgment motion.

1 CRI'S PROFITABILITY

2 Both my subjective understanding of CRI and the objective evidence was that it was a
3 profitable company. Alen Janisch told me it was profitable and provided me over the years with
4 financial statements indicating that the company was in fact profitable.

5 An objective investigation of CRI's finances would, no doubt, rely heavily upon audited
6 financial statements which show that CRI was profitable in 2005 and was not insolvent. Therefore
7 I do not believe that any objective investigation would have revealed the voidability of the repayment
8 of the \$150,000 to me at the beginning of 2006.

9 I also knew that the financial statements of CRI were audited by the U.S. Department of
10 Education and therefore believed that I had a right to rely and could rely upon these audited financial
11 statements and their conclusions that CRI was profitable. Attached hereto as Exhibit A is the last
12 audited financial statement I received from CRI which indicated that it had a operating profit in 2005
13 of \$302,914.

14 My loan to Alen Janisch at the end of 2005 was made at his request for what I believed would
15 be a contribution to his capital account. It was not made because the company needed the money.
16 Otherwise Alen Janisch would have asked for a longer term loan and/or would have retained the
17 funds rather than paid them back within a week. Likewise, I never would have loaned \$150,000
18 unsecured had I any belief or even an inkling that Alen Janisch and/or CRI was in financial
19 difficulty. One hundred and fifty thousand dollars is a lot of money to me and I would not have put
20 it at risk had I any knowledge of any financial problems with Alen Janisch or CRI. I have an
21 accounting degree and had worked for CRI in the past (until 2000) and therefore I believed that I had
22 made a reasonable inquiry into the finances of CRI and Alan Janisch and that my understanding
23 matched that of any other person making a reasonable inquiry as to the finances of Alen Janisch and
24 CRI.

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GOOD FAITH AND KNOWLEDGE

I had left CRI in 2000 and therefore did not have after that date any intimate inside knowledge of CRI's finances or those of Alen Janisch. My direct dealings from that time forward were always with Alen Janisch who is a life long friend of mine and whom I trusted. I had had business dealings with him in the past which were satisfactory. I had no reason not to continue with my dealings with Alen Janisch. His request at the end of 2005 for \$150,000 was not unusual as I had been requested to give short term loans in prior years and, as in prior years, the money was always repaid within approximately one week. Therefore there was nothing different with the request at the end of 2005 from prior requests going back to 1998.

I saw nothing sinister in Alen Janisch's request for monies which he said he was going to put in the capital account since I assumed that his distribution from CRI back to Janisch would be appropriately recorded. I have no actual knowledge whether the \$150,000 given to Alen Janisch at the end of 2005 was in fact put into CRI's capital account. The audited financial statements of CRI set forth in Exhibit A for the years 2004 and 2005 indicate no change in Alen Janisch's capital account.

I have been very candid in my deposition and in this declaration to the court. I freely admitted in my deposition that I knew the \$150,000 loan was designed to be added to Alen Janisch's capital account in CRI and that such bolstering of his capital account had an impact on the level of its reporting requirements with the Department of Education. I had no knowledge, however, that this loan or its effect on the reporting requirements was either illegal or wrong or that it had any impact on the profitability or insolvency of CRI. In fact I believed that such practice was completely legal since I knew that CRI was audited annually and that its books and records were at all times open for inspection by the US Department of Education for all of the years in which this practice had been undertaken dating back to at least 1998.

The Trustee argues in paragraph 26 and 27 on Plaintiff's Statement of Uncontroverted Facts

1 that I was clearly aware that CRI equity as reflected on its financial statements was critical to DOE's
2 continued approval of student loans for students attending CRI. This is not true. As I stated in my
3 deposition of June 13, 2008:

4 I was not involved in any of the compliance issues other than being a separate
5 department to handle the disbursement in order to be a control – internal
6 control procedure. But Alen and his CPA auditor basically took care of all of
7 the detailed records in that regard.

8 Question: Do you know how that worked?

9 Answer: Only what Alen has briefly told me about it. I have never sat down
10 and calculated any of that information. Page 36, line 1-10, Deposition of Kai
11 Moldskred

12 The only ratios I am aware of equity or otherwise, and this is based upon what Alen told me,
13 were the ratios which dealt with reporting requirements only to the US Department of Education.
14 This is clear from my deposition when I stated, "From my understanding, when you talk about **these**
15 financial ratios . . . it is just a matter of how much he had to do, as far as reporting to the government
16 and what level zone." Moldskred deposition, page 37, line 13 - page 38, line 1. I never had any
17 understanding regarding Janisch maintaining a certain equity in the company to receive continued
18 DOE approval of loans for the students attending CRI.

19 The motion filed by the trustee paints me as a greedy money lender who has sought over the
20 years to wring out money from Alen Janisch and his business, CRI. Nothing could be further from
21 the truth. At the time I initially loaned money to Alen Janisch in 1988, years interest rates were very
22 high and the 12% interest rate on my unsecured loans were much less than monies Alen Janisch
23 could obtain either through credit cards or lease purchases which had interest rates at that time of
24 between 20 and 24 %. It is not at all uncommon for family and friends to loan monies to a start up
25 business and that is what occurred in this instance. Alen Janisch borrowed funds from me, quite
26 frankly, because to do so was cheaper than borrowing it from other sources such as credit cards and
27 hard money lenders. It should also be emphasized that the interest paid to me has accumulated over

1 the last twenty years or so. This never has been a get rich quick scheme. In fact, I am still owed
2 approximately \$100,000 at this time.

3 CAUSE OF CRI'S DEMISE

4 CRI was formed around 1988 and had operated successfully for 18 years. Indeed, the last
5 full year of its operation showed over a \$300,000 profit. The first four months of 2006 also showed
6 profit of \$119,524 as set forth in Exhibit B attached hereto.

7 CRI's demise is directly attributed to a critical newspaper article by the Seattle Times in late
8 March, 2006. This resulted in a decline in enrolled students from 400 in April, 2006 to 300 in
9 August, 2006. It was this lack of students which lead CRI closing its doors and filing bankruptcy.
10 This decline is reflected in CRI's monthly net income for the months of May through August which
11 shows a combined net loss of \$109,322, Exhibit B.

12 I declare under penalty of perjury of the laws of the State of Washington that the foregoing
13 statements are true and correct to the best of my information and knowledge.

14 DATED this 15th day of August, 2008.

15
16 /s/ Kai Moldskred
17 KAI MOLDSKRED

Exhibit 2

COURT REPORTING INSTITUTE, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

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Todd W. Resch, CPA, PS

CERTIFIED PUBLIC ACCOUNTANT

Independent Auditor's Report on Financial Statements

June 14, 2006

Board of Directors
Court Reporting Institute, Inc.
Seattle, Washington

I have audited the accompanying balance sheets of Court Reporting Institute, Inc. as of December 31, 2005 and 2004, and the related statements of earnings, stockholders equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Court Reporting Institute, Inc. as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In accordance with Government Auditing Standards, I have also issued my report dated June 14, 2006 on my consideration of the Company's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of my audit.



Todd W. Resch, CPA, PS

Todd W. Resch, CPA, PS

CERTIFIED PUBLIC ACCOUNTANT

Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting

June 14, 2006

Board of Directors
Court Reporting Institute, Inc.
Seattle, Washington

I have audited the financial statements of Court Reporting Institute, Inc. for the year ended December 31, 2005, and have issued my report thereon dated June 14, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Court Reporting Institute's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material affect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control over Financial Reporting

In planning and performing my audit, I considered Court Reporting Institute's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I

(2)

noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of management and the U.S. Department of Education and is not intended to be and should not be used by anyone other than these specified parties.



Todd W. Resch, CPA, PS

COURT REPORTING INSTITUTE, INC.

BALANCE SHEETS

ASSETS

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
CURRENT ASSETS:		
Cash	\$424,328	\$292,830
Tuition contracts receivable (Note B)	179,001	265,312
Advances to employees	1,380	1,000
Inventories	17,251	33,550
Prepaid expenses	35,468	35,426
TOTAL CURRENT ASSETS	657,428	628,118
RENTAL EQUIPMENT, at cost	63,800	44,235
Less accumulated depreciation	<u>43,828</u>	<u>41,260</u>
	19,972	2,975
PROPERTY AND EQUIPMENT, at cost (Note D):		
Furniture and equipment	883,361	815,427
Software and tapes	160,800	160,176
Leasehold improvements	159,868	141,872
	<u>1,204,029</u>	<u>1,117,475</u>
Less accumulated depreciation	<u>932,870</u>	<u>830,204</u>
	271,159	287,271
OTHER ASSETS:		
Restricted certificate of deposit (Note G)	62,000	62,000
Note receivable from stockholder (Note C)	137,000	295,000
Lease deposits	22,433	22,433
Accreditation cost, net	10,868	16,298
	<u>232,301</u>	<u>395,731</u>
	<u>\$1,180,860</u>	<u>\$1,314,095</u>

See notes to financial statements.

LIABILITIES AND STOCKHOLDERS EQUITY

	December 31,	
	2005	2004
CURRENT LIABILITIES:		
Accounts payable	\$29,688	\$65,142
Tuition refunds payable	34,769	36,557
Unapplied Federal and state student assistance funds	57,029	82,595
Accrued payroll taxes and amounts withheld from employees	2,977	2,373
State and local excise taxes payable	4,449	4,711
Accrued salaries	49,523	68,238
Prepaid tuition	661,880	787,863
Current maturities on long-term debt	43,223	39,386
TOTAL CURRENT LIABILITIES	883,538	1,086,865
LONG-TERM DEBT, less current portion (Note D)	23,368	29,523
STOCKHOLDERS EQUITY:		
Common stock, stated value \$1 a share-- Authorized, 100,000 shares	2,000	2,000
Issued and outstanding, 2,000 shares	89,536	89,536
Additional paid-in capital	91,536	91,536
Retained earnings	182,418	106,171
	273,954	197,707
	<u>\$1,180,860</u>	<u>\$1,314,095</u>

COURT REPORTING INSTITUTE, INC.

STATEMENTS OF EARNINGS

	<u>Year ended December 31</u>	
	<u>2005</u>	<u>2004</u>
REVENUE:		
Net tuition and fees	\$3,413,188	\$3,513,107
Bookstore and vending machine income	133,665	148,135
Equipment rental income	55,862	57,575
Interest, finance charges and late fees	44,364	41,883
Gain on disposal of assets	11,936	14,306
Other income	15,538	17,587
	<u>3,674,553</u>	<u>3,792,593</u>
COSTS AND EXPENSES:		
General and administrative	1,054,385	1,120,307
Instruction	842,673	910,184
Occupancy	530,824	460,253
Student recruitment	484,681	642,693
Bad debts	233,224	187,433
Depreciation and amortization	107,523	125,192
Cost of bookstore and vending sales	100,262	134,499
Interest expense	18,067	20,682
	<u>3,371,639</u>	<u>3,601,243</u>
NET EARNINGS	<u>\$302,914</u>	<u>\$191,350</u>

See notes to financial statements.

COURT REPORTING INSTITUTE, INC.
STATEMENTS OF STOCKHOLDERS EQUITY
YEAR ENDED DECEMBER 31, 2005 AND 2004

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balance, January 1, 2004	2,000	\$2,000	\$89,536	\$250,298	\$341,834
Net earnings				191,350	191,350
Distributions				(335,477)	(335,477)
Balance, December 31, 2004	2,000	2,000	89,536	106,171	197,707
Net earnings				302,914	302,914
Distributions				(226,667)	(226,667)
Balance, December 31, 2005	<u>2,000</u>	<u>\$2,000</u>	<u>\$89,536</u>	<u>\$182,418</u>	<u>\$273,954</u>

See notes to financial statements.

COURT REPORTING INSTITUTE, INC.

STATEMENTS OF CASH FLOWS

	<u>Year ended December 31</u>	
	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$302,914	\$191,350
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities—		
Depreciation and amortization	107,523	125,192
(Gain) on disposal of assets	(11,936)	(14,306)
(Increase) decrease in tuition contracts receivable	86,311	(42,877)
(Increase) decrease in inventories	16,299	(5,987)
(Increase) decrease in prepaid expenses	(42)	7,426
Increase (decrease) in accounts payable	(35,454)	24,494
Increase (decrease) in accrued salaries	(18,715)	3,423
Increase (decrease) in prepaid tuition	(125,983)	213,386
Increase (decrease) in other current liabilities	(27,012)	59,742
NET CASH FROM OPERATING ACTIVITIES	<u>293,905</u>	<u>561,843</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Disposals of rental equipment	18,115	16,203
Accreditation cost	5,430	4,458
Advances to employees	(380)	3,738
Restricted certificate of deposit		3,000
Lease deposits		873
Purchases of property and equipment	(39,705)	(114,523)
Advances to stockholder	158,000	(38,500)
Purchases of rental equipment	(28,033)	(2,252)
NET CASH FROM INVESTING ACTIVITIES	<u>113,427</u>	<u>(127,003)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Distributions	(226,667)	(335,477)
Principal payments on long-term debt	(49,167)	(51,627)
NET CASH FROM FINANCING ACTIVITIES	<u>(275,834)</u>	<u>(387,104)</u>
INCREASE IN CASH	131,498	47,736
CASH, beginning of year	<u>292,830</u>	<u>245,094</u>
CASH, end of year	<u><u>\$424,328</u></u>	<u><u>\$292,830</u></u>

See notes to financial statements.

COURT REPORTING INSTITUTE, INC.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2005 AND 2004

NOTE A— DESCRIPTION OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Description of business

Court Reporting Institute, Inc. is a closely held State of Washington corporation. The Company operates a private career training school with campus facilities in the cities of Seattle, Washington (since 1988), San Diego, California (since 1993), Boise, Idaho (since 1996) and Tacoma, Washington (2005). The Company's administrative office is in Seattle. The school offers its 30-month court reporting program at all of its campuses. Its 9-month microcomputer applications and computer networking programs and 6-month sales and marketing program are offered at its Seattle and Boise campuses.

Court Reporting Institute, Inc. is an accredited postsecondary education institution and is a participant in the Federal Student Financial Assistance programs under Title IV of the Higher Education Act.

A total of 391 and 415 students were enrolled and attending the College as of December 31, 2005 and 2004, respectively.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenue recognition

Tuition revenue is recognized as earned ratably over the lengths of the respective programs. Non-refundable registration fees are recorded as earned upon enrollment and class attendance.

Revenue earned on tuition contracts in excess of payments received is reported as tuition contracts receivable in the accompanying financial statements. Payments on tuition contracts in excess of revenue earned is reported as prepaid tuition.

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

Student recruitment

Indirect student recruitment and advertising costs are expensed as incurred. Student recruitment and advertising costs for 2005 and 2004 was \$484,681 and \$646,210, respectively.

Direct response recruitment and advertising costs are capitalized and amortized over the estimated benefit period. Student recruitment and advertising costs deferred as of December 31, 2005 and 2004 amounted to \$15,299.

Accreditation cost

Costs in connection with the renewal of the Company's accreditation with its accrediting agency "Accrediting Council for Independent Colleges and Schools" are capitalized and amortized over the renewal period. In 2004, the Company's accreditation was renewed for a four-year period ending in December, 2007.

Property and equipment

Expenditures for renewals or improvements are capitalized. Ordinary maintenance and repairs are charged to expense as incurred. The cost of assets sold, retired, or abandoned and the related accumulated depreciation are removed from the accounts. Gains or losses on such sales or retirements are included in income.

Stenograph machines held for rental to students are classified as rental equipment in the accompanying financial statements.

Depreciation of property and equipment and rental equipment is computed using the straight-line method over estimated useful lives of five to ten years. Leasehold improvements are amortized over the shorter of the estimated useful life or lease period.

Capital leases

Equipment leases having the substance of financing transactions have been capitalized and the related discounted lease obligations included in long-term debt. The leased assets are being depreciated over their estimated useful lives, as described above.

Income taxes

The Company, with the consent of its shareholders, has elected under the Internal Revenue Code to be an S Corporation for U.S. income tax purposes. The states of California and Idaho, which have income tax statutes, also recognize the Company's S Corporation status. However, the Company is subject to a franchise tax on its operations in both California and Idaho. In lieu of corporation income taxes, the shareholders of an S Corporation are taxed on their proportionate share of the Company's taxable income. Therefore, no provision or liability for U.S. or State income taxes has been included in the accompanying financial statements.

Supplemental disclosures of cash flow information

	<u>Year ended December 31</u>	
	<u>2005</u>	<u>2004</u>
Interest paid during the year	\$18,067	\$24,036
Equipment acquired on capital leases	46,849	

NOTE B – TUITION CONTRACTS RECEIVABLE:

Tuition contracts receivable consist of the following –

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
Fully earned accounts	\$202,771	\$195,288
Earnings on tuition contracts in progress in excess of payments received	<u>88,230</u>	<u>180,059</u>
	291,001	375,347
Less allowance for doubtful accounts	<u>112,000</u>	<u>110,035</u>
	<u>\$179,001</u>	<u>\$265,312</u>

Unearned revenue on tuition contracts in progress at December 31, 2005 and 2004 amounted to \$1,079,718 and \$1,167,507, respectively.

NOTE C – NOTE RECEIVABLE FROM STOCKHOLDER:

The 5% note receivable from stockholder is secured by real and personal property owned by the Company's sole stockholder with a current value of \$137,000 and \$295,000 at December 31, 2005 and 2004, respectively. Interest earned on the note amounted to \$10,250 and \$12,825 for the years ended December 31, 2005 and 2004, respectively.

NOTE D- LONG-TERM DEBT:

Long-term debt consists of the following--

	<u>December 31,</u>	
	<u>2005</u>	<u>2004</u>
10.9% to 21.2% capital lease obligations, payable in aggregate monthly installments of \$4,237 and \$4,200.	\$66,591	\$68,909
Less current portion	<u>43,223</u>	<u>39,386</u>
	<u>\$23,368</u>	<u>\$29,523</u>

Equipment leases in which the Company is lessee are considered to be equivalent to installment purchases for purposes of accounting presentation. The cost of the equipment at December 31, 2005 and 2004 of \$147,311 and \$123,541, less accumulated depreciation of \$59,824 and \$42,487, is included in property and equipment. The related discounted lease obligation is included in long-term debt.

Aggregate annual payments on long-term debt for years subsequent to December 31, 2005 is summarized below--

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$43,223	\$8,133	\$51,356
2007	16,899	3,370	20,269
2008	6,469	288	6,757
	<u>\$66,591</u>	<u>\$11,791</u>	<u>\$78,382</u>

NOTE E- CONCENTRATIONS (U.S. TITLE IV STUDENT FINANCIAL ASSISTANCE PROGRAMS):

The Company, as an eligible postsecondary institution of higher education, participates in the U.S. Title IV student financial assistance programs authorized under the Higher Education Act of 1965, as amended. The U.S. Department of Education is the Federal agency responsible for administration and oversight of the programs. The Company acts in both an administrative and fiduciary capacity for the funds disbursed and guaranteed by the United States government to eligible student recipients attending the Institution. The proceeds are used by the student to pay tuition costs at the school and to cover certain allowable personal living expenses.

Under the Regulations governing the Federal programs, the percentage contribution of Federal Title IV program funds to the Company's revenues from educational programs is limited to 90% for continued participation in the programs. Federal program contributions were as follows:

	Year ended December 31	
	2005	2004
Net proceeds from Federal programs	\$1,850,574	\$2,466,805
Education related revenues (cash basis)	3,336,079	3,795,961
Percentage contribution of Federal funds	55%	65%

The Company returned tuition refunds to the Federal programs totaling \$259,250 and \$279,601 for the year ended December 31, 2005 and 2004, respectively. Federal funds disbursed to students for eligible personal living expenses amounted to \$1,053,383 and \$1,051,618, respectively.

The Company is currently approved for participation in the Federal Title IV programs through September 30, 2006.

NOTE F- LEASE COMMITMENTS:

At December 31, 2005, aggregate net minimum rental commitments under noncancellable operating leases on facilities having an initial or remaining term of more than one year are as follows-

	Seattle Campus	Tacoma Campus	San Diego Campus	Boise Campus	Total
2006	\$146,772	\$80,208	\$142,368	\$118,128	\$487,476
2007	146,772	81,504	146,592	120,492	495,360
2008		84,096	151,032	122,901	358,029
2009		86,676	155,784	125,355	367,815
2010		87,972		95,427	183,399
2011		90,564			90,564
	<u>\$293,544</u>	<u>\$511,020</u>	<u>\$595,776</u>	<u>\$582,303</u>	<u>\$1,982,643</u>

The accompanying financial statements for the year ended December 31, 2005 and 2004 include rent expense of \$455,622 and \$384,664 on the Company's facility leases.

NOTE G– RESTRICTED CERTIFICATE OF DEPOSIT:

As of December 31, 2005 and 2004, the Company had a restricted certificate of deposit of \$62,000 under a standby letter of credit agreement with the U.S. Department of Education as the named beneficiary. The letter of credit is required by the U.S. Department of Education as a condition for the Company's continued participation in the U.S. Title IV Higher Education Act (HEA) student financial assistance programs. The letter of credit requirement was imposed as a result of the Company's late payment of tuition refunds to the Title IV HEA programs.

The letter of credit requirement will be removed by the U.S. Department of Education when the Company can show it has been in compliance with the timely payment of refunds requirement for a period of time that is acceptable to the Department.

NOTE H– CONTINGENCIES:

The Company is involved in administrative appeals from decisions of the State of Washington Workforce Training and Education Coordinating Board (Board). The Company has been ordered to pay refunds in the approximate amount of \$100,000 to students from the Seattle campus. In the opinion of legal counsel several of the appeals brought by Court Reporting Institute will be successful. However, it is probable that the Company will have to refund the tuition for some of the students. At this time the discovery process has not been completed. Legal counsel's best estimate of tuition that may have to be refunded is \$35,000, and that amount will likely change as discovery progresses. The estimate of legal fees to litigate the administrative hearings is \$5,000 to \$15,000. The administrative hearings are set for September, 2006.

On January 6, 2006, the Company was served with a summons and complaint for damages. The suit was brought by seven former students at the Seattle campus alleging breach of contract. Legal counsel, with the assistance of management, has filed an answer denying all claims. According to legal counsel, the allegations are unsupported by facts on several issues. The matter is currently pending with a trial date of June 18, 2007.

Legal counsel is of the opinion that the most probable risk of this litigation is \$25,000 with attorney fees to litigate this matter between \$5,000 and \$15,000.

On June 6, 2006, the Company received a copy of a complaint for unfair business practices filed by a former student at the Seattle campus. Management, with the assistance of legal counsel, is preparing a response. There are discussions with the complainant regarding possible settlement.

Legal counsel is of the opinion that the most probable risk of this matter if the Company does not settle is \$5,000, including attorney fees.

The Region X Office of the U.S. Department of Education (DOE) conducted a program review at the Seattle campus in September–October, 2003 to assess the Institution's administration of financial aid programs authorized by Title IV of the Higher Education Act of 1965, as amended, for the 2001–2002 and 2002–2003 award years. The DOE subsequently issued a preliminary report of its findings on June 2, 2005 and representatives of the Institution continue to work with the Region X office to resolve all remaining areas of concern. No liability has been assessed by DOE at this time.

ADDITIONAL INFORMATION

My audit of the financial statements of Court Reporting Institute, Inc. for the year ended December 31, 2005 was intended primarily for the purpose of formulating an opinion on the basic financial statements taken as a whole. The additional information presented on pages 16 to 19 has been taken primarily from accounting and other records of the Company and is not, in my opinion, necessary for a fair presentation of its financial position, results of operations and its cash flows. Such information has not been subjected to tests and other auditing procedures sufficient to enable me to express an opinion as to the fairness of all the details included therein and, accordingly, I do not express an opinion on the additional information.



Todd W. Resch, CPA, PS
June 14, 2006

COURT REPORTING INSTITUTE, INC.

SCHEDULE OF FUNCTIONAL EXPENSES

YEAR ENDED DECEMBER 31, 2005 WITH 2004 TOTALS

	General and Admin	Instruction	Student Recruit- ment	Occupancy	2005 Total	2004 Total
Salaries and wages	\$655,413	\$747,949	\$135,444		\$1,538,806	\$1,593,252
Advertising	847		339,540		340,387	440,430
Rental of facilities				\$455,622	455,622	384,665
Employment taxes	84,881	75,686	13,644		174,211	186,365
Travel and entertain	32,741				32,741	80,024
Supplies	45,219				45,219	63,328
Property & excise taxes	20,996			19,796	40,792	48,239
Group medical insur	37,017	12,038	(3,947)		45,108	38,438
Utilities				28,549	28,549	26,436
Insurance	16,303			1,970	18,273	22,962
Professional services	27,644				27,644	21,772
Telephone	24,824				24,824	21,523
Custodial services				20,580	20,580	20,775
Printing	4,130				4,130	20,409
Donations	1,025	7,000			8,025	20,360
Other	17,564				17,564	19,791
Staff activities	11,172				11,172	18,134
Accreditation dues	14,661				14,661	17,473
Federal program match	12,848				12,848	16,225
Conferences	3,885				3,885	15,465
Postage	10,017				10,017	12,726
State franchise tax	4,600				4,600	8,795
Storage rental				3,715	3,715	7,087
Bank charges	2,292				2,292	6,213
Equipment maint	9,582				9,582	5,900
Payroll service	4,013				4,013	4,562
Dues and subscriptions	3,718				3,718	4,343
Courier service	3,185				3,185	3,867
Internet service						3,415
Licenses	6,959				6,959	3,216
School activities	4,804				4,804	3,180
Common area maint						2,748
Security				592	592	1,277
Federal administrative cost allowance	(5,955)				(5,955)	(9,958)
	<u>\$1,054,385</u>	<u>\$842,673</u>	<u>\$484,681</u>	<u>\$530,824</u>	<u>\$2,912,563</u>	<u>\$3,133,437</u>

COURT REPORTING INSTITUTE, INC.

COMBINING BALANCE SHEET

DECEMBER 31, 2005

ASSETS

	<u>Combined</u>
CURRENT ASSETS:	\$424,328
Cash	179,001
Tuition contracts receivable	1,380
Advances to employees	17,251
Inventories	35,468
Prepaid expenses	<u>657,428</u>
TOTAL CURRENT ASSETS	
INTERCOMPANY RECEIVABLE	63,800
RENTAL EQUIPMENT, at cost	43,828
Less accumulated depreciation	<u>19,972</u>
PROPERTY AND EQUIPMENT, at cost:	883,361
Furniture and equipment	160,800
Software and tapes	159,868
Leasehold improvements	<u>1,204,029</u>
	932,870
Less accumulated depreciation	<u>271,159</u>
OTHER ASSETS:	62,000
Restricted certificate of deposit	137,000
Note receivable from stockholder	22,433
Lease deposits	10,868
Accreditation cost, net	<u>232,301</u>
	232,301
	<u><u>\$1,180,860</u></u>

<u>Eliminations</u>	<u>Head- quarters</u>	<u>Seattle Campus</u>	<u>San Diego Campus</u>	<u>Boise Campus</u>	<u>Tacoma Campus</u>
		\$422,895	\$916	\$400	\$117
		74,152	38,810	56,174	9,865
		412	968		
		9,939	3,441	3,381	490
	6,517	17,869	6,404	2,826	1,852
	<u>6,517</u>	<u>525,267</u>	<u>50,539</u>	<u>62,781</u>	<u>12,324</u>
(\$2,044,105)			1,999,710	46,395	
		18,200	25,400	18,800	1,400
		<u>18,200</u>	<u>14,430</u>	<u>10,918</u>	<u>280</u>
		0	10,970	7,882	1,120
	14,455	530,170	125,964	184,784	27,988
		148,685	3,243	8,872	
	<u>10,429</u>	<u>121,910</u>	<u>13,681</u>	<u>8,645</u>	<u>5,203</u>
	24,884	800,765	142,888	202,301	33,191
	<u>3,550</u>	<u>664,772</u>	<u>104,197</u>	<u>155,811</u>	<u>4,540</u>
	21,334	135,993	38,691	46,490	28,651
		62,000			
	137,000				
	7,547	2,000	12,886		
	490	4,378	2,400	3,600	
	<u>145,037</u>	<u>68,378</u>	<u>15,286</u>	<u>3,600</u>	<u>0</u>
<u>(\$2,044,105)</u>	<u>\$172,888</u>	<u>\$729,638</u>	<u>\$2,115,196</u>	<u>\$167,148</u>	<u>\$42,095</u>

COURT REPORTING INSTITUTE, INC.

COMBINING BALANCE SHEET

DECEMBER 31, 2005

LIABILITIES AND STOCKHOLDERS EQUITY

	<u>Combined</u>
CURRENT LIABILITIES:	\$29,688
Accounts payable	34,769
Tuition refunds payable	57,029
Unapplied Federal and state student assistance funds	
Accrued payroll taxes and amounts withheld from employees	2,977
State and local excise taxes payable	4,449
Accrued salaries	49,523
Prepaid tuition	661,880
Current maturities on long-term debt	43,223
TOTAL CURRENT LIABILITIES	883,538
INTERCOMPANY PAYABLE	
LONG-TERM DEBT, less current portion	23,368
STOCKHOLDERS EQUITY:	
Common stock, stated value \$1 a share— Authorized, 100,000 shares	2,000
Issued and outstanding, 2,000 shares	89,536
Additional paid-in capital	91,536
Retained earnings (deficit)	182,418
	273,954
	<u><u>\$1,180,860</u></u>

<u>Eliminations</u>	<u>Head- quarters</u>	<u>Seattle Campus</u>	<u>San Diego Campus</u>	<u>Boise Campus</u>	<u>Tacoma Campus</u>
	\$590	\$18,492	\$8,308	\$2,298	
		14,321	18,897	1,551	
		15,939	34,127	6,963	
		1,882	720	375	
		2,997	1,330	122	
	390	18,369	15,245	12,357	\$3,162
		130,917	392,409	135,072	3,482
		43,223			
	<u>980</u>	<u>246,140</u>	<u>471,036</u>	<u>158,738</u>	<u>6,644</u>
(\$2,044,105)	568,364	1,278,171			199,570
		23,368			
	\$2,000				
	<u>89,536</u>				
	91,536				
	<u>(487,992)</u>	<u>(818,041)</u>	<u>1,644,160</u>	<u>8,410</u>	<u>(164,119)</u>
	(396,456)	(818,041)	1,644,160	8,410	(164,119)
<u>(\$2,044,105)</u>	<u>\$172,888</u>	<u>\$729,638</u>	<u>\$2,115,196</u>	<u>\$167,148</u>	<u>\$42,095</u>

COURT REPORTING INSTITUTE, INC.

COMBINING STATEMENT OF EARNINGS AND RETAINED EARNINGS (DEFICIT)

YEAR ENDED DECEMBER 31, 2005

	<u>Combined</u>
REVENUE:	
Net tuition and fees	\$3,413,188
Bookstore and vending machine income	133,665
Equipment rental income	55,862
Interest, finance charges and late fees	44,364
Gain on disposal of assets	11,936
Other income	15,538
	<u>3,674,553</u>
COSTS AND EXPENSES:	
General and administrative	1,054,385
Instruction	842,673
Occupancy	530,824
Student recruitment	484,681
Bad debts	233,224
Depreciation and amortization	107,523
Cost of bookstore and vending sales	100,262
Interest expense	18,067
	<u>3,371,639</u>
NET EARNINGS (LOSS) BEFORE ALLOCATED EXPENSES	302,914
ALLOCATED EXPENSES	<u> </u>
NET EARNINGS (LOSS)	302,914
RETAINED EARNINGS (DEFICIT), beginning of year	106,171
DISTRIBUTIONS	<u>(226,667)</u>
RETAINED EARNINGS (DEFICIT), end of year	<u><u>\$182,418</u></u>

<u>Eliminations</u>	<u>Head- quarters</u>	<u>Seattle Campus</u>	<u>San Diego Campus</u>	<u>Boise Campus</u>	<u>Tacoma Campus</u>
		\$1,117,531	\$1,472,383	\$794,194	\$29,080
		56,337	36,594	38,645	2,089
		19,015	24,298	11,774	775
	\$10,750	15,894	9,991	6,786	943
		4,754	3,860	3,322	
	28	5,151	8,633	1,726	
	<u>10,778</u>	<u>1,218,682</u>	<u>1,555,759</u>	<u>856,447</u>	<u>32,887</u>
	377,062	260,950	237,944	141,477	36,952
	(20,266)	329,821	283,679	228,874	20,565
	30,922	166,807	138,330	132,288	62,477
	1,653	193,216	85,426	137,722	66,664
		128,642	39,853	64,729	
	2,973	65,292	14,517	19,921	4,820
	3,036	49,179	17,884	28,091	2,072
	395	12,483	2,096	3,093	
	<u>395,775</u>	<u>1,206,390</u>	<u>819,729</u>	<u>756,195</u>	<u>193,550</u>
	(384,997)	12,292	736,030	100,252	(160,663)
	<u>384,997</u>	<u>(128,062)</u>	<u>(163,482)</u>	<u>(89,997)</u>	<u>(3,456)</u>
		(115,770)	572,548	10,255	(164,119)
	(487,992)	(702,271)	1,298,279	(1,845)	
			(226,667)		
	<u>(\$487,992)</u>	<u>(\$818,041)</u>	<u>\$1,644,160</u>	<u>\$8,410</u>	<u>(\$164,119)</u>

CRI MONTHLY NET INCOME FOR 2006

Month/Campus	Seattle	San Diego	Boise	Tacoma	Head Qtrs.	Net Income
January	11221.59	73352.76	10670.36	-9946.12	-25093.87	60204.72
February	4962.39	50308.07	7878.10	-6830.45	-22324.37	33993.74
March	-18117.71	50958.52	4695.09	-3470.68	-33628.30	436.92
April	4606.44	59154.26	-2122.20	-6784.47	-29962.40	24891.63
May	-26047.22	39306.77	-894.48	-10371.71	-25116.63	-23123.27
June	-13783.54	44220.43	-2057.22	-11848.30	-21826.03	-5294.66
July	-28209.10	42539.97	403.97	-8550.68	-27661.94	-21477.78
August	-29354.04	17335.74	3632.71	-9849.07	-41193.56	-59428.22
Total	-94721.19	377176.52	22206.33	-67651.48	-226807.10	10203.08