Judge Karen A. Overstreet
Hearing Date – August 22, 2008
Response Date – August 15, 2008
Chapter 7

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, Trustee Plaintiff, Vs Janish, Moldskred, et al Defendants.	Adversary No. 07-01167 DECLARATION OF WILLIAM A. HANLIN, JR. , CPA in Support of Response To Motion For Summary Judgment - August 2008

I hereby certify under penalty of perjury under the laws of the State of Washington that the following is true and correct.

1. My name is William A. Hanlin, Jr. I am a certified public accountant. I have been retained as an expert witness to testify in this case. Attached as Exhibit 1 is a listing of my professional qualifications.

2. I was retained by defendant Moldskred to expand my prior work in this case in order to present a more complete picture of the relationship and events surrounding the Moldskred loan of $150,000, and the subsequent repayment. This type of forensic service is something which I have performed regularly in my professional practice.

3. Moldskred has made certain statements and representations in his deposition that make it appear as if he had first-hand knowledge of actions and events pertaining to CRI respecting its financial condition. Moldskred's "beliefs" do not equal facts. Unfortunately, these beliefs now form the foundation of Plaintiff's impression that Moldskred had "knowledge" (or should have had "knowledge") that would have made it obvious to Moldskred that the repayment of the $150,000 was going to be a voidable transaction.

4. My review of the evidence in this case reveals that Moldskred may have believed certain actions took place or that Janish behaved in certain ways, but these were only his beliefs, not knowledge based upon facts.

5. In my declaration submitted to this court on November 21, 2007, I noted that:

"…the records of CRI support Molskred's argument that he loaned funds ($150,000) that were deposited by CRI in late December 2005, and that such funds were repaid to Molskred four days later on January 2, 2006."

6. Subsequently, I have learned that the funds from Moldskred did not go directly into CRI's accounts. Instead, Moldskred loaned the money to Janish, who in turn deposited a similar amount into the CRI accounts.

7. I have also learned, since my declaration of November 21, 2007, that Moldskred was repaid, but not by CRI. Moldskred was repaid by Janish, seemingly from funds withdrawn by Janish from CRI.

8. At issue in this present instance is whether or not Moldskred had, or should have had, sufficient *knowledge* to be aware that CRI might be insolvent at the time he was repaid the $150,000 by Janish, and that such payment might be voidable.

9. For this assignment I have revisited the documents previously reviewed. In addition, I have received and read the audited financial statements for 2005 and 2004. I have also interviewed the auditor, Mr. Todd W. Resch, CPA.

These are my findings:

10. CRI's audited financial statements show that, as of December 31, 2005, CRI had a net equity of $273,954 (see Exhibit 2 – page 5). This is an increase from December 31, 2004, which shows a net equity of $197,707. These undisputed facts show that CRI was not insolvent at December 31, 2005 (despite the court's prior ruling on this point). Indeed, after considering the repayments of funds adding up to the $150,000 to Moldskred (which Trustee presumes were from funds provided by CRI to Janish), CRI would still have had a positive net equity of $123,954.

11. The court's ruling on this point has placed the burden upon Moldskred to show that he did not have, and could not have had the knowledge of the ultimate insolvency of CRI.

12. CRI's audited financial statements include a *Statement of Stockholders Equity* (see Exhibit 2 – page 6). This statement, which is required by generally accepted accounting principles, shows the changes from year to year for all of the components of a corporation's equity. Despite Moldskred's belief on this point, there is nothing included in this statement that shows that an infusion of capital was made in either 2005 or 2004.

13. The Statement of Cash Flows (Exhibit 2 – page 7) for both 2005 and 2004 do not show that CRI experienced any borrowing activities to or from Moldskred.

14. The audited financial statements of CRI were issued by Mr. Resch on June 14, 2006. This date represents a significant length of time between December 31, 2005 and the date of the audit report. Generally accepted auditing standards require the auditor to perform a review of events after the balance sheet date (December 31, 2005) to the date of the audit report (June 14, 2006) in order to determine whether or not there has been a significant change in the Company's financial situation that could materially affect the readers understanding of the financial position at the balance sheet date. In other words, if the auditor were to discover that an entity had lost a major customer, or that the terms of doing business had become unfavorable, or might otherwise cause a going concern problem (like imminent or likely insolvency) during the interim period, these events would then be *a required disclosure* in both the audit report and the financial statements under generally accepted accounting principles and generally accepted auditing standards.

15. During the interview with Mr. Resch, I asked several questions pertinent to this case and this motion. He was asked about a capital infusion as of December 31, 2005. He was asked about subsequent events and the going concern of CRI. He was asked about the requirements of the Department of Education.

16. Mr. Resch, who has been a CPA since 1975, was able to tell me that CRI had no direct financial dealings with Moldskred. He was able to confirm that CRI had a positive net worth as of December 31, 2005, as represented on the balance sheet.

17. Mr. Resch confirmed that CRI had made more than $300,000 in profit in 2005, and that the audit procedures he applied as of December 31, 2005 did not indicate that CRI had a going concern problem as of that date.

18. Mr. Resch confirmed that he had performed the required subsequent review of CRI prior to issuance of the audited financial statements, and that nothing came to his

attention that would have indicated that CRI had experienced any event or events that would have cause concern for CRI's ability to remain in business as of June 14, 2006.

19. Plaintiff in this case has asserted that Moldskred assisted in or aided Janish to perform a fraud upon the Department of Education by providing Janish annually with funds to put into CRI at the end of the year.

20. Government requirements for a certain level of capital to be held by a business have never required that such businesses have that level of capital each and every day of the year. This is true for agencies such as the Department of Education (DOE), Department of Housing and Urban Development (HUD), Department of Agriculture and Department of Transportation. Rather, these agencies want to see what the level of capital is at the balance sheet date, usually the end of an entities fiscal year.

21. The evidence in this case clearly shows that Moldskred loaned money to Janish near the end of each year beginning in 1998 and continuing through 2005. The audited financial statements of CRI for 2005 and 2004 show that DOE conducted its field audit of CRI's affairs for 2001-2002 and 2002-2003 for the financial aid program, and found that CRI was in compliance.

22. The evidence shows most clearly that CRI's demise was not caused by the repayment of the $150,000 which Janish borrowed from Moldskred. That event took place in January 2006. As of June 14, 2006, CRI was still considered, by its auditor, to be a viable going concern.

23. Plaintiff asserts that Janish should have been aware of CRI's problems because of his former bookkeeper relationship and because of his long-term and on-going relationship with Janish, and that Moldskred had a duty to discover that CRI was having financial problems and would not be able to aid Janish to repay the funds to Moldskred.

24. Assuming that plaintiff is correct, and that Moldskred had a duty to perform more due diligence during the very short loan period, what would Moldskred have discovered? He could have obtained the internal financial statements from CRI as of December 31, 2005. Had he done so, he would have seen that CRI was showing a profit of more than $300,000 for the year and had a positive net worth as of December 31, 2005. This is a normal type of action that a lender might perform. He would not have discovered that CRI was insolvent, or was likely to become insolvent.

25. Further, Moldskred could have asked for the audited financial statements to verify CRI's representation of its 2005 profits. Here again, there would have been nothing to inform him that CRI might not survive financially. Moldskred's daily involvement with CRI financial activities ended years before CRI's financial difficulty. And he was no longer involved in the day-to-day operations or affairs. If anything, his past experience with CRI would most likely have given him a sense of confidence in the ability of CRI to continue to be a viable and business. Had Moldskred asked for the audited financial statements, he would have a right to rely on the representations made therein.

26. A reasonable person would have wanted to know how they would be repaid. A reasonable person could have obtained the financial statements from CRI. Moldskred believes he was given the CRI financial statements. Those internal financial statements are substantively the same as those published under audit on June 14, 2006. Moldskred's "knowledge", either known or knowable in December 2005 or January 2006 would not have alerted him to any circumstances that the repayment would become voidable.

27. CRI's audited financial statements show that the Company possessed more than $424,000 as of December 31, 2005 (Exhibit 2 – page 4). Therefore, there would be

no reason for a reasonable person to believe that a distribution by CRI to Janish would have been improper; the Company had the money with which to pay the distribution.

28. I have therefore concluded, based upon all the evidence, that Kai Moldskred did not and would not, even after further inquiry, have had knowledge of any possibility of voidability of the repayment to him by Alan Janish of the $150,000 in early January 2006.

Date: August 14, 2008 William A. Hanlin, Jr., CPA
Place: Seattle, Washington

Exhibits Attached

Exhibit 1	Credentials of William A. Hanlin, Jr., CPA, CFE, CVA, CFD
Exhibit 2	Court Reporting Institute, Inc. – Audited Financial Statements - 2005 and 2004

EXHIBIT A

CREDENTIALS

of

WILLIAM A. HANLIN, JR.
CPA, CFE, CVA, CFD

William A. Hanlin, Jr. began his career in public accounting in 1969. Over the years, Mr. Hanlin has acquired a unique and varied background of skills in accounting, taxation, business matters and financial management on the domestic level and for clients in various foreign countries. He is the founder of the Hanlin Moss Group, PS, a firm of certified public accountants and valuation analysts. As managing partner, he also directs the Firm's growth and client development, as well as provides training for professional staff that have joined the Firm.

The Firm provides general auditing, accounting and tax services as well as specialty services in connection with business planning, business valuations, estate planning, litigation support, and other non-traditional disciplines.

In 2006, the Firm provided more than 550 clients with services including preparation of various financial statements, taxation and financial planning for individuals and businesses, forensic and litigation services, business valuations and other services. Mr. Hanlin heads the Firm's effort in the areas of valuation services and fraud/forensic accounting.

FORENSIC SERVICES

Mr. Hanlin has been engaged many times to review financial documents in connection with fraud and/or fraud-related matters. Many of these engagements have included providing written reports of findings to judges and juries in various local and Federal jurisdictions. Mr. Hanlin has been also engaged as a rebuttal witness in these matters, and has testified as an expert witness in these forums. Mr. Hanlin has conducted engagements to review activities of management for possible loss of cash or other deeds of mismanagement.

In 1993, Mr. Hanlin became a Certified Fraud Examiner (CFE). This professional designation, conferred by the Association of Certified Fraud Examiners, is awarded to select professionals who are responsible for detecting, and investigating fraud.

Mr. Hanlin is a Certified Fraud Deterrence *Analyst* (CFD) and is the chairman of NACVA's fraud deterrence training and certification program. This program was launched in 2002 and has quickly found appeal to a worldwide audience.

VALUATION SERVICES

Mr. Hanlin has prepared numerous business valuations since 1984. These valuations have been prepared for purposes of acquisition or sale of a business, for settlement in divorce proceedings, for partner/shareholder dispute resolution, for stock valuation in accord with specific terms of buy/sell agreements, and estate/gift tax purposes. Mr. Hanlin has been called upon to review the valuation reports of other experts during litigation and mediation. In 1994 Mr. Hanlin completed a formal regimen of training in business valuations, attaining the designation as a Certified Valuation Analyst (CVA). These courses are sponsored by the National Association of Certified Valuation Analysts (NACVA), which was organized specifically for CPAs to provide education in the field of valuation theory, as well as to promote uniform standards of valuation when valuing closely-held businesses. He is presently the International Association of Consultants, Valuators and Analysts (IACVA). IACVA's mission is to teach and promote the worldwide uniform application of valuation theory and models.

ADVOCACY SERVICES

Mr. Hanlin's practice has called for representation of clients on tax matters before the Appellate Division of the Internal Revenue Service on complex and technical matters. He has also provided assistance on tax matters in both U.S. Bankruptcy and U.S. District courts.

EXPERT WITNESS:

Mr. Hanlin has been qualified numerous times in court as an expert witness in Washington State and Federal Courts. He has served in many instances as a consulting expert to both clients and their lawyers to assist in mediating contract disputes, business valuations, divorces, bankruptcy, product loss valuations, loss of income and partnership disputes. In addition, Mr. Hanlin has served as court-appointed receiver for businesses where control was seized by the court.

INSTRUCTOR:

Mr. Hanlin has been an instructor for many years on the subject of valuation theory and application, as well as fraud deterrence.

DEGREE: Bachelor of Arts in Business Administration - University of Washington (1975)

CERTIFICATE and LICENSE:

Certified Public Accountant, State of Washington
Certified Fraud Examiner (CFE)
Certified Valuation Analyst (CVA)

INDIVIDUAL MEMBERSHIPS and ACTIVITIES:

American Institute of Certified Public Accountants
Washington Society of Certified Public Accountants
International Association of Consultants, Valuators & Analysts,

- President ,2006 – present
- Instructor - *Business Valuation Theory, Valuation of Intangible Assets and Intellectual Property*
- Principal author and instructor – *Universal Fundamentals and Analysis – Business Valuation*
- Presenter – IVSC/China Appraisal Society Joint Conference, Kunming, China

National Association of Certified Valuation Analysts,

Executive Advisory Board (Brd of Directors) (2001 - 2003)
Fraud Deterrence Board - Chair (2003 - 2007)
International Business Valuation Training Team - Chair (2003 -)
Valuation Education Board (2000 - 2001)
Ethics Overnight Board (1996 - 1997, 2002 - 2003)
Outstanding Member Award, May 1997
National Advisory Board (1994 - 1996)
National Standards Committee for CVA Practice (1994 - 1996)
Member - National Exam & Grading Team
Chair - Divorce Symposium Committee (1998 - 2002)
President, Washington State Chapter of NACVA (1998 - 1999)
Training Development Team faculty member - *Discounts and Premiums* (1999 -2003)
Training Development Team faculty member - *The Market Approach* (2000 - 2003)
Course development and instructor - *Using Guideline Companies in Valuations* - ©2001, *Valuing Intangible Assets - A Survey* - ©2003, *Applying the Market and Guideline Methods in Valuations* - ©2003

Association of Certified Fraud Examiners

OTHER:

Co-author - *The Value of Risk*, 2001
Article - *The Daubert Debate, Does Daubert Create New Standards for Business Valuation*
Speaker at NACVA National Conference and other forums for NACVA
Speaker at the Annual Conference for Association of Certified Fraud Examiners
Speaker at various small business forums on business organization and strategy

The Hanlin Moss Group, PS
1411 - 4th Avenue, #410
Seattle, WA 98101

Tel (206) 623-3200
Fax (206) 623-3222
Email -bill@hanlinmoss.com

Exhibit 2

COURT REPORTING INSTITUTE, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

CONTENTS

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

Todd W. Resch, CPA, PS

8212 224TH AVENUE EAST, BUCKLEY, WASHINGTON 98321
PHONE (253) 862-2662 • FAX (253)826-0809

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

8212 224TH AVENUE EAST, BUCKLEY, WASHINGTON 98321
PHONE (253) 862-2662 • FAX (253)826-0809

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

Todd W. Resch, CPA, PS

COURT REPORTING INSTITUTE, INC.

BALANCE SHEETS

ASSETS

	December 31, 2005	December 31, 2004
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	43,828	41,260
	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
	1,204,029	1,117,475
Less accumulated depreciation	932,870	830,204
	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
	232,301	395,731
	$1,180,860	$1,314,095

See notes to financial statements.

LIABILITIES AND STOCKHOLDERS EQUITY

	December 31, 2005	December 31, 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 Issued and outstanding, 2,000 shares	2,000	2,000
Additional paid-in capital	89,536	89,536
	91,536	91,536
Retained earnings	182,418	106,171
	273,954	197,707
	$1,180,860	$1,314,095

COURT REPORTING INSTITUTE, INC.

STATEMENTS OF EARNINGS

	Year ended December 31	
	2005	2004
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
	3,674,553	3,792,593
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
	3,371,639	3,601,243
NET EARNINGS	$302,914	$191,350

See notes to financial statements.

COURT REPORTING INSTITUTE, INC.

STATEMENTS OF STOCKHOLDERS EQUITY

YEAR ENDED DECEMBER 31, 2005 AND 2004

	Common Stock		Additional Paid-In	Retained	
	Shares	Amount	Capital	Earnings	Total
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	2,000	$2,000	$89,536	$182,418	$273,954

See notes to financial statements.

COURT REPORTING INSTITUTE, INC.

STATEMENTS OF CASH FLOWS

	Year ended December 31	
	2005	2004
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	293,905	561,843
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	113,427	(127,003)
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	(275,834)	(387,104)
INCREASE IN CASH	131,498	47,736
CASH, beginning of year	292,830	245,094
CASH, end of year	$424,328	$292,830

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 it's 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

	Year ended December 31	
	2005	2004
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–

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

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–

	December 31,	
	2005	2004
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	43,223	39,386
	$23,368	$29,523

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–

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

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
	$293,544	$511,020	$595,776	$582,303	$1,982,643

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

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)
	$1,054,385	$842,673	$484,681	$530,824	$2,912,563	$3,133,437

COURT REPORTING INSTITUTE, INC.

COMBINING BALANCE SHEET

DECEMBER 31, 2005

ASSETS

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

Eliminations	Head–quarters	Seattle Campus	San Diego Campus	Boise Campus	Tacoma Campus
		$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
	6,517	525,267	50,539	62,781	12,324
($2,044,105)			1,999,710	46,395	
		18,200	25,400	18,800	1,400
		18,200	14,430	10,918	280
		0	10,970	7,882	1,120
	14,455	530,170	125,964	184,784	27,988
		148,685	3,243	8,872	
	10,429	121,910	13,681	8,645	5,203
	24,884	800,765	142,888	202,301	33,191
	3,550	664,772	104,197	155,811	4,540
	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	
	145,037	68,378	15,286	3,600	0
($2,044,105)	$172,888	$729,638	$2,115,196	$167,148	$42,095

COURT REPORTING INSTITUTE, INC.

COMBINING BALANCE SHEET

DECEMBER 31, 2005

LIABILITIES AND STOCKHOLDERS EQUITY

	Combined
CURRENT LIABILITIES:	
Accounts payable	$29,688
Tuition refunds payable	34,769
Unapplied Federal and state student assistance funds	57,029
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 Issued and outstanding, 2,000 shares	2,000
Additional paid-in capital	89,536
	91,536
Retained earnings (deficit)	182,418
	273,954
	$1,180,860

Eliminations	Head-quarters	Seattle Campus	San Diego Campus	Boise Campus	Tacoma Campus
	$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			
	980	246,140	471,036	158,738	6,644
($2,044,105)	568,364	1,278,171			199,570
		23,368			
	$2,000				
	89,536				
	91,536				
	(487,992)	(818,041)	1,644,160	8,410	(164,119)
	(396,456)	(818,041)	1,644,160	8,410	(164,119)
($2,044,105)	$172,888	$729,638	$2,115,196	$167,148	$42,095

COURT REPORTING INSTITUTE, INC.

COMBINING STATEMENT OF EARNINGS AND RETAINED EARNINGS (DEFICIT)

YEAR ENDED DECEMBER 31, 2005

	Combined
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
	3,674,553
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
	3,371,639
NET EARNINGS (LOSS) BEFORE ALLOCATED EXPENSES	302,914
ALLOCATED EXPENSES	
NET EARNINGS (LOSS)	302,914
RETAINED EARNINGS (DEFICIT), beginning of year	106,171
DISTRIBUTIONS	(226,667)
RETAINED EARNINGS (DEFICIT), end of year	$182,418

Eliminations	Head–quarters	Seattle Campus	San Diego Campus	Boise Campus	Tacoma Campus
		$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	
	10,778	1,218,682	1,555,759	856,447	32,887
	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	
	395,775	1,206,390	819,729	756,195	193,550
	(384,997)	12,292	736,030	100,252	(160,663)
	384,997	(128,062)	(163,482)	(89,997)	(3,456)
		(115,770)	572,548	10,255	(164,119)
	(487,992)	(702,271)	1,298,279	(1,845)	
			(226,667)		
	($487,992)	($818,041)	$1,644,160	$8,410	($164,119)