

MONTGOMERY COMMUNITY TELEVISION, INC.

June 30, 2004

MONTGOMERY COMMUNITY TELEVISION, INC.

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Independent Auditors' Report

To the Board of Directors of
Montgomery Community Television, Inc.

We have audited the accompanying statements of financial position of Montgomery Community Television, Inc. as of June 30, 2004 and 2003, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Montgomery Community Television, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide 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 Montgomery Community Television, Inc. as of June 30, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Stoy, Malone & Company, P.C.

Baltimore, Maryland
October 27, 2004

**MONTGOMERY COMMUNITY TELEVISION, INC.
STATEMENTS OF FINANCIAL POSITION**

	<u>June 30, 2004</u>	<u>June 30, 2003</u>
ASSETS		
Cash and cash equivalents	\$ 706,914	\$ 605,969
Accrued interest receivable	48	41
Accounts receivable		
Contracts	48,586	90,077
Other	790	782
Prepaid expenses	27,494	38,498
Property and equipment, net	110,117	107,648
Deposits	<u>28,805</u>	<u>28,805</u>
Total assets	<u>\$ 922,754</u>	<u>\$ 871,820</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 20,015	\$ 46,425
Accrued compensation	270,569	231,287
Deferred rent	<u>92,546</u>	<u>70,103</u>
Total liabilities	383,130	347,815
NET ASSETS		
Unrestricted	<u>539,624</u>	<u>524,005</u>
Total liabilities and net assets	<u>\$ 922,754</u>	<u>\$ 871,820</u>

The Notes to Financial Statements are an integral part of these statements.

MONTGOMERY COMMUNITY TELEVISION, INC.
STATEMENTS OF ACTIVITIES

	Year Ended June 30, 2004	Year Ended June 30, 2003
REVENUE		
County contracts	\$ 2,287,813	\$ 2,725,845
Production	15,993	10,409
Training	50,925	36,794
Interest	3,182	3,946
Other	<u>15,770</u>	<u>15,583</u>
Total revenue	<u>2,373,688</u>	<u>2,792,577</u>
 EXPENSES		
Program services	2,000,113	2,281,237
Supporting services	<u>357,956</u>	<u>413,110</u>
Total expenses	<u>2,358,069</u>	<u>2,694,347</u>
 CHANGE IN UNRESTRICTED NET ASSETS	 15,619	 98,230
 UNRESTRICTED NET ASSETS		
Beginning of year	<u>524,005</u>	<u>425,775</u>
 End of year	 <u>\$ 539,624</u>	 <u>\$ 524,005</u>

The Notes to Financial Statements are an integral part of these statements.

MONTGOMERY COMMUNITY TELEVISION, INC.
STATEMENTS OF CASH FLOWS

	Year Ended June 30, 2004	Year Ended June 30, 2003
OPERATING ACTIVITIES		
Change in unrestricted net assets	\$ 15,619	\$ 98,230
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation and amortization	62,259	80,178
Increase in deferred rent	22,443	31,050
Changes in operating assets and liabilities		
Accrued interest receivable	(7)	42
Accounts receivable	41,483	(41,495)
Prepaid expenses	11,004	(32,708)
Accounts payable	(26,410)	6,019
Accrued compensation	39,282	24,458
Net cash provided by operating activities	165,673	165,774
INVESTING ACTIVITIES		
Purchases of property and equipment	(64,728)	(17,408)
Net cash used in investing activities	(64,728)	(17,408)
INCREASE IN CASH AND CASH EQUIVALENTS	100,945	148,366
CASH AND CASH EQUIVALENTS		
Beginning of year	605,969	457,603
End of year	\$ 706,914	\$ 605,969

The Notes to Financial Statements are an integral part of these statements.

**MONTGOMERY COMMUNITY TELEVISION, INC.
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Montgomery Community Television, Inc. ("MCT") was formed in 1984 as a nonprofit organization. The principal function of MCT is to provide public, educational and governmental access programming over the cable television system in Montgomery County, Maryland. A summary of significant accounting policies is as follows:

Net Assets

Unrestricted net assets generally result from revenues generated by MCT in providing services and carrying out its programs. There are no temporarily or permanently restricted net assets.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. In the ordinary course of business, MCT may have funds on deposit with banks in excess of FDIC insured limits.

Allowance for Doubtful Accounts

Management is of the opinion that all accounts receivable are fully collectible; therefore, no allowance for doubtful accounts is provided.

Property and Equipment

Expenditures for the acquisition of property and equipment are capitalized at cost. The fair value of donated equipment is similarly capitalized. Expenditures for normal maintenance and repairs are charged to current operations, while expenditures for major replacements are capitalized. Upon the sale or retirement of property and equipment, the cost and accumulated depreciation are removed from the respective accounts and any gain or loss is included in operations for the year.

MCT provides for depreciation of property and equipment on the straight-line method over the estimated useful lives of the related assets, which range from three to five years. Amortization of leasehold improvements is provided over the remaining terms of the leases.

**MONTGOMERY COMMUNITY TELEVISION, INC.
NOTES TO FINANCIAL STATEMENTS (Cont'd.)**

NOTE 1 - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES (Cont'd.)

Donated Services

A substantial number of volunteers have donated significant amounts of time to MCT. The value of the donated time is not reflected in the financial statements, since the services provided did not require specialized skills and there is no objective basis available to measure the value of the services.

Income Taxes

MCT is classified as a Section 501(c)(3) organization under the Internal Revenue Code (the "IRC"). As such, MCT's operations are generally not subject to federal or state income taxes. The IRC provides that certain production service revenue is unrelated business income and subject to income taxes. No income tax provision is reflected in these financial statements as allocable production expenses exceed this revenue.

NOTE 2 - COUNTY CONTRACTS

A significant portion of MCT's revenue is provided by Montgomery County (the "County") through two separate contracts, namely, the Master Contract and the Combined Services Contract. The following is a summary description of each contract:

Master Contract

The Master Contract provides funds to MCT from the County's Cable TV Fund for the main purpose of operating two community access channels and producing a local news program. The contract also specifies that MCT is to provide training services and equipment to community members for use in developing locally produced or locally sponsored programming. The Master Contract has been extended to June 30, 2005. The compensation for services provided from July 1, 2004 through June 30, 2005 will be a maximum amount not to exceed \$2,080,000.

Combined Services Contract

The Combined Services Contract provides funds to MCT to provide certain technical assistance with cable television production to the Executive and Legislative Branch of the County Government in order to create programming on the Montgomery County government access channel, known as County Cable Montgomery ("Channel 55"). The Combined Services Contract has been extended to July 1, 2005. The compensation for goods and services provided from July 2, 2004 through July 1, 2005 will be a maximum amount not to exceed \$275,000. The term of the contract may be renewed, at the County's discretion through June 30, 2006.

The County has the option to terminate the Combined Services Contract ten days after written notice is provided to MCT. MCT has the option to terminate the Master Contract forty-five days after providing written notice to the County.

During the term of the contract the County also provides equipment for MCT's use. The value of this equipment has not been reflected in the financial statements.

**MONTGOMERY COMMUNITY TELEVISION, INC.
NOTES TO FINANCIAL STATEMENTS (Cont'd.)**

NOTE 2 - COUNTY CONTRACTS (Cont'd.)

A summary of revenue by contract recognized by MCT is as follows for the years ended June 30:

	<u>2004</u>	<u>2003</u>
Master Contract	\$ 1,999,350	\$ 2,470,000
Combined Services Contract	<u>288,468</u>	<u>255,845</u>
	<u>\$ 2,287,818</u>	<u>\$ 2,725,845</u>

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	<u>2004</u>	<u>2003</u>
Office equipment	\$ 315,424	\$ 259,066
Furniture and fixtures	171,642	171,642
Video equipment	1,948,838	1,945,362
Automobiles	83,526	83,526
Leasehold improvements	<u>708,526</u>	<u>703,632</u>
	3,227,956	3,163,228
Less accumulated depreciation and amortization	<u>3,117,839</u>	<u>3,055,580</u>
	<u>\$ 110,117</u>	<u>\$ 107,648</u>

Under the terms of the Master Contract, MCT may not use video equipment purchased with County funds after November 14, 1986 as collateral without prior County approval. MCT may not sell or dispose of any of the video equipment purchased after November 14, 1986 without first offering such equipment back to the County. Additionally, all furniture, office equipment, video equipment, vehicles and other similar types of personal property purchased with funds provided by the County under the Master Contract is to become the property of the County upon the termination or expiration of the contract.

As of June 30, 2004 and 2003, \$2,634,750 of MCT's gross property and equipment was purchased with funds provided by the County.

NOTE 4 - ACCRUED COMPENSATION

Accrued compensation consists of the following at June 30:

	<u>2004</u>	<u>2003</u>
Vacation pay	\$ 67,514	\$ 62,257
Salaries	46,055	28,015
Retirement	157,000	140,000
Employee withholdings	<u>-</u>	<u>1,015</u>
	<u>\$ 270,569</u>	<u>\$ 231,287</u>

MONTGOMERY COMMUNITY TELEVISION, INC.
NOTES TO FINANCIAL STATEMENTS (Cont'd.)

NOTE 5 - DEFERRED RENT

The deferred rent balance at June 30, 2004 and 2003 represents the cumulative difference between the rent expense recorded for financial statement purposes in accordance with Accounting Principles Generally Accepted in the United States ("GAAP") and the rent actually due and paid under the operating lease agreements. While MCT is required to record deferred rent under GAAP, MCT is current with its rent payments as required in the lease agreements. GAAP rent expense is recognized on a straight-line basis, calculated by dividing the total minimum rent to be paid during the term of the leases by the lease terms.

An analysis of deferred rent is as follows for the year ended June 30:

	<u>2004</u>	<u>2003</u>
GAAP rent for the year	\$ 307,964	\$ 310,130
Minimum rent actually due and paid for the year	<u>(285,521)</u>	<u>(279,080)</u>
Deferred rent for the year	22,443	31,050
Deferred rent balance, beginning of year	<u>70,103</u>	<u>39,053</u>
Deferred rent balance, end of year	<u>\$ 92,546</u>	<u>\$ 70,103</u>

NOTE 6 - DEFINED CONTRIBUTION RETIREMENT PLAN

MCT has a defined contribution retirement plan (the "Plan") which covers employees that meet certain age and length of service requirements. Contributions to the Plan equal 10% of each covered employee's annual salary. The contributions vest over a five-year period at 20% per year. Non-vested retirement contributions are credited back to the Plan upon termination of an employee thereby reducing MCT's annual contribution. For the years ended June 30, 2004 and 2003, MCT's expense amounted to \$79,590 and \$114,581, respectively. MCT has determined that certain part-time employees have been improperly excluded from the Plan. At June 30, 2004 the total amount management has accrued to correct the matter is \$157,000. Management plans to correct this matter under the Internal Revenue Services Voluntary Correction Program.

NOTE 7 - OPERATING LEASES

MCT leases office space and equipment under operating leases, which expire between 2004 - 2011. The office space leases also contain a provision for contingent rental payments to cover MCT's proportionate share of operating costs and real estate taxes. The following schedule indicates the composition of total rent expense for the years ended June 30:

	<u>2004</u>	<u>2003</u>
Minimum rent	\$ 307,964	\$ 310,130
Contingent rent	<u>72,629</u>	<u>70,570</u>
	<u>\$ 380,593</u>	<u>\$ 380,700</u>

MONTGOMERY COMMUNITY TELEVISION, INC.
NOTES TO FINANCIAL STATEMENTS (Cont'd.)

NOTE 7 - OPERATING LEASES (Cont'd.)

Future minimum rental payments under these leases are as follows as of June 30, 2004:

Year Ending June 30,	
2005	\$ 289,489
2006	298,175
2007	307,119
2008	316,333
2009	325,823
Thereafter	<u>681,264</u>
	<u>\$ 2,218,203</u>

SUPPLEMENTARY INFORMATION

MONTGOMERY COMMUNITY TELEVISION, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
Year Ended June 30, 2004

	Program Services						Supporting Services	Total	
	Training	Production	Operations	Marketing	Programming	News	Administration	Expenses	
Personnel									
Salaries full time	\$ 172,838	\$ 201,547	\$ 150,098	\$ 62,844	\$ 130,822	\$ 124,205	\$ 842,354	\$ 191,262	\$ 1,033,616
Salaries part time	27,001	72,611	31,442	21,912	17,154	51,131	221,251	237	221,488
Salaries full time - overtime	828	5,628	14,117	931	7,441	1,851	30,796	633	31,429
Salaries part time - overtime	421	758	1,955	14	774	1,548	5,470	-	5,470
Employee benefits	42,161	45,730	46,995	33,656	39,825	30,043	238,410	48,813	287,223
Total personnel	<u>243,249</u>	<u>326,274</u>	<u>244,607</u>	<u>119,357</u>	<u>196,016</u>	<u>208,778</u>	<u>1,338,281</u>	<u>240,945</u>	<u>1,579,226</u>
Direct expenses									
Employee recruitment cost	-	-	208	-	-	-	208	-	208
Equipment rentals	87	-	-	-	-	-	87	129	216
Travel and transportation	2,408	216	70	69	564	156	3,483	14,300	17,783
Postage and shipping	1,092	-	51	1,259	25	250	2,677	809	3,486
Printing and reproduction	4,107	-	57	3,608	46	-	7,818	385	8,203
Periodicals and publications	-	-	-	55	-	94	149	1,562	1,711
Representation	4,323	1,187	1,138	10	152	263	7,073	6,343	13,416
Outside labor	2,099	-	-	-	-	410	2,509	13,975	16,484
Auto maintenance	-	-	379	-	-	3,815	4,194	-	4,194
Video tape stock	2,273	-	7,954	859	1,075	1,891	14,052	-	14,052
Production supplies	73	-	38	-	-	-	111	-	111
Production equipment	-	-	-	-	-	814	814	-	814
Advertising and promotion	9,157	729	809	876	230	413	12,214	-	12,214
Music licensing	96	-	-	-	542	-	638	-	638
Contract teachers	6,058	-	-	-	-	-	6,058	-	6,058
Consulting services	26	280	18,168	-	-	-	18,474	10,702	29,176
Video equipment maintenance	-	-	16,749	150	-	1,207	18,106	-	18,106
Computer software	-	-	2,552	(206)	-	-	2,346	2,282	4,628
Computer equipment	-	156	1,524	-	-	-	1,680	566	2,246
Bank charges	(10)	-	-	-	-	-	(10)	1,109	1,099
Supplies	1,557	-	1,903	1,083	593	153	5,289	1,141	6,430
Telephone	-	795	718	717	-	2,395	4,625	1,994	6,619
Total direct expenses	<u>33,346</u>	<u>3,363</u>	<u>52,318</u>	<u>8,480</u>	<u>3,227</u>	<u>11,861</u>	<u>112,595</u>	<u>55,297</u>	<u>167,892</u>
Indirect expenses									
Rent	125,052	30,916	46,947	33,588	47,182	57,782	341,467	39,126	380,593
Utilities	8,271	1,631	3,282	2,348	3,282	4,055	22,869	3,282	26,151
Insurance	16,254	4,187	6,357	4,548	6,357	7,855	45,558	5,699	51,257
Repairs and maintenance	9,761	2,551	3,417	2,771	3,874	4,787	27,161	3,913	31,074
Professional fees	10,673	2,789	4,234	3,030	4,235	5,233	30,194	1,866	32,060
Other	1,454	379	578	414	577	712	4,114	1,433	5,547
Postage	1,195	312	474	361	474	587	3,403	474	3,877
Telephone	2,268	592	900	644	900	1,112	6,416	900	7,316
Supplies	3,353	878	1,330	952	1,330	1,644	9,487	1,330	10,817
Total indirect expenses	<u>178,281</u>	<u>44,235</u>	<u>67,519</u>	<u>48,656</u>	<u>68,211</u>	<u>83,767</u>	<u>490,669</u>	<u>58,023</u>	<u>548,692</u>
Depreciation	<u>8,578</u>	<u>8,578</u>	<u>8,578</u>	<u>8,578</u>	<u>8,578</u>	<u>15,678</u>	<u>58,568</u>	<u>3,691</u>	<u>62,259</u>
Total expenses	<u>\$ 463,454</u>	<u>\$ 382,450</u>	<u>\$ 373,022</u>	<u>\$ 185,071</u>	<u>\$ 276,032</u>	<u>\$ 320,084</u>	<u>\$ 2,000,113</u>	<u>\$ 357,956</u>	<u>\$ 2,358,069</u>

MONTGOMERY COMMUNITY TELEVISION, INC.
SCHEDULE OF EXPENSES BY REVENUE SOURCE
Year Ended June 30, 2004

	Public Access	News	Council	Executive	Production Services	Total
Personnel						
Salaries full time	\$ 656,675	\$ 168,050	\$ 95,649	\$ 76,233	\$ 37,009	\$ 1,033,616
Salaries part time	101,488	67,560	27,321	18,285	6,834	221,488
Salaries full time - overtime	22,378	3,300	4,279	1,235	237	31,429
Salaries part time - overtime	3,071	1,917	412	24	46	5,470
Employee benefits	187,210	49,391	16,042	13,030	21,550	287,223
Total personnel	<u>970,822</u>	<u>290,218</u>	<u>143,703</u>	<u>108,807</u>	<u>65,676</u>	<u>1,579,226</u>
Direct expenses						
Employee recruitment cost	208	-	-	-	-	208
Equipment rentals	216	-	-	-	-	216
Travel and transportation	17,592	156	35	-	-	17,783
Postage and shipping	3,351	250	-	-	(115)	3,486
Printing and reproduction	8,203	-	-	-	-	8,203
Periodicals and publications	1,632	94	-	-	(15)	1,711
Representation	13,153	263	-	-	-	13,416
Outside labor	16,074	410	-	-	-	16,484
Auto maintenance	379	3,815	-	-	-	4,194
Video tape stock	12,160	1,892	-	-	-	14,052
Production supplies	111	-	-	-	-	111
Production equipment	-	814	-	-	-	814
Advertising and promotion	11,802	412	-	-	-	12,214
Music licensing	638	-	-	-	-	638
Contract teachers	6,058	-	-	-	-	6,058
Consulting services	29,176	-	-	-	-	29,176
Video equipment maintenance	16,899	1,207	-	-	-	18,106
Computer software	4,628	-	-	-	-	4,628
Computer equipment	2,246	-	-	-	-	2,246
Bank charges	1,109	-	-	-	(10)	1,099
Supplies	6,277	153	-	-	-	6,430
Telephone	3,429	2,395	795	-	-	6,619
Total direct expenses	<u>155,341</u>	<u>11,861</u>	<u>830</u>	<u>-</u>	<u>(140)</u>	<u>167,892</u>
Indirect expenses						
Rent	234,323	90,276	13,130	11,184	31,680	380,593
Utilities	15,731	6,294	918	782	2,426	26,151
Insurance	31,484	12,191	1,778	1,514	4,290	51,257
Repairs and maintenance	19,026	7,428	1,083	923	2,614	31,074
Professional fees	18,888	8,121	1,184	1,009	2,858	32,060
Other	3,752	1,108	161	137	389	5,547
Postage	2,402	909	133	113	320	3,877
Telephone	4,517	1,726	252	214	607	7,316
Supplies	6,678	2,552	372	317	898	10,817
Total indirect expenses	<u>336,801</u>	<u>130,605</u>	<u>19,011</u>	<u>16,193</u>	<u>46,082</u>	<u>548,692</u>
Depreciation	46,581	15,678	-	-	-	62,259
Total expenses	<u>\$ 1,509,545</u>	<u>\$ 448,362</u>	<u>\$ 163,544</u>	<u>\$ 125,000</u>	<u>\$ 111,618</u>	<u>\$ 2,358,069</u>