

Montgomery
COMMUNITY TELEVISION, INC.

INDEPENDENT AUDITOR'S REPORT AND
FINANCIAL STATEMENTS

For the Years Ended June 30, 2006 and 2005

Allen P. DeLeon, CPA, P.C.
Richard C. Stang, CPA, P.C.
Jody H. Vilardo



...improving the financial lives
of our clients, our staff
& our community with
integrity, trust & innovation

Board of Directors
Montgomery Community Television, Inc.
Rockville, Maryland

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial position of **Montgomery Community Television, Inc. (MCT)** as of June 30, 2006 and the related statement of activities and changes in net assets, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of MCT's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements for the year ended June 30, 2005 were audited by other auditors whose report dated December 8, 2005 expressed an unqualified opinion thereon.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MCT as of June 30, 2006, and its change in net assets, functional expenses, and cash flow for the years then ended in conformity with accounting principles generally accepted in the United States.

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 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.

DeLeon & Stang

DeLeon & Stang, CPAs
Gaithersburg, Maryland
November 15, 2006

MONTGOMERY COMMUNITY TELEVISION, INC.
 Statements of Financial Position
 June 30, 2006 and 2005

	2006	2005
ASSETS		
<u>Assets:</u>		
Cash and cash equivalents	\$ 991,521	\$ 743,135
Accrued interest receivable	2,863	186
Accounts receivable		
Contracts	93,407	138,919
Other	35,226	-
Prepaid expense	11,050	11,366
Property and equipment, net	56,532	89,609
Deposits	28,805	28,805
TOTAL ASSETS	1,219,404	1,012,020
LIABILITIES AND NET ASSETS		
<u>Liabilities:</u>		
Accounts payable	60,471	61,606
Accrued compensation	384,906	285,005
Deferred rent	112,212	106,722
Total liabilities	557,589	453,333
<u>Net assets:</u>		
Unrestricted	661,816	558,687
TOTAL LIABILITIES AND NET ASSETS	\$ 1,219,404	\$ 1,012,020

MONTGOMERY COMMUNITY TELEVISION, INC.
 Statements of Activities
 For the Years Ended June 30, 2006 and 2005

<u>Revenue:</u>	2006	2005
County contracts	\$ 2,624,498	\$ 2,375,464
Production	94,596	5,324
Grants and contributions	12,975	22,365
Interest	26,422	4,801
Other	37,260	55,523
Total revenue	<u>2,795,751</u>	<u>2,463,477</u>
<u>Expenses:</u>		
Program services	1,884,706	1,727,946
Supporting services	807,916	716,468
Total expenses	<u>2,692,622</u>	<u>2,444,414</u>
Change in unrestricted net assets	103,129	19,063
<u>Unrestricted Net Assets:</u>		
Beginning of year	<u>558,687</u>	<u>539,624</u>
End of year	<u>\$ 661,816</u>	<u>\$ 558,687</u>

MONTGOMERY COMMUNITY TELEVISION, INC.
 Statements of Cash Flows
 For the Years Ended June 30, 2006 and 2005

	2006	2005
<u>Cash Flows from Operating Activities:</u>		
Change in unrestricted net assets	\$ 103,129	\$ 19,063
Adjustments to reconcile change in net assets to net cash provided by operations:		
Depreciation and amortization	36,848	51,070
Increase (decrease) in deferred rent	(5,490)	14,176
(Increase) in accrued interest receivable	(2,677)	(138)
(Increase) decrease in accounts receivable	19,627	(89,543)
(Increase) decrease in prepaid expenses	(314)	16,128
Increase in accounts payable	1,134	41,591
Increases in accrued compensation	99,901	14,436
Total adjustments	149,029	47,720
Net cash provided by operating activities	252,158	66,783
<u>Cash Flows from Investing Activities:</u>		
Purchases of property and equipment	(3,772)	(30,562)
Net cash provided by investment activities	(3,772)	(30,562)
Net increase in cash	248,386	36,221
Cash beginning of year	743,135	706,914
Cash end of year	\$ 991,521	\$ 743,135

MONTGOMERY COMMUNITY TELEVISION, INC.
Notes to the Financial Statements
For the Years Ended June 30, 2006 and 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Purpose of Organization

Montgomery Community Television, Inc. (MCT) was formed in 1984 as a nonprofit organization. The principal function of MCT is to provide public access programming over the cable television system in Montgomery County, Maryland.

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 U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

MCT 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.

MONTGOMERY COMMUNITY TELEVISION, INC.
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2006 and 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 life of the related assets, which range from three to five years. Amortization of leasehold improvements is provided over the remaining terms of the leases.

Donated Services

A number of volunteers have donated 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 a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and has filed the required Form 990 each year. 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.

Reclassifications

In 2006, Montgomery Community Television management restructured program cost centers to improve fiscal management. 2005 amounts in the financial statements are re-classified to enhance comparability with 2006.

MONTGOMERY COMMUNITY TELEVISION, INC.
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2006 and 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications (Continued)

In 2006 MCT management revised its accounting structure to clarify the matching of costs incurred to the associated activities that generated them. These revisions are as follows:

<u>Service Provided</u>	<u>Description</u>
Outreach/ Education	Costs incurred to educate and solicit county resident participation in community media.
Training	Costs of providing client centered training programs related to electronic media literacy and production.
Production Facilitation	Cost incurred to provided production facilities for community related programs.
Production Services	Special programming costs for programs targeted at county residents such as Candidates Forum.
Distribution	Media distribution costs for programs aired on channels 19 and 21.
New Technology	Costs incurred to develop a community database(s)
Other	Costs incurred to produce new sources of 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 community affairs programming. 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, 2007. The compensation for services provided from July 1, 2006 through June 30, 2007 will be a maximum amount not to exceed \$2,405,000.

MONTGOMERY COMMUNITY TELEVISION, INC.
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2006 and 2005

NOTE 2 - COUNTY CONTRACTS (Continued)

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. The Combined Services Contract has been extended to July 1, 2007. The compensation for goods and services provided from July 1, 2006 through July 1, 2007 will be a maximum amount not to exceed \$356,000. The term of the contract may be renewed, at the County's discretion, through June 30, 2007.

The County has the option to terminate these contracts ten days after written notice is provided to MCT. 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.

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

	<u>2006</u>	<u>2005</u>
Master contract	\$ 2,304,000	\$ 2,080,000
Combined services contract	<u>320,498</u>	<u>295,464</u>
	<u>\$ 2,624,498</u>	<u>\$ 2,375,464</u>

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	<u>2006</u>	<u>2005</u>
Office equipment	\$ 338,705	\$ 336,482
Furniture and fixtures	171,642	171,642
Video equipment	1,957,591	1,956,042
Automobiles	83,526	83,526
Leasehold improvements	<u>710,826</u>	<u>710,826</u>
	3,262,290	3,258,518
Less: accumulated depreciation and amortization	<u>(3,205,758)</u>	<u>(3,168,909)</u>
	<u>\$ 56,532</u>	<u>\$ 89,609</u>

MONTGOMERY COMMUNITY TELEVISION, INC.
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2006 and 2005

NOTE 3 - PROPERTY AND EQUIPMENT (Continued)

Under 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.

NOTE 4 - ACCRUED COMPENSATION

Accrued compensation consists of the following at June 30:

	<u>2006</u>	<u>2005</u>
Vacation pay	\$ 71,743	\$ 65,002
Salaries	44,235	37,253
Retirement	<u>268,928</u>	<u>182,750</u>
	<u>\$ 384,906</u>	<u>\$ 285,005</u>

NOTE 5 - DEFERRED RENT

The deferred rent balance at June 30, 2006 and 2005 represents the cumulative difference between the rent expense recorded for financial statement purposes in accordance with Generally Accepted Accounting Principles in the United States (GAAP) and the rent actually due and paid under the operating 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.

NOTE 5 - DEFERRED RENT (Continued)

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

	<u>2006</u>	<u>2005</u>
GAAP rent for the year	\$ 303,665	\$ 307,964
Minimum rent actually due and paid for the year	<u>(298,175)</u>	<u>(293,788)</u>
Deferred rent for the year	5,490	14,176
Deferred rent balance, beginning of year	<u>106,722</u>	<u>92,546</u>
Deferred rent balance, end of year	<u>\$ 112,212</u>	<u>\$ 106,722</u>

MONTGOMERY COMMUNITY TELEVISION, INC.
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2006 and 2005

NOTE 6 - DEFINED CONTRIBUTION RETIREMENT PLAN

MCT has a defined contribution retirement plan (the Plan) which covers employees that meet 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, 2006 and 2005, MCT's expense amounted to \$84,220 and \$115,278.

MCT has determined that certain part-time employees have been improperly excluded from the Plan. In order to correct this matter, management has filed an application under the Internal Revenue Service's Voluntary Correction Program. At June 30, 2006, the total amount management has accrued to correct the matter is \$268,928, which is included in accrued compensation in the statements of financial condition.

NOTE 7 - OPERATING LEASES:

MCT leases office space and equipment under operating leases, which expire June 30, 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>2006</u>	<u>2005</u>
Minimum rent	\$ 303,665	\$ 307,964
Contingent rent	<u>57,207</u>	<u>63,313</u>
	<u>\$ 360,872</u>	<u>\$ 371,277</u>

Future minimum rental payments under these leases are as follows as of June 30, 2006:

Year Ending June 30,	
2007	\$ 307,119
2008	316,333
2009	325,823
2010	335,598
2011	<u>345,666</u>
	<u>\$ 1,630,539</u>

MONTGOMERY COMMUNITY TELEVISION, INC.
Notes to the Financial Statements (Continued)
For the Years Ended June 30, 2006 and 2005

NOTE 8 - RELATED PARTY TRANSACTION

MCT has an agreement to provide physical space to establish and operate a computer training classroom with a nonprofit organization affiliated with a Board member. This agreement expired in May 2006 however, this arrangement continues to exist. MCT receives a percentage of the class registration fees. MCT also provides access to the internet. All computer equipment was provided by the related party.

NOTE 9 - CONCENTRATIONS OF CREDIT RISK

Financial instruments which subject MCT to concentration of credit risk consist of cash placed with one financial institution. Funds in excess of Federal Deposit Insurance Corporation (FDIC) limits totaled approximately \$611,166 at June 30, 2006.

SUPPLEMENTARY INFORMATION

MONTGOMERY COMMUNITY TELEVISION, INC.
Schedule of Expenses by Revenue Source
For the Year Ended June 30, 2006

	ADMINISTRATION					CLIENT SERVICES					SUPPORTIVE SERVICES					RESEARCH, EVALUATION AND DEVELOPMENT			Total All Initiatives
	Master Contract	Combined Services Council	Combined Services Executive	Other Revenue	Sub-total	Master Contract	Combined Services Council	Combined Services Executive	Other Revenue	Sub-total	Master Contract	Combined Services Council	Combined Services Executive	Other Revenue	Sub-total	Master Contract	Other Revenue	Sub-total	
	Expenses:																		
Salaries full time	\$ 95,358	\$ 12,045	\$ 8,022	\$ 5,389	\$ 120,814	\$ 102,020	\$ 4,585	\$ 4,585	\$ 3,439	\$ 114,629	\$ 605,142	\$ 114,486	\$ 73,598	\$ 24,534	\$ 817,760	\$ 10,493	\$ 2,623	\$ 13,116	\$ 1,066,319
Salaries part time	18,277	2,309	1,537	1,032	23,155	19,554	879	879	659	21,971	115,985	21,943	14,106	4,703	156,737	2,011	503	2,514	204,377
Salaries full time overtime	1,712	216	144	97	2,169	1,832	82	82	62	2,058	10,862	2,055	1,321	441	14,679	188	47	235	19,141
Salaries part time overtime	301	38	25	17	381	321	14	14	12	361	1,908	361	232	77	2,578	33	8	41	3,361
Group insurance benefits	9,691	1,224	815	548	12,278	10,368	466	466	349	11,649	61,498	11,635	7,480	2,493	83,106	1,066	267	1,333	108,366
Retirement benefits	15,238	1,925	1,282	861	19,306	16,303	733	733	549	18,318	96,702	18,295	11,761	3,920	130,678	1,677	419	2,096	170,398
Payroll tax expense	9,257	1,169	779	523	11,728	9,903	445	445	334	11,127	58,742	11,113	7,144	2,381	79,380	1,018	255	1,273	103,508
Employee benefits - vacation	603	76	51	34	764	645	29	29	22	725	3,826	724	465	155	5,170	66	16	82	6,741
Total personal expenses	150,437	19,002	12,655	8,501	190,595	160,946	7,233	7,233	5,426	180,838	954,665	180,612	116,107	38,704	1,290,088	16,552	4,138	20,690	1,682,211
Direct Operating Expenses																			
Employee recruitment cost	1,508	191	127	85	1,911	1,614	73	73	54	1,814	9,574	1,811	1,164	388	12,937	166	42	208	16,870
Equipment rentals	4	-	-	-	4	4	-	-	-	4	19	4	2	1	26	-	-	-	34
Travel and transportation	1,178	149	99	66	1,492	1,260	57	57	42	1,416	7,473	1,414	909	303	10,099	130	32	162	13,169
Postage and shipping	358	45	30	20	453	383	17	17	13	430	2,270	429	276	92	3,067	39	10	49	3,999
Printing and reproduction	1,305	165	110	73	1,653	1,396	63	63	47	1,569	8,281	1,567	1,007	336	11,191	143	36	179	14,592
Periodicals and publications	1,166	147	98	66	1,477	1,247	56	56	42	1,401	7,396	1,399	899	300	9,994	128	32	160	13,032
Representation	678	86	56	39	859	725	33	33	24	815	4,301	814	523	174	5,812	74	19	93	7,579
Outside labor	3,985	503	334	227	5,049	4,264	192	192	144	4,792	25,290	4,785	3,076	1,025	34,176	438	110	548	44,565
Auto maintenance	129	16	11	7	163	137	6	6	5	154	815	154	99	33	1,101	14	4	18	1,436
Video tape stock	2,025	256	170	114	2,565	2,166	97	97	73	2,433	12,848	2,431	1,563	521	17,363	222	56	278	22,639
Tape dubbing	111	14	9	6	140	118	5	5	5	133	704	133	86	29	952	12	3	15	1,240
Production supplies	116	15	10	6	147	124	6	6	3	139	736	139	90	30	995	13	3	16	1,297
Production equipment	20	2	2	1	25	21	1	1	1	24	125	24	15	5	169	2	1	3	221
Advertising and promotion	2,267	286	191	128	2,872	2,425	109	109	82	2,725	14,387	2,722	1,750	583	19,442	250	62	312	25,351
Graphic design	1,011	128	85	57	1,281	1,082	49	49	36	1,216	6,417	1,214	780	260	8,671	111	28	139	11,307
Music licensing	232	29	20	13	294	248	11	11	7	277	1,474	279	179	60	1,992	26	6	32	2,595
Contract teachers	624	79	52	35	790	668	30	30	23	751	3,959	749	482	161	5,351	69	17	86	6,978
Consulting services	6,519	823	548	369	8,259	6,974	313	313	236	7,836	41,367	7,826	5,031	1,677	55,901	718	179	897	72,893
Video equipment maintenance	1,677	212	141	95	2,125	1,794	81	81	60	2,016	10,642	2,013	1,294	431	14,380	185	46	231	18,752
Computer software	151	19	13	8	191	162	7	7	6	182	958	181	117	38	1,294	17	4	21	1,688
Computer equipment	279	35	24	16	354	299	13	13	11	336	1,774	336	216	71	2,397	30	8	38	3,125
Bank charges	194	25	16	11	246	207	9	9	8	233	1,230	233	150	49	1,662	22	5	27	2,168
Supplies	500	63	42	28	633	535	24	24	18	601	3,171	600	386	128	4,285	55	14	69	5,588
Telephone	266	34	22	15	337	285	13	13	10	321	1,694	320	206	68	2,288	29	7	36	2,982
Total direct expenses	26,303	3,322	2,210	1,485	33,320	28,138	1,265	1,265	950	31,618	166,905	31,577	20,300	6,763	225,545	2,893	724	3,617	294,100

(Continued)

MONTGOMERY COMMUNITY TELEVISION, INC.
Schedule of Expenses by Revenue Source (Continued)
Year Ended June 30, 2006

	ADMINISTRATION					CLIENT SERVICES					SUPPORTIVE SERVICES					RESEARCH, EVALUATION AND DEVELOPMENT			Total All Initiatives
	Master Contract	Combined Services Council	Combined Services Executive	Other Revenue	Sub-total	Master Contract	Combined Services Council	Combined Services Executive	Other Revenue	Sub-total	Master Contract	Combined Services Council	Combined Services Executive	Other Revenue	Sub-total	Master Contract	Other Revenue	Sub-total	
Indirect expenses																			
Rent	28,123	3,552	2,366	1,589	35,630	30,087	1,352	1,352	1,014	33,805	178,468	33,764	21,706	7,234	241,172	3,094	774	3,868	314,475
Utilities	4,479	566	377	253	5,675	4,792	215	215	162	5,384	28,423	5,377	3,457	1,151	38,408	493	123	616	50,083
Insurance	3,373	426	284	191	4,274	3,609	162	162	122	4,055	21,406	4,050	2,603	867	28,926	371	93	464	37,719
Repairs and maintenance	6,851	865	576	388	8,680	7,329	329	329	247	8,234	43,476	8,225	5,288	1,762	58,751	754	188	942	76,607
Professional fees	1,982	250	167	112	2,511	2,121	95	95	71	2,382	12,579	2,380	1,530	509	16,998	218	55	273	22,164
Other and mediation services	6,657	841	560	376	8,434	7,122	320	320	240	8,002	42,244	7,992	5,138	1,712	57,086	733	183	916	74,438
Postage	351	44	30	20	445	376	17	17	13	423	2,227	421	271	91	3,010	38	10	48	3,926
Telephone	1,091	138	92	61	1,382	1,167	52	52	39	1,310	6,922	1,310	842	282	9,356	120	30	150	12,198
Supplies	1,415	179	119	80	1,793	1,515	68	68	51	1,702	8,982	1,699	1,092	365	12,138	156	39	195	15,828
Personnel	2,589	327	218	146	3,280	2,770	124	124	93	3,111	16,428	3,108	1,998	667	22,201	285	71	356	28,948
Property tax	1,574	199	132	89	1,994	1,684	76	76	58	1,894	9,989	1,890	1,215	406	13,500	173	43	216	17,604
Organizational	2,278.00	288.00	192.00	128.00	2,886.00	2,437.00	110.00	110.00	83.00	2,740.00	14,454.00	2,735.00	1,758.00	586.00	19,533.00	250.00	63.00	313.00	25,472.00
Total indirect expenses	60,763	7,675	5,113	3,433	76,984	65,009	2,920	2,920	2,193	73,042	385,598	72,951	46,898	15,632	521,079	6,685	1,672	8,357	679,462
Depreciation	3,295	416	277	187	4,175	3,525	158	158	120	3,961	20,912	3,956	2,543	848	28,259	363	91	454	36,849
Total expenses	<u>\$240,798</u>	<u>\$ 30,415</u>	<u>\$20,255</u>	<u>\$13,606</u>	<u>\$305,074</u>	<u>\$257,618</u>	<u>\$11,576</u>	<u>\$11,576</u>	<u>\$8,689</u>	<u>\$289,459</u>	<u>\$1,528,080</u>	<u>\$289,096</u>	<u>\$185,848</u>	<u>\$61,947</u>	<u>\$2,064,971</u>	<u>\$ 26,493</u>	<u>\$6,625</u>	<u>\$33,118</u>	<u>\$ 2,692,622</u>