

MONTGOMERY COMMUNITY TELEVISION, INC.

JUNE 30, 2007

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Stoy, Malone & Company, P.C.
Certified Public Accountants

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Independent Auditors' Report

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

We have audited the accompanying statement of financial position of Montgomery Community Television, Inc. as of June 30, 2007, and the related statements of activities and cash flows for the year 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 audit.

We conducted our audit 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 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 Montgomery Community Television, Inc. as of June 30, 2007, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules of functional expenses and expenses by revenue source are presented for purposes of additional analysis and are 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
November 16, 2007

MONTGOMERY COMMUNITY TELEVISION, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2007

ASSETS

Cash and cash equivalents	\$ 505,714
Certificates of deposit	200,000
Accrued interest receivable	5,479
Accounts receivable	
County contracts	94,676
Other	14,604
Prepaid expenses	10,343
Property and equipment, net	37,191
Deposits	28,805
Total assets	<u>\$ 896,812</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 68,145
Accrued compensation	156,874
Deferred rent	108,758
Total liabilities	<u>333,777</u>

NET ASSETS - UNRESTRICTED

Total liabilities and net assets	<u>\$ 896,812</u>
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The Notes to Financial Statements are an integral part of these statements.

MONTGOMERY COMMUNITY TELEVISION, INC.
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007

REVENUE	
County contracts	\$ 2,750,220
Production	18,968
Interest	45,505
Contributions	1,996
Other	<u>34,454</u>
Total revenue	<u>2,851,143</u>
EXPENSES	
Program services	2,223,630
Administration	<u>726,293</u>
Total expenses	<u>2,949,923</u>
CHANGE IN UNRESTRICTED NET ASSETS	(98,780)
NET ASSETS - UNRESTRICTED	
Beginning of year	<u>661,815</u>
End of year	<u>\$ 563,035</u>

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

MONTGOMERY COMMUNITY TELEVISION, INC.
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2007

OPERATING ACTIVITIES	
Change in unrestricted net assets	\$ (98,780)
Adjustments to reconcile change in unrestricted net assets to net cash used in operating activities	
Bad debt expense	17,844
Depreciation and amortization	35,306
Decrease in deferred rent	(3,454)
Changes in operating assets and liabilities	
Accrued interest receivable	(2,616)
Accounts receivable	1,509
Prepaid expenses	707
Accounts payable	7,674
Accrued compensation	<u>(228,032)</u>
Net cash used in operating activities	<u>(269,842)</u>
INVESTING ACTIVITIES	
Purchases of property and equipment	(15,965)
Redemption of certificates of deposit	200,000
Investment in certificates of deposit	<u>(200,000)</u>
Net cash used in investing activities	<u>(15,965)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(285,807)
CASH AND CASH EQUIVALENTS	
Beginning of year	<u>791,521</u>
End of year	<u>\$ 505,714</u>

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 facilitate public access programming over the cable television system in Montgomery County, Maryland. A summary of significant accounting policies is as follows:

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.

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.

Donated Services

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

Under Section 501(c)(3) of the Internal Revenue Code MCT is exempt from Federal income tax on all income except unrelated business income as noted under Section 511 of the Internal Revenue Code. Certain production service income is considered unrelated business income. Since related expenses exceed the income, no provision for income taxes has been reported. As of June 30, 2007, MCT had a net operating loss carry forward to future years of approximately \$629,000.

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

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.

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. 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, 2008. The compensation for services provided from July 1, 2007 through June 30, 2008 will be a maximum amount not to exceed \$2,534,000.

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. The Combined Services Contract has been extended to June 30, 2008. The compensation for goods and services provided from July 1, 2007 through June 30, 2008 will be a maximum amount not to exceed \$513,720.

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

During the term of the contracts 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 year ended June 30, 2007:

Master Contract	\$ 2,405,000
Combined Services Contract	<u>345,220</u>
	<u>\$ 2,750,220</u>

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2007:

Office equipment	\$ 351,419
Furniture and fixtures	171,642
Video equipment	1,960,842
Automobiles	83,526
Leasehold improvements	<u>710,826</u>
	3,278,255
Less accumulated depreciation and amortization	<u>3,241,064</u>
	<u>\$ 37,191</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.

NOTE 4 - ACCRUED COMPENSATION

Accrued compensation consists of the following at June 30, 2007:

Vacation pay	\$ 93,159
Salaries	<u>63,715</u>
	<u>\$ 156,874</u>

NOTE 5 - DEFERRED RENT

The deferred rent balance at June 30, 2007 represents the cumulative difference between the rent expense recorded for the financial statements 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. 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.

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

NOTE 5 - DEFERRED RENT (Cont'd.)

An analysis of deferred rent is as follows for the year ended June 30, 2007:

GAAP rent for the year	\$ 311,801
Minimum rent actually due and paid for the year	<u>(315,255)</u>
Deferred rent for the year	(3,454)
Deferred rent balance, beginning of year	<u>112,212</u>
Deferred rent balance, end of year	<u>\$ 108,758</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 year ended June 30, 2007, MCT's expense amounted to \$65,704.

NOTE 7 - OPERATING LEASES

MCT leases office space and equipment under operating leases, which expire between 2011 - 2012. 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 year ended June 30, 2007:

Minimum rent	\$ 311,801
Contingent rent	<u>67,398</u>
	<u>\$ 379,199</u>

Future minimum rental payments under these leases are as follows as of June 30, 2007:

Year ending June 30,	
2008	\$ 324,608
2009	334,098
2010	343,873
2011	353,941
2012	<u>139</u>
	<u>\$ 1,356,659</u>

SUPPLEMENTARY INFORMATION

MONTGOMERY COMMUNITY TELEVISION, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
Year Ended June 30, 2007

	Program Services			Total	Supporting Services	Total
	Client Services	Technical Support Services	Research / Evaluation & Development		Administration	Expenses
Personnel						
Salaries full time	\$ 318,707	\$ 565,097	\$ 64,131	\$ 947,935	\$ 319,762	\$ 1,267,697
Salaries part time	26,006	130,003	2,606	158,615	2,086	160,701
Salaries full time - overtime	5,240	24,205	10	29,455	971	30,426
Salaries part time - overtime	102	915	-	1,017	-	1,017
Group insurance benefits	17,791	77,101	3,749	98,641	32,052	130,693
Retirement benefits	22,652	49,574	2,926	75,152	(9,448)	65,704
Payroll tax expense	28,429	58,271	5,008	91,708	23,003	114,711
Employee benefits	6,512	8,217	72	14,801	6,615	21,416
Total personnel	<u>425,439</u>	<u>913,383</u>	<u>78,502</u>	<u>1,417,324</u>	<u>375,041</u>	<u>1,792,365</u>
Direct expenses						
Employee recruitment cost	572	1,431	5,113	7,116	-	7,116
Equipment rentals	618	1,148	-	1,766	-	1,766
Travel and transportation	2,973	1,774	467	5,214	5,262	10,476
Postage and shipping	447	(37)	1,490	1,900	741	2,641
Printing and reproduction	1,066	-	14,811	15,877	96	15,973
Periodicals and publications	209	-	-	209	5,487	5,696
Representation	3,107	895	209	4,211	15,259	19,470
Outside labor	2,997	5,708	-	8,705	73,400	82,105
Auto maintenance	-	2,188	-	2,188	9	2,197
Video tape stock	13,856	10,787	-	24,643	116	24,759
Tape dubbing	(340)	-	-	(340)	-	(340)
Production supplies	-	8,201	-	8,201	-	8,201
Production equipment	-	2,798	-	2,798	-	2,798
Advertising and promotion	11,738	-	28,675	40,413	-	40,413
Graphic design	-	15,435	8,683	24,118	-	24,118
Music licensing	950	-	-	950	-	950
Contract teachers	5,045	-	-	5,045	-	5,045
Consulting services	-	490	4,266	4,756	151,357	156,113
Video equipment maintenance	-	18,902	-	18,902	310	19,212
Computer software	2,041	136	-	2,177	1,183	3,360
Computer equipment	226	1,343	-	1,569	3,539	5,108
Bad debt expense	17,484	-	-	17,484	-	17,484
Bank charges	-	-	-	-	6,673	6,673
Supplies	2,721	1,142	521	4,384	1,132	5,516
Telephone	-	496	-	496	4,544	5,040
Miscellaneous	75	-	-	75	72	147
Total direct expenses	<u>65,785</u>	<u>72,837</u>	<u>64,235</u>	<u>202,857</u>	<u>269,180</u>	<u>472,037</u>

MONTGOMERY COMMUNITY TELEVISION, INC.
 SCHEDULE OF FUNCTIONAL EXPENSES (Cont'd.)

	Program Services			Total	Supporting Services	Total
	Client Services	Technical Support Services	Research / Evaluation & Development		Administration	Expenses
Indirect expenses						
Rent	33,727	240,609	3,795	278,131	32,093	310,224
Utilities	6,368	45,426	793	52,587	6,711	59,298
Insurance	2,226	15,881	255	18,362	16,593	34,955
Repairs and maintenance	9,065	64,668	1,037	74,770	9,606	84,376
Professional fees	3,876	27,651	443	31,970	4,085	36,055
Other and mediation services	4,133	29,484	473	34,090	(4,509)	29,581
Postage	844	6,021	96	6,961	913	7,874
Telephone	1,253	8,941	143	10,337	1,391	11,728
Supplies	1,516	10,815	174	12,505	2,451	14,956
Personnel	1,404	10,014	161	11,579	3,525	15,104
Property tax	2,285	15,922	255	18,462	2,352	20,814
Organizational	2,714	19,364	311	22,389	2,861	25,250
Total indirect expenses	69,411	494,796	7,936	572,143	78,072	650,215
Depreciation	3,796	27,076	434	31,306	4,000	35,306
Total expenses	\$ 564,431	\$ 1,508,092	\$ 151,107	\$ 2,223,630	\$ 726,293	\$ 2,949,923

MONTGOMERY COMMUNITY TELEVISION, INC.
SCHEDULE OF EXPENSES BY REVENUE SOURCE
Year Ended June 30, 2007

	Master Contract	Combined Services Contract	Contract Related	Related Earned Revenue	Unrelated Earned Revenue	Donations	Total
Personnel							
Salaries full time	\$ 1,111,028	\$ 141,857	\$ 608	\$ 5,764	\$ 8,440	\$ -	\$ 1,267,697
Salaries part time	107,391	48,390	78	4,404	438	-	160,701
Salaries full time - overtime	25,518	4,033	-	747	128	-	30,426
Salaries part time - overtime	886	120	-	-	11	-	1,017
Group insurance benefits	105,547	20,803	-	-	4,343	-	130,693
Retirement benefits	65,178	(309)	-	-	835	-	65,704
Payroll tax expense	99,527	13,981	48	516	639	-	114,711
Employee benefits	17,155	3,510	-	-	751	-	21,416
Total personnel	<u>1,532,230</u>	<u>232,385</u>	<u>734</u>	<u>11,431</u>	<u>15,585</u>	<u>-</u>	<u>1,792,365</u>
Direct expenses							
Employee recruitment cost	6,685	431	-	-	-	-	7,116
Equipment rentals	1,766	-	-	-	-	-	1,766
Travel and transportation	10,120	88	-	268	-	-	10,476
Postage and shipping	2,693	-	-	(52)	-	-	2,641
Printing and reproduction	15,973	-	-	-	-	-	15,973
Periodicals and publications	5,696	-	-	-	-	-	5,696
Representation	19,470	-	-	-	-	-	19,470
Outside labor	81,005	1,100	-	-	-	-	82,105
Auto maintenance	2,197	-	-	-	-	-	2,197
Video tape stock	3,836	-	-	20,923	-	-	24,759
Tape dubbing	(340)	-	-	-	-	-	(340)
Production supplies	3,301	4,900	-	-	-	-	8,201
Production equipment	2,798	-	-	-	-	-	2,798
Advertising and promotion	40,413	-	-	-	-	-	40,413
Graphic design	24,118	-	-	-	-	-	24,118
Music licensing	950	-	-	-	-	-	950
Contract teachers	5,045	-	-	-	-	-	5,045
Consulting services	155,863	-	-	-	-	250	156,113
Video equipment maintenance	19,212	-	-	-	-	-	19,212
Computer software	3,360	-	-	-	-	-	3,360
Computer equipment	5,108	-	-	-	-	-	5,108
Bad debt expense	-	-	-	17,484	-	-	17,484
Bank charges	6,208	465	-	-	-	-	6,673
Supplies	4,425	1,091	-	-	-	-	5,516
Telephone	5,040	-	-	-	-	-	5,040
Miscellaneous expense	147	-	-	-	-	-	147
Total direct expenses	<u>425,089</u>	<u>8,075</u>	<u>-</u>	<u>38,623</u>	<u>-</u>	<u>250</u>	<u>472,037</u>

MONTGOMERY COMMUNITY TELEVISION, INC.
SCHEDULE OF EXPENSES BY REVENUE SOURCE (Cont'd.)

	<u>Master Contract</u>	<u>Combined Services Contract</u>	<u>Contract Related</u>	<u>Related Earned Revenue</u>	<u>Unrelated Earned Revenue</u>	<u>Donations</u>	<u>Total</u>
Indirect expenses							
Rent	235,743	63,940	-	-	10,541	-	310,224
Utilities	45,160	12,072	-	-	2,066	-	59,298
Insurance	30,035	4,220	-	-	700	-	34,955
Repairs and maintenance	64,337	17,189	-	-	2,850	-	84,376
Professional fees	27,488	7,348	-	-	1,219	-	36,055
Other and mediation services	20,446	7,835	-	-	1,300	-	29,581
Postage	6,009	1,600	-	-	265	-	7,874
Telephone	8,958	2,376	-	-	394	-	11,728
Supplies	11,605	2,874	-	-	477	-	14,956
Personnel	12,001	2,661	-	-	442	-	15,104
Property tax	15,826	4,286	-	-	702	-	20,814
Organizational	19,251	5,146	-	-	853	-	25,250
Total indirect expenses	<u>496,859</u>	<u>131,547</u>	<u>-</u>	<u>-</u>	<u>21,809</u>	<u>-</u>	<u>650,215</u>
Depreciation	<u>30,875</u>	<u>4,431</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,306</u>
Total expenses	<u>\$ 2,485,053</u>	<u>\$ 376,438</u>	<u>\$ 734</u>	<u>\$ 50,054</u>	<u>\$ 37,394</u>	<u>\$ 250</u>	<u>\$ 2,949,923</u>