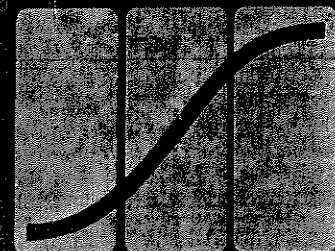


MONTGOMERY COMMUNITY TELEVISION, INC.

JUNE 30, 2009



STOY·MALONE

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

MONTGOMERY COMMUNITY TELEVISION, INC.

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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 statements of financial position of Montgomery Community Television, Inc. as of June 30, 2009 and 2008, 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, 2009 and 2008, 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 schedule of functional expenses 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 12, 2009

MONTGOMERY COMMUNITY TELEVISION, INC.
STATEMENTS OF FINANCIAL POSITION

	June 30, 2009	June 30, 2008
ASSETS		
Cash and cash equivalents	\$ 1,131,736	\$ 704,317
Certificates of deposit	-	204,498
Accrued interest receivable	-	6,333
Accounts receivable		
County contracts	33,716	128,038
Other	12,792	3,120
Prepaid expenses	9,665	41,241
Property and equipment, net	52,883	32,842
Deposits	28,805	28,805
Total assets	\$ 1,269,597	\$ 1,149,194
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 96,102	\$ 88,886
Accrued compensation	196,017	213,475
Deferred rent	73,932	96,090
Total liabilities	366,051	398,451
NET ASSETS - UNRESTRICTED	903,546	750,743
Total liabilities and net assets	\$ 1,269,597	\$ 1,149,194

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

**MONTGOMERY COMMUNITY TELEVISION, INC.
STATEMENTS OF ACTIVITIES**

	<u>Year Ended 2009</u>	<u>Year Ended 2008</u>
REVENUE		
County contracts	\$ 3,121,020	\$ 3,034,747
Production	19,922	7,635
Interest	9,678	34,761
Contributions	3,350	5,093
Other	<u>40,885</u>	<u>29,025</u>
Total revenue	<u>3,194,855</u>	<u>3,111,261</u>
EXPENSES		
Program services	2,364,347	2,342,408
Administration	<u>677,705</u>	<u>581,145</u>
Total expenses	<u>3,042,052</u>	<u>2,923,553</u>
CHANGE IN UNRESTRICTED NET ASSETS	152,803	187,708
NET ASSETS - UNRESTRICTED		
Beginning of year	<u>750,743</u>	<u>563,035</u>
End of year	<u>\$ 903,546</u>	<u>\$ 750,743</u>

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

MONTGOMERY COMMUNITY TELEVISION, INC.
STATEMENTS OF CASH FLOWS

	Year Ended 2009	Year Ended 2008
OPERATING ACTIVITIES		
Change in unrestricted net assets	\$ 152,803	\$ 187,708
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities		
Bad debt expense	-	10,342
Depreciation and amortization	12,490	13,091
Decrease in deferred rent	(22,158)	(12,668)
Changes in operating assets and liabilities		
Accrued interest receivable	6,333	(854)
Accounts receivable	84,650	(32,220)
Prepaid expenses	31,576	(30,898)
Accounts payable	7,216	20,741
Accrued compensation	(17,458)	56,601
Net cash provided by operating activities	<u>255,452</u>	<u>211,843</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(32,531)	(8,742)
Redemption of certificates of deposit	204,498	200,000
Investments in certificates of deposit	-	(204,498)
Net cash provided by (used in) investing activities	<u>171,967</u>	<u>(13,240)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	427,419	198,603
CASH AND CASH EQUIVALENTS		
Beginning of year	704,317	505,714
End of year	<u>\$ 1,131,736</u>	<u>\$ 704,317</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 in excess of \$2,000 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 approximately 9,200 hours to independent producers who submit programming which is cablecast on MCT's channels. The value of these services is estimated to be approximately \$104,000, based on the lowest hourly pay rate. 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, 2009, MCT had a net operating loss carry forward to future years of approximately \$540,000.

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

Income Taxes (Cont'd.)

MCT has elected to defer the application of the Financial Accounting Standards Board Interpretation (FIN) No. 48, "Accounting for Uncertainty in Income Taxes", in accordance with FASB Staff Position FIN 48-3. MCT presently recognizes income tax positions by applying Financial Accounting Standards Board Statement No. 5, "Accounting for Contingencies." MCT will be required to adopt FIN 48 in its June 2010 annual financial statements. Management is currently assessing the impact of FIN 48 on its financial statements.

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, 2010. The compensation for services provided from July 1, 2009 through June 30, 2010 will be a maximum amount not to exceed \$2,562,000.

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, 2010. The compensation for goods and services provided from July 1, 2009 through June 30, 2010 will be a maximum amount not to exceed \$481,120.

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 years ended June 30:

	<u>2009</u>	<u>2008</u>
Master Contract	\$ 2,652,000	\$ 2,534,000
Combined Services Contract	469,020	500,747
	<u>\$ 3,121,020</u>	<u>\$ 3,034,747</u>

NOTE 3 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	<u>2009</u>	<u>2008</u>
Office equipment	\$ 378,938	\$ 354,963
Furniture and fixtures	167,019	167,019
Video equipment	1,943,577	1,935,020
Automobiles	83,526	83,526
Leasehold improvements	710,825	710,826
	<u>3,283,885</u>	<u>3,251,354</u>
Less accumulated depreciation and amortization	<u>3,231,002</u>	<u>3,218,512</u>
	<u>\$ 52,883</u>	<u>\$ 32,842</u>

The County government purchases certain video and other equipment that is essential to the activities related to its contract with MCT. Substantially all video and other equipment MCT uses is provided without charge by the County. The value of this equipment, though substantial, is not determinable since the County currently does not provide MCT with cost information; as such this in-kind contribution has not been reflected in the financial statements.

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:

	<u>2009</u>	<u>2008</u>
Vacation pay	\$ 114,827	\$ 90,377
Salaries	76,832	114,320
Retirement	4,358	8,778
	<u>\$ 196,017</u>	<u>\$ 213,475</u>

NOTE 5 - DEFERRED RENT

The deferred rent balance at June 30, 2009 and 2008 represents the cumulative difference between the rent expense recorded for the 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. 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 years ended June 30:

	<u>2009</u>	<u>2008</u>
GAAP rent for the year	\$ 311,940	\$ 311,940
Minimum rent actually due and paid for the year	<u>(334,098)</u>	<u>(324,608)</u>
Deferred rent for the year	(22,158)	(12,668)
Deferred rent balance, beginning of year	<u>96,090</u>	<u>108,758</u>
Deferred rent balance, end of year	<u>\$ 73,932</u>	<u>\$ 96,090</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. This amount has been reduced to 5% beginning July 2009. 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, 2009 and 2008, MCT's expense amounted to \$113,157 and \$119,919, respectively.

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 years ended June 30:

	<u>2009</u>	<u>2008</u>
Minimum rent	\$ 311,940	\$ 311,940
Contingent rent	<u>75,818</u>	<u>69,263</u>
	<u>\$ 387,758</u>	<u>\$ 381,203</u>

Future minimum rental payments under these leases are as follows as of June 30, 2009:

Year ending June 30,	
2010	\$ 343,873
2011	353,941
2012	<u>139</u>
	<u>\$ 697,953</u>

SUPPLEMENTARY INFORMATION

MONTGOMERY COMMUNITY TELEVISION, INC.
SCHEDULE OF FUNCTIONAL EXPENSES
Year Ended June 30, 2009

	Program Services	Administration	Total
Human Resources			
Salaries (full-, part-, overtime)	\$ 1,133,514	\$ 367,050	\$ 1,500,564
Benefits and payroll tax	401,446	92,522	493,968
Nonemployee human resources	8,778	1,668	10,446
Other	10,696	20,375	31,071
	<u>1,554,434</u>	<u>481,615</u>	<u>2,036,049</u>
Equipment & Software			
Depreciation	-	12,490	12,490
Equipment and software	66,932	12,380	79,312
	<u>66,932</u>	<u>24,870</u>	<u>91,802</u>
Building & Grounds			
Rent and property tax	306,057	28,925	334,982
Repairs and maintenance	117,665	18,372	136,037
Utilities	64,538	17,790	82,328
Insurance	37,416	6,955	44,371
	<u>525,676</u>	<u>72,042</u>	<u>597,718</u>
Consulting	<u>152,964</u>	<u>70,972</u>	<u>223,936</u>
Promotion			
Advertising and promotion	10,008	9,812	19,820
Graphics and printing	36,252	(2,079)	34,173
	<u>46,260</u>	<u>7,733</u>	<u>53,993</u>
Bank Fees & Bad Debt	<u>1,007</u>	<u>10,157</u>	<u>11,164</u>
Other			
Dues and subscriptions	-	5,100	5,100
Supplies	15,612	2,990	18,602
Travel	1,462	2,226	3,688
	<u>17,074</u>	<u>10,316</u>	<u>27,390</u>
	<u>\$ 2,364,347</u>	<u>\$ 677,705</u>	<u>\$ 3,042,052</u>