

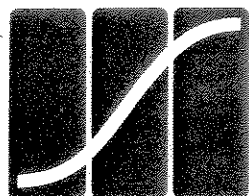
MONTGOMERY COMMUNITY TELEVISION, INC.

JUNE 30, 2010

MONTGOMERY COMMUNITY TELEVISION, INC.

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STOY · MALONE

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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, 2010 and 2009, 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, 2010 and 2009, 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 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 financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Stoy, Malone & Company, P.C.

Baltimore, Maryland
October 18, 2010

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

	June 30, 2010	June 30, 2009
ASSETS		
Cash	\$ 1,126,042	\$ 1,131,736
Accounts receivable		
County contracts	72,170	33,716
Other	10,015	12,792
Prepaid expenses	11,546	9,665
Property and equipment, net	48,828	52,883
Deposits	<u>28,805</u>	<u>28,805</u>
Total assets	<u>\$ 1,297,406</u>	<u>\$ 1,269,597</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 68,063	\$ 96,102
Accrued compensation	163,459	196,017
Deferred rent	<u>42,000</u>	<u>73,932</u>
Total liabilities	273,522	366,051
NET ASSETS - UNRESTRICTED	<u>1,023,884</u>	<u>903,546</u>
Total liabilities and net assets	<u>\$ 1,297,406</u>	<u>\$ 1,269,597</u>

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

MONTGOMERY COMMUNITY TELEVISION, INC.
STATEMENTS OF ACTIVITIES

	<u>Year Ended June 30, 2010</u>	<u>Year Ended June 30, 2009</u>
REVENUE		
County contracts	\$ 2,993,695	\$ 3,121,020
Production	15,448	19,922
Interest	-	9,678
Contributions	12,967	3,350
Other	<u>35,152</u>	<u>40,885</u>
Total revenue	<u>3,057,262</u>	<u>3,194,855</u>
EXPENSES		
Program services	2,131,277	2,259,370
Administration	<u>805,647</u>	<u>782,682</u>
Total expenses	<u>2,936,924</u>	<u>3,042,052</u>
CHANGE IN UNRESTRICTED NET ASSETS	120,338	152,803
NET ASSETS - UNRESTRICTED		
Beginning of year	<u>903,546</u>	<u>750,743</u>
End of year	<u>\$ 1,023,884</u>	<u>\$ 903,546</u>

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

MONTGOMERY COMMUNITY TELEVISION, INC.
STATEMENTS OF CASH FLOWS

	<u>Year Ended</u> <u>June 30, 2010</u>	<u>Year Ended</u> <u>June 30, 2009</u>
OPERATING ACTIVITIES		
Change in unrestricted net assets	\$ 120,338	\$ 152,803
Adjustments to reconcile change in unrestricted net assets to net cash provided by operating activities		
Depreciation and amortization	12,907	12,490
Decrease in deferred rent	(31,932)	(22,158)
Changes in operating assets and liabilities		
Accrued interest receivable	-	6,333
Accounts receivable	(35,677)	84,650
Prepaid expenses	(1,881)	31,576
Accounts payable	(28,039)	7,216
Accrued compensation	(32,558)	(17,458)
Net cash provided by operating activities	<u>3,158</u>	<u>255,452</u>
INVESTING ACTIVITIES		
Purchases of property and equipment	(8,852)	(32,531)
Redemption of certificates of deposit	<u>-</u>	<u>204,498</u>
Net cash provided by (used in) investing activities	<u>(8,852)</u>	<u>171,967</u>
INCREASE (DECREASE) IN CASH	(5,694)	427,419
CASH		
Beginning of year	<u>1,131,736</u>	<u>704,317</u>
End of year	<u>\$ 1,126,042</u>	<u>\$ 1,131,736</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

In the ordinary course of business, MCT may have funds on deposit with banks in excess of FDIC insured limits.

Accounts Receivable

Trade accounts receivable are reported at outstanding principal amount. 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 9,900 hours to independent producers who submit programming which is cablecast on MCT's channels. The value of these services is estimated to be approximately \$112,000, 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.

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

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, 2010, MCT had a net operating loss carry forward to future years of approximately \$460,000.

On July 1, 2009, The Company adopted *Accounting for Uncertainty in Income Taxes* under the Income Taxes topic of the FASB Accounting Standards Codification. The Codification requires the evaluation of tax positions taken or expected to be taken in the course of preparing MCT's tax returns and disallows the recognition of tax positions not deemed to meet a "more-likely-than-not" threshold of being sustained by the applicable tax authority. MCT's management does not believe it has taken any tax positions in its financial statements that would not meet this threshold. MCT's policy is to reflect interest and penalties related to uncertain tax positions as part of its income tax expense, when and if they become applicable.

MCT files federal and various state income tax returns and is no longer subject to income tax examinations by major tax authorities for years prior to 2006.

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.

Reclassifications

Certain June 30, 2009 amounts have been reclassified to conform to June 30, 2010 classifications.

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, 2011. The compensation for services provided from July 1, 2010 through June 30, 2011 will be a maximum amount not to exceed \$2,365,000.

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

NOTE 2 – COUNTY CONTRACTS (Cont'd.)

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, 2011. The compensation for goods and services provided from July 1, 2010 through June 30, 2011 will be a maximum amount not to exceed \$78,000.

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.

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

	<u>2010</u>	<u>2009</u>
Master Contract	\$ 2,562,000	\$ 2,652,000
Combined Services Contract	<u>431,695</u>	<u>469,020</u>
	<u>\$ 2,993,695</u>	<u>\$ 3,121,020</u>

NOTE 3 – PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30:

	<u>2010</u>	<u>2009</u>
Office equipment	\$ 383,054	\$ 378,938
Furniture and fixtures	167,019	167,019
Video equipment	1,948,313	1,943,577
Automobiles	83,526	83,526
Leasehold improvements	<u>710,825</u>	<u>710,825</u>
	3,292,737	3,283,885
Less accumulated depreciation and amortization	<u>3,243,909</u>	<u>3,231,002</u>
	<u>\$ 48,828</u>	<u>\$ 52,883</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.

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

NOTE 3 – PROPERTY AND EQUIPMENT (Cont'd.)

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:

	2010	2009
Vacation pay	\$ 87,069	\$ 114,827
Salaries	72,032	76,832
Retirement	4,358	4,358
	<u>\$ 163,459</u>	<u>\$ 196,017</u>

NOTE 5 – DEFERRED RENT

The deferred rent balance at June 30, 2010 and 2009 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 of America ("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:

	2010	2009
GAAP rent for the year	\$ 311,940	\$ 311,940
Minimum rent actually due and paid for the year	<u>(343,872)</u>	<u>(334,098)</u>
Deferred rent for the year	(31,932)	(22,158)
Deferred rent balance, beginning of year	<u>73,932</u>	<u>96,090</u>
Deferred rent balance, end of year	<u>\$ 42,000</u>	<u>\$ 73,932</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% for the year ended June 30, 2010 and for the year ending June 30, 2011. 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, 2010 and 2009, MCT's expense amounted to \$65,981 and \$113,157, respectively.

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

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 additional rental payments to cover MCT's proportionate share of operating costs and real estate taxes, which amounted to \$77,689 and \$75,818 for the years ended June 30, 2010 and 2009, respectively. Total rent expense amounted to \$389,629 and \$387,758 for the years ended June 30, 2010 and 2009, respectively.

Future minimum rental payments under these leases are as follows as of June 30, 2010:

Year ending June 30,	
2011	\$ 353,941
2012	<u>139</u>
	<u>\$ 354,080</u>

NOTE 8 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 18, 2010, the date that the financial statements were available to be issued. No recognized or non-recognized subsequent events were identified for recognition or disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

MONTGOMERY COMMUNITY TELEVISION, INC.
SCHEDULE OF FUNCTIONAL EXPENSES

	Year Ended June 30, 2010			Year Ended June 30, 2009
	Program Services	Administration	Total	Total
Human Resources				
Salaries (full-, part-, overtime)	\$ 1,160,020	\$ 484,368	\$ 1,644,388	\$ 1,605,144
Benefits and payroll tax	305,268	63,193	368,461	389,388
Nonemployee human resources	7,324	2,188	9,512	10,446
Other	6,399	8,611	15,010	31,071
	<u>1,479,011</u>	<u>558,360</u>	<u>2,037,371</u>	<u>2,036,049</u>
Equipment & Software				
Depreciation	-	12,907	12,907	12,490
Equipment and software	32,919	10,091	43,010	79,312
	<u>32,919</u>	<u>22,998</u>	<u>55,917</u>	<u>91,802</u>
Building & Grounds				
Rent and property tax	298,530	34,315	332,845	334,982
Repairs and maintenance	125,076	7,830	132,906	136,037
Utilities	74,494	10,823	85,317	82,328
Insurance	29,317	13,202	42,519	44,371
	<u>527,417</u>	<u>66,170</u>	<u>593,587</u>	<u>597,718</u>
Consulting	<u>44,116</u>	<u>126,669</u>	<u>170,785</u>	<u>223,936</u>
Promotion				
Advertising and promotion	25,403	78	25,481	19,820
Graphics and printing	8,902	6,157	15,059	34,173
	<u>34,305</u>	<u>6,235</u>	<u>40,540</u>	<u>53,993</u>
Bank Fees & Bad Debt	<u>16</u>	<u>4,296</u>	<u>4,312</u>	<u>11,164</u>
Other				
Dues and subscriptions	1,121	7,572	8,693	5,100
Supplies	7,301	12,193	19,494	18,602
Travel	5,071	1,154	6,225	3,688
	<u>13,493</u>	<u>20,919</u>	<u>34,412</u>	<u>27,390</u>
	<u>\$ 2,131,277</u>	<u>\$ 805,647</u>	<u>\$ 2,936,924</u>	<u>\$ 3,042,052</u>