ATLANTA EDUCATIONAL TELECOMMUNICATIONS COLLABORATIVE, INC.

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BANKS, FINLEY,
WHITE & CO.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Atlanta Educational Telecommunications Collaborative, Inc.
Atlanta, Georgia

We have audited the accompanying financial statements of Atlanta Educational Telecommunications Collaborative, Inc. (AETC), which comprise the statement of financial position as of June 30, 2013and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Atlanta Educational Telecommunications Collaborative, Inc. as of June 30, 2013and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Banks, Finley, White & Co.

December 27, 2013

40 Years 1973 - 2013

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ATLANTA EDUCATIONAL TELECOMMUNICATIONS COLLABORATIVE, INC.

Statements of Financial Position
June 30, 2013 and 2012

	2013	2012
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 5,099,589	$ 6,537,972
Receivables	806,851	801,885
Investments	1,239,870	1,096,108
Prepaid expenses	54,514	64,120
Total Current Assets	7,200,824	8,500,085
Long-term Assets:		
Notes Receivable	649,157	321,728
Property and equipment	1,902,750	1,720,283
Total Long-term Assets	2,551,907	2,042,011
TOTAL ASSETS	$ 9,752,731	$ 10,542,096
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses	$ 316,637	$ 577,053
Accrued salaries and fringe benefits	424,932	428,086
Deferred revenues	85,321	105,135
Total Current Liabilities	826,890	1,110,274
Net Assets:		
Unrestricted:		
Undesignated	7,450,526	8,009,441
Board Designated	1,278,454	1,157,919
Temporarily Restricted:		
Temporarily Restricted for programs	59,563	104,915
Temporarily Restricted for capital projects	137,298	159,547
Total Net Assets	8,925,841	9,431,822
TOTAL LIABILITIES AND NET ASSETS	$ 9,752,731	$ 10,542,096

The accompanying notes are an integral part of the financial statements.

ATLANTA EDUCATIONAL TELECOMMUNICATIONS COLLABORATIVE, INC.

Statements of Activities
June 30, 2013 and 2012

	2013	2012
Changes in Unrestricted Net Assets:		
Public Support and Revenues:		
Public broadcasting entities	$ 1,390,556	$ 1,469,172
Contributions, subscription membership fees	6,075,972	6,334,606
Underwriting contributions	4,063,965	4,218,077
In-kind contributions	999,905	1,271,280
Rental Income	226,714	215,847
Other Revenues	216,558	186,248
Total Unrestricted Public Support and Revenues	12,973,670	13,695,230
Net Assets Released from Restrictions:	157,033	119,315
Total Public Support, Revenues and Reclassifications	13,130,703	13,814,545
Expenses		
Program Services:		
Programming and Production	4,409,346	4,085,207
Broadcasting	1,506,137	1,554,237
Program Information	742,710	231,832
Total Program Service Expenses	6,658,193	5,871,276
Support Services:		
Management and general	3,366,491	3,876,635
Underwriting	1,170,164	1,108,480
Fundraising	1,946,749	1,939,610
Depreciation	427,486	372,825
Total Support Services Expenses	6,910,890	7,297,550
Total Expenses	13,569,083	13,168,826
Changes in Unrestricted Net Assets	(438,380)	645,719

The accompanying notes are an integral part of the financial statements.

ATLANTA EDUCATIONAL TELECOMMUNICATIONS COLLABORATIVE, INC.

Statements of Activities, Continued
June 30, 2013 and 2012

	2013	2012
Changes in Temporarily Restricted Net Assets:		
Contributions and grants	89,432	258,009
Net Assets Released from restrictions	(157,033)	(119,315)
Changes in Temporarily Restricted Net Assets	(67,601)	138,694
Change in Total Net Assets	(505,981)	784,413
Net Assets, Beginning of Year	9,431,822	8,647,409
NET ASSETS, END OF YEAR	$ 8,925,841	$ 9,431,822

The accompanying notes are an integral part of the financial statements.

ATLANTA EDUCATIONAL TELECOMMUNICATIONS COLLABORATIVE, INC.

Statements of Cash Flows
June 30, 2013 and 2012

	2013	2012
Cash Flows from Operating Activities:		
Cash received from contributors, members and grants	$ 11,595,145	$ 12,053,104
Other receipts	443,272	402,095
Cash paid to suppliers and employees	(12,723,085)	(11,326,382)
Net cash provided (used in) by operating activities	(684,668)	1,128,817
Cash Flows from Capital Financing Activities:		
Acquisitions of capital assets	(609,953)	(1,317,599)
Net cash used in capital financing activities	(609,953)	(1,317,599)
Cash Flows from Investing Activities:		
Purchases of investments	(164,268)	(127,009)
Sales/maturities of investments	20,506	162,662
Net cash provided by (used in) investing activities	(143,762)	35,653
Increase (decrease) in Cash and Cash Equivalents	(1,438,383)	(153,129)
Cash and Cash Equivalents:		
Beginning of Year	6,537,972	6,691,101
END OF YEAR	$ 5,099,589	$ 6,537,972

The accompanying notes are an integral part of the financial statements.

ATLANTA EDUCATIONAL TELECOMMUNICATIONS COLLABORATIVE, INC.

Statements of Cash Flows, Continued
June 30, 2013 and 2012

	2013	2012
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	$ (505,981)	$ 784,413
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	427,486	372,825
Changes in assets and liabilities:		
Increase in accounts receivable	(4,966)	(29,848)
Increase in notes receivable	(327,429)	(321,728)
Decrease (increase) in prepaid expenses	9,606	224,398
Decrease (increase) in other assets	-	29,970
Increase (decrease) in accounts payable	(260,416)	312,510
Increase (decrease) in other liabilities	(3,154)	(46,811)
Decrease in deferred revenues	(19,814)	(196,912)
NET CASH PROVIDED BY OPERATING ACTIVITES	$ (684,668)	$ 1,128,817

The accompanying notes are an integral part of the financial statements.

Note 1 - Background and Significant Accounting Policies

Organization

Atlanta Educational Telecommunications Collaborative, Inc. (AETC) was established for charitable and educational purposes including, but not limited to, enhancing public education of the Atlanta Independent School System (the "School System") primarily through broadcasting educational programs. To this end, AETC entered into a management and operation agreement (the "Agreement") with the School System, licensee of stations WPBA-TV and WABE-FM and Cable Channel 22, (collectively referred to as "Stations"), and owner of certain real and personal property and equipment (the "Broadcast Facilities" - see Note 4) associated with and related to the operations of the Stations. AETC manages and operates the respective stations in accordance with rules and regulations of the Federal Communications Commission, Corporation for Public Broadcasting, Public Broadcasting Service and National Public Radio. The Agreement is effective through December 31, 2014, with the option to renew two additional three-year periods through December 31, 2020, with the mutual agreement of both parties.

Basis of Presentation

In the 2013 fiscal year, AETC adopted the provisions of Financial Accounting Standards Board (FASB), Accounting Standards Codification (ASC) Number 958 – “Not-for-Profit Entities” (ASC 958). The adoption of ASC 958 had no significant effect on the basic financial statements except for the reformatting of the basic financial statements and classification of nets assets in conformity with ASC 958.

The Financial Statements are reported using the accrual basis accounting.

Net Assets

Net asset activities and their defined purposes used by AETC are as follows:

> *Temporarily restricted net assets* - Consists of net assets with constraints placed on the use by external groups, such as creditors, grantors and contributors. When the related purpose or program is accomplished, whether by use of temporarily restricted net assets or unrestricted net assets, the temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restriction.
>
> *Unrestricted net assets* – Consists of the board designated endowment and all other net assets that are available for support of AETC’s operations.

Notes to the Financial Statements, Continued

Note 1 - Background and Significant Accounting Policies, continued

Investments

Investments consist of marketable equity securities, mutual funds and certificates of deposit with original maturities greater than three months. Investments are carried at fair values determined at the date of the statement of net assets, based on quoted market prices.

Realized and unrealized gains and losses on investments were negligible for the years ended June 30, 2013 and 2012 and, therefore, have been included with other income in the Statements of Revenues, Expenses and Changes in Net Assets

Fair Value Measurements

Accounting Standards Codification ("ASC") No. 820 "Fair Value Measurements" (ASC 820) defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. ASC 820 established a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

AETC had no Level 3 investments as of June 30, 2013 and 2012. Therefore no reconciliation of Level 3 investments for the current year is required.

The carrying value of financial instruments such as cash and cash equivalents, other receivables, accounts payable and accruals approximate fair value because of the terms and relative short maturity of the financial instruments. AETC believes the carrying values of its financial instruments are reasonable estimates of their values, unless otherwise noted.

Note 1 - Background and Significant Accounting Policies, continued

Federal and State Income Taxes

AETC qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal or state income taxes has been recorded on the accompanying financial statements. In addition, the organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2). Accounting principles generally accepted in the United States of America require AETC's management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. AETC's management has analyzed the tax positions taken by the Organization, and has concluded that as of June 30, 2013, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. AETC's management believes it is no longer subject to income tax examinations for years prior to June 30, 2010.

In-kind Contributions

Donated services, materials and supplies are recorded at fair market value at the time of the donation and are recognized as both contributions and expenses.

Compensated Absences

Compensated absences relative to vacation leave are accrued as a liability as earned by employees up to a maximum of 80 hours. No accrual is recorded for sick leave since employees are only eligible to receive compensation for legitimate illnesses and do not receive payment for unused sick leave.

Property and Equipment

Equipment acquired for $2,000 or more is capitalized at cost. Equipment is depreciated over the estimated useful life, ranging from 5 to 20 years, using the straight-line method.

Notes to the Financial Statements, Continued

Note 1 - Background and Significant Accounting Policies, continued

Cash and Cash Equivalents

For purposes of the statement of cash flows, all highly liquid debt instrument purchases with an original maturity of three months or less are considered cash and/or cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires AETC to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results may differ from those estimates.

Reclassifications

Certain amounts for 2012 have been reclassified to conform to the 2013 presentation.

Note 2 - Receivables

A summary of current receivables as of June 30, 2013 and 2012 is as follows:

	2013	2012
Accounts/pledges receivable	$ 705,604	$ 667,868
Grants receivable	21,250	54,641
Other receivables	79,997	79,376
Total Receivables	$ 806,851	$ 801,885

AETC also has a long-term note receivable that is a result of the Welfare Benefit Plan (see Note 9) for the Chief Executive Officer. The value of the long-term receivable for the year ended June 30, 2013 is $649,157 including $8,203 cumulative interest.

Notes to the Financial Statements, Continued

Note 3 - Investments

A summary of aggregate fair value of investments as of June 30, 2013 and realized and unrealized gains and losses is as follows:

Types of Investments:	Fair Value	Quoted Price in Active Markets for Identical Assets (Level1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Equity securities [a]:				
US large cap	437,284	437,284		
US mid cap	224,315	224,315		
US small cap				
International	194,080	194,080		
Fixed income securities [b]:				
Investment Grade Taxable	384,191	190,947	193,244	-
Total	1,239,870	1,046,626	193,244	-

[a] Equity securities are comprised of the following investment types: common stock and mutual funds. Investments in common stocks are valued using quoted market prices multiplied by the number of shares owned. Investments in mutual funds are valued at the net asset value per share multiplied by the number of shares held as of the measurement date.

[b] Fixed income securities are comprised of the following investment types: bonds and bond mutual funds. Investments in bonds are valued using dealer supplied prices and categorized as level 2 in the hierarchy above. Investments in bond mutual funds are valued at the net asset value per share multiplied by the number of shares held as of the measurement date.

Note 4 – Property and Equipment

Property and equipment balances as of June 30, 2013 and 2012 are as follows:

	2013	2012
Equipment and furniture	$ 2,794,137	$ 2,293,980
Equipment purchased under capital leases	11,486	11,486
Intellectual Property	425,000	425,000
Leasehold improvements	835,477	725,681
	4,066,100	3,456,147
Less: Accumulated depreciation	(2,163,350)	(1,735,864)
Property and Equipment	$ 1,902,750	$ 1,720,283

Depreciation expense for the years ended June 30, 2013 and 2012 was $427,486 and $372,825, respectively.

Related Party Transactions

As part of the Agreement with the School System for the Stations mentioned in Note 1, all real and personal property and equipment that comprised the Broadcast Facilities of the Stations at the time of the initial contract with AETC or property acquired by the School System for the Broadcast Facilities since that time remain the property of the School System. AETC, in turn, leases the Broadcast Facilities from the School System for $1.00 a year. The property is not included in AETC's financial statements. The following is a summary of the Broadcast Facilities reported as part of the capital assets in the School System's financial statements:

Land and land improvements	$ 1,244,293
Building and building improvements	755,630
Equipment and Furnishings	1,447,414
Towers and Transmitters	3,701,600
	$ 7,148,937

Note 5 - Donated Goods and Services

The value of donated goods and services included as in-kind contribution revenues and the corresponding program expenses, included in Management and General operating expenses, for the year ended June 30, 2013 in the Statements of Activities are as follows:

	Television	Radio	Total
Broadcast Facilities	$ 400,185	$ 380,404	$780,589
Goods and Services	100,083	100,083	200,166
Food and Beverage	9,575	9,575	19,150
Total	$509,843	$490,062	$ 999,905

Note 6 - Operating Leases

AETC leases equipment under non-cancelable leases. Future minimum lease payments under the non-cancelable operating leases are as follows:

Year Ending June 30	
2014	$11,846
2015	8,222
2016	2,824
2017	2,333
2018	2,333
Totals	$ 27,558

Lease expenses relating to the above lease obligations for the years ended June 30, 2013 and 2012 amounted to $19,677 and $19,339 respectively.

Note 7 - Retirement Plans

AETC has a Tax Deferred or 403(b) retirement plan (the "Plan"). All full-time employees are eligible to participate in the Plan. The Plan may be terminated at any time at AETC's sole discretion.

Note 7 – Retirement Plans, continued

After completing six months of employment, AETC contributes 100% of the first 3% of compensation deferred plus 50% of the next 2% of compensation deferred, which can vary from plan year to plan year. Contributions to the Plan on behalf of Plan participants are made on a bi-weekly basis. Employees may contribute on a tax deferred basis any amount up to the lesser of 100% of their compensation or $17,500 for 2013.

AETC's contributions amounted to $131,193 and $39,791 for the years ended June 30, 2013 and 2012, respectively.

The Plan is administered by the Senior Vice President of Human Resources of AETC.

Note 8 – Nonqualified 457(b) Plan

AETC has a Nonqualified Deferred Compensation or 457(b) retirement plan. Director level and above employees are eligible to participate in the 457(b) plan. The 457(b) plan may be terminated at any time, at AETC's sole discretion.

AETC does not contribute to the 457(b) plan. The 457(b) has $175,111 in Plan Assets, and $175,112 in Plan Liabilities.

The 457(b) plan is administered by the Senior Vice President of Human Resources of AETC.

Note 9 – Welfare Benefit Plan

AETC sponsors a welfare benefit plan under ERISA for the benefit of an executive that authorized the purchase of life insurance policies as a means of providing post-employment benefits. The life insurance policies are established on the life of the executive and his spouse as joint insured. To minimize the risk of non-payment, the value of the life insurance was distributed between two highly rated insurers.

Each premium contribution provided by AETC on behalf of the executive is treated for tax, legal and financial purposes as a loan from AETC to the executive. These premium loans are established as a long-term loan receivable on the financial statements of AETC. The receivable is required to be repaid by the executive, including cumulative interest at a rate established by the Internal Revenue Service. Accordingly, AETC retains a permanent and primary irrevocable interest in the death benefit of the life insurance policies that will provide a full repayment of the accumulated loan receivable at the death of the individuals insured under the policy(s) to AETC. Based upon actuarial tables, it is projected that the life insurance policies held by the executive and his spouse will generate additional death benefits to AETC over and beyond the loan repayment and a contractually agreed upon interest.