ATLANTA EDUCATIONAL TELECOMMUNICATIONS COLLABORATIVE, INC.

FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

with
INDEPENDENT AUDITORS' REPORT

ATLANTA EDUCATIONAL TELECOMMUNICATIONS COLLABORATIVE, INC.

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Atlanta Educational Telecommunications Collaborative, Inc. ("AETC") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements. The financial statements of AETC as of and for the year ended June 30, 2013 were audited by other auditors whose report, dated December 27, 2013, expressed an unqualified opinion on those 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.

Auditors' Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 AETC'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 AETC'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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Atlanta Educational Telecommunications Collaborative, Inc. as of June 30, 2014, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Smith + Howard

December 10, 2014

ATLANTA EDUCATIONAL TELECOMMUNICATIONS COLLABORATIVE, INC.

Statements of Financial Position
June 30, 2014 and 2013

	2014	2013
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 5,211,425	$ 5,099,589
Receivables	793,964	806,851
Investments	1,385,492	1,239,870
Prepaid expenses	338,447	54,514
Total Current Assets	7,729,328	7,200,824
Long-term Assets:		
Note receivable	986,592	649,157
Property and equipment, net	1,739,926	1,902,750
Total Long-term Assets	2,726,518	2,551,907
TOTAL ASSETS	$ 10,455,846	$ 9,752,731
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable and accrued expenses	$ 537,812	$ 316,637
Accrued salaries and fringe benefits	433,578	424,932
Deferred revenues	100,938	85,321
Total Current Liabilities	1,072,328	826,890
Net Assets:		
Unrestricted:		
Undesignated	7,681,509	7,450,526
Board Designated	1,482,611	1,278,454
Temporarily Restricted:		
Temporarily Restricted for programs	104,349	59,563
Temporarily Restricted for capital projects	115,049	137,298
Total Net Assets	9,383,518	8,925,841
TOTAL LIABILITIES AND NET ASSETS	$ 10,455,846	$ 9,752,731

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

ATLANTA EDUCATIONAL TELECOMMUNICATIONS COLLABORATIVE, INC.

Statements of Activities
Years Ended June 30, 2014 and 2013

	2014	2013
Changes in Unrestricted Net Assets:		
Public Support and Revenues:		
Public broadcasting entities	$ 1,507,903	$ 1,390,556
Contributions, subscription membership fees	6,552,865	6,075,972
Underwriting contributions	4,440,797	4,063,965
In-kind contributions	1,120,985	999,905
Rental income	226,645	226,714
Other revenues	273,763	216,558
Total Unrestricted Public Support and Revenues	14,122,958	12,973,670
Net Assets Released from Restrictions:	167,943	157,033
Total Public Support, Revenues and Reclassifications	14,290,901	13,130,703
Expenses		
Program Services:		
Programming and Production	4,712,675	4,409,346
Broadcasting	1,567,516	1,506,137
Program Information	425,445	742,710
Total Program Service Expenses	6,705,636	6,658,193
Support Services:		
Management and general	3,582,753	3,366,491
Underwriting	1,358,344	1,170,164
Fundraising	1,852,530	1,946,749
Depreciation	356,498	427,486
Total Support Services Expenses	7,150,125	6,910,890
Total Expenses	13,855,761	13,569,083
Changes in Unrestricted Net Assets	435,140	(438,380)

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

ATLANTA EDUCATIONAL TELECOMMUNICATIONS COLLABORATIVE, INC.

Statements of Activities, Continued
Years Ended June 30, 2014 and 2013

	2014	2013
Changes in Temporarily Restricted Net Assets:		
Contributions and Grants	190,480	89,432
Net Assets Released from Restrictions	(167,943)	(157,033)
Changes in Temporarily Restricted Net Assets	22,537	(67,601)
Change in Total Net Assets	457,677	(505,981)
Net Assets, Beginning of Year	8,925,841	9,431,822
NET ASSETS, END OF YEAR	$ 9,383,518	$ 8,925,841

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

ATLANTA EDUCATIONAL TELECOMMUNICATIONS COLLABORATIVE, INC.

Statements of Cash Flows
Years Ended June 30, 2014 and 2013

	2014	2013
Cash Flows from Operating Activities:		
Cash received from contributors, members and grants	$ 12,720,549	$ 11,595,145
Other receipts	350,532	358,647
Cash paid to suppliers and employees	(12,432,390)	(12,395,656)
Net cash provided by (used in) operating activities	638,691	(441,864)
Cash Flows from Investing Activities:		
Acquisitions of capital assets	(193,674)	(609,953)
Purchases of investments	(135,248)	(132,280)
Sales of investments	139,502	73,143
Increase in note receivable	(337,435)	(327,429)
Net cash used in investing activities	(526,855)	(996,519)
Increase (Decrease) in Cash and Cash Equivalents	111,836	(1,438,383)
Cash and Cash Equivalents:		
Beginning of Year	5,099,589	6,537,972
END OF YEAR	$ 5,211,425	$ 5,099,589

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

ATLANTA EDUCATIONAL TELECOMMUNICATIONS COLLABORATIVE, INC.

Statements of Cash Flows, Continued
Years Ended June 30, 2014 and 2013

	2014	2013
Reconciliation of change in net assets to net cash provided by (used in) operating activities:		
Change in net assets	$ 457,677	$ (505,981)
Adjustments to reconcile change in net asset to net cash provided by (used in) operating activities:		
Depreciation	356,498	427,486
Net realized and unrealized gain on investments	(149,876)	(84,625)
Changes in assets and liabilities:		
Decrease (increase) in receivables	12,887	(4,966)
Decrease (increase) in prepaid expenses	(283,933)	9,606
Increase (decrease) in accounts payable and accrued expenses	221,175	(260,416)
Increase (decrease) in accrued salaries and fringe benefits	8,646	(3,154)
Increase (decrease) in deferred revenues	15,617	(19,814)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 638,691	$ (441,864)

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

ATLANTA EDUCATIONAL
TELECOMMUNICATIONS COLLABORATIVE, INC.

Notes to the Financial Statements
June 30, 2013 and 2014

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 operation 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 for two additional three-year periods through December 31, 2020 subject to 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 net 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* - Consist 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* – Consist of the board designated fund and all other net assets that are available for support of AETC's operations.

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 for the years ended June 30, 2014 and 2013 were $149,876 and $84,625, respectively. At June 30, 2014 and 2013, interest and dividends were $91,281 and $77,753, respectively. Investment income has been included within other income in the accompanying Statements of Activities.

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, 2014 and 2013.

The carrying value of financial instruments such as cash and cash equivalents, receivables, accounts payable and accrued expenses 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.

Notes to the Financial Statements, Continued

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, AETC 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 ("GAAP") require AETC's management to evaluate tax positions taken and recognize a tax liability (or asset) if AETC 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 and has concluded that, as of June 30, 2014, 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. AETC 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, 2011.

Contributions

AETC accounts for contributions in accordance with GAAP. Unconditional promises to give and contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence or nature of donor restrictions which limit the use of the donated assets. Underwriting contributions consist of advertising revenue and are recognized when earned. Subscription membership fees are recorded as revenue when received.

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

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

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.

Concentration of Credit Risk

AETC's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents, receivables, and investments. At times, cash and cash equivalent balances exceed federally insured amounts. AETC believes it reduces risks associated with balances in excess of federal insured amounts by maintaining its cash with major financial institutions with sound financial standing. Management continually monitors receivable balances and believes that its exposure to credit risk is limited. Investment securities are exposed to various risks, such as interest rate risk, market risk and credit risk. If liquidity issues arise in the global credit and capital markets, it is at least reasonably possible that these changes in risks could materially affect the amounts reported in the accompanying financial statements.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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 2013 have been reclassified to conform to the 2014 presentation.

Subsequent Events

Management has evaluated subsequent events through the date of this report, which is the date the financial statements were available to be issued.

Notes to the Financial Statements, Continued

Note 2 - Receivables

A summary of receivables as of June 30, 2014 and 2013 are as follows:

	2014	2013
Accounts/pledges receivable	$ 783,799	$ 705,604
Grants receivable	6,000	21,250
Other receivables	4,165	79,997
Total Receivables	$ 793,964	$ 806,851

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, 2014 is $986,592 including $25,161 cumulative interest. The value of the long-term receivable for the year ended June 30, 2013 was $649,157 including $8,203 cumulative interest.

Note 3 - Investments

A summary of aggregate fair value of investments and realized and unrealized gains and losses are as follows for the years ending June 30:

2014

Types of Investments:	Fair Value	Level 1	Level 2	Level 3
Equity securities [a]:				
US large cap	$ 532,111	$ 532,111	$ -	$ -
US mid cap	276,109	276,109	-	-
International	275,429	275,429	-	-
Fixed income securities [b]:			-	-
Investment Grade Taxable	301,843	109,127	192,716	-
Total	$ 1,385,492	$ 1,192,776	$ 192,716	$ -

Notes to the Financial Statements, Continued

Note 3 – Investments, continued

2013

Types of Investments:	Fair Value	Level 1	Level 2	Level 3
Equity securities [a]:				
US large cap	$ 437,284	$ 437,284	$ -	$ -
US mid cap	224,315	224,315	-	-
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, 2014 and 2013 are as follows:

	2014	2013
Equipment and furniture	$ 2,871,509	$ 2,794,137
Equipment purchased under capital leases	11,486	11,486
Intellectual Property	425,000	425,000
Leasehold improvements	951,779	835,477
	4,259,774	4,066,100
Less: Accumulated depreciation	(2,519,848)	(2,163,350)
Property and Equipment	$ 1,739,926	$ 1,902,750

Depreciation expense for the years ended June 30, 2014 and 2013 was $356,498 and $427,486, 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	$ 1,553,112
Building and building improvements	675,437
Equipment and Furnishings	936,739
Towers and Transmitters	3,751,100
	$ 6,916,388

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 in the accompanying Statements of Activities are as follows as of June 30:

	2014		
	Television	Radio	Total
Broadcast Facilities	$ 444,963	$ 443,006	$ 887,969
Goods and Services	106,325	115,541	221,866
Food and Beverage	5,575	5,575	11,150
Total	$ 556,863	$ 564,122	$ 1,120,985

	2013		
	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 for the years ending June 30:

2015	$ 14,387
2016	8,988
2017	2,124
Totals	$ 25,499

Lease expenses relating to the above lease obligations for the years ended June 30, 2014 and 2013 amounted to $20,256 and $19,677 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. 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 2014.

AETC's contributions amounted to $142,581 and $131,193 for the years ended June 30, 2014 and 2013, respectively.

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 $217,475 in Plan Assets, and $217,509 in Plan Liabilities.

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 legal, tax 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 policies 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 contractually agreed upon interest.