

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

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June 30, 2017 and 2016

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Independent Auditor's Report

Board of Trustees
Mid-South Public Communications Foundation
Cordova, Tennessee

We have audited the accompanying financial statements of Mid-South Public Communications Foundation (a not-for-profit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, 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 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 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 Mid-South Public Communications Foundation as of June 30, 2017 and 2016, 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.

Frazee Ivy Davis PLC

Memphis, Tennessee
September 26, 2017

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Statements of Financial Position

June 30, 2017 and 2016

	ASSETS	<u>2017</u>	<u>2016</u>
Cash and cash equivalents		\$ 18,706	\$ 10,313
Accounts receivable, net		122,378	129,152
Other assets		10,748	13,955
Investments		1,766,224	1,855,958
Property and equipment, net		8,549,963	8,838,940
Assets held for sale, net		<u>53,763</u>	<u>53,763</u>
Total assets		<u><u>\$10,521,782</u></u>	<u><u>\$ 10,902,081</u></u>
	LIABILITIES AND NET ASSETS		
Liabilities			
Accounts payable and accrued expenses		\$ 58,786	\$ 77,776
Deferred revenue, antenna leases		<u>3,668</u>	<u>3,668</u>
Total liabilities		<u>62,454</u>	<u>81,444</u>
Net assets			
Unrestricted		9,303,397	9,707,233
Temporarily restricted		127,603	109,581
Permanently restricted		<u>1,028,328</u>	<u>1,003,823</u>
Total net assets		<u>10,459,328</u>	<u>10,820,637</u>
Total liabilities and net assets		<u><u>\$10,521,782</u></u>	<u><u>\$ 10,902,081</u></u>

See accompanying notes to the financial statements.

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MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Statement of Activities

For the year ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and support				
Contributions	\$ 1,868,377	\$ -	\$ -	\$ 1,868,377
C.P.B. community service grants	918,615	-	-	918,615
State of Tennessee grant	430,793	-	-	430,793
Production and royalty revenues	255,311	-	-	255,311
Underwriting	820,673	-	-	820,673
Special events	30,940	-	-	30,940
Net investment income	32,802	98,022	24,505	155,329
In-kind contributions	14,726	-	-	14,726
Antenna income	356,732	-	-	356,732
Other revenues and support	45,916	-	-	45,916
Total revenues and support	4,774,885	98,022	24,505	4,897,412
Reclassifications				
Net assets released from restriction	80,000	(80,000)	-	-
Total revenues and support and reclassifications	4,854,885	18,022	24,505	4,897,412
Expenses				
Program services	3,631,184	-	-	3,631,184
Supporting services	1,627,537	-	-	1,627,537
Total expenses	5,258,721	-	-	5,258,721
Change in net assets	(403,836)	18,022	24,505	(361,309)
Net assets, beginning of year	9,707,233	109,581	1,003,823	10,820,637
Net assets, end of year	<u>\$ 9,303,397</u>	<u>\$ 127,603</u>	<u>\$ 1,028,328</u>	<u>\$ 10,459,328</u>

See accompanying notes to the financial statements.

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Statement of Activities

For the year ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and support				
Contributions	\$ 1,802,737	\$ -	\$ -	\$ 1,802,737
C.P.B. community service grants	967,834	-	-	967,834
State of Tennessee grant	430,793	-	-	430,793
Production and royalty revenues	179,996	-	-	179,996
Underwriting	862,581	-	-	862,581
Special events	64,114	-	-	64,114
Net investment loss	(46,876)	(46,549)	-	(93,425)
In-kind contributions	32,834	-	-	32,834
Antenna income	363,129	-	-	363,129
Gain on sale of assets	112,500	-	-	112,500
Other revenues and support	62,772	-	-	62,772
	<u>4,832,414</u>	<u>(46,549)</u>	<u>-</u>	<u>4,785,865</u>
Reclassifications				
Net assets released from restriction	104,878	(104,180)	(698)	-
	<u>4,937,292</u>	<u>(150,729)</u>	<u>(698)</u>	<u>4,785,865</u>
Expenses				
Program services	3,986,384	-	-	3,986,384
Supporting services	1,686,676	-	-	1,686,676
	<u>5,673,060</u>	<u>-</u>	<u>-</u>	<u>5,673,060</u>
Change in net assets	(735,768)	(150,729)	(698)	(887,195)
Net assets, beginning of year	10,443,001	260,310	1,004,521	11,707,832
Net assets, end of year	<u>\$ 9,707,233</u>	<u>\$ 109,581</u>	<u>\$ 1,003,823</u>	<u>\$ 10,820,637</u>

See accompanying notes to the financial statements.

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Statement of Functional Expenses

For the year ended June 30, 2017

	Program Services					Supporting Services			Total
	FM Radio	TV Programs and Production	Broadcast	Program Information and Promotion	Sub - Total	Development	Management and General	Sub - Total	
Salaries, payroll taxes and employee benefits	\$ 333,928	\$ 356,160	\$ 425,734	\$ 84,800	\$ 1,200,622	\$ 430,163	\$ 506,697	\$ 936,860	\$ 2,137,482
Program acquisition	423,396	658,662	-	-	1,082,058	-	-	-	1,082,058
Depreciation	70,062	73,773	171,408	5,522	320,765	39,530	36,050	75,580	396,345
Printing	-	741	-	-	741	6,556	-	6,556	7,297
Affiliation dues	-	188,731	-	-	188,731	377	783	1,160	189,891
Utilities	14,699	-	289,186	-	303,885	-	-	-	303,885
Communications	21,532	2,916	73,432	2,850	100,730	7,596	42,020	49,616	150,346
Maintenance and repairs	16,228	-	80,390	-	96,618	-	81,872	81,872	178,490
Advertising and promotion	-	755	-	20,853	21,608	-	-	-	21,608
Tools, props, and supplies	2,245	25,641	1,541	2,907	32,334	17,833	26,021	43,854	76,188
Special events	-	-	-	-	-	12,995	-	12,995	12,995
Direct mail	-	-	-	-	-	100,923	-	100,923	100,923
Insurance, general	14,665	24,132	16,322	1,955	57,074	13,994	12,762	26,756	83,830
Professional services	7,450	26,008	59,139	29	92,626	4,977	47,460	52,437	145,063
Premiums	-	-	-	-	-	174,844	-	174,844	174,844
Grant and contract production	-	112,489	-	-	112,489	-	-	-	112,489
Travel	769	3,477	973	-	5,219	1,967	1,542	3,509	8,728
Rent, facilities	15,684	-	-	-	15,684	-	-	-	15,684
Interest expense	-	-	-	-	-	-	6,496	6,496	6,496
Provision for doubtful pledges and other receivables	-	-	-	-	-	-	5,660	5,660	5,660
Bank fees	-	-	-	-	-	39,486	8,933	48,419	48,419
Total expenses	\$ 920,658	\$ 1,473,485	\$ 1,118,125	\$ 118,916	\$ 3,631,184	\$ 851,241	\$ 776,296	\$ 1,627,537	\$ 5,258,721

See accompanying notes to the financial statements.

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Statement of Functional Expenses

For the year ended June 30, 2016

	Program Services					Supporting Services			Total
	FM Radio	TV Programs and Production	Broadcast	Program Information and Promotion	Sub - Total	Development	Management and General	Sub - Total	
Salaries, payroll taxes and employee benefits	\$ 313,179	\$ 438,018	\$ 431,251	\$ 96,935	\$ 1,279,383	\$ 437,704	\$ 518,789	\$ 956,493	\$ 2,235,876
Program acquisition	443,846	716,724	-	-	1,160,570	-	-	-	1,160,570
Depreciation	68,053	86,961	312,421	6,956	474,391	39,623	35,089	74,712	549,103
Printing	-	-	-	-	-	1,175	-	1,175	1,175
Affiliation dues	-	204,038	-	-	204,038	954	673	1,627	205,665
Utilities	13,231	-	285,364	-	298,595	-	-	-	298,595
Communications	24,627	3,040	73,017	1,094	101,778	7,964	45,867	53,831	155,609
Maintenance and repairs	8,020	-	65,956	-	73,976	-	67,412	67,412	141,388
Advertising and promotion	-	-	-	46,580	46,580	-	-	-	46,580
Tools, props, and supplies	4,163	29,156	1,375	2,058	36,752	31,763	24,182	55,945	92,697
Special events	-	-	-	-	-	36,387	-	36,387	36,387
Direct mail	-	-	-	-	-	111,764	-	111,764	111,764
Insurance, general	17,550	32,606	19,192	3,089	72,437	17,594	19,078	36,672	109,109
Professional services	8,654	144	53,561	-	62,359	4,571	59,333	63,904	126,263
Premiums	-	-	-	-	-	164,869	-	164,869	164,869
Grant and contract production	-	155,308	-	-	155,308	-	-	-	155,308
Travel	2,404	1,799	786	-	4,989	1,090	1,389	2,479	7,468
Rent, facilities	15,228	-	-	-	15,228	-	-	-	15,228
Interest expense	-	-	-	-	-	-	6,896	6,896	6,896
Provision for doubtful pledges and other receivables	-	-	-	-	-	-	5,527	5,527	5,527
Bank fees	-	-	-	-	-	37,193	9,790	46,983	46,983
Total expenses	\$ 918,955	\$ 1,667,794	\$ 1,242,923	\$ 156,712	\$ 3,986,384	\$ 892,651	\$ 794,025	\$ 1,686,676	\$ 5,673,060

See accompanying notes to the financial statements.

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Statements of Cash Flows

For the years ended June 30, 2017 and 2016

	2017	2016
Operating activities		
Change in net assets	\$ (361,309)	\$ (887,195)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	396,345	549,103
Provision for doubtful pledges and other receivables	5,660	5,527
Unrealized (gain) loss on investments	(41,814)	236,328
Realized gain on investments	(68,279)	(30,203)
Gain on sale of equipment	-	(112,500)
Contributions and investment income restricted for long-term purposes	(24,505)	-
Changes in operating assets and liabilities:		
Accounts receivable	1,114	52,548
Other assets	3,207	2,505
Accounts payable and accrued expenses	(18,990)	32,468
Deferred revenue	-	(16,371)
Net cash used in operating activities	(108,571)	(167,790)
Investing activities		
Purchase of investments	(320,369)	(264,920)
Proceeds from the sale of investments	520,196	350,938
Proceeds from sale of equipment	-	115,000
Purchase of property and equipment	(107,368)	(109,167)
Net cash provided by investing activities	92,459	91,851
Financing activities		
Proceeds from contributions and investment income restricted for:		
Investment in permanent endowment	24,505	-
Net cash provided by financing activities	24,505	-
Change in cash and cash equivalents	8,393	(75,939)
Cash and cash equivalents, beginning of year	10,313	86,252
Cash and cash equivalents, end of year	\$ 18,706	\$ 10,313

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to the Financial Statements

June 30, 2017 and 2016

Note 1 – Summary of Significant Accounting Policies

Organization

Mid-South Public Communications Foundation (the "Foundation") is a not-for-profit institution organized for the purpose of furthering educational needs of the community through the generation of noncommercial educational television (WKNO-TV) and radio stations (WKNO-FM and WKNP-FM).

Basis of Accounting

The accompanying financial statements have been prepared in accordance with the accrual basis of accounting. Under this method of accounting, revenues and support are recognized in the period earned and expenses are recognized when incurred.

Financial Statement Presentation

Under accounting standards for not-for-profit organizations, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash equivalents are defined as those highly liquid investments purchased with an original maturity of three months or less.

Accounts Receivable

The Foundation records accounts receivable at their estimated net realizable value. An allowance for doubtful accounts is recorded based upon management's estimate of uncollectible accounts, determined by analysis of specific accounts and general reserve based upon aging of outstanding balances. Past due balances of delinquent receivables are charged against the allowance when they are determined to be uncollectible by management. The Foundation does not recognize interest income on outstanding receivables. The allowance for doubtful accounts was \$4,000 and \$3,000 at June 30, 2017 and 2016, respectively.

Investments

Investments in marketable debt and equity securities are measured at fair value. Investment gains and losses are reported as increases or decreases in unrestricted net assets, unless otherwise restricted by donor. Investment gains restricted by donors are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction.

Fair Value Measurements

Accounting standards define fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establish the framework for a fair value hierarchy. The fair value hierarchy gives the highest priority to observable inputs such as quoted prices in active markets for identical assets or liabilities (Level 1), the next highest priority to inputs (other than quoted prices within Level 1) such as quoted prices for similar assets or liabilities, quoted prices in inactive markets, or other inputs that can be corroborated by observable market data (Level 2), and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability in an orderly transaction.

Note 1 – Summary of Significant Accounting Policies (continued)

Property, Equipment, and Depreciation

Property and equipment is stated at estimated fair value at the date of the contribution, if contributed, or at acquisition cost, if purchased. Major renewals and betterments that extend the useful lives of assets are also recorded at cost. Expenditures for normal repair and maintenance are expensed as they occur. Depreciation is determined using the straight-line method over the estimated useful lives of the assets which range from three to forty years.

Revenues and Support

The Foundation receives revenues and support from a variety of sources including private contributions. Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending upon the existence and/or nature of any donor restrictions. Contributions are recognized when the donor makes a promise to the Foundation that is, in substance, unconditional. Unconditional promises to give due in subsequent years are recorded at the present value of their net realizable value, using discount rates applicable to the years in which the promises are received.

Restricted contributions, and investment income that is limited to specific uses by donor-imposed restrictions, are reported as unrestricted when the restrictions are met within the same reporting period. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

In-kind Contributions and Donated Services

Donated materials are recorded as contributions at their estimated fair values at the date of donation. Contributions of services are recognized in the financial statements if the services enhance or create non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Donations of property and equipment are recorded as unrestricted contributions at the date of donation unless the donor has temporarily or permanently restricted the donated asset to a specific purpose.

Advertising

Advertising costs are expensed as incurred and totaled \$21,608 and \$46,580 for the years ended June 30, 2017 and 2016, respectively.

Tax Status

The Foundation is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Foundation's tax-exempt purpose is subject to taxation as unrelated business income. The Foundation has been classified as an organization other than a private foundation under Section 509(a)(1) and 170(b)(1)(A)(vi) of the Internal Revenue Code.

The Foundation files tax returns in the United States federal jurisdiction and Tennessee state jurisdiction and is no longer subject to tax examinations by tax authorities for the years prior to 2014. Based on the evaluation of the Foundation's tax positions, management believes all positions taken would more likely than not be upheld under examination. Therefore, no provision for the effects of uncertain tax positions has been recorded for the years ended June 30, 2017 and 2016.

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to the Financial Statements

June 30, 2017 and 2016

Note 1 – Summary of Significant Accounting Policies (continued)

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Risk

Although the Foundation has a policy to maintain a diversified portfolio, investment securities are subject to market and credit risk, including the issuers' ability to meet their obligations, which may be affected by general economic conditions or economic developments in a specific geographic region or industry.

Subsequent Events

Management has evaluated subsequent events through September 26, 2017, the date the financial statements were available to be issued.

Note 2 – Property and Equipment

Property and equipment consisted of the following at June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Land	\$ 1,620,684	\$ 1,620,684
Transmitter building	322,084	322,512
Building	7,877,221	7,877,221
Transmitter and tower	3,453,888	3,453,888
Office equipment	443,374	447,727
Vehicles	40,443	40,443
Studio and technical equipment	<u>8,171,367</u>	<u>8,101,797</u>
	21,929,061	21,864,272
Less accumulated depreciation	<u>(13,379,098)</u>	<u>(13,025,332)</u>
Property and equipment, net	<u>\$ 8,549,963</u>	<u>\$ 8,838,940</u>
Depreciation expense for the year	<u>\$ 396,345</u>	<u>\$ 549,103</u>

Certain equipment was purchased with matching grants from the U.S. Department of Commerce, National Telecommunications and Information Administration. Under the terms of the grant, the equipment is subject to a ten-year lien by the Department of Commerce expiring July 31, 2018.

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to the Financial Statements

June 30, 2017 and 2016

Note 3 – Investments

Investments consisted of the following at June 30, 2017 and 2016:

	2017		2016	
	Fair Value	Cost	Fair Value	Cost
Municipal bonds	\$ 10,463	\$ 10,102	\$ 81,835	\$ 77,912
Equity funds	499,830	535,334	560,719	538,609
Pooled investments - Community Foundation of Greater Memphis, Inc.	1,255,931	1,148,598	1,213,404	1,209,784
Total investments	\$ 1,766,224	\$ 1,694,034	\$ 1,855,958	\$ 1,826,305

At June 30, 2017, investments included \$510,293 in securities pledged as collateral under a line of credit agreement with a financial institution (see Note 5).

Investments held by the Community Foundation of Greater Memphis, Inc. consist of funds transferred from the Foundation to the WKNO-TV/FM Endowment Fund (the “Endowment Fund”) (see Note 7). The beneficiary of the Endowment Fund is the Foundation.

Net investment income (loss) for the years ended June 30, 2017 and 2016, consisted of the following:

	2017	2016
Net unrealized gain (loss)	\$ 41,814	\$ (236,328)
Net realized gain	68,279	30,203
Net gain (loss) on investments	110,093	(206,125)
Interest and dividend income	54,150	119,300
Investment fees	(8,914)	(6,600)
Net investment income (loss)	\$ 155,329	\$ (93,425)

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to the Financial Statements

June 30, 2017 and 2016

Note 4 – Fair Value Measurements

Fair value of assets measured on a recurring basis at June 30, 2017, includes the following:

	<u>2017</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Municipal bonds	\$ 10,463	\$ -	\$ 10,463	\$ -
Equity funds	499,830	499,830	-	-
Pooled investments - Community Foundation of Greater Memphis, Inc.	<u>1,255,931</u>	<u>-</u>	<u>-</u>	<u>1,255,931</u>
Total fair value of investments	<u>\$ 1,766,224</u>	<u>\$ 499,830</u>	<u>\$ 10,463</u>	<u>\$ 1,255,931</u>

Fair value of assets measured on a recurring basis at June 30, 2016, includes the following:

	<u>2016</u>	<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant other observable inputs (Level 2)</u>	<u>Significant unobservable inputs (Level 3)</u>
Municipal bonds	\$ 81,835	\$ -	\$ 81,835	\$ -
Equity funds	560,719	560,719	-	-
Pooled investments - Community Foundation of Greater Memphis, Inc.	<u>1,213,404</u>	<u>-</u>	<u>-</u>	<u>1,213,404</u>
Total fair value of investments	<u>\$ 1,855,958</u>	<u>\$ 560,719</u>	<u>\$ 81,835</u>	<u>\$ 1,213,404</u>

Fair values for Level 1 assets are determined by reference to quoted market prices for identical assets. Fair values for Level 2 assets are determined by reference to quoted market prices of similar assets and other relevant information generated by market transactions. For valuation of Level 3 assets, management uses significant unobservable inputs including information from fund managers. The fund managers value these investments based upon the Foundation's proportional share of the net asset values of the underlying securities or as reported by the underlying entities. Management reviews and evaluates the values provided by the fund managers and agrees with the valuation methods and assumptions used in determining the fair values. Because of the inherent uncertainty of the valuation of Level 3 assets, the values reported in these financial statements may differ significantly from the values that would have been used had a ready market for the investments existed.

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to the Financial Statements

June 30, 2017 and 2016

Note 4 – Fair Value Measurements (continued)

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Community Foundation of Greater Memphis	
	2017	2016
Beginning balance	\$ 1,213,404	\$ 1,359,952
Net appreciation (depreciation)	107,150	(58,081)
Purchases	24,291	18,133
Settlements	(88,914)	(106,600)
Ending balance	<u>\$ 1,255,931</u>	<u>\$ 1,213,404</u>

Note 5 – Line of Credit

The Foundation has \$500,000 of credit available at June 30, 2017, under a line of credit agreement with a financial institution. Interest is payable monthly at the one month LIBOR rate plus an applicable percentage as determined by the market value of pledged investment securities (4.22% at June 30, 2017). The line of credit is collateralized by investment securities (see Note 3).

Note 6 – Temporarily and Permanently Restricted Net Assets

At June 30, 2017 and 2016, \$127,603 and \$109,581, respectively, of net assets were temporarily restricted with respect to time. For the years ended June 30, 2017 and 2016, \$80,000 and \$100,000 of temporarily restricted net assets, respectively, were released from restriction by the passage of time.

At June 30, 2017 and 2016, permanently restricted net assets consisted of the principal balance of the WKNO-TV/FM Endowment Fund (the “Endowment Fund”) held at the Community Foundation of Greater Memphis, Inc. A portion of the net investment income of the Endowment Fund is available to supplement the cost of operations while the remaining balance of net investment income is to be reinvested in the principal of the Endowment Fund (see Note 7). At June 30, 2017 and 2016, the balance of permanently restricted net assets was \$1,028,328 and \$1,003,823, respectively.

Note 7 – Endowment Fund

The Foundation’s endowment fund consists of a balanced pooled fund established for the purpose of raising and investing funds for capital improvements and program expenses. As required by generally accepted accounting principles, net assets associated with the endowment fund, including funds designated by the Board of Directors to function as an endowment, are classified and reported based on the existence or absence of donor-imposed restrictions.

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to the Financial Statements

June 30, 2017 and 2016

Note 7 – Endowment Fund (continued)

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act (“UPMIFA”) as adopted by the State of Tennessee as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of the interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment fund made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the endowment fund is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of the investments, (6) other resources of the Foundation, and (7) the Foundation’s investment policies.

The Foundation has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. The policy states that the future growth of the Endowment Fund should be sufficient to offset normal inflation plus reasonable spending, thereby preserving the constant dollar value and purchasing power of the Endowment Fund for future generations. The endowment contract stipulates that 20% of the net income from the funds will be included in the permanently restricted net assets, and the other 80% can be spent as needed by the Foundation. In establishing this policy, the Foundation considered liquidity and the long-term expected investment return of its endowment fund.

Endowment net asset composition by type of fund as of June 30, 2017 and 2016, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
As of June 30, 2017				
Donor-restricted endowment funds	\$ 100,000	\$ 127,603	\$ 1,028,328	\$ 1,255,931
As of June 30, 2016				
Donor-restricted endowment funds	\$ 100,000	\$ 109,581	\$ 1,003,823	\$ 1,213,404

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to the Financial Statements

June 30, 2017 and 2016

Note 7 – Endowment Fund (continued)

Changes in endowment net assets for the year ended June 30, 2017, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 100,000	\$ 109,581	\$ 1,003,823	\$ 1,213,404
Investment return:				
Interest and dividends	-	19,433	4,858	24,291
Unrealized gain	-	82,970	20,743	103,713
Realized gain	-	2,750	687	3,437
Investment fees	-	(7,131)	(1,783)	(8,914)
Total investment return	<u>-</u>	<u>98,022</u>	<u>24,505</u>	<u>122,527</u>
Withdrawals	(80,000)	-	-	(80,000)
Appropriation of endowment assets for expenditure	<u>80,000</u>	<u>(80,000)</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 100,000</u>	<u>\$ 127,603</u>	<u>\$ 1,028,328</u>	<u>\$ 1,255,931</u>

Changes in endowment net assets for the year ended June 30, 2016, is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 95,820	\$ 260,310	\$ 1,004,521	\$ 1,360,651
Investment return:				
Interest and dividends	-	18,132	-	18,132
Unrealized loss	-	(90,849)	-	(90,849)
Realized gain	-	32,768	-	32,768
Investment fees	-	(6,600)	-	(6,600)
Total investment return	<u>-</u>	<u>(46,549)</u>	<u>-</u>	<u>(46,549)</u>
Contributions	698	-	(698)	-
Withdrawals	(96,518)	(4,180)	-	(100,698)
Appropriation of endowment assets for expenditure	<u>100,000</u>	<u>(100,000)</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 100,000</u>	<u>\$ 109,581</u>	<u>\$ 1,003,823</u>	<u>\$ 1,213,404</u>

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to the Financial Statements

June 30, 2017 and 2016

Note 8 – Leasing Arrangements

The Foundation leases TV and microwave towers, air space, and a billboard under noncancellable operating leases that expire on various dates through 2025. The leases require fixed lease payments, plus subsequent adjustments based on the prior year’s consumer price index. For the years ended June 30, 2017 and 2016, the Foundation recognized antenna income of \$356,732 and \$363,129, respectively.

The following is a summary of minimum future rentals under noncancellable operating leases:

Year ending June 30,	Amount
2018	\$ 322,316
2019	322,316
2020	322,316
2021	307,649
2022	198,833
Thereafter	251,794
Total	\$ 1,725,224

Note 9 – Retirement Plan

The Foundation has a defined contribution plan for the benefit of all employees with six months and 1,000 hours of service. The Foundation's contribution to the plan is based upon five percent of eligible employees' compensation and was \$87,412 and \$92,186 for the years ended June 30, 2017 and 2016, respectively. Participating employees become 100% vested in the plan after three years of service.

Note 10 – Discontinued Activity, Mobile Unit

In May 2014, management decided to discontinue mobile unit activities due to continued deterioration of the mobile unit’s financial performance. At June 30, 2017 and 2016, a summary of the financial position of the mobile unit is as follows:

ASSETS		
	2017	2016
Assets held for sale, net	\$ 53,763	\$ 53,763
Total assets	\$ 53,763	\$ 53,763
LIABILITIES AND NET ASSETS		
Liabilities	\$ -	\$ -
Net assets, unrestricted	53,763	53,763
Total liabilities and net assets	\$ 53,763	\$ 53,763