

Mid-South Public Communications Foundation

**Audited Financial Statements
and Supplemental Information**

June 30, 2012 and 2011

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

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Independent Auditor's Report

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

We have audited the accompanying statements of financial position of Mid-South Public Communications Foundation (the "Foundation"), as of June 30, 2012 and 2011 and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Foundation'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 and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. 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 the Foundation as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report November 21, 2012, on our consideration of the Foundation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of the audits performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal and state awards 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 as a whole.

Frazee Ivy Davis PLC

November 21, 2012

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Statements of Financial Position

June 30, 2012 and 2011

	ASSETS	<u>2012</u>	<u>2011</u>
Cash and cash equivalents		\$ 110,842	\$ 317,319
Pledges receivable, net		-	75,000
Accounts receivable, net		278,128	218,670
Other assets		33,815	30,433
Note receivable		294,854	345,428
Investments		1,969,843	2,217,189
Property and equipment, net		<u>10,990,769</u>	<u>11,696,501</u>
Total assets		<u><u>\$13,678,251</u></u>	<u><u>\$ 14,900,540</u></u>
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable and accruals		\$ 110,580	\$ 57,216
Line of credit		-	330,000
Deferred revenue, antenna leases		<u>60,000</u>	<u>108,718</u>
Total liabilities		<u>170,580</u>	<u>495,934</u>
Net assets			
Unrestricted		12,490,913	13,310,433
Temporarily restricted		280,753	358,168
Permanently restricted		<u>736,005</u>	<u>736,005</u>
Total net assets		<u>13,507,671</u>	<u>14,404,606</u>
Total liabilities and net assets		<u><u>\$13,678,251</u></u>	<u><u>\$ 14,900,540</u></u>

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Statement of Activities

For the year ended June 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Contributions	\$ 1,966,923	\$ -	\$ -	\$ 1,966,923
C.P.B. community service grants	882,832	-	-	882,832
State of Tennessee grant	508,085	-	-	508,085
Production and royalty revenues	216,114	-	-	216,114
Underwriting	1,066,650	-	-	1,066,650
Special events	81,663	-	-	81,663
Mobile unit	309,346	-	-	309,346
In-kind contributions	7,695	-	-	7,695
Auction	-	-	-	-
Investment income, net	82,108	(17,415)	-	64,693
Antenna income	318,045	-	-	318,045
Gain on sale of equipment	(3,388)	-	-	(3,388)
Other revenues and support	37,005	-	-	37,005
Total revenues and support	5,473,078	(17,415)	-	5,455,663
Reclassifications				
Net assets released from restriction	60,000	(60,000)	-	-
Total revenues and reclassifications	5,533,078	(77,415)	-	5,455,663
Expenses				
Program services	4,570,913	-	-	4,570,913
Supporting services	1,781,685	-	-	1,781,685
Total expenses	6,352,598	-	-	6,352,598
Change in net assets	(819,520)	(77,415)	-	(896,935)
Net assets, beginning of year	13,310,433	358,168	736,005	14,404,606
Net assets, end of year	<u>\$ 12,490,913</u>	<u>\$ 280,753</u>	<u>\$ 736,005</u>	<u>\$ 13,507,671</u>

See accompanying notes to the financial statements.

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Statement of Activities

For the year ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and support				
Contributions	\$ 1,756,200	\$ 2,885	\$ -	\$ 1,759,085
C.P.B. community service grants	966,183	-	-	966,183
State of Tennessee grant	546,732	-	-	546,732
Production and royalty revenues	180,704	-	-	180,704
Underwriting	1,040,797	-	-	1,040,797
Special events	44,605	-	-	44,605
Mobile unit	477,400	-	-	477,400
In-kind contributions	14,222	-	-	14,222
Auction	152,239	-	-	152,239
Investment loss, net	202,747	147,554	36,889	387,190
Antenna income	345,040	-	-	345,040
Gain on sale of equipment	-	-	-	-
Other revenues and support	39,495	-	-	39,495
	5,766,364	150,439	36,889	5,953,692
Reclassifications				
Net assets released from restriction	168,533	(168,533)	-	-
	5,934,897	(18,094)	36,889	5,953,692
Expenses				
Program services	4,851,435	-	-	4,851,435
Supporting services	1,988,990	-	-	1,988,990
	6,840,425	-	-	6,840,425
Change in net assets	(905,528)	(18,094)	36,889	(886,733)
Net assets, beginning of year	14,215,961	376,262	699,116	15,291,339
Net assets, end of year	\$ 13,310,433	\$ 358,168	\$ 736,005	\$ 14,404,606

See accompanying notes to the financial statements.

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Statement of Functional Expenses

For the year ended June 30, 2012

	Program Services					Supporting Services			Total
	FM Radio	TV Programs and Production	Broadcast	Program Information and Promotion	Total	Development	Management and General	Total	2012
Salaries, payroll taxes and employee benefits	\$ 430,685	\$ 563,374	\$ 566,405	\$ 98,273	\$ 1,658,737	\$ 526,011	\$ 526,632	\$ 1,052,643	\$ 2,711,380
Program acquisition	335,392	606,951	-	-	942,343	-	-	-	942,343
Depreciation	84,565	127,557	459,837	7,184	679,143	44,314	32,979	77,293	756,436
Printing	423	-	-	8,142	8,565	-	-	-	8,565
Affiliation dues	-	175,313	-	355	175,668	324	1,946	2,270	177,938
Utilities	17,633	-	316,009	-	333,642	-	-	-	333,642
Communications	15,745	5,074	72,158	1,355	94,332	12,372	37,948	50,320	144,652
Maintenance and repairs	10,639	-	62,836	-	73,475	-	53,972	53,972	127,447
Advertising and promotion	-	-	-	40,924	40,924	-	-	-	40,924
Tools, props and supplies	2,761	26,098	2,956	3,852	35,667	36,308	27,763	64,071	99,738
Special events	-	-	-	-	-	45,576	-	45,576	45,576
Direct mail	-	-	-	-	-	115,874	-	115,874	115,874
Insurance, general	20,113	41,152	26,141	3,709	91,115	22,878	17,027	39,905	131,020
Professional services	8,585	248	64,046	353	73,232	4,591	36,220	40,811	114,043
Premiums	-	-	-	-	-	191,430	-	191,430	191,430
Grant and contract production	-	183,494	-	-	183,494	-	-	-	183,494
Mobile unit expenses	-	149,161	-	-	149,161	-	-	-	149,161
Travel	3,583	6,847	5,993	1,459	17,882	1,959	13,502	15,461	33,343
Rent, facilities	13,533	-	-	-	13,533	-	-	-	13,533
Interest expense	-	-	-	-	-	-	2,230	2,230	2,230
Provision for doubtful pledges and other receivables	-	-	-	-	-	-	2,455	2,455	2,455
Bank fees	-	-	-	-	-	19,842	7,532	27,374	27,374
Total expenses	<u>\$ 943,657</u>	<u>\$ 1,885,269</u>	<u>\$ 1,576,381</u>	<u>\$ 165,606</u>	<u>\$ 4,570,913</u>	<u>\$ 1,021,479</u>	<u>\$ 760,206</u>	<u>\$ 1,781,685</u>	<u>\$ 6,352,598</u>

See accompanying notes to the financial statements.

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Statement of Functional Expenses

For the year ended June 30, 2011

	Program Services				Supporting Services			Total	
	FM Radio	TV Programs and Production	Broadcast	Program Information and Promotion	Total	Development	Management and General	Total	2011
Salaries, payroll taxes and employee benefits	\$ 407,197	\$ 467,493	\$ 566,835	\$ 130,591	\$ 1,572,116	\$ 620,058	\$ 543,798	\$ 1,163,856	\$ 2,735,972
Program acquisition	412,423	674,194	-	-	1,086,617	-	-	-	1,086,617
Depreciation	84,896	137,546	465,059	10,494	697,995	45,763	34,077	79,840	777,835
Facilities, in-kind contributions	-	-	-	-	-	-	-	-	-
Printing	987	45	-	40,447	41,479	1,591	-	1,591	43,070
Affiliation dues	-	172,945	-	355	173,300	150	3,838	3,988	177,288
Utilities	14,341	-	307,641	-	321,982	-	-	-	321,982
Communications	13,783	5,499	63,028	10,881	93,191	17,550	36,932	54,482	147,673
Maintenance and repairs	15,744	-	56,453	-	72,197	763	56,128	56,891	129,088
Advertising and promotion	-	-	-	56,005	56,005	-	-	-	56,005
Tools, props and supplies	3,648	22,429	1,617	2,516	30,210	40,470	30,826	71,296	101,506
Special events	-	-	-	-	-	31,150	-	31,150	31,150
Direct mail	-	-	-	-	-	122,189	-	122,189	122,189
Insurance, general	21,735	45,451	25,466	5,911	98,563	25,775	19,192	44,967	143,530
Professional services	8,125	317	47,344	192	55,978	10,904	93,206	104,110	160,088
Premiums	-	-	-	-	-	184,640	-	184,640	184,640
Grant and contract production	-	295,253	-	-	295,253	-	-	-	295,253
Mobile unit expenses	-	224,875	-	-	224,875	-	-	-	224,875
Travel	4,777	6,807	4,774	2,176	18,534	1,877	13,934	15,811	34,345
Refunded grant awards	-	-	-	-	-	-	-	-	-
Real estate taxes	-	-	-	-	-	-	-	-	-
Rent, facilities	13,140	-	-	-	13,140	-	-	-	13,140
Interest expense	-	-	-	-	-	-	11,280	11,280	11,280
Provision for doubtful pledges and other receivables	-	-	-	-	-	-	8,522	8,522	8,522
Bank fees	-	-	-	-	-	29,028	5,349	34,377	34,377
Total expenses	\$ 1,000,796	\$ 2,052,854	\$ 1,538,217	\$ 259,568	\$ 4,851,435	\$ 1,131,908	\$ 857,082	\$ 1,988,990	\$ 6,840,425

See accompanying notes to the financial statements.

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Statements of Cash Flows

For the years ended June 30, 2012 and 2011

	2012	2011
Operating activities		
Change in net assets	\$ (896,935)	\$ (886,733)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	756,436	777,835
Unrealized (gain) loss on investments	50,430	(233,807)
Realized gain on investments	(52,437)	(70,504)
Loss on sale of equipment	3,388	-
Provision for doubtful pledges and other receivables	2,455	8,522
Contributions and investment income restricted for long-term purposes	-	(39,774)
Changes in operating assets and liabilities:		
Accounts receivable	(61,913)	(12,356)
Other assets	(3,382)	499
Accounts payable and accruals	53,364	8,735
Deferred revenue	(48,718)	(65,216)
Net cash used in operating activities	(197,312)	(512,799)
Investing activities		
Proceeds from note receivable	50,574	47,164
Purchase of investments	(31,332)	(88,646)
Proceeds from the sale of investments	280,686	594,209
Purchase of property and equipment	(54,092)	(235,015)
Net cash provided by investing activities	245,836	317,712
Financing activities		
Net advances (payments) on line of credit	(330,000)	305,000
Proceeds from contributions and investment income restricted for:		
Investment in permanent endowment	-	36,889
Investment in property and equipment	75,000	145,648
Net cash provided by (used in) financing activities	(255,000)	487,537
Change in cash and cash equivalents	(206,476)	292,450
Cash and cash equivalents, beginning of year	317,319	24,869
Cash and cash equivalents, ending of year	\$ 110,843	\$ 317,319

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to Financial Statements

June 30, 2012 and 2011

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 presentation

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

Support and revenue

The Foundation receives support and revenue 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.

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 at June 30, 2012 and 2011.

Cash and cash equivalents

For purposes of the statement of cash flows, cash and cash equivalents consists of cash in checking, savings and money market accounts, as well as certificates of deposit with initial maturities of three months or less.

Investments

Investments in marketable fixed income and equity securities are measured at fair value per quoted market prices. Investment gains and losses are reported as increases or decreases in unrestricted net assets, unless otherwise restricted by donor. If investment gains are restricted by donors, they are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction.

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to the Financial Statements

June 30, 2012 and 2011

Note 1 – Summary of significant accounting policies (continued)

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.

Property and equipment

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.

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.

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 2008. 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, 2012 and 2011.

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.

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to the Financial Statements

June 30, 2012 and 2011

Note 1 – Summary of significant accounting policies (continued)

Advertising

Advertising costs are expensed as incurred and totaled \$40,924 and \$56,005 for the years ended June 30, 2012 and 2011, respectively.

Concentration of risk

The Foundation maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts, and management believes it is not exposed to any significant credit risk for cash and cash equivalents.

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 November 21, 2012, the date the financial statements were available to be issued.

Reclassification

Certain amounts from the June 30, 2011 financial statements have been reclassified to conform to current year presentations with no effect on change in net assets or net assets.

Note 2 – Pledges receivable

At June 30, 2012 and 2011, pledges receivable consisted of the following:

	<u>2012</u>	<u>2011</u>
Receivable in less than one year	\$ -	\$ 75,000
Receivable in one to five years	-	-
	<u>-</u>	<u>-</u>
Total pledges receivable	-	75,000
Less discount to net present value	-	-
	<u>-</u>	<u>-</u>
Pledges receivable, at present value	-	75,000
Less allowance for uncollectible amounts	-	-
	<u>-</u>	<u>-</u>
Pledges receivable, net	<u>\$ -</u>	<u>\$ 75,000</u>

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to the Financial Statements

June 30, 2012 and 2011

Note 2 – Pledges receivable (continued)

Temporarily restricted pledges receivable related primarily to the initial fundraising efforts of the Capital Campaign to raise \$15,000,000 (the "Campaign"). The Campaign was initiated by the Foundation to raise pledges over a five-year period. The Campaign fundraising efforts were focused on obtaining the funding necessary to build a new production/technical center and transition the Foundation to a digital television facility. All Campaign pledges with donor-imposed restrictions were reported as increases in temporarily restricted net assets in the statement of activities.

Note 3 – Note receivable

During the year ended June 30, 2007, the Foundation sold two of its radio stations in exchange for \$2,086,165 in cash and a \$525,000 promissory note. The note bears interest at the annual rate of 7% with principal and interest payments of \$6,096 due monthly. The promissory note matures on March 31, 2017 and is collateralized by the purchased radio station.

Future maturities under the note receivable at June 30, 2012, were as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2013	\$ 54,225
2014	58,145
2015	62,349
2016	66,856
2017	<u>53,279</u>
Total	<u>\$ 294,854</u>

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to the Financial Statements

June 30, 2012 and 2011

Note 4 – Property and equipment

Property and equipment consisted of the following at June 30, 2012 and 2011:

	2012	2011
Land	\$ 1,620,684	\$ 1,620,684
Transmitter building	319,517	316,968
Building	7,877,221	7,873,658
Transmitter and tower	3,449,165	3,451,020
Office equipment	445,162	445,162
Vehicles	60,643	60,643
Studio and technical equipment	9,545,225	9,517,060
	23,317,617	23,285,195
Less accumulated depreciation	(12,326,848)	(11,588,694)
Property and equipment, net	\$10,990,769	\$ 11,696,501
Depreciation expense for the year	\$ 756,436	\$ 777,835

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 lien by the Department of Commerce for ten years.

Note 5 – Investments

Investments consisted of the following at June 30, 2012 and 2011:

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
Municipal bonds	\$ 217,741	\$ 232,711	\$ 357,087	\$ 363,173
Corporate bonds	56,978	36,673	35,487	37,813
Equity funds	463,733	623,701	475,451	622,030
Pooled investments - Community				
Foundation of Greater Memphis, Inc.	1,024,378	1,076,758	1,091,721	1,194,173
Total investments	\$1,762,830	\$1,969,843	\$ 1,959,746	\$ 2,217,189

At June 30, 2012, investments included \$598,754 in securities pledged as collateral under a line of credit agreement with a financial institution.

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 8). The beneficiary of the Endowment Fund is the Foundation.

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to the Financial Statements

June 30, 2012 and 2011

Note 5 – Investments (continued)

Net investment income for the years ended June 30, 2012 and 2011 consisted of the following:

	<u>2012</u>	<u>2011</u>
Investments, at fair value	\$ 1,969,843	\$ 2,217,189
Investments, at cost	1,762,830	1,959,746
Net unrealized gain, end of year	207,013	257,443
Net unrealized gain, beginning of year	257,443	23,636
Net unrealized gain (loss) for the year	(50,430)	233,807
Interest and dividend income	68,208	88,466
Net realized gain	52,437	70,504
Investment fees	(5,522)	(5,587)
Net investment income	<u>\$ 64,693</u>	<u>\$ 387,190</u>

Note 6 – Temporarily and permanently restricted net assets

At June 30, 2012 and 2011, temporarily restricted net assets consisted of the following:

	<u>2012</u>	<u>2011</u>
Time restrictions	\$ 280,753	\$ 358,168
Purpose restrictions:		
Capital expenditures	<u>-</u>	<u>-</u>
Total temporarily restricted net assets	<u>\$ 280,753</u>	<u>\$ 358,168</u>

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to the Financial Statements

June 30, 2012 and 2011

Note 6 – Temporarily and permanently restricted net assets (continued)

For the years ended June 30, 2012 and 2011, the following net assets were released from restriction by the passage of time or incurring expenses satisfying the purpose restrictions imposed by donors:

	<u>2012</u>	<u>2011</u>
Time restrictions	\$ 60,000	\$ 100,000
Purpose restrictions:		
Capital expenditures	<u>-</u>	<u>68,533</u>
Total temporarily restricted net assets released from restriction	<u>\$ 60,000</u>	<u>\$ 168,533</u>

At June 30, 2012 and 2011, 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 9). At June 30, 2012 and 2011, the balance of permanently restricted net assets was \$736,005 and \$736,005, respectively.

Note 7 – 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 \$110,093 and \$107,752 for the years ended June 30, 2012 and 2011, respectively. Participating employees become 100% vested in the plan after three years of service.

Note 8 – Endowment fund

The Foundation's endowment 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, 2012 and 2011

Note 8 – 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 Organization 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 Organization 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, 2012 and 2011 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
As of June 30, 2012				
Donor-restricted endowment funds	\$ 60,000	\$ 280,753	\$ 736,005	\$ 1,076,758
 As of June 30, 2011				
Donor-restricted endowment funds	100,000	358,168	736,005	1,194,173

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to the Financial Statements

June 30, 2012 and 2011

Note 8 – Endowment fund (continued)

Changes in endowment net assets for the year ended June 30, 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 100,000	\$ 358,168	\$ 736,005	\$ 1,194,173
Investment return:				
Interest and dividends	-	18,590	-	18,590
Unrealized gain	-	(50,072)	-	(50,072)
Realized gain	-	19,589	-	19,589
Investment fees	-	(5,522)	-	(5,522)
Total investment return	-	(17,415)	-	(17,415)
Withdrawals	(100,000)	-	-	(100,000)
Appropriation of endowment assets for expenditure	60,000	(60,000)	-	-
Endowment net assets, end of year	\$ 60,000	\$ 280,753	\$ 736,005	\$ 1,076,758

Changes in endowment net assets for the year ended June 30, 2011 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ 80,000	\$ 310,614	\$ 699,116	\$ 1,089,730
Investment return:				
Interest and dividends	-	16,169	4,042	20,211
Unrealized loss	-	100,077	25,019	125,096
Realized loss	-	35,778	8,945	44,723
Investment fees	-	(4,470)	(1,117)	(5,587)
Total investment return	-	147,554	36,889	184,443
Withdrawals	(80,000)	-	-	(80,000)
Appropriation of endowment assets for expenditure	100,000	(100,000)	-	-
Endowment net assets, end of year	\$ 100,000	\$ 358,168	\$ 736,005	\$ 1,194,173

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to the Financial Statements

June 30, 2012 and 2011

Note 9 – Leasing arrangements

The Foundation leases TV and microwave towers, air space, and a billboard under noncancellable operating leases that expire on various dates through 2021. The leases require fixed lease payments, plus subsequent adjustments based on the prior year's consumer price index. For the years ended June 30, 2012 and 2011, the Foundation recognized antenna income of \$318,045 and \$345,040, respectively.

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

Year ending June 30,	Amount
2013	\$ 308,872
2014	296,823
2015	297,180
2016	204,379
2017	187,229
Thereafter	778,622
Total	\$ 2,073,105

Note 10 – Line of credit

The Foundation has \$458,000 of credit available at June 30, 2012 under a line of credit agreement with a financial institution. Interest is payable monthly at the bank's prime rate plus 1% (4.25% at June 30, 2012). The line of credit is collateralized by investment securities. The agreement is expected to be renewed under substantially similar terms when it matures on September 15, 2012.

Note 11 – Fair value measurements

Fair value of assets measured on a recurring basis at June 30, 2012 includes the following:

	2012	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Municipal bonds	\$ 232,711	\$ -	\$ 232,711	\$ -
Corporate bonds	36,673	-	36,673	-
Equity funds	623,701	623,701	-	-
Pooled investments - Community Foundation of Greater Memphis, Inc.	1,076,758	-	-	1,076,758

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to the Financial Statements

June 30, 2012 and 2011

Note 11 – Fair value measurements (continued)

Fair value of assets measured on a recurring basis at June 30, 2011 includes the following:

	2011	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Municipal bonds	\$ 363,173	\$ -	\$ 363,173	\$ -
Corporate bonds	37,813	-	37,813	-
Equity funds	622,030	622,030	-	-
Pooled investments - Community Foundation of Greater Memphis, Inc.	1,194,173	-	-	1,194,173

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.

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

	Community Foundation of Greater Memphis	
	2012	2011
Beginning balance	\$ 1,194,173	\$ 1,089,730
Net appreciation (depreciation)	(30,483)	169,819
Purchases	18,590	20,211
Settlements	(105,522)	(85,587)
Ending balance	\$ 1,076,758	\$ 1,194,173

Supplemental Information

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Schedule of Expenditures of State Awards

For the year ended June 30, 2012

<u>State Financial Assistance</u>	<u>2011</u>	<u>Receipts</u>	<u>Expenditures</u>	<u>2012</u>
State of Tennessee Awards				
Department of Education	\$ -	\$ (508,085)	\$ 508,085	\$ -

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to Schedule of Expenditures of State Awards

June 30, 2012

Note 1 – Basis of presentation

The accompanying schedule of expenditures of state awards (the “Schedule”) includes state grant activity of the Foundation under programs of state governments for the year ended June 30, 2012. Because the Schedule presents only a selected portion of the operations of the Foundation, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Foundation.

Note 2 – Summary of significant accounting policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.



Report on Internal Control Over Financial Reporting and on Compliance
Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees of
Mid-South Public Communication Foundation
Cordova, Tennessee

We have audited the financial statements of Mid-South Public Communication Foundation (the "Foundation") as of and for the year ended June 30, 2012, and have issued our report thereon dated November 21, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Foundation is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the audit committee, Board of Trustees, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Frayee Amy Davis PLC

November 21, 2012