

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

**Audited Financial Statements
June 30, 2014 and 2013**

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 financial statements of Mid-South Public Communications Foundation (a nonprofit organization), which comprise the statements of financial position as of June 30, 2014 and 2013, 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, 2014 and 2013, 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
October 23, 2014

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Statements of Financial Position

June 30, 2014 and 2013

	ASSETS	<u>2014</u>	<u>2013</u>
Cash and cash equivalents		\$ 242,466	\$ 112,601
Accounts receivable, net		201,131	201,848
Other assets		21,124	17,346
Investments		2,318,008	1,895,300
Property and equipment, net		9,803,376	10,484,630
Assets from discontinued activity held for sale		<u>53,763</u>	<u>57,861</u>
Total assets		<u>\$12,639,868</u>	<u>\$ 12,769,586</u>
	LIABILITIES AND NET ASSETS		
Liabilities			
Accounts payable and accruals		\$ 56,887	\$ 90,406
Deferred revenue, antenna leases		<u>20,000</u>	<u>35,000</u>
Total liabilities		<u>76,887</u>	<u>125,406</u>
Net assets			
Unrestricted		11,209,322	11,571,491
Temporarily restricted		351,931	310,499
Permanently restricted		<u>1,001,728</u>	<u>762,190</u>
Total net assets		<u>12,562,981</u>	<u>12,644,180</u>
Total liabilities and net assets		<u>\$12,639,868</u>	<u>\$ 12,769,586</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, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and support				
Contributions	\$ 1,948,110	\$ -	\$ 204,180	\$ 2,152,290
C.P.B. community service grants	965,316	-	-	965,316
State of Tennessee grant	450,164	-	-	450,164
Production and royalty revenues	287,490	-	-	287,490
Underwriting	1,048,242	-	-	1,048,242
Special events	48,766	-	-	48,766
Investment income, net	122,731	141,432	35,358	299,521
Antenna income	344,299	-	-	344,299
Other revenues and support	77,996	-	-	77,996
Total revenues and support	5,293,114	141,432	239,538	5,674,084
Reclassifications				
Net assets released from restriction	100,000	(100,000)	-	-
Total revenues and reclassifications	5,393,114	41,432	239,538	5,674,084
Expenses				
Program services	4,118,893	-	-	4,118,893
Supporting services	1,656,778	-	-	1,656,778
Total expenses	5,775,671	-	-	5,775,671
Change in net assets, before discontinued activity	(382,557)	41,432	239,538	(101,587)
Discontinued activity, Mobile unit	20,388	-	-	20,388
Change in net assets	(362,169)	41,432	239,538	(81,199)
Net assets, beginning of year	11,571,491	310,499	762,190	12,644,180
Net assets, end of year	<u>\$ 11,209,322</u>	<u>\$ 351,931</u>	<u>\$ 1,001,728</u>	<u>\$ 12,562,981</u>

See accompanying notes to the financial statements.

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Statement of Activities

For the year ended June 30, 2013

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and support				
Contributions	\$ 1,657,331	\$ -	\$ -	\$ 1,657,331
C.P.B. community service grants	860,708	-	-	860,708
State of Tennessee grant	469,439	-	-	469,439
Production and royalty revenues	189,831	-	-	189,831
Underwriting	1,084,456	-	-	1,084,456
Special events	54,194	-	-	54,194
Investment income, net	118,866	104,746	26,185	249,797
Antenna income	332,855	-	-	332,855
Other revenues and support	24,177	-	-	24,177
Total revenues and support	4,791,857	104,746	26,185	4,922,788
Reclassifications				
Net assets released from restriction	75,000	(75,000)	-	-
Total revenues and reclassifications	4,866,857	29,746	26,185	4,922,788
Expenses				
Program services	4,080,890	-	-	4,080,890
Supporting services	1,717,056	-	-	1,717,056
Total expenses	5,797,946	-	-	5,797,946
Change in net assets, before discontinued activity	(931,089)	29,746	26,185	(875,158)
Discontinued activity, Mobile unit	11,667	-	-	11,667
Change in net assets	(919,422)	29,746	26,185	(863,491)
Net assets, beginning of year	12,490,913	280,753	736,005	13,507,671
Net assets, end of year	\$ 11,571,491	\$ 310,499	\$ 762,190	\$ 12,644,180

See accompanying notes to the financial statements.

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Statement of Functional Expenses

For the year ended June 30, 2014

	Program Services					Supporting Services			Total
	FM Radio	TV Programs and Production	Broadcast	Program Information and Promotion	Total	Development	Management and General	Total	2014
Salaries, payroll taxes and employee benefits	\$ 305,034	\$ 507,346	\$ 465,447	\$ 100,536	\$ 1,378,363	\$ 466,209	\$ 513,659	\$ 979,868	\$ 2,358,231
Program acquisition	396,780	650,327	-	-	1,047,107	-	-	-	1,047,107
Depreciation	81,594	103,683	430,449	6,376	622,102	40,083	33,485	73,568	695,670
Printing	766	-	-	128	894	-	-	-	894
Affiliation dues	-	183,634	-	385	184,019	150	2,406	2,556	186,575
Utilities	17,067	-	316,445	-	333,512	-	-	-	333,512
Communications	21,677	4,598	54,415	708	81,398	11,940	38,572	50,512	131,910
Maintenance and repairs	16,125	-	48,928	-	65,053	-	55,283	55,283	120,336
Advertising and promotion	-	-	-	25,474	25,474	-	-	-	25,474
Tools, props and supplies	5,108	23,665	1,243	3,539	33,555	36,521	35,752	72,273	105,828
Special events	-	-	-	-	-	23,957	-	23,957	23,957
Direct mail	-	-	-	-	-	102,584	-	102,584	102,584
Insurance, general	21,154	43,925	25,789	3,544	94,412	22,276	18,608	40,884	135,296
Professional services	10,543	178	77,971	598	89,290	7,804	37,421	45,225	134,515
Premiums	-	-	-	-	-	163,583	-	163,583	163,583
Grant and contract production	-	130,619	-	-	130,619	-	-	-	130,619
Travel	6,303	7,581	3,254	1,601	18,739	3,342	9,653	12,995	31,734
Rent, facilities	14,356	-	-	-	14,356	-	-	-	14,356
Interest expense	-	-	-	-	-	-	4,209	4,209	4,209
Provision for doubtful pledges and other receivables	-	-	-	-	-	-	1,405	1,405	1,405
Bank fees	-	-	-	-	-	19,780	8,096	27,876	27,876
Total expenses	\$ 896,507	\$ 1,655,556	\$ 1,423,941	\$ 142,889	\$ 4,118,893	\$ 898,229	\$ 758,549	\$ 1,656,778	\$ 5,775,671

See accompanying notes to the financial statements.

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Statement of Functional Expenses

For the year ended June 30, 2013

	Program Services					Supporting Services			Total
	FM Radio	TV Programs and Production	Broadcast	Program Information and Promotion	Total	Development	Management and General	Total	2013
Salaries, payroll taxes and employee benefits	\$ 294,637	\$ 496,416	\$ 450,404	\$ 98,653	\$ 1,340,110	\$ 498,739	\$ 542,964	\$ 1,041,703	\$ 2,381,813
Program acquisition	404,349	614,926	-	-	1,019,275	-	-	-	1,019,275
Depreciation	84,441	106,490	414,895	6,675	612,501	41,604	35,380	76,984	689,485
Printing	164	-	-	1,152	1,316	603	417	1,020	2,336
Affiliation dues	-	171,863	-	385	172,248	1,068	2,146	3,214	175,462
Utilities	13,449	-	316,939	-	330,388	-	-	-	330,388
Communications	14,058	5,391	57,226	940	77,615	11,215	40,401	51,616	129,231
Maintenance and repairs	11,504	-	44,085	-	55,589	-	56,784	56,784	112,373
Advertising and promotion	-	-	-	32,472	32,472	-	-	-	32,472
Tools, props and supplies	24,258	23,750	2,745	4,074	54,827	41,279	24,267	65,546	120,373
Special events	-	-	-	-	-	26,133	-	26,133	26,133
Direct mail	-	-	-	-	-	110,216	-	110,216	110,216
Insurance, general	17,915	38,508	21,343	3,140	80,906	19,574	16,647	36,221	117,127
Professional services	10,352	3,499	67,475	268	81,594	4,291	42,344	46,635	128,229
Premiums	-	-	-	-	-	152,541	-	152,541	152,541
Grant and contract production	-	188,300	-	-	188,300	-	-	-	188,300
Travel	6,586	5,927	6,185	1,113	19,811	1,572	14,727	16,299	36,110
Rent, facilities	13,938	-	-	-	13,938	-	-	-	13,938
Interest expense	-	-	-	-	-	-	4,795	4,795	4,795
Provision for doubtful pledges and other receivables	-	-	-	-	-	-	257	257	257
Bank fees	-	-	-	-	-	19,100	7,992	27,092	27,092
Total expenses	\$ 895,651	\$ 1,655,070	\$ 1,381,297	\$ 148,872	\$ 4,080,890	\$ 927,935	\$ 789,121	\$ 1,717,056	\$ 5,797,946

See accompanying notes to the financial statements.

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Statements of Cash Flows

For the years ended June 30, 2014 and 2013

	2014	2013
Operating activities		
Change in net assets	\$ (81,199)	\$ (863,491)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	695,670	689,485
Depreciation, discontinued activity	18,598	15,827
Unrealized gain on investments	(144,478)	(116,937)
Realized gain on investments	(116,794)	(80,034)
Contributions and investment income restricted for long-term purposes	(239,538)	(26,185)
Changes in operating assets and liabilities:		
Accounts receivable	717	76,280
Other assets	(3,778)	16,469
Accounts payable and accruals	(33,519)	(20,174)
Deferred revenue	(15,000)	(25,000)
Net cash provided by (used in) operating activities	80,679	(333,760)
Investing activities		
Proceeds from note receivable	-	294,854
Purchase of investments	(353,345)	(143,162)
Proceeds from the sale of investments	191,909	414,676
Purchase of property and equipment	(28,916)	(257,034)
Net cash provided by (used in) investing activities	(190,352)	309,334
Financing activities		
Proceeds from contributions and investment income restricted for:		
Investment in permanent endowment	239,538	26,185
Net cash provided by financing activities	239,538	26,185
Change in cash and cash equivalents	129,865	1,759
Cash and cash equivalents, beginning of year	112,601	110,842
Cash and cash equivalents, ending of year	\$ 242,466	\$ 112,601

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to the Financial Statements

June 30, 2014 and 2013

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.

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 \$5,300 and \$4,000 at June 30, 2014 and 2013, respectively.

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.

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.

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to the Financial Statements

June 30, 2014 and 2013

Note 1 – Summary of significant accounting policies (continued)

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.

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 \$25,474 and \$32,472 for the years ended June 30, 2014 and 2013, 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 2010. 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, 2014 and 2013.

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, 2014 and 2013

Note 1 – Summary of significant accounting policies (continued)

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 October 23, 2014, the date the financial statements were available to be issued.

Reclassifications

Certain amounts in the financial statements for the year ended June 30, 2013 have been reclassified to conform to current year presentation with no effect on net assets or the change in net assets for the year.

Note 2 – 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 included interest at the annual rate of 7% with principal and interest payments of \$6,096 due monthly. The outstanding balance of this note was fully satisfied in March 2013.

Note 3 – Property and equipment

Property and equipment consisted of the following at June 30, 2014 and 2013:

	2014	2013
Land	\$ 1,620,684	\$ 1,620,684
Transmitter building	319,517	319,517
Building	7,877,221	7,877,221
Transmitter and tower	3,479,279	3,475,304
Office equipment	444,524	444,524
Vehicles	60,643	60,643
Studio and technical equipment	8,271,732	8,710,181
	22,073,600	22,508,074
Less accumulated depreciation	(12,270,224)	(12,023,444)
Property and equipment, net	\$ 9,803,376	\$ 10,484,630
Depreciation expense for the year	\$ 695,670	\$ 689,485

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to the Financial Statements

June 30, 2014 and 2013

Note 3 – Property and equipment (continued)

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 4 – Investments

Investments consisted of the following at June 30, 2014 and 2013:

	2014		2013	
	Fair Value	Cost	Fair Value	Cost
Municipal bonds	\$ 158,457	\$ 153,605	\$ 117,424	\$ 114,582
Corporate bonds	-	-	35,182	35,021
Equity funds	810,072	542,577	595,004	400,697
Pooled investments - Community				
Foundation of Greater Memphis, Inc.	1,349,479	1,153,398	1,147,690	1,021,050
Total investments	\$ 2,318,008	\$ 1,849,580	\$ 1,895,300	\$ 1,571,350

At June 30, 2014, investments included \$968,529 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.

Net investment income for the years ended June 30, 2014 and 2013 consisted of the following:

	2014	2013
Net unrealized gain	\$ 144,478	\$ 116,937
Net realized gain	116,794	80,034
Net gain on investments	261,272	196,971
Interest and dividend income	44,274	58,390
Investment fees	(6,025)	(5,564)
Net investment income	\$ 299,521	\$ 249,797

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to the Financial Statements

June 30, 2014 and 2013

Note 5 – Fair value measurements

Fair value of assets measured on a recurring basis at June 30, 2014 includes the following:

	<u>2014</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	\$ 158,457	\$ -	\$ 158,457	\$ -
Corporate bonds	-	-	-	-
Equity funds	810,072	810,072	-	-
Pooled investments - Community Foundation of Greater Memphis, Inc.	1,349,479	-	-	1,349,479

Fair value of assets measured on a recurring basis at June 30, 2013 includes the following:

	<u>2013</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	\$ 117,424	\$ -	\$ 117,424	\$ -
Corporate bonds	35,182	-	35,182	-
Equity funds	595,004	595,004	-	-
Pooled investments - Community Foundation of Greater Memphis, Inc.	1,147,690	-	-	1,147,690

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, 2014 and 2013

Note 5 – Fair value measurements (continued)

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

	Community Foundation of Greater Memphis	
	2014	2013
Beginning balance	\$ 1,147,690	\$ 1,076,758
Net appreciation	163,632	116,956
Purchases	119,182	19,539
Settlements	(81,025)	(65,563)
Ending balance	\$ 1,349,479	\$ 1,147,690

Note 6 – Line of credit

The Foundation has \$500,000 of credit available at June 30, 2014 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 (3.15% at June 30, 2014). The line of credit is collateralized by investment securities.

Note 7 – Temporarily and permanently restricted net assets

At June 30, 2014 and 2013, \$351,931 and \$310,499, respectively, of net assets was temporarily restricted with respect to time. For the years ended June 30, 2014 and 2013, \$100,000 and \$75,000, respectively, of temporarily restricted net assets was released from restriction by the passage of time.

At June 30, 2014 and 2013, 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 8). At June 30, 2014 and 2013, the balance of permanently restricted net assets was \$1,001,728 and \$762,190, respectively.

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, 2014 and 2013

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, 2014 and 2013 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
As of June 30, 2014				
Donor-restricted endowment funds	\$ -	\$ 351,931	\$ 1,001,728	\$ 1,353,659
As of June 30, 2013				
Donor-restricted endowment funds	75,000	310,499	762,190	1,147,689

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to the Financial Statements

June 30, 2014 and 2013

Note 8 – Endowment fund (continued)

Changes in endowment net assets for the year ended June 30, 2014 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 75,000	\$ 310,499	\$ 762,190	\$ 1,147,689
Investment return:				
Interest and dividends	-	15,347	3,837	19,184
Unrealized gain	-	55,553	13,888	69,441
Realized gain	-	75,353	18,838	94,191
Investment fees	-	(4,821)	(1,205)	(6,026)
Total investment return	<u>-</u>	<u>141,432</u>	<u>35,358</u>	<u>176,790</u>
Contributions	-	-	204,180	204,180
Withdrawals	(175,000)	-	-	(175,000)
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>\$ -</u>	<u>\$ 351,931</u>	<u>\$ 1,001,728</u>	<u>\$ 1,353,659</u>

Changes in endowment net assets for the year ended June 30, 2013 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 60,000	\$ 280,753	\$ 736,005	\$ 1,076,758
Investment return:				
Interest and dividends	-	15,631	3,907	19,538
Unrealized gain	-	59,409	14,852	74,261
Realized gain	-	34,157	8,539	42,696
Investment fees	-	(4,451)	(1,113)	(5,564)
Total investment return	<u>-</u>	<u>104,746</u>	<u>26,185</u>	<u>130,931</u>
Withdrawals	(60,000)	-	-	(60,000)
Appropriation of endowment assets for expenditure	<u>75,000</u>	<u>(75,000)</u>	<u>-</u>	<u>-</u>
Endowment net assets, end of year	<u>\$ 75,000</u>	<u>\$ 310,499</u>	<u>\$ 762,190</u>	<u>\$ 1,147,689</u>

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Notes to the Financial Statements

June 30, 2014 and 2013

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 2023. The leases require fixed lease payments, plus subsequent adjustments based on the prior year’s consumer price index. For the years ended June 30, 2014 and 2013, the Foundation recognized antenna income of \$344,299 and \$332,855, respectively.

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

<u>Year ending June 30,</u>	<u>Amount</u>
2015	\$ 323,163
2016	246,614
2017	230,109
2018	206,109
2019	206,059
Thereafter	<u>513,902</u>
 Total	 <u>\$ 1,725,956</u>

Note 10 – 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 \$96,005 and \$100,535 for the years ended June 30, 2014 and 2013, respectively. Participating employees become 100% vested in the plan after three years of service.

Note 11 – 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, 2014 and 2013, a summary of the financial position of the mobile unit is as follows:

	ASSETS	
	<u>2014</u>	<u>2013</u>
Property and equipment, net	<u>\$ 53,763</u>	<u>\$ 57,861</u>
 Total assets	 <u>\$ 53,763</u>	 <u>\$ 57,861</u>
 LIABILITIES AND NET ASSETS		
Liabilities	\$ -	\$ -
 Net assets, unrestricted	 <u>53,763</u>	 <u>57,861</u>
 Total liabilities and net assets	 <u>\$ 53,763</u>	 <u>\$ 57,861</u>

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Note 11 – Discontinued activity, Mobile unit (continued)

A summary of the mobile unit's discontinued activity for the years ended June 30, 2014 and 2013 is as follows:

	<u>2014</u>	<u>2013</u>
Revenues and support		
Mobile unit	\$ 179,250	\$ 222,535
Expenses		
Program services	<u>158,862</u>	<u>210,868</u>
Discontinued activity, Mobile unit	<u>\$ 20,388</u>	<u>\$ 11,667</u>