

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

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

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

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June 30, 2014 and 2013

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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 |
| | <u>5,293,114</u> | <u>141,432</u> | <u>239,538</u> | <u>5,674,084</u> |
| Reclassifications | | | | |
| Net assets released from restriction | <u>100,000</u> | <u>(100,000)</u> | <u>-</u> | <u>-</u> |
| | <u>5,393,114</u> | <u>41,432</u> | <u>239,538</u> | <u>5,674,084</u> |
| Expenses | | | | |
| Program services | 4,118,893 | - | - | 4,118,893 |
| Supporting services | 1,656,778 | - | - | 1,656,778 |
| | <u>5,775,671</u> | <u>-</u> | <u>-</u> | <u>5,775,671</u> |
| Change in net assets, before discontinued activity | | | | |
| | (382,557) | 41,432 | 239,538 | (101,587) |
| Discontinued activity, Mobile unit | | | | |
| | <u>20,388</u> | <u>-</u> | <u>-</u> | <u>20,388</u> |
| Change in net assets | | | | |
| | (362,169) | 41,432 | 239,538 | (81,199) |
| Net assets, beginning of year | | | | |
| | <u>11,571,491</u> | <u>310,499</u> | <u>762,190</u> | <u>12,644,180</u> |
| 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 |
| | <u>4,791,857</u> | <u>104,746</u> | <u>26,185</u> | <u>4,922,788</u> |
| Reclassifications | | | | |
| Net assets released from restriction | 75,000 | (75,000) | - | - |
| | <u>4,866,857</u> | <u>29,746</u> | <u>26,185</u> | <u>4,922,788</u> |
| Expenses | | | | |
| Program services | 4,080,890 | - | - | 4,080,890 |
| Supporting services | 1,717,056 | - | - | 1,717,056 |
| | <u>5,797,946</u> | <u>-</u> | <u>-</u> | <u>5,797,946</u> |
| 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 | <u>\$ 11,571,491</u> | <u>\$ 310,499</u> | <u>\$ 762,190</u> | <u>\$ 12,644,180</u> |

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. | <u>1,349,479</u> | <u>1,153,398</u> | <u>1,147,690</u> | <u>1,021,050</u> |
| Total investments | <u><u>\$ 2,318,008</u></u> | <u><u>\$ 1,849,580</u></u> | <u><u>\$ 1,895,300</u></u> | <u><u>\$ 1,571,350</u></u> |

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 | <u>116,794</u> | <u>80,034</u> |
| Net gain on investments | 261,272 | 196,971 |
| Interest and dividend income | 44,274 | 58,390 |
| Investment fees | <u>(6,025)</u> | <u>(5,564)</u> |
| Net investment income | <u><u>\$ 299,521</u></u> | <u><u>\$ 249,797</u></u> |

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:

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|------------------------------------------------------|---------------------|-----------------------------------|-----------------------------------|--------------|
| 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 | - | 141,432 | 35,358 | 176,790 |
| Contributions | - | - | 204,180 | 204,180 |
| Withdrawals | (175,000) | - | - | (175,000) |
| Appropriation of endowment assets for expenditure | 100,000 | (100,000) | - | - |
| Endowment net assets, end of year | \$ - | \$ 351,931 | \$ 1,001,728 | \$ 1,353,659 |

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

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|------------------------------------------------------|--------------|---------------------------|---------------------------|--------------|
| 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 | - | 104,746 | 26,185 | 130,931 |
| Withdrawals | (60,000) | - | - | (60,000) |
| Appropriation of endowment assets for expenditure | 75,000 | (75,000) | - | - |
| Endowment net assets, end of year | \$ 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 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:

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

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

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to the Financial Statements

June 30, 2014 and 2013

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> |