

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Table of Contents

June 30, 2016 and 2015

Independent Auditor's Report	2
Statements of Financial Position	3
Statements of Activities.....	4
Statements of Functional Expenses	6
Statements of Cash Flows	8
Notes to the Financial Statements	9



Independent Auditor's Report

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

We have audited the accompanying financial statements of Mid-South Public Communications Foundation (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, 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, 2016 and 2015, 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
November 28, 2016

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Statements of Financial Position

June 30, 2016 and 2015

	ASSETS	<u>2016</u>	<u>2015</u>
Cash and cash equivalents		\$ 10,313	\$ 86,252
Accounts receivable, net		129,152	187,227
Other assets		13,955	16,460
Investments		1,855,958	2,148,101
Property and equipment, net		8,838,940	9,281,376
Assets from discontinued activity held for sale		<u>53,763</u>	<u>53,763</u>
Total assets		<u>\$10,902,081</u>	<u>\$ 11,773,179</u>
	LIABILITIES AND NET ASSETS		
Liabilities			
Accounts payable and accrued expenses		\$ 77,776	\$ 45,308
Deferred revenue, antenna leases		<u>3,668</u>	<u>20,039</u>
Total liabilities		<u>81,444</u>	<u>65,347</u>
Net assets			
Unrestricted		9,707,233	10,443,001
Temporarily restricted		109,581	260,310
Permanently restricted		<u>1,003,823</u>	<u>1,004,521</u>
Total net assets		<u>10,820,637</u>	<u>11,707,832</u>
Total liabilities and net assets		<u>\$10,902,081</u>	<u>\$ 11,773,179</u>

See accompanying notes to the financial statements.

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Statement of Activities

For the year ended June 30, 2016

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

See accompanying notes to the financial statements.

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Statement of Activities

For the year ended June 30, 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and support				
Contributions	\$ 1,772,543	\$ -	\$ 698	\$ 1,773,241
C.P.B. community service grants	953,840	-	-	953,840
State of Tennessee grant	430,793	-	-	430,793
Production and royalty revenues	211,820	-	-	211,820
Underwriting	1,070,218	-	-	1,070,218
Special events	39,801	-	-	39,801
Net investment income	30,319	8,379	2,095	40,793
In-kind contributions	18,643	-	-	18,643
Antenna income	361,472	-	-	361,472
Other revenues and support	38,529	-	-	38,529
Total revenues and support	4,927,978	8,379	2,793	4,939,150
Reclassifications				
Net assets released from restriction	100,000	(100,000)	-	-
Total revenues and support and reclassifications	5,027,978	(91,621)	2,793	4,939,150
Expenses				
Program services	4,113,186	-	-	4,113,186
Supporting services	1,681,113	-	-	1,681,113
Total expenses	5,794,299	-	-	5,794,299
Change in net assets	(766,321)	(91,621)	2,793	(855,149)
Net assets, beginning of year	11,209,322	351,931	1,001,728	12,562,981
Net assets, end of year	\$ 10,443,001	\$ 260,310	\$ 1,004,521	\$ 11,707,832

See accompanying notes to the financial statements.

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Statement of Functional Expenses

For the year ended June 30, 2016

	Program Services					Supporting Services			Total
	FM Radio	TV Programs and Production	Broadcast	Program Information and Promotion	Total	Development	Management and General	Total	2016
Salaries, payroll taxes and employee benefits	\$ 313,179	\$ 438,018	\$ 431,251	\$ 96,935	\$ 1,279,383	\$ 437,704	\$ 518,789	\$ 956,493	\$ 2,235,876
Program acquisition	443,846	716,724	-	-	1,160,570	-	-	-	1,160,570
Depreciation	68,053	86,961	312,421	6,956	474,391	39,623	35,089	74,712	549,103
Printing	-	-	-	-	-	1,175	-	1,175	1,175
Affiliation dues	-	204,038	-	-	204,038	954	673	1,627	205,665
Utilities	13,231	-	285,364	-	298,595	-	-	-	298,595
Communications	24,627	3,040	73,017	1,094	101,778	7,964	45,867	53,831	155,609
Maintenance and repairs	8,020	-	65,956	-	73,976	-	67,412	67,412	141,388
Advertising and promotion	-	-	-	46,580	46,580	-	-	-	46,580
Tools, props and supplies	4,163	29,156	1,375	2,058	36,752	31,763	24,182	55,945	92,697
Special events	-	-	-	-	-	36,387	-	36,387	36,387
Direct mail	-	-	-	-	-	111,764	-	111,764	111,764
Insurance, general	17,550	32,606	19,192	3,089	72,437	17,594	19,078	36,672	109,109
Professional services	8,654	144	53,561	-	62,359	4,571	59,333	63,904	126,263
Premiums	-	-	-	-	-	164,869	-	164,869	164,869
Grant and contract production	-	155,308	-	-	155,308	-	-	-	155,308
Travel	2,404	1,799	786	-	4,989	1,090	1,389	2,479	7,468
Rent, facilities	15,228	-	-	-	15,228	-	-	-	15,228
Interest expense	-	-	-	-	-	-	6,896	6,896	6,896
Provision for doubtful pledges and other receivables	-	-	-	-	-	-	5,527	5,527	5,527
Bank fees	-	-	-	-	-	37,193	9,790	46,983	46,983
Total expenses	\$ 918,955	\$ 1,667,794	\$ 1,242,923	\$ 156,712	\$ 3,986,384	\$ 892,651	\$ 794,025	\$ 1,686,676	\$ 5,673,060

See accompanying notes to the financial statements.

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Statement of Functional Expenses

For the year ended June 30, 2015

	Program Services					Supporting Services			Total
	FM Radio	TV Programs and Production	Broadcast	Program Information and Promotion	Total	Development	Management and General	Total	2015
Salaries, payroll taxes and employee benefits	\$ 296,706	\$ 466,280	\$ 441,153	\$ 84,305	\$ 1,288,444	\$ 468,970	\$ 496,274	\$ 965,244	\$ 2,253,688
Program acquisition	413,596	667,971	-	-	1,081,567	-	-	-	1,081,567
Depreciation	67,797	98,937	377,558	6,157	550,449	40,827	33,436	74,263	624,712
Printing	618	-	-	185	803	750	-	750	1,553
Affiliation dues	-	190,269	-	290	190,559	300	1,583	1,883	192,442
Utilities	13,807	-	311,679	-	325,486	-	-	-	325,486
Communications	25,481	5,121	81,366	415	112,383	13,191	37,898	51,089	163,472
Maintenance and repairs	11,779	-	76,567	-	88,346	-	60,322	60,322	148,668
Advertising and promotion	-	-	-	40,132	40,132	-	-	-	40,132
Tools, props and supplies	4,528	24,351	6,455	2,459	37,793	28,955	27,918	56,873	94,666
Special events	-	-	-	-	-	20,035	-	20,035	20,035
Direct mail	-	-	-	-	-	102,561	-	102,561	102,561
Insurance, general	16,535	33,131	20,397	2,722	72,785	18,048	14,780	32,828	105,613
Professional services	6,745	76	56,340	338	63,499	35,586	68,058	103,644	167,143
Premiums	-	-	-	-	-	166,222	-	166,222	166,222
Grant and contract production	-	228,524	-	-	228,524	-	-	-	228,524
Travel	4,797	5,999	4,444	2,389	17,629	1,879	5,781	7,660	25,289
Rent, facilities	14,787	-	-	-	14,787	-	-	-	14,787
Interest expense	-	-	-	-	-	-	1,359	1,359	1,359
Provision for doubtful pledges and other receivables	-	-	-	-	-	-	232	232	232
Bank fees	-	-	-	-	-	26,910	9,238	36,148	36,148
Total expenses	\$ 877,176	\$ 1,720,659	\$ 1,375,959	\$ 139,392	\$ 4,113,186	\$ 924,234	\$ 756,879	\$ 1,681,113	\$ 5,794,299

See accompanying notes to the financial statements.

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Statements of Cash Flows

For the years ended June 30, 2016 and 2015

	2016	2015
Operating activities		
Change in net assets	\$ (887,195)	\$ (855,149)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	549,103	624,712
Provision for doubtful pledges and other receivables	5,527	232
Unrealized loss on investments	236,328	194,606
Realized gain on investments	(30,203)	(173,592)
Gain on sale of equipment	(112,500)	-
Contributions and investment income restricted for long-term purposes	-	(2,793)
Changes in operating assets and liabilities:		
Accounts receivable	52,548	13,672
Other assets	2,505	4,664
Accounts payable and accrued expenses	32,468	(11,579)
Deferred revenue	(16,371)	39
Net cash used in operating activities	(167,790)	(205,188)
Investing activities		
Purchase of investments	(264,920)	(106,421)
Proceeds from the sale of investments	350,938	255,314
Proceeds from sale of equipment	115,000	-
Purchase of property and equipment	(109,167)	(102,711)
Net cash provided by investing activities	91,851	46,182
Financing activities		
Proceeds from contributions and investment income restricted for:		
Investment in permanent endowment	-	2,793
Net cash provided by financing activities	-	2,793
Change in cash and cash equivalents	(75,939)	(156,213)
Cash and cash equivalents, beginning of year	86,252	242,465
Cash and cash equivalents, ending of year	\$ 10,313	\$ 86,252

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to the Financial Statements

June 30, 2016 and 2015

Note 1 – Summary of Significant Accounting Policies

Organization

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

Basis of Accounting

The accompanying financial statements have been prepared in accordance 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.

Financial Statement Presentation

Under accounting standards for non-profit organizations, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Cash and Cash Equivalents

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

Accounts Receivable

The Foundation records accounts receivable at their estimated net realizable value. An allowance for doubtful accounts is recorded based upon management's estimate of uncollectible accounts, determined by analysis of specific accounts and general reserve based upon aging of outstanding balances. Past due balances of delinquent receivables are charged against the allowance when they are determined to be uncollectible by management. The Foundation does not recognize interest income on outstanding receivables. The allowance for doubtful accounts was \$3,000 at June 30, 2016 and 2015.

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.

Note 1 – Summary of Significant Accounting Policies (continued)

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.

Support and Revenue

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

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

In-kind Contributions and Donated Services

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

Advertising

Advertising costs are expensed as incurred and totaled \$46,580 and \$40,132 for the years ended June 30, 2016 and 2015, respectively.

Note 1 – Summary of Significant Accounting Policies (continued)

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 2013. 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, 2016 and 2015.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Risk

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 28, 2016, the date the financial statements were available to be issued.

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to the Financial Statements

June 30, 2016 and 2015

Note 2 – Property and Equipment

Property and equipment consisted of the following at June 30, 2016 and 2015:

	2016	2015
Land	\$ 1,620,684	\$ 1,620,684
Transmitter building	322,512	319,517
Building	7,877,221	7,877,221
Transmitter and tower	3,453,888	3,485,006
Office equipment	447,727	444,524
Vehicles	40,443	40,443
Studio and technical equipment	8,101,797	8,010,260
	21,864,272	21,797,655
Less accumulated depreciation	(13,025,332)	(12,516,279)
Property and equipment, net	\$ 8,838,940	\$ 9,281,376
Depreciation expense for the year	\$ 549,103	\$ 624,712

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 3 – Investments

Investments consisted of the following at June 30, 2016 and 2015:

	2016		2015	
	Fair Value	Cost	Fair Value	Cost
Municipal bonds	\$ 81,835	\$ 77,912	\$ 158,175	\$ 154,182
Equity funds	560,719	538,609	629,974	454,614
Pooled investments - Community				
Foundation of Greater Memphis, Inc.	1,213,404	1,209,784	1,359,952	1,265,483
Total investments	\$ 1,855,958	\$ 1,826,305	\$ 2,148,101	\$ 1,874,279

At June 30, 2016, investments included \$642,554 in securities pledged as collateral under a line of credit agreement with a financial institution (see Note 5).

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

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to the Financial Statements

June 30, 2016 and 2015

Note 3 – Investments (continued)

Net investment income (loss) for the years ended June 30, 2016 and 2015 consisted of the following:

	2016	2015
Net unrealized loss	\$ (236,328)	\$ (194,606)
Net realized gain	30,203	173,592
	(206,125)	(21,014)
Net loss on investments		
Interest and dividend income	119,300	68,332
Investment fees	(6,600)	(6,525)
	\$ (93,425)	\$ 40,793
Net investment income (loss)	\$ (93,425)	\$ 40,793

Note 4 – Fair Value Measurements

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

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

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to the Financial Statements

June 30, 2016 and 2015

Note 4 – Fair Value Measurements (continued)

Fair value of assets measured on a recurring basis at June 30, 2015 includes the following:

	2015	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Municipal bonds	\$ 158,175	\$ -	\$ 158,175	\$ -
Equity funds	629,974	629,974	-	-
Pooled investments - Community Foundation of Greater Memphis, Inc.	<u>1,359,952</u>	<u>-</u>	<u>-</u>	<u>1,359,952</u>
Total fair value of investments	<u>\$ 2,148,101</u>	<u>\$ 629,974</u>	<u>\$ 158,175</u>	<u>\$ 1,359,952</u>

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

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

	Community Foundation of Greater Memphis	
	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 1,359,952	\$ 1,349,479
Net depreciation	(58,081)	(3,898)
Purchases	18,133	20,896
Settlements	<u>(106,600)</u>	<u>(6,525)</u>
Ending balance	<u>\$ 1,213,404</u>	<u>\$ 1,359,952</u>

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to the Financial Statements

June 30, 2016 and 2015

Note 5 – Line of Credit

The Foundation has \$500,000 of credit available at June 30, 2016 under a line of credit agreement with a financial institution. Interest is payable monthly at the one month LIBOR rate plus an applicable percentage as determined by the market value of pledged investment securities (4.22% at June 30, 2016). The line of credit is collateralized by investment securities (see Note 3).

Note 6 – Temporarily and Permanently Restricted Net Assets

At June 30, 2016 and 2015, \$109,581 and \$260,310, respectively, of net assets was temporarily restricted with respect to time. For the years ended June 30, 2016 and 2015, \$104,180 of temporarily restricted net assets was released from restriction by the passage of time.

At June 30, 2016 and 2015, permanently restricted net assets consisted of the principal balance of the WKNO-TV/FM Endowment Fund (the “Endowment Fund”) held at the Community Foundation of Greater Memphis, Inc. A portion of the net investment income of the Endowment Fund is available to supplement the cost of operations while the remaining balance of net investment income is to be reinvested in the principal of the Endowment Fund (see Note 7). At June 30, 2016 and 2015, the balance of permanently restricted net assets was \$1,003,823 and \$1,004,521, respectively.

Note 7 – 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.

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.

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to the Financial Statements

June 30, 2016 and 2015

Note 7 – Endowment Fund (continued)

Endowment net asset composition by type of fund as of June 30, 2016 and 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
As of June 30, 2016				
Donor-restricted endowment funds	\$ 99,302	\$ 109,581	\$ 1,003,823	\$ 1,212,706
As of June 30, 2015				
Donor-restricted endowment funds	\$ 95,820	\$ 260,310	\$ 1,004,521	\$ 1,360,651

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

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 95,820	\$ 260,310	\$ 1,004,521	\$ 1,360,651
Investment return:				
Interest and dividends	-	18,132	-	18,132
Unrealized loss	-	(90,849)	-	(90,849)
Realized gain	-	32,768	-	32,768
Investment fees	-	(6,600)	-	(6,600)
Total investment return	-	(46,549)	-	(46,549)
Reclassifications	698	-	(698)	-
Withdrawals	(96,518)	(4,180)	-	(100,698)
Appropriation of endowment assets for expenditure	100,000	(100,000)	-	-
Endowment net assets, end of year	<u>\$ 99,302</u>	<u>\$ 109,581</u>	<u>\$ 1,003,823</u>	<u>\$ 1,213,404</u>

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to the Financial Statements

June 30, 2016 and 2015

Note 7 – Endowment Fund (continued)

Changes in endowment net assets for the year ended June 30, 2015 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ -	\$ 351,931	\$ 1,001,728	\$ 1,353,659
Investment return:				
Interest and dividends	-	16,718	4,179	20,897
Unrealized gain	-	(81,290)	(20,322)	(101,612)
Realized gain	-	78,171	19,543	97,714
Investment fees	-	(5,220)	(1,305)	(6,525)
Total investment return	<u>-</u>	<u>8,379</u>	<u>2,095</u>	<u>10,474</u>
Contributions	-	-	698	698
Withdrawals	(4,180)	-	-	(4,180)
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>\$ 95,820</u>	<u>\$ 260,310</u>	<u>\$ 1,004,521</u>	<u>\$ 1,360,651</u>

Note 8 – Leasing Arrangements

The Foundation leases TV and microwave towers, air space, and a billboard under noncancellable operating leases that expire on various dates through 2025. The leases require fixed lease payments, plus subsequent adjustments based on the prior year’s consumer price index. For the years ended June 30, 2016 and 2015, the Foundation recognized antenna income of \$363,129 and \$361,472, respectively.

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

<u>Year ending June 30,</u>	<u>Amount</u>
2017	\$ 337,086
2018	297,186
2019	297,186
2020	297,186
2021	282,519
Thereafter	<u>424,559</u>
Total	<u>\$ 1,935,722</u>

MID-SOUTH PUBLIC COMMUNICATIONS FOUNDATION

Notes to the Financial Statements

June 30, 2016 and 2015

Note 9 – Retirement Plan

The Foundation has a defined contribution plan for the benefit of all employees with six months and 1,000 hours of service. The Foundation's contribution to the plan is based upon five percent of eligible employees' compensation and was \$92,186 and \$85,114 for the years ended June 30, 2016 and 2015, respectively. Participating employees become 100% vested in the plan after three years of service.

Note 10 – Discontinued Activity, Mobile Unit

In May 2014, management decided to discontinue mobile unit activities due to continued deterioration of the mobile unit's financial performance. At June 30, 2016 and 2015, a summary of the financial position of the mobile unit is as follows:

	ASSETS	
	<u>2016</u>	<u>2015</u>
Property and equipment, net	<u>\$ 53,763</u>	<u>\$ 53,763</u>
Total assets	<u>\$ 53,763</u>	<u>\$ 53,763</u>
	LIABILITIES AND NET ASSETS	
Liabilities	\$ -	\$ -
Net assets, unrestricted	<u>53,763</u>	<u>53,763</u>
Total liabilities and net assets	<u>\$ 53,763</u>	<u>\$ 53,763</u>