



**FOUNDATION
FOR THE MID SOUTH**

ARKANSAS • LOUISIANA • MISSISSIPPI

Expanding Knowledge. Improving Lives.

**CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION
December 31, 2016 and 2015**

(With Independent Auditor's Report Thereon)

**Thomas &
Thomas LLP**

Certified Public Accountants

Foundation for the Mid South, Inc.

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	1 – 2
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated Statements of Financial Position	4
Consolidated Statements of Activities	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7 – 18
SUPPLEMENTARY INFORMATION	
Consolidated Schedules of Functional Expenses	20

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Foundation for the Mid South, Inc.

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **Foundation for the Mid South, Inc. and its Affiliate** (the Foundation), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors of
Foundation for the Mid South, Inc.
Page Two

Opinion

In our opinion, the consolidated financial statements referred to on the preceding page present fairly, in all material respects, the financial position of the **Foundation for the Mid South, Inc. and its Affiliate** as of December 31, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying consolidated schedules of functional expenses are presented for purposes of additional analysis and are not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the consolidated financial statements as a whole.

Prior Period Consolidated Financial Statements

The consolidated financial statements of the Foundation for the Mid South, Inc. and its Affiliate as of and for the year ended December 31, 2015, were audited by other auditors whose report dated June 17, 2016, expressed an unmodified opinion on those statements.

Thomas & Thomas LLP
Certified Public Accountants

June 21, 2017
Little Rock, Arkansas

Consolidated Financial Statements

Foundation for the Mid South, Inc.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION December 31, 2016 and 2015

	2016	2015
ASSETS		
Cash and cash equivalents	\$ 268,625	\$ 525,136
Certificates of deposit	3,303,817	3,555,430
Prepaid expenses	15,224	14,614
Grants and contributions receivable, net	1,280,933	373,538
Investments	10,143,111	9,252,702
Property and equipment, net	504,577	545,847
TOTAL ASSETS	\$ 15,516,287	\$ 14,267,267
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 3,739	\$ 3,786
Accrued expenses	132,397	119,220
Grants payable	107,291	175,000
Note payable	302,563	338,526
Total Liabilities	545,990	636,532
Net Assets		
Unrestricted	6,942,207	6,340,343
Temporarily restricted	1,748,910	1,011,212
Permanently restricted	6,279,180	6,279,180
Total Net Assets	14,970,297	13,630,735
TOTAL LIABILITIES AND NET ASSETS	\$ 15,516,287	\$ 14,267,267

See accompanying notes to consolidated financial statements.

Foundation for the Mid South, Inc.

CONSOLIDATED STATEMENTS OF ACTIVITIES For the Years Ended December 31, 2016 and 2015

	2016			2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT, REVENUES, GAINS AND LOSSES							
Grants and contributions	\$ 22,952	\$ 1,910,828	\$ -	\$ 1,933,780	\$ 21,555	\$ 5,324	\$ 873,370
Investment income (loss)	911,675	-	-	911,675	(22,551)	-	(22,551)
Total Support, Revenues, Gains and Losses	934,627	1,910,828	-	2,845,455	(996)	5,324	850,819
NET ASSETS RELEASED FROM RESTRICTIONS							
Total Support, Revenues, Gains, Losses and Reclassifications	1,173,130	(1,173,130)	-	1,424,404	(1,424,404)	-	-
	2,107,757	737,698	-	2,845,455	1,423,408	5,324	850,819
EXPENSES							
Program Services							
Community development	769,989	-	-	872,120	-	-	872,120
Education	351,423	-	-	445,782	-	-	445,782
Health and wellness	36,254	-	-	140,011	-	-	140,011
Wealth building	61,832	-	-	37,506	-	-	37,506
Total Program Services	1,219,498	-	-	1,495,419	-	-	1,495,419
Management and General Fundraising	271,995	-	-	317,114	-	-	317,114
	14,400	-	-	7,065	-	-	7,065
Total Expenses	1,505,893	-	-	1,819,598	-	-	1,819,598
NONOPERATING RECEIPT OF RESTRICTED NET ASSETS	-	-	-	-	(20,000)	-	(20,000)
INCREASE (DECREASE) IN NET ASSETS	601,864	737,698	-	(396,190)	(557,913)	5,324	(948,779)
NET ASSETS, BEGINNING OF YEAR	6,340,343	1,011,212	6,279,180	13,630,735	6,736,533	6,273,856	14,579,514
NET ASSETS, END OF YEAR	\$ 6,942,207	\$ 1,748,910	\$ 6,279,180	\$ 14,970,297	\$ 6,340,343	\$ 1,011,212	\$ 13,630,735

See accompanying notes to consolidated financial statements.

Foundation for the Mid South, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS For the Years Ended December 31, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 1,339,562	\$ (948,779)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Depreciation	41,270	40,507
Net realized and unrealized losses (gains) on investments	(683,982)	236,904
Contributions received restricted for long-term purposes	-	(5,324)
Change in operating assets and liabilities:		
Prepaid expenses	(610)	4,924
Grants and contributions receivable, net	(907,395)	(374,085)
Accounts payable	(47)	6,179
Accrued expenses	13,177	(23,722)
Grants payable	(67,709)	26,500
Net Cash Used in Operating Activities	(265,734)	(1,036,896)
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities of certificates of deposits	3,055,429	3,840,448
Purchase and reinvestment of certificates of deposit	(2,803,816)	(2,652,888)
Proceeds from sale/maturity of investments	-	18,738
Purchase and reinvestment of investments	(206,427)	(193,393)
Purchase of property and equipment	-	(18,062)
Net Cash Provided by Investing Activities	45,186	994,843
CASH FLOWS FROM FINANCING ACTIVITIES		
Collection of contributions restricted for long-term purposes	-	5,324
Payment of note payable	(35,963)	(34,319)
Net Cash Used in Financing Activities	(35,963)	(28,995)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(256,511)	(71,048)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	525,136	596,184
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 268,625	\$ 525,136
SUPPLEMENTAL INFORMATION		
Interest paid	\$ 15,559	\$ 17,204

See accompanying notes to consolidated financial statements.

Foundation for the Mid South, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 1: NATURE OF OPERATIONS

The Foundation for the Mid South, Inc. (the "Foundation") began in 1990 as a not-for-profit grant making and program-initiating organization serving the residents of Arkansas, Louisiana and Mississippi. The goal of the Foundation is to create a philanthropic effort to bring together the public and private sectors and focus their resources on increasing racial, social and economic equity in the region. Current operations are supported generally through grants and contributions.

The Foundation focuses on strengthening four inter-related areas in the communities in which they serve: education, health and wellness, wealth building and community development through grants and partnering efforts that enable communities to grow and prosper.

The Foundation for the Mid South Properties, LLC ("Properties") was formed in 2005 to acquire and own the building and improvements used by the Foundation in its operations. The Foundation is the sole member of Properties; therefore, the accounts of Properties are consolidated with those of the Foundation.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Accounting

The consolidated financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles. Transactions and balances between the Foundation and Properties have been eliminated in consolidation.

(b) Basis of Presentation

The Foundation is required to report information regarding its financial position and activities according to three classes of net assets – unrestricted, temporarily restricted and permanently restricted.

(c) Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

(d) Investments

Investments are reported at fair value on the consolidated statements of financial position. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly fashion between market participants at the measurement date. Investment income (loss) reported on the consolidated statements of activities includes realized and unrealized gains and losses on investments bought and sold, as well as those held during the year. Purchases and sales are recorded on a trade date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Foundation for the Mid South, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Investments (Continued)

The use of investment income or realized gains on investments may be restricted by donors. Investment income and gains restricted by donors are reported as increases in unrestricted net assets if the restrictions are met (either a stipulated time period ends or a purpose restriction is accomplished) in the reporting period in which the income and gains are recognized.

(e) Property and Equipment

Property and equipment are recorded at cost, net of accumulated depreciation. The Foundation capitalizes additions of property and equipment in excess of \$5,000. Depreciation is calculated using the straight-line method over the estimated useful lives of the depreciable assets, which range from 3 to 40 years.

(f) Grants and Contributions

Grants and contributions, including unconditional promises to give, are recognized as support in the consolidated statements of activities in the period received or when the Foundation becomes aware that a promise to give has been made, whichever occurs first. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met.

Contributions received with donor restrictions are reported as increases in unrestricted net assets if the restrictions are met in the reporting period in which the income is recognized. All other grants and contributions are reported as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor 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 consolidated statements of activities as net assets released from restrictions.

(g) Functional Expenses

The Foundation allocates its expenses on a functional basis among various programs and supporting services. Expenses that can be identified with a specific program or supporting service are recorded directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by various statistical bases. Costs associated with providing the various programs and supporting services are summarized on a functional basis on the consolidated schedules of functional expenses.

(h) Income Taxes

The Foundation is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law and is not a private foundation within the meaning of Section 509(a) of the Code.

Foundation for the Mid South, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Income Taxes (Continued)

Accounting standards require the Foundation to evaluate tax positions and recognize a tax liability (or asset) if the Foundation has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Foundation has analyzed the tax positions taken and has concluded that as of December 31, 2016 and 2015, there are no uncertain positions taken or expected to be taken that would require the recognition of a liability (or asset) or disclosure in the consolidated financial statements. The Foundation may be subject to audit by the Internal Revenue Service; however there are currently no audits for any tax periods in progress.

(i) Grants to Others

Grants made by the Foundation are recorded when the grants are approved by the Foundation's Board of Directors. All grantees are eligible organizations who are required to use the funds for charitable purposes. Any grants which have not been paid to the intended recipient as of the end of the year are recorded in grants payable on the consolidated statements of financial position.

(j) Financial Instruments and Credit Risk

The Foundation maintains cash and cash equivalent balances in accounts with financial institutions and investment banking firms. The balances in these accounts may exceed applicable insured limits. Management believes that such accounts are maintained with reputable financial institutions and investment banking firms, and the Foundation has not experienced any losses in these accounts to date.

The Board of Directors has adopted an investment policy that specifies target portfolio allocations, permissible investment vehicles, as well as monitoring benchmarks and procedures. In addition, the Board of Directors has adopted general policies relevant to performing due diligence on and continuous monitoring of investments. While risks related to investing, such as market risk and credit risk, cannot be avoided, management and the Board of Directors, working with reputable investment managers, believe that investment policies are prudent, properly designed and implemented to ensure the longevity of the Foundation.

(k) Use of Estimates

The preparation of consolidated 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 amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

(l) Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenues from Contracts with Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standard will replace most existing revenue recognition guidance in accounting principles generally accepted in the United States of America when it becomes effective

Foundation for the Mid South, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Recent Accounting Pronouncements (Continued)

and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, which extends the effective date one year from that stated in ASU No. 2014-09. In March 2016, the FASB issued ASU No. 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net), which relates to when another party, along with the entity, is involved in providing a good or service to a customer. The amendments in ASU No. 2016-08 are intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. The guidance in ASU No. 2014-09 and ASU No. 2016-08 will be effective for annual reporting periods beginning after December 15, 2018. Early adoption is allowed for annual reporting periods beginning after December 15, 2016. The Foundation does not anticipate that the updated standards will have a material effect on the consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. The purpose of ASU No. 2016-14 is to amend existing financial reporting standards applicable to not-for-profit entities to improve the usefulness, relevance and clarity of information presented in financial statements and to enhance the information presented in the notes thereto. This new standard, which becomes effective for fiscal years beginning after December 15, 2017, will require presentation of two classes of net assets (net assets with donor restrictions and net assets without donor restrictions). ASU No. 2016-14 will also require enhanced disclosures including, but not limited to, disclosures about governing board designations and other self-imposed limits on the use of resources as well as the composition of net assets with donor restrictions at the end of the period and how those restrictions affect the use of resources; qualitative information communicating how liquid resources are managed to meet cash needs for general expenditures within one year of the financial reporting date; and quantitative information communicating the availability of resources to meet cash needs for general expenditures within one year of the financial reporting date. While this new standard will significantly impact the presentation of the consolidated financial statements and the content of disclosures in the notes to the consolidated financial statements, it is not expected to have a material impact on the recording or measurement of amounts presented therein.

(m) Reclassifications

Certain amounts in the 2015 consolidated financial statements have been reclassified to conform to presentation in the 2016 consolidated financial statements.

Foundation for the Mid South, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 3: GRANTS AND CONTRIBUTIONS RECEIVABLE

Grants and contributions receivable at December 31, include the following:

	2016	2015
Foundation grants	\$ 1,165,000	\$ 170,000
Jobs for the Future	-	204,674
Promises to give	122,382	752
	1,287,382	375,426
Allowance for doubtful accounts	(6,449)	(1,888)
Total	\$ 1,280,933	\$ 373,538

Receivables are estimated to be collected as follows at December 31, 2016:

2017	\$ 787,382
2018	500,000
	\$ 1,287,382

At December 31, 2016, 76% of the Foundation's grants and contributions were provided by one donor. At December 31, 2015, 84% of the Foundation's grants and contributions were provided by three donors.

NOTE 4: INVESTMENTS

Investments presented on the consolidated statements of financial position at December 31, include the following:

	2016	2015
Mutual funds	\$ 10,099,238	\$ 9,213,586
Equity securities	43,873	39,116
	\$ 10,143,111	\$ 9,252,702

Foundation for the Mid South, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 4: INVESTMENTS (Continued)

Investment return consisted of the following for the years ended December 31:

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 227,693	\$ 214,353
Net realized and unrealized gain (loss) on investments	<u>683,982</u>	<u>(236,904)</u>
Total investment return (loss)	<u>\$ 911,675</u>	<u>\$ (22,551)</u>

NOTE 5: FAIR VALUE MEASUREMENTS

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

- Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 Inputs to the valuation methodology include the following:
- Quoted prices for similar assets or liabilities in active markets;
 - Quoted prices for identical or similar assets or liabilities in inactive markets;
 - Inputs other than quoted prices that are observable for the asset or liability;
 - Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Foundation for the Mid South, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 5: FAIR VALUE MEASUREMENTS (Continued)

For the years ended December 31, 2016 and 2015, the application of valuation techniques used to determine the fair values of investments has been consistent. The following is a description of the valuation methodologies used by the Foundation:

Mutual Funds – The fair values of these open ended mutual funds are based on the net asset values per share of the funds as of the close of business on the reporting date.

Equity Securities – The fair values of these investments are based on the closing price reported on the active market on which the individual securities are traded.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table presents assets measured at fair value on a recurring basis at December 31, 2016 and 2015:

	December 31, 2016			
	Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Mutual Funds:				
Mid cap index fund	\$ 591,533	\$ 591,533	\$ -	\$ -
Federal money market fund	28,526	28,526	-	-
Small cap index fund	610,940	610,940	-	-
International stock mutual fund	998,586	998,586	-	-
Bond market index fund	2,238,454	2,238,454	-	-
Stock market index fund	5,631,199	5,631,199	-	-
Equity Securities:				
Domestic common stock	36,487	36,487	-	-
International common stock	7,386	7,386	-	-
Total Investments	\$ 10,143,111	\$ 10,143,111	\$ -	\$ -

Foundation for the Mid South, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2016 and 2015

NOTE 5: FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

	December 31, 2015			
	Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Mutual Funds:				
Mid cap index fund	\$ 531,849	\$ 531,849	\$ -	\$ -
Prime money market fund	28,416	28,416	-	-
Small cap index fund	516,419	516,419	-	-
International stock mutual fund	954,004	954,004	-	-
Bond market index fund	2,181,821	2,181,821	-	-
Stock market index fund	5,001,077	5,001,077	-	-
Equity Securities:				
Domestic common stock	32,880	32,880	-	-
International common stock	6,236	6,236	-	-
Total Investments	\$ 9,252,702	\$ 9,252,702	\$ -	\$ -

There were no transfers into or out of Level 3 investments during the years ended December 31, 2016 or 2015. There are no redemption restrictions on the investments.

NOTE 6: PROPERTY AND EQUIPMENT

Property and equipment consist of the following as of December 31:

	2016	2015
Furniture, fixtures and equipment	\$ 241,119	\$ 241,119
Buildings and improvements	799,815	799,815
	1,040,934	1,040,934
Less accumulated depreciation and amortization	(536,357)	(495,087)
Property and equipment, net	\$ 504,577	\$ 545,847

Foundation for the Mid South, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2016 and 2015

NOTE 7: GRANTS PAYABLE

Grants payable are due to be paid for years subsequent to December 31, 2016, as follows:

2017	\$ 102,291
2018	5,000
	<hr/>
	\$ 107,291
	<hr/> <hr/>

NOTE 8: NOTE PAYABLE

The Foundation has a note payable to a financial institution secured by land and building. Payment of principal and interest at 4.75% is due monthly. The note, which bears interest at 4.75%, is payable in monthly installments of \$4,294 through November 2023. Future maturities of the note as of December 31, 2016 for each of the next five years and thereafter are as follows:

2017	\$ 37,779
2018	39,639
2019	41,591
2020	43,615
2021	45,786
Thereafter	94,153
	<hr/>
	\$ 302,563
	<hr/> <hr/>

NOTE 9: EMPLOYEE BENEFIT PLAN

The Foundation sponsors a defined contribution retirement plan for eligible employees. The Foundation's contributions to the plan were approximately \$48,000 and \$61,000 for the years ended December 31, 2016 and 2015, respectively, which were based on 12% of eligible employees' salaries. All full time employees who have attained the age of 21 are eligible for retirement benefits the first day following a 90 day introductory period. Part time employees are eligible after receiving \$500 of earnings in a calendar year.

NOTE 10: ENDOWMENTS

The Foundation's endowments consists of approximately 2 individual funds established for a variety of purposes. The endowments include both donor restricted endowment funds and funds designated by the Board of Directors (the Board). Net assets associated with endowment funds, including funds designated by the Board to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Foundation for the Mid South, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 10: ENDOWMENTS (Continued)

The Board has interpreted the State of Mississippi's Management of Institutional Funds Act (SMIFA) 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 this interpretation, the Foundation classifies as permanently restricted net assets the original value of gifts donated to the permanent endowment, the original value of subsequent gifts to the permanent endowment and accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. In accordance with SMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation or depreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

The Foundation has adopted investment and spending policies, approved by the Board, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified investment portfolio, which is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make annual distribution to meet the operating needs of the Foundation, while growing the funds if possible. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

The Foundation has a spending policy of appropriating for distribution each year the lesser of sufficient funds to meet operating needs of its programs or five percent of the value of the endowment fund. In establishing this spending policy each year, the Foundation considers the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation.

The following summarizes the composition of endowment net assets by type at December 31, 2016:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowments	\$ -	\$ 6,279,180	\$ 6,279,180
Board designated endowments	3,752,437	-	3,752,437
Total endowments	<u>\$ 3,752,437</u>	<u>\$ 6,279,180</u>	<u>\$ 10,031,617</u>

Foundation for the Mid South, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2016 and 2015

NOTE 10: ENDOWMENTS (Continued)

The following summarizes the composition of endowment net assets by type at December 31, 2015:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowments	\$ -	\$ 6,279,180	\$ 6,279,180
Board designated endowments	2,863,555	-	2,863,555
Total endowments	<u>\$ 2,863,555</u>	<u>\$ 6,279,180</u>	<u>\$ 9,142,735</u>

Changes in endowment net assets for the year ended December 31, 2016, are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,863,555	\$ 6,279,180	\$ 9,142,735
Interest and dividends	209,658	-	209,658
Net appreciation (depreciation) in fair value of investments	679,224	-	679,224
Endowment net assets, end of year	<u>\$ 3,752,437</u>	<u>\$ 6,279,180</u>	<u>\$ 10,031,617</u>

Changes in endowment net assets for the year ended December 31, 2015, are as follows:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, beginning of year	\$ 2,904,312	\$ 6,273,856	\$ 9,178,168
Contributions	-	5,324	5,324
Interest and dividends	193,393	-	193,393
Net appreciation (depreciation) in fair value of investments	(234,150)	-	(234,150)
Endowment net assets, end of year	<u>\$ 2,863,555</u>	<u>\$ 6,279,180</u>	<u>\$ 9,142,735</u>

At December 31, 2016 and 2015, the Foundation had no temporarily restricted endowment net assets.

Foundation for the Mid South, Inc.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS December 31, 2016 and 2015

NOTE 11: RESTRICTED NET ASSETS

The following provides a description of the purposes for which net assets are permanently restricted at December 31, 2016 and 2015:

	2016	2015
Investment in perpetuity, the income of which is expendable to support:		
Community development	\$ 139,388	\$ 139,388
Any activity of the Foundation	6,139,792	6,139,792
	\$ 6,279,180	\$ 6,279,180

Temporarily restricted net assets consist of income and contributions received with donor-imposed restrictions limiting the Foundation's use of contributed assets to a later period, a specific purpose or both. The amounts are transferred to unrestricted net assets in the period the donor-imposed restrictions expire or the donor-stipulated purpose has been fulfilled by the Foundation.

Temporarily restricted net assets are available for the following purposes at December 31:

	2016	2015
Community development	\$ 1,629,155	\$ 924,224
Education	-	72,284
Wealth building	119,755	14,704
	\$ 1,748,910	\$ 1,011,212

NOTE 12: SUBSEQUENT EVENTS

The Foundation has evaluated events that occurred after December 31, 2016, but prior to June 21, 2017, the date the consolidated financial statements were issued. The Foundation did not identify any events or transactions during this period of time that require recognition or disclosure in the consolidated financial statements as of and for the year ended December 31, 2016.

Supplementary Information

Foundation for the Mid South

CONSOLIDATED SCHEDULES OF FUNCTIONAL EXPENSES Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Salaries	\$ 539,118	\$ 576,660
Payroll taxes and employee benefits	132,213	162,749
Conference and employee training	59,249	28,484
Contractual services	100,137	102,912
Equipment purchases	1,895	3,526
Equipment rental	14,558	20,925
Grants	320,148	566,040
Insurance	15,015	15,830
Interest and fee expense	15,798	17,375
Maintenance and repairs	3,389	7,198
Office supplies	2,919	8,606
Postage	1,344	849
Printing and reproduction	883	609
Professional fees, dues and publications	86,177	93,864
Rent and employee parking	7	214
Telephone	12,827	12,175
Travel - meetings and participants	119,174	96,514
Travel - staff	17,950	27,401
Other	21,822	37,160
Depreciation	41,270	40,507
	<u>\$ 1,505,893</u>	<u>\$ 1,819,598</u>

See Independent Auditor's Report.