

**CREATE FOUNDATION, INC.**

**Tupelo, Mississippi**

**December 31, 2017**

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**CERTIFIED PUBLIC ACCOUNTANTS**

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**Independent Auditors' Report**

Board of Directors  
CREATE Foundation, Inc.  
Tupelo, Mississippi

We have audited the accompanying financial statements of CREATE Foundation, Inc. (a nonprofit organization), which comprise the statements of assets, liabilities, and net assets—modified cash basis as of December 31, 2017 and 2016, and the related statement of support, revenues, expenses, and changes in net assets—modified cash basis, statement of functional expenses—modified cash basis for the year ended December 31, 2017 and the statements of cash flows for the years ended December 31, 2017 and 2016, 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 the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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.

**Auditors' 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 qualified audit opinion.

**Basis for Qualified Opinion**

Financial information supporting the Organization's investment in R.J. Wilemon, LLC, a liquidating real estate venture as discussed in Note 7, was incomplete or not available at the date the financial statements were available to be issued; therefore, we were unable to satisfy ourselves as to the carrying value at December 31, 2017 of \$1,943,545.

### **Qualified Opinion**

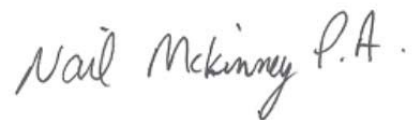
In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets and cash flows of CREATE Foundation, Inc. as of and for the years ended December 31, 2017 and 2016, and its support, revenue and expenses and changes in net assets for the year ended December 31, 2017, in accordance with the modified cash basis of accounting as described in Note 1.

### **Report on Summarized Comparative Information**

We have previously audited CREATE Foundation's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated April 6, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### **Basis of Accounting**

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to that matter.

A handwritten signature in cursive script that reads "Nail McKinney P.A.".

Tupelo, Mississippi  
April 3, 2018

Statements of Assets, Liabilities, and Net Assets - Modified Cash Basis

CREATE FOUNDATION, INC.

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>Assets</b>		
<b>Current Assets</b>		
Cash and temporary cash investments (Note 2)	\$ 5,663,977	\$ 3,499,452
Total current assets	<u>5,663,977</u>	<u>3,499,452</u>
<b>Investments</b>		
Endowments (Note 3)	85,089,554	68,612,850
Investment securities (Note 4)	2,294,216	3,232,121
Membership interests in limited liability companies (Notes 3 and 7)	1,943,545	1,779,021
Journal, Inc. stock (Note 6)	22,050,041	22,401,138
Cash surrender value of life insurance	179,795	150,154
Stocks	<u>4,622</u>	<u>10,535</u>
Total investments	<u>111,561,773</u>	<u>96,185,819</u>
<b>Property and Equipment</b>		
Construction in progress	321,293	321,293
Buildings	949,991	1,924,991
Equipment	204,335	204,335
Land	<u>365,525</u>	<u>365,525</u>
	1,841,144	2,816,144
Less: Accumulated depreciation	<u>621,511</u>	<u>661,145</u>
Total property and equipment, net	<u>1,219,633</u>	<u>2,154,999</u>
Total assets	<u>\$ 118,445,383</u>	<u>\$ 101,840,270</u>
<b>Net Assets</b>		
Unrestricted	\$ 22,948,994	\$ 23,136,918
Temporarily restricted (Note 9)	8,408,286	8,349,011
Permanently restricted (Note 9)	<u>87,088,103</u>	<u>70,354,341</u>
Total net assets	<u>118,445,383</u>	<u>101,840,270</u>
Total liabilities and net assets	<u>\$ 118,445,383</u>	<u>\$ 101,840,270</u>

The accompanying notes are an integral part of these financial statements.

**Statements of Support, Revenues, Expenses, and Changes in Net Assets - Modified Cash Basis**

**CREATE FOUNDATION, INC.**

**Year ended December 31, 2017 with Comparative Totals for the Year ended December 31, 2016**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2017 Totals</u>	<u>2016 Totals</u>
<b>Support and Revenue</b>					
Support					
Grants:					
Government	\$ -	\$ 67,350	\$ -	\$ 67,350	\$ 33,427
Other	-	110,000	-	110,000	237,500
Contributions	<u>45,020</u>	<u>5,018,892</u>	<u>8,206,819</u>	<u>13,270,731</u>	<u>17,269,265</u>
Total support	<u>45,020</u>	<u>5,196,242</u>	<u>8,206,819</u>	<u>13,448,081</u>	<u>17,540,192</u>
Revenue					
Interest	70,608	-	1,922,697	1,993,305	1,489,445
Dividends	315,000	-	-	315,000	340,000
Gain (loss) on sale of securities	353	(2,598)	647,395	645,150	228,499
Other losses	-	(345,742)	-	(345,742)	(158,484)
Unrealized gains (losses)	(6,653)	-	9,106,953	9,100,300	3,840,325
Administrative fees	681,898	(10,461)	(671,437)	-	24,516
Rental income	<u>34,900</u>	<u>369</u>	<u>-</u>	<u>35,269</u>	<u>100,321</u>
Total revenue	<u>1,096,106</u>	<u>(358,432)</u>	<u>11,005,608</u>	<u>11,743,282</u>	<u>5,864,622</u>
Total support and revenue	<u>1,141,126</u>	<u>4,837,810</u>	<u>19,212,427</u>	<u>25,191,363</u>	<u>23,404,814</u>
Assets released from restriction:					
Satisfaction of usage restrictions	<u>7,046,277</u>	<u>(6,349,117)</u>	<u>(697,160)</u>	<u>-</u>	<u>-</u>
<b>Expenses</b>					
Allocations to agencies	6,083,158	-	-	6,083,158	7,964,834
Program services	1,348,201	-	-	1,348,201	1,742,006
Supporting services:					
Management and general	576,476	-	-	576,476	603,058
Fundraising	<u>227,318</u>	<u>-</u>	<u>-</u>	<u>227,318</u>	<u>240,737</u>
Total expenses	<u>8,235,153</u>	<u>-</u>	<u>-</u>	<u>8,235,153</u>	<u>10,550,635</u>
Excess (deficiency) of support and revenue over expenses	(47,750)	(1,511,307)	18,515,267	16,956,210	12,854,179
Net assets, beginning of year	23,136,918	8,349,011	70,354,341	101,840,270	89,719,810
Change in equity of Journal, Inc.	(351,097)	-	-	(351,097)	(733,719)
Transfers (Note 10)	<u>210,923</u>	<u>1,570,582</u>	<u>(1,781,505)</u>	<u>-</u>	<u>-</u>
Net assets, end of year	<u>\$ 22,948,994</u>	<u>\$ 8,408,286</u>	<u>\$ 87,088,103</u>	<u>\$ 118,445,383</u>	<u>\$101,840,270</u>

The accompanying notes are an integral part of these financial statements.

Statements of Functional Expenses - Modified Cash Basis

CREATE FOUNDATION, INC.

Year ended December 31, 2017 with Comparative Totals for the Year ended December 31, 2016

	2017					2016 Total
	Allocations to Agencies	Program Services	SUPPORTING SERVICES		Total	
			Management and General	Fundraising		
Compensation and related expenses						
Salaries	\$ -	\$ 266,738	\$ 202,510	\$ 96,749	\$ 565,997	\$ 559,456
Payroll taxes	-	26,223	9,995	4,775	40,993	40,658
Employee insurance	-	45,723	22,663	10,826	79,212	59,043
Retirement plan	-	28,403	11,143	5,324	44,870	43,459
Total	-	367,087	246,311	117,674	731,072	702,616
Advised fund disbursements	1,604,745	-	-	-	1,604,745	3,924,178
Designated fund disbursements	289,512	-	-	-	289,512	483,069
Special project disbursements	3,698,997	-	-	-	3,698,997	2,909,570
Endowment fund disbursements	489,904	-	-	-	489,904	648,017
Program services disbursements	-	225,885	-	-	225,885	498,975
Unrestricted grants	-	46,042	-	-	46,042	47,800
Scholarships	-	333,603	-	-	333,603	297,140
Meeting expenses	-	16,606	8,027	-	24,633	25,711
Communications and publications	-	12,325	9,357	4,471	26,153	22,158
Computer system and software	-	-	24,455	-	24,455	22,943
Contractual services	-	260,960	4,117	1,970	267,047	418,562
Depreciation	-	2,031	33,490	-	35,521	57,790
Direct fundraising costs	-	-	-	23,799	23,799	25,787
Dues and subscriptions	-	8,207	6,231	2,976	17,414	17,024
Insurance	-	7,986	20,524	65,481	93,991	119,189
Legal and professional	-	-	14,814	-	14,814	14,530
Miscellaneous	-	14,753	1,199	572	16,524	5,378
Postage	-	5,040	3,825	1,827	10,692	11,994
Certification	-	-	500	-	500	500
Repairs	-	-	33,904	-	33,904	69,869
Supplies	-	23,300	3,723	1,779	28,802	30,514
Support services	-	2,860	-	-	2,860	2,631
Telephone	-	4,412	3,349	1,600	9,361	7,684
Travel	-	11,231	6,364	3,039	20,634	14,820
Trust management fees	-	-	151,827	-	151,827	158,778
Utilities	-	5,873	4,459	2,130	12,462	13,408
	\$ 6,083,158	\$ 1,348,201	\$ 576,476	\$ 227,318	\$ 8,235,153	\$ 10,550,635

The accompanying notes are an integral part of these financial statements.

**Statements of Cash Flows**  
**CREATE FOUNDATION, INC.**  
**Years ended December 31, 2017 and 2016**

	<i>2017</i>	<i>2016</i>
<b>Cash flows from operating activities:</b>		
Excess of support and revenues over expenditures	\$ 16,956,210	\$ 12,854,179
Adjustments to reconcile to net cash provided by operating activities:		
Noncash contributions	(164,524)	(866,159)
Unrealized gain on investments	(9,105,815)	(3,840,325)
Depreciation	35,521	57,790
Gain on sale of assets	(299,408)	(70,015)
Securities donated	(1,123,465)	(1,272,815)
Net cash provided by operating activities	6,298,519	6,862,655
<b>Cash flows from investing activities:</b>		
Purchase of investments	(12,326,230)	(11,523,003)
Increase in cash surrender value of life insurance	(29,641)	-
Purchase of property and equipment	-	(28,679)
Proceeds from sale of assets	8,221,877	5,694,364
Net cash used in investing activities	(4,133,994)	(5,857,318)
Change in cash and cash equivalents	2,164,525	1,005,337
Cash and cash equivalents at beginning of year	3,499,452	2,494,115
Cash and cash equivalents at end of year	\$ 5,663,977	\$ 3,499,452
<b>Schedule of noncash investing and financing activities:</b>		
Equity method adjustment - investment in Journal, Inc.	\$ (351,097)	\$ (733,719)
Membership interests in RJ Wilemon, LLC	164,524	531,395
Life insurance policies with cash surrender values donated	-	134,764
Commercial real estate at 266 W. 8th Street, Pontotoc Mississippi	-	200,000
Aggregate noncash investing and financing activities	\$ (186,573)	\$ 132,440

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The accompanying notes are an integral part of these financial statements.



## Notes to Financial Statements

### CREATE FOUNDATION, INC.

December 31, 2017

#### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### *Nature of Operations*

CREATE Foundation, Inc. is a nonprofit, charitable organization which serves as a community foundation to stimulate private giving for human development projects in the fields of education, health and human services, cultural enrichment, and leadership development.

The significant accounting policies that have been followed by the Organization in preparing the accompanying financial statements are set forth below:

##### *Basis of Accounting*

The Organization's policy is to prepare its financial statements on the modified cash basis of accounting. Other than the methods of accounting for depreciation, donated assets, endowment assets, interests in R.J. Wilemon, LLC, and the value of Journal, Inc. stock, which are described below, the Organization recognizes revenues as received and expenses as paid and recognizes only assets and liabilities resulting from cash transactions. These financial statements are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

Endowment fund net assets are classified as permanently restricted. The investment committee of the Organization's Board of Directors establishes a spending policy with respect to endowment fund assets. The current policy is to provide for disbursement of up to 4% of the average balance of the individual fund over the previous 12 quarters. Net assets that are subject to donor-imposed restrictions which either expire with the passage of time, or which can be fulfilled or removed by actions taken by the Organization, are classified as temporarily restricted. All other net assets are classified as unrestricted.

##### *Use of Estimates in the Preparation of Financial Statements*

In preparing financial statements in conformity with the basis of accounting described above, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

##### *Reclassifications*

Certain prior year amounts have been reclassified to conform to current year's presentation.

##### *Cash and Temporary Cash Investments*

Cash and temporary cash investments consist of cash on hand and on deposit, including cash in checking accounts and money market mutual funds.

##### *Endowments*

Endowment assets are invested in various stocks and mutual funds and are carried at fair value. The increase or decrease in fair value is included in revenue.

##### *Journal, Inc. Stock*

Journal, Inc. stock is accounted for at the equity value of the wholly-owned subsidiary. Changes in the net book value of the subsidiary which are unrelated to dividends received by the parent from the subsidiary are charged to net assets.

##### *Membership interests in limited liability companies*

Membership interest in limited liability companies are valued at the estimated capital balance attributable to the Organization's ownership interests.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (continued)

***Property and Equipment***

Property and equipment is stated at cost or estimated fair market value on the date received if donated.

Depreciation of property and equipment is provided on a straight-line basis over an estimated useful life of five to ten years for furniture and equipment, and forty years for buildings.

***Income Taxes***

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, according to a favorable determination letter dated December 21, 1972 received from the Internal Revenue Service. The Organization is a nonprofit corporation for purposes of Mississippi income tax.

On a continuing basis, management analyzes the Organization's tax positions, and, when a tax position meets the measurement and recognition principles outlined in FASB ASC 740, the Organization accrues a liability for unrecognized tax benefits. Any related interest and penalties associated with unrecognized tax benefits are included as a component of other non-interest expense.

The Organizations' federal informational return is subject to examination by the taxing authorities generally for three years after it is filed. Management has evaluated the tax positions taken, and has not identified any positions that are unlikely to be sustained upon examination.

***Functional Allocation of Expenses***

The costs of providing the programs and activities of the Organization have been summarized on a functional basis in the Statement of Support, Revenue and Expenses, and Changes in Net Assets. Accordingly, certain expenses for salaries and related benefits, supplies, postage, and rent have been allocated among the programs and supporting services benefited based on estimated time and functional usage.

***Valuation of Gifts***

Gifts of securities or property and equipment are valued at their fair market value at the date of the gift or bequest.

***Subsequent Events***

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through the date of the Independent Auditors' Report, which is the date the financial statements were available to be issued.

**NOTE 2. CASH AND TEMPORARY CASH INVESTMENTS**

Cash and temporary cash investments include amounts in excess of, or not subject to FDIC insurance of \$2,803,559 at December 31, 2017.

**NOTE 3. ENDOWMENTS**

Endowment funds consist of the following:

	<i>December 31, 2017</i>		
	<i>Cost</i>	<i>Fair Value</i>	<i>Unrealized Appreciation (Depreciation)</i>
Investment in brokerage account:			
Cash and cash equivalents	\$ 1,369,333	\$ 1,369,333	\$ -
Mutual funds	55,666,975	62,725,189	7,058,214
Index funds	13,713,348	20,374,753	6,661,405
Marketable equity securities	425,292	471,488	46,196
Alternative investment	<u>117,569</u>	<u>148,791</u>	<u>31,222</u>
	71,292,517	85,089,554	13,797,037
Other endowment assets			
Cash and cash equivalents	98,714	98,714	-
Membership interest in limited liability company	<u>1,943,545</u>	<u>1,943,545</u>	<u>-</u>
	<u>\$ 73,334,776</u>	<u>\$ 87,131,813</u>	<u>\$ 13,797,037</u>
	<i>December 31, 2016</i>		
	<i>Cost</i>	<i>Fair Value</i>	<i>Unrealized Appreciation (Depreciation)</i>
Investment in brokerage account:			
Cash and cash equivalents	\$ 761,845	\$ 761,845	\$ -
Mutual funds	49,203,056	50,099,359	896,303
Index funds	12,295,041	16,831,858	4,536,817
Marketable equity securities	803,062	728,854	(74,208)
Alternative investment	<u>157,016</u>	<u>190,934</u>	<u>33,918</u>
	63,220,020	68,612,850	5,392,830
Other endowment assets			
Cash and cash equivalents	17	17	-
Membership interest in limited liability company	<u>1,779,021</u>	<u>1,779,021</u>	<u>-</u>
	<u>\$ 64,999,058</u>	<u>\$ 70,391,888</u>	<u>\$ 5,392,830</u>

The following schedule summarizes the endowment net asset composition by type of fund:

	<i>December 31, 2017</i>		
	<i>Unrestricted</i>	<i>Permanently Restricted</i>	<i>Total</i>
Donor restricted endowment funds	\$ -	\$ 87,088,103	\$ 87,088,103
Board designated endowment funds	<u>43,710</u>	<u>-</u>	<u>43,710</u>
	<u>\$ 43,710</u>	<u>\$ 87,088,103</u>	<u>\$ 87,131,813</u>

Notes to Financial Statements – (continued)

NOTE 3. ENDOWMENTS (continued)

	<i>December 31, 2016</i>		
	<i>Permanently</i>		
	<i>Unrestricted</i>	<i>Restricted</i>	<i>Total</i>
Donor restricted endowment funds	\$ -	\$ 70,354,341	\$ 70,354,341
Board designated endowment funds	37,547	-	37,547
	<u>\$ 37,547</u>	<u>\$ 70,354,341</u>	<u>\$ 70,391,888</u>

The following schedule summarizes the changes in endowment net assets:

	<i>Year Ended December 31, 2017</i>		
	<i>Permanently</i>		
	<i>Unrestricted</i>	<i>Restricted</i>	<i>Total</i>
Endowment net assets, beginning of year	\$ 37,547	\$ 70,354,341	\$ 70,391,888
Investment return			
Interest income	925	1,922,697	1,923,622
Realized gains	353	647,395	647,748
Unrealized gains	4,951	9,106,953	9,111,904
Contributions	-	8,206,819	8,206,819
Appropriations of endowment for expenditures	(66)	(1,368,597)	(1,368,663)
Transfers	-	(1,781,505)	(1,781,505)
	<u>\$ 43,710</u>	<u>\$ 87,088,103</u>	<u>\$ 87,131,813</u>

	<i>Year Ended December 31, 2016</i>		
	<i>Permanently</i>		
	<i>Unrestricted</i>	<i>Restricted</i>	<i>Total</i>
Endowment net assets, beginning of year	\$ 34,491	\$ 58,397,359	\$ 58,431,850
Investment return			
Interest income	793	1,428,327	1,429,120
Realized gains	133	228,034	228,167
Unrealized losses	2,197	3,825,680	3,827,877
Contributions	-	9,554,828	9,554,828
Appropriations of endowment for expenditures	(67)	(1,402,468)	(1,402,535)
Transfers	-	(1,677,419)	(1,677,419)
	<u>\$ 37,547</u>	<u>\$ 70,354,341</u>	<u>\$ 70,391,888</u>

During the years ended December 31, 2017 and 2016, the Organization accepted endowment contributions of 5% and 5% interests, respectively, in a limited liability company (RJ Wilemon, LLC) which is invested in various real estate assets. The Organization recorded the initial and subsequent noncash gifts of membership interests in the entity such that the recorded investment is equivalent to the Organization's estimated capital balance within that entity. Wilemon Foundation, the other member of the referenced limited liability company, constitutes a related party to CREATE Foundation due to the partnership interest in the entity and Wilemon Foundation contributes to the endowment fund held by CREATE within which the membership interests in the limited liability company are recorded. Cash contributions received during 2017 and 2016 from Wilemon Foundation amounted to \$688,739 and \$388,374, respectively.

The Organization anticipates that the underlying real estate assets of the limited liability company will be liquidated in an orderly fashion, converting the membership interest assets to cash to be subsequently invested in accordance with the Organization's investment policies for endowment assets.

**NOTE 4. INVESTMENT SECURITIES**

Investment securities exclusive of endowment assets disclosed in Note 3 are unrestricted and temporarily restricted. Investment security asset allocations maintained in the unrestricted and temporarily restricted fund follows:

		<i>December 31, 2017</i>		
		<i>Cost</i>	<i>Fair Value</i>	<i>Carrying Value</i>
U.S. government agencies		\$ 2,289,019	\$ 2,294,216	\$ 2,294,216
General government income funds		-	-	-
		<u>\$ 2,289,019</u>	<u>\$ 2,294,216</u>	<u>\$ 2,294,216</u>
		<i>Temporarily</i>		
		<i>Unrestricted</i>	<i>Restricted</i>	<i>Total</i>
Fund allocation		<u>\$ 137,100</u>	<u>\$ 2,157,116</u>	<u>\$ 2,294,216</u>

		<i>December 31, 2016</i>		
		<i>Cost</i>	<i>Fair Value</i>	<i>Carrying Value</i>
U.S. government agencies		\$ 2,246,026	\$ 2,259,503	\$ 2,259,503
General government income funds		972,293	972,618	972,618
		<u>\$ 3,218,319</u>	<u>\$ 3,232,121</u>	<u>\$ 3,232,121</u>
		<i>Temporarily</i>		
		<i>Unrestricted</i>	<i>Restricted</i>	<i>Total</i>
Fund allocation		<u>\$ 108,247</u>	<u>\$ 3,123,874</u>	<u>\$ 3,232,121</u>

The following schedule summarizes the investment return, exclusive of endowment assets, and its classification in the unrestricted and temporarily restricted category of the statement of activities:

		<i>Year Ended</i>	
		<i>December 31, 2017</i>	
		<i>Unrestricted</i>	<i>Temporarily Restricted</i>
Interest income		\$ 69,683	\$ -
Realized gain		-	-
Unrealized loss		(11,604)	-
Total investment return		<u>\$ 58,079</u>	<u>\$ -</u>

		<i>Year Ended</i>	
		<i>December 31, 2016</i>	
		<i>Unrestricted</i>	<i>Temporarily Restricted</i>
Interest income		\$ 60,295	\$ 30
Realized loss		-	-
Unrealized gains		12,448	-
Total investment return		<u>\$ 72,743</u>	<u>\$ 30</u>

## NOTE 5. FAIR VALUE

“Fair value” is defined by FASB ASC 820 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. FASB ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Organization. Unobservable inputs are inputs that reflect the Organization’s assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available under the circumstances. The hierarchy is broken down into the following three levels, based on the reliability of inputs:

- Level 1      Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.
- Level 2      Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data.
- Level 3      Significant unobservable inputs for the asset or liability that reflect the reporting entity’s own assumptions about the assumptions that market participants would use in pricing the asset or liability.

### ***Determination of Fair Value***

The Organization uses the valuation methodologies listed below to measure different financial instruments at fair value. An indication of the level in the fair value hierarchy in which each instrument is generally classified is included. Where appropriate, the description includes details of the valuation models, the key inputs to those models as well as any significant assumptions.

### ***Marketable equity securities, mutual funds, index funds, stocks and government income funds***

Marketable equity securities, mutual funds, index funds, stocks and government income funds are valued at the closing price reported on the active market on which the individual securities or funds are traded.

### ***U.S. government agencies***

U.S. government agencies are generally determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities’ relationship to other benchmark quoted securities.

### ***Other investments***

Other investments consist of the Organization’s investment in its wholly owned subsidiary, which is valued at the subsidiary’s recorded equity balance, investment in Hatteras funds based on management’s unconfirmed estimate of net assets, and membership interests in limited liability companies valued at the estimated capital balance of those entities.

### **Endowments**

The following tables present the balances of endowment assets and liabilities measured at fair value on a recurring basis:

Notes to Financial Statements – (continued)

NOTE 5. FAIR VALUE (continued)

	<i>December 31, 2017</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Marketable equity securities	\$ 471,488	\$ -	\$ -	\$ 471,488
Mutual funds	62,725,189	-	-	62,725,189
Index funds	20,374,753	-	-	20,374,753
Membership interests in LLCs	-	-	1,943,545	1,943,545
Alternative investments	-	-	148,791	148,791
	<u>\$ 83,571,430</u>	<u>\$ -</u>	<u>\$ 2,092,336</u>	<u>\$ 85,663,766</u>

	<i>December 31, 2016</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Marketable equity securities	\$ 728,854	\$ -	\$ -	\$ 728,854
Mutual funds	50,099,359	-	-	50,099,359
Index funds	16,831,858	-	-	16,831,858
Membership interests in LLCs	-	-	1,779,021	1,779,021
Alternative investments	-	-	190,934	190,934
	<u>\$ 67,660,071</u>	<u>\$ -</u>	<u>\$ 1,969,955</u>	<u>\$ 69,630,026</u>

The following table sets forth a summary of changes in the fair value of the endowment's level 3 assets for the year ended December 31, 2017:

	<i>Membership Interests in LLCs</i>	<i>Alternative Investments</i>
Balance, beginning of year	\$ 1,779,021	\$ 190,934
Membership interests contributed	164,524	-
Unrealized gains (losses)	-	(2,695)
Settlements	-	(39,448)
	<u>\$ 1,943,545</u>	<u>\$ 148,791</u>

**Non-endowed investment securities, other investments and stocks**

The following table presents the balances of non-endowed assets and liabilities measured at fair value on a recurring basis:

	<i>December 31, 2017</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
U.S. government agencies	\$ -	\$ 2,294,216	\$ -	\$ 2,294,216
Government income funds	-	-	-	-
Journal, Inc. stock	-	-	22,050,041	22,050,041
Other stock gifts	4,622	-	-	4,622
	<u>\$ 4,622</u>	<u>\$ 2,294,216</u>	<u>\$ 22,050,041</u>	<u>\$ 24,348,879</u>

**NOTE 5. FAIR VALUE** (continued)

	<i>December 31, 2016</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
U.S. government agencies	\$ -	\$ 2,259,503	\$ -	\$ 2,259,503
Government income funds	972,618	-	-	972,618
Journal, Inc. stock	-	-	22,401,138	22,401,138
Other stock gifts	10,535	-	-	10,535
	<u>\$ 983,153</u>	<u>\$ 2,259,503</u>	<u>\$ 22,401,138</u>	<u>\$ 25,643,794</u>

The following table sets forth a summary of changes in the fair value of the non-endowed level 3 assets for the year ended December 31, 2017:

	<i>Journal, Inc. Stock</i>
Balance, beginning of year	\$ 22,401,138
Change in subsidiary equity	<u>(351,097)</u>
	<u>\$ 22,050,041</u>

The Organization has no assets or liabilities recorded at fair value on a nonrecurring basis.

**NOTE 6. INVESTMENT IN SUBSIDIARY**

Journal, Inc. is the wholly owned subsidiary of the Organization. The stock is carried in the financial statements at the subsidiary's equity. Journal, Inc.'s summarized financial information at December 31, 2017 and 2016 and for the years then ended is as follows:

	<i>2017</i>	<i>2016</i>
Current assets	\$ 5,912,486	\$ 5,600,149
Investments	9,684,317	10,229,504
Property and equipment, net	14,393,688	14,281,353
Other assets	3,295,749	1,609,198
Total assets	<u>33,286,240</u>	<u>31,720,204</u>
Current liabilities	5,592,035	4,196,234
Long-term debt	5,459,599	3,467,047
Deferred income taxes	-	104,819
Pension liability	184,565	1,550,966
Total liabilities	<u>11,236,199</u>	<u>9,319,066</u>
Subsidiary equity	<u>\$ 22,050,041</u>	<u>\$ 22,401,138</u>
Loss from operations	\$ (3,004,422)	\$ (1,109,856)
Other income	667,308	846,113
Provision for income taxes	653,593	109,906
Net income (loss)	<u>\$ (1,683,521)</u>	<u>\$ (153,837)</u>



**NOTE 7. INVESTMENT IN R. J. WILEMON, LLC**

As discussed in Note 3, the Organization has received an ownership interest in R. J. Wilemon, LLC in the form of non-cash charitable contributions. The membership interest in that entity is carried at the estimated tax-basis capital balance attributed to that ownership interest. R. J. Wilemon, LLC’s summarized, unaudited, tax-basis financial information at December 31, 2016 and for the year then ended is as follows:

	<u>2016</u>
Current assets	\$ 85,259
Building and other depreciable assets, net	2,582,552
Land	<u>1,584,715</u>
Total assets	<u>4,252,526</u>
Current liabilities	<u>5,636</u>
Member's Capital	<u>\$ 4,246,890</u>
Rental income	\$ 225,406
Capital gains	87,666
Charitable contributions	(235)
Operating expenses	<u>(613,073)</u>
Net loss	<u>\$ (300,236)</u>

R. J. Wilemon, LLC’s December 31, 2017 financial information was not available at the date these financial statements were available to be issued.

**NOTE 8. EMPLOYEE BENEFIT PLAN**

The Organization provides a tax-deferred annuity program (403b plan) to all full-time, regular employees. The Organization contributes up to 10% (based on years of service) of all full-time eligible employees’ salary to the employee designated account within the plan. During the first year of full-time employment, employees can contribute up to 10% of their pre-tax salary into the plan. After the first complete year of full-time employment, employees may contribute up to 15% of their salaries to the plan. The Organization’s contributions to the plan in 2017 and 2016 were \$44,870 and \$43,459, respectively.

**NOTE 9. RESTRICTED NET ASSETS**

Permanently restricted net assets consisted of the following:

	<u>December 31,</u>	
	<u>2017</u>	<u>2016</u>
Organizational/Agency endowment funds	\$ 4,351,134	\$ 3,716,236
Scholarship endowment funds	3,122,145	2,692,676
Education endowment funds	46,890,135	36,057,036
Field of interest endowment funds	20,482,237	16,917,234
Community endowment funds	7,546,774	6,716,422
Designated endowments	<u>4,695,678</u>	<u>4,254,737</u>
	<u>\$ 87,088,103</u>	<u>\$ 70,354,341</u>

**NOTE 9. RESTRICTED NET ASSETS** (continued)

Temporarily restricted net assets consisted of the following:

	<i>December 31,</i>	
	<u>2017</u>	<u>2016</u>
Advised funds yet to be disbursed	\$ 3,052,206	\$ 2,397,100
Designated contributions yet to be disbursed	316,400	331,640
CREATE Foundation, Inc. special project funds	3,591,460	3,330,065
Scholarship funds	331,856	278,037
Program service funds	112,714	1,008,584
Supporting organization funds	<u>210</u>	<u>145</u>
	7,404,846	7,345,571
Journal, Inc. stock	<u>1,003,440</u>	<u>1,003,440</u>
	<u>\$ 8,408,286</u>	<u>\$ 8,349,011</u>

**NOTE 10. TRANSFERS**

During 2017 and 2016, the Organization transferred \$1,781,505 and \$1,677,419, respectively, from permanently restricted funds to temporarily restricted and unrestricted funds as directed by the Board of Directors.

**NOTE 11. COMMITMENTS AND CONTINGENCIES**

As of December 31, 2017, the Organization had commitments for grants awarded, not yet paid, for the following purposes or to the following agencies or organizations:

Commission on the Future of NE MS	\$ 6,890
Affiliate Administrative Support	<u>18,301</u>
	<u>\$ 25,191</u>

**NOTE 12. LEASES**

The Organization leases a copier under terms accounted for as an operating lease. Future minimum lease payments required under the lease are as follows:

2018	\$	5,904
2019	\$	5,904

**NOTE 13. MAJOR DONOR**

Toyota Motor North America, Inc. has committed \$ 50 million in contributions over a ten year period to fund the Toyota Education Enhancement Endowment Fund. Total support in each of the years presented in the Statements of Support, Revenues, Expenses, and Changes in Net Assets – Modified Cash Basis includes \$5 million received from that entity toward their commitment which terminates in May of 2020.

**NOTE 14. OTHER NON-CASH CONTRIBUTIONS RECEIVED**

In addition to the LLC Membership interest discussed in Note 3, the Organization also accepted other noncash gifts during the course of 2016.

In June of 2016, the Organization accepted the contribution of 3.30 acres of commercial property located in Pontotoc, Mississippi on behalf of a special project for which the Organization acts as fiscal agent. The special project recognized contribution income of \$200,000 for the gift, equal to the appraised value of the property. The

**NOTE 14. OTHER NON-CASH CONTRIBUTIONS RECEIVED** (continued)

property subsequently sold for \$50,000 less costs to sell, resulting in a loss of \$158,484 allocated to that special project and included in other losses in temporarily restricted funds on the 2016 statement of activities. During 2017, the Organization also sold the Oaks Apartment complex, which was donated in 2014, for \$603,750 less costs to sell, resulting in a loss of \$345,742 included in other losses in temporarily restricted funds on the 2017 statement of activities

The Organization also accepted, as unrestricted contributions, the donation of various life insurance policies during 2016. The Statement of activities includes contribution income equal to the cash surrender value of the policies contributed of \$134,764 during 2016.