

**THE COMMUNITY FOUNDATION
OF SOUTH ALABAMA AND SUBSIDIARIES**

Consolidated Financial Statements

For the Years Ended
September 30, 2017 and 2016



**THE COMMUNITY FOUNDATION
OF SOUTH ALABAMA AND SUBSIDIARIES**

Independent Auditor's Report	2
Consolidated Statement of Financial Position	4
Consolidated Statement of Activities	5
Consolidated Statement of Functional Expenses	7
Consolidated Statement of Cash Flows	9
Notes to Consolidated Financial Statements	10

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
The Community Foundation of South Alabama and Subsidiaries
Mobile, Alabama

We have audited the accompanying consolidated financial statements of The Community Foundation of South Alabama (a nonprofit organization) and Subsidiaries, which comprise the consolidated statement of financial position as of September 30, 2017 and 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the 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 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 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 consolidated financial statements are free from 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.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Community Foundation of South Alabama and Subsidiaries as of September 30, 2017 and 2016, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Russell Thompson Butler & Houston, LLP

*Mobile Alabama
March 7, 2018*

**THE COMMUNITY FOUNDATION
OF SOUTH ALABAMA AND SUBSIDIARIES**

Consolidated Statement of Financial Position

September 30	2017	2016
Assets		
Cash and cash equivalents	\$ 489,842	\$ 330,607
Investments	73,502,107	69,914,422
Accounts receivable	1,025,233	5,595
Deferred annuity cost, net of accumulated amortization of \$345,742 and \$320,597	29,336	54,481
Prepaid expenses	19,463	21,383
Property and equipment, net	532,756	555,111
Total assets	\$ 75,598,737	\$ 70,881,599
Liabilities		
Accounts payable	\$ 42,419	\$ 51,185
Grants payable	10,500	107,321
Deferred revenue	153,537	40,139
Charitable gift annuity liability	282,142	304,473
Agency endowment funds held	16,398,549	16,444,503
Total liabilities	16,887,147	16,947,621
Net Assets		
Unrestricted		
Donor advised	21,940,007	21,717,779
Field-of-interest	3,647,036	1,312,547
Operating	1,746,104	1,212,240
Designated	18,282,044	17,627,187
Scholarship	4,268,308	3,769,747
Supporting foundation	1,784,874	1,682,556
Undesignated	5,901,712	5,488,333
Total unrestricted	57,570,085	52,810,389
Temporarily restricted		
Pooled income	426,088	396,190
Charitable gift annuity	715,417	727,399
Total temporarily restricted	1,141,505	1,123,589
Total net assets	58,711,590	53,933,978
Total liabilities and net assets	\$ 75,598,737	\$ 70,881,599

See notes to consolidated financial statements

**THE COMMUNITY FOUNDATION
OF SOUTH ALABAMA AND SUBSIDIARIES**

Consolidated Statement of Activities

Year Ended September 30, 2017	Unrestricted	Temporarily Restricted	Total
Revenues, gains and other support			
Administrative fees	\$ 843,798	\$ -	\$ 843,798
Contributions	3,287,300	-	3,287,300
Grants - foundations and governments	235,019	-	235,019
In-kind contributions	350	-	350
Interfund contributions	212,805	-	212,805
Investment income	917,178	30,215	947,393
Realized investment gains	1,754,421	22,804	1,777,225
Unrealized investment gains	2,372,364	69,086	2,441,450
BP oil spill settlement	255,508	-	255,508
Other income	65,129	-	65,129
Change in liabilities under split-interest agreements	-	(45,750)	(45,750)
Total revenues, gains and other support	9,943,872	76,355	10,020,227
Releases from restriction	58,439	(58,439)	-
Total support, revenues and releases	10,002,311	17,916	10,020,227
Expenses			
Program services	4,541,771	-	4,541,771
Supporting services			
Management and general	315,928	-	315,928
Fund-raising	384,916	-	384,916
Total expenses	5,242,615	-	5,242,615
Increase in net assets	4,759,696	17,916	4,777,612
Net assets			
Beginning of year	52,810,389	1,123,589	53,933,978
End of year	\$ 57,570,085	\$ 1,141,505	\$ 58,711,590

See notes to consolidated financial statements

**THE COMMUNITY FOUNDATION
OF SOUTH ALABAMA AND SUBSIDIARIES**

Consolidated Statement of Activities (continued)

Year Ended September 30, 2016	Unrestricted	Temporarily Restricted	Total
Revenues, gains and other support			
Administrative fees	\$ 763,150	\$ -	\$ 763,150
Contributions	1,552,969	-	1,552,969
Grants - foundations and governments	193,824	-	193,824
In-kind contributions	15,881	-	15,881
Interfund contributions	541,621	-	541,621
Investment income	891,636	25,425	917,061
Realized investment gains	967,374	16,879	984,253
Unrealized investment gains	2,147,998	48,072	2,196,070
(Loss) on disposal of property and equipment	(471)	-	(471)
Other income	62,531	-	62,531
Change in liabilities under split-interest agreements	-	(54,793)	(54,793)
Total revenues, gains and other support	7,136,513	35,583	7,172,096
Releases from restriction	69,267	(69,267)	-
Total support, revenues and releases	7,205,780	(33,684)	7,172,096
Expenses			
Program services	3,911,558	-	3,911,558
Supporting services			
Management and general	268,403	-	268,403
Fund-raising	267,868	-	267,868
Total expenses	4,447,829	-	4,447,829
Increase (decrease) in net assets	2,757,951	(33,684)	2,724,267
Net assets			
Beginning of year	50,052,438	1,157,273	51,209,711
End of year	\$ 52,810,389	\$ 1,123,589	\$ 53,933,978

See notes to consolidated financial statements

**THE COMMUNITY FOUNDATION
OF SOUTH ALABAMA AND SUBSIDIARIES**

Consolidated Statement of Functional Expenses

Year Ended September 30, 2017	Program Services	Supporting Services			Totals
		Management and General	Fund- Raising	Total	
Administrative fees	\$ 677,689	\$ -	\$ -	\$ -	\$ 677,689
Advertising and public relations	251	260	419	679	930
Annuity costs	25,145	-	-	-	25,145
Bank service charges, commissions, and processing fees	543	15,716	1,142	16,858	17,401
Computer and equipment	16,643	17,260	27,739	44,999	61,642
Conferences, dues, and subscriptions	3,033	21,629	2,218	23,847	26,880
Depreciation	745	20,785	825	21,610	22,355
Grant distributions	3,400,209	-	-	-	3,400,209
Income distributions	5,688	-	-	-	5,688
Insurance	11,663	4,566	15	4,581	16,244
Interfund grants	213,805	-	-	-	213,805
Meetings and special events	14,042	6,118	26,228	32,346	46,388
Miscellaneous	49	1,017	59	1,076	1,125
Office expense	2,725	5,501	10,787	16,288	19,013
Personnel	145,917	178,766	277,395	456,161	602,078
Professional fees	17,388	18,032	28,979	47,011	64,399
Repairs and maintenance	249	6,935	275	7,210	7,459
Travel	1,118	1,159	1,863	3,022	4,140
Utilities, telephone, and janitorial	3,595	17,547	5,698	23,245	26,840
Website and programming	1,274	637	1,274	1,911	3,185
Totals	\$ 4,541,771	\$ 315,928	\$ 384,916	\$ 700,844	\$ 5,242,615

See notes to consolidated financial statements

**THE COMMUNITY FOUNDATION
OF SOUTH ALABAMA AND SUBSIDIARIES**

Consolidated Statement of Functional Expenses (continued)

Year Ended September 30, 2016	Program Services	Supporting Services			Totals
		Management and General	Fund- Raising	Total	
Administrative fees	\$ 623,013	\$ -	\$ -	\$ -	\$ 623,013
Advertising and public relations	10,921	659	952	1,611	12,532
Annuity costs	25,145	-	-	-	25,145
Bank service charges, commissions, and processing fees	20,283	888	889	1,777	22,060
Computer and equipment	23,095	15,264	22,047	37,311	60,406
Conferences, dues, and subscriptions	6,213	9,765	1,541	11,306	17,519
Contract labor and consulting	33,619	570	-	570	34,189
Depreciation	875	24,427	969	25,396	26,271
Grant distributions	2,708,169	-	-	-	2,708,169
Income distributions	7,463	-	-	-	7,463
Insurance	7,549	4,752	22	4,774	12,323
Interfund grants	179,914	-	-	-	179,914
Meetings and special events	49,201	11,454	560	12,014	61,215
Miscellaneous	26	16,178	30	16,208	16,234
Office expense	8,810	4,700	9,811	14,511	23,321
Personnel	192,881	153,170	221,245	374,415	567,296
Professional fees	6,931	1,916	2,767	4,683	11,614
Repairs and maintenance	180	5,047	201	5,248	5,428
Travel	1,736	782	1,130	1,912	3,648
Utilities, telephone, and janitorial	5,049	18,601	5,244	23,845	28,894
Website and programming	485	230	460	690	1,175
Totals	\$ 3,911,558	\$ 268,403	\$ 267,868	\$ 536,271	\$ 4,447,829

See notes to consolidated financial statements

**THE COMMUNITY FOUNDATION
OF SOUTH ALABAMA AND SUBSIDIARIES**

Consolidated Statement of Cash Flows

Year Ended September 30	2017	2016
Cash flows from operating activities		
Increase in net assets	\$ 4,777,612	\$ 2,724,267
Adjustments to reconcile increase in net assets to net cash flows (used in) operating activities:		
Realized and unrealized (gains) on investments, net	(4,218,675)	(3,180,323)
Depreciation	22,355	26,271
Annuity costs	70,895	79,938
Loss on disposal of property and equipment	-	471
Decrease (increase) in assets:		
Accounts receivable	(1,019,638)	(5,595)
Prepaid expenses	1,920	(2,295)
Increase (decrease) in liabilities:		
Accounts payable	(8,766)	14,779
Grants payable	(96,821)	(47,220)
Deferred revenue	113,398	(53,867)
Agency endowment funds held	163,657	(195,412)
Net cash (used in) operating activities	(194,063)	(638,986)
Cash flows from investing activities		
Purchases of investments	(4,517,375)	(1,767,072)
Proceeds from sales of investments	3,400,209	2,708,171
Agency endowment funds purchases of investments	(340,329)	(824,506)
Agency endowment funds proceeds from sales of investments	1,878,334	591,822
Purchase of property and equipment	-	(14,438)
Net cash provided by investing activities	420,839	693,977
Cash flows from financing activities		
Payments on charitable gift annuity liabilities	(67,541)	(69,267)
Net cash (used in) financing activities	(67,541)	(69,267)
Net change in cash and cash equivalents	159,235	(14,276)
Cash and cash equivalents		
Beginning of year	330,607	344,883
End of year	\$ 489,842	\$ 330,607

See notes to consolidated financial statements

THE COMMUNITY FOUNDATION OF SOUTH ALABAMA AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30, 2017 and 2016

Note 1 – General purpose and activities

The Community Foundation of South Alabama (“the Foundation”) seeks to build permanent endowments for the long range future of the region it serves and to draw from the strengths of the region’s diverse population in designing and funding innovative programs which meet community needs. Serving as responsible stewards of these funds, the Foundation makes grants to nonprofit organizations in the fields of anti-crime and abuse, arts and culture, civic and community, education, environment and animals, health, human services, and recreation. The Foundation’s mission statement is as follows: “The Community Foundation of South Alabama assembles and directs philanthropic assets to make southwest Alabama a better place.”

Note 2 – Summary of significant accounting policies

Basis of accounting

The consolidated financial statements of the Foundation are prepared on the accrual basis of accounting.

Principles of consolidation

The accompanying consolidated financial statements include accounts of The Community Foundation of South Alabama and its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Use of estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Cash and cash equivalents

The Foundation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. The Foundation considers amounts in its operating and petty cash accounts to be cash.

**THE COMMUNITY FOUNDATION
OF SOUTH ALABAMA AND SUBSIDIARIES**

Notes to Consolidated Financial Statements (continued)

September 30, 2017 and 2016

Note 2 – Summary of significant accounting policies (continued)

Contributed services

The costs of services, if donated, are recorded at the estimated fair value of the services at the date of the donation. Donated labor and services are only recorded for specialized skills which would typically be purchased if not donated. Donated labor and services not meeting these criteria are not recorded. During the years ended September 30, 2017 and 2016, the value of contributed services meeting requirements for recognition in the consolidated financial statements was \$350 and \$15,881, respectively.

Investments

Investments are made according to the investment objectives and policies adopted by the Board of Directors. Investments are initially recorded at fair value under the provisions of fair value measurement and disclosures codified in ASC 820, *Fair Value Measurement*. The Foundation adjusts its investments to approximate fair value at each year-end. In addition, the Foundation records accrued interest income. Marketable securities are stated at aggregate current value. Securities which are traded on a national securities exchange or in the over-the-counter market are generally valued at the average bid price on the last business day of the year. Government issues and Treasury obligations are valued at their quoted price on the last business day of the year. Common trust fund units of trustee banks are valued by the trustee of the fund. All real estate investments are recorded at cost at the date of acquisition, except for real estate received in the form of donations which is recorded at the appraised value at the date of donation.

The change in the difference between current value and the cost of investments for each period is recognized currently as unrealized gains (losses) in the fair value of investments. Cost of dispositions of securities is determined using the first-in, first-out method.

Fair values of alternative investments that do not have readily ascertainable market values are valued in accordance with valuations provided by the general partners or fund managers of the underlying partnerships or companies. Because these investments are not marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for the investment existed.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain long-term investments, it is reasonably possible that changes in the values of these investments will occur in the near term and that such changes could materially affect the amounts reported in the consolidated statement of financial position.

**THE COMMUNITY FOUNDATION
OF SOUTH ALABAMA AND SUBSIDIARIES**

Notes to Consolidated Financial Statements (continued)

September 30, 2017 and 2016

Note 2 – Summary of significant accounting policies (continued)

Accounts receivable

Unconditional promises to give are recorded as contributions or grants when received at the net present value of the amounts expected to be collected.

Property and equipment

Property and equipment are recorded at cost or, in the case of gifts, at fair value at the date of donation. Purchases or gifts of property and equipment, and significant repairs and additions which extend the useful life of existing assets are capitalized in accordance with adopted policy. Furniture and equipment are depreciated over estimated useful lives ranging from five to seven years using the straight-line method.

Deferred revenue

Contract revenue is recognized over the term of the related contract. Revenue received in advance of the period during which services are to be provided is recorded as deferred revenue.

Agency endowment funds

Agency endowment funds arise from asset transfers to the Foundation in which donors have named themselves or an affiliate as beneficiary of the designated funds established. Although the Foundation retains variance power and legal control over these funds and follows the accrual basis of accounting, the Foundation has concluded that these transfers fall under the guidance of ASC Section 958, *Not-for-Profit Entities*, relating to transfers with granted variance power that are not considered contributions because the resource provider specifies itself as the beneficiary. Therefore, agency endowment funds are reported as a liability in the Consolidated Statement of Financial Position.

Classification of net assets

The net assets of the Foundation consist of unrestricted and temporarily restricted net assets based upon the existence or absence of donor-imposed restrictions. The Foundation does not have any permanently restricted net assets.

All contributions, including those with donor-imposed restrictions, are subject to the variance power established by the Foundation's governing documents. The variance provision gives the Board of Directors the power to modify any restriction placed on gifts to the Foundation which cannot be fulfilled or is no longer consistent with the charitable needs of the community. Accordingly, unless time restrictions have been imposed on contributions, net assets are generally classified as unrestricted net assets.

**THE COMMUNITY FOUNDATION
OF SOUTH ALABAMA AND SUBSIDIARIES**

Notes to Consolidated Financial Statements (continued)

September 30, 2017 and 2016

Note 2 – Summary of significant accounting policies (continued)

Classification of net assets (continued)

Under the Foundation's charter, the Board of Directors determines at the date of the gift whether the donor's wishes are in keeping with the purpose of the Foundation and in accordance with regulations relating to charitable gifts of the Internal Revenue Service. If so, compliance with the wishes of the donor becomes the responsibility of the Board, and the funds are designated for that purpose as long as the purpose exists. The Board will consider suggestions from the donor with the understanding that the final decision must be made by the Board.

The supporting service revenues related to operating unrestricted net assets consist primarily of administrative fees from other funds. These fees are used to cover normal operating expenses and to conduct daily activities. The Foundation adopted a new tier fee structure for funds established after January 1, 2015. Under the new fee structure, fees are assessed quarterly on a sliding scale based on the charitable fund's fair market value. Fees also vary by fund type, as some funds require additional management oversight. Funds established prior to January 1, 2015, are grandfathered under the previously existing tier fee structure.

The unrestricted program service revenues consist of donor contributions received and income earned on investments.

The temporarily restricted net assets consist of the pooled income fund and charitable gift annuity as described in Note 5.

Functional expense allocations

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the benefitting programs and supporting services.

Grant distributions

Unconditional grants are recognized as an expense in the period in which they are approved by the Board of Directors. Grant distributions are made from available principal and income in accordance with policy and designations of donors or according to the spending policy of the final agreement.

**THE COMMUNITY FOUNDATION
OF SOUTH ALABAMA AND SUBSIDIARIES**

Notes to Consolidated Financial Statements (continued)

September 30, 2017 and 2016

Note 2 – Summary of significant accounting policies (continued)

Advertising and public relations

All advertising and public relations costs are expensed as incurred. Advertising and public relations expense was \$930 and \$12,532 for the years ended September 30, 2017 and 2016, respectively.

Concentration of credit risk

The Foundation maintains balances in deposit accounts which, at times, may exceed federally insured limits. At September 30, 2017, the balance in the Foundation's bank accounts, as reflected by the bank, exceeded the federal insurance limits by \$313,519.

Most investment securities owned by the Foundation are held in safekeeping by various financial institutions and brokerage firms. These financial institutions and brokerage firms have not provided any collateral to insure the Foundation against possible losses. There are regulations (codified in the Code of Federal Regulations) that require trust assets to be held separately from corporate assets. The trust company does not assume "ownership" of the assets and cannot use those assets for corporate uses. Accordingly, if a trust company fails, trust client assets are not subject to claims of creditors.

Spending policy

The Foundation's Investment Policy requires an equilibrium spending rate of 5%, calculated on a 20-quarter rolling average.

Taxes

The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as an organization, which is not a private foundation.

Uncertain tax positions

The Foundation follows the accounting requirements associated with uncertainty in income taxes using the provisions of ASC 740, *Income Taxes*. Using that guidance, tax positions initially need to be recognized in the consolidated financial statements when it is more-likely-than-not the positions will be sustained upon examination by the tax authorities. It also provides guidance for derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. As of September 30, 2017, the Foundation had no uncertain tax positions that qualify for either recognition or disclosure in the consolidated financial statements. With few exceptions, the Foundation is no longer subject to Federal or state income tax examinations by taxing authorities for years before 2014.

**THE COMMUNITY FOUNDATION
OF SOUTH ALABAMA AND SUBSIDIARIES**

Notes to Consolidated Financial Statements (continued)

September 30, 2017 and 2016

Note 2 – Summary of significant accounting policies (continued)

Date of management's review

Management's evaluation of subsequent events through March 7, 2018, which is the date the consolidated financial statements were available to be issued revealed no significant matters to be recorded or disclosed, except as noted in Note 9.

Note 3 – Investments

Investments consist of the following:

September 30, 2017	Carrying Value	Cost / Fair Value at Donation	Unrealized Gain (Loss)	Carrying Value Percentage
Mutual funds:				
Stocks	\$ 38,348,645	\$ 21,963,037	\$ 16,385,608	52.17%
Bonds	13,331,532	13,375,605	(44,073)	18.14%
Treasury securities	8,978,182	9,563,262	(585,080)	12.21%
Alternative investments - offshore investment funds	5,029,242	3,818,641	1,210,601	6.84%
Alternative investments - stocks	36,330	34,637	1,693	0.05%
Cash in money market accounts	4,975,582	4,975,582	-	6.77%
Common stocks	1,083,527	929,227	154,300	1.47%
Closely held stock	1	1	-	0.00%
Real estate	1,500,000	1,500,000	-	2.04%
Other assets	5,554	5,554	-	0.01%
Life insurance (cash value)	157,336	201,016	(43,680)	0.21%
Bonds:				
Corporate	51,072	45,463	5,609	0.07%
Municipal	5,104	5,081	23	0.02%
Totals	\$ 73,502,107	\$ 56,417,106	\$ 17,085,001	100.00%

**THE COMMUNITY FOUNDATION
OF SOUTH ALABAMA AND SUBSIDIARIES**

Notes to Consolidated Financial Statements (continued)

September 30, 2017 and 2016

Note 3 – Investments (continued)

September 30, 2016	Carrying Value	Cost / Fair Value at Donation	Unrealized Gain (Loss)	Carrying Value Percentage
Mutual funds:				
Stocks	\$ 38,479,527	\$ 26,073,643	\$ 12,405,884	55.04%
Bonds	12,796,432	12,649,190	147,242	18.30%
Treasury securities	8,864,848	8,784,467	80,381	12.68%
Alternative investments - offshore investment funds	6,873,748	4,579,736	2,294,012	9.83%
Alternative investments - stocks	45,363	42,345	3,018	0.06%
Cash in money market accounts	1,820,714	1,820,714	-	2.60%
Common stocks	742,536	720,406	22,130	1.06%
Closely held stock	35,170	35,170	-	0.05%
Other assets	5,554	5,554	-	0.01%
Life insurance (cash value)	151,467	187,499	(36,032)	0.22%
Bonds:				0.00%
Corporate	50,563	45,586	4,977	0.07%
Municipal	48,500	46,797	1,703	0.08%
Totals	\$ 69,914,422	\$ 54,991,107	\$ 14,923,315	100.00%

Fair value measurements

In accordance with ASC 820, *Fair Value Measurement*, fair value is defined as the price that the Foundation would receive upon selling an asset in an orderly transaction to an independent buyer in the principal or most advantageous market of the asset. ASC 820, *Fair Value Measurement* established a three-tier hierarchy to maximize the use of observable market data and minimize the use of unobservable inputs, and to establish classification of fair value measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the assets or liability developed based on market data obtained from sources independent of the reporting entity. Unobservable inputs are inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available. The three-tier hierarchy of inputs is summarized in the three broad levels listed as follows:

**THE COMMUNITY FOUNDATION
OF SOUTH ALABAMA AND SUBSIDIARIES**

Notes to Consolidated Financial Statements (continued)

September 30, 2017 and 2016

Note 3 – Investments (continued)

- Level 1 – quoted prices in active markets for identical assets
- Level 2 – other significant observable inputs (including quoted prices for similar assets, interest rates, prepayment speeds, and credit risk)
- Level 3 – significant unobservable inputs (including the Foundation’s own assumptions in determining the fair value of assets)

The fair value measurements and levels within the fair value hierarchy of those measurements for the assets reported at fair value on a recurring basis at September 30, 2017, were as follows:

	Fair Value	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2017				
Mutual funds:				
Stocks	\$ 38,348,645	\$ 38,348,645	\$ -	\$ -
Bonds	13,331,532	13,331,532	-	-
Treasury securities	8,978,182	8,978,182	-	-
Alternative investments - offshore investment funds	5,029,242	-	5,029,242	-
Alternative investments - stocks	36,330	-	36,330	-
Cash in money market accounts	4,975,582	4,975,582	-	-
Common stocks	1,083,527	1,083,527	-	-
Closely held stock	1	-	-	1
Real estate	1,500,000	-	-	1,500,000
Other assets	5,554	-	-	5,554
Life insurance (cash value)	157,336	-	-	157,336
Bonds:				
Corporate	51,072	-	51,072	-
Municipal	5,104	-	5,104	-
Totals	\$ 73,502,107	\$ 66,717,468	\$ 5,121,748	\$ 1,662,891

**THE COMMUNITY FOUNDATION
OF SOUTH ALABAMA AND SUBSIDIARIES**

Notes to Consolidated Financial Statements (continued)

September 30, 2017 and 2016

Note 3 – Investments (continued)

	Fair Value	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2016				
Mutual funds:				
Stocks	\$ 38,479,527	\$ 38,479,527	\$ -	\$ -
Bonds	12,796,432	12,796,432	-	-
Treasury securities	8,864,848	8,864,848	-	-
Alternative investments - offshore investment funds	6,873,748	-	6,873,748	-
Alternative investments - stocks	45,363	-	45,363	-
Cash in money market accounts	1,820,714	1,820,714	-	-
Common stocks	742,536	742,536	-	-
Closely held stock	35,170	-	-	35,170
Other assets	5,554	-	-	5,554
Life insurance (cash value)	151,467	-	-	151,467
Bonds:				
Corporate	50,563	-	50,563	-
Municipal	48,500	-	48,500	-
Totals	\$ 69,914,422	\$ 62,704,057	\$ 7,018,174	\$ 192,191

Level 2 Fair Value Measurements

Alternative investments consist of the Foundation's investment in funds that are further invested in various types of funds that involve varying degrees of risk. Fair value of alternative investments is provided by the investment management company using net asset value calculated on the basis of pricing information obtained from various sources. Bonds are valued using quoted prices from inactive markets as provided by the Foundation's investment brokers.

**THE COMMUNITY FOUNDATION
OF SOUTH ALABAMA AND SUBSIDIARIES**

Notes to Consolidated Financial Statements (continued)

September 30, 2017 and 2016

Note 3 – Investments (continued)

Level 3 Fair Value Measurements

The valuation of the other assets was determined by an appraisal on January 12, 2011. The fair value of the other assets was estimated to be \$5,554, when the assets were contributed. The Foundation has not identified any events or changes in circumstances that may affect the asset's fair market value.

Real estate is carried at the purchase price of the property, purchased by an endowment fund in November 2016.

The fair market value of the life insurance is estimated to equal cash values provided at regular intervals by the applicable insurance company.

The change in Level 3 fair value assets for the year ended September 30, 2017, was as follows:

Balance at October 1, 2016	\$ 192,191
Total gains or losses (realized and unrealized)	-
Unrealized gains on life insurance (cash value)	5,869
Purchases, sales, issuances, and settlements	
Purchases	-
Issuances	-
Sales	-
Settlements	-
Write-down of worthless stock	(35,169)
Transfers in	1,500,000
Transfers out	-
Balance at September 30, 2017	\$ 1,662,891

Transfers in consist of investments reclassified from Level 1 to Level 3 by management. Transfers out consist of assets no longer reported at fair value. There was a transfer of \$1,500,000 to purchase real estate for the year ended September 30, 2017.

**THE COMMUNITY FOUNDATION
OF SOUTH ALABAMA AND SUBSIDIARIES**

Notes to Consolidated Financial Statements (continued)

September 30, 2017 and 2016

Note 4 – Property and equipment

Property and equipment consist of the following:

September 30	2017	2016
Land	\$ 171,000	\$ 171,000
Buildings	249,000	249,000
Improvements	256,183	256,183
Furniture and fixtures	169,609	169,609
	845,792	845,792
Less accumulated depreciation	313,036	290,681
Property and equipment, net	\$ 532,756	\$ 555,111

Depreciation expense for the years ended September 30, 2017 and 2016 was \$22,355 and \$26,271, respectively.

Note 5 – Temporarily restricted net assets

Pooled income fund

In 1986, the Foundation established the pooled income fund, a charitable fund in which donors receive current tax deductions for donated assets which continue to provide a life-time income to the donor. At death, ownership and control over the assets are transferred from the pooled income fund to the Foundation. The net assets of the pooled income fund are classified as temporarily restricted until the death of the donor, at which time the net assets will become unrestricted. The assets in the pooled income fund are adjusted to fair value at year-end.

Charitable gift annuity

In 2001, the Foundation established the charitable gift annuity fund. A charitable gift annuity is a binding contract between the Foundation and a donor.

The contract provides that the donor will contribute property to the Foundation in exchange for an irrevocable promise by the Foundation to pay to the donor a fixed amount for a specified period of time. The payments are guaranteed by the assets of the Foundation and represent a general obligation of the Foundation.

**THE COMMUNITY FOUNDATION
OF SOUTH ALABAMA AND SUBSIDIARIES**

Notes to Consolidated Financial Statements (continued)

September 30, 2017 and 2016

Note 5 – Temporarily restricted net assets (continued)

Charitable gift annuity (continued)

The present value of the future charitable gift annuity payments are estimated using donor life expectancies from IRS tables. For the years ended September 30, 2017 and 2016, the estimated charitable gift annuity liability was \$282,142 and \$304,473, respectively.

The deferred annuity cost on the balance sheet was originally established as the difference between the present value of the guaranteed payments of one \$2 million dollar charitable gift annuity and the \$1 million dollar cash investment in the related insurance policies. The deferred cost is being amortized on the straight-line method over the life expectancy of the annuitants. The amortization expense was \$25,145 for each of the years ended September 30, 2017 and 2016.

Note 6 – Operating leases

The Foundation leases a copy machine under an operating lease expiring in August 2019. Rental expense under this lease was \$3,746 for both years ended September 30, 2017 and 2016. Minimum future rental payments under this non-cancelable operating lease as of September 30, 2017 are:

Year ending September 30	
2018	\$ 3,746
2019	3,434
<hr/>	
Total minimum future rental payments	<u>\$ 7,180</u>

Note 7 – 403(b)(7) Plan

The Foundation has adopted a 403(b)(7) plan for employees 21 years of age or older having one-half year of service. The Foundation makes discretionary matching contributions for eligible employees. The contribution expense for the years ended September 30, 2017 and 2016, was \$16,830 and \$14,973, respectively.

**THE COMMUNITY FOUNDATION
OF SOUTH ALABAMA AND SUBSIDIARIES**

Notes to Consolidated Financial Statements (continued)

September 30, 2017 and 2016

Note 8 – Interfund activity

Individual fund transfers during the year were made to (a) provide contributions or grants to other funds at the donor's request and (b) allocate grant proceeds to appropriate funds in accordance with the grant agreement.

Differences between interfund gift revenue and interfund grant expense are due to deferred (unearned) grant revenue and contributions to or from agency endowment funds that are reported as changes in liability under ASC 958, *Not-for-Profit Entities*.

Note 9 – Pledged assets

The Mobile Opera, Inc. (a donor) has a note payable to a bank dated October 11, 2017. The loan is secured by the Mobile Opera Endowment Fund. The loan has an annual interest rate of 4.5% and requires 60 monthly principal and interest payments of \$1,622. As of September 30, 2017 and 2016, the outstanding loan balance was \$86,995 and \$100,831, respectively. The fair market value of the Mobile Opera Endowment Fund investments was \$223,036 and \$215,760 as of September 30, 2017 and 2016, respectively.