

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

Consolidated Financial Statements  
and  
Supplementary Information

For the Years Ended  
September 30, 2019 and 2018

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**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
<i>Supplementary Information</i>	
Independent Auditor's Report on Supplementary Information	25
Consolidated Schedule of Activities – Operations and Programs (Actual to Budget)	26



## **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, 2019 and 2018 , 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, 2019 and 2018, 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  
May 8, 2020*

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

**Consolidated Statement of Financial Position**

September 30	2019	2018
<b>Assets</b>		
Cash and cash equivalents	\$ 1,326,001	\$ 1,137,666
Investments	77,439,678	76,441,312
Accounts receivable	514,000	1,095,534
Deferred annuity cost, net of accumulated amortization of \$375,078 and \$370,887	-	4,191
Prepaid expenses	50,527	21,261
Property and equipment, net	731,188	511,763
<b>Total assets</b>	<b>\$ 80,061,394</b>	<b>\$ 79,211,727</b>
<b>Liabilities</b>		
Accounts payable	\$ 36,430	\$ 22,118
Grants payable	160,908	265,770
Deferred revenue	-	76,293
Charitable gift annuity liability	124,411	211,043
Agency endowment funds held	18,359,327	17,621,057
<b>Total liabilities</b>	<b>18,681,076</b>	<b>18,196,281</b>
<b>Net Assets</b>		
Without donor restrictions		
Donor advised	23,124,381	23,083,935
Field-of-interest	4,231,989	3,858,036
Operating	1,583,905	2,035,067
Designated	17,881,393	18,115,959
Scholarship	4,733,722	4,747,889
Supporting foundation	1,824,615	1,856,467
Undesignated	5,845,995	5,788,588
Total without donor restrictions	59,226,000	59,485,941
With donor restrictions		
Pooled income	444,682	434,869
Capital campaign	914,692	309,666
Charitable gift annuity	794,944	784,970
Total with donor restrictions	2,154,318	1,529,505
<b>Total net assets</b>	<b>61,380,318</b>	<b>61,015,446</b>
<b>Total liabilities and net assets</b>	<b>\$ 80,061,394</b>	<b>\$ 79,211,727</b>

*See notes to consolidated financial statements*

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

**Consolidated Statement of Activities**

Year Ended September 30, 2019	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues, gains and other support</b>			
Administrative fees	\$ 891,915	\$ -	\$ 891,915
Contributions	1,183,862	604,471	1,788,333
Grants - foundations and governments	76,293	-	76,293
Interfund contributions	350,073	-	350,073
Investment income	1,200,583	73,154	1,273,737
Realized investment gains	1,705,746	-	1,705,746
Unrealized investment (losses)	(1,322,861)	-	(1,322,861)
Other income	54,829	-	54,829
Change in liabilities under split-interest agreements	-	11,367	11,367
<b>Total revenues, gains and other support</b>	<b>4,140,440</b>	<b>688,992</b>	<b>4,829,432</b>
Releases from restriction	64,179	(64,179)	-
<b>Total support, revenues and releases</b>	<b>4,204,619</b>	<b>624,813</b>	<b>4,829,432</b>
<b>Expenses</b>			
Program services	3,858,424	-	3,858,424
Supporting services			
Management and general	405,490	-	405,490
Fund-raising	200,646	-	200,646
<b>Total expenses</b>	<b>4,464,560</b>	<b>-</b>	<b>4,464,560</b>
<b>Increase (decrease) in net assets</b>	<b>(259,941)</b>	<b>624,813</b>	<b>364,872</b>
<b>Net assets</b>			
Beginning of year	59,485,941	1,529,505	61,015,446
End of year	\$ 59,226,000	\$ 2,154,318	\$ 61,380,318

*See notes to consolidated financial statements*

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

**Consolidated Statement of Activities (continued)**

Year Ended September 30, 2018	Without Donor Restrictions	With Donor Restrictions	Total
<b>Revenues, gains and other support</b>			
Administrative fees	\$ 867,580	\$ -	\$ 867,580
Contributions	1,788,978	155,321	1,944,299
Grants - foundations and governments	203,546	-	203,546
Interfund contributions	309,668	-	309,668
Investment income	1,061,914	37,265	1,099,179
Realized investment gains	1,329,299	159,492	1,488,791
Unrealized investment gains (losses)	1,691,621	(121,127)	1,570,494
Other income	49,736	-	49,736
Change in liabilities under split-interest agreements	-	4,266	4,266
<b>Total revenues, gains and other support</b>	<b>7,302,342</b>	<b>235,217</b>	<b>7,537,559</b>
Releases from restriction	(1,656)	1,656	-
<b>Total support, revenues and releases</b>	<b>7,300,686</b>	<b>236,873</b>	<b>7,537,559</b>
<b>Expenses</b>			
Program services	4,436,761	-	4,436,761
Supporting services			
Management and general	597,441	-	597,441
Fund-raising	199,501	-	199,501
<b>Total expenses</b>	<b>5,233,703</b>	<b>-</b>	<b>5,233,703</b>
<b>Increase in net assets</b>	<b>2,066,983</b>	<b>236,873</b>	<b>2,303,856</b>
<b>Net assets</b>			
Beginning of year	57,418,958	1,292,632	58,711,590
End of year	\$ 59,485,941	\$ 1,529,505	\$ 61,015,446

*See notes to consolidated financial statements*



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

**Consolidated Statement of Functional Expenses**

Year Ended September 30, 2019	Program Services	Supporting Services			Totals
		Management and General	Fund- Raising	Total	
Administrative fees	\$ 728,769	\$ -	\$ -	\$ -	\$ 728,769
Advertising and public relations	1,931	1,256	1,642	2,898	4,829
Annuity costs	4,191	-	-	-	4,191
Bank service charges, commissions, and processing fees	392	23,254	-	23,254	23,646
Computer and equipment	30,884	20,075	26,252	46,327	77,211
Conferences, dues, and subscriptions	3,495	6,052	-	6,052	9,547
Contract labor	24,271	-	-	-	24,271
Depreciation	653	18,235	724	18,959	19,612
Grant distributions	2,460,044	-	-	-	2,460,044
Income distributions	9,194	-	-	-	9,194
Insurance	8	16,985	9	16,994	17,002
Interfund grants	350,073	-	-	-	350,073
Meetings and special events	40,891	273	-	273	41,164
Miscellaneous	1,788	1,952	-	1,952	3,740
Office expense	4,610	2,966	3,878	6,844	11,454
Personnel	192,737	125,279	163,826	289,105	481,842
Professional fees	-	160,823	-	160,823	160,823
Repairs and maintenance	(9)	1,000	38	1,038	1,029
Travel	2,161	1,405	1,837	3,242	5,403
Utilities, telephone, and janitorial	902	25,216	1,001	26,217	27,119
Website and programming	1,439	719	1,439	2,158	3,597
<b>Totals</b>	<b>\$ 3,858,424</b>	<b>\$ 405,490</b>	<b>\$ 200,646</b>	<b>\$ 606,136</b>	<b>\$ 4,464,560</b>

*See notes to consolidated financial statements*

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

**Consolidated Statement of Functional Expenses (continued)**

Year Ended September 30, 2018	Program Services	Supporting Services			Totals
		Management and General	Fund- Raising	Total	
Administrative fees	\$ 712,933	\$ -	\$ -	\$ -	\$ 712,933
Advertising and public relations	378	246	321	567	945
Annuity costs	25,145	-	-	-	25,145
Bank service charges, commissions, and processing fees	22,037	1,933	-	1,933	23,970
Computer and equipment	24,691	16,049	20,988	37,037	61,728
Conferences, dues, and subscriptions	13,311	19,674	1,775	21,449	34,760
Contract labor and consulting	85,648	34,762	-	34,762	120,410
Depreciation	699	19,520	774	20,294	20,993
Grant distributions	3,067,981	20,264	-	20,264	3,088,245
Income distributions	8,345	-	-	-	8,345
Insurance	16	16,516	19	16,535	16,551
Interfund grants	265,190	69,698	-	69,698	334,888
Meetings and special events	4,248	26,386	-	26,386	30,634
Miscellaneous	-	69,402	-	69,402	69,402
Office expense	4,292	4,735	4,055	8,790	13,082
Personnel	187,695	122,002	159,541	281,543	469,238
Professional fees	775	155,699	-	155,699	156,474
Repairs and maintenance	120	3,348	133	3,481	3,601
Travel	2,258	1,467	1,919	3,386	5,644
Utilities, telephone, and janitorial	7,394	13,937	6,371	20,308	27,702
Website and programming	3,605	1,803	3,605	5,408	9,013
<b>Totals</b>	<b>\$ 4,436,761</b>	<b>\$ 597,441</b>	<b>\$ 199,501</b>	<b>\$ 796,942</b>	<b>\$ 5,233,703</b>

*See notes to consolidated financial statements*

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

**Consolidated Statement of Cash Flows**

Year Ended September 30	2019	2018
<b>Cash flows from operating activities</b>		
Increase in net assets	\$ 364,872	\$ 2,303,856
Adjustments to reconcile increase in net assets to net cash flows provided by (used in) operating activities:		
Realized and unrealized (gains) on investments, net	(382,885)	(3,069,606)
Depreciation	19,612	20,993
Annuity costs	(7,176)	20,879
Gain on disposal of property and equipment	(4,609)	-
Decrease (increase) in assets:		
Accounts receivable	581,534	(70,301)
Prepaid expenses	(29,266)	(1,798)
Increase (decrease) in liabilities:		
Accounts payable	14,312	(20,301)
Grants payable	(104,862)	255,270
Deferred revenue	(76,293)	(77,244)
Agency endowment funds held	283,796	402,186
Net cash provided by (used in) operating activities	659,035	(236,066)
<b>Cash flows from investing activities</b>		
Purchases of investments	(2,378,188)	(2,157,844)
Proceeds from sales of investments	2,460,044	3,088,246
Agency endowment funds purchases of investments	(801,433)	(336,811)
Agency endowment funds proceeds from sales of investments	558,570	357,832
Purchases of property and equipment	(239,079)	-
Proceeds from sale of property and equipment	4,651	-
Net cash provided by (used in) investing activities	(395,435)	951,423
<b>Cash flows from financing activities</b>		
Payments on charitable gift annuity liabilities	(75,265)	(67,533)
Net cash (used in) financing activities	(75,265)	(67,533)
<b>Net change in cash and cash equivalents</b>	<b>188,335</b>	<b>647,824</b>
Cash and cash equivalents		
Beginning of year	1,137,666	489,842
End of year	\$ 1,326,001	\$ 1,137,666

*See notes to consolidated financial statements*

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## THE COMMUNITY FOUNDATION OF SOUTH ALABAMA AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
September 30, 2019 and 2018

### **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.

#### *Recently issued Accounting Standards*

During 2019, the Foundation adopted the provisions of Accounting Standards Update (“ASU”) 2016-14: Not-for-Profit-Entities (Topic 958) Presentation of Financial Statements of Not-for-Profit Entities, which improves the current net asset classification and the related information presented in the consolidated financial statements and notes about the Foundation’s liquidity, financial performance and cash flows. Certain amounts as previously reported have been reclassified as a result of this adoption.

#### *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.

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

Notes to Consolidated Financial Statements (continued)  
September 30, 2019 and 2018

**Note 2 – Summary of significant accounting policies (continued)**

*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.

*Contributed services and use of facilities*

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. There were no contributed services for the years ended September 30, 2019 or 2018.

In May 2019 the Foundation entered into an eighteen month agreement to lease office space from the City of Daphne, AL. The city is not charging the Foundation lease expense for the use of the office space. The fair value of the contributed use of the facility was \$4,000 for the year ended September 30, 2019.

*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.

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

Notes to Consolidated Financial Statements (continued)  
September 30, 2019 and 2018

**Note 2 – Summary of significant accounting policies (continued)**

*Investments (continued)*

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.

*Accounts receivable*

Unconditional promises to give expected to be collected within one year are reported at their net realizable value. Unconditional promises to give expected to be collected in future years are initially reported at fair market value determined using the discounted present value of estimated future cash flows technique. The resulting discount is amortized using level-yield method and is reported as contribution income.

The Foundation provides an allowance for uncollectible contributions receivable, which is based upon a review of outstanding receivables, historical collection information, and existing economic conditions. Contributions are due as indicated by the donor in the pledge agreement. Contributions receivable are considered delinquent and reserved for, or written off, based on the individual credit evaluation and specific circumstances of the pledge.

*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 three to ten years using the straight-line method. Building and improvements are depreciated over estimated useful lives ranging from ten to forty years using the straight-line method.

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

Notes to Consolidated Financial Statements (continued)  
September 30, 2019 and 2018

**Note 2 – Summary of significant accounting policies (continued)**

*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 assets without donor restrictions and assets with donor restrictions based upon the existence or absence of donor-imposed restrictions.

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 net assets without donor restrictions.

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.

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

Notes to Consolidated Financial Statements (continued)  
September 30, 2019 and 2018

**Note 2 – Summary of significant accounting policies (continued)**

*Classification of net assets (continued)*

The supporting service revenues related to operating net assets without donor restrictions 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 program service revenues for net assets without donor restrictions consist of donor contributions received and income earned on investments.

Net assets with donor restrictions consist of the pooled income fund, the capital campaign and charitable gift annuity as described in Note 6.

*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.

*Advertising and public relations*

All advertising and public relations costs are expensed as incurred. Advertising and public relations expense was \$4,829 and \$945 for the years ended September 30, 2019 and 2018, respectively.

*Concentration of credit risk*

The Foundation maintains balances in deposit accounts which, at times, may exceed federally insured limits. At September 30, 2019, the balance in the Foundation's bank accounts, as reflected by the bank, exceeded the federal insurance limits by \$985,121.



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

Notes to Consolidated Financial Statements (continued)  
September 30, 2019 and 2018

**Note 2 – Summary of significant accounting policies (continued)**

*Concentration of credit risk (continued)*

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, 2019, 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 2016.

*Date of management’s review*

Management has evaluated the subsequent events through May 8, 2020, which is the date the financial statements were available to be issued. As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may impact operating results. Additionally, market values of investments have been affected by market volatility. The related financial impact, if any, and duration resulting from these events cannot be reasonably estimated at this time. Management revealed no significant matters to be recorded or disclosed other than those detailed in Note 11.

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

Notes to Consolidated Financial Statements (continued)  
September 30, 2019 and 2018

**Note 2 – Summary of significant accounting policies (continued)**

*Reclassifications*

Certain accounts in the 2018 financial statement presentation have been reclassified for comparative purposes to conform with the current year presentation. There is no effect on the change in net assets or net assets available at September 30, 2018.

**Note 3 – Liquidity and availability of funds**

The following reflects the Foundation's financial assets as of the statement of financial position date, reduced by amounts not available for administrative and general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

December 31	2019	2018
<b>Financial assets at year end</b>	\$ 79,279,679	\$ 78,674,512
Less those unavailable for general expenditures within one year due to:		
Donor-imposed restrictions:		
Restricted by donor with time or purpose restrictions	(2,154,318)	(1,529,505)
Board designations:		
Agency endowment funds held	(18,359,327)	(17,621,057)
Funds held for charitable use	(57,642,095)	(57,450,874)
 Financial assets available to meet cash needs for general expenditures within one year	 \$ 1,123,939	 \$ 2,073,076

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

Notes to Consolidated Financial Statements (continued)  
September 30, 2019 and 2018

**Note 4 – Investments**

Investments consist of the following:

September 30, 2019	Carrying Value	Cost / Fair Value at Donation	Unrealized Gain (Loss)	Carrying Value Percentage
Mutual funds:				
Stocks	\$ 40,105,236	\$ 25,148,747	\$ 14,956,489	51.79%
Bonds	13,606,056	13,481,456	124,600	17.57%
Treasury securities	10,756,947	10,772,711	(15,764)	13.89%
Alternative investments - offshore investment funds	7,136,607	3,818,641	3,317,966	9.22%
Alternative investments - stocks	47,987	48,186	(199)	0.06%
Cash in money market accounts	2,708,142	2,708,142	-	3.50%
Common stocks	1,358,699	1,065,476	293,223	1.75%
Closely held stock	1	1	-	0.00%
Real estate	1,500,000	1,500,000	-	1.94%
Other assets	5,554	5,554	-	0.01%
Life insurance (cash value)	163,554	163,554	-	0.21%
Corporate Bonds	50,895	45,628	5,267	0.06%
<b>Totals</b>	<b>\$ 77,439,678</b>	<b>\$ 58,758,096</b>	<b>\$ 18,681,582</b>	<b>100.00%</b>

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

Notes to Consolidated Financial Statements (continued)  
September 30, 2019 and 2018

**Note 4 – Investments (continued)**

September 30, 2018	Carrying Value	Cost / Fair Value at Donation	Unrealized Gain (Loss)	Carrying Value Percentage
Mutual funds:				
Stocks	\$ 45,254,804	\$ 25,025,915	\$ 20,228,889	59.20%
Bonds	13,416,389	13,673,172	(256,783)	17.55%
Treasury securities	10,514,356	10,748,020	(233,664)	13.75%
Alternative investments -				
offshore investment funds	1,242,727	1,710,193	(467,466)	1.63%
Alternative investments -				
stocks	29,710	27,841	1,869	0.04%
Cash in money market				
accounts	2,846,807	2,846,807	-	3.72%
Common stocks	1,419,779	1,106,325	313,454	1.86%
Closely held stock	1	1	-	0.00%
Real estate	1,500,000	1,500,000	-	1.96%
Other assets	5,554	5,554	-	0.01%
Life insurance (cash value)	162,193	162,193	-	0.21%
Corporate Bonds	48,992	45,774	3,218	0.07%
<b>Totals</b>	<b>\$ 76,441,312</b>	<b>\$ 56,851,795</b>	<b>\$ 19,589,517</b>	<b>100.00%</b>

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

Notes to Consolidated Financial Statements (continued)  
September 30, 2019 and 2018

**Note 4 – Investments (continued)**

The three-tier hierarchy of inputs is summarized in the three broad levels listed as follows:

- 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, 2019, were as follows:

September 30, 2019	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)
Mutual funds:				
Stocks	\$ 40,105,236	\$ 40,105,236	\$ -	\$ -
Bonds	13,606,056	13,606,056	-	-
Treasury securities	10,756,947	10,756,947	-	-
Alternative investments - offshore investment funds	7,136,607	-	7,136,607	-
Alternative investments - stocks	47,987	-	47,987	-
Cash in money market accounts	2,708,142	2,708,142	-	-
Common stocks	1,358,699	1,358,699	-	-
Closely held stock	1	-	-	1
Real estate	1,500,000	-	-	1,500,000
Other assets	5,554	-	-	5,554
Life insurance (cash value)	163,554	-	-	163,554
Corporate Bonds	50,895	-	50,895	-
<b>Totals</b>	<b>\$ 77,439,678</b>	<b>\$ 68,535,080</b>	<b>\$ 7,235,489</b>	<b>\$ 1,669,109</b>

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

Notes to Consolidated Financial Statements (continued)  
September 30, 2019 and 2018

**Note 4 – 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, 2018				
Mutual funds:				
Stocks	\$ 45,254,804	\$ 45,254,804	\$ -	\$ -
Bonds	13,416,389	13,416,389	-	-
Treasury securities	10,514,356	10,514,356	-	-
Alternative investments - offshore investment funds	1,242,727	-	1,242,727	-
Alternative investments - stocks	29,710	-	29,710	-
Cash in money market accounts	2,846,807	2,846,807	-	-
Common stocks	1,419,779	1,419,779	-	-
Closely held stock	1	-	-	1
Real estate	1,500,000	-	-	1,500,000
Other assets	5,554	-	-	5,554
Life insurance (cash value)	162,193	-	-	162,193
Corporate Bonds	48,992	-	48,992	-
<b>Totals</b>	<b>\$ 76,441,312</b>	<b>\$ 73,452,135</b>	<b>\$ 1,321,429</b>	<b>\$ 1,667,748</b>

***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. Corporate 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, 2019 and 2018

**Note 4 – 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 in November 2016 which reflects fair market value. At least annually, the Foundation evaluates market conditions and risks to determine if any events have occurred to that may affect the fair market value.

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, 2019, was as follows:

Balance at October 1, 2018	\$ 1,667,748
Unrealized gains on life insurance (cash value)	1,361
<u>Balance at September 30, 2019</u>	<u>\$ 1,669,109</u>

There were no transfers during the year ended September 30, 2019.

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

Notes to Consolidated Financial Statements (continued)  
September 30, 2019 and 2018

**Note 5 – Property and equipment**

Property and equipment consist of the following:

September 30	2019	2018
Land	\$ 171,000	\$ 171,000
Buildings	249,000	249,000
Improvements	256,183	256,183
Furniture and fixtures	129,959	169,609
Construction in progress	239,079	-
	<u>1,045,221</u>	<u>845,792</u>
Less accumulated depreciation	<u>314,033</u>	<u>334,029</u>
Property and equipment, net	<u>\$ 731,188</u>	<u>\$ 511,763</u>

Depreciation expense for the years ended September 30, 2019 and 2018 was \$19,612 and \$20,993, respectively.

**Note 6 – Net assets with donor restrictions**

*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 donor restricted until the death of the donor, at which time they will become net assets without donor restrictions. The assets in the pooled income fund are adjusted to fair value at year-end.

*Capital Campaign*

In 2017, the Board of Directors voted to proceed with efforts to raise funds for the construction or purchase of a new building. A fund was established with the purpose to receive external capital campaign contributions and grants for the new building. These funds are purpose restricted for the construction of the new building and related expenses. Additionally, the Board may designate additional unrestricted assets as needed for the project. As of September 30, 2019 and 2018, the purpose restricted assets for this fund was \$914,692 and \$309,666 respectively.



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

Notes to Consolidated Financial Statements (continued)  
September 30, 2019 and 2018

**Note 6 – Net assets with donor restrictions (continued)**

*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 present value of the future charitable gift annuity payments are estimated using donor life expectancies from IRS tables. For the years ended September 30, 2019 and 2018, the estimated charitable gift annuity liability was \$124,411 and \$211,043, 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 \$4,191 and \$25,145 for the years ended September 30, 2019 and 2018, respectively.

**Note 7 – Operating leases**

The Foundation leased a copy machine under an operating lease which expired in August 2019. Rental expense under this lease was \$3,434 and \$3,746 for the years ended September 30, 2019 and 2018, respectively.

**Note 8 – 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, 2019 and 2018, was \$12,200 and \$11,936, respectively.

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

Notes to Consolidated Financial Statements (continued)  
September 30, 2019 and 2018

**Note 9 – 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 10 – Pledged assets**

The Mobile Opera, Inc. (a donor) has a note payable to a bank dated October 11, 2017, which 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, 2019 and 2018, the outstanding loan balance was \$55,933 and \$72,472, respectively. The fair market value of the Mobile Opera Endowment Fund investments was \$222,300 and \$228,208 as of September 30, 2019 and 2018, respectively.

**Note 11 – New Market Tax Credit**

Subsequent to September 30, 2019, the Foundation invested in a joint venture to take advantage of New Market Tax Credit (NMTC) financing. NMTC financing allows an entity to receive loan or investment capital from outside investors, who will receive new market tax credits to be applied against their federal tax liability. On January 28, 2020, the Foundation executed, as guarantor, a loan agreement with their wholly owned subsidiary CFSA Properties IV, Inc., as borrower, two loans totaling \$3,500,000 designated for the purpose of constructing a new office building. To facilitate financing and the funding of the NMTC transaction, the Foundation made a \$2,564,450 loan, utilizing the capital campaign funds and a loan from United Bank, to a third - party investment fund. United Bancorporation of Alabama, Inc. purchased tax credits for \$1,119,000 and in conjunction with the \$2,564,450 funded the NMTC structure providing \$3,500,000 to CFSA Properties IV, Inc. At the end of the seven year compliance period, January 28, 2027, United Bancorporation of Alabama, Inc. has the right, but not the obligation, to put its interest in the third – party investment fund to the Foundation providing the Foundation with the option to forgive a \$935,550 promissory note.

## INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

We have audited the consolidated financial statements of The Community Foundation of South Alabama and Subsidiaries as of and for the years ended September 30, 2019 and 2018, and our report thereon dated May 8, 2020, which expressed an unmodified opinion on those consolidated financial statements, appears on page 2. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying information, as listed in the Table of Contents, is presented for purposes of additional analysis and is 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 general 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.

*Russell Thompson Butler & Houston, LLP*

*Mobile Alabama  
May 8, 2020*

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

**Consolidated Schedule of Activities – Operations and Programs (Actual to Budget)  
Year Ended September 30, 2019**

	Actual	Budget	Variance
<b>Revenues and support</b>			
Administrative Fees Rev to Operating	\$ 891,915	\$ 835,000	\$ 56,915
Contributions	20,337	18,000	2,337
Contributions - Inter-Fund	3,160	55,000	(51,840)
Inv Income, Real & Unreal G(L)	11,396	1,300	10,096
Special Event Income	26,935	25,000	1,935
Other Income	4,609	-	4,609
<b>Total revenue and support</b>	<b>958,352</b>	<b>934,300</b>	<b>24,052</b>
<b>Expenses</b>			
Advertising/Public Relations	4,829	24,000	(19,171)
Bank and Custodial Fees	2,145	2,700	(555)
Board Engagement	273	1,500	(1,227)
Computer Expense	25,321	12,500	12,821
Consulting/Contract Labor	24,271	30,933	(6,662)
Depreciation Expense	6,453	7,835	(1,382)
Equipment Lease	5,890	7,000	(1,110)
Grants Paid	8,262	10,000	(1,738)
Insurance	17,003	17,844	(841)
Meetings and Special Events	42,095	49,000	(6,905)
Mileage/Travel Reimbursement	4,767	5,000	(233)
Office Supplies/printing/mailing	15,355	30,419	(15,064)
Personnel Expenses	481,841	495,004	(13,163)
Prof Dev/Conf/Dues/Subscriptions	11,004	24,945	(13,941)
Professional Fees	161,034	140,000	21,034
Repairs & Maintenance	42,196	49,500	(7,304)
Utilities/Phone/Internet	23,320	24,920	(1,600)
Website	3,597	1,200	2,397
<b>Total expenses</b>	<b>879,656</b>	<b>934,300</b>	<b>(54,644)</b>

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

**Consolidated Schedule of Activities – Operations and Programs (Actual to Budget)**  
**(continued)**  
**Year Ended September 30, 2019**

	Actual	Budget	Variance
<b>Change in net assets - operating and program before other items</b>	78,696	-	78,696
<b>Other uses of cash</b>			
Fund to fund transfers	-	-	-
<b>Change in net assets - operating and program</b>	\$ 78,696	\$ -	\$ 78,696