

**THE COMMUNITY FOUNDATION OF SOUTH ALABAMA**

**Financial Statements**

**September 30, 2014 and 2013**

**THE COMMUNITY FOUNDATION OF SOUTH ALABAMA**

**Table of Contents**

	<b><u>Page</u></b>
<b>Independent Auditor's Report</b>	1
<b>Financial Statements</b>	
Statements of Financial Position	4
Statements of Activities	5
Statements of Cash Flows	7
Notes to Financial Statements	8

# McKean & Associates, PA

*Certified Public Accountants*

## Principals

Ann Broughton, CPA  
Cindy B. Rathle, CPA

## **Independent Auditor's Report**

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

We have audited the accompanying financial statements of The Community Foundation of South Alabama (a nonprofit organization), which comprise the statements of financial position as of September 30, 2014 and 2013, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Community Foundation of South Alabama as of September 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*McKean & Associates*

February 28, 2015  
Mobile, Alabama

## **Financial Statements**

**THE COMMUNITY FOUNDATION OF SOUTH ALABAMA**

**Statements of Financial Position**

<u>September 30,</u>	<u>2014</u>	<u>2013</u>
<b>Assets</b>		
Cash	\$ 406,887	\$ 401,885
Investments	69,013,647	58,019,799
Investment in insurance policy - charitable gift annuity	-	27,426
Receivables	-	87,500
Deferred annuity cost	104,770	129,915
Prepaid expense	14,006	7,197
Property, furniture, and equipment, net of accumulated depreciation	582,733	593,028
<b>Total assets</b>	<b>\$ 70,122,043</b>	<b>\$ 59,266,750</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accounts payable	\$ 32,111	\$ 104,402
Grants payable	192,999	115,140
Legal contingency	45,000	-
Charitable gift annuity liability	26,192	111,998
Deferred revenue	120,133	392,010
Agency endowment funds held	14,853,774	9,016,513
	<u>15,270,209</u>	<u>9,740,063</u>
<b>Net assets</b>		
Unrestricted		
Donor advised	21,973,143	18,806,553
Restricted	18,510,431	17,009,879
Scholarship	3,159,931	2,961,254
Undesignated	5,573,503	5,284,986
Supporting foundation	1,684,027	1,571,078
Operating	929,267	940,062
Field-of-interest	1,396,972	1,339,460
	<u>53,227,274</u>	<u>47,913,272</u>
Temporarily restricted		
Pooled income	396,795	397,387
Charitable gift annuity	1,227,765	1,216,028
	<u>1,624,560</u>	<u>1,613,415</u>
	<u>54,851,834</u>	<u>49,526,687</u>
<b>Total liabilities and net assets</b>	<b>\$ 70,122,043</b>	<b>\$ 59,266,750</b>

See auditor's report and accompanying notes to financial statements.

**THE COMMUNITY FOUNDATION OF SOUTH ALABAMA**

**Statements of Activities**

<b><u>For the Years Ended September 30,</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>
<b>Revenues and support</b>		
Contributions	\$ 3,759,095	\$ 1,363,970
Investment income	992,804	971,188
Administrative/custodial fees	745,632	704,917
Net realized gain on sales of investments	656,973	70,302
Internal transfers	284,802	418,600
Grants - foundations and governments	275,462	378,794
Interfund gifts	268,923	49,485
Other income	25,360	18,682
Indirect project costs	715	22,566
	<u>7,009,766</u>	<u>3,998,504</u>
<b>Expenses</b>		
Grants	2,250,401	2,875,657
Personnel	585,558	659,304
Administrative/custodial fees	602,121	545,435
Interfund grants	269,423	52,646
Internal transfers	267,505	399,704
Professional fees	101,883	28,030
Contract labor/consulting	63,140	58,325
Equipment/computer expenses	44,688	54,997
Meetings and special events	42,992	46,669
Utilities, telephone, and janitorial services	29,048	31,958
Office expense	22,188	21,314
Conferences, meetings, dues, and subscriptions	19,191	34,868
Insurance	14,808	11,512
Website/programming	10,602	36,964
Travel expense	9,063	9,092
Repairs and maintenance	4,299	2,611
Public relations/advertising	1,789	1,787
Miscellaneous	1,435	1,210
Project costs	715	22,566
Commissions and processing fees	367	357
Investment/trustee fees	-	54,977
	<u>4,341,216</u>	<u>4,949,983</u>

See auditor's report and accompanying notes to financial statements.

**THE COMMUNITY FOUNDATION OF SOUTH ALABAMA**

**Statements of Activities**

<b><u>For the Years Ended September 30,</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>
<b>Change in unrestricted net assets before noncash items</b>	\$ 2,668,550	\$ (951,479)
<b>Noncash items</b>		
Net unrealized appreciation of investments	2,671,373	3,400,390
Depreciation expense	(25,922)	(26,292)
<b>Change in unrestricted net assets</b>	<u>5,314,001</u>	<u>2,422,619</u>
<b>Changes in temporarily restricted net assets</b>		
<b>Revenues and support</b>		
Interest income	57,727	-
Net realized gain on sales of investments	36,716	2,119
Investment income from trusts	27,712	74,462
Internal transfers	963	-
	<u>123,118</u>	<u>76,581</u>
<b>Expenses</b>		
CGA distribution in excess of liabilities	76,805	12,975
Interfund transfers	18,260	18,896
Administrative/custodial fees	15,119	33,040
Income distribution	7,137	14,721
Commissions and processing fees	4,729	1,734
Grants	-	41,300
Professional fees	-	675
Interfund grants	-	23,758
	<u>122,050</u>	<u>147,099</u>
<b>Change in temporarily restricted net assets before noncash items</b>	1,068	(70,518)
<b>Noncash items</b>		
Net unrealized appreciation of investments	35,223	127,089
Annuity costs	(25,145)	(25,145)
<b>Change in temporarily restricted net assets</b>	<u>11,146</u>	<u>31,426</u>
<b>Change in net assets</b>	<u>5,325,147</u>	<u>2,454,045</u>
<b>Net assets, beginning of year</b>	<u>49,526,687</u>	<u>47,072,642</u>
<b>Net assets, end of year</b>	<u>\$ 54,851,834</u>	<u>\$ 49,526,687</u>

See auditor's report and accompanying notes to financial statements.

**THE COMMUNITY FOUNDATION OF SOUTH ALABAMA**

**Statements of Cash Flows**

<b><u>For the Years Ended September 30,</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>
<b>Operating activities</b>		
Change in net assets	\$ 5,325,147	\$ 2,454,045
Adjustments to reconcile change in net assets to net cash flows from operating activities:		
Realized and unrealized gains on investments, net	(3,391,281)	(3,958,909)
Depreciation	25,922	26,292
Changes in operating assets and liabilities:		
Accounts receivable	87,500	225,000
Prepaid expenses and other assets	18,336	108,080
Accounts payable and other liabilities	50,568	193,442
Charitable gift annuity liability	(85,806)	(157,275)
Deferred revenue	(271,877)	(378,528)
Agency endowment funds held	5,837,261	1,006,810
<b>Total adjustments</b>	<u>2,270,623</u>	<u>(2,935,088)</u>
<b>Net cash flows from operating activities</b>	<u>7,595,770</u>	<u>(481,043)</u>
<b>Investing activities</b>		
Purchase/sales of investments, net	(7,575,141)	(112,542)
Purchase of furniture and equipment	(15,627)	(10,059)
<b>Net cash flows from investing activities</b>	<u>(7,590,768)</u>	<u>(122,601)</u>
Increase (decrease) in cash	5,002	(603,644)
Cash and cash equivalents at beginning of year	<u>401,885</u>	<u>1,005,529</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 406,887</u>	<u>\$ 401,885</u>

See auditor's report and accompanying notes to financial statements.

## THE COMMUNITY FOUNDATION OF SOUTH ALABAMA

### Notes to Financial Statements September 30, 2014 and 2013

#### **Note 1 – General purpose and activities**

The Community Foundation of South Alabama (“The Foundation”) seeks to build permanent endowment 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 non-profit organizations in the fields of arts and culture, civic and community, anti-crime and abuse, education, environment, 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 financial statements of The Foundation are prepared on the accrual basis of accounting.

##### *Cash and cash equivalents*

The Foundation considers amounts in its regular and petty cash checking accounts to be cash. Money market accounts and certificates of deposit are considered to be investments. They are valued using Level 1 inputs in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, *Fair Value Measurement*, as discussed in Note 8.

##### *Receivables*

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

##### *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. 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 owned by The Foundation has been received in the form of donations and is carried at its 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 appreciation (depreciation) in the fair value of investments. Cost of dispositions of securities is determined using the first-in, first-out method.

THE COMMUNITY FOUNDATION OF SOUTH ALABAMA

Notes to Financial Statements  
September 30, 2014 and 2013

**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 statement of financial position.

*Property, furniture, and equipment*

Property, furniture, 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, furniture, and equipment, and significant repairs and additions which extend the useful life of existing assets are capitalized in accordance with adopted policy. Furniture, equipment, and improvements are depreciated over estimated useful lives ranging from five to seven years using the straight-line method. The current office building was capitalized at its fair value at the date of donation. The building is being depreciated over its estimated useful life of thirty-nine years using the straight-line method.

*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.

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 unrestricted net assets are classified as operating, undesignated, field-of-interest, restricted, donor advised, or supporting foundation. The revenues of the operating unrestricted net assets consist primarily of administrative fees from other funds. These are used to cover normal operating expenses and to carry on daily activities.

Administrative fees are calculated as follows:

<u>Fund Market Value</u>	<u>Tier Fee</u>
First \$1,000,000	125 basis points (1.25%)
Next \$1,000,000	100 basis points (1%)
Next \$1,000,000	75 basis points (.75%)

THE COMMUNITY FOUNDATION OF SOUTH ALABAMA

Notes to Financial Statements  
September 30, 2014 and 2013

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

*Classification of net assets (continued)*

Short-term or pass-through funds from donors (administered for less than two years) are charged an annual fee of 0.5% to 5.0% depending on the nature of the fund. Short-term or pass-through grants from private foundations or government entities shall be assessed a fee of 3.0% to 5.0% of the award amount. The annual minimum fee for short-term or pass-through funds is \$250. There are no additional fees charged for disbursement of principal or grants issued. Life insurance as an asset is charged an annual fee of \$50.

The revenues of the undesignated, field-of-interest, restricted, donor advised, and supporting foundation unrestricted net assets 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 3.

Under The Foundation's charter, the Board of Directors of The Foundation 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.

*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, it has elected to adopt Statement of Financial Accounting Standards (SFAS) No. 136, "Transfer of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others". This election allows non-duplication of contributions recorded by beneficiaries of the funds. Agency endowment funds are reported as a liability in the Statement of Financial Position.

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

*Income taxes*

The Foundation is an Alabama nonprofit corporation, exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code. However, the Foundation could be subject to income taxes on any net income that is derived from a trade or business and not in furtherance of the purposes for which it was granted. No income tax provision has been recorded as, in the opinion of management, there is no net income from any unrelated trade or business.

THE COMMUNITY FOUNDATION OF SOUTH ALABAMA

Notes to Financial Statements  
September 30, 2014 and 2013

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

*Income taxes (continued)*

Management has evaluated the Foundation's tax positions in accordance with ASC 740-10-25-6, *Income Taxes*, whereby the effect of uncertainty would be recorded if the tax positions will more likely than not be sustained upon examination. As of September 30, 2014, the Foundation had no uncertain tax positions requiring accrual or disclosure.

With a few exceptions, the Foundation is no longer subject to income tax examinations by the Internal Revenue Service for fiscal years before 2011.

*Use of estimates*

The preparation of the 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 financial statements and reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

*Grants*

Unconditional grants are recognized as an expense in the period in which they are approved by the Board of Directors for discretionary grants.

Grants are made from available principal and income in accordance with policy and designations of donors or according to the spending policy of final agreement.

**Note 3 – 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 assets in the pooled income fund are classified as temporarily restricted until the death of the donor, at which time the 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

Notes to Financial Statements  
September 30, 2014 and 2013

**Note 3 – Temporarily restricted net assets**

*Charitable gift annuity (continued)*

The present value of the future charitable gift annuity payments are estimated using IRS Publication 1457. During the years ended September 30, 2014 and 2013, the estimated charitable gift annuity liability decreased by \$85,806 and \$157,275, respectively.

**Note 4 – Contributed services**

Many individuals volunteer their time and perform a variety of tasks that assist The Foundation in its activities. The value of these services has not been recorded as the amount cannot be reasonably estimated.

**Note 5 – Concentration of credit risk**

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.

**Note 6 – 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. Contributions under this plan amounted to \$10,602 and \$16,184 for the years ended September 30, 2014 and 2013, respectively.

**Note 7 – Operating leases**

The Foundation leases a copier/printer/fax machine under an operating lease expiring in August 2019. Rental expense under this lease was \$1,311 for the year ended September 30, 2014. Minimum future rental payments under this non-cancelable operating lease as of September 30, 2014 are:

Year ending September 30,		
2015	\$	3,709
2016		3,709
2017		3,709
2018		3,709
2019		3,400
Total minimum future rental payments	\$	<u>18,236</u>

**THE COMMUNITY FOUNDATION OF SOUTH ALABAMA**

**Notes to Financial Statements  
September 30, 2014 and 2013**

**Note 8 – Investments**

Investments at September 30, 2014 consisted of the following:

	<b>Carrying Value</b>	<b>Cost / Fair Value at Donation</b>	<b>Carrying Value Percentage</b>
Mutual funds	\$ 58,536,983	\$ 46,268,257	84.69%
Alternative investments	6,621,215	4,579,736	9.58%
Cash in money market accounts	2,458,195	2,458,195	3.56%
Common stocks	755,005	733,448	1.09%
Real estate	233,010	233,010	0.34%
Other assets-jewelry, closely-held stock	155,554	155,554	0.23%
Life insurance (cash value)	141,023	162,953	0.20%
Bonds	112,662	113,994	0.16%
<b>Subtotal</b>	<b>69,013,647</b>	<b>54,705,147</b>	
Annuities	104,770	104,770	0.15%
<b>Total</b>	<b>\$ 69,118,417</b>	<b>\$ 54,809,917</b>	<b>100.00%</b>

Investments at September 30, 2013 consisted of the following:

	<b>Carrying Value</b>	<b>Cost / Fair Value at Donation</b>	<b>Carrying Value Percentage</b>
Mutual funds	\$ 49,869,772	\$ 39,907,617	85.72%
Alternative investments	5,189,688	4,197,870	8.92%
Cash in money market accounts	2,705,419	2,705,419	4.65%
Life insurance (cash value)	136,839	136,839	0.24%
Bonds	101,099	96,693	0.17%
Common stocks	11,428	10,198	0.02%
Other assets - jewelry	5,554	5,554	0.01%
<b>Subtotal</b>	<b>58,019,799</b>	<b>47,060,190</b>	
Life insurance (annuity)	27,423	27,423	0.05%
Annuities	129,915	129,915	0.22%
<b>Total</b>	<b>\$ 58,177,137</b>	<b>\$ 47,217,528</b>	<b>100.00%</b>

**THE COMMUNITY FOUNDATION OF SOUTH ALABAMA**

**Notes to Financial Statements  
September 30, 2014 and 2013**

**Note 8 – Investments (continued)**

*Fair value measurements*

In accordance with ASC 820, 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 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:

- 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, 2014 were as follows:

<b>Description</b>	<b>Fair Value</b>	<b>Markets for Identical Assets (Level 1)</b>	<b>Significant Observable Inputs (Level 2)</b>	<b>Unobservable Inputs (Level 3)</b>
Mutual funds	\$ 58,536,983	\$ 58,536,983	\$ -	\$ -
Alternative investments	6,621,215	-	6,621,215	-
Cash in money market accounts	2,458,195	2,458,195	-	-
Common stocks	755,005	755,005	-	-
Real estate	233,010	-	233,010	-
Other assets	155,554	-	-	155,554
Life insurance (cash value)	141,023	-	141,023	-
Bonds	112,662	-	112,662	-
Life insurance (annuity)	104,770	-	-	104,770
	<u>\$ 69,118,417</u>	<u>\$ 61,750,183</u>	<u>\$ 7,107,910</u>	<u>\$ 260,324</u>

**THE COMMUNITY FOUNDATION OF SOUTH ALABAMA**

**Notes to Financial Statements  
September 30, 2014 and 2013**

**Note 8 – Investments (continued)**

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.

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 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, 2013 were as follows:

<b>Description</b>	<b>Fair Value</b>	<b>Markets for Identical Assets (Level 1)</b>	<b>Significant Observable Inputs (Level 2)</b>	<b>Unobservable Inputs (Level 3)</b>
Mutual funds	\$ 49,869,772	\$ 49,869,772	\$ -	\$ -
Alternative investments	5,189,688		5,189,688	
Cash in money market accounts	2,705,419	2,705,419	-	-
Life insurance (cash value)	164,262	-	164,262	-
Life insurance (annuity)	129,915	-	-	129,915
Bonds	101,099	-	101,099	-
Common stocks	11,428	11,428	-	-
Other assets - jewelry	5,554	-	-	5,554
	<u>\$ 58,177,137</u>	<u>\$ 52,586,619</u>	<u>\$ 5,455,049</u>	<u>\$ 135,469</u>

**Note 9 – Property and equipment**

Property and equipment consisted of the following:

<u>September 30,</u>	<u>2014</u>	<u>2013</u>
Building	\$ 249,000	\$ 249,000
Land	171,000	171,000
Improvements	244,995	244,995
Furniture and fixtures	74,914	81,788
Computers	90,478	78,615
	<u>830,387</u>	<u>825,398</u>
Less: Accumulated depreciation	<u>(247,654)</u>	<u>(232,370)</u>
Net book value	<u>\$ 582,733</u>	<u>\$ 593,028</u>

Depreciation expense for the years ended September 30, 2014 and 2013 was \$25,922 and \$26,292, respectively.

THE COMMUNITY FOUNDATION OF SOUTH ALABAMA

Notes to Financial Statements  
September 30, 2014 and 2013

**Note 10 – Interfund transfers**

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.

	Interfund Gifts	Interfund Grants	Interfund Transfers
Undesignated	\$ (7,310)	\$ 14,982	\$ 25,000
Restricted	(53,482)	47,350	(23,700)
Donor Advised	-	-	-
Operating	(1,540)	-	(1,300)
Charitable Gift Annuity	-	-	-
Agency Endowments	-	-	-
Total	<u>\$ (62,332)</u>	<u>\$ 62,332</u>	<u>\$ -</u>

**Note 11 – Contingencies**

*Investments*

A possible contingency exists regarding The Foundation’s investments, which are directly affected by economic and market conditions. Although the value of investments remained stable during 2014, a decline in market value is possible.

Due to the uncertainty surrounding the current economic and market conditions, we are unable to determine an estimate, range, or possible loss.

*Legal matters*

The Foundation is subject to various claims and legal actions arising in the ordinary course of business. Management has determined a reserve of \$45,000 would adequately cover costs of any such claims. In the opinion of management, the ultimate disposition of such matters will not have a material adverse effect on the Foundation’s financial position or changes in net assets of the Foundation.

*BP oil spill claim*

The Foundation filed a claim with Deep Water Horizon Claims Center to recover revenue lost due to the economic impact of the BP oil spill in 2010. Management expects a claim will be approved but cannot estimate the amount or timing of the receipt.

**Note 12 – Pledged assets**

Note payable – The Mobile Opera, Inc. has a note payable to a bank dated September 28, 2012. The loan is secured by the Mobile Opera Endowment Fund. The loan has an annual interest rate of 4.25% and requires 60 monthly principal and interest payments of \$1,589.39. There is a balloon payment at the maturity date of September 28, 2017. As of the report date, the outstanding loan balance was \$129,088.

**THE COMMUNITY FOUNDATION OF SOUTH ALABAMA**

**Notes to Financial Statements  
September 30, 2014 and 2013**

**Note 13 – Date of Management’s Review**

Management has evaluated subsequent events through February 28, 2015, the date the financial statements were available to be issued.