

**THE COMMUNITY FOUNDATION OF
SOUTH ALABAMA**

**Financial Statements
For the Years Ended
September 30, 2015 and 2014**

THE COMMUNITY FOUNDATION OF SOUTH ALABAMA

Contents

	Page
Independent Auditor's Report	2 - 3
Statements of Financial Position	4
Statements of Activities	5
Statements of Cash Flows	6
Notes to Financial Statements	7 - 18



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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 statement of financial position as of September 30, 2015, and the related statements of activities and cash flows for the year 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 audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

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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, 2015 and 2014, 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.

Report on the Compiled Financial Statements

Management is responsible for the accompanying financial statements of The Community Foundation of South Alabama, which comprise the statement of financial position as of September 30, 2014, and the related statement of activities, and cash flows for the year then ended, and the related notes to the financial statements in accordance with accounting principles generally accepted in the United States of America. We have performed a compilation engagement in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. We did not audit or review the financial statements nor were we required to perform any procedures to verify the accuracy or completeness of the information provided by management. Accordingly, we do not express an opinion, a conclusion, nor provide any form of assurance on the financial statements of The Community Foundation of South Alabama as of and for the year ended September 30, 2014.

Prior Period Adjustment

As discussed in Note 13 to the financial statements, certain errors resulting in an understatement of amounts previously reported for the charitable gift annuity liability as of September 30, 2014 were discovered during the current year. Accordingly, amounts reported for the charitable gift annuity liability and the related income and expenses reported on the statement of activities have been restated in the 2014 compiled financial statements now presented, and an adjustment has been made to net assets as of September 30, 2014, to correct the error.

Crow Shields Bailey, PC

May 5, 2016
Mobile Alabama

FINANCIAL STATEMENTS

**THE COMMUNITY FOUNDATION OF SOUTH ALABAMA
STATEMENTS OF FINANCIAL POSITION**

Assets		September 30	
	2015 (Audited)	2014 (Restated) (Compiled)	
Cash	\$ 344,883	\$ 406,887	
Investments	66,079,322	69,013,647	
Receivables	822	-	
Deferred annuity cost, net of accumulated amortization of \$295,452 and \$270,338	79,625	104,770	
Prepaid expense	19,088	14,006	
Property, furniture, and equipment, net of accumulated depreciaton	567,415	582,733	
	\$ 67,091,155	\$ 70,122,043	
Liabilities and Net Assets			
Current liabilities			
Accounts payable	\$ 16,406	\$ 32,111	
Grants payable	154,541	192,999	
Deferred revenue	94,006	120,133	
Legal contingency	20,000	45,000	
Charitable gift annuity liability	319,059	340,194	
Agency endowment funds held	15,277,535	14,853,774	
Total liabilities	15,881,547	15,584,211	
Net assets			
Unrestricted			
Donor advised	21,089,511	21,973,143	
Field-of-interest	1,297,537	1,396,972	
Operating	1,136,298	929,267	
Designated	16,423,440	18,510,431	
Scholarship	3,299,853	3,159,931	
Supporting foundation	1,597,864	1,684,027	
Undesignated	5,207,935	5,573,503	
	50,052,438	53,227,274	
Temporarily restricted			
Pooled income	383,267	396,795	
Charitable gift annuity	773,903	913,763	
	1,157,170	1,310,558	
Total net assets	51,209,608	54,537,832	
	\$ 67,091,155	\$ 70,122,043	

See notes to financial statements

THE COMMUNITY FOUNDATION OF SOUTH ALABAMA
STATEMENTS OF ACTIVITIES

	Years Ended	
	September 30	
	2015	2014 (Restated)
	(Audited)	(Compiled)
Revenues and support		
Administrative and custodial fees	\$ 790,042	\$ 745,632
Contributions	1,568,381	3,759,095
Dividend income	17,779	-
Grants - foundations and governments	181,627	275,462
In-kind contributions	17,920	-
Indirect project costs	-	715
Interest income	2,126	-
Interfund gifts	191,785	268,923
Investment income	931,939	992,804
Net realized gain on sale of investments	576,492	656,973
Other income	35,724	25,360
	4,313,815	6,724,964
Expenses		
Administrative and custodial fees	644,543	617,240
Advertising and public relations	3,193	1,789
Annuity costs	25,145	25,145
Bank service charges	2,265	-
Commissions and processing fees	18,084	5,096
Computer and equipment	51,878	44,688
Conferences, dues, and subscriptions	21,853	19,191
Contract labor and consulting	66,734	63,140
Grant distributions	3,306,880	2,250,401
Income distributions	5,732	7,137
Insurance	23,754	14,808
Interfund grants	796,405	269,423
Meetings and special events	49,831	42,992
Miscellaneous	3,927	1,435
Office expense	14,092	22,188
Personnel	555,761	585,558
Professional fees	14,772	101,883
Project costs	-	715
Repairs and maintenance	5,057	4,299
Travel	3,920	9,063
Utilities, telephone, and janitorial	29,311	29,048
Website and programming	1,469	10,602
	5,644,606	4,125,841

See notes to financial statements

	Years Ended September 30	
	2015 (Audited)	2014 (Restated) (Compiled)
Change in unrestricted net assets before other items	(1,330,791)	2,599,123
Other items		
Loss on disposal of fixed assets	(2,093)	-
Net unrealized gains (losses) on investments	(1,921,241)	2,671,373
Depreciation expense	(26,208)	(25,922)
Net assets released from restrictions		
Expiration of time restriction - charitable gift annuities	4,684	17,297
Restrictions satisfied by payments	48,562	44,993
Change in unrestricted net assets	<u>(3,227,087)</u>	<u>5,306,864</u>
Changes in temporarily restricted net assets		
Revenues and support		
Net realized gain on sale of investments	51,996	36,716
Investment income	26,268	27,712
	<u>78,264</u>	<u>64,428</u>
Change in temporarily restricted net assets before other items	78,264	64,428
Other items		
Net unrealized gains (losses) on investments	(73,904)	35,223
Change in liabilities under split-interest agreements	(52,251)	(86,925)
Net assets released from restrictions		
Expiration of time restriction - charitable gift annuities	(4,684)	(17,297)
Restrictions satisfied by payments	(48,562)	(44,993)
Change in temporarily restricted net assets	<u>(101,137)</u>	<u>(49,564)</u>
Change in net assets	<u>(3,328,224)</u>	<u>5,257,300</u>
Net assets, beginning of year		
As previously stated	54,537,832	49,526,687
Prior period adjustment to correct liabilities under split-interest agreements	-	(246,155)
Net assets, beginning of year- as restated	<u>54,537,832</u>	<u>49,280,532</u>
Net assets, end of year	<u>\$ 51,209,608</u>	<u>\$ 54,537,832</u>

**THE COMMUNITY FOUNDATION OF SOUTH ALABAMA
STATEMENTS OF CASH FLOWS**

	Years Ended September 30	
	2015 (Audited)	2014 (Restated) (Compiled)
Cash flows from operating activities		
Increase (decrease) in net assets	\$ (3,328,224)	\$ 5,257,300
Adjustments to reconcile increase (decrease) in net assets to net cash flows from operating activities:		
Realized and unrealized (gains) losses on investments, net	1,366,656	(3,391,281)
Depreciation	26,208	25,922
Annuity costs	73,291	112,070
Loss on disposal of fixed assets	2,093	-
Decrease (increase) in assets:		
Accounts receivable	(822)	87,500
Prepaid expenses and other assets	(5,082)	(6,809)
Increase (decrease) in liabilities:		
Accounts payable and other liabilities	(54,159)	5,568
Legal contingencies	(25,000)	45,000
Deferred revenue	(26,127)	(271,877)
Agency transactions	423,761	5,837,261
Net cash provided by (used in) operating activities	(1,547,405)	7,700,654
Cash flows from investing activities		
Purchase/sales of investments, net	1,567,666	(7,575,141)
Purchase of furniture and equipment	(12,984)	(15,627)
Net cash provided by (used in) investing activities	1,554,682	(7,590,768)
Cash flows from financing activities		
Payments on charitable gift annuity liabilities	(69,281)	(104,884)
Net cash used in financing activities	(69,281)	(104,884)
Increase (decrease) in cash and cash equivalents	(62,004)	5,002
Cash and cash equivalents at beginning of year	406,887	401,885
Cash and cash equivalents at end of year	\$ 344,883	\$ 406,887

See notes to financial statements

**THE COMMUNITY FOUNDATION OF SOUTH ALABAMA
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2015 AND 2014 (COMPILED)**

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 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 checking and petty cash 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 9.

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.

Advertising and public relations

All advertising and public relations costs are expensed as incurred. Advertising and public relations expense was \$3,193 and \$1,789 for the years ended September 30, 2015 and 2014, 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. 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

THE COMMUNITY FOUNDATION OF SOUTH ALABAMA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2015 AND 2014 (COMPILED)

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 are 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 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. Depreciation expense for the years ended September 30, 2015 and 2014 was \$26,208 and \$25,922, respectively.

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, designated, donor advised, scholarship, or supporting foundation.

**THE COMMUNITY FOUNDATION OF SOUTH ALABAMA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2015 AND 2014 (COMPILED)**

The revenues related to 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. 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 existing tier fee structure.

The revenues related to operating, undesignated, field-of-interest, designated, donor advised, scholarship, 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 determine 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, the Foundation has concluded that these transfers fall under the guidance of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) Section 958-605-25-33 (Formerly FAS 136) 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 Statement of Financial Position.

Spending policy

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 (CONTINUED)
SEPTEMBER 30, 2015 AND 2014 (COMPILED)

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, 2015, 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 2012.

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.

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 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 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
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2015 AND 2014 (COMPILED)**

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, 2015 and 2014, the estimated charitable gift annuity liability was \$319,059 and \$340,194, respectively. See also Note 13.

Note 4 – In-kind contributions

Many individuals volunteer their time and perform a variety of tasks that assist the Foundation in its activities. In the past, the value of these services has not been recorded as the amount could not be reasonably estimated. For the year ended September 30, 2015, the Foundation recorded in-kind contributions in the amount of \$17,920 which were used to offset costs associated with the Foundation's annual events.

Note 5 – Concentration of credit risk

The Foundation maintains its cash balance at a bank located in Mobile, Alabama. The account is insured by the Federal Deposit Insurance Corporation up to \$250,000. At September 30, 2015 and 2014, the Foundation's cash balance exceeded federally insured limits by \$299,496 and \$216,575, respectively.

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 \$12,541 and \$10,602 for the years ended September 30, 2015 and 2014, respectively.

**THE COMMUNITY FOUNDATION OF SOUTH ALABAMA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2015 AND 2014 (COMPILED)**

Note 7 – Operating leases

The Foundation leases a copy machine under an operating lease expiring in August 2019. Rental expense under this lease was \$3,737 and \$1,311 for the year ended September 30, 2015 and 2014, respectively. Minimum future rental payments under this non-cancelable operating lease as of September 30, 2015 are:

Year ending September 30,			
2016	\$	3,746	
2017		3,746	
2018		3,746	
2019		3,434	
2020		-	
Total minimum future rental payments	\$	<u>14,672</u>	

Note 8 - Property, furniture, and equipment

Property, furniture, and equipment consisted of the following:

	2015 <u>(Audited)</u>	2014 <u>(Compiled)</u>
Land	\$ 171,000	\$ 171,000
Building	249,000	249,000
Improvements	244,995	244,995
Furniture and fixtures	<u>167,489</u>	<u>165,392</u>
	832,484	830,387
Less accumulated depreciation	<u>(265,069)</u>	<u>(247,654)</u>
Net property and equipment	<u>\$ 567,415</u>	<u>\$ 582,733</u>

**THE COMMUNITY FOUNDATION OF SOUTH ALABAMA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2015 AND 2014 (COMPILED)**

Note 9 – Investments

Investments consisted of the following at September 30:

	2015 (Audited)			
	Carrying Value	Cost / Fair Value at Donation	Unrealized Gain (Loss)	Carrying Value Percentage
Mutual funds:				
Stocks	\$ 33,879,294	\$ 24,260,886	\$ 9,618,408	51.27%
Bonds	13,000,948	13,002,999	(2,051)	19.67%
Treasury securities	9,516,142	9,435,210	80,932	14.40%
Alternative investments - offshore investment funds	6,811,258	4,579,736	2,231,522	10.31%
Cash in money market accounts	1,633,761	1,633,761	-	2.47%
Common stocks	774,956	809,380	(34,424)	1.17%
Real estate	233,011	233,011	-	0.35%
Other assets	5,554	5,554	-	0.01%
Life insurance (cash value)	146,068	174,795	(28,727)	0.22%
Bonds:				
Corporate	20,031	21,137	(1,106)	0.03%
Municipal	58,299	57,576	723	0.09%
Total	\$ 66,079,322	\$ 54,214,045	\$ 11,865,277	100.00%

THE COMMUNITY FOUNDATION OF SOUTH ALABAMA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2015 AND 2014 (COMPILED)

	2014 (Compiled)			
	Carrying Value	Cost / Fair Value at Donation	Unrealized Gain (Loss)	Carrying Value Percentage
Mutual funds:				
Stocks	\$ 36,529,196	\$ 24,246,792	\$ 12,282,404	52.93%
Bonds	12,770,652	12,726,721	43,931	18.50%
Treasury securities	9,332,903	9,310,877	22,026	13.52%
Alternative investments - offshore investment funds	6,621,215	4,579,736	2,041,479	9.59%
Cash in money market accounts	2,373,826	2,373,826	-	3.44%
Common stocks	743,605	801,683	(58,078)	1.08%
Real estate	233,011	233,011	-	0.34%
Other assets	155,554	155,554	-	0.23%
Life insurance (cash value)	141,023	162,953	(21,930)	0.20%
Bonds:				
Corporate	48,522	50,341	(1,819)	0.07%
Municipal	64,140	63,653	487	0.09%
Total	\$ 69,013,647	\$ 54,705,147	\$ 14,308,500	100.00%

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 COMMUNITY FOUNDATION OF SOUTH ALABAMA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2015 AND 2014 (COMPILED)**

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 were as follows:

<u>Description</u>	<u>Fair Value at September 30, 2015 (Audited)</u>	<u>Fair Value Measurements at Reporting Date Using:</u>		
		<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
Mutual funds:				
Stocks	\$ 33,879,294	\$ 33,879,294	\$ -	\$ -
Bonds	13,000,948	13,000,948	-	-
Treasury securities	9,516,142	9,516,142	-	-
Alternative investments - offshore investment funds	6,811,258	-	6,811,258	-
Cash in money market accounts	1,633,761	1,633,761	-	-
Common stocks	774,956	774,956	-	-
Real estate	233,011	-	-	233,011
Other assets	5,554	-	-	5,554
Life insurance (cash value)	146,068	-	-	146,068
Bonds:				
Corporate	20,031	-	20,031	-
Municipal	58,299	-	58,299	-
	<u>\$ 66,079,322</u>	<u>\$ 58,805,101</u>	<u>\$ 6,889,588</u>	<u>\$ 384,633</u>

**THE COMMUNITY FOUNDATION OF SOUTH ALABAMA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2015 AND 2014 (COMPILED)**

<u>Description</u>	<u>Fair Value at September 30, 2014 (Compiled)</u>	<u>Fair Value Measurements at Reporting Date Using:</u>		
		<u>Quoted Prices In Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Unobservable Inputs (Level 3)</u>
Mutual funds:				
Stocks	\$ 36,529,196	\$ 36,529,196	\$ -	\$ -
Bonds	12,770,652	12,770,652	-	-
Treasury securities	9,332,903	9,332,903	-	-
Alternative investments - offshore investment funds	6,621,215	-	6,621,215	-
Cash in money market accounts	2,373,826	2,373,826	-	-
Common stocks	743,605	743,605	-	-
Real estate	233,011	-	-	233,011
Other assets	155,554	-	-	155,554
Life insurance (cash value)	141,023	-	-	141,023
Bonds:				
Corporate	48,522	-	48,522	-
Municipal	64,140	-	64,140	-
	<u>\$ 69,013,647</u>	<u>\$ 61,750,182</u>	<u>\$ 6,733,877</u>	<u>\$ 529,588</u>

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 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.

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 lease on property, purchased by an endowment fund in December 2013. The Foundation has not identified any events or changes in circumstances that may affect the asset's fair market value at September 30, 2015.

**THE COMMUNITY FOUNDATION OF SOUTH ALABAMA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2015 AND 2014 (COMPILED)**

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, 2015 was as follows:

Balance at October 1, 2014 (compiled)	\$	529,588
Total gains or losses (realized and unrealized)		
Unrealized gains (losses) on life insurance (cash value)		5,045
Purchases, sales, issuances and settlements		
Purchases		-
Issuances		-
Sales		-
Settlements		-
Transfers in		-
Transfers out		(150,000)
Balance at September 30, 2015	<u>\$</u>	<u>384,633</u>

Transfers in consist of investments reclassified from Level 2 to Level 3 by management. Transfers out consist of assets no longer reported at fair value.

Note 10 – 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 FASB ASC 958-605-25-33.

Note 11 – Contingencies

Legal matters

The Foundation is subject to various claims and legal actions arising in the ordinary course of business. As of September 30, 2015 and 2014, management has determined a reserve of \$20,000 and \$45,000, respectively, 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.

**THE COMMUNITY FOUNDATION OF SOUTH ALABAMA
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2015 AND 2014 (COMPILED)**

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. In January 2016, the Foundation received a notice indicating approval of the claim; however the Foundation has appealed the decision requesting the Claims Center to reevaluate its calculations used to determine the claim.

Note 12 – Pledged assets

The Mobile Opera, Inc. (a donor) 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. There is an estimated balloon payment of \$87,048 at the maturity date of September 28, 2017. As of September 30, 2015 and 2014, the outstanding loan balance was \$115,275 and \$129,088, respectively. The fair market value of the Mobile Opera Endowment Fund investments was \$208,932 and \$222,385 for the years ended September 30, 2015 and 2014, respectively.

Note 13 - Restatement of 2014 financial statements

The accompanying financial statements for 2014 have been restated to correct an understatement of the charitable gift annuity liability to remove revenues and expenses for interfund transfers, and to reclassify expenses from temporarily restricted net assets to net assets released from restrictions. The net effect of the restatement increased the charitable gift annuity liability by \$314,002 at September 30, 2014, and decreased temporarily restricted net assets by \$246,155 at October 1, 2013 and \$314,002 at September 30, 2014.

Note 14 – Date of management’s review

Management has evaluated subsequent events through May 5, 2016, the date the financial statements were available to be issued.