

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

Consolidated Financial Statements

For the Years Ended  
September 30, 2016 and 2015



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

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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 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, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the year 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 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 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 2016 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, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Prior Period Financial Statements**

The financial statements, with the exception of the consolidated statement of functional expenses, of The Community Foundation of South Alabama and Subsidiaries as of September 30, 2015, were audited by other auditors whose report dated May 5, 2016, expressed an unmodified opinion on those statements.

### **Report on the Compiled 2015 Consolidated Statement of Functional Expenses**

Management is responsible for the consolidated statement of functional expenses of The Community Foundation of South Alabama and Subsidiaries for the year ended September 30, 2015. 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 consolidated statement of functional expenses 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 statement.

*Russell Thompson Butler & Houston, LLP*

*Mobile Alabama  
February 3, 2017*

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

**Consolidated Statement of Financial Position**

September 30	2016	2015
<b>Assets</b>		
Cash and cash equivalents	\$ 330,607	\$ 344,883
Investments	69,914,422	66,080,144
Accounts receivable	5,595	-
Deferred annuity cost, net of accumulated amortization of \$320,597 and \$295,452	54,481	79,625
Prepaid expenses	21,383	19,088
Property and equipment, net	555,111	567,415
<b>Total assets</b>	<b>\$ 70,881,599</b>	<b>\$ 67,091,155</b>
<b>Liabilities</b>		
Accounts payable	\$ 51,185	\$ 36,406
Grants payable	107,321	154,541
Deferred revenue	40,139	94,006
Charitable gift annuity liability	304,473	318,956
Agency endowment funds held	16,444,503	15,277,535
<b>Total liabilities</b>	<b>16,947,621</b>	<b>15,881,444</b>
<b>Net Assets</b>		
Unrestricted		
Donor advised	21,717,779	21,089,511
Field-of-interest	1,312,547	1,297,537
Operating	1,212,240	1,136,298
Designated	17,627,187	16,423,440
Scholarship	3,769,747	3,299,853
Supporting foundation	1,682,556	1,597,864
Undesignated	5,488,333	5,207,935
<b>Total unrestricted</b>	<b>52,810,389</b>	<b>50,052,438</b>
Temporarily restricted		
Pooled income	396,190	383,267
Charitable gift annuity	727,399	774,006
<b>Total temporarily restricted</b>	<b>1,123,589</b>	<b>1,157,273</b>
<b>Total net assets</b>	<b>53,933,978</b>	<b>51,209,711</b>
<b>Total liabilities and net assets</b>	<b>\$ 70,881,599</b>	<b>\$ 67,091,155</b>

*See notes to consolidated financial statements*

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

**Consolidated Statement of Activities**

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

*See notes to consolidated financial statements*

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

**Consolidated Statement of Activities (continued)**

Year Ended September 30, 2015	Unrestricted	Temporarily Restricted	Total
<b>Revenues, gains and other support</b>			
Administrative fees	\$ 790,042	\$ -	\$ 790,042
Contributions	1,568,381	-	1,568,381
Grants - foundations and governments	181,627	-	181,627
In-kind contributions	17,920	-	17,920
Interfund contributions	191,785	-	191,785
Investment income	951,844	26,268	978,112
Realized investment gains	576,492	51,996	628,488
Unrealized investment losses	(1,921,241)	(73,904)	(1,995,145)
Loss on disposal of property and equipment	(2,093)	-	(2,093)
Other income	35,724	-	35,724
Change in liabilities under split-interest agreements	-	(52,251)	(52,251)
<b>Total revenues, gains and other support</b>	<b>2,390,481</b>	<b>(47,891)</b>	<b>2,342,590</b>
Releases from restriction	105,493	(105,493)	-
<b>Total support, revenues and releases</b>	<b>2,495,974</b>	<b>(153,384)</b>	<b>2,342,590</b>
<b>Expenses</b>			
Program services	5,065,071	-	5,065,071
Supporting services			
Management and general	269,913	-	269,913
Fund-raising	335,826	-	335,826
<b>Total expenses</b>	<b>5,670,810</b>	<b>-</b>	<b>5,670,810</b>
<b>(Decrease) in net assets</b>	<b>(3,174,836)</b>	<b>(153,384)</b>	<b>(3,328,220)</b>
<b>Net assets</b>			
Beginning of year	53,227,274	1,310,657	54,537,931
End of year	\$ 50,052,438	\$ 1,157,273	\$ 51,209,711

*See notes to consolidated financial statements*



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

**Consolidated Statement of Functional Expenses**

Year Ended September 30, 2016	Program Services	Supporting Services		Total	Totals
		Management and General	Fund- Raising		
Administrative fees	\$ 623,013	\$ -	\$ -	\$ -	\$ 623,013
Advertising and public relations	10,921	659	952	1,611	12,532
Annuity costs	25,145	-	-	-	25,145
Bank service charges, commissions, and processing fees	20,283	888	889	1,777	22,060
Computer and equipment	23,095	15,264	22,047	37,311	60,406
Conferences, dues, and subscriptions	6,213	9,765	1,541	11,306	17,519
Contract labor and consulting	33,619	570	-	570	34,189
Depreciation	875	24,427	969	25,396	26,271
Grant distributions	2,708,169	-	-	-	2,708,169
Income distributions	7,463	-	-	-	7,463
Insurance	7,549	4,752	22	4,774	12,323
Interfund grants	179,914	-	-	-	179,914
Meetings and special events	49,201	11,454	560	12,014	61,215
Miscellaneous	26	16,178	30	16,208	16,234
Office expense	8,810	4,700	9,811	14,511	23,321
Personnel	192,881	153,170	221,245	374,415	567,296
Professional fees	6,931	1,916	2,767	4,683	11,614
Repairs and maintenance	180	5,047	201	5,248	5,428
Travel	1,736	782	1,130	1,912	3,648
Utilities, telephone, and janitorial	5,049	18,601	5,244	23,845	28,894
Website and programming	485	230	460	690	1,175
<b>Totals</b>	<b>\$ 3,911,558</b>	<b>\$ 268,403</b>	<b>\$ 267,868</b>	<b>\$ 536,271</b>	<b>\$ 4,447,829</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, 2015 (Compiled)	Program Services	Supporting Services			Totals
		Management and General	Fund- Raising	Total	
Administrative fees	\$ 644,543	\$ -	\$ -	\$ -	\$ 644,543
Advertising and public relations	-	-	3,193	3,193	3,193
Annuity costs	25,145	-	-	-	25,145
Bank service charges, commissions, and processing fees	18,456	696	1,197	1,893	20,349
Computer and equipment	13,488	16,082	22,308	38,390	51,878
Conferences, dues, and subscriptions	3,597	15,141	3,115	18,256	21,853
Contract labor and consulting	66,734	-	-	-	66,734
Depreciation	873	24,368	967	25,335	26,208
Grant distributions	3,306,880	-	-	-	3,306,880
Income distributions	5,732	-	-	-	5,732
Insurance	19,059	4,666	29	4,695	23,754
Interfund grants	796,405	-	-	-	796,405
Meetings and special events	2,197	-	47,634	47,634	49,831
Miscellaneous	22	3,880	25	3,905	3,927
Office expense	2,318	2,750	9,024	11,774	14,092
Personnel	144,498	172,286	238,977	411,263	555,761
Professional fees	9,076	5,696	-	5,696	14,772
Repairs and maintenance	169	4,702	186	4,888	5,057
Travel	1,741	913	1,266	2,179	3,920
Utilities, telephone, and janitorial	3,551	18,439	7,317	25,756	29,307
Website and programming	587	294	588	882	1,469
<b>Totals</b>	<b>\$ 5,065,071</b>	<b>\$ 269,913</b>	<b>\$ 335,826</b>	<b>\$ 605,739</b>	<b>\$ 5,670,810</b>

*See notes to consolidated financial statements*

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

**Consolidated Statement of Cash Flows**

Year Ended September 30	2016	2015
<b>Cash flows from operating activities</b>		
Increase (decrease) in net assets	\$ 2,724,267	\$ (3,328,220)
Adjustments to reconcile increase (decrease) in assets to net cash flows from operating activities:		
Realized and unrealized (gains) losses on investments, net	(3,180,323)	1,366,656
Depreciation	26,271	26,208
Annuity costs	79,938	73,287
Loss on disposal of property and equipment	471	2,093
Decrease (increase) in assets:		
Accounts receivable	(5,595)	-
Prepaid expenses	(2,295)	(5,082)
Increase (decrease) in liabilities:		
Accounts payable	14,779	(40,705)
Grants payable	(47,220)	(38,458)
Deferred revenue	(53,867)	(26,127)
Agency endowment funds held	(195,412)	151,301
Net cash (used in) operating activities	(638,986)	(1,819,047)
<b>Cash flows from investing activities</b>		
Purchases of investments	(1,767,072)	(1,768,751)
Sales of investments	2,708,171	3,688,512
Agency endowment funds purchases of investments	(824,506)	(433,450)
Agency endowment funds sales of investments	591,822	352,997
Purchase of property and equipment	(14,438)	(12,984)
Net cash provided by investing activities	693,977	1,826,324
<b>Cash flows from financing activities</b>		
Payments on charitable gift annuity liabilities	(69,267)	(69,281)
Net cash (used in) financing activities	(69,267)	(69,281)
<b>Net change in cash and cash equivalents</b>	(14,276)	(62,004)
Cash and cash equivalents		
Beginning of year	344,883	406,887
End of year	\$ 330,607	\$ 344,883

*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, 2016 and 2015

**Note 1 – General purpose and activities**

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

**Note 2 – Summary of significant accounting policies**

*Basis of accounting*

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

*Principles of consolidation*

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

*Use of estimates*

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

*Reclassifications*

Certain amounts in the 2015 financial statements have been reclassified to conform to the 2016 presentation. These reclassifications had no effect on net income for the year ended September 30, 2015. Additionally, the Foundation elected to early adopt ASU 2016-14 to include the presentation of the consolidated statement of functional expenses.

*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.

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

**Notes to Consolidated Financial Statements (continued)**

September 30, 2016 and 2015

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

*Contributed services*

The costs of services, if donated, are recorded at the estimated fair value of the services at the date of the donation. Donated labor and services are only recorded for specialized skills which would typically be purchased if not donated. Donated labor and services not meeting these criteria are not recorded. During the years ended September 30, 2016 and 2015, the value of contributed services meeting requirements for recognition in the consolidated financial statements was \$15,881 and \$17,920, respectively.

*Investments*

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

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

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

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

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

**Notes to Consolidated Financial Statements (continued)**

September 30, 2016 and 2015

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

*Accounts receivable*

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

*Property and equipment*

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

*Deferred revenue*

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

*Agency endowment funds*

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

*Classification of net assets*

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

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

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

**Notes to Consolidated Financial Statements (continued)**

September 30, 2016 and 2015

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

*Classification of net assets (continued)*

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

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

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

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

*Functional expense allocations*

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

*Grant distributions*

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



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

**Notes to Consolidated Financial Statements (continued)**

September 30, 2016 and 2015

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

*Advertising and public relations*

All advertising and public relations costs are expensed as incurred. Advertising and public relations expense was \$12,532 and \$3,193 for the years ended September 30, 2016 and 2015, respectively.

*Concentration of credit risk*

The Foundation maintains balances in deposit accounts which, at times, may exceed federally insured limits. At September 30, 2016, the balance in the Foundation's bank accounts, as reflected by the bank, exceeded the federal insurance limits by \$118,868.

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, 2016, 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 2013.



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

**Notes to Consolidated Financial Statements (continued)**

September 30, 2016 and 2015

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

*Date of management's review*

Management's evaluation of subsequent events through February 3, 2017, which is the date the consolidated financial statements were available to be issued revealed no significant matters to be recorded or disclosed, except as noted in Note 9.

**Note 3 – Investments**

Investments consist of the following:

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

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

**Notes to Consolidated Financial Statements (continued)**

September 30, 2016 and 2015

**Note 3 – Investments (continued)**

September 30, 2015	Carrying Value	Cost / Fair Value at Donation	Unrealized Gain (Loss)	Carrying Value Percentage
Mutual funds:				
Stocks	\$ 33,880,116	\$ 24,260,886	\$ 9,619,230	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	0.10%
<b>Totals</b>	<b>\$ 66,080,144</b>	<b>\$ 54,214,045</b>	<b>\$ 11,866,099</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 three-tier hierarchy of inputs is summarized in the three broad levels listed as follows:

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

**Notes to Consolidated Financial Statements (continued)**

September 30, 2016 and 2015

**Note 3 – Investments (continued)**

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

The fair value measurements and levels within the fair value hierarchy of those measurements for the assets reported at fair value on a recurring basis at September 30, 2016 were as follows:

September 30, 2016	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	\$ 38,479,527	\$ 38,479,527	\$ -	\$ -
Bonds	12,796,432	12,796,432	-	-
Treasury securities	8,864,848	8,864,848	-	-
Alternative investments - offshore				
investment funds	6,873,748	-	6,873,748	-
Alternative investments - stocks				
Cash in money market accounts	45,363	-	45,363	-
Common stocks	1,820,714	1,820,714	-	-
Closely held stock	742,536	742,536	-	-
Other assets	35,170	-	-	35,170
Life insurance (cash value)	5,554	-	-	5,554
Bonds:				
Corporate	151,467	-	-	151,467
Municipal	50,563	-	50,563	-
Municipal	48,500	-	48,500	-
Totals	\$ 69,914,422	\$ 62,704,057	\$ 7,018,174	\$ 192,191

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

**Notes to Consolidated Financial Statements (continued)**

September 30, 2016 and 2015

**Note 3 – Investments (continued)**

	Fair Value	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2015				
Mutual funds:				
Stocks	\$ 33,880,116	\$ 33,880,116	\$ -	\$ -
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	-
<b>Totals</b>	<b>\$ 66,080,144</b>	<b>\$ 58,805,923</b>	<b>\$ 6,889,588</b>	<b>\$ 384,633</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. 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, 2016 and 2015

**Note 3 – Investments (continued)**

*Level 3 Fair Value Measurements*

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

Real estate is carried at the purchase price of the lease on property, purchased by an endowment fund in December 2013. The Foundation sold this property in May 2016.

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

The change in Level 3 fair value assets for the year ended September 30, 2016 was as follows:

Balance at October 1, 2015	\$ 384,633
Total gains or losses (realized and unrealized)	-
Unrealized gains (losses) on life insurance (cash value)	5,399
Purchases, sales, issuances, and settlements	
Purchases	-
Issuances	35,170
Sales	(233,011)
Settlements	-
Transfers in	-
Transfers out	-
<b>Balance at September 30, 2016</b>	<b>\$ 192,191</b>

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. There were no transfers for the year ended September 30, 2016.

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

**Notes to Consolidated Financial Statements (continued)**

September 30, 2016 and 2015

**Note 4 – Property and equipment**

Property and equipment consist of the following:

September 30	2016	2015
Land	\$ 171,000	\$ 171,000
Buildings	249,000	249,000
Improvements	256,183	244,995
Furniture and fixtures	169,609	167,489
	845,792	832,484
Less accumulated depreciation	290,681	265,069
	\$ 555,111	\$ 567,415

Depreciation expense for the years ended September 30, 2016 and 2015 was \$26,271 and \$26,208, respectively.

**Note 5 – Temporarily restricted net assets**

*Pooled income fund*

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

*Charitable gift annuity*

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

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

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

**Notes to Consolidated Financial Statements (continued)**

September 30, 2016 and 2015

**Note 5 – Temporarily restricted net assets (continued)**

*Charitable gift annuity (continued)*

The present value of the future charitable gift annuity payments are estimated using donor life expectancies from IRS tables. For the years ended September 30, 2016 and 2015, the estimated charitable gift annuity liability was \$304,576 and \$319,059, respectively.

The deferred annuity cost on the balance sheet was originally established as the difference between the present value of the guaranteed payments of one \$2 million dollar charitable gift annuity and the \$1 million dollar cash investment in the related insurance policies. The deferred cost is being amortized on the straight-line method over the life expectancy of the annuitants. The amortization expense was \$25,145 for each of the years ended September 30, 2016 and 2015.

**Note 6 – Operating leases**

The Foundation leases a copy machine under an operating lease expiring in August 2019. Rental expense under this lease was \$3,746 and \$3,737 for the year ended September 30, 2016 and 2015, respectively. Minimum future rental payments under this non-cancelable operating lease as of September 30, 2016 are:

Year ending September 30	
2017	\$ 3,746
2018	3,746
2019	3,434
<hr/>	
Total minimum future rental payments	<u>\$ 10,926</u>

**Note 7 – 403(b)(7) Plan**

The Foundation has adopted a 403(b)(7) plan for employees 21 years of age or older having one-half year of service. The Foundation makes discretionary matching contributions for eligible employees. The contribution expense for the years ended September 30, 2016 and 2015, was \$14,973 and \$12,541, respectively.

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

**Notes to Consolidated Financial Statements (continued)**

September 30, 2016 and 2015

**Note 8 – Interfund activity**

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

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

**Note 9 – Contingencies**

***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 November 2016, the Foundation received a notice of payment on the claim.

**Note 10 – 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, 2016 and 2015, the outstanding loan balance was \$100,831 and \$115,275, respectively. The fair market value of the Mobile Opera Endowment Fund investments was \$215,760 and \$208,932 as of September 30, 2016 and 2015, respectively.