

WIREGRASS FOUNDATION, INC.

DECEMBER 31, 2011

FINANCIAL STATEMENTS

WIREGRASS FOUNDATION, INC.
DOTHAN, ALABAMA

INDEX

	<u>PAGE</u>
Independent auditor's report	1
Statement of assets, liabilities, and net assets - income tax basis	2
Statement of revenues, expenses, and other changes in net assets - income tax basis	3
Statement of cash flows - income tax basis	4
Notes to financial statements	5 - 12
Independent auditor's report on supplementary information	13
Schedule of management and general expenses - income tax basis	14



DOTHAN, ALABAMA

Montgomery, Alabama

Prattville, Alabama

Wetumpka, Alabama

Murfreesboro, Tennessee

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Wiregrass Foundation, Inc.
Dothan, Alabama

We have audited the accompanying statement of assets, liabilities, and net assets - income tax basis of Wiregrass Foundation, Inc. (a nonprofit organization) as of December 31, 2011, and related statement of revenues, expenses, and other changes in net assets - income tax basis and statement of cash flows - income tax basis for the year then ended. These financial statements are the responsibility of the Foundation's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, these financial statements were prepared on the basis of accounting Wiregrass Foundation, Inc. uses for income tax purposes, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of Wiregrass Foundation, Inc. as of December 31, 2011, and its revenues, expenses, and other changes in net assets and cash flows for the year then ended, on the basis of accounting described in Note 1.

Jackson Thornton & Co. PC

Dothan, Alabama
February 29, 2012

WIREGRASS FOUNDATION, INC.
DOTHAN, ALABAMA

STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS - INCOME TAX BASIS
AS OF DECEMBER 31, 2011

ASSETS	
Cash and cash equivalents	\$ 348,260
Excise tax receivable	52,289
Investments	85,453,430
Property and equipment (net of accumulated depreciation)	1,861,896
Other assets	<u>1,715</u>
Total assets	<u><u>\$ 87,717,590</u></u>
LIABILITIES AND NET ASSETS	
Payroll withholdings	<u>\$ 2,103</u>
Total liabilities	<u>2,103</u>
Net assets:	
Unrestricted	<u>87,715,487</u>
Total net assets	<u>87,715,487</u>
Total liabilities and net assets	<u><u>\$ 87,717,590</u></u>

The accompanying notes are an integral part of these financial statements.

WIREGRASS FOUNDATION, INC.

STATEMENT OF REVENUES, EXPENSES, AND OTHER
 CHANGES IN NET ASSETS - INCOME TAX BASIS
 AS OF DECEMBER 31, 2011

CHANGE IN UNRESTRICTED NET ASSETS:	
Revenues, gains, and net assets:	
Other income	\$ 44,167
Interest and dividend income	2,237,567
Realized investment gains, net	3,107,359
Total revenues, gains, and net assets	<u>5,389,093</u>
Expenses and losses:	
Grants paid	3,374,897
Other program expenses	283,653
Management and general	894,224
Investment expenses	644,526
Loss from sale of property and equipment	<u>520</u>
Total expenses and losses	<u>5,197,820</u>
INCREASE IN UNRESTRICTED NET ASSETS	191,273
UNREALIZED INVESTMENT LOSSES, NET	<u>(9,863,008)</u>
CHANGE IN NET ASSETS	<u>(9,671,735)</u>
NET ASSETS AT BEGINNING OF YEAR	<u>97,387,222</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 87,715,487</u></u>

The accompanying notes are an integral part of these financial statements.

WIREGRASS FOUNDATION, INC.

STATEMENT OF CASH FLOWS -
INCOME TAX BASIS
AS OF DECEMBER 31, 2011

CASH FLOWS FROM OPERATING ACTIVITIES:	
Increase in net assets	\$ 191,273
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	86,401
Loss on sale of property and equipment	520
Loss on transfer of asset	300,590
Realized gains on investments	(3,107,359)
(Increase) decrease in operating assets and increase (decrease) in operating liabilities:	
Excise tax receivable	(44,958)
Other assets	10,000
Payroll withholdings and excise tax payable	<u>(25,603)</u>
Net cash used for operating activities	<u>(2,589,136)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property and equipment	(288,472)
Purchase of investments	(72,614,549)
Proceeds from the sale and maturity of investments	<u>74,969,479</u>
Net cash provided by investing activities	<u>2,066,458</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(522,678)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>870,938</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 348,260</u></u>

The accompanying notes are an integral part of these financial statements.

WIREGRASS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

This summary of significant accounting policies of the Wiregrass Foundation, Inc. (Foundation) is presented to assist in understanding the Foundation's financial statements. The financial statements and notes are representations of the Foundation's management, who is responsible for their integrity and objectivity. These accounting policies conform to accounting principles consistent with the income tax basis of accounting and have been consistently applied in the preparation of the financial statements.

Nature of operations - The Foundation is a private, non-operating foundation. The Foundation's purpose is to fund programs that will have a significant impact on the quality of health, education, and quality of life in Dothan, Alabama and the surrounding counties. The Foundation accomplishes this purpose by providing grants to other non-profit agencies that demonstrate a need for funding to provide programs that help meet these goals.

Basis of accounting - The financial statements of the Foundation have been prepared on the income tax basis of accounting. This basis reflects the financial position of the Foundation at December 31, 2011, and the changes in its net assets and its cash flows for the year then ended as it is reported on the 2011 Form 990-PF. The foundation uses the cash basis for income tax purposes. In accordance with this basis of accounting, unrealized gains and losses from investments are accounted for as changes in net assets, not as revenue increases or decreases. Also, grants approved but not paid at year end are not recorded as expenses or liabilities.

The significant accounting policies followed by the Foundation are summarized as follows:

Use of estimates - The preparation of financial statements in conformity with the income tax basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Concentrations - The Foundation is located in Dothan, Alabama and has identified its grant making focus to be organizations that seek to improve health, education, and quality of life for the population residing within a 50 mile radius of Dothan, Alabama.

The Foundation maintains its cash balances at one financial institution located in Alabama and at a brokerage firm. The financial instruments that potentially subject the Foundation to concentrations of credit risk at a brokerage firm consist principally of cash deposits. The balance at the bank is insured by the Federal Deposit Insurance Corporation up to \$250,000. At December 31, 2011, the Foundation's uninsured cash balance totaled \$98,260. The accounts at the brokerage firm contain cash and securities. Balances are insured up to \$500,000, with a limit of \$100,000 for cash, by the Securities Investor Protection Corporation (SIPC). At December 31, 2011, the Foundation had approximately \$5,727,006 in excess of SIPC insured limits.

WIREGRASS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Financial statement presentation - Financial statement presentation also follows the requirements of the FASB Accounting Standards Codification 958, *Financial Statements of Not-for-Profit Organizations*. Under FASB ASC 958, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets - unrestricted, temporarily restricted, and permanently restricted. There were no temporarily restricted or permanently restricted net assets as of December 31, 2011.

Cash and cash equivalents - For cash flow statement purposes, the Foundation considers all short-term, highly liquid investments to be cash equivalents that are readily convertible to known amounts of cash, and so near their maturities that they present insignificant risk of changes in value because of changes in interest rates. Cash and cash equivalents include only operating accounts.

Investments - As allowed by the IRS, the Foundation has elected to follow generally accepted accounting principles for income tax reporting of investments. Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair value in the Foundation's financial statements. Investment income composed of interest, dividends, and gain/losses from the sale of investments is recorded as revenue in the Foundation's financial statements, and unrealized gains and losses are recorded as changes in net assets.

Investments in limited partnerships are also reported at fair value. The fair value of limited partnership investments (alternative investments) are estimated by management. Management develops its estimate based on its understanding of the nature of the underlying investments, the portfolio strategy of the alternative investments, and the method and significant assumptions used by the fund manager to value the underlying investments.

Property and equipment - Buildings, furniture and fixtures, equipment, computer software, and leasehold improvements are carried at historical cost and are depreciated under the straight-line method over the estimated useful lives of the respective assets. Major renewals and improvements are capitalized while normal repairs and maintenance are expensed in the period incurred.

WIREGRASS FOUNDATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 DECEMBER 31, 2011

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Property and equipment consists of the following:

Buildings	\$	1,146,532
Furniture and fixtures		255,208
Equipment		80,360
Computer software		15,048
Accumulated depreciation		<u>(279,752)</u>
		1,217,396
Land		<u>644,500</u>
Total property and equipment	\$	<u>1,861,896</u>

Depreciation expense for the year amounted to \$86,401.

Income taxes - The Foundation is a not-for-profit organization that is exempt from federal and state income taxes under the provisions of Internal Revenue Code Section 501(c)(3) and applicable state regulations. The Foundation is classified by the Internal Revenue Service as a non-operating, private foundation. Excise taxes on net investment income are paid by the Foundation as a component of the annual Form 990-PF tax filing. The amount of excise tax on net investment income for the year was \$48,193. The Foundation had no unrelated business income subject to income tax for the year. With few exceptions, the Foundation is no longer subject to U.S. federal, state or local income tax examinations by tax authorities for the years before 2008.

NOTE 2 - INVESTMENTS:

Investments consist of the following:

		<u>FAIR VALUE</u>
Limited partnership	\$	499,104
Cash and cash equivalents		5,827,006
Fixed income securities		11,219,532
Mutual funds		23,219,063
Marketable equity securities		<u>44,688,725</u>
Total	\$	<u>85,453,430</u>

As discussed in Note 1, the Foundation carries all investments in equity securities with readily determinable fair values and all investments in debt securities at their fair values.

WIREGRASS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 2 – INVESTMENTS: (continued)

The Foundation invests in limited partnerships, which are commonly known as alternative investments. These alternative investments make indirect and direct investments in complex financial instruments whose value is derived from an underlying security, commodity, or asset. Examples of these types of financial instruments include, but are not limited to futures and forwards contracts, options, and securities sold, not yet purchased, which are all intended to hedge against changes in the market value of investments. As of December 31, 2011, alternative investments comprise less than 1% of the reported fair value of the investment portfolio.

These investments may contain elements of both credit and market risk. Such risks include, but are not limited to, limited liquidity, need for direct oversight, dependence on key individuals, emphasis on speculative investments, and transparency of portfolio composition. Because alternative investments are not readily marketable, their estimated value is subject to some degree of uncertainty and therefore may differ from the value that would have been used had a ready market for such investments existed.

On March 31, 2011, the Foundation liquidated its interest in the limited partnership. The limited partnership paid the Foundation 95% of the unaudited net asset value of its interest. The investment in the limited partnership at December 31, 2011, represents the estimated value of the 5% holdback which will be remitted in 2012.

NOTE 3 – FAIR VALUE MEASUREMENTS:

Determination of fair value - The Foundation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the *Fair Value Measurements and Disclosures* topic of FASB ASC, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in some instances, there are no quoted market prices for the Foundation's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The recent fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction, which is not a forced liquidation or distressed sale, between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant

WIREGRASS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 3 – FAIR VALUE MEASUREMENTS: (continued)

judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

In accordance with this guidance, the Foundation groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine the fair value.

Fair value hierarchy

Level 1: Valuation is based on quoted prices in active markets for identical assets or liabilities in active markets that the reporting entity had the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2: Valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value require significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

WIREGRASS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 3 – FAIR VALUE MEASUREMENTS: (continued)

In determining the appropriate levels, the Foundation performs a detailed analysis of the assets and liabilities that are subject to FASB ASC 820. The table below presents the fair value of its investments in marketable securities and limited partnership on a recurring basis as of December 31, 2011.

	FAIR VALUE	QUOTED PRICES		
		IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Limited partnership	\$ 499,104			\$ 499,104
Cash and cash equivalents	5,827,006	\$ 5,827,006		
Fixed income securities	11,219,532		\$ 11,219,532	
Mutual funds	23,219,063	23,219,063		
Marketable equity securities	44,688,725	44,688,725		
Total assets	\$85,453,430	\$ 73,734,794	\$ 11,219,532	\$ 499,104

Assets measured at fair value on a recurring basis using significant unobservable inputs (level 3 inputs) are as follows:

Limited partnership:	
January 1, 2011	\$ 9,639,312
Purchases, sales, issuances, and settlements (net)	(9,482,879)
Net unrealized gain/(loss) on interest in limited partnership	342,671
December 31, 2011	\$ 499,104

NOTE 4 - RETIREMENT PLAN:

The Foundation has a profit sharing plan that covers all employees after meeting certain eligibility requirements. Contributions to the plan are at the discretion of the Board of Directors. During the year, contributions to the plan were \$30,879.

WIREGRASS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 5 - CONCENTRATIONS OF CASH AND CREDIT RISK:

The Foundation maintains its cash balances in certain statewide bank and brokerage firm accounts. These cash balances are insured under provisions of the Federal Deposit Insurance Corporation (FDIC) and Security Investor Protection Corporation (SIPC). The balances generally exceed the insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

NOTE 6 - GRANTS PAYABLE:

As discussed in Note 1, the Foundation's financial statements are prepared on the income tax basis of accounting. Accordingly, grants that have been approved for payment but not paid at year end are not recorded. At December 31, 2011, the amount of grants that were approved for future payment totaled \$2,705,593.

NOTE 7 - ENDOWMENT:

The Foundation's endowment consists of approximately 12 individual funds established for a variety of purposes. Its endowment includes only funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor imposed restrictions. There are no net assets with donor imposed restrictions and therefore all net assets are classified as unrestricted.

Changes in Endowment Net Assets for the Year Ended December 31, 2011:

	<u>UNRESTRICTED</u>
Endowment net assets, beginning of year	\$ 94,564,009
Investment return:	
Investment income	2,237,567
Investment fees	(644,526)
Net depreciation (realized and unrealized)	<u>(6,755,649)</u>
Total investment return	<u>(5,162,608)</u>
Appropriation of endowment assets for expenditure	(3,947,971)
Endowment nets assets, end of year	<u>\$ 85,453,430</u>

WIREGRASS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2011

NOTE 7 - ENDOWMENT: (continued)

Return Objectives and Risk Parameters - The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to significantly contribute to the spending policy of 5% per annum while seeking to maintain the purchasing power of the endowment assets. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to assume moderate level of investment risk while producing results that exceed the price and yield results of the following benchmarks as applicable: S&P 500 Stock Index, Russell Midcap Index, Morgan Stanley Capital International Europe, Australia, and Far East International Stock Index, MSCI EAFE Emerging Markets, Merrill Lynch Broad Market Bond Index, US Treasury Inflation Linked, and the NAREIT Index. The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 5.5 percent annually. Actual returns in any given year may vary from this amount.

Strategies Employed for Achieving Objectives - To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Objectives Relate to Spending Policy - As a private foundation, the Foundation is required to distribute annually a minimum amount of its funds, equal to approximately 5% of the fair value of the Foundation's non-charitable use of assets as of the end of the calendar year preceding the fiscal year in which the distribution is planned. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long term, the Foundation expects the current spending policy to allow its endowment to grow at an average of one half of one percent annually. This is consistent with the Foundation's objective to maintain the purchasing power of the board-designated endowment assets as well as to provide additional real growth through investment return.

NOTE 8 - SUBSEQUENT EVENTS:

The Foundation has evaluated subsequent events through February 29, 2012, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2011, have been incorporated into these financial statements.



DOTHAN, ALABAMA

Montgomery, Alabama

Prattville, Alabama

Wetumpka, Alabama

Murfreesboro, Tennessee

INDEPENDENT AUDITOR'S REPORT
ON SUPPLEMENTARY INFORMATION

To the Board of Directors
Wiregrass Foundation, Inc.
Dothan, Alabama

We have audited the financial statements of Wiregrass Foundation as of and for the year ended December 31, 2011, and our report thereon dated February 29, 2012, which expressed an unqualified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on page 14 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated and in all material respects in relation to the financial statements as a whole.

Jackson Thornton & Co. PC

Dothan, Alabama
February 29, 2012

WIREGRASS FOUNDATION, INC.

SCHEDULE OF MANAGEMENT AND GENERAL EXPENSES -
 INCOME TAX BASIS
 AS OF DECEMBER 31, 2011

Accounting	\$ 43,700
Auto expense	1,868
Bank charges	1,025
Board retreat expense	3,945
Gifts	6,886
Cleaning expense	7,921
Computer expense	9,354
Consulting	65,773
Depreciation	86,401
Directors' fees	46,000
Dues and subscriptions	6,842
Insurance	26,501
Legal	22,611
Meals and entertainment	1,420
Meeting expense	8,277
Miscellaneous expense	74
Pest control	600
Postage	928
Printing	4,173
Retirement contribution	30,879
Rent	3,320
Repairs and maintenance	21,179
Salaries	385,312
Office supplies	4,628
Payroll taxes	25,905
Excise taxes	48,193
Taxes and licenses	7,657
Telephone	8,437
Travel expense	653
Utilities	13,762
Total management and general expenses	<u>\$ 894,224</u>

See Independent Auditors' Report on supplementary information.

