

WIREGRASS FOUNDATION, INC.

DECEMBER 31, 2012

FINANCIAL STATEMENTS

WIREGRASS FOUNDATION, INC.
DOTHAN, ALABAMA

INDEX

	<u>PAGE</u>
Independent auditor's report	1 - 2
Statement of assets, liabilities, and net assets - income tax basis	3
Statement of revenues, expenses, and other changes in net assets - income tax basis	4
Statement of cash flows - income tax basis	5
Notes to financial statements	6 - 12
Independent auditor's report on the 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 financial statements of Wiregrass Foundation, Inc. (a nonprofit organization), which comprise the statements of assets, liabilities, and net assets - income tax basis as of December 31, 2012, 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, 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 the basis of accounting the entity uses for income tax purposes; this includes determining that the income tax basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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.

Opinion

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, 2012, and its revenues, expenses, and other changes in net assets and cash flows for the year then ended in accordance with the basis of accounting the Foundation uses for income tax purposes described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of accounting the Foundation uses for income tax purposes, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Jackson Shernton & Co. PC

Dothan, Alabama
February 12, 2013

WIREGRASS FOUNDATION, INC.
DOTHAN, ALABAMA

STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS - INCOME TAX BASIS
AS OF DECEMBER 31, 2012

ASSETS	
Cash and cash equivalents	\$ 351,892
Investments	91,771,334
Property and equipment (net of accumulated depreciation)	1,792,502
Other assets	<u>1,715</u>
Total assets	<u>\$ 93,917,443</u>
LIABILITIES AND NET ASSETS	
Payroll withholdings	\$ 2,768
Excise tax payable	<u>355</u>
Total liabilities	<u>3,123</u>
Net assets:	
Unrestricted	<u>93,914,320</u>
Total net assets	<u>93,914,320</u>
Total liabilities and net assets	<u>\$ 93,917,443</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, 2012

CHANGE IN UNRESTRICTED NET ASSETS:	
Revenues, gains, and net assets:	
Other income	\$ 18,779
Interest and dividend income	2,535,684
Realized investment gains, net	<u>4,983,589</u>
Total revenues and gains	<u>7,538,052</u>
Expenses and losses:	
Grants paid	3,743,058
Other program expenses	163,905
Management and general	981,112
Investment expenses	620,630
Loss from sale of property and equipment	<u>226</u>
Total expenses and losses	<u>5,508,931</u>
INCREASE IN UNRESTRICTED NET ASSETS	2,029,121
OTHER CHANGES - NET UNREALIZED INVESTMENT GAINS	<u>4,169,712</u>
CHANGE IN NET ASSETS	<u>6,198,833</u>
NET ASSETS AT BEGINNING OF YEAR	<u>87,715,487</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 93,914,320</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, 2012

CASH FLOWS FROM OPERATING ACTIVITIES:	
Increase in net assets	\$ 2,029,121
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	71,790
Loss on sale of property and equipment	226
Realized gains on investments	(4,983,589)
(Increase) decrease in operating assets and increase (decrease) in operating liabilities:	
Excise tax receivable	52,289
Payroll withholdings	665
Excise tax payable	355
Net cash used for operating activities	<u>(2,829,143)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property and equipment	(2,622)
Purchase of investments	(71,592,099)
Proceeds from the sale and maturity of investments	<u>74,427,496</u>
Net cash provided by investing activities	<u>2,832,775</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	3,632
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>348,260</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 351,892</u>

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

WIREGRASS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

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, 2012, and the changes in its net assets and its cash flows for the year then ended as it is reported on the 2012 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, 2012, the Foundation's uninsured cash balance totaled \$101,892. The accounts at the brokerage firm contain cash and securities. Balances are insured up to \$500,000, with a limit of \$250,000 for cash, by the Securities Investor Protection Corporation (SIPC). At December 31, 2012, the Foundation had approximately \$4,092,384 in excess of SIPC insured limits. FDIC rules changed effective December 31, 2012.

WIREGRASS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

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, 2012.

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. Commodity contracts are valued daily and 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 other changes in net assets.

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.

Property and equipment consists of the following:

Buildings	\$ 1,146,532
Furniture and fixtures	257,830
Equipment	80,071
Computer software	15,048
Accumulated depreciation	(351,479)
	<hr/>
	1,148,002
Land	644,500
	<hr/>
Total property and equipment	\$ 1,792,502

Depreciation expense for the year amounted to \$71,790.

WIREGRASS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

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

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 \$67,661. 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 2009.

NOTE 2 - INVESTMENTS:

Investments consist of the following:

	<u>INVESTMENTS</u>
Commodity contract	\$ 542,999
Cash and cash equivalents	4,342,384
Fixed income securities	8,053,949
Mutual funds	20,027,655
Marketable equity securities	<u>58,804,347</u>
Total	<u>\$ 91,771,334</u>

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.

WIREGRASS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 3 – FAIR VALUE MEASUREMENTS: (continued)

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 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, 2012

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, 2012.

	FAIR VALUE	QUOTED PRICES		
		IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Commodity contract	\$ 542,999		\$ 542,999	
Cash and cash equivalents	4,342,384	\$ 4,342,384		
Fixed income securities	8,053,949		8,053,949	
Mutual funds	20,027,655	20,027,655		
Marketable equity securities	58,804,347	58,804,347		
Total assets	<u>\$91,771,334</u>	<u>\$ 83,174,386</u>	<u>\$ 8,596,948</u>	<u>\$ -</u>

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 \$43,194.

NOTE 5 - 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, 2012, the amount of grants that were approved for future payment totaled \$5,092,774.

WIREGRASS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 6 - ENDOWMENT:

The Foundation's endowment consists of approximately 13 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, 2012:

	<u>UNRESTRICTED</u>
Endowment net assets, beginning of year	\$ 85,453,430
Investment return:	
Investment income	2,535,232
Investment fees	(620,630)
Net appreciation (realized and unrealized)	9,153,301
Total investment return	11,067,903
Appropriation of endowment assets for expenditure	(4,749,999)
Endowment nets assets, end of year	\$ 91,771,334

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.

WIREGRASS FOUNDATION, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2012

NOTE 6 - ENDOWMENT: (continued)

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 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 7 - SUBSEQUENT EVENTS:

The Foundation has evaluated subsequent events through February 12, 2013, which is the date these financial statements were available to be issued. All subsequent events requiring recognition as of December 31, 2012, have been incorporated into these financial statements.



DOTHAN, ALABAMA

Montgomery, Alabama

Prattville, Alabama

Wetumpka, Alabama

Murfreesboro, Tennessee

INDEPENDENT AUDITOR'S REPORT
ON THE SUPPLEMENTARY INFORMATION

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

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information 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 in all material respects in relation to the financial statements as a whole.

Jackson Thornton & Co. PC

Dothan, Alabama
February 12, 2013

WIREGRASS FOUNDATION, INC.

SCHEDULE OF MANAGEMENT AND GENERAL EXPENSES -
 INCOME TAX BASIS
 AS OF DECEMBER 31, 2012

Accounting	\$ 44,701
Auto expense	1,293
Bank charges	662
Board retreat expense	16,903
Gifts	7,002
Cleaning expense	7,200
Computer expense	9,110
Consulting	1,989
Depreciation	71,790
Directors' fees	46,000
Dues and subscriptions	11,509
Insurance	23,188
Legal	22,965
Meals and entertainment	1,680
Meeting expense	9,232
Miscellaneous expense	107
Pest control	1,140
Postage	1,104
Printing	2,822
Retirement contribution	43,194
Rent	3,245
Repairs and maintenance	21,659
Salaries	494,877
Office supplies	4,980
Payroll taxes	32,607
Excise taxes	67,661
Taxes and licenses	8,063
Telephone	8,607
Travel expense	4,604
Utilities	11,218
Total management and general expenses	<u>\$ 981,112</u>

See Independent Auditor's Report on the supplementary information.

