

**WIREGRASS FOUNDATION, INC.**

DECEMBER 31, 2013

**FINANCIAL STATEMENTS**

WIREGRASS FOUNDATION, INC.  
DOTHAN, ALABAMA

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## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

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, 2013, and the 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, 2013, 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 Thornton & Co. PC*

Dothan, Alabama  
February 18, 2014

WIREGRASS FOUNDATION, INC.  
DOTHAN, ALABAMA

STATEMENT OF ASSETS, LIABILITIES, AND NET ASSETS - INCOME TAX BASIS  
AS OF DECEMBER 31, 2013

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ASSETS	
Cash and cash equivalents	\$ 392,058
Investments	102,957,096
Property and equipment (net of accumulated depreciation)	1,739,109
Other assets	<u>1,715</u>
Total assets	<u>\$ 105,089,978</u>
LIABILITIES AND NET ASSETS	
Payroll withholdings	\$ 1,589
Excise tax payable	<u>50,852</u>
Total liabilities	<u>52,441</u>
Net assets:	
Unrestricted	<u>105,037,537</u>
Total net assets	<u>105,037,537</u>
Total liabilities and net assets	<u>\$ 105,089,978</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, 2013

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CASH FLOWS FROM OPERATING ACTIVITIES:	
Increase in net assets	\$ 1,656,989
Adjustments to reconcile change in net assets to net cash from operating activities:	
Depreciation	61,927
Realized gains on investments	(4,772,990)
(Increase) decrease in operating assets and increase (decrease) in operating liabilities:	
Payroll withholdings	(1,179)
Excise tax payable	50,497
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Net cash used for operating activities	(3,004,756)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property and equipment	(8,534)
Purchase of investments	(88,019,552)
Proceeds from the sale and maturity of investments	91,073,008
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Net cash provided by investing activities	3,044,922
NET INCREASE IN CASH AND CASH EQUIVALENTS	40,166
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	351,892
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CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 392,058
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The accompanying notes are an integral part of these financial statements.

WIREGRASS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

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

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.

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, 2013, the Foundation's uninsured cash balance totaled \$142,058. 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, 2013, the Foundation had approximately \$20,015,911 in excess of SIPC insured limits.

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 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	257,104
Equipment	85,262
Computer software	4,544
Accumulated depreciation	<u>(398,833)</u>
	1,094,609
Land	<u>644,500</u>
Total property and equipment	<u>\$ 1,739,109</u>

Depreciation expense for the year amounted to \$61,927.

WIREGRASS FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2013

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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, 2013

NOTE 6 - ENDOWMENT: (continued)

Changes in Endowment Net Assets for the Year Ended December 31, 2013:

	<u>UNRESTRICTED</u>
Endowment net assets, beginning of year	\$ 91,771,334
Investment return:	
Investment income	2,442,650
Investment fees	(751,107)
Net appreciation (realized and unrealized)	14,239,218
Total investment return	15,930,761
Appropriation of endowment assets for expenditure	(4,744,999)
Endowment nets assets, end of year	\$ 102,957,096

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: Russell 1000 Index, Russell Midcap Index, Russell 2000 Index, MSCI EAFE Index, MSCI EM Europe/Middle East, Merrill Lynch Broad Market Bond Index, Merrill Lynch Domestic Master (1-3 years, 5-7 years, and 10-15 years), CSFB High Yield Index, Citigroup 3-month T-bill, CSFB/Tremont Hedge Fund Index, Dow AIG Commodity Index, and Dow Wilshire REIT (full-cap). The Foundation expects its endowment funds, over time, to provide an average rate of return of approximately 5.5 percent annually. For those investments that are speculative in nature, the return objective is 8 percent. 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.



INDEPENDENT AUDITOR'S REPORT  
ON THE SUPPLEMENTARY INFORMATION

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

The accompanying 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 18, 2014

WIREGRASS FOUNDATION, INC.

SCHEDULE OF MANAGEMENT AND GENERAL EXPENSES -  
INCOME TAX BASIS  
AS OF DECEMBER 31, 2013

Accounting	\$ 46,908
Auto expense	1,558
Bank charges	509
Board retreat expense	8,202
Gifts	6,612
Cleaning expense	7,450
Computer expense	9,240
Consulting	14,650
Continuing education	215
Contract labor	1,949
Depreciation	61,927
Directors' fees	53,000
Donations	20
Dues and subscriptions	19,873
Insurance	10,779
Legal	10,372
Meals and entertainment	2,195
Meeting expense	7,111
Pest control	1,140
Postage	719
Printing	1,305
Retirement contribution	41,280
Rent	3,294
Repairs and maintenance	20,751
Salaries	362,546
Office supplies	2,867
Payroll taxes	26,253
Excise taxes	128,780
Taxes and licenses	8,800
Telephone	6,256
Travel expense	5,245
Tuition reimbursement	780
Utilities	11,358
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Total management and general expenses	<u><u>\$ 883,944</u></u>

See Independent Auditor's Report on the supplementary information.