THE GOLDEN L.E.A.F. (LONG-TERM ECONOMIC ADVANCEMENT FOUNDATION), INC.

REPORT TO THE
JOINT LEGISLATIVE
COMMISSION
ON
GOVERNMENTAL
OPERATIONS

MARCH 1, 2012



(LONG-TERM ECONOMIC ADVANCEMENT FOUNDATION)

WILLIAM CLARKE
CHAIRMAN OF THE BOARD

DAN GERLACH PRESIDENT

TO: Joint Legislative Commission on Governmental Operations

c/o Ms. Lanier McRee Fiscal Research Division

North Carolina General Assembly

Raleigh, NC

FROM: Dan Gerlach

President

DATE: March 1, 2012

RE: Report to Governmental Operations

In accordance with instructions from the Fiscal Research Division, enclosed are the following:

- (1) An overview of Foundation Activities
- (2) An unaudited statement of the financial position of the Foundation as of December 31, 2011, and a preliminary budget for FY 2011-2012
- (3) Official audited financial statements for the year ending June 30, 2011

Golden LEAF has been granted an extension to file its tax returns for the Fiscal Year ending June 30, 2011. A copy of the returns will be submitted as soon as they are filed.

Enclosures as stated:

cc: The Honorable Beverly Perdue, Governor of North Carolina Senator Phil Berger, President Pro Tem, Senate of North Carolina Representative Thom Tillis, Speaker of the House, N.C. House of Representatives William Clarke, Chairman of the Board 2012, Golden LEAF Foundation David Kyger, Smith Moore Leatherwood, LLP

Golden LEAF Foundation

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BOARD OF DIRECTORS

As of 12/31/11

Appointed	<u>by</u>	<u>the</u>
Governo	r	

Governor

Paul Brooks
Pembroke

Billy Ray Hall

Angier

Yvonne J. Johnson

Greensboro

Edgar M. Roach, Jr.

Chapel Hill

Tom Taft

Greenville

Appointed by the President Pro Tem

Dale C. Bone

Wilson

William Clarke - Chair

Asheville

Rev. Lacy Joyner

Oxford

James Arthur "Art" Pope

Raleigh

David Stephenson, III

Lumberton

Appointed by the Speaker

Michael A. Almond

Piney Creek

Wade Barber

Pitts boro

J. Thomas Bunn

Raleigh

S. Lawrence Davenport

Greenville

James H. Johnson

Pittsboro

Staff

Daniel J. Gerlach, President

Mark A. Sorrells, Senior Vice President

Peter Cera, Vice President of Investments

Beth Edmondson, Controller

Patricia Cabe, Vice President of Programs/Community Assistance & Outreach

Ted Lord, Vice President of Programs/Staff Attorney

Terri Bryant Adou-Dy, Program Officer

Barbara Smith, Program Officer

Calvin Allen, Program Officer

Jenny Tinklepaugh, Program/Communications Officer

Brenda Smith, Program Administrator

Debbie Pennington, Administrative Assistant for Programs

Rhea Barnes, Director of Administrative Services

Wanda Barnes, Administrative Assistant

The Golden L.E.A.F., Inc. Preliminary Administrative Budget FY2012

Operating Budget

Board of Director Expenses Bd of Directors Expenses Bd of Directors Per Diem Board Meetings Total Board of Director Expenses	\$ 10,500 14,000 28,000 52,500
Depreciation Expense	107,124
Insurance Property Directors & Officer's Liability Employee Crime Workers Comp Insurance Total Insurance	3,771 16,947 436 2,803 23,957
Miscellaneous and Bank Charges	600
Occupancy Expenses Maintenance Utilities Total Occupancy Expenses	18,040 34,644 52,684
Office Operations Expenses	844 20,000 8,000 28,844
Personnel Expenses Employee Insurance & Benefits Dental Insurance Disability Insurance Life Insurance Medical Insurance Retirement Total Employee Insurance & Benefits Salaries Staff Development Taxes-Payroll Salary Reserve Temporary and Pers. Reserve Travel & Meetings	14,388 8,408 4,349 172,848 120,333 320,326 1,203,334 5,000 84,690
Total Personnel Expenses	1,653,350

The Golden L.E.A.F., Inc. Preliminary Administrative Budget FY2012 (continued)

Professional Fees	
Audit & Tax Return	60,000
Technical Consulting	46,000
Communication Expense	10,000
Dues & Memberships	6,500
Legal Fees	
General Representation	176,008
Special Matters	38,492
Total Legal Fees	214,500
MSA Enforcement Expense	
NC Dept. of Revenue	90,000
NC Dept. of Justice	173,422
Total MSA Enforcement Expense	263,422
Management Consulting	5,000
Payroll Services	1,900
Total Professional Fees	607,322
Program Expenses Meetings - Facilities Meetings - Meals Total Program Expenses	1,000 500 1,500
Tachaalam	
Technology Installation	1,000
Software	12,000
Maintenance	18,904
Telephone-Long Distance/Local	18,000
Total Technology	49,904
Total Technology	49,904
Total Expenditures	\$ 2,577,785
Capital Budget	_
Land improvements	\$ 6,150
Computers and equipment	7,850
	\$ 14,000

The Golden L.E.A.F., Inc. Statement of Net Assets December 31, 2011

Assets		
Cash and cash equivalents	\$	1,003,090
Investments	•	728,920,949
Prepaid items		48,875
Fixed assets:		,
Land		900,256
Land improvements		3,650
Buildings		3,228,319
Construction In Progress		4,225
Equipment		79,697
Furniture and fixtures		147,339
		4,363,486
Accumulated depreciation		(508,921)
		3,854,565
Total assets	\$	733,827,479
Liabilities		
Accounts payable and accrued liabilities:		
Accounts payable	\$	55,385
Accrued liabilities		22,957
Grants payable		94,731,807
Total liabilities		94,810,149
Net assets		
Invested in capital assets, net of related debt		3,854,565
Unrestricted		635,162,764 *
		639,017,329
Total liabilities and net assets	\$	733,827,479

^{*}Note: The Foundation is committed to \$51.9 million in future investments via private partnership agreements.

The Golden L.E.A.F., Inc. Statement of Activities For the Six Months Ended December 31, 2011

Revenues:	
Proceeds from state settlement	\$ -
Investment loss	(45,785,259)
Other income	780
Total revenues	(45,784,479)
Expenses:	
Grant distributions	18,573,723
Administrative costs	1,106,478
Depreciation expense	53,395
Loss on sale of fixed assets	74
Total expenses	19,733,670
Excess of revenues over expenses	(65,518,149)
Net assets, at beginning of period	704,535,479
Net assets, at end of period	\$ 639,017,329



Overview of Foundation Activities

For the period of January 1, 2011 - December 31, 2011

CY2011 Overview

- Awarded 126 grants totaling \$46,382,100.98.*
- Grants were awarded to support a diverse set of projects in areas including agriculture, workforce training, job creation and retention, rural healthcare, scholarships, and educational initiatives.
- Awarded grants to assist with creating 1,926 jobs that were at risk without Golden LEAF support.
- Funded a Science, Technology, Engineering and Mathematics (STEM) Initiative to support the future workforce for 21st Century jobs in industries that require trained workers in STEM disciplines.
- Continued our Community Assistance Initiative grantsmaking process in Tier 1 counties.
- Ramped up our Golden LEAF Scholars Program for North Carolina public and private universities and colleges and N.C. community colleges.
- Continued to support the Golden LEAF Rural Broadband Initiative to provide middlemile, high-speed broadband across 69 rural counties in the state.

^{*} Grant amounts reported throughout reflect the current grant amounts for calendar year 2011 grants as of February 13, 2012, unless otherwise indicated, and do not include grants that have been rescinded prior to release of funds.

CY2011 Open Grants Program

- The Open Grants Program, to which applicants can submit letters of inquiry year-round, provides quick turnaround from Golden LEAF staff and Board, and reduces the administrative burden on our grantees.
- In the Open Grants Program, grantsmaking is focused in the areas of Agriculture, Job Creation and Retention and Workforce Preparedness.
- Golden LEAF awarded 48 grants totaling \$6,180,166 to organizations in 36 counties.

- A \$150,000 grant to Appalachian Sustainable Agriculture Project to help local farmers organize, scale-up production, and increase the competitiveness of their products. The project will further develop and expand use of the Appalachian Grown branding effort in the far western and northwestern areas of North Carolina. Activities will target farmer and community groups with marketing support and training and technical assistance with the goal of increasing farm profitability and investment in local food enterprises.
- A \$200,000 grant to Gates County to support construction of public sewer infrastructure that will serve a
 new commercial development located along US 158. Two companies, including an assisted living facility,
 have committed to locate in the park and create 70 jobs if the sewer is available. Other funders of the \$3.1
 million project include EDA, NC Rural Center, and Gates County.
- A \$147,467 grant to Craven Community College Foundation to purchase industrial robotic equipment for specialized training in advanced robotics and welding. Several companies in Craven County have indicated a need for this training equipment, including BSH Home Appliances Corporation which is introducing a new production line in its dishwasher manufacturing division. This expansion will create 119 positions within the next four years.
- A \$195,000 grant to Transylvania Vocational Services, Inc. (TVS) to create 25 new jobs, at least 80% of which are for people with disabilities. Funds will be used to purchase equipment that will allow TVS to expand its packaging operations and secure new contracts. Over the long term the project will support the creation of up to 20 additional jobs as the program expands.

CY2011 Economic Catalyst Program

- Golden LEAF awarded 11 grants totaling \$12,200,649.98 to organizations in 10 counties for job creation and retention projects assisting with the creation of 1,926 jobs in NC over the next few years.
- These economic development projects were at risk of not locating or expanding in North Carolina but for Golden LEAF funds.

- A \$1 million grant to Lee County to purchase pallets that it leased to Frontier Spinning. Frontier had been using ports in Florida and Louisiana for shipments, and was exploring moving production facilities closer to ports in the Gulf area, which would have resulted in the loss of Frontier jobs in North Carolina and may have led to decreased sales of North Carolina cotton to Frontier. With these pallets, Frontier will be able to ship its products from North Carolina ports more economically. The purchase of the pallets will allow Frontier to maintain its employment of 1,014 employees in North Carolina and its purchase of over 165,000 bales of North Carolina cotton per year.
- Other companies tied to job expansion projects awarded grants in CY2011 include: Caterpillar in Forsyth County, Semprius in Vance County, and Horsehead Corporation in Rutherford County.

CY2011 Community Assistance Initiative

- Launched in 2007, the Community Assistance Initiative is a grants program that targets
 NC's Tier 1 counties and provides support for projects identified as priorities by county
 leaders and citizens. Grant awards have typically supported projects focused on economic
 development, infrastructure, education and workforce training, and health care. There is a
 reserve of \$2 million per county, but grant award amounts may vary.
- Golden LEAF awarded 35 grants totaling \$13,561,569 in 7 counties: Cumberland, Graham, Jones, Mitchell, Montgomery, Rockingham, and Tyrrell.
- Community forums were also conducted in Alleghany, Beaufort, McDowell, Wayne, Wilson, and Yancey counties.

- A \$750,000 grant to Jones County Public Schools to support a 1:1 technology project to
 provide every Jones County High School student and teacher with an individual laptop. The
 goal of the program is to provide Jones County students with 21st century workforcereadiness skills, but also provide increased public technology access to households in the
 county. The project is integrated into the school system's Race to the Top plan.
- A \$398,628 grant to Mitchell County to support a \$1.9 million shovel-ready project that will extend wastewater lines from Mitchell County High School to the Spruce Pine wastewater processing plant. The project will provide the needed infrastructure for processing wastewater from Mitchell County High School, the county Senior Center, Emergency Medical Services, Ledger Volunteer Fire Department and the Mitchell County Board of Education. The infrastructure will help to open up Hwy226N for economic development and will prevent future discharges into contributory streams of the North Toe River.

CY2011 Scholarships

- In CY2011 Golden LEAF awarded 4 grants totaling \$3,385,000 to the NC State Education Assistance Authority, NC Community College System, NC Independent Colleges and Universities, and UNC General Administration for approximately 1,300 scholarships.
- Golden LEAF also awarded a \$1,274,414 grant to the Center for Creative Leadership for a leadership development program for up to 150 freshmen and 95 sophomore Golden LEAF scholars who are enrolled in North Carolina colleges and universities. The leadership program includes a summer internship, providing scholars a work experience in a rural community.
- Since inception, Golden LEAF has awarded a total of 33 grants totaling \$24,112,949.77 assisting 7,859 students in North Carolina to attend 2- and 4-year NC colleges and universities (as of Summer 2011).
- Scholarships target students who (1) reside in rural NC counties that are tobaccodependent and/or deemed economically distressed, and (2) who demonstrate financial need. Recipients may attend the participating college or university of their choice in NC.

CY2011 Rural Hope Initiative

- Rural Hope is a rural health care program designed to enhance access to health care and provide job creation by assisting with the construction and expansion of rural health care facilities. The health care industry represents an economic engine in rural communities as it often is a top employer and plays a part in the ability to recruit citizens and companies into rural areas of the state.
- In CY2011, Golden LEAF Golden LEAF awarded 8 Rural Hope grants totaling \$1,768,500 targeting the creation of 169 jobs in rural and tobacco-dependent communities across North Carolina.
- In this initiative, Golden LEAF collaborated with the NC Rural Center, USDA Rural Development and the Appalachian Regional Commission to increase resources available for rural health care expansion projects. Other key partners include the Kate B. Reynolds Charitable Trust, the North Carolina Office of Rural Health and Community Care, and the North Carolina Health and Wellness Trust Fund.
- During the first two years of Rural Hope funding, Golden LEAF and partnering agencies awarded \$10 million to 67 projects across the state, resulting in 803 new jobs and leveraging a total of \$224 million in private and public funds.
- The Golden LEAF Foundation Board of Directors budgeted approximately \$1 million for a third year of funding to be awarded in CY 2012.

- A \$500,000 grant to Scotland Memorial Foundation, Inc. to develop a fixed cardiovascular center that will be open five days per week and will expand services beyond cardiac care into vascular care. The mobile unit currently used is available only two days per week and patients must wait 2-3 weeks to have a diagnostic catheterization performed. Golden LEAF funds will help pay for renovation and construction costs.
- A \$500,000 grant to Pitt Memorial Hospital Foundation to support the purchase of equipment required for the renovation and expansion of UHS Children's Hospital in Pitt County. The Hospital is the only comprehensive children's center in the twenty-nine counties of eastern North Carolina. The new equipment will allow the Hospital to provide a new Kids Immuno-Suppressed Special Unit and to outfit a Pediatric Radiology Suite. The project will result in the creation of 50 jobs.

CY 2011 Science, Technology, Engineering and Mathematics (STEM) Initiative

- In CY2011, Golden LEAF awarded 15 grants totaling \$5,384,914 for the STEM Initiative affecting 43 school districts in rural, economically distressed and/or tobacco-dependent. North Carolina communities.
- Funding included a \$498,322 grant to the SERVE Center at UNC at Greensboro to evaluate the STEM Initiative grants.
- The initiative was formed to help schools create a workforce delivery pipeline and to prepare North Carolina's youth for careers in industries that require skills in STEM disciplines.
- Organizations funded under the Golden LEAF STEM Initiative received up to \$750,000 for projects spanning up to a three-year period.
- The Initiative focused on supporting proven STEM education models that enhance teaching and learning through inquiry and project-based instruction for students in grades 4 through 9.

Examples

A \$350,000 grant to North Carolina's Eastern Region to help them partner with Craven, Jones, Lenoir
and Wayne County Schools to establish modular labs in the middle schools to drive relevant STEM
content that is linked to industry needs in the region. The labs will allow teachers to use project and
problem-based instruction to apply math and science concepts to real world problems. Each district will
create an articulated pipeline from middle school to high school to post-secondary education and into the
workforce by targeting area industry employment needs.

CY2011 Golden LEAF Grants Awarded

Project Area		Number	Amount		
Open Grants:	Agriculture	12	\$1,376,000.00		
	Community Asst. & Education	10	\$1,058,440.00		
	Economic Development	16	\$2,247,250.00		
	Healthcare	3	\$2,247,250.00 \$510,000.00 \$270,000.00 \$718,476.00		
	Tourism	2	\$270,000.00		
	Workforce Preparedness	5	\$718,476.00		
Scholarships		5	\$4,659,414.00		
Economic Catalyst		11	\$12,200,649.98		
Initiatives:	Community Assistance Initiative	35	\$13,561,569.00		
	Rural Health Care	8	\$1,768,500.00		
	Special Programs Initiative	2	\$2,462,000.00		
STEM Initiative		15	\$5,384,914.00		
UNC-CH		1	\$44,888.00		
	Total	126*	\$46,382,100.98		

^{*} Numbers do not include grants that have been rescinded with no grant funds released

Golden LEAF Grants Awarded 2000-2011

Project Area		Number	Amount			
Annual/ Open Grants:	Agriculture	215	\$29,786,639.38			
	Community Asst & Education	107	\$25,197,079.66			
	Economic Development	97	\$14,901,391.80			
	Healthcare	47	\$11,790,320.21			
	Tourism	82	\$8,743,341.55			
	Workforce Preparedness	90	\$14,997,358.23			
Scholarships		35	\$25,889,554.33			
Economic Catalyst		84	\$140,426,695.27			
Economic Stimulus		17	\$6,717,614.42			
Site Certification		20	\$438,695.21			
Strategic Init.:	Aerospace Alliance	6	\$10,231,884.27			
	AgBiotech Initiative	5	\$2,210,000.00			
Biotechnology Community Assistance Initiative Financial Markets Access		9	\$67,493,935.25			
		153	\$65,793,540.19			
		1	\$5,000,000.00			
	GLOW	22	\$3,046,765.43			
	GLOW-AM (Aerospace)	10	\$5,121,181.07			
	Local Foods Initiative	12	\$1,987,649.55			
	Rural Broadband Initiative	2	\$24,400,000.00			
	Rural Health Care		\$2,442,765.90			
	Special Programs Initiative	3	\$2,462,000.00			
	STEM Initiative	16	\$5,884,914.00			
	UNC-CH Initiative	25	\$4,117,372.45			
	Total	1,074*	\$479,080,698.17			

^{*}Numbers do not include grants that have been rescinded with no grant funds released

CY2011 Funding Overview

- 270 proposals received
- 127 funded*
- 150 declined*
- 35 pending*
- Maximum Grant \$2,500,000
- Minimum Grant \$10,000
- Median Grant Amount \$200,000

^{*} Some proposals were received prior to CY2011

2000-2011 Funding Overview

- 4,225 proposals received
- 1,144* funded
- 3,023 declined
- 35 pending
- Maximum Grant \$100,000,000
- Minimum Grant \$1,000
- Median Grant Amount \$150,000

314 Active Grants/830 Closed Grants

^{*} Included in this number are 70 grants that were awarded but were rescinded prior to release of funds

Funds Received by Golden LEAF

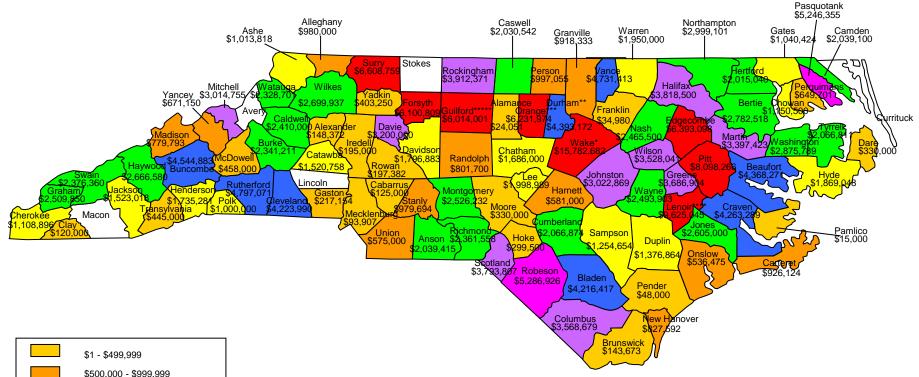
(in millions)	MSA Payments	Investment Income	Total Income
FY 2005	\$74	\$37	\$111
FY 2006	\$68	\$48	\$117
FY 2007	\$71	\$101	\$173
FY 2008	\$80	<\$17>	\$63
FY 2009	\$88	<\$142>	<\$54>
FY 2010	\$73	\$67	\$140
FY 2011	\$69	\$122	\$191
FY 2012*	\$0	<\$46>	<\$46>
Cumulative**	\$936	\$206	\$1,143

^{*}FY2012 data reflect activity up to December 31, 2011

^{**}Cumulative information reflects FY2000-FY2012

Golden LEAF Grants by County

2000-2011





*Wake County - Does not include \$46,294,999 awarded to NCSU and NCCCS for the Biotech Initiative; \$10,068,804 awarded to NCCCS and NCICU for scholarships; \$3,507,413 awarded to North Carolina state agencies such as the NC Department of Agriculture; \$20,342,986 awarded to NCSU for projects throughout the state; or \$400,000 awarded to the NC Rural Center (fiscal agent for E-NC Authority) for the GLF Rural Broadband project

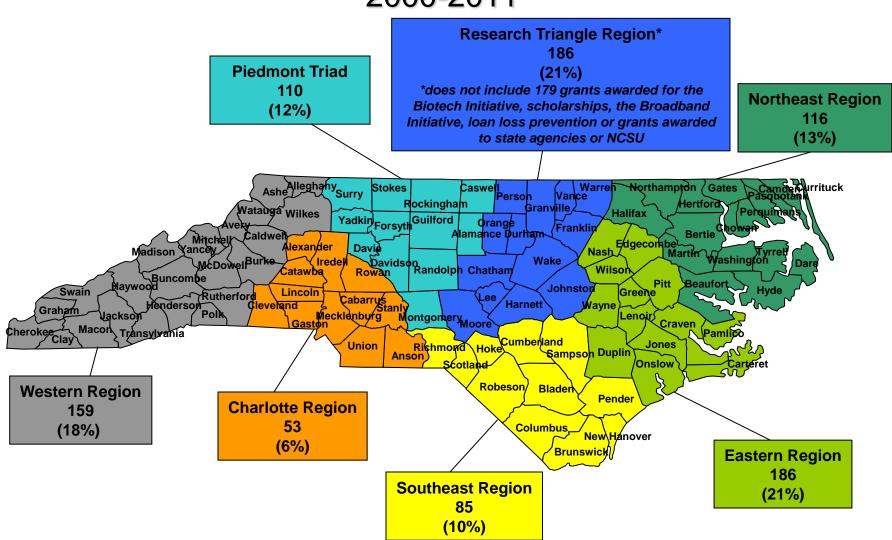
Durham County - Does not include \$21,168,441 awarded to NCCU for the Biotech Initiative, \$5,000,000 awarded to Self-Help for loan loss prevention, \$2,135,000 to NCSEAA for scholarships or \$24,000,000 to MCNC for the GLF Rural Broadband project *Orange County - Does not include \$11,909,146 awarded to UNC General Administration for scholarships or \$30,496 to UNC-GA for the Biotech Initiative

****Lenoir County - Does not include the \$100,000,000 grant awarded to the NC Global TransPark Authority for the project "Marco Polo" involving Spirit AeroSystems

*****Guilford County – Does not include the \$1,776,605 grant awarded to the Center for Creative Leadership for the GLF Scholars Leadership Program

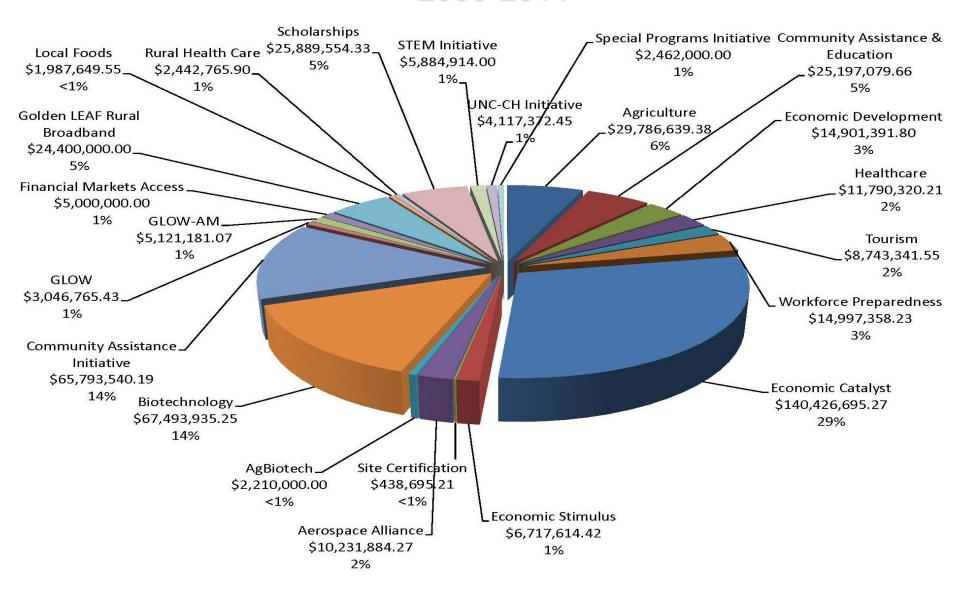
Golden LEAF Grants Awarded by Region

2000-2011



Golden LEAF Grants by Program Area

2000-2011



Golden LEAF Impact Data

	Amount Reported			
Impact Data as Reported by Grantees	‡CY2011	Cumulative as of 12/31/2011		
Jobs Created/Retained	5,345	42,388		
People Trained/Worker Skills Upgraded	5,419	45,748		
New Payroll	\$40,817,541	\$252,073,363		
New Investments	\$212,908,911	\$2,686,762,466		
New Sales	\$3,849,108	\$41,381,410		
Farms Producing New Crops	16	2,753		
Farmers Assisted or Trained	3,301	42,837		
Acres in New Production	220	56,096		
People served in some way (conferences, meetings, etc.)	47,816	1,078,526		

[‡]Incremental impact for reports completed for CY2011

Planned Activities and Goals for 2012

- Strengthen Golden LEAF's commitment to the Community Assistance Initiative for grants to Tier One Counties across North Carolina. Evaluate the effects of the first round of the Initiative to identify return on investment and maximize opportunities. As of December 31, 2011, over \$65 million has been invested in 33 counties. Counties expected to begin and/or complete their process in 2012 include: Wilson, McDowell, Yancey, Beaufort, Alleghany, Duplin, Wayne, Chowan, Wilkes, Clay, Alexander, Cherokee and Swain.
- Promote employment through identifying opportunities to support companies seeking to fill open positions right now, including support for specialized community college training equipment.
- Provide funding for economic development projects across North Carolina that create jobs or add investment. The demand for these grants has grown substantially in the past year.
- Allocate \$5 million for college scholarships for students from rural counties, which includes internships in rural communities during the summer for some of these students, leadership development and exposure to issues facing rural North Carolina.
- Build on the Foundation's Open Grants Program to target promising areas of grantsmaking in agriculture and in workforce training for identified job opportunities.
- Remain fully committed to accountability, transparency and building awareness.

The Golden L.E.A.F. (Long-term Economic Advancement Foundation), Inc.

Financial Statements and Other Report Years Ended June 30, 2011 and 2010



The Golden L.E.A.F. (Long-term Economic Advancement Foundation), Inc.

Financial Statements and Other Report Years Ended June 30, 2011 and 2010

The Golden L.E.A.F. (Long-term Economic Advancement Foundation), Inc. Contents

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Independent Auditors' Report

To the Board of Directors
The Golden L.E.A.F. (Long-term Economic Advancement Foundation), Inc.

We have audited the accompanying financial statements of The Golden L.E.A.F. (Long-term Economic Advancement Foundation), Inc. (the Foundation), a non-profit corporation and component unit of the State of North Carolina as of and for the year ended June 30, 2011 and 2010, which collectively comprise the Foundation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation, as of June 30, 2011 and 2010, and the changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated September 30, 2011 on our consideration of the Foundation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

BDO USA, LLA

Certified Public Accountants September 30, 2011

The Golden L.E.A.F. (Long-term Economic Advancement Foundation), Inc.

Management's Discussion and Analysis (unaudited)

Our discussion and analysis of The Golden L.E.A.F. (Long-term Economic Advancement Foundation), Inc. (the "Foundation") provides an overview of the Foundation's financial activities. Please read it in conjunction with the Foundation's financial statements.

Overview

In 1999, the North Carolina legislature created The Golden L.E.A.F. (Long-term Economic Advancement Foundation), Inc. to administer one-half of North Carolina's (the "State") share of the Master Settlement Agreement ("MSA") with cigarette manufacturers. A nonprofit organization devoted to the economic well-being of North Carolinians, the Foundation endeavors to strengthen the State's economy through diverse grant making.

Financial Highlights

- The total assets of the Foundation increased by \$153.9 million during 2011 to \$797.5 million.
- The Foundation ended 2011 with investments and cash and cash equivalents totaling \$793.5 million.
- The primary source of revenue during 2011 was \$121.9 million in investment gains and income. The Foundation's investment assets returned 19.3%.
- The Foundation received \$69.1 million in proceeds from the MSA.
- The Foundation awarded grants of \$49.1 million in 2011, a decrease of 31.0% from 2010 levels. In addition to \$25.1 million in grants awarded through the Foundation's Open Grants Program, Economic Catalyst Cycle, scholarship and other programs, grants were awarded to support the following special initiatives:

<u>Community Assistance - \$16.4 million</u> - Foundation staff and board work directly with the State's most distressed communities to understand community priorities and challenges and assist those communities in establishing a priority list of proposals for funding consideration.

<u>STEM - \$5.6 million</u> - The STEM initiative is geared toward preparing North Carolina's youth for careers requiring skills in science, technology, engineering and mathematics (STEM), due to the growing need for these skills in industries across the state. The focus of the initiative is to support successful models that increase STEM education for students in grades 4 through 9 in rural, economically distressed and/or tobacco-dependent counties of North Carolina.

<u>Rural Healthcare - \$1.5 million</u> - The Rural Hope Initiative is designed to enable better health care delivery and job creation by assisting in the construction and expansion of rural health care facilities.

The Golden L.E.A.F. (Long-term Economic Advancement Foundation), Inc. Management's Discussion and Analysis (unaudited)

Golden LEAF Opportunities for Work in Aerospace Manufacturing (GLOW-AM) - \$533,000 GLOW-AM is intended to address some of the urgent workforce requirements North Carolina faces in labor markets with high concentrations of aerospace industries and in regions where aerospace manufacturing is emerging as a new economic engine.

• Administrative costs were \$2.3 million in 2011, which were flat to 2010.

Using This Annual Report

This annual report consists of two financial statements. The Statements of Net Assets and Governmental Fund Balance Sheets show the assets, liabilities and fund balance/net assets at June 30, 2011 and 2010. The Statements of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance show the revenues, expenditures, and changes in fund balance/net assets for the fiscal years ended June 30, 2011 and 2010. The Notes to Financial Statements contain additional information that is essential to a full understanding of the data in the financial statements.

Statements of Net Assets and Governmental Fund Balance Sheets

Condensed Statements of Net Assets and Governmental Fund Balance Sheets:

June 30,	2011	2010	2009
Assets			
Current assets	\$ 793,585,382	\$ 639,565,452	\$ 556,570,265
Capital assets—nondepreciable	904,481	927,771	927,771
Capital assets—depreciable, net	2,996,019	3,094,525	3,196,076
Total Assets	\$ 797,485,882	\$ 643,587,748	\$ 560,694,112
Total Liabilities	\$ 92,950,403	\$ 84,548,045	\$ 73,805,808
Net Assets			
Invested in capital assets, net of debt	3,900,500	4,022,296	4,123,847
Unassigned	700,634,979	555,017,407	482,764,457
Total Net Assets	704,535,479	559,039,703	486,888,304
Total Liabilities and Net Assets	\$ 797,485,882	\$ 643,587,748	\$ 560,694,112

The Golden L.E.A.F. (Long-term Economic Advancement Foundation), Inc.

Management's Discussion and Analysis (unaudited)

2011

Total assets at June 30, 2011 were \$797.5 million, an increase of \$153.9 million from June 30, 2010. The assets of the Foundation are comprised mainly of investments and cash and cash equivalents. The total of investments, cash and cash equivalents at June 30, 2011 was \$793.5 million, compared to \$639.5 million at June 30, 2010. This increase resulted primarily from MSA proceeds and investment gains net of grant disbursements, debt repayment and administrative expenditures. Net capital assets decreased to \$3.9 million at June 30, 2011 from \$4.0 million at June 30, 2010, primarily as the result of depreciation (see Note 3 to the financial statements).

The liabilities of the Foundation are comprised primarily of grants payable. Grants payable totaled \$92.8 million at June 30, 2011, compared to \$84.4 million at June 30, 2010. This increase resulted primarily from grant awards of \$49.1 million in 2011 net of \$35.2 million of grant disbursements. Prior year grant awards totaling \$6.0 million were rescinded or returned in 2011.

The Net Assets section of the Statements of Net Assets and Governmental Fund Balance Sheets shows the amount of the assets of the Foundation, less its liabilities. There were no board designations of net assets at the end of 2011.

<u>2010</u>

Total assets at June 30, 2010 were \$643.6 million, an increase of \$82.9 million from June 30, 2009. The assets of the Foundation are comprised mainly of investments and cash and cash equivalents. The total of investments, cash and cash equivalents at June 30, 2010 was \$639.5 million, compared to \$556.5 million at June 30, 2009. This increase resulted primarily from MSA proceeds and investment gains net of grant disbursements, debt repayment and administrative expenditures. Net capital assets decreased to \$4.0 million at June 30, 2010 from \$4.1 million at June 30, 2009, primarily as the result of depreciation (see Note 3 to the financial statements).

The liabilities of the Foundation are comprised primarily of grants payable. Grants payable totaled \$84.4 million at June 30, 2010, compared to \$58.6 million at June 30, 2009. This increase resulted primarily from grant awards of \$71.1 million in 2010 net of \$39.4 million of grant disbursements. Prior year grant awards totaling \$6.1 million were rescinded or returned in 2010. In October 2008, the Foundation borrowed \$100 million through a short-term unsecured, non-revolving credit facility. The proceeds of the loan were placed in escrow to support the construction of new aerospace facilities at the Global TransPark in Lenoir County, North Carolina, in accordance with a grant awarded to the North Carolina Global TransPark Authority in May 2008. The Foundation used proceeds from the MSA to repay the remaining principal amount of \$15 million in April 2010.

The Net Assets section of the Statements of Net Assets and Governmental Fund Balance Sheets shows the amount of the assets of the Foundation, less its liabilities. There were no board designations of net assets at the end of 2010.

The Golden L.E.A.F. (Long-term Economic Advancement Foundation), Inc. Management's Discussion and Analysis (unaudited)

Statements of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance

Condensed Statements of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance:

Years Ended June 30,	2011		2010		2009
Total revenues	¢ 101 021 027	¢	120 044 042	¢	(E2 020 202)
Total revenues Total expenses	\$ 191,021,837 45,526,061	Ф	139,946,963 67,795,564	\$	(53,938,303) 30,606,105
Change in net assets	145,495,776		72,151,399		(84,544,408)
Net assets, beginning of year	559,039,703		486,888,304		571,432,712
Net assets, end of year	\$ 704,535,479	\$	559,039,703	\$	486,888,304

These statements show the revenues and the expenses of the Foundation for the years ended June 30, 2011, 2010 and 2009, and the corresponding effect on the net assets.

<u>2011</u>

Total revenues (MSA receipts, investment earnings, and other income) were \$191.0 million in 2011 and \$139.9 million in 2010.

The Foundation received \$69.1 million in proceeds from the state settlement (or MSA receipts) in 2011 and \$73.2 million in 2010. The calculation of the MSA receipts that are received by the Foundation is impacted by, among other things, an inflation adjustment and a volume adjustment. These factors are out of the control of the Foundation. In addition, some participating manufacturers in the MSA withheld a portion of their 2011 payment because they believe they were entitled to a Non-Participating Manufacturer Adjustment as described in Section IX(d) of the MSA. The Foundation's share of the withheld amount is \$10.4 million. The matter is currently in arbitration.

The Foundation had investment gains and income of \$121.9 million in 2011 compared to \$66.8 million in 2010.

Total expenses were \$45.5 million in 2011 and \$67.8 million in 2010.

The largest expenses were grant disbursements. Grant disbursements represent grants awarded net of grants rescinded. Grants were awarded (excluding grants rescinded) in the amount of \$49.1 million during 2011 and \$71.1 million in 2010.

The other expenses of the Foundation were administrative costs and depreciation. Administrative costs were \$2.3 million in 2011 and 2010.

Depreciation expense was approximately \$107,000 in 2011 and 2010.

The Golden L.E.A.F. (Long-term Economic Advancement Foundation), Inc.

Management's Discussion and Analysis (unaudited)

<u>2010</u>

Total revenues (MSA receipts, investment earnings (losses), and other income) were \$139.9 million in 2010 and (\$53.9) million in 2009.

The majority of the revenues of the Foundation were proceeds from the state settlement (or MSA receipts). MSA receipts were \$73.2 million in 2010 and \$87.6 million in 2009. The calculation of the MSA receipts that are received by the Foundation is impacted by, among other things, an inflation adjustment and a volume adjustment. These factors are out of the control of the Foundation. In addition, some participating manufacturers in the MSA withheld a portion of their 2010 payment because they believe they were entitled to a Non-Participating Manufacturer Adjustment as described in Section IX(d) of the MSA. The Foundation's share of the withheld amount is \$6.9 million. The matter is currently in arbitration.

The Foundation had investment gains and income of \$66.8 million in 2010 compared to a net investment loss of \$141.6 million in 2009 due to a turnaround in the adverse market conditions of the prior year.

Total expenses were \$67.8 million in 2010 and \$30.6 million in 2009.

The largest expenses were grant disbursements. Grant disbursements represent grants awarded net of grants rescinded. Grants were awarded (excluding grants rescinded) in the amount of \$71.1 million during 2010 and \$32.1 million in 2009.

The other expenses of the Foundation were administrative costs and depreciation. Administrative costs were \$2.3 million in 2010 and \$2.7 million in 2009.

Depreciation expense increased to approximately \$107,000 in 2010 from approximately \$105,000 in 2009.

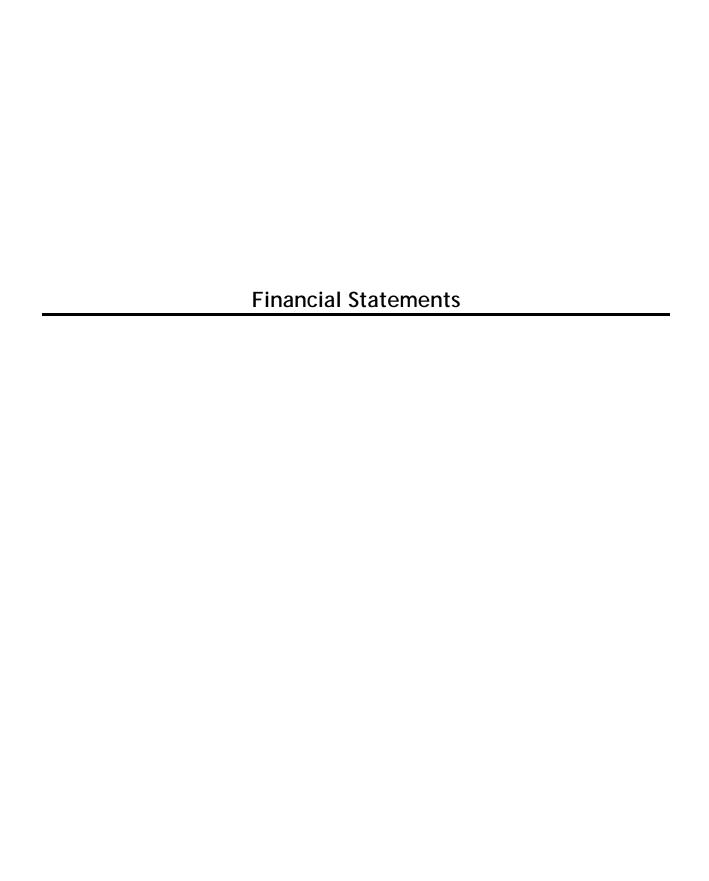
The change in net assets was \$72.2 million and (\$84.5) million in 2010 and 2009, respectively. Net assets at June 30, 2010 were \$559.0 million compared to \$486.9 million at June 30, 2009.

Notes to Financial Statements

The reader is referred to these notes for a more complete understanding of the financial statements of the Foundation. They contain a summary of the significant accounting policies as well as other information.

Requests for Information

This report is designed to provide a general overview of the Foundation's finances and to show the Foundation's accountability for the funds it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to The Golden L.E.A.F. Foundation, 301 N. Winstead Ave., Rocky Mount, NC 27804.



The Golden L.E.A.F. (Long-term Economic Advancement Foundation), Inc. Statement of Net Assets and Governmental Fund Balance Sheet

June 30, 2011	Reclassifications and General Eliminations Fund (Note 5)					Statement of Net Assets		
				(1401 713013			
Assets								
Cash and cash equivalents	\$	492,750	\$	-	\$	492,750		
Sales tax refund and other receivables		1,223		-		1,223		
Prepaid items		84,651		-		84,651		
Investments		793,006,758		-		793,006,758		
Capital assets—nondepreciable		-		904,481		904,481		
Capital assets—depreciable, net		-		2,996,019		2,996,019		
Total Assets	\$	793,585,382	\$	3,900,500	\$	797,485,882		
Liabilities								
Accounts payable	\$	111,855	\$	-	\$	111,855		
Accrued liabilities		54,443		-		54,443		
Grants payable		92,784,105		-		92,784,105		
Total Liabilities		92,950,403		-		92,950,403		
Fund Balance/Net Assets								
Nonspendable prepaid items		84,651		(84,651)		-		
Invested in capital assets		-		3,900,500		3,900,500		
Unassigned		700,550,328		84,651		700,634,979		
Total fund balance/net assets		700,634,979	_	3,900,500		704,535,479		
Total Liabilities and Fund Balances/ Net Assets	\$	793,585,382	\$	3,900,500	\$	797,485,882		

The Golden L.E.A.F. (Long-term Economic Advancement Foundation), Inc. Statement of Net Assets and Governmental Fund Balance Sheet

	General	Rec	tatement of	
June 30, 2010	Fund (Note 5)			Net Assets
Assets				
Cash and cash equivalents	\$ 1,160,932	\$	-	\$ 1,160,932
Sales tax refund and other receivables	2,242		-	2,242
Prepaid items	79,897		-	79,897
Investments	638,322,381		-	638,322,381
Capital assets—nondepreciable	-		927,771	927,771
Capital assets—depreciable, net	_		3,094,525	3,094,525
Total Assets	\$ 639,565,452	\$	4,022,296	\$ 643,587,748
Liabilities				
Accounts payable	\$ 102,984	\$	_	\$ 102,984
Accrued liabilities	75,666		=	75,666
Grants payable	84,369,395		-	84,369,395
Total Liabilities	84,548,045		-	84,548,045
Fund Balance/Net Assets				
Nonspendable prepaid items	79,897		(79,897)	-
Invested in capital assets	- -		4,022,296	4,022,296
Unassigned	554,937,510		79,897	555,017,407
Total fund balance/net assets	555,017,407		4,022,296	559,039,703
Total Liabilities and Fund Balances/ Net Assets	\$ 639,565,452	\$	4,022,296	\$ 643,587,748

The Golden L.E.A.F. (Long-term Economic Advancement Foundation), Inc.

Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance

Year Ended June 30, 2011	General Fund	Reclassifications and Eliminations (Note 5)	S	Statement of Activities	
Revenues					
Proceeds from state settlement	\$ 69,128,105	\$ -	\$	69,128,105	
Investment income, net	121,885,046	-		121,885,046	
Other income	8,686	-		8,686	
Total Revenues	191,021,837	-		191,021,837	
Expenditures/Expenses					
Grant distributions	43,092,615	-		43,092,615	
Administrative costs	2,323,204	-		2,323,204	
Capital outlays	9,408	(9,408)		-	
Loss on fixed assets	· <u>-</u>	2,976		2,976	
Depreciation expense	-	107,266		107,266	
Total Expenditures/Expenses	45,425,227	100,834		45,526,061	
5 0 (4.1.)					
Excess Revenues Over (Under)	145 507 710	(400.004)		445 405 77/	
Expenditures/Expenses	145,596,610	(100,834)		145,495,776	
Other Financing Sources					
Proceeds from sale of fixed assets	20,962	(20,962)		-	
Change in Fund Balance/Net Assets	145,617,572	(121,796)		145,495,776	
Fund Balance/Net Assets, beginning of year	555,017,407	4,022,296		559,039,703	
Fund Balance/Net Assets, end of year	\$ 700,634,979	\$ 3,900,500	\$	704,535,479	

The Golden L.E.A.F. (Long-term Economic Advancement Foundation), Inc.

Statement of Activities and Governmental Fund Revenues,
Expenditures, and Changes in Fund Balance

Year Ended June 30, 2010		General Fund		eclassifications and Eliminations (Note 5)	Statement of Activities		
Revenues							
Proceeds from state settlement	\$	73,179,244	\$	_	\$	73,179,244	
Investment income, net	Ψ	66,762,679	Ψ	_	Ψ	66,762,679	
Other income		5,040		-		5,040	
Total Revenues		139,946,963		-		139,946,963	
Expenditures/Expenses							
Grant distributions		65,004,216		_		65,004,216	
Administrative costs		2,343,034		_		2,343,034	
Capital outlays		5,888		(5,888)		2,545,054	
Loss on fixed assets		-		9		9	
Depreciation expense		_		107,430		107,430	
Interest expense		340,875		-		340,875	
Total Expenditures/Expenses		67,694,013		101,551		67,795,564	
Europe Devenues Over (Under)							
Excess Revenues Over (Under) Expenditures/Expenses		72,252,950		(101,551)		72,151,399	
h		_,,		(131,301)		_,,.,	
Change in Fund Balance/Net Assets		72,252,950		(101,551)		72,151,399	
Fund Balance/Net Assets, beginning of year		482,764,457		4,123,847		486,888,304	
Fund Balance/Net Assets, end of year	\$	555,017,407	\$	4,022,296	\$	559,039,703	

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The following is a summary of the significant accounting principles and policies used in the preparation of these financial statements.

Reporting Entity

The Golden L.E.A.F. (Long-Term Economic Advancement Foundation), Inc. (the "Foundation") is a not-for-profit corporation ordered to be established by the consent Decree and Final Judgment in the State of North Carolina vs. Philip Morris Incorporated, et al.

The Foundation was established for the purpose of receipt and distribution of fifty percent of the funds allocated to the North Carolina State Specific Account, such funds to be used to provide economic impact assistance to economically affected or tobacco-dependent regions of North Carolina.

For financial reporting purposes, the Foundation is deemed to be a component unit of the State of North Carolina, and is included as such in the State of North Carolina Comprehensive Annual Financial Report.

Basis of Presentation

These financial statements have been prepared in conformity with the accounting principles and reporting guidelines established by the Government Accounting Standards Board (GASB). The Foundation applies all statements issued by the GASB and all Financial Accounting Standards Board (FASB) statements issued on or before November 30, 1989, except those that conflict with the GASB.

General Fund

The general fund is used to account for all revenues and expenses applicable to the general operations of the Foundation that are not required either legally or by governmental accounting standards to be accounted for in another fund.

Basis of Accounting

The Foundation follows the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when they are earned and expenses are recorded when the liability is incurred.

The Foundation's primary source of revenue is the funds received by the State of North Carolina under the settlement of the lawsuit noted above. Revenues are recorded upon receipt of the funds by the State of North Carolina and classified as Proceeds from State Settlement in the Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance. Beginning in 2006, some of the participating manufacturers in the Master Settlement Agreement (MSA) have withheld a portion of their payment because they believe they are entitled to a Non-Participating Manufacturer Adjustment as described in Section IX(d) of the MSA. The Foundation's share of the withheld amounts from 2006 through 2011 is approximately \$40.9 million. The matter is currently in arbitration.

Notes to Financial Statements

Budgetary Requirement

The Foundation's enabling legislation requires that the Foundation's Board of Directors consult with the Joint Legislative Commission on Governmental Operations prior to adopting an annual operating budget. As of June 30, 2011, the Foundation's Board of Directors has adopted a preliminary budget only for the general fund on a basis consistent with generally accepted accounting principles, subject to finalization after the Foundation consults with the Joint Legislative Commission on Government Operations. Budgetary control is expected to be at the object of expense classification level (personal services, operating expenditures, capital outlay). Budgetary changes within expense classifications are expected to be made at the discretion of the Foundation.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets, less accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use through legislation, legal responsibility or designated by the Board of Directors, which restrict the use of funds to a specific purpose. Funds received from the North Carolina State Specific Accounts are unrestricted, but are invested as directed by the Board of Directors, with the income from investment being used for operating expenses and to fund grants.

Fund Balance

Fund balance represents the difference between assets and liabilities in the governmental fund financial statements. The Foundation's fund balance is classified in the following categories:

Nonspendable fund balance represents amounts that cannot be spent due to legal requirements or because it is not in spendable form. The Foundation reports nonspendable fund balance for prepaid expenditures.

Unassigned fund balance is the residual fund balance of the general fund.

Investments

Investments include long-term fixed income investments, equity investments, money market funds, certificates of deposit, limited partnerships, real estate, and obligations of government agencies. Investments are accounted for at fair value. Depending on the underlying asset, the fair value is determined through national exchange price for securities with a readily determinable value or valuations and estimates typically determined by the underlying asset's manager. Certain investment values may differ from the values that would have been used had a ready market for these investments existed and differences could be material. The financial statements of these investments are audited annually (typically at December 31st) by independent auditors.

Realized investment gains and losses are determined using the specific identification basis and are recorded as investment income in the Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance. Changes in net unrealized gains and losses are also recognized as a component of investment income.

Notes to Financial Statements

Capital Assets

Generally, capital assets are defined by the Foundation as assets with an initial value or cost greater than or equal to \$500 and an estimated useful life of two or more years. Capital assets are stated at cost less accumulated depreciation. Estimated useful lives are five years for equipment, seven years for furniture and fixtures and ten to forty years for buildings.

Prepaid Insurance

The Foundation allocates the cost of insurance between the related accounting periods. Amounts paid for services not yet provided are recorded as prepaid and amortized over the service period.

Grants Payable

The Foundation records grants payable when the Board of Directors approves the grant. The Programs Committee (a subset of the Board of Directors) evaluates the grant applications and makes recommendations to the entire Board of Directors. Applicants that are chosen by the Board of Directors must fill out and sign a "Grantee Acknowledgement and Agreement" which stipulates guidelines and related requirements. Several requirements must be met by the grantees prior to the disbursement of funds.

Income Taxes

The Foundation is a not-for-profit organization that is exempt from federal income taxes under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code.

New Accounting Pronouncements

The Governmental Accounting Standards Board (GASB) issued GASB Statement Number 54 ("GASB 54"), Fund Balance Reporting and Governmental Fund Type Definitions, in February 2009. GASB 54 abandons the reserved and unreserved classifications of fund balance and replaces them with five new classifications: nonspendable, restricted, committed, assigned and unassigned. In addition, GASB 54 updates the definitions of governmental fund types, with the most significant changes related to special revenue funds. These changes were made to bring greater clarity and consistency to fund balance reporting, resulting in an improvement in the usefulness of fund balance information. The requirements of GASB 54 are effective for financial statements for fiscal periods beginning after June 15, 2010 and GASB 54 was adopted by the Foundation during fiscal year 2011.

Notes to Financial Statements

2. Cash and Investments

The Foundation considers highly liquid temporary cash investments with a maturity of three months or less when purchased to be cash equivalents. However, cash investments with a maturity of three months or less that were purchased with the intent to be maintained as an investment are classified as investments.

According to the Foundation's investment policy adopted by the Board of Directors, the Foundation may invest in any of the following broad asset classes: domestic equities; real estate; mutual funds; foreign equities; fixed income securities; cash equivalents; and alternatives.

The Foundation maintained no direct investments in derivatives at June 30, 2011 and 2010.

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Foundation has no policy that contains requirements that would limit the exposure to custodial credit risk for deposits. At June 30, 2011, the carrying amount of the Foundation's deposits was \$492,750 and the bank balance, excluding in-transit items, was \$2,784,268. Of the bank balance, \$495,444 was covered by Federal Depository Insurance and \$2,288,824 was uninsured and uncollateralized.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation monitors the interest rate risk inherent in its portfolio by measuring the effective duration of its portfolio. The Foundation has no specific limitations with respect to duration. At June 30, 2011, the Foundation had investments in U.S. Treasuries with an average duration of 5.26 years and fair value of \$50.9 million and investments in three fixed income security funds with an average duration of 2.77 years and fair value of \$58.7 million. The Foundation also had an investment in a money market fund with a fair value of \$11.2 million at June 30, 2011, and duration of 0.08 years.

Credit risk is the risk that an issuer of an investment will not fulfill its obligations. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Foundation's investment policy has no specific limitations with respect to credit quality, but provides that approximately 50% of the fixed income allocation will be allocated to U.S. Treasury strategies. At June 30, 2011, the Foundation had investments in one fixed income fund rated AAA with fair value of \$9.0 million and two unrated fixed income funds with fair value of \$49.7 million.

At June 30, 2011, the Foundation had an investment in a money market fund rated AAA with fair value of \$11.2 million.

For an investment, the custodial risk is the risk that in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Foundation has no written policy on custodial credit risk; however, based on the nature of the investments the Foundation currently holds, management does not consider custodial risk to be significant.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Foundation's investment policy does not limit the amount invested in foreign currency-denominated investments.

The Golden L.E.A.F. (Long-term Economic Advancement Foundation), Inc. A Component Unit of the State of North Carolina

Notes to Financial Statements

The Foundation's investments are summarized below:

June 30,	2011	%	2010	%
U.S. Treasuries	\$ 50,936,529	6.42	\$ 29,245,732	4.58
Fixed income funds	58,697,722	7.40	53,765,084	8.42
Domestic stocks and equity funds	176,151,906	22.21	129,631,164	20.31
International stocks and equity funds	190,995,029	24.09	144,305,993	22.61
Absolute return funds	146,517,395	18.48	134,807,905	21.12
Private equity limited partnerships	86,067,840	10.85	76,193,876	11.94
Real estate and other real asset funds	72,352,412	9.13	61,244,774	9.59
Money market funds	11,187,925	1.41	9,027,853	1.41
Certificates of deposit	100,000	0.01	100,000	0.02
Total Investments	\$ 793,006,758	100.00	\$ 638,322,381	100.00

The following summarizes the investment return and its classification in the Statements of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance:

June 30,	2011	2010
Dividends and interest	\$ 8,247,547 \$	5,237,547
Net realized gains	25,385,593	2,673,794
Net unrealized gains	90,514,387	60,718,340
Management fees	(2,262,481)	(1,867,002)
Total	\$ 121,885,046 \$	66,762,679

The Golden L.E.A.F. (Long-term Economic Advancement Foundation), Inc. Notes to Financial Statements

The calculation of realized gains and losses is independent of a calculation of the net change in the fair value of investments. Realized gains and losses on investments that have been held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported in the prior years and current year.

3. Capital Assets

A summary of the activity related to the capital assets follows:

		Balance						Balance	
	June 30, 2010		Additions	Disposals			June 30, 2011		
Capital assets—nondepreciable:									
Land	\$	923,546	\$	-	\$	(23,290)	\$	900,256	
Construction in progress		4,225		-		-		4,225	
Total capital assets—nondepreciable		927,771		-		(23,290)		904,481	
Capital assets—depreciable:									
Buildings		3,228,319		-		-		3,228,319	
Equipment		107,722		9,408		(6,105)		111,025	
Furniture and fixtures		114,549		-		-		114,549	
Total capital assets—depreciable	\$	3,450,590	\$	9,408	\$	(6,105)	\$	3,453,893	
Less accumulated depreciation for:									
Buildings		(212,004)		(82,891)		-		(294,895)	
Equipment		(71,974)		(13,019)		5,457		(79,536)	
Furniture and fixtures		(72,087)		(11,356)		-		(83,443)	
Total accumulated depreciation	\$	(356,065)	\$	(107,266)	\$	5,457	\$	(457,874)	
Total capital assets-depreciable, net		3,094,525		(97,858)		(648)		2,996,019	
Total capital assets, net	\$	4,022,296	\$	(97,858)	\$	(23,938)	\$	3,900,500	

The Golden L.E.A.F. (Long-term Economic Advancement Foundation), Inc.

Notes to Financial Statements

	Balance June 30, 2009 Additions		Disposals	J	Balance June 30, 2010	
Capital assets—nondepreciable:						
Land	\$	923,546	\$ -	\$ -	\$	923,546
Construction in progress		4,225	-	-		4,225
Total capital assets—nondepreciable		927,771	-	-		927,771
Capital assets—depreciable:						
Buildings		3,228,319	-	-		3,228,319
Equipment		104,704	4,926	(1,908)		107,722
Furniture and fixtures		113,801	962	(214)		114,549
Total capital assets—depreciable	\$	3,446,824	\$ 5,888	\$ (2,122)	\$	3,450,590
Less accumulated depreciation for:						
Buildings		(129,113)	(82,891)	-		(212,004)
Equipment		(61,065)	(12,817)	1,908		(71,974)
Furniture and fixtures		(60,570)	(11,722)	205		(72,087)
Total accumulated depreciation	\$	(250,748)	\$ (107,430)	\$ 2,113	\$	(356,065)
Total capital assets-depreciable, net		3,196,076	(101,542)	(9)		3,094,525
Total capital assets, net	\$	4,123,847	\$ (101,542)	\$ (9)	\$	4,022,296

4. Tobacco Settlement

In November 1998, the Attorneys General of 46 states, five U.S. territories and the District of Columbia (the States) signed the Master Settlement Agreement (MSA) with the nation's largest tobacco manufacturers. Under the MSA, the participating tobacco manufacturers must provide payment to the States. The base payments to the States are estimated to total \$206 billion through 2025. The State of North Carolina's share of the base payment is estimated to be \$4.57 billion, of which the Foundation is expected to receive 50 percent. The Foundation has received \$936.4 million since its inception.

While the State of North Carolina's share of the base payments will not change over time, the amount of the annual payment is subject to a number of adjustments including, among others, inflation, and volume adjustments. These adjustments may increase or decrease the base payment. Therefore, the net effect of these adjustments is uncertain and the impact on the estimated future payments cannot be determined. Any changes in the base payments will impact the amount received by the Foundation. As a result of the uncertainty of payment and amount of these funds, no receivable has been recorded for the Foundation's share of the State of North Carolina's future payments under the MSA.

In June 2011, the North Carolina General Assembly enacted legislation that purports to transfer to the General Fund of the State of North Carolina \$17,563,760 from the annual payment of MSA funds to the Foundation for each of the fiscal years 2012 and 2013. The North Carolina General Assembly also enacted legislation in June 2011 that provides that any monies paid into the North Carolina State Specific Account from the Disputed Payments Account on account of the Non-

Notes to Financial Statements

Participating Manufacturers that would have been transferred to the Foundation shall be deposited in a Settlement Reserve Fund of the State of North Carolina. The Foundation is currently reviewing the legislation and the potential effect of the legislation on revenues of the Foundation.

5. Explanations of Differences Between the Governmental Fund Balance Sheet and the Statement of Net Assets

Total fund balances differ from net assets of the Foundation reported in the Statement of Net Assets. This difference primarily results from the long-term economic focus of the Statement of Net Assets versus the current financial resources focus on the Foundation's fund balance sheets. The provisions of Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, imposed the following difference.

(a) When fixed assets (equipment, furniture and fixtures) that are to be used in Foundation activities are purchased, the costs of those assets are reported as expenditures in general funds. However, the Statement of Net Assets includes those fixed assets among the assets of the Foundation. The Foundation does not record depreciation so this expense is included as a reconciling item on the Statement of Activities and Governmental Fund Revenue, Expenditures, and Changes in Fund Balance.

6. Commitments

The Foundation has committed to invest in several private equity funds.

7. Retirement Plans

The Foundation administers the Defined Contribution Plan and the Tax-Deferred Annuity Plan as approved by the Board of Directors. The plans are 403(b) defined contribution plans that provide retirement benefits with options for payments to beneficiaries in the event of the participant's death. All employees of the Foundation are eligible to participate in both plans.

The Defined Contribution Plan requires the Foundation to contribute 10% of participants' gross salary. The Foundation contributed approximately \$114,000 and \$118,000 to the Defined Contribution Plan during the fiscal years ended June 30, 2011 and 2010, respectively. The Tax-Deferred Annuity Plan permits participants to contribute a percentage of gross salary up to the maximum established by the Internal Revenue Code. Participants contributed approximately \$17,000 and \$18,000 to the Tax-Deferred Annuity Plan during the fiscal years ended June 30, 2011 and 2010, respectively.

Plan benefits are provided by means of contracts issued and administered by the privately operated Teachers' Insurance and Annuity Association and the College Retirement Equities Fund (TIAA/CREF).

Notes to Financial Statements

8. Deferred Compensation Plan

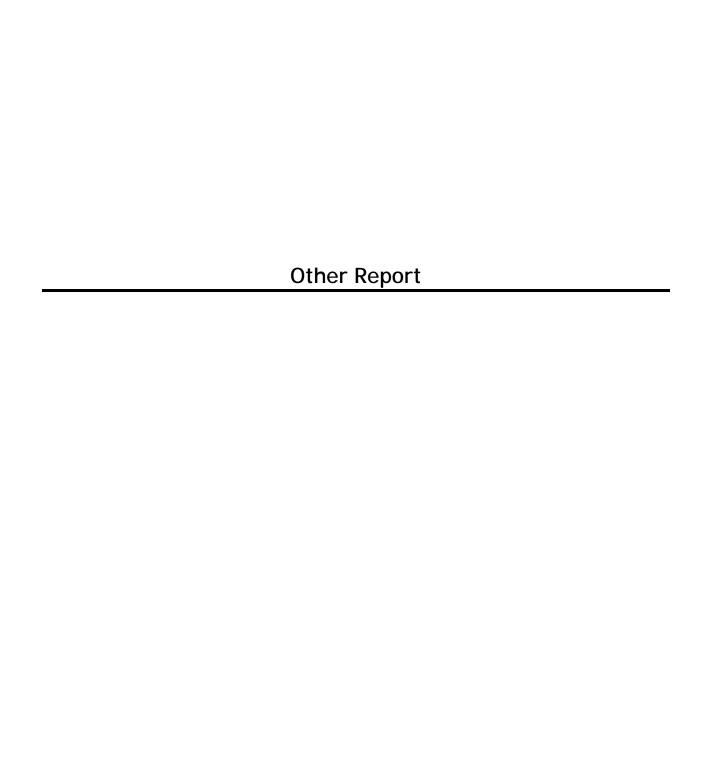
The Foundation administers The Golden L.E.A.F., Inc. 457(b) Plan as approved by the Board of Directors. The plan is a non-qualified deferred compensation plan for the benefit of highly compensated, key employees designated by the Board of Directors. The Plan allows for discretionary contributions by the Foundation as well as employee deferrals up to the maximum established by the Internal Revenue Code. The Foundation contributed approximately \$2,000 and \$1,000 to the Plan during the years ended June 30, 2011 and 2010, respectively.

9. Risk Management

The Foundation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; illnesses or injuries to employees and natural disasters. The Foundation carries commercial insurance to cover these risks of loss. Claims on this coverage have historically not exceeded commercial premiums.

10. Subsequent Events

The Foundation has evaluated subsequent events from the date of the financial statements through September 30, 2011. During this period, no material recognizable subsequent events were identified.





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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

To the Board of Directors

The Golden L.E.A.F. (Long-term Economic Advancement Foundation), Inc.

We have audited the Statement of Net Assets and Governmental Fund Balance Sheet and Statement of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance of The Golden L.E.A.F. (Long-term Economic Advancement Foundation), Inc. (the "Foundation"), a non-profit corporation and component unit of the State of North Carolina as of and for the year ended June 30, 2011, and have issued our report thereon dated September 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Foundation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Foundation's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness is* a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Foundation's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Foundation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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This report is intended solely for the information and use of management, the Board of Directors, the Office of the State Controller, State of North Carolina and is not intended to be and should not be used by anyone other than these specified parties.

BDO USA, LLA

Certified Public Accountants September 30, 2011