



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

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

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Contents

Independent Auditors' Report	3-4
Management's Discussion and Analysis (unaudited)	5-9
Audited Financial Statements	
Statements of Net Assets and Governmental Fund Balance Sheets	11-12
Statements of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance	13-14
Notes to Financial Statements	15-23
Other Report	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	25-26



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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, LLP

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:

Community Assistance - \$16.4 million - 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.

STEM - \$5.6 million - 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.

Rural Healthcare - \$1.5 million - 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:

<i>June 30,</i>	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.

2010

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:

<i>Years Ended June 30,</i>	2011	2010	2009
Total revenues	\$ 191,021,837	\$ 139,946,963	\$ (53,938,303)
Total expenses	45,526,061	67,795,564	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.

2011

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)

2010

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.

Financial Statements

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

Statement of Net Assets and Governmental Fund Balance Sheet

<i>June 30, 2011</i>	General Fund	Reclassifications and Eliminations (Note 5)	Statement of Net Assets
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

See accompanying independent auditors' report and notes to financial statements.

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

Statement of Net Assets and Governmental Fund Balance Sheet

<i>June 30, 2010</i>	General Fund	Reclassifications and Eliminations (Note 5)	Statement of 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

See accompanying independent auditors' report and notes to financial statements.

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

<i>Year Ended June 30, 2011</i>	General Fund	Reclassifications and Eliminations (Note 5)	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	-	2,976	2,976
Depreciation expense	-	107,266	107,266
Total Expenditures/Expenses	45,425,227	100,834	45,526,061
Excess Revenues Over (Under)			
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

See accompanying independent auditors' report and notes to financial statements.

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

<i>Year Ended June 30, 2010</i>	General Fund	Reclassifications and Eliminations (Note 5)	Statement of Activities
Revenues			
Proceeds from state settlement	\$ 73,179,244	\$ -	\$ 73,179,244
Investment income, net	66,762,679	-	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)	-
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
Excess Revenues Over (Under) Expenditures/Expenses	72,252,950	(101,551)	72,151,399
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

See accompanying independent auditors' report and notes to financial statements.

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

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.

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

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.

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

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.

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

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:

<i>June 30,</i>	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:

<i>June 30,</i>	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 June 30, 2010	Additions	Disposals	Balance 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	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-

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

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).

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.

Other Report



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, LLP

Certified Public Accountants
September 30, 2011