

AUDITED FINANCIAL STATEMENTS AND
OTHER REPORT

The Golden L.E.A.F. (Long-term Economic Advancement
Foundation), Inc.
A Component Unit of the State of North Carolina
As of and for the Years Ended June 30, 2009 and 2008
With Report of Independent Auditors

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

Audited Financial Statements and Other Report

As of and for the Years Ended June 30, 2009 and 2008

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

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 grantsmaking.

Financial Highlights

- The total assets of the Foundation decreased by \$171.0 million during 2009 to \$560.7 million.
- The primary source of revenue during 2009 was \$87.6 million in proceeds from the MSA. This compares to \$80.0 million in MSA proceeds received during the prior year. Most of the increase was due to the release from escrow of \$6.3 million in disputed payments related to the 2008 annual MSA payment.
- Net investment losses totaled \$141.6 million for fiscal year 2009 compared to investment losses of \$16.7 million in fiscal year 2008. For the year ended June 30, 2009, the Foundation's investment assets incurred losses -19.4% versus -26.2% for the S&P 500 Index and -29.3% for the MSCI World Index. The past year's relatively good performance compared to the equity market highlights the benefit of diversification of the portfolio's investments in a wide variety of asset classes.
- The Foundation awarded grants of \$32.1 million in 2009 compared to \$141.0 million in 2008 (excluding grants rescinded discussed below). The decrease was primarily due to a \$100 million economic catalyst grant awarded in 2008 to support the construction of an aerospace manufacturing facility at the North Carolina Global TransPark. Total fiscal year 2009 grant awards included \$1.2 million in economic catalyst grants, \$12.7 million in annual grant cycle awards and scholarships and \$18.2 million in awards to support the Foundation's special initiatives. Fiscal 2008 awards included \$109.1 million in economic catalyst grants, \$20.6 million in annual grant cycle awards and scholarships and \$11.3 million in awards to support the Foundation's special initiatives. Grant awards rescinded or returned totaled \$6.0 million during 2009 and \$3.0 million during 2008.

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Management's Discussion and Analysis (unaudited) (continued)

- 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 \$85 million in principal in April 2009. The remaining principal amount of \$15 million is due April 30, 2010.
- Administrative costs were \$2.7 million in 2009 compared to \$2.8 million in 2008.
- The Foundation ended 2009 with investments and cash and cash equivalents totaling \$556.5 million. The equivalent amount at the end of 2008 was \$727.4 million.

Using This Annual Report

This annual report consists of a series of financial statements. The Statements of Net Assets and Governmental Fund Balance Sheets show the assets, liabilities and net assets at June 30, 2009 and 2008. The Statements of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance show the revenues, expenditures, and changes in net assets for the fiscal years ended June 30, 2009 and 2008. 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:

	2009	2008	2007
Current assets	\$ 556,570,265	\$ 727,512,200	\$ 718,807,611
Capital assets-nondepreciable	927,771	927,771	1,055,714
Capital assets-depreciable, net	3,196,076	3,274,155	272,802
Total assets	<u>\$ 560,694,112</u>	<u>\$ 731,714,126</u>	<u>\$ 720,136,127</u>
Total liabilities	\$ 73,805,808	\$ 160,281,414	\$ 71,236,080
Net assets:			
Invested in capital assets, net of debt	4,123,847	4,201,926	1,328,516
Unrestricted	482,764,457	567,230,786	647,571,531
Total net assets	<u>486,888,304</u>	<u>571,432,712</u>	<u>648,900,047</u>
Total liabilities and net assets	<u>\$ 560,694,112</u>	<u>\$ 731,714,126</u>	<u>\$ 720,136,127</u>

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Management's Discussion and Analysis (unaudited) (continued)

2009

Total assets at June 30, 2009 were \$560.7 million, a decrease of \$171.0 million from June 30, 2008. 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, 2009 was \$556.5 million, compared to \$727.4 million at June 30, 2008. This decrease resulted primarily from MSA proceeds net of investment losses, grant disbursements, debt repayment and administrative expenditures. Net capital assets decreased to \$4.1 million at June 30, 2009 from \$4.2 million at June 30, 2008, primarily as the result of depreciation. (see Note 3 to the financial statements).

The liabilities of the Foundation are comprised primarily of grants payable and a loan payable. Grants payable totaled \$58.6 million at June 30, 2009, compared to \$159.5 million at June 30, 2008. This decrease resulted primarily from grant awards of \$32.1 million in 2009 net of \$127.4 million of grant disbursements, including \$100 million for payment of a 2008 economic catalyst grant to support the construction of an aerospace manufacturing facility at the North Carolina Global TransPark. Prior year grant awards totaling \$6.0 million were rescinded or returned in 2009. 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 \$85 million in principal in April 2009. The remaining principal amount of \$15 million is due April 30, 2010 (see Note 4 to the financial statements).

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 either year.

2008

Total assets at June 30, 2008 were \$731.7 million, an increase of \$11.6 million over June 30, 2007. 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, 2008 was \$727.4 million, compared to \$718.8 million at June 30, 2007. This increase resulted primarily from MSA proceeds net of investment losses, grant disbursements and administrative expenditures. Net capital assets increased to \$4.2 million at June 30, 2008 from \$1.3 million at June 30, 2007, primarily as the result of the construction of the Foundation's new headquarters (see Note 3 to the financial statements).

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Management's Discussion and Analysis (unaudited) (continued)

The liabilities of the Foundation are comprised primarily of grants payable. Grants payable totaled \$159.5 million at June 30, 2008, compared to \$71.0 million at June 30, 2007. This increase resulted primarily from grant awards of \$141.0 million in 2008 net of \$49.7 million of grant disbursements. Prior year grant awards totaling \$3.0 million were rescinded or returned in 2008.

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 either year.

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:

	2009	2008	2007
Total revenues	(\$53,938,303)	\$ 63,354,946	\$172,888,361
Total expenses	30,606,105	140,822,281	34,643,076
Change in net assets	(84,544,408)	(77,467,335)	138,245,285
Net assets, at beginning of year	571,432,712	648,900,047	510,654,762
Net assets, at end of year	<u>\$486,888,304</u>	<u>\$571,432,712</u>	<u>\$648,900,047</u>

These statements show the revenues and the expenses of the Foundation for the years ended June 30, 2009, 2008, and 2007, and the corresponding effect on the net assets.

2009

Total revenues (MSA receipts net, losses from investment earnings, and other income) were (\$53.9) million in 2009 and \$63.4 million in 2008.

The majority of the revenues of the Foundation were proceeds from the state settlement (or MSA receipts). MSA receipts were \$87.6 million in 2009 and \$80.0 million in 2008. 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

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Management's Discussion and Analysis (unaudited) (continued)

their 2009 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 \$6.1 million. The matter is currently in litigation in North Carolina court.

The Foundation incurred a net loss on investments of \$141.6 million in 2009 compared to a net investment loss of \$16.7 million in 2008.

Total expenses were \$30.6 million in 2009 and \$140.8 million in 2008.

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 \$32.1 million during 2009 and \$141.0 million in 2008.

The other expenses of the Foundation were administrative costs and depreciation. Administrative costs were \$2.7 million in 2009 and \$2.8 million in 2008.

Depreciation increased from \$61,926 in 2008 to \$105,230 in 2009.

The change in net assets was (\$84.5) million and (\$77.5) million in 2009 and 2008, respectively. Net assets at June 30, 2009 were \$486.9 million compared to \$571.4 million at June 30, 2008.

2008

Total revenues (MSA receipts net, losses from investment earnings, and other income) were \$63.4 million in 2008 and \$172.9 million in 2007.

The majority of the revenues of the Foundation were proceeds from the state settlement (or MSA receipts). MSA receipts were \$80.0 million in 2008 and \$71.4 million in 2007. 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 2008 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 \$6.5 million. The matter is currently in litigation in North Carolina court.

The Foundation incurred a net loss on investments of \$16.7 million in 2008 compared to net investment income of \$101.5 million in 2007.

Total expenses were \$140.8 million in 2008 and \$34.6 million in 2007.

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Management's Discussion and Analysis (unaudited) (continued)

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 \$141.0 million during 2008 and \$34.2 million in 2007.

The other expenses of the Foundation were administrative costs and depreciation. Administrative costs were \$2.8 million in 2008 and \$2.2 million in 2007. The primary reason for the increase in administrative costs in 2008 was higher personnel expenses as more permanent staff were added to handle the increased volume of grant applications and awards.

Depreciation increased from \$14,516 in 2007 to \$61,926 in 2008.

The change in net assets was (\$77.5) million and \$138.2 million in 2008 and 2007, respectively. Net assets at June 30, 2008 were \$571.4 million compared to \$648.9 million at June 30, 2007.

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.

Report of Independent Auditors

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

We have audited the accompanying Statements of Net Assets and Governmental Fund Balance Sheets 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 June 30, 2009 and 2008, and the related Statements of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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. We were not engaged to perform an audit of the Foundation's internal control over financial reporting. Our audits included 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and 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, 2009 and 2008, and the changes in its financial position for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2009 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 the 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 audits.

The management's discussion and analysis on pages i through vi is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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.

Ernst + Young LLP

September 30, 2009

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Statement of Net Assets and Governmental Fund Balance Sheet

June 30, 2009

	General Fund	Reclassifications and Eliminations (Note 6)	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 614,237	\$ -	\$ 614,237
Sales tax refund and other receivables	3,405	-	3,405
Prepaid items	82,805	-	82,805
Investments	555,869,818	-	555,869,818
Capital assets-nondepreciable	-	927,771	927,771
Capital assets-depreciable, net	-	3,196,076	3,196,076
Total assets	<u>\$ 556,570,265</u>	<u>\$ 4,123,847</u>	<u>\$ 560,694,112</u>
Liabilities			
Accounts payable	\$ 168,930	\$ -	\$ 168,930
Accrued liabilities	68,245	-	68,245
Loan payable	15,000,000	-	15,000,000
Grants payable	58,568,633	-	58,568,633
Total liabilities	<u>73,805,808</u>	<u>-</u>	<u>73,805,808</u>
Net assets			
Reserved for prepaid items	82,805	(82,805)	-
Invested in capital assets, net of debt	-	4,123,847	4,123,847
Unrestricted	482,681,652	82,805	482,764,457
	<u>482,764,457</u>	<u>4,123,847</u>	<u>486,888,304</u>
Total liabilities and fund balances/net assets	<u>\$ 556,570,265</u>	<u>\$ 4,123,847</u>	<u>\$ 560,694,112</u>

See accompanying notes.

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Statement of Net Assets and Governmental Fund Balance Sheet

June 30, 2008

	General Fund	Reclassifications and Eliminations (Note 6)	Statement of Net Assets
Assets			
Cash and cash equivalents	\$ 532,346	\$ —	\$ 532,346
Sales tax refund and other receivables	39,256	—	39,256
Prepaid items	33,711	—	33,711
Investments	726,906,887	—	726,906,887
Capital assets-nondepreciable	—	927,771	927,771
Capital assets-depreciable, net	—	3,274,155	3,274,155
Total assets	\$ 727,512,200	\$ 4,201,926	\$ 731,714,126
Liabilities			
Accounts payable	\$ 714,814	\$ —	\$ 714,814
Accrued liabilities	41,626	—	41,626
Grants payable	159,524,974	—	159,524,974
Total liabilities	160,281,414	—	160,281,414
Net assets			
Reserved for prepaid items	33,711	(33,711)	—
Invested in capital assets, net of debt	—	4,201,926	4,201,926
Unrestricted	567,197,075	33,711	567,230,786
	567,230,786	4,201,926	571,432,712
Total liabilities and fund balances/net assets	\$ 727,512,200	\$ 4,201,926	\$ 731,714,126

See accompanying notes.

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

For the Year Ended June 30, 2009

	General Fund	Reclassifications and Eliminations (Note 6)	Statement of Activities
Revenues:			
Proceeds from state settlement	\$ 87,593,455	\$ –	\$ 87,593,455
Investment loss, net	(141,582,312)	–	(141,582,312)
Other income	50,554	–	50,554
Total revenues	<u>(53,938,303)</u>	–	<u>(53,938,303)</u>
Expenses:			
Grant distributions	26,096,388	–	26,096,388
Administrative costs	2,718,165	–	2,718,165
Capital outlays	46,449	(46,449)	–
Gain on fixed assets	–	(755)	(755)
Depreciation expense	–	105,230	105,230
Interest expense and loan fees	1,686,417	–	1,686,417
Unrelated business income tax	660	–	660
Total expenses	<u>30,548,079</u>	<u>58,026</u>	<u>30,606,105</u>
Excess revenues over (under) expenses	(84,486,382)	(58,026)	(84,544,408)
Other financing sources:			
Proceeds from sale of fixed assets	20,053	(20,053)	–
Total other financing sources	<u>20,053</u>	<u>(20,053)</u>	<u>–</u>
Change in net assets	(84,466,329)	(78,079)	(84,544,408)
Net assets, at beginning of year	<u>567,230,786</u>	<u>4,201,926</u>	<u>571,432,712</u>
Net assets, at end of year	<u>\$ 482,764,457</u>	<u>\$ 4,123,847</u>	<u>\$ 486,888,304</u>

See accompanying notes.

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

For the Year Ended June 30, 2008

	General Fund	Reclassifications and Eliminations (Note 6)	Statement of Activities
Revenues:			
Proceeds from state settlement	\$ 79,976,781	\$ -	\$ 79,976,781
Investment loss, net	(16,676,071)	-	(16,676,071)
Other income	54,236	-	54,236
Total revenues	<u>63,354,946</u>	-	<u>63,354,946</u>
Expenses:			
Grant distributions	137,954,719	-	137,954,719
Administrative costs	2,796,432	-	2,796,432
Capital outlays	2,935,636	(2,935,636)	-
Loss on fixed assets	-	300	300
Depreciation expense	-	61,926	61,926
Bad debt expense	32	-	32
Unrelated business income tax	8,872	-	8,872
Total expenses	<u>143,695,691</u>	<u>(2,873,410)</u>	<u>140,822,281</u>
Change in net assets	(80,340,745)	2,873,410	(77,467,335)
Net assets, at beginning of year	647,571,531	1,328,516	648,900,047
Net assets, at end of year	<u>\$ 567,230,786</u>	<u>\$ 4,201,926</u>	<u>\$ 571,432,712</u>

See accompanying notes.

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Notes to Financial Statements

June 30, 2009

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 Governmental 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.

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Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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 payments 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 2009 is approximately \$23.0 million. The matter is currently in litigation in a North Carolina court.

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, 2009, 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 Governmental 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

Reserves represent the portion of net assets committed by legislative action, legal responsibility, or designated by the Board of Directors, which restricts 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.

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Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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 31) by independent auditors.

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

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.

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Notes to Financial Statements (continued)

1. Summary of Significant Accounting Policies (continued)

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.

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, 2009 and 2008.

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, 2009, the carrying amount of the Foundation’s deposits was \$614,237 and the bank balance, excluding in-transit items, was \$3,780,879. Of the bank balance, \$576,105 was covered by Federal Depository Insurance and \$3,204,774 was uninsured and uncollateralized.

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 (continued)

2. Cash and Investments (continued)

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, 2009, the Foundation had investments in four fixed income security funds with an average duration of 4.64 years and fair value of \$58.5 million. The Foundation also had an investment in a money market fund with a fair value of \$14.4 million at June 30, 2009, 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, 2009, the Foundation had investments in two fixed income funds rated AAA with fair value of \$21.1 million, one fixed income fund rated AA with fair value of \$22.5 million and one fixed income fund rated A with fair value of \$14.9 million.

At June 30, 2009, the Foundation had an investment in a money market fund rated AAA with fair value of \$14.4 million.

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 of investment in foreign currency-denominated investments. At June 30, 2009, the Foundation had foreign currency denominated investments in the following:

	Fair Value
Silchester International Investors International Value Equity Fund	\$ 32,106,833
Longleaf Partners International Fund	18,174,955
Axiom International Equity Fund II	17,468,688
State Street Global Advisors MSCI EAFE Index Fund	10,501,547
Lone Cascade, L.P.	7,094,791
Cantillon Global Equity Fund	7,023,783
State Street Global Advisors MSCI Emerging Markets Fund	4,136,257
Total	\$ 96,506,854

The Golden L.E.A.F. (Long-Term Economic
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Notes to Financial Statements (continued)

2. Cash and Investments (continued)

The Foundation's investments at June 30, are summarized below:

	<u>2009</u>	<u>2008</u>
Domestic stocks and equity funds	\$126,235,358	\$150,899,562
International stocks and equity funds	96,506,854	167,050,552
Fixed income funds	58,529,775	64,145,366
Real estate and other	49,258,299	47,882,084
Limited partnerships	210,866,422	268,932,457
Money market funds	14,373,110	27,895,844
Certificates of deposit	100,000	101,022
Total investments	<u>\$ 555,869,818</u>	<u>\$726,906,887</u>

The following summarizes the investment return and its classification in the Statements of Activities and Governmental Fund Revenues, Expenditures, and Changes in Fund Balance for the years ended June 30:

	<u>2009</u>	<u>2008</u>
Dividends and interest	\$ 6,455,370	\$ 8,075,031
Net realized (losses) gains	(36,320,562)	44,566,634
Net unrealized losses	(110,013,998)	(67,130,262)
Management fees	(1,703,122)	(2,187,474)
Total investments loss, net	<u>\$(141,582,312)</u>	<u>\$ (16,676,071)</u>

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.

The Golden L.E.A.F. (Long-Term Economic
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Notes to Financial Statements (continued)

3. Capital Assets

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

	Balance June 30, 2008	Additions	Disposals	Balance June 30, 2009
Capital Assets, nondepreciable:				
Land	\$ 923,546	\$ —	\$ —	\$ 923,546
Construction in progress	4,225	—	—	4,225
Total capital assets-nondepreciable	<u>927,771</u>	—	—	<u>927,771</u>
Capital Assets, depreciable:				
Buildings	3,232,426	10,150	(14,257)	3,228,319
Equipment	83,838	27,586	(6,720)	104,704
Furniture and fixtures	105,088	8,713	—	113,801
Total capital assets-depreciable	<u>3,421,352</u>	<u>46,449</u>	<u>(20,977)</u>	<u>3,446,824</u>
Less accumulated depreciation for:				
Buildings	(46,455)	(82,658)	—	(129,113)
Equipment	(51,347)	(11,398)	1,680	(61,065)
Furniture and fixtures	(49,395)	(11,175)	—	(60,570)
Total accumulated depreciation	<u>(147,197)</u>	<u>(105,231)</u>	<u>1,680</u>	<u>(250,748)</u>
Total capital assets-depreciable, net	<u>3,274,155</u>	<u>(58,782)</u>	<u>(19,297)</u>	<u>3,196,076</u>
Total capital assets, net	<u>\$ 4,201,926</u>	<u>\$ (58,782)</u>	<u>\$ (19,297)</u>	<u>\$ 4,123,847</u>

The Golden L.E.A.F. (Long-Term Economic
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Notes to Financial Statements (continued)

3. Capital Assets (continued)

	Balance July 1, 2007	Additions	Disposals	Balance June 30, 2008
Capital Assets, nondepreciable:				
Land	\$ 923,546	\$ –	\$ –	\$ 923,546
Construction in progress	132,168	2,875,668	(3,003,611)	4,225
Total capital assets-nondepreciable	1,055,714	2,875,668	(3,003,611)	927,771
Capital Assets, depreciable:				
Buildings	202,532	3,029,894	–	3,232,426
Equipment	65,157	23,810	(5,129)	83,838
Furniture and fixtures	95,213	9,875	–	105,088
Total capital assets-depreciable	362,902	3,063,579	(5,129)	3,421,352
Less accumulated depreciation for:				
Buildings	(2,532)	(43,923)	–	(46,455)
Equipment	(48,990)	(7,186)	4,829	(51,347)
Furniture and fixtures	(38,578)	(10,817)	–	(49,395)
Total accumulated depreciation	(90,100)	(61,926)	4,829	(147,197)
Total capital assets-depreciable, net	272,802	3,001,653	(300)	3,274,155
Total capital assets, net	<u>\$ 1,328,516</u>	<u>\$ 5,877,321</u>	<u>\$(3,003,911)</u>	<u>\$ 4,201,926</u>

4. Loan Payable

On October 15, 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. A principal repayment of \$85 million was made on April 30, 2009, and the terms of the loan were modified. Interest on the outstanding balance is payable monthly at a rate of Prime minus .55% with a floor of 2.70%. The remaining principal amount of \$15 million plus any accrued interest is due April 30, 2010.

The Golden L.E.A.F. (Long-Term Economic
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Notes to Financial Statements (continued)

5. 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 payments to the States. The base payments to the states are estimated to total \$206 billion through 2025. North Carolina's share of the base payments is estimated to be \$4.57 billion, of which the Foundation is expected to receive 50 percent. The Foundation has received \$794,139,645 since its inception.

While 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 payments. 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 North Carolina's future payments under the MSA.

6. 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.

7. Commitments

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

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

8. 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 \$117,360 to the Defined Contribution Plan during the fiscal year ended June 30, 2009. 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 \$24,158 to the Tax-Deferred Annuity Plan during the fiscal year ended June 30, 2009.

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).

9. 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 \$1,721 to the Plan during the year ended June 30, 2009.

10. 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 not exceeded commercial premiums.

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*

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

We have audited the 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 for the year ended June 30, 2009, and have issued our report thereon dated September 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States 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 entity'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 would not necessarily identify all deficiencies in internal control 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 the 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*.

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.

Ernst & Young LLP

September 30, 2009