North Carolina Community Foundation, Inc.

Financial Report
March 31, 2011

Contents

Independent Auditor's Report

To the Board of Directors
North Carolina Community Foundation, Inc.
Raleigh, North Carolina

We have audited the accompanying statements of financial position of North Carolina Community Foundation, Inc. (the "Foundation") as of March 31, 2011 and 2010, and the related statements of activities and cash flows 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 of America. 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 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 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 North Carolina Community Foundation, Inc. as of March 31, 2011 and 2010, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

McGladrey & Pullen, LLP

Raleigh, North Carolina
July 29, 2011

North Carolina Community Foundation, Inc.

Statements of Financial Position
March 31, 2011 and 2010

	2011	2010
Assets		
Cash	**$ 3,958,809**	$ 4,819,371
Short-term investments	**490,000**	-
Investments (Notes 2 and 8)	**135,645,922**	117,483,015
Assets held for sale (Notes 3 and 8)	**143,000**	1,414,200
Contributions receivable, net (Notes 4, 14 and 15)	**1,457,245**	4,230,270
Beneficial interests in split-interest agreements (Notes 8 and 15)	**3,048,109**	2,345,300
Prepaid expenses and other assets	**274,805**	209,496
Property, equipment and leasehold improvements, net (Note 5)	**256,687**	275,734
Total assets	**$ 145,274,577**	$ 130,777,386
Liabilities and Net Assets		
Liabilities:		
Accounts payable and accrued expenses	**$ 292,614**	$ 448,778
Obligations under split interest agreements	**88,353**	91,280
Agency funds payable (Note 7)	**16,694,400**	15,232,579
Total liabilities	**17,075,367**	15,772,637
Commitments (Note 6)		
Net assets:		
Unrestricted (Note 12):		
Donor advised	**51,981,738**	48,902,205
Designated	**26,585,146**	19,561,465
Scholarship	**15,072,429**	12,696,040
Field of interest	**11,483,017**	9,961,657
Undesignated	**11,166,642**	10,383,229
Total unrestricted	**116,288,972**	101,504,596
Temporarily restricted (Notes 9 and 12)	**5,924,128**	7,592,782
Permanently restricted (Notes 11 and 12)	**5,986,110**	5,907,371
Total net assets	**128,199,210**	115,004,749
Total liabilities and net assets	**$ 145,274,577**	$ 130,777,386

See Notes to Financial Statements.

North Carolina Community Foundation, Inc.

Statements of Activities
Years Ended March 31, 2011 and 2010

	2011			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Revenues, gains and other support:				
Contributions (Notes 14 and 15)	$ 7,113,029	$ 1,956,327	$ 78,739	$ 9,148,095
Less amounts received on behalf of others (Notes 7 and 15)	(361,777)	-	-	(361,777)
Net contributions	6,751,252	1,956,327	78,739	8,786,318
Interest and other investment income	3,017,538	108,601	-	3,126,139
Realized and unrealized gains	11,969,733	551,392	-	12,521,125
Adjust amounts from agency funds (Note 7)	(1,886,493)	-	-	(1,886,493)
Net investment income and gains	13,100,778	659,993	-	13,760,771
Other income	176,907	-	-	176,907
Total revenues, gains and other support	20,028,937	2,616,320	78,739	22,723,996
Net assets released from donor restrictions (Note 10)	4,284,974	(4,284,974)	-	-
Expenses:				
Programs:				
Grants and scholarships	6,812,508	-	-	6,812,508
Less grants and scholarships made on behalf of others (Note 7)	(558,915)	-	-	(558,915)
Grants and scholarships expense	6,253,593	-	-	6,253,593
Grant making and fund holder support	2,417,019	-	-	2,417,019
Adjust amounts from agency funds (Note 7)	(227,534)	-	-	(227,534)
Grant making and fund holder support expense	2,189,485	-	-	2,189,485
Total program services	8,443,078	-	-	8,443,078
Fundraising and development	403,524	-	-	403,524
Administrative	682,933	-	-	682,933
Total expenses	9,529,535	-	-	9,529,535
Change in net assets before other changes	14,784,376	(1,668,654)	78,739	13,194,461
Other changes:				
Write down of real estate held for sale (Notes 3 and 8)	-	-	-	-
Change in net assets	14,784,376	(1,668,654)	78,739	13,194,461
Net assets:				
Beginning	101,504,596	7,592,782	5,907,371	115,004,749
Ending	$ 116,288,972	$ 5,924,128	$ 5,986,110	$ 128,199,210

See Notes to Financial Statements.

2010			
Unrestricted	Temporarily Restricted	Permanently Restricted	Total
$ 14,901,819	$ 6,005,873	$ 243,493	$ 21,151,185
(759,768)	-	-	(759,768)
14,142,051	6,005,873	243,493	20,391,417
2,658,513	105,819	-	2,764,332
29,178,476	581,877	-	29,760,353
(3,778,586)	-	-	(3,778,586)
28,058,403	687,696	-	28,746,099
167,034	-	-	167,034
42,367,488	6,693,569	243,493	49,304,550
540,039	(540,039)	-	-
5,750,772	-	-	5,750,772
(642,042)	-	-	(642,042)
5,108,730	-	-	5,108,730
2,837,367	-	-	2,837,367
(206,868)	-	-	(206,868)
2,630,499	-	-	2,630,499
7,739,229	-	-	7,739,229
403,675	-	-	403,675
879,142	-	-	879,142
9,022,046	-	-	9,022,046
33,345,442	6,693,569	243,493	40,282,504
(202,000)	-	-	(202,000)
33,683,481	6,153,530	243,493	40,080,504
67,821,115	1,439,252	5,663,878	74,924,245
$ 101,504,596	$ 7,592,782	$ 5,907,371	$ 115,004,749

North Carolina Community Foundation, Inc.

Statements of Cash Flows
Years Ended March 31, 2011 and 2010

	2011	2010
Cash Flows From Operating Activities		
Change in net assets	**$ 13,194,461**	$ 40,080,504
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	**33,023**	35,966
Donation of real estate	**(143,000)**	(1,361,000)
Write down of ownership interest a limited liability partnership	**-**	23,375
Net realized and unrealized gains on investments	**(10,942,540)**	(26,332,049)
Contributions of beneficial interest in charitable lead trusts	**(646,419)**	(1,970,000)
Contributions restricted for investment in permanent endowment	**(78,739)**	(243,493)
Change in value of split-interest agreements	**(56,390)**	4,350
Write down of real property held for sale	**-**	202,000
Loss on the sale of real property	**139,042**	82,333
Changes in assets and liabilities:		
(Increase) decrease in:		
Contributions receivable	**2,773,025**	(3,741,690)
Prepaid expenses and other assets	**(65,309)**	46,601
Increase (decrease) in:		
Accounts payable and accrued expenses	**(156,164)**	(81,230)
Agency funds payable	**1,461,821**	3,689,444
Net cash provided by operating activities	**5,512,811**	10,435,111
Cash Flows From Investing Activities		
Purchase of short term investments	**(490,000)**	-
Purchase of property and equipment	**(13,976)**	(6,275)
Purchase of investments	**(76,471,330)**	(38,093,722)
Proceeds from sale of investments	**69,250,963**	31,436,141
Proceeds from sale of real property	**1,275,158**	215,667
Net cash used in investing activities	**(6,449,185)**	(6,448,189)
Cash Flows From Financing Activities		
Payment of obligations under split interest agreements	**(2,927)**	(4,182)
Proceeds from contributions restricted for investment in permanent endowment	**78,739**	243,493
Net cash provided by financing activities	**75,812**	239,311
Net increase (decrease) in cash	**(860,562)**	4,226,233
Cash:		
Beginning	**4,819,371**	593,138
Ending	**$ 3,958,809**	$ 4,819,371

See Notes to Financial Statements.

Note 1. Nature of Organization and Summary of Significant Accounting Policies

The North Carolina Community Foundation, Inc. (the "Foundation") was established in 1988 as a nonprofit corporation and is a statewide organization created to build capacity through philanthropy. The Foundation administers over 1,000 component funds and provides long-term support of a broad range of charitable needs, nonprofit organizations and scholarships across North Carolina, with an emphasis on underserved areas.

A summary of the Foundation's significant accounting policies follows:

Basis of presentation: In preparing the financial statements, net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets not subject to donor-imposed restrictions. The Foundation's policy is to report revenues, gains, and other support that are limited to specific uses by donor-imposed restrictions as increases in unrestricted net assets when the restrictions are met in the same reporting period as the income recognized.

While certain donors and fund holders may make recommendations, the Foundation's Board retains authority to exercise variance power to modify any restriction or condition on the distribution of assets. Each unrestricted fund is established by a donor and recorded as a separate component fund in one of the following classifications:

- Donor advised – fund holder annually recommends distributions to specific qualified charities.
- Designated – fund holder suggests specific eligible organizations to receive charitable grants in the fund agreement. If a designated organization ceases to exist or if the Foundation's board votes that support of the organization is no longer necessary or is inconsistent with the needs in the community, the Foundation works with the fund holder to identify a similar organization to maintain the spirit of the original charitable intent.
- Scholarship – fund holder proposes guidelines for awards to enable students to pursue academic goals.
- Field of interest – fund holder proposes a broad area of charitable interest, such as a geographic region, youth, the arts, education, etc.
- Undesignated – fund holder provides the Foundation with ongoing operational support to meet changing needs across North Carolina.

Temporarily restricted net assets – Net assets subject to donor-imposed restrictions that will be met either by actions of the Foundation and/or by the passage of time.

Permanently restricted net assets – Net assets subject to donor-imposed restrictions that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the earnings on related investments for general or specific charitable purposes.

Use of estimates: The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Cash: At times, the Foundation maintains deposits with financial institutions in amounts that are in excess of the federal depository insurance limit, but management believes that such deposits pose no significant credit risk.

Short-term investments: Short term investments at March 31, 2011 represent certificates of deposit with original maturities ranging from 12 to 22 months.

Valuation of investments: Investments are stated at fair value. See Note 8 for further information related to fair value measurements.

Securities transactions, interest and dividends: Securities transactions are recorded on a trade-date basis. Realized gains and losses on securities transactions, determined on a specific identification basis, and the difference between the cost and the fair value of open investments are included as realized and unrealized gains in the accompanying statement of activities. Interest and other investment income are recognized on the accrual basis. At each month-end, investment income is allocated to all funds using the daily average balance of the assets for each component fund. Other assets earn investment income based upon earnings of the specific investments held.

Interest and dividends and net realized and unrealized gains are generally recorded as unrestricted revenue because the related investments on which the revenue is earned are classified as unrestricted assets.

Investment and other asset management fees for the years ended March 31, 2011 and 2010 totaled $470,540 and $379,697, respectively. These fees are reflected within grant making and fund holder support on the Foundation's statement of activities.

Certain donors contribute beneficiary interests in life insurance policies to the Foundation. These gifts are recorded at current cash surrender values less any outstanding loans.

Assets held for sale: Assets held for sale includes land and buildings which were donated and have been recognized at estimated fair value as contribution revenue in the year of donation. Assets held for sale are reported at the lower of net carrying value or estimated fair value less selling costs. The Foundation uses the assistance of real estate agents to sell donated land and property.

Contributions and donor-imposed restrictions: Contributions are recognized as revenue when received or unconditionally promised. The Foundation reports gifts of cash and other assets as restricted support if such gifts are received with donor stipulations that limit the use of the donated asset. Most contributions, including those with donor-imposed stipulations, are subject to the variance power established by the Foundation. This variance power provides the Foundation's Board of Directors with the ability to modify donor stipulations that are incapable of fulfillment or inconsistent with the charitable needs of the community. As a result of this variance power, most contributions are classified as unrestricted for financial statement purposes. The Foundation reports gifts of cash and donated assets as temporarily restricted contributions if they are received with donor stipulations that limit the use of the donated assets to a specific purpose or future time period. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. The Foundation initially recognizes donated assets, including gifts of real estate and stock, at fair value on the date of the gift.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Contributions receivable: Unconditional promises to give that are expected to be collected within one year are recognized at net realizable value. Unconditional promises to give that are expected to be collected in future years are recognized at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-adjusted interest rate applicable to the year in which the promise is received. Amortization of the discount is included in contribution revenue.

Management evaluates contributions receivable for collectability at least annually and believes current receivables are fully collectible; accordingly, no allowance for doubtful accounts has been recognized. If amounts become uncollectible, they will be charged to operations in the period in which that determination is made.

Conditional promises to give are not recognized as revenue until the donors' conditions are substantially met. From time-to-time, the Foundation may become aware of certain donors having named the Foundation in their wills. These testamentary gifts are treated as conditional promises to give and not recognized as revenue until a probate court finalizes a decedent's will, declares the will valid, and authorizes distribution of assets to the Foundation. If the value of the bequest is not known, or cannot be reasonably estimated, the contribution receivable is not recorded until amounts can be estimated with reasonable accuracy.

Property, equipment and leasehold improvements: Purchased property, equipment and leasehold improvements are initially recorded at cost and capitalized when the cost exceeds $1,000. Those assets which are donated are initially recorded at fair value at the date of receipt. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets, which range from 3 to 31.5 years. Leasehold improvements are depreciated over the shorter of the useful life of the assets or the term of the lease. Once an asset meets the criteria to be classified as held for sale, the Foundation discontinues depreciation on that asset.

The Foundation evaluates property, equipment, and leasehold improvements for possible impairment whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. Determination of recoverability of these assets is based on an estimate of the undiscounted future cash flows resulting from the use of the assets and their eventual disposition. In the event such cash flows are not expected to be sufficient to recover the carrying value of the assets, the useful lives of the assets are revised or the assets are written down to their estimated fair values.

Grants and scholarships: The Foundation receives grant and scholarship recommendations from donors on a regular basis. Only recommendations that have been unconditionally approved by the Foundation as of the end of the year and not yet paid are recorded as grants and scholarships payable within accounts payable and accrued expenses on the accompanying statements of financial position. Multiyear grants and scholarships are expensed in the year in which the grant or scholarship is approved, although the amounts approved may be payable over several years. Recommendations that are not unconditionally approved are not recorded until paid or they become unconditional.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Split interest agreements: Certain donors have entered into trust or other arrangements under which the Foundation is to receive benefits that are shared with other beneficiaries. Only irrevocable split-interest agreements are reported in the accompanying financial statements, which are summarized as follows:

Charitable Lead Trusts – The Foundation has been named as a beneficiary in charitable lead trusts in which the Foundation is not the trustee. When the Foundation is notified of an irrevocable trust, contribution revenue and the related receivable under the trust agreement is recorded at the present value of management's estimate of expected future cash receipts. The discount rates used in determining the present value of the expected future payments are based on US Department of Labor consumer price indexes. Changes in the fair value of contributions receivable from charitable lead trusts are recognized in realized and unrealized gains in the accompanying statements of activities.

Gift Annuities and Charitable Remainder Trusts – The Foundation has been named as a beneficiary in certain gift annuities and charitable remainder trusts in which the Foundation is the trustee. When the Foundation receives assets in connection with an annuity or charitable remainder trust, the assets are recorded at fair value while a liability is recorded at the present value of the expected future payments to be made to the beneficiary. The discount rate and actuarial assumptions used in determining the present value of the expected future payments are based on US Department of Labor consumer price indexes and applicable Internal Revenue Service life expectancy assumptions.

Beneficial Interest in Charitable Remainder Trusts – The Foundation has been named as a beneficiary in certain charitable remainder trusts in which an independent third party serves as trustee. When the Foundation is notified of an irrevocable charitable remainder trust, contribution revenue and a related receivable under the trust agreement is recorded at the present value of management's estimate of future expected cash receipts (remainder interests). The discount rates used in determining the present value of the expected future payments are based on US Department of Labor consumer price indexes. Amounts reported approximate fair value due to the nature of the discounts used to determine present value of estimated future cash receipts. Change in the fair value of contributions receivable from beneficial interest in charitable remainder trusts are recognized in realized and unrealized gains in the accompanying statements of activities.

Agency funds payable: Agency funds are funds in which the Foundation holds assets transferred to the Foundation by a not-for-profit organization that specifies itself as the beneficiary of the transferred assets. Asset transfers to these funds (and related distributions and expenses) are not reflected in change in net assets in the Foundation's statement of activities. Assets are included in the statements of financial position and a corresponding liability is recorded to reflect the intent that the assets will eventually be transferred to the beneficiary.

Fair value of financial instruments: The carrying amounts of all financial instruments approximate fair value.

Functional allocation of expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities, and accordingly, certain costs have been allocated, based on management's judgment, among the programs and supporting services benefited.

Note 1. Nature of Organization and Summary of Significant Accounting Policies (Continued)

Income taxes: The Foundation is a public charity and is exempt from federal income taxation as defined by Sections 501(c)(3) and 509(a)(1) of the Internal Revenue Code and is generally exempt from state income taxes under the provisions of the North Carolina Nonprofit Corporation Act. Therefore, no provision for income taxes has been reflected in the accompanying financial statements.

Management evaluated the Foundation's tax positions and concluded that the Foundation had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of the Income Taxes Topic of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("FASB ASC"). With few exceptions, the Foundation is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before 2008.

Subsequent events: The Foundation has evaluated its subsequent events (events occurring after March 31, 2011) through July 29, 2011, which represents the date the financial statements were available to be issued.

Note 2. Investments

The fair value of investments by type at March 31, 2011 and 2010 is as follows:

	2011	2010
Cash equivalents	**$ 4,940,716**	$ 4,100,596
Equities	**71,318,862**	62,905,368
Fixed income	**21,776,894**	17,090,276
Bank common trust funds	**37,551,778**	33,296,327
Mortgage notes receivable	**57,672**	60,560
Limited liability partnership interests	**-**	29,888
	$ 135,645,922	$ 117,483,015

The Foundation invests in a combination of equity securities, fixed income securities, money market funds and other investment securities. Investments are exposed to various risks, such as interest rate, credit, and market volatility. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in risk in the near term would materially affect the Foundation's investment balance reported in the statements of financial position.

Bank common trust funds at March 31, 2011 and 2010 represent the Foundation's investment in several funds employing varying strategies. The funds do not limit the Foundation's ability to make withdrawals nor do they require lock-up periods or redemption notices in excess of a few days. At March 31, 2011, the Foundation's ownership in the funds ranged from 15% to 53% of the funds' participant ownership.

Market risk: Market risk arises primarily from changes in the market value of financial instruments. Theoretically, the Foundation's exposure is equal to the value of the securities purchased.

Exposure to market risk is influenced by a number of factors, including the relationships between financial instruments, and the volatility and liquidity in the markets in which the financial instruments are traded. The Foundation attempts to control its exposure to market risk through various analytical monitoring techniques.

Note 2. Investments (Continued)

Concentrations of credit risk: The Foundation is engaged in various trading and brokerage activities in which counterparties primarily include broker-dealers, banks, and other financial institutions. In the event counterparties do not fulfill their obligations, the Foundation may be exposed to risk. The risk of default depends on the creditworthiness of the counterparty or issuer of the instrument. It is the Foundation's policy to review, as necessary, the credit standing of each counterparty.

In the normal course of its business, the Foundation enters into contracts and agreements with certain service providers, such as clearing and custody agents, trustees and administrators that contain a variety of representations and warranties and which provide general indemnifications in connection with their activities as an agent of, or providing services to, the Foundation. The Foundation's maximum exposure under these agreements is unknown, as this may involve future claims that could be made against the Foundation and have not yet occurred. The Foundation expects the risk of any future obligation under these arrangements to be remote and has not recorded any contingent liability in the financial statements for these indemnifications.

Note 3. Assets Held for Sale

At March 31, 2011, the Foundation holds an interest in a parcel of donated land and building with an estimated fair value of $143,000, net of estimated selling costs. The Foundation expects to sell the assets within one year. During the year ended March 31, 2011, the Foundation received proceeds of $1,275,158 on the sale of assets held for sale, recognizing a loss of $139,042 on the transaction.

Note 4. Contributions Receivable

Unconditional promises to give are included in the financial statements as contributions receivable and revenue of the appropriate net asset category. Contributions expected to be received in periods greater than one year are recorded at the discounted present value of future cash flows.

Unconditional promises to give at March 31, 2011 and 2010 are expected to be realized in the following periods:

	2011	2010
In one year or less	**$ 1,150,609**	$ 3,837,365
Between one and five years	**361,545**	427,730
Greater than five years	**3,333**	7,417
	1,515,487	4,272,512
Less:		
Unamortized discount and		
allowance for uncollectible contributions	**58,242**	42,242
	$ 1,457,245	**$ 4,230,270**

Note 5. Property, Equipment and Leasehold Improvements

Property, equipment and leasehold improvements at March 31, 2011 and 2010 consisted of the following:

	2011	2010
Land and building	**$ 238,918**	$ 238,918
Leasehold improvements	**74,710**	69,585
Office furniture and equipment	**218,819**	228,388
Computer equipment and software	**206,040**	203,935
	738,487	740,826
Less accumulated depreciation	**481,800**	465,092
	$ 256,687	$ 275,734

Note 6. Leases

The Foundation leases office equipment and administrative facilities under operating leases. Total lease expense for the years ended March 31, 2011 and 2010 was $173,515 and $171,624, respectively. The lease agreements require the Foundation to pay their related repairs, maintenance, utilities and insurance. Future minimum lease payments, by year and in the aggregate, under non-cancelable operating leases with initial or remaining terms of one year or more at March 31, 2011 are as follows:

Year Ending March 31,	Amount
2012	$ 185,421
2013	174,418
2014	173,047
2015	174,165
2016	176,901
Thereafter	119,515
	$ 1,003,467

Note 7. Agency Funds Payable

Agency funds payable activity for the years ended March 31, 2011 and 2010 is as follows:

	2011	2010
Amounts received on behalf of others	**$ 361,777**	$ 759,768
Interest and other investment income	**371,627**	326,907
Realized and unrealized gains	**1,514,866**	3,451,679
Total increases	**2,248,270**	4,538,354
Grants and scholarships	**558,915**	642,042
Grant making and fund holder support	**227,534**	206,868
Total decreases	**786,449**	848,910
Change in agency funds payable	**1,461,821**	3,689,444
Agency funds payable:		
Beginning	**15,232,579**	11,543,135
Ending	**$ 16,694,400**	$ 15,232,579

Note 8. Fair Value Measurements

Guidance provided by the FASB defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Foundation utilizes valuation techniques to maximize the use of observable inputs and minimize the use of unobservable inputs. Assets and liabilities recorded at fair value are categorized within the fair value hierarchy based upon the level of judgment associated with the inputs used to measure their value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). Inputs are broadly defined as assumptions market participants would use in pricing an asset or liability. The three levels of the fair value hierarchy are described below:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. The type of investments included in Level 1 includes listed equities and certain fixed income securities. As required by the guidance provided by the FASB, the Foundation does not adjust the quoted price for these investments, even in situations where the Foundation holds a large position and a sale could reasonably impact the quoted price.

Level 2 - Inputs other than quoted prices within Level 1 that are observable for the asset or liability, either directly or indirectly; and fair value is determined through the use of models or other valuation methodologies. Investments within this category would include certain fixed income securities, less liquid and restricted equity securities and certain over-the-counter derivatives. A significant adjustment to a Level 2 input could result in the Level 2 measurement becoming a Level 3 measurement.

Level 3 - Inputs are unobservable for the asset or liability and include situations where there is little, if any, market activity for the asset or liability. The inputs into the determination of fair value are based upon the best information in the circumstances and may require significant management judgment or estimation. Investments within this category would generally include equity and debt positions in private companies and general and limited partnership interests in corporate private equity and real estate funds, debt funds, certain funds of hedge funds and distressed debt.

In determining fair value, the Foundation uses various valuation approaches within the FASB ASC 820 fair value measurement framework. The following is a description of the valuation methodologies used for instruments measured at fair value and their classification within the hierarchy:

Investments:

Cash equivalents: Cash equivalents and money market funds are in active markets and classified within Level 1 of the valuation hierarchy.

Equities: Equity securities and equity mutual funds listed on national markets or exchanges are valued at the last sales price, or if there is no sale and the market is considered active, at the mean of the last bid and asked prices on such exchange. Such securities are classified within Level 1 of the valuation hierarchy. The Foundation also holds non-voting shares of common stock of a regional bank and this security is also classified within Level 2 of the hierarchy.

Note 8. Fair Value Measurements (Continued)

Fixed income: Investments in debt securities include corporate bonds and funds and blended fixed income mutual funds that are either exchange-traded and/or valued at last sales price. If there is no sale and the market is considered active, these securities are valued at the mean of the last bid and asked prices on such exchange. These fixed income investments are classified within Level 1 of the valuation hierarchy. Government and government agency obligation bonds are classified within Level 2, as exact securities may not be traded on a daily basis.

Bank common trust fund: Bank common trust funds are valued using the Net Asset Value ("NAV") provided by the administrator of the fund as a practical expedient to determine fair value. The NAV is based on the value of the funds' underlying assets and liabilities. Bank common trust funds include certain proprietary common trust funds for the U.S. Large Cap, Mid Cap, and Small Cap asset styles as well as certain proprietary fixed income mutual funds, all with a regional bank. These investments are classified within Level 2 of the hierarchy.

Mortgage note receivable: The Foundation holds a promissory note that is sufficiently collateralized by real property in an active market. The amounts receivable under the promissory note are classified within Level 2 of the valuation hierarchy.

Investments in limited liability partnerships: Ownership interests in limited liability partnerships are typically valued using the net asset valuations provided by the partnerships and information provided by professional appraisers. Investments in limited liability partnerships are included in Level 2 of the valuation hierarchy.

Beneficial interests in split-interest agreements: The Foundation has been named as a beneficiary in charitable lead and remainder trusts in which the Foundation is not the trustee. Amounts reported approximate fair value. Under the guidelines set forth in the FASB ASC 820 fair value hierarchy, the charitable lead and remainder trust assets are classified as Level 3 inputs due to the nature of the discounts and other assumptions used to determine present value of estimated future cash flows.

Assets held for sale: The fair value of assets held for sale is categorized as Level 3 in the fair value hierarchy as the Foundation does not have access to quoted market prices. The fair value was determined using data including, but not limited to, information received from a certified residential appraiser and comparable sales of similar assets.

Note 8. Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis

The following tables summarize financial assets measured at fair value on a recurring basis by classification within the fair value hierarchy as of March 31, 2011 and 2010:

	2011			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets				
Investments:				
Cash equivalents	$ 4,940,716	$ -	$ -	$ 4,940,716
Equities:				
US Large Cap	35,773,083	-	-	35,773,083
US Mid Cap	13,465,200	-	-	13,465,200
US Small Cap	8,521,700	1,552,879	-	10,074,579
International Developed	9,251,900	-	-	9,251,900
Emerging Markets	2,754,100	-	-	2,754,100
Total equities	69,765,983	1,552,879	-	71,318,862
Fixed income:				
US Government and Agencies	-	5,677,998	-	5,677,998
Corporate	5,474,025	-	-	5,474,025
Blended Bond Funds	10,624,871	-	-	10,624,871
Total fixed income	16,098,896	5,677,998	-	21,776,894
Bank Common Trust Funds:				
US Large Cap	-	13,394,795	-	13,394,795
US Mid Cap	-	3,457,700	-	3,457,700
US Small Cap	-	3,043,421	-	3,043,421
Intermediate Bonds	-	4,553,625	-	4,553,625
Investment Grade Bonds	-	13,102,237	-	13,102,237
Total bank common trust funds	-	37,551,778	-	37,551,778
Mortgage notes receivable	-	57,672	-	57,672
Total investments	90,805,595	44,840,327	-	135,645,922
Beneficial interests in split-interest agreements	-	-	3,048,109	3,048,109
Total financial assets	$ 90,805,595	$ 44,840,327	$ 3,048,109	$ 138,694,031

North Carolina Community Foundation, Inc.

Notes to Financial Statements

Note 8. Fair Value Measurements (Continued)

	2010			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Investments:				
Cash equivalents	$ 4,100,596	$ -	$ -	$ 4,100,596
Equities:				
US Large Cap	31,673,126	-	-	31,673,126
US Mid Cap	16,078,048	-	-	16,078,048
US Small Cap	3,718,970	1,328,253	-	5,047,223
International Developed	8,201,871	-	-	8,201,871
Emerging Markets	1,905,100	-	-	1,905,100
Total equities	61,577,115	1,328,253	-	62,905,368
Fixed income:				
US Government and Agencies	-	3,604,881	-	3,604,881
Corporate	3,274,795	-	-	3,274,795
Blended Bond Funds	10,210,600	-	-	10,210,600
Total fixed income	13,485,395	3,604,881	-	17,090,276
Bank Common Trust Funds:				
US Large Cap	-	11,692,100	-	11,692,100
US Mid Cap	-	2,801,757	-	2,801,757
US Small Cap	-	2,605,847	-	2,605,847
Intermediate Bonds	-	4,034,676	-	4,034,676
Investment Grade Bonds	-	12,161,947	-	12,161,947
Total bank common trust funds	-	33,296,327	-	33,296,327
Mortgage notes receivable	-	60,560	-	60,560
Limited liability partnership interests	-	29,888	-	29,888
Total investments	79,163,106	38,319,909	-	117,483,015
Beneficial interests in split-interest agreements	-	-	2,345,300	2,345,300
Total financial assets	$ 79,163,106	$ 38,319,909	$ 2,345,300	$ 119,828,315

Note 8. Fair Value Measurements (Continued)

The following table reconciles the beginning and ending balances of financial assets measured at fair value on a recurring basis using significant unobservable (Level 3) inputs during the years ended March 31, 2011 and 2010:

	Beneficial Interests in Split-Interest Agreements
Beginning balance, March 31, 2009	**$ 379,650**
Contributions	**1,970,000**
Change in value of split-interest agreements	**(4,350)**
Ending balance, March 31, 2010	**2,345,300**
Contributions	**646,419**
Change in value of split-interest agreements	**56,390**
Ending balance, March 31, 2011	**$ 3,048,109**

Assets Measured at Fair Value on a Nonrecurring Basis

The following tables summarize financial assets measured at fair value on a nonrecurring basis by classification within the fair value hierarchy as of March 31, 2010:

	2010				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total	Total Gains (Losses)
Assets held for sale	$ -	$ -	$ 1,414,200	$ 1,414,200	$ (202,000)

Assets held for sale with a carrying amount of $1,616,200 were written down to their fair value of $1,475,200, less cost to sell of $61,000, resulting in a loss of $202,000, which was included in the accompanying statement of activities for the year ended March 31, 2010. No assets or liabilities are reported at fair value on a nonrecurring basis at March 31, 2010.

Note 8. Fair Value Measurements (Continued)

The following presents further information regarding the composition of the Foundation's investments in bank common trust funds at March 31, 2011 and 2010:

2011

Strategy Category	**Fair Value**	**Redemption Frequency**
Large Cap Fund [(a)]	**$ 13,394,795**	4 times per month
Mid Cap Fund [(b)]	**3,457,700**	4 times per month
Small Cap Fund [(c)]	**3,043,421**	4 times per month
Intermediate Bond Fund [(d)]	**4,553,625**	4 times per month
Investment Grade Bond Fund [(e)]	**13,102,237**	4 times per month

2010

Strategy Category	Fair Value	Redemption Frequency
Large Cap Fund [(a)]	$ 11,692,100	4 times per month
Mid Cap Fund [(b)]	2,801,757	4 times per month
Small Cap Fund [(c)]	2,605,847	4 times per month
Intermediate Bond Fund [(d)]	4,034,676	4 times per month
Investment Grade Bond Fund [(e)]	12,161,947	4 times per month

(a) This category includes investments in companies with market capitalization above $3.0 billion. The portfolio is fully invested holding approximately 75-85 stocks. This fund's strategy utilizes a multi-cap stock selection model and both sector and style emphasis is utilized in constructing the portfolio. The fund was formed to invest in stocks considered to be high quality, with attractive valuations and favorable growth dynamics. The net asset value of the fund is determined four times a month, which includes the last day of each month. Units are issued and redeemed only as of the valuation dates at the determined net asset value. There are no unfunded commitments or redemption notice periods related to this fund. The Foundation's percentage of this fund's net assets at March 31, 2011 was 19%.

(b) This category includes investments in companies with market capitalization below $10 billion and above $500 million. The portfolio is fully invested holding approximately 85-95 stocks. This fund's strategy utilizes a multi-cap stock selection model and both sector and styles emphasis is utilized in constructing the portfolio. The fund was formed to invest in stocks considered to be high quality, with attractive valuations and favorable growth dynamics. The net asset value of the fund is determined four times a month, which includes the last day of each month. Units are issued and redeemed only as of the valuation dates at the determined net asset value. There are no unfunded commitments or redemption notice periods related to this fund. The Foundation's percentage of this fund's net assets at March 31, 2011 was 42%.

Note 8. Fair Value Measurements (Continued)

(c) This category includes investments in companies with market capitalization below $3 billion and above $200 million. The portfolio is fully invested holding approximately 85-95 stocks. This funds strategy utilizes a multi-cap stock selection model and both sector and styles emphasis are utilized in constructing the portfolio. The fund was formed to invest in stocks considered to be high quality, with attractive valuations and favorable growth dynamics. The net asset value of the fund is determined four times a month, which includes the last day of each month. Units are issued and redeemed only as of the valuation dates at the determined net asset value. There are no unfunded commitments or redemption notice periods related to this fund. The Foundation's percentage of this fund's net assets at March 31, 2011 was 53%.

(d) This category includes investments US Treasuries, US government agencies, investment grade corporate and pools of mortgage-backed bonds. Short term cash is an integral part of this funds strategy. The corporate bond portfolio is heavily diversified and typically no single issuer will represent or exceed 1.5% of the portfolio at the time of purchase. This fund does not buy any bonds with a maturity greater than 10 years. Sector rotation, asset selection and duration management decisions are emphasized during construction the overall portfolio. The net asset value of the fund is determined four times a month, which includes the last day of each month. Units are issued and redeemed only as of the valuation dates at the determined net asset value. There are no unfunded commitments or redemption notice periods related to this fund. The Foundation's percentage of this fund's net assets at March 31, 2011 was 24%.

(e) This category includes investments US Treasuries, US government agencies, investment grade corporate and pools of mortgage-backed bonds. Short term cash is an integral part of this funds strategy. The corporate bond portfolio is heavily diversified and typically no single issuer will represent or exceed 1.5% of the portfolio at the time of purchase. This fund generally has a longer average maturity (2 years) and duration (1year). Sector rotation, asset selection and duration management decisions are emphasized during construction the overall portfolio. The net asset value of the fund is determined four times a month, which includes the last day of each month. Units are issued and redeemed only as of the valuation dates at the determined net asset value. There are no unfunded commitments or redemption notice periods related to this fund. The Foundation's percentage of this fund's net assets at March 31, 2011 was 15%.

Note 9. Temporarily Restricted Net Assets

Temporarily restricted net assets as of March 31, 2011 and 2010 are available for the following purposes:

	2011	2010
Future benefits from remainder trusts and gift annuity, to be used for the benefit of specific purposes at the death of the donor	**$ 2,959,756**	$ 2,254,020
Future periods	**2,964,372**	5,338,762
	$ 5,924,128	$ 7,592,782

These assets are subject to donor-imposed purpose and time restrictions. Upon lapse of these restrictions, the assets will be reclassified as unrestricted.

Note 10. Net Assets Released From Donor Restrictions

During the years ended March 31, 2011 and 2010, temporarily restricted net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the occurrence of other events specified by the donors.

	2011	2010
Time restrictions	**$ 4,284,974**	$ 540,039

Note 11. Permanently Restricted Net Assets

Permanently restricted net assets are restricted to investment in perpetuity, the income from which is expendable to support charitable interests as recommended by the donor. At March 31, 2011 and 2010, permanently restricted net assets totaled $5,986,110 and $5,907,371, respectively.

Note 12. Endowment Funds

The Foundation's endowment funds consist of eighteen individual funds established for a variety of purposes. The endowment funds consists solely of donor-restricted endowment funds as there are no funds designated by the Board of Directors to function as endowments at March 31, 2011 or 2010. As required by generally accepted accounting principles, net assets associated with endowment funds, including any funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor imposed restrictions. The Foundation has determined that no other individual fund meets the definition of endowment under UPMIFA.

The Foundation's Board of Directors has interpreted the North Carolina enacted version of UPMIFA ("NCUPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by NCUPMIFA. In accordance with NCUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- The duration and preservation of the endowment fund
- The purposes of the Foundation and the endowment fund
- Price level trends and general economic conditions
- The possible effect of inflation or deflation
- The expected total return from income and the appreciation of investments
- Other resources of the Foundation
- The investment policy of the Foundation

Note 12. Endowment Funds (Continued)

The Foundation's investment policy establishes an achievable return objective through diversification of asset classes to cover a 5% spending policy plus an average of 1% administrative fee plus inflation, as measured by the CPI Index, over a complete market and economic cycle. To achieve this return, the Foundation must assume a moderate level of risk with a considerable exposure in equity securities. Investment returns are achieved through both capital appreciation (realized and unrealized) and current income (dividends and interest). Returns are measured against a weighted average of nationally recognized benchmark indices, such as the Russell 1000 Growth Index and the MSCI EAFE, appropriate for each asset style.

The Board's current general spending policy is to distribute an amount equal to 5% of a rolling twelve quarter average fund balance. This spending policy is consistent with the average long-term return expectation, providing ongoing support of donors' charitable interests and additional growth to the endowment funds. Appropriations from endowment funds are approved by the Foundation's Board.

From time to time, the fair value of assets associated with the donor restricted endowment funds may fall below the level that the donor or NCUPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies at March 31, 2011 or 2010.

The following table summarizes changes in endowment net assets for the years ended March 31, 2011 and 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, March 31, 2009	$ (1,098,056)	$ -	$ 5,663,878	$ 4,565,822
Contributions	-	21,164	243,493	264,657
Interest and other investment income, net of fees	-	105,818	-	105,818
Realized and unrealized gains	1,258,632	544,386	-	1,803,018
Appropriations of endowment assets for expenditure	(124,246)	-	-	(124,246)
Appropriations of endowment net assets related to administrative fees	(36,330)	-	-	(36,330)
Endowment net assets, March 31, 2010	-	671,368	5,907,371	6,578,739
Contributions	**-**	**-**	**78,739**	**78,739**
Interest and other investment income, net of fees	**-**	**108,602**	**-**	**108,602**
Realized and unrealized gains	**-**	**495,755**	**-**	**495,755**
Appropriations of endowment assets for expenditure	**-**	**(117,600)**	**-**	**(117,600)**
Appropriations of endowment net assets related to administrative fees	**-**	**(63,782)**	**-**	**(63,782)**
Endowment net assets, March 31, 2011	**$ -**	**$ 1,094,343**	**$ 5,986,110**	**$ 7,080,453**

Note 12. Endowment Funds (Continued)

The following table summarizes the composition of endowment net assets by fund type on March 31, 2011 and 2010:

	2011			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
Donor-restricted endowment funds:				
Donor advised	**$ -**	**$ 164,153**	**$ 1,201,829**	**$ 1,365,982**
Designated	**-**	**356,534**	**2,045,599**	**2,402,133**
Scholarship	**-**	**32,173**	**313,502**	**345,675**
Undesignated	**-**	**541,483**	**2,425,180**	**2,966,663**
Total endowment net assets	**$ -**	**$ 1,094,343**	**$ 5,986,110**	**$ 7,080,453**

	2010			
Donor-restricted endowment funds:	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor advised	$ -	$ 38,940	$ 298,953	$ 337,893
Designated	-	275,994	2,861,686	3,137,680
Scholarship	-	716	315,502	316,218
Undesignated	-	355,718	2,431,230	2,786,948
Total endowment net assets	$ -	$ 671,368	$ 5,907,371	$ 6,578,739

Note 13. Retirement Plan

All full-time employees participate in the Foundation's defined contribution retirement plan. Employees are vested 100% from the date of employment. The Foundation contributes 3% of each employee's salary annually. The expense related to this plan was $42,154 and $46,758 for the years ended March 31, 2011 and 2010, respectively.

Note 14. Related Party Transactions

The Foundation receives contributions from its Board members. Contribution revenue from Board members was approximately $182,787 and $323,600 for the years ended March 31, 2011 and 2010, respectively. Undiscounted contributions receivable from Board members totaled approximately $3,600 and $8,400 at March 31, 2011 and 2010, respectively.

Note 15. Major Contributions

In April 2009, the Foundation received a contribution of approximately $4.8 million comprised of $3.2 million of cash and $1.6 million of real estate. Due to unfavorable market conditions, the carrying value of the real estate was reduced to approximately $1.4 million in 2010. In 2011, the Foundation sold this real estate. As provided for in the donor's will, the donor's heirs shall advise the charitable funds and provide annual grant distribution recommendations to the Foundation's Board of Directors to support general charitable causes.

Note 15. Major Contributions (Continued)

On October 14, 2009, the Foundation entered into an Affiliation Agreement with the Community Foundation of Southeastern North Carolina (“CFSENC”). Upon execution of the Agreement, CFSENC’s Board of Directors voted to dissolve its North Carolina nonprofit corporation and its 501(c)(3) tax-exempt public charity status within the meaning of Section 145 of the Internal Revenue Code and become an unincorporated association affiliated with the Foundation.

A Master Fund Agreement was signed on March 11, 2010 to transfer and/or assign, to the extent permitted by the fund agreements of CFSENC and the policies and procedures of the Foundation all rights, title, and interest of CFSENC under the restricted and unrestricted endowments, gifts funds, scholarship funds and other similar type funds to the Foundation. CFSENC contributed all existing funds to the Foundation as of September 30, 2009, totaling approximately $5.1 million, to establish eighty-four component funds. Of the $5.1 million contribution, $264,657 was considered an endowment. Of this $264,657amount, $243,493 is required by the donor to be maintained in perpetuity and is reflected within permanently restricted contributions. The total contribution represented approximately 24% of total contribution revenue for the fiscal year ended March 31, 2010.

In March 2010, the Foundation became the unconditional beneficiary of an estate when a court declared a donor’s will valid and authorized the distribution of assets as directed in the donor’s bequest. The will was uncontested. The Foundation was also notified that the same donor had established two charitable remainder trusts during his lifetime which provide for the Foundation as the remainder beneficiary. The Foundation’s beneficial interest in the charitable remainder trusts was approximately $2.0 million. A combination of cash, securities, and property totaling approximately $3.7 million was held in a trust on March 31, 2010 pending sale and distribution to the Foundation. Of the $3.7 million, $3.0 million was received in June 2010 and another payment of $1.0 million was received in October 2010. Management expects to receive an additional $0.8 million during fiscal 2012. The $0.8 million is reflected in contributions receivable, net at March 31, 2011. In accordance with the donor’s bequest, the proceeds from the estate and the charitable remainder trusts shall be used to support two designated funds.