

The Winston-Salem Foundation

Audited Combined Financial Statements

**December 31, 2005 and 2004
And For The Years Then Ended**



DIXON HUGHES PLLC

Certified Public Accountants and Advisors

THE WINSTON-SALEM FOUNDATION

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INDEPENDENT AUDITORS' REPORT

To the Audit Committee
The Winston-Salem Foundation
Winston-Salem, North Carolina

We have audited the accompanying combined statements of assets, liabilities, and net assets (modified cash basis) of **The Winston-Salem Foundation** (the "Foundation") and affiliates as of December 31, 2005 and 2004, and the related combined statement of receipts, disbursements and changes in net assets (modified cash basis) for the year ended December 31, 2005. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note B, these combined financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the combined assets, liabilities, and net assets of **The Winston-Salem Foundation** and affiliates at December 31, 2005 and 2004, and their combined receipts, disbursements and changes in net assets for the year then ended December 31, 2005, on the basis of accounting described in Note B.

Dixon Hughes PLLC

April 7, 2006

**THE WINSTON-SALEM FOUNDATION
 COMBINED STATEMENTS OF ASSETS, LIABILITIES
 AND NET ASSETS (MODIFIED CASH BASIS)
 December 31, 2005 and 2004**

	<u>2005</u>	<u>2004</u>
ASSETS		
Cash and cash equivalents	\$ 60,800,216	\$ 16,520,069
Securities--Note C	151,954,707	152,172,294
Receivables:		
Student loans	691,317	649,734
Notes	3,703,033	3,905,533
Earnest money deposits	187,300	156,700
Assets held in trust--Note E	5,450,138	5,450,138
Investments in partnerships--Note F	12,864,793	13,009,284
Building, leasehold improvements and equipment	988,759	1,010,510
Property held for resale and construction in process	4,558,296	4,111,840
Other assets	280,551	239,141
	<u>\$ 241,479,110</u>	<u>\$ 197,225,243</u>
TOTAL ASSETS		
LIABILITIES AND NET ASSETS		
LIABILITIES		
Amounts withheld from employees	\$ 11,336	\$ 6,005
Agency deposits	11,038,161	10,306,491
Deferred revenue--Note G	96,497	75,388
Notes payable--Note H	4,630,102	4,825,976
	<u>15,776,096</u>	<u>15,213,860</u>
TOTAL LIABILITIES		
NET ASSETS		
Unrestricted--Note I	222,292,753	178,161,383
Temporarily restricted--Note J	3,410,261	3,850,000
	<u>225,703,014</u>	<u>182,011,383</u>
TOTAL NET ASSETS		
COMMITMENTS--Note K		
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 241,479,110</u>	<u>\$ 197,225,243</u>

**THE WINSTON-SALEM FOUNDATION
 COMBINED STATEMENTS OF RECEIPTS, DISBURSEMENTS
 AND CHANGES IN NET ASSETS (MODIFIED CASH BASIS)
 Year Ended December 31, 2005 with Comparative Totals for 2004**

	2005			2004
	Unrestricted	Temporarily Restricted	Total	Comparative Totals
RECEIPTS				
Donations and bequests	\$ 52,643,156	\$ 6,946,302	\$ 59,589,458	\$ 25,831,899
Interest, dividends and other investment income	5,211,983	-	5,211,983	3,519,444
Fees assessed on agency deposits	87,846	-	87,846	79,881
Sale of homes and lots	382,487	-	382,487	976,014
Other receipts	92,511	-	92,511	56,974
Net assets released from restrictions	7,386,041	(7,386,041)	-	-
TOTAL RECEIPTS	65,804,024	(439,739)	65,364,285	30,464,212
DISBURSEMENTS				
Grants	21,480,659	-	21,480,659	18,689,671
Executive office operations	2,064,172	-	2,064,172	1,875,343
Trustee banks' and investment management fees	394,050	-	394,050	363,523
Brokerage fees	72,009	-	72,009	83,997
Interest expense	147,978	-	147,978	-
Community revitalization	2,507,315	-	2,507,315	5,753
Housing development	601,494	-	601,494	1,232,074
Other disbursements	190,855	-	190,855	196,124
TOTAL DISBURSEMENTS	27,458,532	-	27,458,532	22,446,485
RECEIPTS OVER (UNDER) DISBURSEMENTS BEFORE NET REALIZED AND UNREALIZED GAINS	38,345,492	(439,739)	37,905,753	8,017,727
NET REALIZED AND UNREALIZED GAINS--Note D	5,785,878	-	5,785,878	9,529,083
INCREASE (DECREASE) IN NET ASSETS	44,131,370	(439,739)	43,691,631	17,546,810
NET ASSETS, beginning of year	178,161,383	3,850,000	182,011,383	164,464,573
NET ASSETS, end of year	\$ 222,292,753	\$ 3,410,261	\$ 225,703,014	\$ 182,011,383

THE WINSTON-SALEM FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS (MODIFIED CASH BASIS)
December 31, 2005 and 2004

NOTE A - ORGANIZATION

The Winston-Salem Foundation (the "Foundation"), is a publicly supported community trust established in 1919 for the receipt and distribution of charitable funds. Its assets are held in trust funds maintained by various trustees.

The Winston-Salem Foundation, Inc. was established on January 1, 1984 for the purpose of processing certain charitable receipts and distributions previously processed by the trustees and for maintaining the operations of the executive office of the Foundation.

In addition, the Foundation has relationships with two supporting organizations. The Millennium Fund is a nonprofit organization established in 2002 to address the private sector's responsibilities in dealing with the needs of the Winston-Salem community with a focus towards community development. The Partners for Homeownership, Inc. ("PFH"), formerly the Housing Partnership of Winston-Salem/Forsyth County, Inc., is a nonprofit organization that develops affordable new housing and rehabilitates existing housing for sale to area families.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES

Combined Financial Statement Presentation

The combined financial statements include the accounts of The Winston-Salem Foundation, The Winston-Salem Foundation, Inc., the WSF Land Holding Company, The Millennium Fund and the Partners for Homeownership, Inc., collectively referred to as the Foundation. Interentity transactions have been eliminated in combination.

Basis of Accounting

The Foundation prepares its financial statements on the basis of cash receipts and disbursements modified to record securities and other investments at fair market value and to record contributed assets when received. Under this basis, revenues and the related assets are recognized when received rather than when earned, and expenses are recognized when paid rather than when the obligation is incurred.

Agency Deposits

The Foundation's method of accounting for agency deposits conforms with Statement of Financial Accounting Standards ("SFAS") No. 136, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust That Raises or Holds Contributions for Others*. The statement requires a recipient organization that accepts cash or other financial assets from a donor and agrees to use those assets on behalf of or to transfer those assets, the return on investment of those assets, or both to the donor or an affiliated beneficiary, to recognize the fair value of those assets as a liability to the beneficiary concurrent with recognition of the assets received from the donor.

THE WINSTON-SALEM FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS (MODIFIED CASH BASIS)
December 31, 2005 and 2004

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of Net Assets

The net assets of the Foundation are classified as unrestricted or temporarily restricted.

Unrestricted net assets consist of assets, net of liabilities, related to the Foundation's regular activities, which are available at the discretion of the Winston-Salem Foundation Committee. Unrestricted amounts that are available for use in carrying out the mission of the Foundation consist of expendable resources, including funds designated for special use by the Foundation Committee and funds subject to the variance power established by the Foundation's Declaration of Trust, and unexpendable resources invested in property and equipment. Variance power provides the Foundation with the ability to modify donor stipulations that are incapable of fulfillment or inconsistent with the charitable purposes of the Foundation.

Temporarily restricted net assets represent those amounts not subject to the Foundation's variance power which are donor restricted for specific purposes. A donor's restriction is met when a stipulated time restriction ends or a special purpose is accomplished. Temporarily restricted net assets are transferred to unrestricted net assets as the net assets are released from restrictions.

Cash and Cash Equivalents

The Foundation considers all unrestricted, highly liquid investments with an initial maturity of 12 months or less to be cash equivalents.

At times, the Foundation maintains cash deposits with financial institutions which exceed federally insured limits. Management monitors the stability of these financial institutions and believes the Foundation's risk is negligible.

Securities

Investments in securities are stated at fair market value. Realized and unrealized gains or losses are computed based on the cost of purchased securities or the estimated fair value of donated securities at the date of receipt using the average cost method.

Building, Leasehold Improvements and Equipment

Purchased property and equipment are stated at cost. Property and equipment received as donations and bequests are stated at estimated fair values at the date of receipt by the Foundation. Property and equipment are not depreciated; however, such assets are written off when they are no longer used by, or of no further value to, the Foundation.

THE WINSTON-SALEM FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS (MODIFIED CASH BASIS)
December 31, 2005 and 2004

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of receipts and disbursements during the reporting period. Actual results could differ from these estimates.

NOTE C - SECURITIES

Securities are presented in the combined financial statements in the aggregate at fair value. Investments as of December 31 are comprised of the following:

	<u>2005</u>		<u>2004</u>	
	<u>Value</u>	<u>Cost or Assigned Value</u>	<u>Fair Value</u>	<u>Cost or Assigned Value</u>
U.S. Treasury bonds and notes	\$ 1,525,042	\$ 1,566,188	\$ 1,492,163	\$ 1,490,062
Federal agency bonds and notes	584,122	601,043	444,264	459,250
Corporate bonds and notes	954,026	978,245	58,480	54,915
Fixed income funds	38,209,322	37,915,259	42,419,490	41,176,267
Common stocks and equity funds	91,874,640	77,763,988	92,069,829	76,440,651
Balanced funds	3,053,940	3,099,297	2,188,436	2,367,104
Other	<u>15,753,615</u>	<u>13,702,757</u>	<u>13,499,632</u>	<u>12,645,800</u>
	<u>\$ 151,954,707</u>	<u>\$ 135,626,777</u>	<u>\$152,172,294</u>	<u>\$ 134,634,049</u>

THE WINSTON-SALEM FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS (MODIFIED CASH BASIS)
December 31, 2005 and 2004

NOTE D - REALIZED AND UNREALIZED GAINS (LOSSES)

Net realized and unrealized gains (losses) on securities, assets held in trust, and partnership interests are summarized as follows:

	Year Ended December 31,			
	2005		2004	
	<u>Net Realized</u> <u>Gains (Losses)</u>	<u>Net Change in</u> <u>Unrealized</u> <u>Appreciation</u> <u>(Depreciation)</u>	<u>Net Realized</u> <u>Gains (Losses)</u>	<u>Net Change in</u> <u>Unrealized</u> <u>Appreciation</u> <u>(Depreciation)</u>
U.S. Treasury bonds and notes	\$ (1,898)	\$ (43,246)	\$ (4,386)	\$ (12,642)
Federal agency bonds and notes	(10,947)	(1,935)	(187)	(16,050)
Corporate bonds and notes	(68)	(27,784)	(168)	(1,536)
Fixed income funds	(98,644)	(949,160)	870,099	(1,065,730)
Common stocks and equity funds	7,359,182	(1,518,526)	16,787	9,027,594
Balanced funds	(58,330)	133,311	(50,026)	84,791
Other securities	-	1,197,026	-	853,868
Partnership interests	28,044	256,063	-	564,023
	<u>7,217,339</u>	<u>(954,251)</u>	<u>832,119</u>	<u>9,434,318</u>
Less amounts related to agency deposits	<u>63,022</u>	<u>414,188</u>	<u>38,993</u>	<u>698,361</u>
	<u>\$ 7,154,317</u>	<u>\$ (1,368,439)</u>	<u>\$ 793,126</u>	<u>\$ 8,735,957</u>

NOTE E - ASSETS HELD IN TRUST

Assets held in trust primarily consist of community properties maintained by various occupant agencies. There were no receipts or disbursements related to these properties during the years ended December 31, 2005 and 2004.

THE WINSTON-SALEM FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS (MODIFIED CASH BASIS)
December 31, 2005 and 2004

NOTE F - INVESTMENTS IN PARTNERSHIPS

The Foundation has been the recipient of several gifts that were ownership interests in partnerships. Among the gifts are limited partnership interests in two partnerships whose principal purpose is to acquire, own, manage and sell or otherwise dispose of property for investment purposes. The Foundation shares in the profits and losses at the rate of its partnership interest which is 98 percent. The Foundation's share in the combined value of two partnerships was \$12,864,793 and \$12,580,694 as of December 31, 2005 and 2004, respectively. These amounts consisted of cash and cash equivalents of \$825,975 and \$695,068, investments in debt and equity securities of \$2,102,327 and \$3,402,386 and notes receivables of \$8,165,594 and \$7,104,608, plus accrued interest of \$1,770,897 and \$1,378,632 as of December 31, 2005 and 2004, respectively.

During 2003, the Foundation was gifted an interest in a limited liability company. This interest was valued at \$428,590 as of December 31, 2004 and was sold in 2005 for a gain of \$28,044.

NOTE G - DEFERRED REVENUE

PFH reports deferred revenue which consists of funds received from various sources to acquire or renovate property for resale. If the properties are completed within allowable timeframes, the funds do not have to be repaid.

NOTE H - NOTES PAYABLE

PFH has the following notes payable as of December 31 each year:

	<u>2005</u>	<u>2004</u>
Non-interest bearing note payable to the City of Winston-Salem secured by deed of trust on unsold lots (Sunbridge)	\$ 181,643	\$ 186,700
Note payable in quarterly installments bearing interest at 5%; due August 2004; unsecured	-	20,000
Non-interest bearing note payable to the City of Winston-Salem secured by a deed of trust on unsold lots (Ridgewood)	1,396,552	828,759
Construction loan up to \$525,000 with a bank; with monthly interest payments at the bank's prime rate and principal payments due as collateral is sold; due October 2005; secured by a deed of trust (Berry Garden)	-	37,262

THE WINSTON-SALEM FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS (MODIFIED CASH BASIS)
December 31, 2005 and 2004

NOTE H - NOTES PAYABLE (CONTINUED)

	<u>2005</u>	<u>2004</u>
Non-interest bearing note payable to the City of Winston-Salem secured by a deed of trust on homes, matures July 2006 (Spring Street/Holly Avenue)	179,932	210,435
Non-interest bearing note payable to a bank; due February 2006; unsecured	15,000	20,000
Non-interest bearing note payable to a bank; due January 2006; secured by a deed of trust on home (Hunter Avenue)	179,286	179,932
Non-interest bearing note payable to the City of Winston-Salem; due October 2006; secured by a deed of trust on unsold lots (Esquire)	344,974	378,401
Non-interest bearing note payable to the City of Winston-Salem; secured by deed of trust maturing when home is sold (Unity)	<u>92,715</u>	<u>164,487</u>
	<u>\$ 2,390,102</u>	<u>\$ 2,025,976</u>

The Millennium Fund has the following note payable as of December 31, each year:

Note payable to bank due in annual installments of \$560,000 plus interest at a variable annual rate based on LIBOR (5.63% at December 31, 2005), secured by pledges receivable maturing July 2009	<u>\$ 2,240,000</u>	<u>\$ 2,800,000</u>
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Future maturities of notes payable are as follows as of December 31, 2005:

2006	\$ 1,460,835
2007	652,715
2008	1,956,552
2009	<u>560,000</u>
	<u>\$ 4,630,102</u>

THE WINSTON-SALEM FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS (MODIFIED CASH BASIS)
December 31, 2005 and 2004

NOTE I - UNRESTRICTED NET ASSETS

Gifts received by the Foundation are accounted for in certain unrestricted net asset groups, which have been combined for presentation purposes, as follows:

Discretionary

Represent gifts, the income from which may be distributed solely at the discretion of the Foundation Committee.

Field of Interest

Represent gifts, the income from which may be distributed to support programs operating in a specific field of interest in accordance with the donor's intent.

Scholarship

Represent gifts, the income from which may be distributed to assist students attending post-secondary educational institutions.

Student Loan

Represent gifts, the income/principal from which may be loaned to assist students attending post-secondary educational institutions. Students are required to repay these funds plus interest charged.

Donor Advised

Represent gifts, the income from which may be distributed for purposes consistent with the Foundation Committee's policies. Some funds also allow the disbursement of principal. Donors have an opportunity to make suggestions for the disbursements of these funds.

Donor Designated

Represent gifts, the income from which may be distributed to specific nonprofit organizations in accordance with the donor's intent. The Foundation Committee monitors beneficiary compliance with any fund requirements and assesses whether the funds could be used more appropriately elsewhere.

Real Estate

Represent gifts of cash and real estate titled to the Foundation for use by nonprofit organizations. The Foundation provides continuing oversight of the use and care of the property as well as responsibility for disposition should the designated use become impractical or undesirable.

THE WINSTON-SALEM FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS (MODIFIED CASH BASIS)
December 31, 2005 and 2004

NOTE I - UNRESTRICTED NET ASSETS (CONTINUED)

Administrative

Represent gifts, investment income and management fees assessed by the Foundation on the above funds and office equipment to provide administrative support.

Unrestricted net assets reported by group classification are as follows:

	<u>2005</u>	<u>2004</u>
Discretionary	\$ 30,976,794	\$ 25,539,709
Field of interest	25,998,909	25,881,473
Scholarship	12,847,143	9,324,004
Student loan	1,587,669	1,520,285
Donor advised	94,506,176	63,684,262
Donor designated	48,802,464	44,848,757
Real estate	5,380,179	5,378,905
Administrative	<u>2,193,419</u>	<u>1,983,988</u>
	<u>\$ 222,292,753</u>	<u>\$ 178,161,383</u>

NOTE J - TEMPORARILY RESTRICTED NET ASSETS

As of December 31, temporarily restricted net assets are available for the following purposes:

		<u>2005</u>	<u>2004</u>
Millennium Fund	Specific grant programs	\$ 3,400,000	\$ 3,850,000
PFH	Specific incentive loans	<u>10,261</u>	<u>-</u>
		<u>\$ 3,410,261</u>	<u>\$ 3,850,000</u>

NOTE K - COMMITMENTS

Unpaid grant commitments from endowed funds approved by The Winston-Salem Foundation Committee amounted to \$2,714,088 and \$1,901,240 as of December 31, 2005 and 2004, respectively. Unpaid grant commitments approved by the Millennium Fund's Oversight Committee amounted to \$4,514,366 and \$5,731,244 as of December 31, 2005 and 2004, respectively.

THE WINSTON-SALEM FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS (MODIFIED CASH BASIS)
December 31, 2005 and 2004

NOTE L - EXECUTIVE OFFICE OPERATIONS

Payment of administrative expenses of the executive office of the Foundation is made from an operating fund maintained by the Winston-Salem Foundation, Inc. Funding is obtained from assessments against individual trust funds in custody of trustees and from the interest earned on The Winston-Salem Foundation, Inc's cash management accounts.

NOTE M - TAX STATUS

The Foundation and its supporting organizations have been granted tax-exempt status under Section 501(c)(3) of the U.S. Internal Revenue Code. Accordingly, no provision for income taxes has been reflected in these combined financial statements.

NOTE N - SUMMARIZED COMPARATIVE AMOUNTS

The combined statement of receipts, disbursements and changes in net assets (modified cash basis) includes certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with the modified cash basis of accounting. Accordingly, such information should be read in conjunction with the Foundation's financial statements for the year ended December 31, 2004, from which the summarized information was derived.

NOTE O - RETIREMENT PLAN

The Winston-Salem Foundation provides a defined contribution retirement plan for all full-time employees meeting certain eligibility requirements. The Foundation contributes 10% of each participant's salary to this plan annually. Participants may also make contributions to the plan through payroll deferral up to annual maximums allowed by the Internal Revenue Code. The Foundation's contributions to the plan were \$101,946 and \$97,197 during the years ended December 31, 2005 and 2004, respectively.

PFH provides a SIMPLE IRA plan for employees working in excess of 30 hours per week. Employees may contribute up to 6% of their salary and PFH will match one-half of the employee's contribution. Contributions made by PFH to the plan were \$338 and \$1,878 during the years ended December 31, 2005 and 2004, respectively.

THE WINSTON-SALEM FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS (MODIFIED CASH BASIS)
December 31, 2005 and 2004

NOTE P - DEFERRED GIFTS

The Foundation serves as trustee for several charitable remainder trusts, the assets of which are not included in the Foundation's combined financial statements. These deferred gifts represent principal held in trust for the life of a beneficiary who receives the income generated during his/her lifetime. At the death of the beneficiary, the principal earmarked for the Foundation will be recorded as an outright gift. Deferred gifts as of December 31 were as follows:

	<u>2005</u>	<u>2004</u>
Total fair value	\$ 20,405,288	\$ 19,962,361
Portion designated for the Foundation	\$ 16,673,786	\$ 16,542,544

Also, the Foundation serves as trustee for a charitable lead annuity trust and three charitable lead unitrusts, the assets of which are not included in the Foundation's combined financial statements. These deferred gifts will generate annual distributions for a specified number of years, after which time the principal will transfer to the donor's designated beneficiaries. A portion of each annual distribution is earmarked for the Foundation and will be recorded as donations and bequests upon receipt:

	Years Ended December 31,	
	<u>2005</u>	<u>2004</u>
Total disbursements	\$ 970,856	\$ 890,360
Portion designated for the Foundation	\$ 386,218	\$ 342,908
Total market value	\$ 19,071,428	\$ 17,515,696
Estimated remaining distributions	\$ 13,517,548	\$ 14,368,954
Portion designated for the Foundation	\$ 6,617,803	\$ 6,691,000
Estimated present value of remaining distributions at a 4.5% discount rate (5.0% rate used for 2004)	\$ 9,801,338	\$ 9,773,076
Portion designated for the Foundation	\$ 4,757,715	\$ 4,260,318

NOTE Q - RECLASSIFICATIONS

Certain amounts from the 2004 financial statements have been reclassified to conform to the 2005 classifications. Such reclassifications have had no effect on the net asset balances as previously reported.

OTHER FINANCIAL INFORMATION

**INDEPENDENT AUDITORS' REPORT
ON OTHER FINANCIAL INFORMATION**

To the Audit Committee
The Winston-Salem Foundation
Winston-Salem, North Carolina

Our report on our audits of the basic combined financial statements of **The Winston-Salem Foundation** and affiliates as of December 31, 2005 and 2004 and for the year ended December 31, 2005 appears on page 1. Those audits were conducted for the purpose of forming an opinion on such combined financial statements taken as a whole. The other financial information as of and for the years ended December 31, 2005 and 2004 included in the schedules on pages 15 through 18 is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements as of December 31, 2005 and 2004 and the year ended December 31, 2005, taken as a whole.

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the statement of receipts, disbursements and changes in net assets (modified cash basis) for the year ended December 31, 2004 (which is not presented herein), and we expressed an unqualified opinion on this financial statement. In our opinion, the 2004 combining schedule of receipts, disbursements and changes in net assets (modified cash basis) presented on page 18 is fairly stated in all material respects in relation to the basic combined financial statement from which it has been derived.

Dixon Hughes PLLC

April 7, 2006

THE WINSTON-SALEM FOUNDATION
COMBINING SCHEDULE OF ASSETS, LIABILITIES AND NET ASSETS (MODIFIED CASH BASIS)
December 31, 2005

	Winston-Salem Foundation Combined	The Millennium Fund	Partners for Home Ownership	Total	Combination Adjustments	Combined
ASSETS						
Cash and cash equivalents	\$ 60,783,552	\$ 7,102,407	\$ 18,187	\$ 67,904,146	\$ (7,103,930)	\$ 60,800,216
Securities	151,954,707	-	-	151,954,707	-	151,954,707
Receivables:						
Student loans	691,317	-	-	691,317	-	691,317
Notes	145,033	3,500,000	58,000	3,703,033	-	3,703,033
Earnest money deposits	-	172,300	15,000	187,300	-	187,300
Assets held in trust	5,450,138	-	-	5,450,138	-	5,450,138
Investments in partnerships	12,864,793	-	-	12,864,793	-	12,864,793
Building, leasehold improvements and equipment	984,862	-	3,897	988,759	-	988,759
Property held for resale and construction in process	-	2,082,267	2,476,029	4,558,296	-	4,558,296
Other assets	269,872	196	10,679	280,747	(196)	280,551
	<u>\$ 233,144,274</u>	<u>\$ 12,857,170</u>	<u>\$ 2,581,792</u>	<u>\$ 248,583,236</u>	<u>\$ (7,104,126)</u>	<u>\$ 241,479,110</u>
TOTAL ASSETS						
LIABILITIES AND NET ASSETS						
LIABILITIES						
Amounts withheld from employees	\$ 5,292	\$ -	\$ 6,044	\$ 11,336	\$ -	\$ 11,336
Agency deposits	18,140,555	-	-	18,140,555	(7,102,394)	11,038,161
Deferred revenue	-	-	122,497	122,497	(26,000)	96,497
Notes payable	-	2,240,000	2,390,102	4,630,102	-	4,630,102
	<u>18,145,847</u>	<u>2,240,000</u>	<u>2,518,643</u>	<u>22,904,490</u>	<u>(7,128,394)</u>	<u>15,776,096</u>
TOTAL LIABILITIES						
NET ASSETS						
Unrestricted	214,998,427	7,217,170	52,888	222,268,485	24,268	222,292,753
Temporarily restricted	-	3,400,000	10,261	3,410,261	-	3,410,261
	<u>214,998,427</u>	<u>10,617,170</u>	<u>63,149</u>	<u>225,678,746</u>	<u>24,268</u>	<u>225,703,014</u>
TOTAL NET ASSETS						
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 233,144,274</u>	<u>\$ 12,857,170</u>	<u>\$ 2,581,792</u>	<u>\$ 248,583,236</u>	<u>\$ (7,104,126)</u>	<u>\$ 241,479,110</u>

THE WINSTON-SALEM FOUNDATION
COMBINING SCHEDULE OF ASSETS, LIABILITIES AND NET ASSETS (MODIFIED CASH BASIS)
December 31, 2004

	Winston-Salem Foundation Combined	The Millennium Fund	Partners for Home Ownership	Total	Combination Adjustments	Combined
ASSETS						
Cash and cash equivalents	\$ 16,478,344	\$ 4,284,040	\$ 40,751	\$ 20,803,135	\$ (4,283,066)	\$ 16,520,069
Securities	152,172,294	-	-	152,172,294	-	152,172,294
Receivables:						
Student loans	649,734	-	-	649,734	-	649,734
Notes	220,033	3,500,000	185,500	3,905,533	-	3,905,533
Earnest money deposits	-	135,700	21,000	156,700	-	156,700
Assets held in trust	5,450,138	-	-	5,450,138	-	5,450,138
Investments in partnerships	13,009,284	-	-	13,009,284	-	13,009,284
Building, leasehold improvements and equipment	1,004,785	-	5,725	1,010,510	-	1,010,510
Property held for resale and construction in process	-	2,082,267	2,029,573	4,111,840	-	4,111,840
Other assets	220,571	196	18,570	239,337	(196)	239,141
TOTAL ASSETS	\$ 189,205,183	\$ 10,002,203	\$ 2,301,119	\$ 201,508,505	\$ (4,283,262)	\$ 197,225,243
LIABILITIES AND NET ASSETS						
LIABILITIES						
Amounts withheld from employees	\$ 3,895	\$ -	\$ 2,110	\$ 6,005	\$ -	\$ 6,005
Agency deposits	14,589,727	-	-	14,589,727	(4,283,236)	10,306,491
Deferred revenue	-	-	127,388	127,388	(52,000)	75,388
Notes payable	-	2,800,000	2,025,976	4,825,976	-	4,825,976
TOTAL LIABILITIES	14,593,622	2,800,000	2,155,474	19,549,096	(4,335,236)	15,213,860
NET ASSETS						
Unrestricted	174,611,561	3,352,203	145,645	178,109,409	51,974	178,161,383
Temporarily restricted	-	3,850,000	-	3,850,000	-	3,850,000
TOTAL NET ASSETS	174,611,561	7,202,203	145,645	181,959,409	51,974	182,011,383
TOTAL LIABILITIES AND NET ASSETS	\$ 189,205,183	\$ 10,002,203	\$ 2,301,119	\$ 201,508,505	\$ (4,283,262)	\$ 197,225,243

THE WINSTON-SALEM FOUNDATION
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN NET ASSETS (MODIFIED CASH BASIS)
Year Ended December 31, 2005

	<u>Winston-Salem Foundation Combined</u>	<u>The Millennium Fund</u>	<u>Partners for Home Ownership</u>	<u>Total</u>	<u>Combination Adjustments</u>	<u>Combined</u>
RECEIPTS						
Donations and bequests	\$ 52,410,181	\$ 7,258,448	\$ 162,379	\$ 59,831,008	\$ (241,550)	\$ 59,589,458
Interest, dividends and other investment income	4,972,851	238,912	259	5,212,022	(39)	5,211,983
Fees assessed on agency deposits	87,846	-	-	87,846	-	87,846
Sale of homes and lots	-	-	382,487	382,487	-	382,487
Other receipts	58,968	-	33,543	92,511	-	92,511
TOTAL RECEIPTS	<u>57,529,846</u>	<u>7,497,360</u>	<u>578,668</u>	<u>65,605,874</u>	<u>(241,589)</u>	<u>65,364,285</u>
DISBURSEMENTS						
Grants	20,356,664	1,337,878	-	21,694,542	(213,883)	21,480,659
Executive office operations	1,962,414	33,655	68,103	2,064,172	-	2,064,172
Trustee banks' and investment management fees	394,050	-	-	394,050	-	394,050
Brokerage fees	72,009	-	-	72,009	-	72,009
Interest expense	-	147,978	-	147,978	-	147,978
Community revitalization	-	2,507,315	-	2,507,315	-	2,507,315
Housing development	-	-	601,494	601,494	-	601,494
Other disbursements	143,721	55,567	(8,433)	190,855	-	190,855
TOTAL DISBURSEMENTS	<u>22,928,858</u>	<u>4,082,393</u>	<u>661,164</u>	<u>27,672,415</u>	<u>(213,883)</u>	<u>27,458,532</u>
RECEIPTS OVER (UNDER) DISBURSEMENTS BEFORE NET REALIZED AND UNREALIZED GAINS	<u>34,600,988</u>	<u>3,414,967</u>	<u>(82,496)</u>	<u>37,933,459</u>	<u>(27,706)</u>	<u>37,905,753</u>
NET REALIZED AND UNREALIZED GAINS	<u>5,785,878</u>	<u>-</u>	<u>-</u>	<u>5,785,878</u>	<u>-</u>	<u>5,785,878</u>
INCREASE (DECREASE) IN NET ASSETS	<u>40,386,866</u>	<u>3,414,967</u>	<u>(82,496)</u>	<u>43,719,337</u>	<u>(27,706)</u>	<u>43,691,631</u>
NET ASSETS, beginning of year	<u>174,611,561</u>	<u>7,202,203</u>	<u>145,645</u>	<u>181,959,409</u>	<u>51,974</u>	<u>182,011,383</u>
NET ASSETS, end of year	<u>\$ 214,998,427</u>	<u>\$ 10,617,170</u>	<u>\$ 63,149</u>	<u>\$ 225,678,746</u>	<u>\$ 24,268</u>	<u>\$ 225,703,014</u>

THE WINSTON-SALEM FOUNDATION
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN NET ASSETS (MODIFIED CASH BASIS)
Year Ended December 31, 2004

	Winston-Salem Foundation Combined	The Millennium Fund	Partners for Home Ownership	Total	Combination Adjustments	Combined
RECEIPTS						
Donations and bequests	\$ 20,593,437	\$ 5,115,739	\$ 310,998	\$ 26,020,174	\$ (188,275)	\$ 25,831,899
Interest, dividends and other investment income	3,448,918	70,311	303	3,519,532	(88)	3,519,444
Fees assessed on agency deposits	79,881	-	-	79,881	-	79,881
Sale of homes and lots	-	-	976,014	976,014	-	976,014
Other receipts	39,539	-	17,435	56,974	-	56,974
TOTAL RECEIPTS	<u>24,161,775</u>	<u>5,186,050</u>	<u>1,304,750</u>	<u>30,652,575</u>	<u>(188,363)</u>	<u>30,464,212</u>
DISBURSEMENTS						
Grants	17,335,387	1,562,013	-	18,897,400	(207,729)	18,689,671
Executive office operations	1,803,498	23,352	48,493	1,875,343	-	1,875,343
Trustee banks' and investment management fees	363,523	-	-	363,523	-	363,523
Brokerage fees	83,997	-	-	83,997	-	83,997
Community revitalization	-	5,753	-	5,753	-	5,753
Housing development	-	-	1,232,074	1,232,074	-	1,232,074
Other disbursements	187,772	8,440	-	196,212	(88)	196,124
TOTAL DISBURSEMENTS	<u>19,774,177</u>	<u>1,599,558</u>	<u>1,280,567</u>	<u>22,654,302</u>	<u>(207,817)</u>	<u>22,446,485</u>
RECEIPTS OVER DISBURSEMENTS BEFORE NET REALIZED AND UNREALIZED GAINS	4,387,598	3,586,492	24,183	7,998,273	19,454	8,017,727
NET REALIZED AND UNREALIZED GAINS	<u>9,529,083</u>	<u>-</u>	<u>-</u>	<u>9,529,083</u>	<u>-</u>	<u>9,529,083</u>
INCREASE IN NET ASSETS	13,916,681	3,586,492	24,183	17,527,356	19,454	17,546,810
NET ASSETS, beginning of year	<u>160,694,880</u>	<u>3,615,711</u>	<u>121,462</u>	<u>164,432,053</u>	<u>32,520</u>	<u>164,464,573</u>
NET ASSETS, end of year	<u>\$ 174,611,561</u>	<u>\$ 7,202,203</u>	<u>\$ 145,645</u>	<u>\$ 181,959,409</u>	<u>\$ 51,974</u>	<u>\$ 182,011,383</u>