

The Winston-Salem Foundation

Audited Combined Financial Statements

December 31, 2008 and 2007
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 supporting organizations as of December 31, 2008 and 2007, and the related combined statement of receipts, disbursements and changes in net assets (modified cash basis) for the year ended December 31, 2008. These combined financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these combined 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 combined financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note B to the combined financial statements, 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 combined financial statements referred to above present fairly, in all material respects, the assets, liabilities, and net assets of **The Winston-Salem Foundation** and supporting organizations at December 31, 2008 and 2007, and their receipts, disbursements and changes in net assets for the year ended December 31, 2008, on the basis of accounting described in Note B.

Dixon Hughes PLLC

May 20, 2009

**THE WINSTON-SALEM FOUNDATION
 COMBINED STATEMENTS OF ASSETS, LIABILITIES
 AND NET ASSETS (MODIFIED CASH BASIS)
 December 31, 2008 and 2007**

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents	\$ 9,475,458	\$ 15,618,765
Certificates of deposit	763,502	1,013,843
Securities--Note C	143,316,861	210,726,239
Receivables:		
Student loans	934,240	852,448
Notes	4,959,033	3,645,033
Earnest money deposits	213,800	227,300
Assets held in trust--Note E	4,558,212	4,133,212
Investments in partnerships--Note F	13,943,287	13,630,987
Building, leasehold improvements and equipment	994,642	1,030,493
Property held for resale and construction in process	2,047,414	1,940,731
Other assets	538,527	616,256
	<u>\$ 181,744,976</u>	<u>\$ 253,435,307</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Amounts withheld from employees	\$ 11,310	\$ 9,073
Agency deposits	9,587,231	12,907,923
Deferred revenue--Note G	1,500	15,100
Notes payable--Note H	2,528,689	2,933,776
	<u>12,128,730</u>	<u>15,865,872</u>
NET ASSETS		
Unrestricted--Note I	169,565,182	235,669,435
Temporarily restricted--Note J	51,064	1,900,000
	<u>169,616,246</u>	<u>237,569,435</u>
COMMITMENTS--Note K		
	<u>\$ 181,744,976</u>	<u>\$ 253,435,307</u>

THE WINSTON-SALEM FOUNDATION
COMBINED STATEMENTS OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN NET ASSETS (MODIFIED CASH BASIS)
Year Ended December 31, 2008 and Comparative Totals for 2007

	2008			2007
	Unrestricted	Temporarily Restricted	Total	Comparative Total
RECEIPTS				
Donations and bequests	\$ 13,575,982	\$ -	\$ 13,575,982	\$ 17,619,515
Interest, dividends and other investment income	6,607,908	-	6,607,908	9,647,609
Fees assessed on agency deposits	100,565	-	100,565	103,585
Sale of homes and lots	22,000	-	22,000	346,892
Other receipts	161,468	-	161,468	172,156
Net assets released from restrictions	1,848,936	(1,848,936)	-	-
TOTAL RECEIPTS	<u>22,316,859</u>	<u>(1,848,936)</u>	<u>20,467,923</u>	<u>27,889,757</u>
DISBURSEMENTS				
Grants	24,922,641	-	24,922,641	31,356,354
Executive office operations	2,834,623	-	2,834,623	2,633,644
Trustee banks' and investment management fees	660,950	-	660,950	681,598
Brokerage fees	27,722	-	27,722	41,821
Interest expense	60,040	-	60,040	111,763
Community revitalization	-	-	-	50,472
Housing development	281,318	-	281,318	462,190
Other disbursements	236,794	-	236,794	165,349
TOTAL DISBURSEMENTS	<u>29,024,088</u>	<u>-</u>	<u>29,024,088</u>	<u>35,503,191</u>
RECEIPTS UNDER DISBURSEMENTS BEFORE NET REALIZED AND UNREALIZED GAINS (LOSSES)	<u>(6,707,229)</u>	<u>(1,848,936)</u>	<u>(8,556,165)</u>	<u>(7,613,434)</u>
NET REALIZED AND UNREALIZED GAINS (LOSSES)-Note L	<u>(59,397,024)</u>	<u>-</u>	<u>(59,397,024)</u>	<u>8,544,323</u>
INCREASE (DECREASE) IN NET ASSETS	<u>(66,104,253)</u>	<u>(1,848,936)</u>	<u>(67,953,189)</u>	<u>930,889</u>
NET ASSETS, beginning of year	<u>235,669,435</u>	<u>1,900,000</u>	<u>237,569,435</u>	<u>236,638,546</u>
NET ASSETS, end of year	<u>\$ 169,565,182</u>	<u>\$ 51,064</u>	<u>\$ 169,616,246</u>	<u>\$ 237,569,435</u>

THE WINSTON-SALEM FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS (MODIFIED CASH BASIS)
December 31, 2008 and 2007

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") 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. Inter-entity 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 or, in the case of deferred gifts received, when the Foundation has the right to use those assets to meet its charitable purpose. 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.

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of Net Assets

In August 2008, The Financial Accounting Standards Board (FASB) issued Staff Position No. FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (FSP FAS 117-1). FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2009 (UPMIFA). FSP FAS 117-1 also improves disclosures about an organization's endowment funds (both donor restricted endowment funds and board designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of North Carolina adopted UPMIFA effective March 23, 2009. The Foundation has adopted FSP FAS 117-1 for the year ended December 31, 2008. The Winston-Salem Foundation Committee, on the advice of legal counsel, has determined that the majority of the Foundation's net assets do not meet the definition of endowment under UPMIFA. The Foundation is governed subject to ***The Winston-Salem Foundation 1993 Amended and Restated Declaration of Trust*** (ARDT) and most contributions are subject to its terms. Certain contributions are received subject to other trust instruments, or are subject to specific agreements with the Foundation.

Under the terms of the ARDT, the Winston-Salem Foundation Committee has the ability to distribute as much of the corpus of any trust or separate gift, devise, bequest, or fund as the Committee in its sole discretion shall determine. As a result of the ability to distribute corpus, all contributions unrelated to the Foundation's supporting organizations are classified as unrestricted net assets for financial statement purposes.

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 ARDT, 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. Donor-restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted support. Other temporarily restricted net assets are transferred to unrestricted net assets as the net assets are released from restrictions. These net assets relate specifically to the Foundation's two supporting organizations (the Millennium Fund and PFH).

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Endowment Investment and Spending Policies

The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets. The Foundation's investment and spending policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. The current after-inflation objective is to return 5.5%, net of investment fees. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term objectives within prudent risk parameters.

The current spending policy is to distribute an amount equal to 5% of a moving three-year average, plus an additional amount to cover the Foundation's administrative fees which average 0.9% annually. Beginning in 2009 the spending policy rate was decreased to 4.5%.

Cash and Cash Equivalents

The Foundation considers all unrestricted, highly liquid investments with an initial maturity of three 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.

Certificates of Deposit

Certificates of deposit represent cash invested in deposit instruments with an initial maturity in excess of three months.

Securities

Investments in securities are stated at fair market value. Realized and unrealized gains and 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.

THE WINSTON-SALEM FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS (MODIFIED CASH BASIS)
December 31, 2008 and 2007

NOTE B - SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements

Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* (FAS 157) was issued in 2006 and defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. FAS 157 was effective for the Foundation's financial assets and liabilities for the year ended December 31, 2008. The FASB approved a one-year deferral of the adoption of FAS 157 as it relates to non-financial assets and liabilities measured at fair value on a nonrecurring basis with the issuance in February 2008 of FASB Staff Position FAS 157-2, *Effective Date of FASB Statement No. 157*.

The partial adoption of FAS 157 in 2008 had no material impact on financial condition or change in net assets, but resulted in certain additional disclosures now reflected in Note D. The Foundation is in the process of evaluating FAS 157 as it relates to non-financial assets and liabilities but does not believe it will have an impact on the financial statements since its financial statements are presented on a modified cash basis.

Student Loans and Notes Receivable

Student loans and notes receivable are evaluated periodically for collectability by management. Amounts deemed ultimately uncollectible are charged to disbursements in the period such determination is made.

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.

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.

THE WINSTON-SALEM FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS (MODIFIED CASH BASIS)
December 31, 2008 and 2007

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:

	2008		2007	
	Fair Value	Cost or Assigned Value	Fair Value	Cost or Assigned Value
U.S. Treasury bonds and notes	\$ 698,480	\$ 645,554	\$ 1,630,964	\$ 1,612,241
Federal agency bonds and notes	1,106,968	1,063,633	838,564	825,160
Corporate bonds and notes	1,018,716	1,042,599	1,088,069	1,103,584
Fixed income funds	35,477,934	37,745,343	40,531,895	40,101,971
Common stocks and equity funds	70,870,056	108,042,740	125,525,599	115,379,539
Balanced funds	9,011	11,343	12,032	11,343
Hedged funds	32,505,027	33,990,000	40,347,479	32,230,000
Other	1,630,669	2,911,581	751,637	838,627
	\$143,316,861	\$185,452,793	\$210,726,239	\$192,102,465

NOTE D - FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The Foundation has adopted the provisions of FAS 157 in 2008 for its financial assets and liabilities. Although having partially adopted FAS 157 has had no material impact on financial condition or results of operations, the Foundation is now required to provide additional disclosures. FAS 157 clarifies that fair value is an exit price, representing 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 market data or assumptions that market participants would use in pricing the asset or liability. FAS 157 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

Prices for U.S. Treasury, government agency and corporate bonds, and certain equity securities are readily available in the active markets in which those securities are traded, and the resulting fair values are categorized as Level 1. The Foundation does not have any financial assets or liabilities measured at fair value on a recurring basis categorized as Level 2, and there were no transfers in or out of Level 2 or 3 during the year ended December 31, 2008.

THE WINSTON-SALEM FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS (MODIFIED CASH BASIS)
December 31, 2008 and 2007

NOTE D - FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

Due to the nature of certain investments, there is limited or no observable market data for the prices of hedged funds and partnership investments that are held by the Foundation, and the resulting fair values of these securities are categorized as Level 3. As of December 31, 2008, the Foundation holds approximately \$32,500,000 in hedged funds. The fair value of these hedged funds as of December 31, 2008 was estimated using unit net asset values based upon the ratio of fund net assets to class shares outstanding. As of December 31, 2008, the Foundation holds approximately \$14,000,000 in partnership investments. The fair value of these partnership investments as of December 31, 2008 was estimated based upon the sum of outstanding loans and accrued interest receivable from the partners, along with cash and equity investments held in the partnerships multiplied by the Foundation's partnership interest.

There were no changes during the year ended December 31, 2008 to the Foundation's valuation techniques used to measure asset and liability fair values on a recurring basis.

The following table sets forth by level within FAS 157's fair value hierarchy the Foundation's financial assets accounted for at fair value on a recurring basis as of December 31, 2008. As required by FAS 157, assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. As of December 31, 2008, there were no financial liabilities accounted for at fair value.

	Assets at Fair Value as of December 31, 2008		
	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Treasury bonds and notes	\$ 698,480	-	\$ -
Federal agency bonds and notes	1,106,968	-	-
Corporate bonds	1,018,716	-	-
Common stocks and mutual funds	107,987,670	-	-
Hedged funds	-	-	32,505,027
Partnership investments	-	-	13,943,287
	<u>\$ 110,811,834</u>	<u>\$ -</u>	<u>\$ 46,448,314</u>

The Foundation has \$10,238,960 in cash and cash equivalents and certificates of deposit as of December 31, 2008, which were not classified as a Level as prescribed within FAS 157.

The determination of fair value above incorporates various factors required under FAS 157. These factors include the credit standing of the counterparties involved and the impact of credit enhancements.

THE WINSTON-SALEM FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS (MODIFIED CASH BASIS)
December 31, 2008 and 2007

NOTE D - FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (CONTINUED)

The following table illustrates the activity of Level 3 assets from December 31, 2007 to December 31, 2008:

Fair value at December 31, 2007	\$	53,978,466
Unrealized gains (losses)		(9,290,152)
Realized gains (losses)		-
Purchases, net		1,760,000
Transfers in (out) of Level 3		-
Fair value at December 31, 2008	\$	<u>46,448,314</u>

NOTE E - ASSETS HELD IN TRUST

Assets held in trust primarily consist of community properties maintained by various occupant agencies. There was no rental income or disbursements related to these properties during the years ended December 31, 2008 and 2007.

NOTE F - INVESTMENTS IN PARTNERSHIPS

The Foundation has been the recipient of two gifts that were ownership interests in limited partnerships. The primary purpose of these partnerships 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 \$13,943,287 and \$13,630,987 as of December 31, 2008 and 2007, respectively. These amounts consisted of cash and cash equivalents of \$328,367 and \$112,174, investments in debt and equity securities of \$124,846 and \$524,545, and notes receivable of \$10,323,623 and \$10,323,413, plus accrued interest of \$3,166,451 and \$2,670,855 as of December 31, 2008 and 2007, respectively.

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.

THE WINSTON-SALEM FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS (MODIFIED CASH BASIS)
December 31, 2008 and 2007

NOTE H - NOTES PAYABLE

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

	<u>2008</u>	<u>2007</u>
Non-interest bearing note payable to the City of Winston-Salem secured by deed of trust on unsold lots, November 2007 maturity is being extended (Sunbridge)	\$ 101,129	\$ 99,636
Non-interest bearing note payable to the City of Winston-Salem secured by a deed of trust on unsold lots, matures February 2011 (Ridgewood Place)	1,026,489	1,002,280
Non-interest bearing note payable to the City of Winston-Salem secured by a deed of trust on homes, July 2006 maturity is being extended (Spring Street / Holly Avenue)	335,135	290,518
Non-interest bearing note payable to a bank; maturity currently being extended through 2008; unsecured	20,000	20,000
Non-interest bearing note payable to the City of Winston-Salem secured by a deed of trust on unsold lots; October 2006 maturity is being extended (Esquire Place)	300,230	299,432
Unsecured note payable to a bank due in monthly installments of \$1,205 including interest at 4.9%; matures in February 2009	2,566	15,362
Non-interest bearing note payable to the City of Winston-Salem secured by deed of trust maturing when home is sold (Ivy Street)	94,134	86,548
Non-interest bearing note payable to the City of Winston-Salem secured by deed of trust on Ridgewood Place model home; matures July 2009	89,006	-
	<u>\$ 1,968,689</u>	<u>\$ 1,813,776</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 30-day LIBOR (0.43625% at December 31, 2008), secured by pledges receivable; matures in July 2009	<u>\$ 560,000</u>	<u>\$ 1,120,000</u>
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THE WINSTON-SALEM FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS (MODIFIED CASH BASIS)
December 31, 2008 and 2007

NOTE H - NOTES PAYABLE (CONTINUED)

Future maturities of notes payable are as follows as of December 31, 2008:

2009	\$ 1,502,200
2010	-
2011	<u>1,026,489</u>
	<u>\$ 2,528,689</u>

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.

THE WINSTON-SALEM FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS (MODIFIED CASH BASIS)
December 31, 2008 and 2007

NOTE I - UNRESTRICTED NET ASSETS (CONTINUED)

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.

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>2008</u>	<u>2007</u>
Discretionary	\$ 28,471,040	\$ 37,216,702
Field of interest	19,891,313	29,000,725
Scholarship	12,155,445	16,039,037
Student loan	1,668,417	1,744,453
Donor advised	65,163,669	88,167,393
Donor designated	38,129,019	56,155,032
Real estate	4,616,877	4,221,279
Administrative	(530,598)	3,124,814
	<u>\$169,565,182</u>	<u>\$235,669,435</u>

NOTE J - TEMPORARILY RESTRICTED NET ASSETS

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

	<u>2008</u>	<u>2007</u>
Millennium Fund	\$ 51,064	\$ 1,900,000
Specific grant programs		

NOTE K - COMMITMENTS

Unpaid grant commitments from endowed funds approved by The Winston-Salem Foundation Committee amounted to \$1,845,828 and \$2,307,637 as of December 31, 2008 and 2007, respectively. Unpaid grant commitments approved by the Millennium Fund's Oversight Committee amounted to \$158,064 and \$1,483,064 as of December 31, 2008 and 2007, respectively.

THE WINSTON-SALEM FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS (MODIFIED CASH BASIS)
December 31, 2008 and 2007

NOTE L - 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,			
	2008		2007	
	<u>Net Realized Gains (Losses)</u>	<u>Net Change in Unrealized Appreciation (Depreciation)</u>	<u>Net Realized Gains (Losses)</u>	<u>Net Change in Unrealized Appreciation (Depreciation)</u>
U.S. Treasury bonds and notes	\$ 13,222	\$ 34,203	\$ (1,683)	\$ 64,118
Federal agency bonds and notes	(1,837)	29,931	(1,091)	22,209
Corporate bonds and notes	(18,840)	(8,368)	692	12,582
Fixed income funds	(1,630,168)	(2,697,333)	170,878	19,648
Common stocks and equity funds	(1,287,908)	(47,318,744)	14,141,868	(9,749,048)
Balanced funds	-	(3,021)	-	66
Hedged funds	-	(9,602,452)	180,533	3,119,723
Other securities	(94,591)	(1,193,922)	259,697	(435,532)
Partnership interests	-	312,300	-	318,586
Assets held in trust	-	-	1,417,628	-
Property held for resale	-	-	(459,964)	-
	<u>(3,020,122)</u>	<u>(60,447,406)</u>	<u>15,708,558</u>	<u>(6,627,648)</u>
Less amounts related to agency deposits	<u>37,701</u>	<u>(4,108,205)</u>	<u>169,786</u>	<u>366,801</u>
	<u>\$ (3,057,823)</u>	<u>\$ (56,339,201)</u>	<u>\$ 15,538,772</u>	<u>\$ (6,994,449)</u>

NOTE M - 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. Partial 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 N - 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.

THE WINSTON-SALEM FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS (MODIFIED CASH BASIS)
December 31, 2008 and 2007

NOTE N - TAX STATUS (CONTINUED)

FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), was issued in 2006 and clarifies the accounting for the recognition and measurement of uncertainties in income taxes for all entities, including not-for-profit organizations. In accordance with FASB Staff Position No. FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises* (FSP FIN 48-3), the Foundation has elected to defer application of the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), as of and for the year ended December 31, 2008. Unless the deferral is extended further, the Foundation will be required to adopt the provisions of FIN 48 for the year ended December 31, 2009. The Foundation has not yet determined the effects the adoption of the provisions of FIN 48 will have on the Foundation's combined financial statements.

NOTE O - SUMMARIZED COMPARATIVE AMOUNTS

The combined financial statements include 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 combined financial statements for the year ended December 31, 2007, from which the summarized information was derived.

NOTE P - 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 \$136,541 and \$104,375 during the years ended December 31, 2008 and 2007, 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 \$2,934 and \$2,075 during the years ended December 31, 2008 and 2007, respectively.

NOTE Q - DEFERRED GIFTS

In 1997, the Foundation was the recipient of a gift of land in which the donor retained a life interest to use the property. At the date of the gift, the fair market value of this property was \$1,316,000. Upon the death of the donor, the Foundation will recognize this gift as revenue at the fair market value as of that date. During 2007, the donor gifted the life interest in a portion of the property which was subsequently sold by the Foundation for \$84,320.

THE WINSTON-SALEM FOUNDATION
NOTES TO COMBINED FINANCIAL STATEMENTS (MODIFIED CASH BASIS)
December 31, 2008 and 2007

NOTE Q - DEFERRED GIFTS (CONTINUED)

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>2008</u>	<u>2007</u>
Total fair value	\$ 22,354,344	\$ 32,479,896
Portion designated for the Foundation	\$ 19,812,270	\$ 28,336,972

Also, the Foundation serves as trustee for two charitable lead annuity trusts 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>2008</u>	<u>2007</u>
Total disbursements	\$ 979,074	\$ 991,942
Portion designated for the Foundation	\$ 458,407	\$ 462,514
Total market value	\$ 12,743,126	\$ 18,212,699
Estimated remaining distributions	\$ 9,324,990	\$ 10,997,780
Portion designated for the Foundation	\$ 4,603,927	\$ 5,147,570
Estimated present value of remaining distributions at a 2.65% discount rate (4.3% rate used for 2007)	\$ 7,911,530	\$ 8,381,641
Portion designated for the Foundation	\$ 3,898,414	\$ 3,899,721

NOTE R - PARTNERS FOR HOMEOWNERSHIP FINANCIAL CONDITION

Due to the condition of the local residential real estate market, the stand alone audited financial statements as of and for the year ended December 31, 2008 of the Partners For Homeownership, Inc. indicated that there was substantial doubt regarding PFH's ability to continue as a going concern. PFH's management has a plan in place to address the risks related to its financial condition. Regardless of the eventual impact this uncertainty has on PFH, Foundation management believes that it will not have a material adverse effect on the Foundation's financial condition.

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 supporting organizations as of December 31, 2008 and 2007 and for the year ended December 31, 2008 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 following combining financial information on pages 18 through 21 is presented for purposes of additional analysis and is not intended to present the assets, liabilities and net assets and changes in net assets of the individual entities. 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, 2008 and 2007 and the year ended December 31, 2008, 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, 2007 (which is not presented herein), and we expressed an unqualified opinion on this financial statement. In our opinion, the 2007 combining schedule of receipts, disbursements and changes in net assets (modified cash basis) presented on page 21 is fairly stated in all material respects in relation to the basic combined financial statement from which it has been derived.

Dixon Hughes PLLC

May 20, 2009

THE WINSTON-SALEM FOUNDATION
COMBINING SCHEDULE OF ASSETS, LIABILITIES AND NET ASSETS (MODIFIED CASH BASIS)
December 31, 2008

	Winston-Salem Foundation Combined	The Millennium Fund	Partners for Home Ownership	Total	Combination Adjustments	Combined
ASSETS						
Cash and cash equivalents	\$ 9,419,642	\$ 2,915,467	\$ 11,325	\$ 12,346,434	\$ (2,870,976)	\$ 9,475,458
Certificates of deposit	763,502	-	-	763,502	-	763,502
Securities	143,316,861	-	-	143,316,861	-	143,316,861
Receivables:						
Student loans	934,240	-	-	934,240	-	934,240
Notes	130,033	4,839,000	-	4,969,033	(10,000)	4,959,033
Earnest money deposits	-	212,300	1,500	213,800	-	213,800
Assets held in trust	4,558,212	-	-	4,558,212	-	4,558,212
Investments in partnerships	13,943,287	-	-	13,943,287	-	13,943,287
Building, leasehold improvements and equipment	986,175	-	8,467	994,642	-	994,642
Property held for resale and construction in process	-	-	2,047,414	2,047,414	-	2,047,414
Other assets	538,117	-	410	538,527	-	538,527
TOTAL ASSETS	\$174,590,069	\$ 7,966,767	\$ 2,069,116	\$184,625,952	\$ (2,880,976)	\$181,744,976
LIABILITIES AND NET ASSETS						
LIABILITIES						
Amounts withheld from employees	\$ 7,995	\$ -	\$ 3,315	\$ 11,310	\$ -	\$ 11,310
Agency deposits	12,459,585	-	-	12,459,585	(2,872,354)	9,587,231
Deferred revenue	-	-	1,500	1,500	-	1,500
Notes payable	-	560,000	1,978,689	2,538,689	(10,000)	2,528,689
TOTAL LIABILITIES	12,467,580	560,000	1,983,504	15,011,084	(2,882,354)	12,128,730
NET ASSETS						
Unrestricted	162,122,489	7,355,703	85,612	169,563,804	1,378	169,565,182
Temporarily restricted	-	51,064	-	51,064	-	51,064
TOTAL NET ASSETS	162,122,489	7,406,767	85,612	169,614,868	1,378	169,616,246
TOTAL LIABILITIES AND NET ASSETS	\$174,590,069	\$ 7,966,767	\$ 2,069,116	\$184,625,952	\$ (2,880,976)	\$181,744,976

THE WINSTON-SALEM FOUNDATION
COMBINING SCHEDULE OF ASSETS, LIABILITIES AND NET ASSETS (MODIFIED CASH BASIS)
December 31, 2007

	Winston-Salem Foundation Combined	The Millennium Fund	Partners for Home Ownership	Total	Combination Adjustments	Combined
ASSETS						
Cash and cash equivalents	\$ 15,565,993	\$ 5,774,119	\$ 11,221	\$ 21,351,333	\$(5,732,568)	\$ 15,618,765
Certificates of deposit	1,013,843	-	-	1,013,843	-	1,013,843
Securities	210,726,239	-	-	210,726,239	-	210,726,239
Receivables:						
Student loans	852,448	-	-	852,448	-	852,448
Notes	145,033	3,500,000	-	3,645,033	-	3,645,033
Earnest money deposits	-	212,300	15,000	227,300	-	227,300
Assets held in trust	4,133,212	-	-	4,133,212	-	4,133,212
Investments in partnerships	13,630,987	-	-	13,630,987	-	13,630,987
Building, leasehold improvements and equipment	1,022,729	-	7,764	1,030,493	-	1,030,493
Property held for resale and construction in process	-	-	1,940,731	1,940,731	-	1,940,731
Other assets	615,846	-	410	616,256	-	616,256
TOTAL ASSETS	\$ 247,706,330	\$ 9,486,419	\$ 1,975,126	\$ 259,167,875	\$(5,732,568)	\$ 253,435,307
LIABILITIES AND NET ASSETS						
LIABILITIES						
Amounts withheld from employees	\$ 4,547	\$ -	\$ 4,526	\$ 9,073	\$ -	\$ 9,073
Agency deposits	18,640,491	-	-	18,640,491	(5,732,568)	12,907,923
Deferred revenue	-	-	15,100	15,100	-	15,100
Notes payable	-	1,120,000	1,813,776	2,933,776	-	2,933,776
TOTAL LIABILITIES	18,645,038	1,120,000	1,833,402	21,598,440	(5,732,568)	15,865,872
NET ASSETS						
Unrestricted	229,061,292	6,466,419	141,724	235,669,435	-	235,669,435
Temporarily restricted	-	1,900,000	-	1,900,000	-	1,900,000
TOTAL NET ASSETS	229,061,292	8,366,419	141,724	237,569,435	-	237,569,435
TOTAL LIABILITIES AND NET ASSETS	\$ 247,706,330	\$ 9,486,419	\$ 1,975,126	\$ 259,167,875	\$(5,732,568)	\$ 253,435,307

THE WINSTON-SALEM FOUNDATION
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN NET ASSETS (MODIFIED CASH BASIS)
Year Ended December 31, 2008

	Winston-Salem Foundation Combined	The Millennium Fund	Partners for Home Ownership	Total	Combination Adjustments	Combined
RECEIPTS						
Donations and bequests	\$ 13,289,189	\$ 312,000	\$ 288,376	\$ 13,889,565	\$ (313,583)	\$ 13,575,982
Interest, dividends and other investment income	6,482,999	122,570	2,339	6,607,908	-	6,607,908
Fees assessed on agency deposits	100,565	-	-	100,565	-	100,565
Sale of homes and lots	-	-	22,000	22,000	-	22,000
Other receipts	15,619	116,569	29,280	161,468	-	161,468
TOTAL RECEIPTS	19,888,372	551,139	341,995	20,781,506	(313,583)	20,467,923
DISBURSEMENTS						
Grants	23,826,352	1,411,250	-	25,237,602	(314,961)	24,922,641
Executive office operations	2,686,853	30,981	116,789	2,834,623	-	2,834,623
Trustee banks' and investment management fees	660,950	-	-	660,950	-	660,950
Brokerage fees	27,722	-	-	27,722	-	27,722
Interest expense	-	60,040	-	60,040	-	60,040
Housing development	-	-	281,318	281,318	-	281,318
Other disbursements	228,274	8,520	-	236,794	-	236,794
TOTAL DISBURSEMENTS	27,430,151	1,510,791	398,107	29,339,049	(314,961)	29,024,088
RECEIPTS OVER (UNDER) DISBURSEMENTS BEFORE NET REALIZED AND UNREALIZED LOSSES	(7,541,779)	(959,652)	(56,112)	(8,557,543)	1,378	(8,556,165)
NET REALIZED AND UNREALIZED LOSSES	(59,397,024)	-	-	(59,397,024)	-	(59,397,024)
INCREASE (DECREASE) IN NET ASSETS	(66,938,803)	(959,652)	(56,112)	(67,954,567)	1,378	(67,953,189)
NET ASSETS, beginning of year	229,061,292	8,366,419	141,724	237,569,435	-	237,569,435
NET ASSETS, end of year	\$ 162,122,489	\$ 7,406,767	\$ 85,612	\$ 169,614,868	\$ 1,378	\$ 169,616,246

THE WINSTON-SALEM FOUNDATION
COMBINING SCHEDULE OF RECEIPTS, DISBURSEMENTS AND CHANGES IN NET ASSETS (MODIFIED CASH BASIS)
Year Ended December 31, 2007

	Winston-Salem Foundation Combined	The Millennium Fund	Partners for Home Ownership	Total	Combination Adjustments	Combined
RECEIPTS						
Donations and bequests	\$ 17,007,159	\$ 688,502	\$ 221,873	\$ 17,917,534	\$ (298,019)	\$ 17,619,515
Interest, dividends and other investment income	9,368,595	275,398	3,616	9,647,609	-	9,647,609
Fees assessed on agency deposits	103,585	-	-	103,585	-	103,585
Sale of homes and lots	-	-	346,892	346,892	-	346,892
Other receipts	79,883	26,720	65,553	172,156	-	172,156
TOTAL RECEIPTS	26,559,222	990,620	637,934	28,187,776	(298,019)	27,889,757
DISBURSEMENTS						
Grants	30,096,978	1,525,000	-	31,621,978	(265,624)	31,356,354
Executive office operations	2,445,760	37,109	150,775	2,633,644	-	2,633,644
Trustee banks' and investment management fees	681,598	-	-	681,598	-	681,598
Brokerage fees	41,821	-	-	41,821	-	41,821
Interest expense	-	111,763	-	111,763	-	111,763
Community revitalization	-	50,472	-	50,472	-	50,472
Housing development	-	-	462,190	462,190	-	462,190
Other disbursements	157,931	7,418	-	165,349	-	165,349
TOTAL DISBURSEMENTS	33,424,088	1,731,762	612,965	35,768,815	(265,624)	35,503,191
RECEIPTS OVER (UNDER) DISBURSEMENTS BEFORE NET REALIZED AND UNREALIZED GAINS (LOSSES)	(6,864,866)	(741,142)	24,969	(7,581,039)	(32,395)	(7,613,434)
NET REALIZED AND UNREALIZED GAINS (LOSSES)	9,004,287	(459,964)	-	8,544,323	-	8,544,323
INCREASE (DECREASE) IN NET ASSETS	2,139,421	(1,201,106)	24,969	963,284	(32,395)	930,889
NET ASSETS, beginning of year	226,921,871	9,567,525	116,755	236,606,151	32,395	236,638,546
NET ASSETS, end of year	\$ 229,061,292	\$ 8,366,419	\$ 141,724	\$ 237,569,435	\$ -	\$ 237,569,435