

Triangle Community Foundation, Inc. and Affiliates

Consolidated Financial Report
June 30, 2011

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Independent Auditor's Report

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

We have audited the accompanying consolidated statements of financial position of Triangle Community Foundation, Inc. and affiliates (the "Foundation") as of June 30, 2011 and 2010, and the related consolidated statements of activities and cash flows for the years then ended. These consolidated 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Triangle Community Foundation, Inc. and affiliates as of June 30, 2011 and 2010, and the changes in their net assets and their 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
December 1, 2011

Triangle Community Foundation, Inc. and Affiliates

**Consolidated Statements of Financial Position
June 30, 2011 and 2010**

	2011	2010
Assets		
Cash	\$ 1,596,555	\$ 3,426,893
Investments (Notes 2 and 4)	131,102,320	111,488,620
Real estate held for sale (Note 4)	3,115,100	3,268,225
Receivables:		
Accounts receivable	6,909	7,641
Beneficial interests in split-interest agreements (Notes 4 and 5)	8,134,890	6,613,381
Rental real estate, net of accumulated depreciation of \$373,468 and \$357,023	826,032	842,477
Office furniture, equipment and software, net of accumulated depreciation of \$412,159 and \$370,953	77,022	101,445
Total assets	\$ 144,858,828	\$ 125,748,682
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 200,241	\$ 155,784
Grants payable (Note 3)	581,785	593,752
Assets held on behalf of other organizations (Note 7)	6,726,137	6,093,329
Total liabilities	7,508,163	6,842,865
Commitments (Note 8)		
Net assets (Note 1)		
Unrestricted (Note 6)	128,465,144	111,541,805
Temporarily restricted (Note 5)	8,134,890	6,613,381
Permanently restricted (Note 6)	750,631	750,631
Total net assets	137,350,665	118,905,817
Total liabilities and net assets	\$ 144,858,828	\$ 125,748,682

See Notes to Consolidated Financial Statements.

Triangle Community Foundation, Inc. and Affiliates

Consolidated Statements of Activities
Years Ended June 30, 2011 and 2010

	2011			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
Support and revenue:				
Contributions	\$ 12,032,409	\$ -	\$ -	\$ 12,032,409
Interest and dividend income	2,585,783	-	-	2,585,783
Net realized and unrealized gains				
on investments	19,469,328	-	-	19,469,328
Change in value of split-interest agreements	-	1,644,777	-	1,644,777
Other income (loss)	8,582	-	-	8,582
Net assets released from donor restrictions (Note 5)	123,268	(123,268)	-	-
	34,219,370	1,521,509	-	35,740,879
Less support and revenue from assets held on behalf of other organizations (Note 7)	(1,259,414)	-	-	(1,259,414)
Total support and revenue	32,959,956	1,521,509	-	34,481,465
Expenses:				
Programs:				
Grantmaking	14,291,348	-	-	14,291,348
Philanthropic services	537,590	-	-	537,590
Special projects	288,168	-	-	288,168
Fund management	128,067	-	-	128,067
Administrative	951,592	-	-	951,592
Fund-raising	312,974	-	-	312,974
	16,509,739	-	-	16,509,739
Less expenses from assets held on behalf of other organizations (Note 7)	(626,606)	-	-	(626,606)
Total expenses	15,883,133	-	-	15,883,133
Change in value of real estate held for sale (Note 4)	(153,125)	-	-	(153,125)
Other, gain (loss) on sale of gifted assets	(359)	-	-	(359)
Change in net assets	16,923,339	1,521,509	-	18,444,848
Net assets:				
Beginning	111,541,805	6,613,381	750,631	118,905,817
Ending	\$ 128,465,144	\$ 8,134,890	\$ 750,631	\$ 137,350,665

See Notes to Consolidated Financial Statements.

2010

Unrestricted	Temporarily Restricted	Permanently Restricted	Total
\$ 14,254,973	\$ -	\$ -	\$ 14,254,973
2,413,697	22,264	-	2,435,961
7,264,584	(23,007)	-	7,241,577
-	(706,339)	-	(706,339)
15,308	(7,699)	-	7,609
381,787	(381,787)	-	-
24,330,349	(1,096,568)	-	23,233,781
(251,593)	-	-	(251,593)
24,078,756	(1,096,568)	-	22,982,188
12,106,473	-	-	12,106,473
618,786	-	-	618,786
284,769	-	-	284,769
68,184	-	-	68,184
732,160	-	-	732,160
493,645	-	-	493,645
14,304,017	-	-	14,304,017
(181,036)	-	-	(181,036)
14,122,981	-	-	14,122,981
116,556	-	-	116,556
1,366	-	-	1,366
10,073,697	(1,096,568)	-	8,977,129
101,468,108	7,709,949	750,631	109,928,688
<u>\$ 111,541,805</u>	<u>\$ 6,613,381</u>	<u>\$ 750,631</u>	<u>\$ 118,905,817</u>

Triangle Community Foundation, Inc. and Affiliates

Consolidated Statements of Cash Flows
Years Ended June 30, 2011 and 2010

	2011	2010
Cash Flows From Operating Activities		
Change in net assets	\$ 18,444,848	\$ 8,977,129
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	57,659	46,842
Change in value of real estate held for sale	153,125	(116,556)
Net realized and unrealized gains on investments	(19,469,328)	(7,241,577)
Contributions of securities and other investments	-	-
Payments received on charitable lead trusts	123,268	309,369
Payments received on charitable remainder trusts	-	-
Changes in assets and liabilities:		
Accounts receivable	732	(2,443)
Accounts payable and accrued expenses	44,457	(46,023)
Grants payable	(11,967)	240,963
Assets held on behalf of other organizations	632,808	19,824
Net cash provided by (used in) operating activities	(1,668,816)	2,892,501
Cash Flows From Investing Activities		
Purchase of office furniture, equipment and software	(16,791)	(21,003)
Proceeds from sale of real estate held for sale	-	-
Proceeds from sales and maturities of investments	34,889,926	15,221,635
Net cash used in investing activities	(161,522)	(727,676)
Net increase (decrease) in cash	(1,830,338)	2,164,825
Cash:		
Beginning	3,426,893	1,262,068
Ending	\$ 1,596,555	\$ 3,426,893

See Notes to Consolidated Financial Statements.

Triangle Community Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization: The Triangle Community Foundation, Inc. (the "Foundation") was incorporated in September 1983 as a nonprofit corporation. The Foundation's mission is to connect philanthropic resources with community needs, create opportunities for enlightened change, and encourage philanthropy as a way of life. The Foundation receives gifts, grants and bequests for the purpose of making charitable donations to approved organizations.

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

Principles of consolidation: The consolidated financial statements include the accounts of the Foundation and its affiliated supporting organizations, the Durham Arts Council Fund of the Triangle Community Foundation and the TCF Real Estate Foundation. The net assets of the Durham Arts Council Fund were \$701,749 and \$683,871 at June 30, 2011 and 2010, respectively. The net assets of the TCF Real Estate Foundation were \$3,115,100 and \$3,268,225 at June 30, 2011 and 2010, respectively. The supporting organizations were established effective July 1, 1993 and June 29, 2004, respectively, as tax-exempt organizations. The supporting organizations are consolidated with the Foundation in the accompanying consolidated financial statements because they are operated and controlled by the Foundation and because their charitable purposes are consistent with the Foundation's mission. Intercompany balances and transactions are eliminated in consolidation.

Basis of presentation: In preparing its consolidated 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 that are not subject to donor-imposed stipulations. At June 30, 2011 and 2010, the Foundation's unrestricted net assets included approximately \$4.5 million and \$3.5 million of undesignated funds. The remainder of unrestricted net assets are generally funds with donor imposed stipulations that are subject to the Foundation's variance power as further described below.

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

Permanently restricted net assets: Net assets that are subject to donor-imposed stipulations that they be maintained permanently by the Foundation. At June 30, 2011 and 2010, all permanently restricted net assets were restricted for the Durham Arts Council.

Use of estimates: The preparation of consolidated 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and cash equivalents: Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and have an original maturity when purchased of three months or less. Cash equivalents held are currently included in the Foundation's long-term investment portfolio and are held in short-term money instruments as a result of securities trading activity. The Foundation does not intend to use the cash equivalents in the long-term investment portfolio for operating purposes. The Foundation places deposits with financial institutions that may at times be in excess of federal insurance limits.

Triangle Community Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

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

Valuation of investments: Investments are presented in the financial statements at fair value in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Investments in securities traded on a national securities exchange, or reported on the NASDAQ global market, are stated at the last reported sales price on the day of valuation; other securities traded in the over-the-counter market and listed securities for which no sale was reported on that date are stated at the last quoted bid price, except for short sales positions and call options written, for which the last quoted asked price is used. Government-sponsored enterprises and commercial paper are stated at cost plus accrued interest, which approximates fair value.

Investments in alternative investments are valued at fair value based on the applicable percentage ownership of the underlying fund's net assets as of the measurement date. In determining fair value, the Foundation utilizes valuations provided by the underlying investment partnerships. The underlying investment partnerships value securities and other financial instruments on a fair value basis of accounting. The estimated fair values of certain investments, which may include private placements and other securities for which prices are not readily available, are determined by the general partner or sponsor of the respective alternative investment and may not reflect amounts that could be realized upon immediate sale, nor amounts that ultimately may be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments. The fair value of the Foundation's investments in alternative investments generally represents the amount the Foundation would expect to receive if it were to liquidate its investment excluding any redemption charges that may apply.

Securities transactions, interest and dividends: Securities transactions are recorded on a trade-date basis and are carried at fair value. 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 net realized and unrealized gains on investments in the accompanying consolidated statements of activities. Interest income is recognized under the accrual basis. Dividend income is recognized on the ex-dividend date.

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. Interest and dividends and net realized and unrealized gains related to the Durham Arts Council Fund are recorded as temporarily restricted revenue due to donor restrictions.

Real estate held for sale: Real estate 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. Real estate held for sale is not depreciated and is stated at the lower of estimated fair value or carrying value less selling costs. The Foundation uses the assistance of real estate agents to sell donated land and property.

Contributions from board members: Contributions from board members were \$378,954 and \$126,895 for the years ended June 30, 2011 and 2010, respectively.

Triangle Community Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

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

Beneficial interests in split-interest agreements: The Foundation is the named charitable beneficiary for a number of known irrevocable charitable remainder unitrusts, charitable remainder annuity trusts, charitable lead unitrusts, and charitable lead annuity trusts (split-interest agreements). All such trusts are held and managed by independent third-party trustees. The assets held in charitable remainder trusts will remain in trust, paying income to the donors during their lifetime, and the remainder assets will become property of the Foundation upon the donors' deaths. The assets held in the charitable lead trusts will also remain in trust but will pay income to the Foundation during the trusts' terms, the remainder being distributed to one or more named beneficiaries when the trusts terminate. All such charitable trusts have been recorded in the accompanying consolidated financial statements as temporarily restricted net assets and as support of the Foundation at the present value of their estimated future benefit to the Foundation. The expected future benefit to the Foundation has been calculated based on the fair value of the trusts' assets at the valuation date, as defined in the respective trust agreements, and/or the stipulated income payout, as adjusted by actuarial assumptions and discounted at an appropriate risk-adjusted rate. At June 30, 2011, assumptions used in the calculation of the contributions receivable from split-interest agreements are a growth rate of 7.95%, payout rates as stated in the agreement between 5% and 10%, and a discount rate of 2.8%. The Foundation is also named as beneficiary of a number of other known trusts and wills which, by their nature, are conditional and, therefore, are not recorded in the accompanying consolidated financial statements.

Rental real estate: Rental real estate represents land and a building that were contributed in 1987 and recorded at fair value at the date of donation. Depreciation on the building is computed using the straight-line method over the estimated useful life of 31 years.

Office furniture, equipment and software: Office furniture, equipment and software is reflected at cost (or estimated fair value when donated), less accumulated depreciation. Purchased office furniture, equipment and software are capitalized when the cost exceeds \$1,000. Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets. Office equipment is depreciated over 5 years, furniture is depreciated over 5 or 7 years, computer equipment is depreciated over 3 years, and capitalized software is depreciated over 5 years.

Impairment of long-lived assets: The Foundation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When necessary, the Foundation records charges for impairments of long-lived assets for the amount by which the present value of future cash flows, or some other fair value measure, is less than the carrying value of these assets.

Grantmaking: The Foundation receives grant recommendations from donors on a regular basis. Only recommendations that have been fully approved by the Foundation as of the end of the year and not yet paid are recorded as grants payable. Grants are expensed in the year in which the award is fully approved, although the grant may be payable over several years. Recommendations that are not fully approved are not recorded.

Triangle Community Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

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

Assets held on behalf of other organizations: The Foundation records a liability for agency funds that are reciprocal - funds provided by donors where the donors themselves are named as beneficiary.

Revenue recognition: 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's Resolution and Declaration of Trust. 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.

When a donor restriction expires (i.e., when a stipulated time restriction ends or a purpose restriction is accomplished), the temporarily restricted net asset is reclassified to unrestricted net assets and reported as net assets released from restrictions. When the restriction is met in the same period as the contribution is received, temporarily restricted contributions are reported as unrestricted support.

Functional allocation of expenses: The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of activities, and accordingly, certain costs have been allocated among the programs and supporting services benefited.

Tax status: The Foundation is exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and is classified as a nonprivate foundation. Therefore, no provision for income taxes has been reflected in the accompanying consolidated 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 ("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.

Reclassifications: Certain reclassifications have been made to the 2010 consolidated financial statements to conform to the 2011 presentation. The reclassifications had no effect on the total assets, net assets or change in net assets in the accompanying consolidated financial statements.

Fair value disclosures: The carrying amounts of accounts receivable, accounts payable, grants payable, and assets held on behalf of other organizations approximate fair value due to their short-term nature. Real estate held for sale is carried at the lower of estimated fair value or carrying value less selling costs. Investments are carried at fair value, except for certificates of deposit and cash surrender value of life insurance policies, which approximate fair value. Beneficial interests in split-interest agreements are carried at the present value of their estimated future benefit to the Foundation, which approximates fair value.

Triangle Community Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

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

Recent accounting pronouncements: In May 2011, the FASB released accounting guidance amending Topic 820, *Fair Value Measurement*, in Accounting Standards Update ("ASU") 2011-04, *Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRSs*. The ASU results in common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards ("IFRS"). Consequently, the ASU changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the FASB does not intend for this ASU to result in a change in the application of the requirements in Topic 820. Some of the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The ASU is to be applied prospectively and is effective for the Foundation beginning on July 1, 2012. The Foundation does not believe the adoption of the ASU will have any material effect on its consolidated financial statements.

In January 2010, the FASB issued guidance amending Topic 820, *Fair Value Measurement*, in ASU 2010-06, *Improving Disclosures about Fair Value Measurements*, that requires new fair value measurement classification disclosures and clarifies existing disclosures. The guidance requires: (i) separate disclosures of significant transfers between Levels 1 and 2 and reasons for transfers; (ii) disclosure, on a gross basis, of purchases, sales, issuances and net settlements within Level 3 measurements; (iii) disclosures by class of assets and liabilities; and (iv) a description of the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. The guidance is effective for reporting periods beginning after December 15, 2009, except for the disaggregation of the Level 3 activity, which is effective for periods beginning after December 15, 2010. This additional guidance resulted in the transfer of certain alternative investments in the amount of \$8,843,390 from Level 3 to Level 2 within the fair value hierarchy at July 1, 2009.

Subsequent events: The Foundation has evaluated its subsequent events (events occurring after June 30, 2011) through December 1, 2011, which represents the date the consolidated financial statements were available to be issued.

Note 2. Investments

The carrying value of investments at June 30, 2011 and 2010 are comprised of the following:

	2011	2010
Cash equivalents	\$ 8,539,289	\$ 5,650,501
Certificates of deposit	4,731,292	4,174,851
Marketable equity securities	56,198,274	50,339,712
Marketable fixed income securities	21,427,228	27,104,272
Alternative investments	40,070,620	24,089,134
Cash surrender value of life insurance policy	135,617	130,150
	<u>\$ 131,102,320</u>	<u>\$ 111,488,620</u>

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 could materially affect the Foundation's investment balance reported in the consolidated statements of financial position.

Triangle Community Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 2. Investments (Continued)

Alternative investments at June 30, 2011 and 2010 represent the Foundation's investment in several diversified funds that employ varying strategies, including private equity funds, fund of funds, and real estate funds. The funds employ multi-manager investment approaches using traditional and nontraditional alternative strategies. The funds limit the Foundation's ability to make withdrawals. Certain funds contain lock-up features ranging from the end of each month to three years and certain funds are non-redeemable. In addition, certain funds require withdrawal notifications of 10 to 100 days. As of June 30, 2011, the Foundation's ownership in these funds ranged from 0.08% to 3.45% of the fund's participant equity. As of June 30, 2010, the Foundation's ownership in these funds ranged from 0.10% to 1.23% of the fund's participant equity. At June 30, 2010, one of the funds was being liquidated and the Foundation received distributions as they were made available. Based on information provided by the fund manager, Foundation management wrote down the reported amount of this fund by approximately \$350,000 during 2010. The balance of this fund at June 30, 2010 was approximately \$110,000 and is included in Level 3 of the fair value hierarchy as further described in Note 4. The Foundation received the remaining proceeds from liquidation in 2011 and the amount received approximated the carrying value.

Market risk: Market risk arises primarily from changes in the market value of financial instruments. Theoretically, the Foundation's exposure is equal to the notional value of contracts purchased and unlimited on such contracts sold short.

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. In many cases, the use of financial instruments serves to modify or offset market risk associated with other transactions and, accordingly, serves to decrease the Foundation's overall exposure to market risk. The Foundation attempts to control its exposure to market risk through various analytical monitoring techniques.

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 of loss. 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 and guarantees against specified potential losses 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 consolidated financial statements for these indemnifications.

Within an alternative investment, the underlying fund managers may utilize derivative instruments with off-balance-sheet risk. The Foundation's exposure to risk is limited to the amount of its investment.

Triangle Community Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 3. Grants Payable

Grants payable in the accompanying consolidated financial statements have been approved by the Foundation's Board of Directors for distribution as of June 30, 2011 and 2010. It is the Foundation's policy to recognize grants expected to be paid in periods greater than one year at the discounted present value of the future cash flows. However, such discounted amounts are not material and are not recorded at June 30, 2011 and 2010. Amounts remaining unpaid at June 30, 2011 and 2010 are as follows:

	2011	2010
In one year or less	\$ 533,760	\$ 510,455
Between one year and five years	48,025	83,297
	<u>\$ 581,785</u>	<u>\$ 593,752</u>

Note 4. 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. 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 generally include corporate bonds and loans, 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.

Triangle Community Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 4. Fair Value Measurements (Continued)

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

Equity securities and equity mutual funds: 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 invests in certain proprietary mutual funds with investment managers; these investments are classified within Level 2 of the hierarchy.

Fixed income securities and fixed income mutual funds: Investments in debt securities include corporate bonds and funds, blended fixed income mutual funds, government and government agency obligation bonds and funds, and certain proprietary fixed income mutual funds with investment managers. Certain bond funds are listed on national markets or exchanges and 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. All other fixed income investments are classified within Level 2 of the hierarchy.

Alternative investments: Alternative investments 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. Investments in alternative investments are classified within Level 2 if the funds are redeemable with less than 90 days at June 30, 2011. Investments in alternative investments are classified within level 3 of the valuation hierarchy if they are not redeemable at June 30, 2011 due to the existence of extended lock-up or redemption periods.

Split-interest agreements: The Foundation has been named as a beneficiary in charitable 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, beneficial interests in split-interest agreements are classified as Level 3 inputs due to the nature of the discounts used to determine present value of estimated future cash flows.

Triangle Community Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 4. 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 June 30, 2011 and 2010:

	2011			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets				
Investments:				
Cash equivalents, money market funds	\$ 8,539,289	\$ -	\$ -	\$ 8,539,289
Equity securities and equity mutual funds:				
US large / mid cap	34,716,568	1,790,332	-	36,506,900
US small cap	1,744,064	-	-	1,744,064
International developed	11,613,499	-	-	11,613,499
Emerging Markets	6,333,811	-	-	6,333,811
Total equity securities and equity mutual funds	54,407,942	1,790,332	-	56,198,274
Fixed income securities and fixed income mutual funds:				
US government and agencies	5,138,679	1,999,146	-	7,137,825
Corporate	12,978,950	1,310,453	-	14,289,403
Total fixed income securities and fixed income mutual funds	18,117,629	3,309,599	-	21,427,228
Alternative investments:				
Multi-strategy	-	8,379,133	5,863,568	14,242,701
Global macro	-	16,159,792	5,645,030	21,804,822
Distressed	-	-	2,706,064	2,706,064
Private equity	-	-	1,317,033	1,317,033
Total alternative investments	-	24,538,925	15,531,695	40,070,620
Total investments	81,064,860	29,638,856	15,531,695	126,235,411
Beneficial interest in split-interest agreements	-	-	8,134,890	8,134,890
Total financial assets	\$ 81,064,860	\$ 29,638,856	\$ 23,666,585	\$ 134,370,301

Triangle Community Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 4. Fair Value Measurements (Continued)

	2010			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets				
Investments:				
Cash equivalents, money market funds	\$ 5,650,501	\$ -	\$ -	\$ 5,650,501
Equity securities and equity mutual funds:				
US large / mid cap	29,943,875	1,581,154	-	31,525,029
US small cap	855,026	-	-	855,026
International developed	17,860,038	-	-	17,860,038
Emerging Markets	99,619	-	-	99,619
Total equity securities and equity mutual funds	48,758,558	1,581,154	-	50,339,712
Fixed income securities and fixed income mutual funds:				
US government and agencies	10,591,737	2,147,669	-	12,739,406
Corporate	12,657,650	1,707,216	-	14,364,866
Total fixed income securities and fixed income mutual funds	23,249,387	3,854,885	-	27,104,272
Alternative investments:				
Multi-strategy	-	6,377,709	5,334,242	11,711,951
Global macro	-	4,134,724	5,119,324	9,254,048
Distressed	-	-	2,552,500	2,552,500
Private equity	-	-	570,635	570,635
Total alternative investments	-	10,512,433	13,576,701	24,089,134
Total investments	77,658,446	15,948,472	13,576,701	107,183,619
Beneficial interest in split-interest agreements				
	-	-	6,613,381	6,613,381
Total financial assets	\$ 77,658,446	\$ 15,948,472	\$ 20,190,082	\$ 113,797,000

Triangle Community Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 4. 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 June 30, 2011 and 2010:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)						Beneficial Interests in Split-Interest Agreements	Total
	Alternative Investments					Total		
	Multi- Strategy	Global Macro	Distressed	Private Equity				
Beginning balance, July 1, 2009	\$ 10,298,784	\$ 7,093,818	\$ 2,506,416	\$ 407,991	\$ 20,307,009	\$ 7,629,089	\$ 27,936,098	
Transfers out of Level 3	(6,206,010)	(2,637,380)			(8,843,390)	-	(8,843,390)	
Purchases and sales (net)	750,000	1,000,000	-	371,284	2,121,284	-	2,121,284	
Realized and unrealized gains (losses)	491,468	334,287	46,084	(208,640)	663,199	(706,339)	(43,140)	
Distributions	-	(323,279)	-	-	(323,279)	-	(323,279)	
Impairment	-	(348,122)	-	-	(348,122)	-	(348,122)	
Payments received on split-interest agreements	-	-	-	-	-	(309,369)	(309,369)	
Ending balance, June 30, 2010	5,334,242	5,119,324	2,552,500	570,635	13,576,701	6,613,381	20,190,082	
Purchases and sales (net)	771,146	-	-	684,307	1,455,453	-	1,455,453	
Realized and unrealized gains	553,529	682,102	153,564	62,970	1,452,165	1,644,777	3,096,942	
Distributions	(795,349)	(156,396)	-	(879)	(952,624)	-	(952,624)	
Payments received on split-interest agreements	-	-	-	-	-	(123,268)	(123,268)	
Ending balance, June 30, 2011	\$ 5,863,568	\$ 5,645,030	\$ 2,706,064	\$ 1,317,033	\$ 15,531,695	\$ 8,134,890	\$ 23,666,585	

The amount of realized and unrealized gains (losses) included in change in net assets attributable to the change in unrealized gains relating to Level 3 investments held at June 30, 2011 and 2010 are as follows:

	2011	2010
Alternative investments:		
Multi-Strategy	\$ 629,629	\$ (93,998)
Global Macro	444,130	18,126
Distressed	(143,952)	42,532
Private Equity	318,474	(51,801)
	\$ 1,248,281	\$ (85,141)

Triangle Community Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 4. Fair Value Measurements (Continued)

The following tables present the Foundation's investments with a reported net asset value or equivalent at June 30, 2011 and 2010:

2011				
Strategy Category	Fair Value	Redemption Frequency (if Currently Eligible)	Redemption Notice Period (in Days)	Unfunded Commitments
Multi-Strategy ^(a)				
TIFF Absolute Return Pool II	\$ 5,863,568	n/a	100	\$ -
Advisory Research Small Cap Value Fund II, LP	4,385,682	Quarterly	30	-
Champlain Small Cap Fund, LLC	2,493,451	Monthly	15	-
ACM Financial Trust, Inc.	1,500,000	Monthly	30	-
Multi-Strategy total	\$ 14,242,701			\$ -
Global Macro ^(b)				
Forester Offshore, Ltd.	\$ 5,645,030	n/a	30	\$ -
Colchester Global Bond Fund	4,485,727	10 days	10	-
Gryphon International EAFE Growth Group Fund	9,111,448	15 days	2	-
Mondrian Emerging Markets Debt Fund, LP	2,562,617	Monthly	15	-
Global Macro total	\$ 21,804,822			\$ -
Distressed ^(c)				
Regiment Capital Ltd.	\$ 2,706,064	Annually	90	\$ -
Private Equity ^(d)				
TIFF Private Equity Partners 2009, LLC	\$ 287,812	n/a	n/a	\$ 733,125
NorthGate IV, LP	673,315	n/a	n/a	430,000
Perennial Real Estate Fund II, LP	107,265	n/a	n/a	1,850,000
Parish Capital III, LP	248,641	n/a	n/a	777,561
Private Equity total	\$ 1,317,033			\$ 3,790,686

Triangle Community Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 4. Fair Value Measurements (Continued)

2010				
Strategy Category	Fair Value	Redemption Frequency (if Currently Eligible)	Redemption Notice Period (in Days)	Unfunded Commitments
Multi-Strategy ^(a)				
TIFF Absolute Return Pool II	\$ 5,334,242	n/a	100	\$ -
Advisory Research Small Cap Value Fund II, LP	3,214,541	Quarterly	30	-
Champlain Small Cap Fund, LLC	3,163,168	Monthly	15	-
Multi-Strategy total	\$ 11,711,951			\$ -
Global Macro ^(b)				
Forester Offshore, Ltd.	\$ 5,009,390	n/a	10 - 30	\$ -
Colchester Global Bond Fund	4,134,724	10 days	10	-
Russell Alternative Strategies Fund II, plc	109,934	n/a	n/a	-
Global Macro total	\$ 9,254,048			\$ -
Distressed ^(c)				
Regiment Capital Ltd.	\$ 2,552,500	Annually	90	\$ -
Private Equity ^(d)				
TIFF Private Equity Partners 2009, LLC	\$ 96,829	n/a	n/a	\$ 924,250
NorthGate IV, LP	435,074	n/a	n/a	600,000
Perennial Real Estate Fund II, LP	38,732	n/a	n/a	1,920,000
Parish Capital III, LP	-	n/a	n/a	1,000,000
Private Equity total	\$ 570,635			\$ 4,444,250

(a) This category includes a combination of some or all of the other strategies. Managers have the flexibility to invest across all asset classes, and to change their allocations to various strategies and instruments as they see fit. Instruments include equities, options, futures, bonds, loans, derivatives, and others. Multi-Strategy funds may go long or short and typically use leverage to help diversify their allocations. The fair values of investments in this category have been estimated using the net asset value per share of the investments. The Foundation's investments in TIFF Absolute Return II, Advisory Research, Champlain Small Cap, and ACM Financial Trust, represent 41%, 31%, 18% and 10%, respectively, of this category at June 30, 2011. The investment in TIFF Absolute Return II is subject to lock-up periods expiring on December 31, 2012 and 2013. As a result, this investment is reflected in Level 3 of the fair value hierarchy at June 30, 2011 and 2010.

(b) This category includes investments in futures, equities, and debt. Managers try to predict global trends and will take more country or commodity specific views. Managers have the ability to go both long or short, and use leverage. The fair values of investments in this category have been estimated using the net asset value per share of the investments. The Foundation's investments in Forester Offshore, Colchester, Gryphon, and Mondrian, represent 26%, 21%, 42% and 11%, respectively, of this category at June 30, 2011. The investment in Forester Offshore is subject to a three year lock-up period. As a result, this investment is reflected in Level 3 of the fair value hierarchy at June 30, 2011 and 2010.

Triangle Community Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 4. Fair Value Measurements (Continued)

- (c) This category includes investments made into distressed or stressed companies. Managers can invest in any instrument across a company's capital structure, including equity, debt, bank loans, dips (debtor in possession), convertible bonds, and more. The manager can go long or short the various instruments, and may also use leverage. The fair values of investments in this category have been estimated using the net asset value per share of the investments. The Foundation's investment in Regiment represents 100% of this category.
- (d) This category includes investments made into companies that are not publicly traded on a stock exchange. Managers can make investments in companies to provide for expansion, new product development, and operational or capital restructuring. The Foundation's investments in TIFF Private Equity, Northgate, Perennial, and Parish, represent 22%, 51%, 8%, and 19%, respectively, of this category at June 30, 2011, and are structured as Limited Partnerships and subject to periodic capital calls and distributions. Private equity funds typically do not have redemption features (see Note 2). As a result, there is no determinable date for receipt of the proceeds from these investments.

Assets Measured at Fair Value on a Nonrecurring Basis

The following tables summarize nonfinancial assets measured at fair value on a nonrecurring basis by classification within the fair value hierarchy as of June 30, 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 Losses
Assets				
Real estate held for sale	\$ -	\$ -	\$ 3,115,100	\$ (153,125)

	2010			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Gains
Assets				
Real estate held for sale	\$ -	\$ -	\$ 3,268,225	\$ 116,556

The Foundation holds interests in donated real estate with an estimated fair value of \$3,115,100 and \$3,268,225 at June 30, 2011 and 2010, respectively. During the years ended June 30, 2011 and 2010, the Foundation recorded a write-down of \$153,125 and write-up of \$116,556, respectively, related to estimated net realizable value of individual parcels of land. The amounts reported in the accompanying consolidated statements of financial position include management's estimates of fair market value. Such estimates involve an analysis of various real estate market information, including the availability of contemporaneous appraisals.

Triangle Community Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 5. Temporarily Restricted Net Assets

Temporarily restricted net assets at June 30, 2011 and 2010 are available in future years for the following purposes:

	2011	2010
Split-interest agreements	\$ 8,134,890	\$ 6,613,381

During 2011 and 2010, net assets of \$123,268 and \$381,787, respectively, were released from donor restriction by meeting the restricted purpose or by the passage of time.

Note 6. Endowment Funds

The Foundation's endowment consists of one donor restricted endowment fund with the Durham Arts Council Fund of the Triangle Community Foundation, an affiliated supporting organization included in the consolidated financial statements. The Foundation has no Board designated endowments at June 30, 2011 or 2010. As required by GAAP, 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 an endowment under the Uniform Prudent Management of Institutional Funds Act ("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

The Foundation's spending and investment policies establish an achievable return objective through diversification of asset classes that will earn a sufficient long-term return that exceeds inflation and spending. To achieve this return, the Foundation must assume a moderate level of risk with 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.

Triangle Community Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 6. Endowment Funds (Continued)

The Foundation's current general spending policy is to distribute an amount equal to 5% of a rolling thirteen 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. The one fund had deficiencies of \$48,882 and \$66,760 at June 30, 2011 and 2010, respectively, primarily due to appropriations and market losses.

The following table summarizes changes in endowment net assets for the years ended June 30, 2011 and 2010:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, July 1, 2009	\$ -	\$ 743	\$ 750,631	\$ 751,374
Interest and other investment income, net of fees	-	22,264	-	22,264
Realized and unrealized losses	(14,001)	(23,007)	-	(37,008)
Appropriations of endowment assets	(52,759)	-	-	(52,759)
Endowment net assets, June 30, 2010	(66,760)	-	750,631	683,871
Interest and other investment income, net of fees	12,871	-	-	12,871
Realized and unrealized gains	170,930	-	-	170,930
Appropriations of endowment assets	(165,923)	-	-	(165,923)
Endowment net assets, June 30, 2011	\$ (48,882)	\$ -	\$ 750,631	\$ 701,749

Triangle Community Foundation, Inc. and Affiliates

Notes to Consolidated Financial Statements

Note 7. Assets Held on Behalf of Other Organizations

Activity for the years ended June 30, 2011 and 2010 related to assets held on behalf of other organizations is as follows:

	2011	2010
Contributions	\$ 235,603	\$ 124,221
Interest and dividend income	112,565	117,100
Net realized and unrealized gains	980,914	87,113
Other loss	(69,668)	(76,841)
Total increases	1,259,414	251,593
Less grantmaking	626,606	181,036
Change in assets held on behalf of other organizations	632,808	70,557
Assets held on behalf of other organizations:		
Beginning	6,093,329	6,022,772
Ending	<u>\$ 6,726,137</u>	<u>\$ 6,093,329</u>

Note 8. Operating Leases

The Foundation leases office space and equipment under non-cancelable operating leases. The leases generally are renewable and provide for the payment of real estate taxes and certain other occupancy expenses.

The future minimum annual rental commitments under these non-cancelable operating leases that have initial or remaining terms in excess of one year are as follows:

Year Ending June 30,	Amount
2012	\$ 94,522
2013	98,286
2014	101,968
2015	105,979
2016	109,611
Thereafter	74,714
	<u>\$ 585,080</u>

Rent expense for the years ended June 30, 2011 and 2010 was \$93,851 and \$90,643, respectively.

Note 9. Retirement Plan

The Foundation adopted a defined contribution retirement plan effective October 1, 2006. All full-time employees are eligible to participate in the plan when they have completed six months of service and are vested 100% from the date of eligibility. The Foundation contributed 6% of each employee's salary during each of the years ended June 30, 2011 and 2010. The expense related to this plan was \$63,667 and \$63,380 for the years ended June 30, 2011 and 2010, respectively.