DANVILLE REGIONAL FOUNDATION

Financial Statements

For The Years Ended December 31, 2009 and 2008

and

Report Thereon

RAFFA

CONSULTING
ACCOUNTING
TECHNOLOGY

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Danville Regional Foundation

We have audited the accompanying statements of financial position of the Danville Regional Foundation (the Foundation) as of December 31, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2009 and 2008 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in Notes 1 and 2, the financial statements include investments valued at $88,701,483 (53% of net assets) and $83,946,593 (56% of net assets) at December 31, 2009 and 2008, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Also discussed in Notes 1 and 2 is the information used by management in making these estimates.

Raffa P.C.

RAFFA, P.C.

Washington, DC
June 18, 2010

DANVILLE REGIONAL FOUNDATION

STATEMENTS OF FINANCIAL POSITION

December 31, 2009 and 2008

	2009	2008
ASSETS		
Cash and cash equivalents	$ 2,494,678	$ 2,954,453
Investments	168,502,470	155,010,258
Accrued interest receivable	55,293	131,453
Prepaid expenses	55,489	59,698
Federal excise tax receivable	34,590	-
Furniture and equipment, net of accumulated depreciation of $64,749 and $33,247, respectively	44,179	66,214
TOTAL ASSETS	$ 171,186,699	$ 158,222,076
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	$ 237,650	$ 160,909
Grants payable	4,322,266	6,877,832
Federal excise tax payable	-	9,421
Federal deferred excise tax	130,486	-
TOTAL LIABILITIES	4,690,402	7,048,162
Net Assets		
Unrestricted	166,496,297	151,173,914
TOTAL NET ASSETS	166,496,297	151,173,914
TOTAL LIABILITIES AND NET ASSETS	$ 171,186,699	$ 158,222,076

The accompanying notes are an integral part of these financial statements.

DANVILLE REGIONAL FOUNDATION

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2009 and 2008

	2009	2008
REVENUE AND SUPPORT		
Investment income (loss), net of investment expenses of of $684,985 and $906,873 for 2009 and 2008, respectively	$ 19,408,596	$ (50,358,267)
TOTAL REVENUE AND SUPPORT	19,408,596	(50,358,267)
EXPENSES		
Program Services:		
Grants:		
Responsive grant-making	1,392,996	5,196,900
Foundation initiated	1,030,589	2,547,545
Special opportunities	-	3,200,000
Total Program Services	2,423,585	10,944,445
Supporting Services:		
General and administrative		
Salaries and benefits	1,009,168	865,882
Professional fees	174,360	151,365
Occupancy	62,415	54,000
Insurance	59,917	61,907
Special events	52,697	5,640
Dues and subscriptions	35,404	9,263
Depreciation	31,502	23,389
Federal excise taxes	27,251	96,121
Telephone	19,803	16,878
Miscellaneous	18,118	13,503
Meetings	16,982	17,630
Office supplies	8,657	26,332
Promotional fees	7,467	23,343
Travel	5,599	18,008
Postage	2,802	2,653
Total Supporting Services	1,532,142	1,385,914
TOTAL EXPENSES	3,955,727	12,330,359
Change in unrestricted net assets before provision for deferred federal excise tax expense (benefit)	15,452,869	(62,688,626)
Provision for deferred federal excise tax expense (benefit)	130,486	(369,262)
Change in Unrestricted Net Assets	15,322,383	(62,319,364)
NET ASSETS, BEGINNING OF YEAR	151,173,914	213,493,278
NET ASSETS, END OF YEAR	$ 166,496,297	$ 151,173,914

The accompanying notes are an integral part of these financial statements.

DANVILLE REGIONAL FOUNDATION

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2009 and 2008

Increase (Decrease) in Cash and Cash Equivalents

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 15,322,383	$ (62,319,364)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Realized losses on investments	10,798,343	15,186,642
Unrealized (gains) losses on investments	(27,229,261)	39,275,945
Depreciation	31,502	23,389
Provision for deferred federal excise tax expense (benefit)	130,486	(369,262)
Changes in assets and liabilities:		
Accrued interest receivable	76,160	(29,615)
Prepaid expenses	4,209	(22,289)
Federal excise tax receivable	(34,590)	-
Accounts payable and accrued expenses	76,741	(145,907)
Grants payable	(2,555,566)	6,877,832
Federal excise tax payable	(9,421)	(6,010)
NET CASH USED IN OPERATING ACTIVITIES	(3,389,014)	(1,528,639)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments	(160,604,410)	(131,280,527)
Proceeds from the sale of investments	163,543,116	132,407,913
Acquisition of furniture and equipment	(9,467)	(37,423)
NET CASH PROVIDED BY INVESTING ACTVITIES	2,929,239	1,089,963
NET DECREASE IN CASH AND CASH EQUIVALENTS	(459,775)	(438,676)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,954,453	3,393,129
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,494,678	$ 2,954,453
SUPPLEMENTAL CASH FLOW INFORMATION		
Actual cash payments for excise taxes	$ 70,937	$ 101,203

The accompanying notes are an integral part of these financial statements.

1. Organization and Summary of Significant Accounting Policies

Organization

The Danville Regional Foundation (the Foundation) was incorporated July 2005 under the laws of the Commonwealth of Virginia. The Foundation seeks to develop, promote and support activities, programs and organizations that improve the health, welfare and education of the residents of the City of Danville, VA; Pittsylvania County, VA and Caswell County, NC. The Foundation was created by a grant from the Danville Regional Health System. The Foundation's activities are supported by this grant and the income from the Foundation's investment portfolio.

Cash Equivalents

The Foundation considers all money market funds, other than those included in the investment fund designated for the deferred compensation plan as described in Note 5 of these financial statements, to be cash equivalents.

Investments

Investments include five investment funds considered to be alternative investment funds as such funds are not traded in an established market with published values. Additionally, access to participation in these funds is limited and at the fund's discretion and approval and liquidation of the Foundation's interests may be subject to various restrictions imposed by the fund managers. Also included in investments are common stocks, an equity mutual fund and a bond mutual fund and money market funds designated to fund the Foundation's deferred compensation liability. The common stocks and mutual funds are recorded in the accompanying financial statements at their fair value, as based upon quoted market prices, as of December 31st.

The alternative investment funds consist of three commingled funds comprised of common collective trusts, a limited partnership fund which is invested in industrial grade timberland properties, a limited partnership fund which is invested in various domestic and international equities, a commingled real estate investment fund and a foreign feeder fund in a master-feeder structure. These investments are recorded in the accompanying financial statements at their fair value, as provided by the investment custodian. The Foundation has adopted the provisions of the Financial Accounting Standards Board's (FASB's) Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which permit, as a practical expedient, the fair value of certain alternative investments within its scope to be estimated using net asset value or its equivalent as reported by the investee.

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

Investments (continued)

The commingled funds consist of government credit bond index funds and a growth index fund. These funds are invested in registered investment companies, collective investment funds, fixed income investments and equities and also include derivative instruments such as futures contracts. The funds are valued at their respective net asset value per share/unit as of December 31st. Additionally, certain of these funds' investments in collective investment funds participate in securities lending. The value, liquidity and related income of these securities are sensitive to changes in economic conditions, including real estate values.

The timberland partnership fund consists of timber holdings which are valued at estimated market values based upon appraisal reports prepared by independent appraisers. Future revenue from this fund will arise principally from the sales of timber. Sales by the fund of its timber holdings are dependent on the economic conditions of the housing and pulp and paper products industries and the corresponding demand for wood and wood products. Changes in the economic condition of these industries and the corresponding demand for wood and wood products will affect future revenue of this fund and the estimated market value of its timber holdings.

The limited partnership fund consists of domestic and foreign securities valued at the last reported sales price or the latest bid quotation. Foreign securities are translated at each valuation date from the local currency into U.S. dollars using current exchange rates.

The commingled real estate investment fund consists of real estate investments which are recorded at their estimated fair value, determined in accordance with the policies and procedures of the Appraisal Standards Board and the Appraisal Foundation. Investment values are determined quarterly from limited restricted appraisals, in accordance with the Uniform Standards of Professional Appraisal Practice. Full appraisal reports are prepared on a rotating basis for all properties held by the fund so each property receives a full appraisal report at least once every three years. Ultimate realization of the fair values is dependent upon economic and other conditions in the markets in which individual properties are located. Given the inherent uncertainty of real estate valuations related to assumptions regarding capitalization rates, discount rates, leasing and other factors, the estimated market values provided by the Foundation's investment manager may differ from values that would be determined by negotiation between independent parties in sales transactions, and the difference could be material.

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

Investments (continued)

The foreign feeder fund includes equity and equity related investments in private equity partnerships acquired through secondary market transactions. These private equity partnerships include investments in public and private companies that are in distress or trading at distressed levels and likely to restructure, reorganize or liquidate; private equity related investments in growth oriented energy, healthcare and media companies; industrial buyouts of mature companies and opportunistic investments in the communications sector; biopharma and medical device companies and early stage companies in a wide range of technologies in the information technology and health/life sciences sectors.

Because of the inherent uncertainty of the valuation of each of the Foundation's alternative investment funds, the values used for these investments may differ significantly from the value that would have been used had a ready market for the investments existed.

Fair Value Measurements

In accordance with the fair value measurements and disclosures topic of the FASB Accounting Standards Codification (ASC), the Foundation has categorized its applicable financial instruments into a required fair value hierarchy. 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). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

As of and for the years ended December 31, 2009 and 2008, the Foundation's assets and liabilities which were measured at fair value on a recurring basis and subject to the disclosure requirements of the fair value measurements and disclosures topic of the FASB ASC include only its investments, as described in Note 2 of these financial statements.

Applicable financial assets and liabilities are categorized based on the inputs to the valuation techniques as follows:

Level 1

Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Foundation has the ability to access. This classification is applied to any investment of the Foundation that has a readily available quoted market price from an active market where there is significant transparency in the executed/quoted market price.

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

Fair Value Measurements (continued)

Level 2

Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for substantially the full term of the asset or liability. This classification is applied to investments that have evaluated prices received from fixed income vendors where the data inputs to these valuations do not represent quoted prices from an active market but do represent quoted prices of similarly structured securities.

Level 3

Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect assumptions by management of the Foundation about the assumptions a market participant would use in pricing the asset or liability. This classification is applied to investments of the Foundation for which there is no established trading market. Fair value is generally determined based on the fund's net asset value (NAV) as provided by the fund's management using a variety of methodologies relevant to the particular investment portfolio that combine primary market data available from national securities exchanges for underlying securities that are actively traded as well as other factors that lead to a determination of a fair value at a different amount.

Fair Value of Financial Instruments

Disclosure of the estimated fair value of financial instruments is required by FASB ASC 825, *Financial Instruments*. Cash and cash equivalents reflect amounts that approximate fair value due to the short maturity of these instruments. The fair value measurement of investments is as described above.

Furniture and Equipment and Related Depreciation

Furniture and equipment are stated at cost. Depreciation is provided principally on a straight-line basis over the estimated useful lives of the respective assets which range from three to five years. Maintenance and repairs are charged to expense when incurred; major improvements are capitalized. Upon retirement or disposal of assets, the accounts are relieved of the cost and accumulated depreciation with any resulting gain or loss included in revenue or expense.

Classification of Net Assets

Unrestricted net assets represent the portion of expendable funds that are available for support of the Foundation's operations.

Continued

1. Organization and Summary of Significant Accounting Policies (continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Investments

The Foundation has used the following fair value measurements as of December 31, 2009:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common stock	$ 69,795,375	$ 69,795,375	$ -	$ -
Commingled funds – common collective trusts	44,593,710	-	-	44,593,710
Timberland partnership fund	19,451,775	-	-	19,451,775
Limited partnership fund	16,178,176	-	-	16,178,176
Equity mutual fund	9,973,010	9,973,010	-	-
Commingled real estate investment fund	7,329,108	-	-	7,329,108
Offshore feeder fund	1,148,714	-	-	1,148,714
Bond mutual fund and money market holdings	32,602	32,602	-	-
Total	$168,502,470	$ 79,800,987	$ -	$ 88,701,483

2. Investments (continued)

The Foundation has used the following fair value measurements as of December 31, 2008:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common stock	$ 65,175,119	$ 65,175,119	$ -	$ -
Commingled funds - common collective trusts	40,380,166	-	-	40,380,166
Timberland partnership fund	20,302,406	-	-	20,302,406
Limited partnership fund	12,296,216	-	-	12,296,216
Equity mutual fund	5,872,737	5,872,737	-	-
Commingled real estate investment fund	10,967,805	-	-	10,967,805
Bond mutual fund and money market holdings	15,809	15,809	-	-
Total	$155,010,258	$ 71,063,665	$ -	$ 83,946,593

Fair value measurements as of December 31, 2009 and 2008 using significant unobservable inputs (Level 3) include the Foundation's alternative investment funds:

Beginning balance at December 31, 2007	$ 93,289,738
Purchases	17,234,054
Realized gains	379,307
Unrealized losses	(9,177,320)
Sales	(17,779,186)
Transfers in/out of Level 3	-
Balance as of December 31, 2008	$ 83,946,593
Purchases	60,976,073
Realized losses	(1,382,316)
Unrealized gains	3,210,522
Sales	(58,049,389)
Transfers in/out of Level 3	-
Balance as of December 31, 2009	$ 88,701,483

Continued

2. Investments (continued)

The total net unrealized gains of $3,210,522 for the year ended December 31, 2009 from the Foundation's alternative investment funds were from five alternative investment funds, each of which was held by the Foundation as of December 31, 2009. The total net unrealized losses of $9,177,320 for the year ended December 31, 2008 from the Foundation's alternative investment funds were from four alternative investment funds, each of which was held by the Foundation as of December 31, 2008. All such unrealized gains and losses from the alternative investment funds are included in net investment income (loss) in the accompanying statements of activities for the years ended December 31, 2009 and 2008.

Of the Foundation's five alternative investment funds, the offshore feeder fund had an outstanding capital commitment of $6,687,412 as of December 31, 2009. Such capital contributions are due when called by the fund manager. There were no other outstanding capital commitments as of December 31, 2009 or 2008.

All five of the Foundation's alternative investment funds have various redemption restrictions which may be exercised at the discretion of the fund's managers and are dependent upon available cash of the fund as well as considerations of the fund manager including the protection of the interests of other investors in the fund. The commingled funds which participate in securities lending permit a maximum of 4% of the Foundation's interest to be withdrawn per month.

The fair value and cost of the Foundation's investments are summarized as follows:

	December 31, 2009		December 31, 2008	
	Cost	Fair Value	Cost	Fair Value
Common stock	$ 61,893,269	$ 69,795,375	$ 77,406,534	$65,175,119
Commingled funds – common collective trusts	44,385,644	44,593,710	39,575,630	40,380,166
Timberland partnership fund	17,105,247	19,451,775	17,883,638	20,302,406
Limited partnership fund	16,960,795	16,178,176	20,215,335	12,296,216
Equity mutual fund	10,535,895	9,973,010	10,285,046	5,872,737
Commingled real estate investment fund	10,269,074	7,329,108	10,350,148	10,967,805
Offshore feeder fund	812,588	1,148,714	-	-
Bond mutual fund	4,188	4,327	3,994	4,110
Money market fund	28,275	28,275	11,699	11,699
Total	$161,994,975	$168,502,470	$175,732,024	$155,010,258

2. Investments (continued)

Investment returns are summarized as follows:

	2009	2008
Interest, dividends and other partnership earnings	$ 3,634,278	$ 4,265,148
Capital gain dividends	-	643,689
Realized losses	(10,798,343)	(15,186,642)
Unrealized gains (losses)	27,229,261	(39,275,945)
Subtotal	20,065,196	(49,553,750)
Investment management and consulting fees	(684,985)	(906,873)
Total	$ 19,380,211	$(50,460,623)

Also included in investment income in the accompanying statements of activities is the interest of $28,385 and $102,356 earned on cash and cash equivalents for the years ended December 31, 2009 and 2008, respectively.

3. Grants Payable

The Foundation awards grants to various nonprofit organizations. As of December 31, 2009, The Foundation had unconditionally promised to give $4,322,266 in grants which are due to paid as follows:

Less than one year	$ 2,841,676
One to five years	1,480,590
Total	$ 4,322,266

The present value factor of grants payable due in one to five years was not considered significant to the Foundation's financial statements and, accordingly, not recognized in these financial statements.

4. Grant Award Commitments

As of December 31, 2009 and 2008, the Foundation had conditionally promised future grant awards totaling $9,167,400 and $1,893,000, respectively, to various organizations. As the amount of the liability for these grant awards is contingent upon the grantees meeting certain requirements, these amounts have not been reflected as a liability as of December 31, 2009 and 2008, respectively, in the accompanying financial statements.

Continued

5. Pension Plans

Effective January 1, 2007, the Foundation offers a defined contribution plan under Section 403(b) of the Internal Revenue Code. Under the 403(b) plan, eligible employees may elect to contribute up to the Federal tax limitation. Eligible employees are those who have worked for the Foundation for at least six months. Any employer contribution is determined at the discretion of the Board of Directors of the Foundation. Pension expense for the years ended December 31, 2009 and 2008 was $65,482 and $48,837, respectively, and is included in salaries and benefits in the accompanying statements of activities.

The Foundation also offers its President and CEO an opportunity to defer compensation pursuant to section 457(b) of the Internal Revenue Code. The plan was effective January 1, 2008 and the participant is immediately 100% vested. Contributions to this plan and to the 403(b) plan on behalf of the Foundation's President and CEO are specified in the Foundation's employment agreement with its President and CEO. Total contributions to this plan for the years ended December 31, 2009 and 2008 were $16,500 and $15,500, respectively.

6. Income Taxes

The Foundation is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (IRC) and has been classified as a private foundation under Section 509(a) of the IRC. As a private foundation, the Foundation is subject to an excise tax of 1% or 2% on its net investment income which excludes unrealized gains and losses. The applicable excise tax rate is dependent upon the amount of qualifying distributions made by the Foundation and additional excise tax penalties may be assessed if certain minimum distributions are not made. It is the Foundation's policy to make annual qualifying distributions in excess of the minimum required.

For the years ended December 31, 2009 and 2008, the Foundation was subject to an excise tax rate of 1% and 2%, respectively, though qualifying distributions in excess of the minimum required were made each year.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income or expense in the period that includes the enactment date. Temporary differences that give rise to the deferred tax liability and asset of the Foundation as of December 31, 2009 and 2008, respectively, are comprised of the net appreciation or depreciation on investments.

Continued

6. Income Taxes (continued)

As of December 31, 2009 and 2008, the Foundation calculated its deferred tax liability and asset, respectively, using an excise tax rate of 2%, representing the excise tax rate the Foundation expects to be subject to in the following year.

The deferred excise tax liability of $130,486 as of December 31, 2009 represents the federal excise tax on the net unrealized appreciation on investments.

The Foundation had a cumulative net unrealized depreciation on investments as of December 31, 2008 which resulted in a deferred tax asset of approximately $416,000. The deferred tax asset was fully reserved by management due to the uncertainty over the ability to recognize any future tax benefit.

The federal excise tax expense of $27,251 and $96,121 for the years ended December 31, 2009 and 2008, respectively, represents current excise taxes. As of December 31, 2009, the Foundation had a federal excise tax receivable of $34,590 and as of December 31, 2008, the Foundation had a federal excise tax payable of $9,421.

The Foundation reviews and assesses all activities annually to identify any changes in the scope of the activities and revenue sources and the tax treatment thereof to identify any uncertain tax positions. For the years ended December 31, 2009 and 2008, management did not identify any uncertain tax positions requiring recognition or disclosure in these financial statements. Tax years reasonably considered open and subject to examination include returns for the years ended December 31, 2006 through 2008.

7. Reclassifications

Certain 2008 amounts have been reclassified to conform with the 2009 financial statement presentation.

8. Subsequent Events

The Foundation's management has evaluated subsequent events through June 18, 2010, the date the financial statements were available to be issued. There were no subsequent events identified through June 18, 2010 required to be disclosed in these financial statements.