DRF

A Bridge to the Future

Financial Statements

For The Years Ended December 31, 2012 and 2011

and
Report Thereon

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Danville Regional Foundation

Report on the Financial Statements

We have audited the accompanying financial statements of the Danville Regional Foundation (the Foundation), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Continued

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Danville Regional Foundation as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Raffa, P.C.

Raffa, P.C.

Washington, DC

September 16, 2013

DANVILLE REGIONAL FOUNDATION

STATEMENTS OF FINANCIAL POSITION
December 31, 2012 and 2011

	2012	2011
ASSETS		
Cash and cash equivalents	$ 1,533,022	$ 1,348,366
Investments	186,187,230	176,785,724
Prepaid expenses	71,889	35,081
Federal excise tax receivable	7,681	20,999
Property and equipment, net of accumulated depreciation and amortization of $154,522 and $111,489, respectively	990,435	1,020,060
TOTAL ASSETS	$ 188,790,257	$ 179,210,230
LIABILITIES AND NET ASSETS		
Accrued wages and benefits	$ 367,593	$ 272,065
Accounts payable and other accrued expenses	120,165	213,032
Grants payable	13,478,830	16,404,429
Capital lease obligation	863,520	888,943
Deferred federal excise tax	273,347	138,538
TOTAL LIABILITIES	15,103,455	17,917,007
Net Assets - Unrestricted	173,686,802	161,293,223
TOTAL NET ASSETS	173,686,802	161,293,223
TOTAL LIABILITIES AND NET ASSETS	$ 188,790,257	$ 179,210,230

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

DANVILLE REGIONAL FOUNDATION

STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2012 and 2011

	2012	2011
REVENUE AND SUPPORT		
Investment income, net of investment expenses	$ 20,835,869	$ 165,764
Other	14,524	3,093
TOTAL REVENUE AND SUPPORT	20,850,393	168,857
EXPENSES		
Program Services:		
Grants:		
Foundation initiated	3,932,115	565,443
Responsive grant-making	1,829,302	11,154,128
Make it happen	163,544	291,132
President's discretionary fund	153,743	100,438
Special opportunities	-	1,347,843
Total Program Services	6,078,704	13,458,984
Supporting Services:		
General and administrative:		
Salaries and benefits	1,259,603	1,289,424
Professional fees	397,217	783,839
Promotional fees	88,779	69,914
Special events	88,282	52,925
Depreciation and amortization	71,483	24,002
Interest	47,837	4,048
Board expenses	40,619	23,296
Miscellaneous	36,423	39,234
Occupancy	35,822	51,352
Insurance	33,926	32,097
Dues and subscriptions	29,638	30,870
Telephone	16,811	22,373
Travel	11,300	7,527
Office supplies	9,117	14,523
Postage	3,126	2,916
Total General and Administrative	2,169,983	2,448,340
Provision (Benefit) for Federal Excise Tax		
Current	73,318	81,091
Deferred	134,809	(77,719)
Total Provision for Federal Excise Tax	208,127	3,372
Total Supporting Services	2,378,110	2,451,712
TOTAL EXPENSES	8,456,814	15,910,696
Change in Unrestricted Net Assets	12,393,579	(15,741,839)
NET ASSETS, BEGINNING OF YEAR	161,293,223	177,035,062
NET ASSETS, END OF YEAR	$ 173,686,802	$ 161,293,223

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

DANVILLE REGIONAL FOUNDATION

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2012 and 2011
Increase (Decrease) in Cash and Cash Equivalents

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 12,393,579	$ (15,741,839)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Realized gains on investments	(4,978,645)	(5,076,956)
Unrealized (gains) losses on investments	(13,480,915)	7,771,958
Depreciation and amortization	71,483	24,002
Provision for deferred federal excise tax expense (benefit)	134,809	(77,719)
Changes in assets and liabilities:		
Prepaid expenses	(36,808)	(13,294)
Federal excise tax receivable	13,318	(20,999)
Accrued wages and benefits	95,528	165,610
Accounts payable and other accrued expenses	(92,867)	77,542
Grants payable	(2,925,599)	6,697,047
Federal excise tax payable	-	(15,820)
NET CASH USED IN OPERATING ACTIVITIES	(8,806,117)	(6,210,468)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments	(50,999,991)	(30,991,951)
Proceeds from the sale of investments	60,058,045	37,563,489
Acquisition of property and equipment	(41,858)	(131,621)
NET CASH PROVIDED BY INVESTING ACTVITIES	9,016,196	6,439,917
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments under capital lease obligation	(25,423)	(2,057)
NET CASH USED IN FINANCING ACTVITIES	(25,423)	(2,057)
NET INCREASE IN CASH AND CASH EQUIVALENTS	184,656	227,392
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,348,366	1,120,974
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,533,022	$ 1,348,366
SUPPLEMENTAL CASH FLOW INFORMATION		
Actual cash payments for excise taxes	$ 60,000	$ 117,910
Actual cash payments for interest	$ 47,837	$ 4,048
NONCASH FINANCING ACTIVTIES		
Building purchased under a capital lease	$ -	$ (891,000)
Obligation incurred under a capital lease	-	891,000
Net Cash Outlay	$ -	$ -

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) is a tax-exempt private foundation that was incorporated in 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 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, a growth index mutual fund, an institutional mutual fund and an equity mutual fund as well as 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 two commingled funds comprised of common collective trusts (State Street Bank and Trust Company SSgA Intermediate U.S. Government/Credit Bond Index Non-Lending QP Common Trust Fund and SSgA Russell 2000 Growth Index Securities Lending and Non-Lending QP Common Trust Fund), a limited partnership fund which is invested in industrial grade timberland properties (AmSouth Timber Company), a commingled real estate investment fund (Prime Property Fund), four feeder funds in master-feeder structures invested in equity related investments in private equity partnerships (Hamilton Lane Secondary Offshore Funds), and a limited partnership fund which is invested in various domestic and international equities (LSV International Value Equity). These investments are recorded in the accompanying financial statements at their fair value, as provided by the investment managers. 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 permits, 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.

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 value, liquidity and related income of these securities are sensitive to changes in economic conditions, including real estate values. These funds are valued in the accompanying financial statements at the net asset value per share as of December 31st.

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. This fund is valued in the accompanying financial statements at the net asset value per share as of December 31st.

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. This fund is valued in the accompanying financial statements at the net asset value per share as of December 31st.

The feeder funds include three foreign funds and one domestic fund. These four funds include 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 and may include venture capital, buyout, mezzanine capital (subordinated debt or preferred equity instruments), early stage companies and companies in distress or trading at distressed levels and likely to restructure, reorganize or liquidate. These funds are valued in the accompanying financial statements at the net asset value per share as of December 31st.

Continued

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

Investments (continued)

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. This fund is valued in the accompanying financial statements at the net asset value per share as of December 31st. The Foundation fully liquidated its investment in this fund as of December 31, 2012.

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 December 31, 2012 and 2011, 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.

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.

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

Fair Value Measurements (continued)

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. 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.

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. Grants payable that are expected to be paid within one year are recorded at net realizable value. Grants payable that are expected to be paid in future years are recorded at the present value of their estimated future cash flows using a discount commensurate with the risks identified. As disclosed in Note 3 to these financial statements, 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.

Property and Equipment and Related Depreciation and Amortization

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 seven years. The building is amortized over the lease term and leasehold improvements are amortized over the shorter of the remaining lease period or useful life of the improvements. 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 and amortization 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.

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.

Reclassifications

Certain 2011 amounts have been reclassified to conform with the 2012 presentation.

Continued

2. Investments

The following table summarizes the Foundation's investments at fair value as of December 31, 2012:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common stock:				
Financial	$ 7,154,914	$ 7,154,914	$ -	$ -
Consumer discretionary	6,893,431	6,893,431	-	-
Health care	5,585,233	5,585,233	-	-
Information technology	5,418,820	5,418,820	-	-
American depository receipt	5,110,217	5,110,217	-	-
Industrials	4,808,062	4,808,062	-	-
Energy	2,559,233	2,559,233	-	-
Materials	2,547,185	2,547,185	-	-
Consumer staples	2,194,896	2,194,896	-	-
Utilities	1,923,946	1,923,946	-	-
Real estate	204,415	204,415	-	-
Total common stock	44,400,352	44,400,352	-	-
State Street Intermediate U.S. Government/Credit Bond Index Trust Fund	28,418,201	-	-	28,418,201
State Street Growth Index Common Trust Fund	9,525,613	-	-	9,525,613
Growth index mutual fund [Vanguard]	35,493,766	35,493,766	-	-
Institutional mutual fund [Vanguard]	23,575,618	23,575,618	-	-
Timberland partnership fund [AmSouth Timber Co.]	17,368,855	-	-	17,368,855
Commingled real estate fund [Prime Property Fund]	10,861,809	-	-	10,861,809
Equity mutual fund [Lazard]	9,999,567	-	9,999,567	-
Feeder funds (4 private equity investment funds) [Hamilton Lane]	6,460,754	-	-	6,460,754
Bond mutual fund	5,100	5,100	-	-
Money market holdings	77,595	77,595	-	-
Total	$ 186,187,230	$ 103,552,431	$ 9,999,567	$ 72,635,232

2. Investments (continued)

The following table summarizes the Foundation's investments at fair value as of December 31, 2011:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common stock:				
Financial	$ 6,060,708	$ 6,060,708	$ -	$ -
Consumer discretionary	6,354,125	6,354,125	-	-
Health care	4,916,838	4,916,838	-	-
Information technology	5,473,844	5,473,844	-	-
American depository receipt	5,950,238	5,950,238	-	-
Industrials	4,046,042	4,046,042	-	-
Energy	3,054,201	3,054,201	-	-
Materials	1,976,809	1,976,809	-	-
Consumer staples	1,026,766	1,026,766	-	-
Utilities	1,714,306	1,714,306	-	-
Telecommunications	219,390	219,390	-	-
Total common stock	40,793,267	40,793,267	-	-
State Street Intermediate U.S. Government/Credit Bond Index Trust Fund	38,618,401	-	-	38,618,401
State Street Growth Index Common Trust Fund	8,308,890	-	-	8,308,890
Growth index mutual fund [Vanguard]	33,314,501	33,314,501	-	-
Timberland partnership fund [AmSouth Timber Co.]	17,465,563	-	-	17,465,563
Commingled real estate fund [Prime Property Fund]	9,817,810	-	-	9,817,810
Equity mutual fund [Lazard]	8,593,878	-	8,593,878	-
Feeder funds (2 private equity investment funds) [Hamilton Lane]	4,929,536	-	-	4,929,536
Bond mutual fund	4,983	4,983	-	-
Money market holdings	61,319	61,319	-	-
Limited partnership fund (equity securities) [LSV International Value Equity]	14,877,576	-	-	14,877,576
Total	$176,785,724	$ 74,174,070	$ 8,593,878	$ 94,017,776

Continued

2. Investments (continued)

The equity mutual fund in which the Foundation held an interest as of December 31, 2012 and 2011 is a publicly traded fund. The fund's fair value input level was classified as "level 2" as of December 31, 2012 and 2011 as the fund is not open to new investors and not considered to be actively traded. The valuation as of December 31, 2012 and 2011 was based upon the market value approach as published trading values were available for this fund.

The following table represents a roll forward of the fair value measurements as of December 31, 2012 and 2011 using significant unobservable inputs (Level 3):

	Commingled fund [State Street Intermediate U.S. Government / Credit Bond Index Trust Fund]	Commingled fund [State Street Growth Index Common Trust Fund]	Timberland partnership fund [AmSouth Timber Co.]	Commingled real estate fund [Prime Property Fund]	Feeder funds - private equity [Hamilton Lane]	Limited partnership fund [LSV International Value Equity]	Total
Balance - December 31, 2010	$ 37,163,993	$ 8,570,977	$ 18,374,970	$ 8,439,402	$ 3,817,190	$ 17,337,291	$ 93,703,823
Purchases	930,990	52,298	-	352,757	1,089,670	666,997	3,092,712
Realized gains	21,937	1,717	35,167	-	-	357,630	416,451
Unrealized (losses) gains	1,174,198	(309,270)	(224,574)	1,137,830	710,307	(3,354,112)	(865,621)
Sales	(672,717)	(6,832)	(720,000)	(112,179)	(687,631)	(130,230)	(2,329,589)
Transfers in/out of Level 3	-	-	-	-	-	-	-
Balance - December 31, 2011	$ 38,618,401	$ 8,308,890	$ 17,465,563	$ 9,817,810	$ 4,929,536	$ 14,877,576	$ 94,017,776
Purchases	-	-	-	297,324	2,316,567	60,291	2,674,182
Realized gains	655,442	2,229	85,424	-	-	758,523	1,501,618
Unrealized gains	691,641	1,221,433	357,868	883,366	800,412	860,189	4,814,909
Sales	(11,547,283)	(6,939)	(540,000)	(136,691)	(1,585,761)	(16,556,579)	(30,373,253)
Transfers in/out of Level 3	-	-	-	-	-	-	-
Balance - December 31, 2012	$ 28,418,201	$ 9,525,613	$ 17,368,855	$ 10,861,809	$ 6,460,754	$ -	$ 72,635,232

Continued

2. Investments (continued)

Total net unrealized gains from alternative investment funds for the year ended December 31, 2012 were $4,814,909, of which $3,954,720 related to assets held at December 31, 2012. Total net unrealized losses from alternative investment funds for the year ended December 31, 2011 were $865,621, all of which related to assets held at December 31, 2011.

All unrealized gains and losses from the alternative investment funds are included in net investment income in the accompanying statements of activities for the years ended December 31, 2012 and 2011.

The following details the Foundation's ability to redeem investment funds valued at NAV, or its equivalent, as of December 31, 2012 and includes any unfunded commitments of the Foundation to these funds as of December 31, 2012:

	Fair Value	Number of Funds	Unfunded Commitments	Redemption Restrictions
Commingled fund – State Street Intermediate U.S. Government/Credit Bond Index Trust Fund	$28,418,201	1	None	None
Commingled fund – State Street Growth Index Common Trust Fund	9,525,613	1	None	None
Timberland partnership fund [AmSouth Timber Co.]	17,368,855	1	None	Investors are not able to redeem their interests during the fund's "investment period" which terminates on December 31, 2016.
Commingled real estate fund [Prime Property Fund]	10,861,809	1	None	All shareholders have the right to request a redemption of shares on a quarterly basis which will be processed for payment at the end of the next calendar quarter.
Feeder funds [Hamilton Lane Secondary Offshore Fund]	6,460,754	4	$3,388,270 outstanding. Such capital commitments are due when called by the fund manager.	Investors are not able to redeem their interests until the end of the limited partnership terms which range from August 5, 2019 ($6,043,023) to December 12, 2023 ($359,384) to October 26, 2026 ($58,347). The terms for all may be extended by the General Partner of the fund for two successive one year terms.
Total	$72,635,232	8	$ 3,388,270	

Continued

2. Investments (continued)

The following details the Foundation's ability to redeem investment funds valued at NAV, or its equivalent, as of December 31, 2011 and includes any unfunded commitments of the Foundation to these funds as of December 31, 2011:

	Fair Value	Number of Funds	Unfunded Commitments	Redemption Restrictions
Commingled fund – State Street Intermediate U.S. Government/Credit Bond Index Trust Fund	$38,618,401	1	None	None
Commingled fund – State Street Growth Index Common Trust Fund	8,308,890	1	None	None
Timberland partnership fund [AmSouth Timber Co.]	17,465,563	1	None	Investors are not able to redeem their interests during the fund's "investment period" which terminates on December 31, 2016.
Commingled real estate fund [Prime Property Fund]	9,817,810	1	None	All shareholders have the right to request a redemption of shares on a quarterly basis which will be processed for payment at the end of the next calendar quarter.
Feeder funds [Hamilton Lane Secondary Offshore Fund]	4,929,536	2	$3,145,420 outstanding. Such capital commitments are due when called by the fund manager.	Investors are not able to redeem their interests until August 5, 2019 and the term may be extended by the General Partner of the fund for two successive one year terms.
Limited partnership fund [LSV International Value Equity]	14,877,576	1	None	None
Total	$94,017,776	7	$ 3,145,420	

2. Investments (continued)

Additional redemption restrictions may be exercised at the discretion of the fund manager 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 fair value and cost of the Foundation's investments are summarized as follows:

	December 31, 2012		December 31, 2011	
	Cost	Fair Value	Cost	Fair Value
Common stock	$ 38,611,123	$ 44,400,352	$ 37,276,637	$40,793,267
State Street Intermediate U.S. Government/Credit Bond Index Trust Fund	26,512,513	28,418,201	37,404,354	38,618,401
State Street Growth Index Common Trust Fund	6,219,892	9,525,613	6,224,602	8,308,890
Growth index mutual fund [Vanguard]	25,818,757	35,493,766	27,773,211	33,314,501
Institutional mutual fund [Vanguard]	22,720,975	23,575,618	-	-
Timberland partnership fund [AmSouth Timber Co.]	14,401,574	17,368,855	14,856,150	17,465,563
Commingled real estate fund [Prime Property Fund]	10,592,866	10,861,809	10,432,233	9,817,810
Equity mutual fund [Lazard]	9,686,937	9,999,567	9,686,367	8,593,878
Feeder funds (private equity investments) [Hamilton Lane Secondary Offshore Fund]	4,203,656	6,460,754	3,472,850	4,929,536
Bond mutual fund	4,997	5,100	4,806	4,983
Money market fund	77,595	77,595	61,319	61,319
Limited partnership fund (equity securities) [LSV International Value Equity]	-	-	15,737,765	14,877,576
Total	$158,850,885	$186,187,230	$162,930,294	$176,785,724

Continued

2. Investments (continued)

Investment returns are summarized as follows:

	2012	2011
Interest, dividends and other partnership earnings	$ 2,965,174	$ 3,542,033
Realized gains	4,978,645	5,076,956
Unrealized gains (losses)	13,480,915	(7,771,958)
Subtotal	21,424,734	847,031
Investment management and consulting fees	(588,865)	(681,267)
Total	$20,835,869	$ 165,764

Included in investment management and consulting fees are the fees of funds in which the Foundation is invested which separately report management fees. Certain of the funds in which the Foundation is invested do not report their management fees.

3. Grants Payable

The Foundation awards grants to various nonprofit organizations. As of December 31, 2012 and 2011, the Foundation had unconditionally promised to give $13,478,830 and $16,404,429, respectively, in grants which are due to be paid as follows:

	2012	2011
Less than one year	$ 10,055,817	$ 8,580,203
One to five years	3,423,013	7,824,226
Total	$ 13,478,830	$ 16,404,429

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. Commitments and Contingencies

Grant Award Commitments

As of December 31, 2012 and 2011, the Foundation had conditionally promised future grant awards totaling $9,556,048 and $1,343,000, respectively, to various organizations. As the amount of the liability for these grant awards is contingent upon the grantees meeting certain requirements, and, in certain instances the future requirements and obligations being defined, these amounts have not been reflected as a liability as of December 31, 2012 and 2011, respectively, in the accompanying financial statements.

Continued

4. Commitments and Contingencies (continued)

Concentration of Credit Risk

The Foundation's cash and cash equivalents are comprised of amounts in accounts at a financial institution. While the amount at times exceeds the amount guaranteed by federal agencies and, therefore, bears some risk, the Foundation has not experienced, nor does it anticipate, any loss of funds. As of December 31, 2012 and 2011, the Federal Deposit Insurance Corporation (FDIC) insured balances of a depositor, per financial institution in interest bearing accounts, up to $250,000. Non-interest bearing accounts at FDIC insured institutions were fully insured with no limit on the balance. The amount held by the Foundation in excess of the FDIC insured limit was $204,727 and $82,930 as of December 31, 2012 and 2011, respectively.

Effective January 1, 2013, non-interest bearing accounts at FDIC insured institutions are no longer insured separately and instead the balances of all accounts at FDIC insured institutions are aggregated and insured up to $250,000. There was no change in the amount held by the Foundation as of January 1, 2013 in excess of the FDIC insured limit as a result of the change in the insured limit.

Capital Lease

In January 2011, the Foundation, in partnership with Averett University of Danville (Averett), a third party unrelated to the Foundation, entered into a lease agreement which met the criteria for treatment as a capital lease by the Foundation, for a building in Danville, VA, which the Foundation uses for its office space. The lease was effective January 1, 2011 and has a ten year term with an option to renew for an additional ten years. The lease also affords the Foundation or Averett the right to purchase the property at any time for the remaining unpaid balance of the lessor's loan covering the building. If either or both the Foundation and Averett remain tenants for the full twenty year possible term of the lease and the lessor's loan is fully paid, either the Foundation, Averett or both will have the right to purchase the property for $10.

The lease provides for a base annual rent of $222,000 of which the Foundation is responsible for $73,260. The base annual rent may be adjusted at the beginning of the sixth year of the lease to reflect changes in the interest rate charged by the landlord's lender. Additionally, the Foundation and Averett may mutually revise the allocation of the base rent amongst themselves at any time. The lease gives the Foundation and Averett the right to lease portions of the building to other tenants. Any income generated from such future tenants will be applied to the base rent owed by the Foundation and Averett.

The total building cost was approximately $2.7 million. The Foundation capitalized and included in property and equipment its share of the building cost under the terms of the lease at a cost of $891,000 with accumulated amortization of $48,263 and $3,713 as of December 31, 2012 and 2011, respectively.

Continued

4. Commitments and Contingencies (continued)

Capital Lease

As of December 31, 2012, total future minimum annual lease payments under this lease for the Foundation are as follows:

For the Year Ending December 31,	
2013	$ 73,260
2014	73,260
2015	73,260
2016	73,260
2017	73,260
Thereafter	1,019,534
Total	1,385,834
Less: Amounts representing interest	(522,314)
Total capital lease obligation	$ 863,520

5. Pension Plans

Effective January 1, 2007, the Foundation offers a defined contribution plan under Section 403(b) of the Internal Revenue Code (IRC). 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, 2012 and 2011 was $75,835 and $68,690, 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 IRC Section 457(b). 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, 2012 and 2011 were $16,250 and $16,500, respectively and are included in salaries and benefits in the accompanying statements of activities. As of December 31, 2012 and 2011, the total liability for this plan was $82,696 and $66,303, respectively, and is included in accrued wages and benefits in the accompanying statements of financial position. The Foundation has internally set aside investments equal to the plan’s liability.

Continued

6. Income Taxes

The Foundation is exempt from federal income taxes under IRC Section 501(c)(3) 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, 2012 and 2011, the Foundation was subject to an excise tax rate of 1% and 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.

As of December 31, 2012 and 2011, the Foundation calculated its deferred tax liability using an excise tax rate of 1%, representing the excise tax rate the Foundation expects to be subject to in the following year. The deferred excise tax liability of $273,347 and $138,538 as of December 31, 2012 and 2011, respectively, represents the federal excise tax on the net unrealized appreciation on investments.

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, 2012 and 2011, management did not identify any uncertain tax positions requiring recognition or disclosure in these financial statements. As of December 31, 2012, tax years considered open and subject to examination include returns for the years ended December 31, 2009 through 2011.

7. Subsequent Events

The Foundation's management has evaluated subsequent events through September 16, 2013, the date the financial statements were available to be issued. There were no subsequent events identified through September 16, 2013 required to be disclosed in these financial statements.