



Financial Statements

For the Years Ended December 31, 2014 (Consolidated) and 2013



**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 consolidated financial statements of the Danville Regional Foundation and Subsidiaries (the Foundation), which comprise the consolidated statement of financial position as of December 31, 2014, and the related consolidated statements of activities and cash flows for the year then ended, and the related notes to the financial statements. We have also audited the accompanying financial statements of the Danville Regional Foundation, which comprise the statement of financial position as of December 31, 2013, and the related statements of activities and cash flows for the year 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.

Opinion

In our opinion, the 2014 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Danville Regional Foundation and Subsidiaries as of December 31, 2014, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America. Also, in our opinion, the 2013 financial statements present fairly, in all material respects, the financial position of the Danville Regional Foundation as of December 31, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Raffa, P.C.

Raffa, P.C.

Washington, DC

November 10, 2015

DANVILLE REGIONAL FOUNDATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2014 (Consolidated) and 2013

	2014	2013
ASSETS		
Cash and cash equivalents	\$ 1,034,787	\$ 225,501
Investments	217,657,570	213,359,688
Receivable for return of grant funds	110,460	424,810
Prepaid expenses and other assets	221,563	28,287
Property and equipment, net of accumulated depreciation and amortization of \$275,285 and \$225,834, respectively	934,064	926,762
TOTAL ASSETS	\$ 219,958,444	\$ 214,965,048
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ 614,729	\$ 563,395
Grants payable	14,002,169	4,483,012
Capital lease obligation	808,341	836,676
Note payable	250,000	-
Deferred federal excise tax	979,941	1,055,914
TOTAL LIABILITIES	16,655,180	6,938,997
Net Assets - Unrestricted	203,303,264	208,026,051
TOTAL NET ASSETS	203,303,264	208,026,051
TOTAL LIABILITIES AND NET ASSETS	\$ 219,958,444	\$ 214,965,048

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

DANVILLE REGIONAL FOUNDATION
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2014 (Consolidated) and 2013

	2014	2013
REVENUE AND SUPPORT		
Investment income, net of investment expenses	\$ 13,613,810	\$ 38,180,754
Returned grant funds	152,404	498,764
Other	4,920	4,115
	13,771,134	38,683,633
TOTAL REVENUE AND SUPPORT		
EXPENSES		
Program Services:		
Grants:		
Responsive	9,159,569	960,549
Foundation initiated	6,585,535	307,000
Total Program Services	15,745,104	1,267,549
Supporting Services:		
General and administrative:		
Salaries and benefits	1,376,622	1,268,194
Professional fees	564,421	340,646
Other	569,212	559,232
Total General and Administrative	2,510,255	2,168,072
Federal Excise Tax Provision (Benefit)		
Current	314,535	126,196
Deferred	(75,973)	782,567
Total Federal Excise Tax Provision	238,562	908,763
Total Supporting Services	2,748,817	3,076,835
TOTAL EXPENSES	18,493,921	4,344,384
Change in Unrestricted Net Assets	(4,722,787)	34,339,249
NET ASSETS, BEGINNING OF YEAR	208,026,051	173,686,802
NET ASSETS, END OF YEAR	\$ 203,303,264	\$ 208,026,051

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

DANVILLE REGIONAL FOUNDATION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2014 (Consolidated) and 2013
Increase (Decrease) in Cash and Cash Equivalents

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (4,722,787)	\$ 34,339,249
Adjustments to reconcile change in net assets to net cash used in operating activities		
Realized gains on investments	(11,310,286)	(10,884,481)
Unrealized losses (gains) on investments	278,852	(25,235,750)
Depreciation and amortization	74,704	71,312
Deferred federal excise tax provision (benefit)	(75,973)	782,567
Changes in assets and liabilities:		
Receivable for return of grant funds	314,350	(424,810)
Prepaid expenses and other assets	(193,276)	51,283
Accounts payable and accrued expenses	51,334	75,637
Grants payable	9,519,157	(8,995,818)
NET CASH USED IN OPERATING ACTIVITIES	(6,063,925)	(10,220,811)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments	(39,680,357)	(66,752,606)
Proceeds from the sale of investments	46,663,909	76,684,554
Acquisition of property and equipment	(82,006)	(7,639)
NET CASH PROVIDED BY INVESTING ACTIVITIES	6,901,546	9,924,309
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments under capital lease obligation	(28,335)	(26,844)
NET CASH USED IN FINANCING ACTIVITIES	(28,335)	(26,844)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	809,286	(323,346)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	225,501	548,847
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,034,787	\$ 225,501
SUPPLEMENTAL CASH FLOW INFORMATION		
Actual cash payments for excise taxes	\$ 265,000	\$ 120,000
Actual cash payments for interest	\$ 44,926	\$ 46,416
NONCASH INVESTING AND FINANCING ACTIVITIES		
Investment property acquired through seller's financing	\$ (250,000)	\$ -
Obligation incurred under a note payable	250,000	-
Net cash outlay	\$ -	\$ -

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

DANVILLE REGIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 (Consolidated) and 2013

1. Organization and Summary of Significant Accounting Policies

Organization

The Danville Regional Foundation and Subsidiaries (collectively 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's activities are supported by an initial grant from the Danville Regional Health System which created the Foundation and the income from the Foundation's investment portfolio.

Principles of Consolidation

The consolidated financial statements of the Foundation have been prepared on the accrual basis of accounting and include the accounts of the Danville Regional Foundation (DRF), its wholly owned subsidiary, Dan River Renaissance, LLC (DRR) and the wholly owned subsidiary of DRR, IM Real Estate Holdings, LLC (IMREH). All material intercompany balances and transactions have been eliminated in consolidation.

DRF is a tax-exempt private foundation that was incorporated in July 2005 under the laws of the Commonwealth of Virginia.

DRR was incorporated as a limited liability company in January 2013 under the laws of the Commonwealth of Virginia. DRF is the sole member of DRR. DRR was created to acquire various real estate investments.

IMREH was incorporated in December 2014 under the laws of the Commonwealth of Virginia. DRR is the sole member of IMREH. IMREH was created to acquire certain real property in the City of Danville, VA.

Cash Equivalents

The Foundation classifies all highly liquid investments purchased with an original maturity of three months or less as cash equivalents except that any such cash equivalents held by external investment managers are classified as investments.

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 and equity mutual funds as well as a bond mutual fund and cash equivalents considered to be part of the Foundation's investment portfolio. The common stocks, mutual funds and cash equivalents are recorded in the accompanying financial statements at their fair value, as based upon quoted market prices, as of December 31st.

DANVILLE REGIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 (Consolidated) and 2013

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

Investments (continued)

The alternative investment funds consist of a limited partnership fund which is invested in industrial grade timberland properties, a commingled real estate investment fund, a common trust fund and four feeder funds in master-feeder structures invested in equity related investments in private equity partnerships. 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.

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 common trust fund is invested in equities and fixed income investments as well as derivative instruments such as futures contracts. The value, liquidity and related income of these securities are sensitive to changes in economic conditions. This fund is valued in the accompanying financial statements at the net asset value per share as of December 31st. During the year ended December 31, 2013, the Foundation fully liquidated its investment in another commingled fund which was a government credit bond index fund.

Continued

DANVILLE REGIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 (Consolidated) and 2013

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

Investments (continued)

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.

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.

Additionally, during 2014 the Foundation acquired real estate property as an investment. Real estate property acquisitions are recorded as of the date of closing and the valuation adjusted annually based upon an independent appraisal. The property held as of December 31, 2014 was acquired in December 2014 and the purchase price was determined to approximate fair value.

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, 2014 and 2013, 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.

DANVILLE REGIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 (Consolidated) and 2013

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

Fair Value Measurements (continued)

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.

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. Also included in this level is the Foundation's real estate property investment which was acquired December 2014, and for which the purchase price approximates fair value as of December 31, 2014.

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. The note payable was entered into in December 2014 and, based upon the borrowing rate available for bank loans with similar terms, the face value of the note payable was estimated to approximate fair value.

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DANVILLE REGIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 (Consolidated) and 2013

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

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.

Functional Allocation of Expenses

The Foundation has been classified as a non-operating foundation and reports only grants as direct program expenditures. Included in general and administrative costs are supporting costs related to the Foundation's grant-making as well as various costs for charitable activities, investment related costs and overall administrative costs.

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 2013 amounts have been reclassified to conform with the 2014 presentation.

DANVILLE REGIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 (Consolidated) and 2013

2. Investments

The following table summarizes the Foundation's investments at fair value as of December 31, 2014:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$ 29,660,640	\$ 29,660,640	\$ -	\$ -
Common stock:				
Financial	11,632,525	11,632,525	-	-
Consumer discretionary	7,989,813	7,989,813	-	-
Information technology	7,838,935	7,838,935	-	-
Health care	6,941,512	6,941,512	-	-
Industrials	6,634,337	6,634,337	-	-
American depository receipt	5,594,093	5,594,093	-	-
Energy	2,731,128	2,731,128	-	-
Utilities	2,518,988	2,518,988	-	-
Materials	2,437,157	2,437,157	-	-
Consumer staples	1,380,708	1,380,708	-	-
Real estate	410,581	410,581	-	-
Shipping	217,994	217,994	-	-
Telecommunication services	200,877	200,877	-	-
Total common stock	56,528,648	56,528,648	-	-
Mutual funds:				
Equity funds	81,800,907	70,699,305	11,101,602	-
Bond fund	99,497	99,497	-	-
Total mutual funds	81,900,404	70,798,802	11,101,602	-
Timberland partnership fund	18,852,532	-	-	18,852,532
Commingled real estate fund	13,349,218	-	-	13,349,218
Common trust fund	11,989,395	-	-	11,989,395
Feeder funds (4 private equity investment funds)	4,621,743	-	-	4,621,743
Real estate investment property	754,990	-	-	754,990
Total investments	\$217,657,570	\$ 156,988,090	\$ 11,101,602	\$ 49,567,878

Continued

DANVILLE REGIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 (Consolidated) and 2013

2. Investments (continued)

The following table summarizes the Foundation's investments at fair value as of December 31, 2013:

	<u>Total</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	\$ 30,649,136	\$ 30,649,136	\$ -	\$ -
Common stock:				
Financial	11,612,891	11,612,891	-	-
Consumer discretionary	8,365,635	8,365,635	-	-
Information technology	3,451,775	3,451,775	-	-
Health care	6,351,945	6,351,945	-	-
Industrials	7,619,690	7,619,690	-	-
American depository receipt	4,376,930	4,376,930	-	-
Energy	3,755,427	3,755,427	-	-
Utilities	2,132,230	2,132,230	-	-
Materials	2,354,174	2,354,174	-	-
Consumer staples	2,856,906	2,856,906	-	-
Real estate	<u>401,776</u>	<u>401,776</u>	-	-
Total common stock	53,279,379	53,279,379	-	-
Mutual funds:				
Equity funds	82,025,728	70,882,638	11,143,090	-
Bond fund	<u>4,987</u>	<u>4,987</u>	-	-
Total mutual funds	82,030,715	70,887,625	11,143,090	-
Timberland partnership fund	17,209,281	-	-	17,209,281
Commingled real estate fund	12,149,927	-	-	12,149,927
Common trust fund	11,860,446	-	-	11,860,446
Feeder funds (4 private equity investment funds)	<u>6,180,804</u>	-	-	<u>6,180,804</u>
Total investments	<u>\$213,359,688</u>	<u>\$ 154,816,140</u>	<u>\$ 11,143,090</u>	<u>\$47,400,458</u>

Included in equity mutual funds classified as "level 2" as of December 31, 2014 and 2013 is a publicly traded fund which is not open to new investors and not considered to be actively traded. The valuation as of December 31, 2014 and 2013 was based upon the market value approach as published trading values were available for this fund.

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DANVILLE REGIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 (Consolidated) and 2013

2. Investments (continued)

The following table represents a roll forward of the fair value measurements as of December 31, 2014 and 2013 using significant unobservable inputs (Level 3):

	Timberland partnership fund	Commingled real estate fund	Commingled trust funds	Feeder funds - private equity	Real estate investment property	Total
Balance - December 31, 2012	\$ 17,368,855	\$ 10,861,809	\$ 37,943,814	\$ 6,460,754	\$ -	\$ 72,635,232
Purchases	-	-	-	766,507	-	766,507
Realized gains and other allocable partnership income	210,784	-	2,670,305	-	-	2,881,089
Unrealized gains	1,069,642	1,424,596	1,246,128	802,080	-	4,542,446
Sales	(1,440,000)	(136,478)	(29,999,801)	(1,848,537)	-	(33,424,816)
Transfers in/out of Level 3	-	-	-	-	-	-
Balance - December 31, 2013	<u>\$17,209,281</u>	<u>\$ 12,149,927</u>	<u>\$ 11,860,446</u>	<u>\$ 6,180,804</u>	<u>\$ -</u>	<u>\$ 47,400,458</u>
Purchases	-	-	-	922,640	754,990	1,677,630
Realized gains and other allocable partnership income	84,667	-	1,969,284	89,600	-	2,143,551
Unrealized gains (losses)	2,098,584	1,697,162	(1,327,835)	302,352	-	2,770,263
Sales	(540,000)	(497,871)	(512,500)	(2,873,653)	-	(4,424,024)
Transfers in/out of Level 3	-	-	-	-	-	-
Balance - December 31, 2014	<u>\$ 18,852,532</u>	<u>\$ 13,349,218</u>	<u>\$ 11,989,395</u>	<u>\$ 4,621,743</u>	<u>\$ 754,990</u>	<u>\$ 49,567,878</u>

Continued

DANVILLE REGIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 (Consolidated) and 2013

2. Investments (continued)

Total net unrealized gains from alternative investment funds for the year ended December 31, 2014 were \$2,770,263, all of which related to assets held at December 31, 2014.

Total net unrealized gains from alternative investment funds for the year ended December 31, 2013 were \$4,542,446, of which \$6,448,134 net unrealized gains related to assets held at December 31, 2013 and \$1,905,688 net unrealized losses related to assets sold during the year ended December 31, 2013.

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, 2014 and 2013.

The following details the Foundation's ability to redeem investment funds valued at NAV, or its equivalent, as of December 31, 2014 and includes any unfunded commitments of the Foundation to these funds as of December 31, 2014:

	Fair Value	Number of Funds	Unfunded Commitments	Redemption Restrictions
Timberland partnership fund	\$18,852,532	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	13,349,218	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.
Commingled trust fund	11,989,395	1	None	None
Feeder funds	4,621,743	4	\$2,521,732 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 (\$2,943,752) to December 12, 2023 (\$1,066,949) to October 26, 2026 (\$611,042). The terms for all may be extended by the General Partner of the fund for two successive one year terms.
Total	\$48,812,888	7	\$ 2,521,732	

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DANVILLE REGIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 (Consolidated) and 2013

2. Investments (continued)

The following details the Foundation's ability to redeem investment funds valued at NAV, or its equivalent, as of December 31, 2013 and includes any unfunded commitments of the Foundation to these funds as of December 31, 2013:

	Fair Value	Number of Funds	Unfunded Commitments	Redemption Restrictions
Timberland partnership fund	\$17,209,281	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	12,149,927	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.
Commingled trust fund	11,860,446	1	None	None
Feeder funds	6,180,804	4	\$2,999,312 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 (\$5,230,973) to December 12, 2023 (\$566,459) to October 26, 2026 (\$383,372). The terms for all may be extended by the General Partner of the fund for two successive one year terms.
Total	\$47,400,458	7	\$ 2,999,312	

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.

Continued

DANVILLE REGIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 (Consolidated) and 2013

2. Investments (continued)

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

	December 31, 2014		December 31, 2013	
	Cost	Fair Value	Cost	Fair Value
Cash equivalents	\$ 29,660,640	\$ 29,660,640	\$ 30,649,136	\$ 30,649,136
Common stock	46,296,214	56,528,648	40,359,761	53,279,379
Mutual funds	58,077,326	81,900,404	57,845,706	82,030,715
Timberland partnership fund	12,717,025	18,852,532	13,172,358	17,209,281
Commingled real estate fund	9,512,863	13,349,218	10,010,734	12,149,927
Common trust fund	10,145,939	11,989,395	8,689,155	11,860,446
Feeder funds (private equity investments)	1,260,213	4,621,743	3,121,626	6,180,804
Real estate investment property	<u>754,990</u>	<u>754,990</u>	-	-
Total	<u>\$168,425,210</u>	<u>\$217,657,570</u>	<u>\$163,848,476</u>	<u>\$213,359,688</u>

Investment returns are summarized as follows:

	2014	2013
Interest, dividends and other partnership earnings	\$ 3,211,699	\$ 2,651,943
Realized gains	11,310,286	10,884,481
Unrealized (losses) gains	<u>(278,852)</u>	<u>25,235,750</u>
Subtotal	14,243,133	38,772,174
Investment management and consulting fees	<u>(629,323)</u>	<u>(591,420)</u>
Total	<u>\$13,613,810</u>	<u>\$38,180,754</u>

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.

Continued

DANVILLE REGIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 (Consolidated) and 2013

3. Grants Payable

The Foundation awards grants to various nonprofit organizations. As of December 31, 2014 and 2013, the Foundation had unconditionally promised to give \$14,002,169 and \$4,483,012, respectively, in grants which are due to be paid as follows:

	<u>2014</u>	<u>2013</u>
Less than one year	\$ 5,862,966	\$ 3,885,832
One to five years	<u>8,139,203</u>	<u>597,180</u>
Total	<u>\$ 14,002,169</u>	<u>\$ 4,483,012</u>

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, 2014 and 2013, the Foundation had conditionally promised future grant awards totaling \$337,359 and \$6,743,000, 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, 2014 and 2013, respectively, in the accompanying financial statements.

Concentration of Credit Risk

The Foundation's cash is comprised of amounts in an account 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, 2014 and 2013, the Federal Deposit Insurance Corporation (FDIC) insured balances of a depositor, per financial institution, up to \$250,000. The amount held by the Foundation in excess of the FDIC insured limit was \$691,041 and \$101,568 as of December 31, 2014 and 2013, respectively.

DANVILLE REGIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 (Consolidated) and 2013

4. Commitments and Contingencies (continued)

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 \$137,363 and \$92,813 as of December 31, 2014 and 2013, respectively.

As of December 31, 2014, total future minimum annual lease payments under this lease for the Foundation are as follows:

<u>For the Year Ending</u> <u>December 31,</u>	
2015	\$ 73,260
2016	73,260
2017	73,260
2018	73,260
2019	73,260
Thereafter	<u>873,014</u>
Total	1,239,314
Less: Amounts representing interest	<u>(430,973)</u>
Total capital lease obligation	<u>\$ 808,341</u>

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DANVILLE REGIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 (Consolidated) and 2013

5. Note Payable

In December 2014, IMREH obtained a \$250,000 loan from a third party which is secured by the real estate included in investments in the accompanying statements of financial position. The note has a five-year term which commenced December 9, 2014. Interest accrues at an annual rate of 5.0%. Payments of principal and interest equal to \$32,376 are due annually. The note matures December 9, 2019 with a balloon principal payment of \$164,332 due at that time.

The schedule of future principal payments under this note as of December 31, 2014 is as follows:

<u>For the Year Ending</u> <u>December 31,</u>	
2015	\$ 19,876
2016	20,870
2017	21,913
2018	23,009
2019	<u>164,332</u>
Total	<u>\$ 250,000</u>

6. Pension Plans

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, 2014 and 2013 was \$81,188 and \$68,225, 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). 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 and are immediately 100% vested. Total contributions to this plan for the years ended December 31, 2014 and 2013 were \$15,300 and \$15,775, respectively, and are included in salaries and benefits in the accompanying statements of activities. As of December 31, 2014 and 2013, the total liability for this plan was \$114,797 and \$98,374, respectively, and is included in accounts payable and accrued expenses in the accompanying statements of financial position. The Foundation has internally set aside investments equal to the plan's liability.

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DANVILLE REGIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 (Consolidated) and 2013

7. Income Taxes

DRF 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.

DRR and IMREH are both treated as disregarded entities for tax reporting purposes and accordingly, the activities of DRR and IMREH are included in DRF's tax return.

For the years ended December 31, 2014 and 2013, the Foundation was subject to an excise tax rate of 2% and 1%, respectively, 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, 2014 and 2013, the Foundation calculated its deferred tax liability 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 \$979,941 and \$1,055,914 as of December 31, 2014 and 2013, respectively, represents the federal excise tax on the net unrealized appreciation on investments.

As of December 31, 2014, the Foundation had a current federal excise tax payable of \$38,050 which is included in accounts payable and accrued expenses in the accompanying statements of financial position. As of December 31, 2013, the Foundation had a current excise tax receivable of \$1,485 which is included in prepaid expenses and other assets in the accompanying statements of financial position.

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, 2014 and 2013, management did not identify any uncertain tax positions requiring recognition or disclosure in these financial statements. As of December 31, 2014, tax years considered open and subject to examination include returns for the years ended December 31, 2011 through 2013.

DANVILLE REGIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2014 (Consolidated) and 2013

8. Subsequent Events

The Foundation's management has evaluated subsequent events through November 10, 2015, the date the financial statements were available to be issued. There were no subsequent events identified through November 10, 2015 required to be disclosed in these financial statements.