




DANVILLE REGIONAL

FOUNDATION

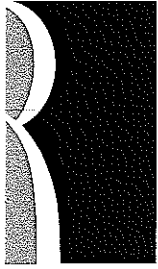
Financial Statements

For The Years Ended December 31, 2007 and 2006



**and
Report Thereon**





RAFFA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Danville Regional Foundation

CONSULTING
ACCOUNTING
TECHNOLOGY

*Certified Public
Accountants*

We have audited the accompanying statements of financial position of the Danville Regional Foundation (the Foundation) as of December 31, 2007 and 2006, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2007 and 2006 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.

RAFFA, P.C.

Washington, DC
April 22, 2008

DANVILLE REGIONAL FOUNDATION
STATEMENTS OF FINANCIAL POSITION
December 31, 2007 and 2006

| | 2007 | 2006 |
|---|-----------------------|-----------------------|
| ASSETS | | |
| Cash and cash equivalents | \$ 3,393,129 | \$ 19,917,067 |
| Investments | 210,600,231 | 193,345,705 |
| Accounts receivable | - | 26,857 |
| Accrued interest receivable | 101,838 | 162,661 |
| Prepaid expenses | 37,409 | 30,457 |
| Property and equipment, net of accumulated depreciation of \$9,858 and \$0, respectively | 52,180 | 22,565 |
| TOTAL ASSETS | \$ 214,184,787 | \$ 213,505,312 |
| LIABILITIES AND NET ASSETS | | |
| Accounts payable and accrued expenses | \$ 306,816 | \$ 392,176 |
| Grants payable | - | 17,445,000 |
| Federal excise tax payable | 15,431 | - |
| Federal deferred excise tax | 369,262 | 243,236 |
| TOTAL LIABILITIES | 691,509 | 18,080,412 |
| Net Assets | | |
| Unrestricted | 213,493,278 | 195,424,900 |
| TOTAL NET ASSETS | 213,493,278 | 195,424,900 |
| TOTAL LIABILITIES AND NET ASSETS | \$ 214,184,787 | \$ 213,505,312 |

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

DANVILLE REGIONAL FOUNDATION
STATEMENTS OF ACTIVITIES
For the Years Ended December 31, 2007 and 2006

| | 2007 | 2006 |
|--|----------------|----------------|
| REVENUE AND SUPPORT | | |
| Investment income, net of investment expenses of of \$1,091,016 and \$485,290 for 2007 and 2006, respectively | \$ 19,123,335 | \$ 13,593,083 |
| Contribution | - | 200,000,000 |
| | 19,123,335 | 213,593,083 |
| TOTAL REVENUE AND SUPPORT | | |
| EXPENSES | | |
| Program Services: | | |
| Grants: | | |
| Community | 25,000 | 6,100,000 |
| Education | - | 9,700,000 |
| Economic Development | - | 1,745,000 |
| | 25,000 | 17,545,000 |
| Total Program Services | | |
| Supporting Services: | | |
| General and administrative | | |
| Professional fees | 321,213 | 131,215 |
| Management fees | 171,748 | 120,620 |
| Federal excise taxes | 164,967 | 28,626 |
| Salaries and benefits | 129,594 | - |
| Insurance | 61,757 | 33,038 |
| Promotional fees | 14,106 | 22,416 |
| Meetings | 12,474 | 5,571 |
| Miscellaneous | 10,334 | 5,318 |
| Depreciation | 9,858 | - |
| Travel | 7,880 | 33,143 |
| | 903,931 | 379,947 |
| Total Supporting Services | | |
| TOTAL EXPENSES | 928,931 | 17,924,947 |
| Change in unrestricted net assets before provision for deferred federal excise tax expense | 18,194,404 | 195,668,136 |
| Provision for deferred federal excise tax expense | 126,026 | 243,236 |
| Change in Unrestricted Net Assets | 18,068,378 | 195,424,900 |
| NET ASSETS, BEGINNING OF YEAR | 195,424,900 | - |
| NET ASSETS, END OF YEAR | \$ 213,493,278 | \$ 195,424,900 |

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

DANVILLE REGIONAL FOUNDATION
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2007 and 2006
Increase (Decrease) in Cash and Cash Equivalents

| | 2007 | 2006 |
|---|---------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Change in net assets | \$ 18,068,378 | \$ 195,424,900 |
| Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities | | |
| Realized (gains) losses on investments | (4,631,773) | 2,635,428 |
| Unrealized gains on investments | (6,301,332) | (12,161,781) |
| Depreciation | 9,858 | - |
| Provision for deferred federal excise tax expense | 126,026 | 243,236 |
| Changes in assets and liabilities: | | |
| Accounts receivable | 26,857 | (26,857) |
| Accrued interest receivable | 60,823 | (162,661) |
| Prepaid expenses | (6,952) | (30,457) |
| Accounts payable and accrued expenses | (85,360) | 392,176 |
| Grants payable | (17,445,000) | 17,445,000 |
| Federal excise tax payable | 15,431 | - |
| | <u>(10,163,044)</u> | <u>203,758,984</u> |
| NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of investments | (110,352,045) | (229,598,954) |
| Proceeds from the sale of investments | 104,030,624 | 45,779,602 |
| Acquisition of property and equipment | (39,473) | (22,565) |
| | <u>(6,360,894)</u> | <u>(183,841,917)</u> |
| NET CASH USED IN INVESTING ACTIVITIES | | |
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (16,523,938) | 19,917,067 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>19,917,067</u> | <u>-</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>\$ 3,393,129</u> | <u>\$ 19,917,067</u> |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Actual cash payments for excise taxes | <u>\$ 137,147</u> | <u>\$ 40,000</u> |

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

DANVILLE REGIONAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2007 and 2006

1. Organization and Summary of Significant Accounting Policies

Organization

The Danville Regional Foundation (the Foundation) was incorporated July 2005 under the laws of the state 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 to be cash equivalents.

Investments

Investments consist of common stocks and four alternative investment funds. The common stocks 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 a commingled bond fund comprised of common collective trusts, a limited partnership fund which is invested in various domestic and international equities, a commingled real estate investment fund and a limited partnership fund which is invested in industrial grade timberland properties. These investments are recorded in the accompanying financial statements at their fair value, as provided by the investment custodian.

Fair Value of Financial Instruments

Statement of Financial Accounting Standards (SFAS) No. 107, *Disclosures about Fair Value of Financial Instruments*, requires the disclosure of the estimated fair value of financial instruments. Cash, cash equivalents and investments are considered financial instruments under SFAS No. 107. The fair value of the Foundation's investments in equity securities is the quoted market price as of December 31st. The estimated fair value for the Foundation's alternative investment funds was provided by the Foundation's external investment manager.

The commingled bond fund consists of marketable short-term investments which are valued at amortized cost, which approximates fair value, and investments in registered investment companies and collective investment funds which are valued at their respective net asset value per share/unit as of December 31st. A significant portion of the commingled bond fund's assets are invested in securities with contractual cash flows such as asset backed securities, collateralized mortgage obligations and commercial mortgage backed securities. The value, liquidity and related income of these securities are sensitive to changes in economic conditions, including real estate values.

DANVILLE REGIONAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2007 and 2006

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

Fair Value of Financial Instruments (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.

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.

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.

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.

Property and Equipment and Related Depreciation

Property 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.

DANVILLE REGIONAL FOUNDATION

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2007 and 2006

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

Classification of Net Assets

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

Revenue Recognition

Unrestricted contributions are reported as revenue in the year in which payments are received and/or unconditional promises are made. The Foundation reports gifts of cash and other assets that are received with donor stipulations limiting the use of the donated assets as unrestricted support if all such donor restrictions are met in the year the award is received.

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's investments are summarized as follows:

| | <u>December 31, 2007</u> | | <u>December 31, 2006</u> | |
|--|--------------------------|----------------------|--------------------------|----------------------|
| | <u>Cost</u> | <u>Fair Value</u> | <u>Cost</u> | <u>Fair Value</u> |
| Common stock | \$103,834,136 | \$117,310,493 | \$ 87,497,299 | \$ 94,875,547 |
| Commingled bond fund | 53,979,752 | 55,678,488 | 55,888,315 | 56,762,702 |
| Limited partnership fund | 20,844,521 | 22,406,466 | 18,785,482 | 21,335,722 |
| Commingled real estate investment fund | 9,882,663 | 11,509,320 | 9,467,432 | 9,986,627 |
| Timberland partnership fund | 3,504,980 | 3,695,464 | -- | -- |
| Equity mutual fund | -- | -- | 9,454,330 | 10,385,107 |
| Total | <u>\$192,046,052</u> | <u>\$210,600,231</u> | <u>\$181,092,858</u> | <u>\$193,345,705</u> |

Continued

DANVILLE REGIONAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2007 and 2006

2. Investments (continued)

Investment returns are summarized as follows:

| | 2007 | 2006 |
|--|--------------|--------------|
| Interest, dividends and other partnership earnings | \$ 6,792,517 | \$ 2,803,464 |
| Capital gain dividends | 1,927,780 | 920,052 |
| Realized gains (losses) | 4,631,773 | (2,635,428) |
| Unrealized gains | 6,301,332 | 12,161,781 |
| Subtotal | 19,653,402 | 13,249,869 |
| Investment management and consulting fees | (1,091,016) | (485,290) |
| Total | \$18,562,386 | \$12,764,579 |

Also included in investment income in the accompanying statements of activities is the interest of \$560,949 and \$828,504 earned on cash and cash equivalents for the years ended December 31, 2007 and 2006, respectively.

3. Grants Payable

The Foundation distributes grants to various nonprofit organizations. As of December 31, 2006, the Foundation had unconditionally promised to give \$17,445,000 in grants, all of which was due to be paid within one year.

4. Commitments

Grant Award Commitments

As of December 31, 2007, the Foundation has conditionally promised \$3,200,000 in future grant awards to two organizations. As the amount of the liability for these grant awards is contingent upon the grantees meeting certain requirements, including in one instance the inclusion of the grantee's proposed project in the Virginia government's budget appropriations bill, this amount has not been reflected as a liability as of December 31, 2007 in the accompanying financial statements.

DANVILLE REGIONAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2007 and 2006

5. Related Party

The Foundation was created with the receipt of a \$200 million contribution from the Danville Regional Health System (DRHS). Six of the Foundation's eleven board members are also board members of DRHS. Under the terms of the grant agreement, as stipulated by the Internal Revenue Service, the Foundation must expend \$16,445,000 by June 30, 2007 on the furtherance of charitable activities to support the City of Danville, VA; Pittsylvania County, VA and Caswell County, NC. As of June 30, 2007, the Foundation had disbursed grants in excess of this amount for such purposes.

The Foundation also entered into a management agreement with DRHS whereby DRHS provides personnel, office space and supplies to the Foundation. For the years ended December 31, 2007 and 2006, fees under this agreement totaled \$171,748 and \$120,620, respectively and are included as management fee expense in the accompanying statements of activities. As of December 31, 2007 and 2006, the Foundation owed DRHS \$76,666 and \$120,620, respectively, for fees under the terms of this agreement which is included in accounts payable and accrued expenses in the accompanying statements of financial position. Effective December 22, 2007, the Foundation terminated this management agreement with DRHS.

6. Pension Plan

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 or DRHS 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 year ended December 31, 2007 was \$16,666 and is included in salaries and benefits in the accompanying statements of activities.

7. 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.

DANVILLE REGIONAL FOUNDATION
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2007 and 2006

7. Income Taxes (continued)

For the years ended December 31, 2007 and 2006, 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.

Under the asset and liability method of SFAS No. 109 *Accounting for Income Taxes*, 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. Under SFAS No. 109, 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, 2007 and 2006, the Foundation calculated its deferred tax liability using an excise tax rate of 2%, representing the excise tax rates the Foundation expects to be subject to in the following year. Temporary differences that give rise to the deferred tax liability of the Foundation as of December 31, 2007 and 2006 are comprised of the net appreciation on investments.

The deferred excise tax liability of \$369,262 and \$243,236 as of December 31, 2007 and 2006 represents the federal excise tax on the net unrealized appreciation on investments.

The federal excise tax expense of \$164,967 and \$28,626 for the years ended December 31, 2007 and 2006, respectively, represents current excise taxes. As of December 31, 2007, the Foundation had a federal excise tax payable of \$15,431, reflected as federal excise tax payable in the accompanying statements of financial position. As of December 31, 2006, the Foundation had a federal excise tax receivable of \$11,374, included in accounts receivable in the accompanying statements of financial position.