DANVILLE REGIONAL FOUNDATION

Financial Statements

For The Years Ended December 31, 2008 and 2007

and
Report Thereon

RAFFA

CONSULTING
ACCOUNTING
TECHNOLOGY

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Danville Regional Foundation

We have audited the accompanying statements of financial position of the Danville Regional Foundation (the Foundation) as of December 31, 2008 and 2007, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2008 and 2007 and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in Notes 1 and 2, the financial statements include investments valued at $83,946,593 (56% of net assets) and $93,289,738 (44% of net assets) at December 31, 2008 and 2007, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Also discussed in Notes 1 and 2 is the information used by management in making these estimates.

Raffa P.C.

RAFFA, P.C.

Washington, DC
April 24, 2009

DANVILLE REGIONAL FOUNDATION

STATEMENTS OF FINANCIAL POSITION

December 31, 2008 and 2007

	2008	2007
ASSETS		
Cash and cash equivalents	$ 2,954,453	$ 3,393,129
Investments	155,010,258	210,600,231
Accrued interest receivable	131,453	101,838
Prepaid expenses	59,698	37,409
Property and equipment, net of accumulated depreciation of $33,247 and $9,858, respectively	66,214	52,180
TOTAL ASSETS	$ 158,222,076	$ 214,184,787
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	$ 160,909	$ 306,816
Grants payable	6,877,832	-
Federal excise tax payable	9,421	15,431
Federal deferred excise tax	-	369,262
TOTAL LIABILITIES	7,048,162	691,509
Net Assets		
Unrestricted	151,173,914	213,493,278
TOTAL NET ASSETS	151,173,914	213,493,278
TOTAL LIABILITIES AND NET ASSETS	$ 158,222,076	$ 214,184,787

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

DANVILLE REGIONAL FOUNDATION

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2008 and 2007

	2008	2007
REVENUE AND SUPPORT		
Investment (loss) income, net of investment expenses of		
of $906,873 and $1,091,016 for 2008 and 2007, respectively	$ (50,358,267)	$ 19,123,335
TOTAL REVENUE AND SUPPORT	(50,358,267)	19,123,335
EXPENSES		
Program Services:		
Grants:		
Responsive grant-making	5,196,900	25,000
Special opportunities	3,200,000	-
Foundation initiated	2,547,545	-
Total Program Services	10,944,445	25,000
Supporting Services:		
General and administrative		
Salaries and benefits	865,882	129,594
Professional fees	151,365	321,213
Federal excise taxes	96,121	164,967
Insurance	61,907	61,757
Occupancy	54,000	-
Miscellaneous	31,059	6,502
Office supplies	26,332	3,145
Depreciation	23,389	9,858
Promotional fees	23,343	14,106
Travel	18,008	7,880
Meetings	17,630	12,474
Telephone	16,878	687
Management fees	-	171,748
Total Supporting Services	1,385,914	903,931
TOTAL EXPENSES	12,330,359	928,931
Change in unrestricted net assets before provision for deferred federal excise tax (benefit) expense	(62,688,626)	18,194,404
Provision for deferred federal excise tax (benefit) expense	(369,262)	126,026
Change in Unrestricted Net Assets	(62,319,364)	18,068,378
NET ASSETS, BEGINNING OF YEAR	213,493,278	195,424,900
NET ASSETS, END OF YEAR	$ 151,173,914	$ 213,493,278

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

DANVILLE REGIONAL FOUNDATION

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2008 and 2007

Increase (Decrease) in Cash and Cash Equivalents

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (62,319,364)	$ 18,068,378
Adjustments to reconcile change in net assets to net cash used in operating activities		
Realized losses (gains) on investments	15,186,642	(4,631,773)
Unrealized losses (gains) on investments	39,275,945	(6,301,332)
Depreciation	23,389	9,858
Provision for deferred federal excise tax expense	(369,262)	126,026
Changes in assets and liabilities:		
Accounts receivable	-	26,857
Accrued interest receivable	(29,615)	60,823
Prepaid expenses	(22,289)	(6,952)
Accounts payable and accrued expenses	(145,907)	(85,360)
Grants payable	6,877,832	(17,445,000)
Federal excise tax payable	(6,010)	15,431
NET CASH USED IN OPERATING ACTIVITIES	(1,528,639)	(10,163,044)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments	(131,280,527)	(110,352,045)
Proceeds from the sale of investments	132,407,913	104,030,624
Acquisition of property and equipment	(37,423)	(39,473)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	1,089,963	(6,360,894)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(438,676)	(16,523,938)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,393,129	19,917,067
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 2,954,453	$ 3,393,129
SUPPLEMENTAL CASH FLOW INFORMATION		
Actual cash payments for excise taxes	$ 101,203	$ 137,147

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

1. Organization and Summary of Significant Accounting Policies

Organization

The Danville Regional Foundation (the Foundation) was incorporated July 2005 under the laws of the 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, other than those included in the investment fund designated for the deferred compensation plan as described in Note 6 of these financial statements, to be cash equivalents.

Investments

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

The alternative investment funds consist of 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.

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. Additionally, certain of this fund's investments in collective investment funds participate in securities lending. The value, liquidity and related income of these securities are sensitive to changes in economic conditions, including real estate values.

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.

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.

Continued

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

Fair Value Measurements

Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurements*, defines fair value and establishes a framework for measuring fair value for those assets and liabilities that are measured at fair value on a recurring basis. In accordance with SFAS No. 157, the Foundation has categorized its applicable financial instruments into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

As of and for the year ended December 31, 2008, only the Foundation's investments, as described in Note 2 of these financial statements, were measured at fair value on a recurring basis and subject to SFAS No. 157.

Under the provisions of SFAS No. 157, 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. This classification is applied to investments that have evaluated prices received from fixed income vendors where the data inputs to these valuations do not represent quoted prices from an active market but do represent quoted prices of similarly structured securities.

Continued

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

Fair Value of Financial Instruments

SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, requires the disclosure of the estimated fair value of 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.

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.

Classification of Net Assets

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

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

Estimates

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

2. Investments

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

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

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

Beginning balance at December 31, 2007	$ 93,289,738
Purchases	17,234,054
Realized gains	379,307
Unrealized losses	(9,177,320)
Sales	(17,779,186)
Transfers in/out of Level 3	--
Balance as of December 31, 2008	$ 83,946,593

2. Investments (continued)

The total unrealized losses of $9,177,320 for the year ended December 31, 2008 from the Foundation's alternative investment funds were from four alternative investment funds, each of which were held by the Foundation as of December 31, 2008. All such unrealized losses are included in net investment loss in the accompanying statements of activities for the year ended December 31, 2008.

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

	December 31, 2008		December 31, 2007	
	Cost	Fair Value	Cost	Fair Value
Common stock	$ 77,406,534	$ 65,175,119	$ 91,685,936	$102,576,444
Commingled bond fund	39,575,630	40,380,166	53,979,752	55,678,488
Timberland partnership fund	17,883,638	20,302,406	3,504,980	3,695,464
Limited partnership fund	20,215,335	12,296,216	20,844,521	22,406,466
Commingled real estate investment fund	10,350,148	10,967,805	9,882,663	11,509,320
Equity mutual fund	10,285,046	5,872,737	12,148,200	14,734,049
Bond mutual fund	3,994	4,110	--	--
Money market fund	11,699	11,699	--	--
Total	$175,732,024	$155,010,258	$192,046,052	$210,600,231

Investment returns are summarized as follows:

	2008	2007
Interest, dividends and other partnership earnings	$ 4,265,148	$ 6,792,517
Capital gain dividends	643,689	1,927,780
Realized (losses) gains	(15,186,642)	4,631,773
Unrealized (losses) gains	(39,275,945)	6,301,332
Subtotal	(49,553,750)	19,653,402
Investment management and consulting fees	(906,873)	(1,091,016)
Total	$(50,460,623)	$18,562,386

Also included in investment income in the accompanying statements of activities is the interest of $102,356 and $560,949 earned on cash and cash equivalents for the years ended December 31, 2008 and 2007, respectively.

Continued

3. Grants Payable

The Foundation awards grants to various nonprofit organizations. As of December 31, 2008, The Foundation had unconditionally promised to give $6,877,832 in grants which are due to paid as follows:

Less than one year	$ 4,649,270
One to five years	2,228,562
Total	$ 6,877,832

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

4. Grant Award Commitments

As of December 31, 2008 and 2007, the Foundation had conditionally promised future grant awards totaling $1,893,000 and $3,200,000, 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, 2008 and 2007, respectively, in the accompanying financial statements.

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. The Foundation entered into a management agreement with DRHS whereby DRHS provides personnel, office space and supplies to the Foundation. For the year ended December 31, 2007, fees under this agreement totaled $171,748 and are included as management fee expense in the accompanying statements of activities. As of December 31, 2007, the Foundation owed DRHS $76,666 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.

Continued

6. Pension Plans

Effective January 1, 2007, the Foundation offers a defined contribution plan under Section 403(b) of the Internal Revenue Code. Under the 403(b) plan, eligible employees may elect to contribute up to the Federal tax limitation. Eligible employees are those who have worked for the Foundation 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 years ended December 31, 2008 and 2007 was $48,837 and $16,666, respectively, and is included in salaries and benefits in the accompanying statements of activities.

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

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.

For the years ended December 31, 2008 and 2007, the Foundation was subject to an excise tax rate of 2% and 1%, 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. Temporary differences that give rise to the deferred tax asset and liability of the Foundation as of December 31, 2008 and 2007, respectively, are comprised of the net depreciation or appreciation on investments.

Continued

7. Income Taxes (continued)

As of December 31, 2008 and 2007, the Foundation calculated its deferred tax asset and liability, respectively, using an excise tax rate of 2%, representing the excise tax rates the Foundation expects to be subject to in the following year.

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

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

The federal excise tax expense of $96,121 and $164,967 for the years ended December 31, 2008 and 2007, respectively, represents current excise taxes. As of December 31, 2008 and 2007, the Foundation had a federal excise tax payable of $9,421 and $15,431, reflected as federal excise tax payable in the accompanying statements of financial position.

In December 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) FIN-48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*. FSP FIN 48-3 permits an entity within its scope to defer the effective date of FASB Interpretation 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, to its annual financial statements for fiscal years beginning after December 15, 2008. The Foundation has elected this deferred application and will adopt the provisions of FIN 48 during its year ending December 31, 2009. The Foundation reviews and assesses all ongoing 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. Management of the Foundation believes there will be no material impact to the Foundation's financial statements as a result of the adoption of FIN 48.

8. Reclassifications

Certain 2007 amounts have been reclassified to conform with the 2008 financial statement presentation.

Continued

9. Subsequent Event

Subsequent to December 31, 2008, continued volatility and declines in the financial and credit markets, both U.S. and international, have affected the assets and operations of the Foundation. Specifically, the fair value of investments held by the Foundation at December 31, 2008 has further declined. Management and the Board, through its Investment Committee, continue to closely monitor related events and make appropriate adjustments, if any, to the Foundation's investment portfolio and operations.