DANVILLE REGIONAL
FOUNDATION

Financial Statements

For The Years Ended December 31, 2010 and 2009

and
Report Thereon

INDEPENDENT AUDITOR'S REPORT

RAFFA

CONSULTING
ACCOUNTING
TECHNOLOGY

Certified Public Accountants

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, 2010 and 2009, 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, 2010 and 2009 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 $93,703,823 (53% of net assets) and $88,701,483 (53% of net assets) at December 31, 2010 and 2009, respectively, whose fair values have been estimated by management in the absence of readily determinable fair values. Also discussed in Notes 1 and 2 is the information used by management in making these estimates.

Raffa P.C.

RAFFA, P.C.

Washington, DC
June 21, 2011

DANVILLE REGIONAL FOUNDATION

STATEMENTS OF FINANCIAL POSITION

December 31, 2010 and 2009

	2010	2009
ASSETS		
Cash and cash equivalents	$ 1,120,974	$ 2,494,678
Investments	186,052,264	168,502,470
Accrued interest receivable	-	55,293
Prepaid expenses	21,787	55,489
Federal excise tax receivable	-	34,590
Furniture and equipment, net of accumulated depreciation of $87,487 and $64,749, respectively	21,441	44,179
TOTAL ASSETS	$ 187,216,466	$ 171,186,699
LIABILITIES AND NET ASSETS		
Accounts payable and accrued expenses	$ 241,945	$ 237,650
Grants payable	9,707,382	4,322,266
Federal excise tax payable	15,820	-
Federal deferred excise tax	216,257	130,486
TOTAL LIABILITIES	10,181,404	4,690,402
Net Assets		
Unrestricted	177,035,062	166,496,297
TOTAL NET ASSETS	177,035,062	166,496,297
TOTAL LIABILITIES AND NET ASSETS	$ 187,216,466	$ 171,186,699

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

DANVILLE REGIONAL FOUNDATION

STATEMENTS OF ACTIVITIES

For the Years Ended December 31, 2010 and 2009

	2010	2009
REVENUE AND SUPPORT		
Investment income, net of investment expenses of		
of $580,746 and $684,985 for 2010 and 2009, respectively	$ 21,229,172	$ 19,408,596
Other	4,285	-
TOTAL REVENUE AND SUPPORT	21,233,457	19,408,596
EXPENSES		
Program Services:		
Grants:		
Responsive grant-making	8,315,023	1,392,996
Foundation initiated	300,000	1,030,589
Special opportunities	90,000	-
Make it happen	54,900	-
President's discretionary fund	41,623	-
Total Program Services	8,801,546	2,423,585
Supporting Services:		
General and administrative		
Salaries and benefits	1,102,464	1,009,168
Professional fees	268,378	174,360
Federal excise taxes	120,410	27,251
Occupancy	62,400	62,415
Insurance	47,405	59,917
Dues and subscriptions	36,224	35,404
Meetings	34,487	16,982
Promotional fees	28,273	7,467
Special events	24,860	52,697
Depreciation	22,738	31,502
Telephone	22,283	19,803
Miscellaneous	17,140	18,118
Office supplies	10,151	8,657
Travel	7,792	5,599
Postage	2,370	2,802
Total Supporting Services	1,807,375	1,532,142
TOTAL EXPENSES	10,608,921	3,955,727
Change in unrestricted net assets before provision for deferred federal excise tax expense	10,624,536	15,452,869
Provision for deferred federal excise tax expense	85,771	130,486
Change in Unrestricted Net Assets	10,538,765	15,322,383
NET ASSETS, BEGINNING OF YEAR	166,496,297	151,173,914
NET ASSETS, END OF YEAR	$ 177,035,062	$ 166,496,297

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

DANVILLE REGIONAL FOUNDATION

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2010 and 2009

Increase (Decrease) in Cash and Cash Equivalents

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 10,538,765	$ 15,322,383
Adjustments to reconcile change in net assets to net cash used in operating activities		
Realized (gains) losses on investments	(3,547,878)	10,798,343
Unrealized gains on investments	(15,119,893)	(27,229,261)
Depreciation	22,738	31,502
Provision for deferred federal excise tax expense	85,771	130,486
Changes in assets and liabilities:		
Accrued interest receivable	55,293	76,160
Prepaid expenses	33,702	4,209
Federal excise tax receivable	34,590	(34,590)
Accounts payable and accrued expenses	4,295	76,741
Grants payable	5,385,116	(2,555,566)
Federal excise tax payable	15,820	(9,421)
NET CASH USED IN OPERATING ACTIVITIES	(2,491,681)	(3,389,014)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments	(81,948,729)	(160,604,410)
Proceeds from the sale of investments	83,066,706	163,543,116
Acquisition of furniture and equipment	-	(9,467)
NET CASH PROVIDED BY INVESTING ACTVITIES	1,117,977	2,929,239
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,373,704)	(459,775)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,494,678	2,954,453
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 1,120,974	$ 2,494,678
SUPPLEMENTAL CASH FLOW INFORMATION		
Actual cash payments for excise taxes	$ 70,000	$ 70,937

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

1. Organization and Summary of Significant Accounting Policies

Organization

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

Cash Equivalents

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

Investments

Investments include five investment funds considered to be alternative investment funds as such funds are not traded in an established market with published values. Additionally, access to participation in these funds is limited and at the fund's discretion and approval and liquidation of the Foundation's interests may be subject to various restrictions imposed by the fund managers. Also included in investments are common stocks, a growth index mutual fund, 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 two commingled funds comprised of common collective trusts, a limited partnership fund which is invested in industrial grade timberland properties, a limited partnership fund which is invested in various domestic and international equities, a commingled real estate investment fund and a foreign feeder fund in a master-feeder structure. These investments are recorded in the accompanying financial statements at their fair value, as provided by the investment custodian. The Foundation has adopted the provisions of the Financial Accounting Standards Board's (FASB's) Accounting Standards Update No. 2009-12, *Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which permit, as a practical expedient, the fair value of certain alternative investments within its scope to be estimated using net asset value or its equivalent as reported by the investee (generally market value approach).

Continued

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

Investments (continued)

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

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

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

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

Continued

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

Investments (continued)

The foreign feeder fund includes equity and equity related investments in private equity partnerships acquired through secondary market transactions. These private equity partnerships include investments in public and private companies 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.

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

Fair Value Measurements

In accordance with the fair value measurements and disclosures topic of the FASB Accounting Standards Codification (ASC), the Foundation has categorized its applicable financial instruments into a required fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure the financial instruments fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement of the instrument.

As of and for the years ended December 31, 2010 and 2009, the Foundation's assets and liabilities which were measured at fair value on a recurring basis and subject to the disclosure requirements of the fair value measurements and disclosures topic of the FASB ASC include only its investments, as described in Note 2 of these financial statements.

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

Level 1

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

Continued

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

Fair Value Measurements (continued)

Level 2

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

Level 3

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

Fair Value of Financial Instruments

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

Furniture and Equipment and Related Depreciation

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

Classification of Net Assets

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

Continued

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

Estimates

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

2. Investments

The Foundation has used the following fair value measurements as of December 31, 2010:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common stock	$ 44,491,583	$ 44,491,583	$ -	$ -
Commingled funds – common collective trusts	45,734,970	-	-	45,734,970
Growth index mutual fund	36,181,323	36,181,323	-	-
Timberland partnership fund	18,374,970	-	-	18,374,970
Limited partnership fund	17,337,291	-	-	17,337,291
Equity mutual fund	11,626,110	-	11,626,110	-
Commingled real estate investment fund	8,439,402	-	-	8,439,402
Offshore feeder fund	3,817,190	-	-	3,817,190
Bond mutual fund	4,628	4,628	-	-
Money market holdings	44,797	44,797	-	-
Total	$186,052,264	$ 80,722,331	$11,626,110	$ 93,703,823

2. Investments (continued)

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

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Common stock	$ 69,795,375	$ 69,795,375	$ -	$ -
Commingled funds – common collective trusts	44,593,710	-	-	44,593,710
Timberland partnership fund	19,451,775	-	-	19,451,775
Limited partnership fund	16,178,176	-	-	16,178,176
Equity mutual fund	9,973,010	9,973,010	-	-
Commingled real estate investment fund	7,329,108	-	-	7,329,108
Offshore feeder fund	1,148,714	-	-	1,148,714
Bond mutual fund	4,327	4,327	-	-
Money market holdings	28,275	28,275	-	-
Total	$168,502,470	$ 79,800,987	$ -	$ 88,701,483

Fair value measurements as of December 31, 2010 and 2009 using significant unobservable inputs (Level 3) include the Foundation's alternative investment funds:

Beginning balance at December 31, 2008	$ 83,946,593
Purchases	60,976,073
Realized losses	(1,382,316)
Unrealized gains	3,210,522
Sales	(58,049,389)
Transfers in/out of Level 3	-
Balance as of December 31, 2009	$ 88,701,483
Purchases	20,331,432
Realized losses	(1,783,045)
Unrealized gains	7,587,307
Sales	(21,133,354)
Transfers in/out of Level 3	-
Balance as of December 31, 2010	$ 93,703,823

Continued

2. Investments (continued)

The total net unrealized gains of $7,587,307 and $3,210,522 for the years ended December 31, 2010 and 2009 from the Foundation's alternative investment funds were from five alternative investment funds, each of which was held by the Foundation as of December 31, 2010 and 2009. All such unrealized gains from the alternative investment funds are included in net investment income in the accompanying statements of activities for the years ended December 31, 2010 and 2009.

Of the Foundation's five alternative investment funds, the offshore feeder fund had an outstanding capital commitment of $4,235,090 and $6,687,412 as of December 31, 2010 and 2009, respectively. Such capital contributions are due when called by the fund manager. There were no other outstanding capital commitments as of December 31, 2010 or 2009.

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

The equity mutual fund in which the Foundation held an interest as of December 31, 2010 and 2009 is a publicly traded fund. The fund's fair value input level was classified as "level 1" as of December 31, 2009 and was reclassified to "level 2" at the beginning of 2010 as the fund is no longer open to new investors and not considered to be actively traded. The valuation as of December 31, 2010 was based upon the market value approach as published trading values were available.

Continued

2. Investments (continued)

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

	December 31, 2010		December 31, 2009	
	Cost	Fair Value	Cost	Fair Value
Common stock	$ 36,987,856	$ 44,491,583	$ 61,893,269	$69,795,375
Commingled funds – common collective trusts	43,301,564	45,734,970	44,385,644	44,593,710
Growth index mutual fund	30,272,558	36,181,323	-	-
Timberland partnership fund	15,540,983	18,374,970	17,105,247	19,451,775
Limited partnership fund	14,843,368	17,337,291	16,960,795	16,178,176
Equity mutual fund	10,166,833	11,626,110	10,535,895	9,973,010
Commingled real estate investment fund	10,191,655	8,439,402	10,269,074	7,329,108
Offshore feeder fund	3,070,811	3,817,190	812,588	1,148,714
Bond mutual fund	4,451	4,628	4,188	4,327
Money market fund	44,797	44,797	28,275	28,275
Total	$164,424,876	$186,052,264	$161,994,975	$168,502,470

Investment returns are summarized as follows:

	2010	2009
Interest, dividends and other partnership earnings	$ 3,140,505	$ 3,634,278
Realized gains (losses)	3,547,878	(10,798,343)
Unrealized gains	15,119,893	27,229,261
Subtotal	21,808,276	20,065,196
Investment management and consulting fees	(580,746)	(684,985)
Total	$ 21,227,530	$19,380,211

Also included in investment income in the accompanying statements of activities is the interest of $1,642 and $28,385 earned on cash and cash equivalents for the years ended December 31, 2010 and 2009, respectively.

Continued

3. Grants Payable

The Foundation awards grants to various nonprofit organizations. As of December 31, 2010, The Foundation had unconditionally promised to give $9,707,382 in grants which are due to paid as follows:

Less than one year	$ 5,360,538
One to five years	4,346,844
Total	$ 9,707,382

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, 2010 and 2009, the Foundation had conditionally promised future grant awards totaling $11,178,400 and $9,167,400, 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, 2010 and 2009, respectively, in the accompanying financial statements.

Office Lease

During the years ended December 31, 2010 and 2009, the Foundation leased office space under a lease on a month to month basis.

5. Pension Plans

Effective January 1, 2007, the Foundation offers a defined contribution plan under Section 403(b) of the Internal Revenue Code. Under the 403(b) plan, eligible employees may elect to contribute up to the Federal tax limitation. Eligible employees are those who have worked for the Foundation for at least six months. Any employer contribution is determined at the discretion of the Board of Directors of the Foundation. Pension expense for the years ended December 31, 2010 and 2009 was $65,955 and $65,482, respectively, and is included in salaries and benefits in the accompanying statements of activities.

Continued

5. Pension Plans (continued)

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 were $16,500 for the years ended December 31, 2010 and 2009.

6. Income Taxes

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

For the years ended December 31, 2010 and 2009, 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.

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as income or expense in the period that includes the enactment date. Temporary differences that give rise to the deferred tax liability of the Foundation as of December 31, 2010 and 2009 are comprised of the net appreciation or depreciation on investments.

As of December 31, 2010 and 2009, the Foundation calculated its deferred tax liability using an excise tax rate of 1% and 2%, respectively, representing the excise tax rate the Foundation expects to be subject to in the following year.

The deferred excise tax liability of $216,257 and $130,486 as of December 31, 2010 and 2009, respectively, represents the federal excise tax on the net unrealized appreciation on investments.

Continued

6. Income Taxes (continued)

The federal excise tax expense of $120,410 and $27,251 for the years ended December 31, 2010 and 2009, respectively, represents current excise taxes. As of December 31, 2010, the Foundation had a federal excise tax payable of $15,820 and as of December 31, 2009, the Foundation had a federal excise tax receivable of $34,590.

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, 2010 and 2009, management did not identify any uncertain tax positions requiring recognition or disclosure in these financial statements. As of December 31, 2010, tax years reasonably considered open and subject to examination include returns for the years ended December 31, 2007 through 2010.

7. Subsequent Events

The Foundation's management has evaluated subsequent events through June 21, 2011, the date the financial statements were available to be issued. 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 for a building in Danville, VA, which the Foundation plans to use for its new office space. The lease is effective January 1, 2011 and has a ten year term with an option to renew for an additional ten years. The lease provides for a base annual rent of $222,000 of which the Foundation is responsible for $78,588. 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. 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 lease also provides the Foundation and Averett the right to purchase the property they are leasing.

There were no other subsequent events identified through June 21, 2011 required to be disclosed in these financial statements.