



**Danville Regional Foundation  
Consolidated Financial Statements**

*For the Years Ended December 31, 2015 and 2014*



**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 statements of financial position as of December 31, 2015 and 2014, and the related consolidated statements of activities and cash flows for the years then ended, and the related notes to the consolidated financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Danville Regional Foundation and Subsidiaries as of December 31, 2015 and 2014, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Raffa, P.C.*

**Raffa, P.C.**

Washington, DC

August 31, 2016

**DANVILLE REGIONAL FOUNDATION**  
**STATEMENTS OF FINANCIAL POSITION**  
**December 31, 2015 and 2014**

	2015	2014
<b>ASSETS</b>		
Cash and cash equivalents	\$ 830,990	\$ 1,034,787
Investments	212,825,306	217,657,570
Receivable for return of grant funds	-	110,460
Prepaid expenses and other assets	74,610	221,563
Property and equipment, net of accumulated depreciation and amortization of \$357,149 and \$275,285, respectively	886,570	934,064
<b>TOTAL ASSETS</b>	<b>\$ 214,617,476</b>	<b>\$ 219,958,444</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities</b>		
Accounts payable and accrued expenses	\$ 499,522	\$ 614,729
Grants payable	13,533,184	14,002,169
Capital lease obligation	778,412	808,341
Notes payable	1,569,093	250,000
Deferred federal excise tax	822,941	979,941
<b>TOTAL LIABILITIES</b>	<b>17,203,152</b>	<b>16,655,180</b>
Net Assets - Unrestricted	<b>197,414,324</b>	<b>203,303,264</b>
<b>TOTAL NET ASSETS</b>	<b>197,414,324</b>	<b>203,303,264</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 214,617,476</b>	<b>\$ 219,958,444</b>

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

**DANVILLE REGIONAL FOUNDATION**  
**STATEMENTS OF ACTIVITIES**  
For the Years Ended December 31, 2015 and 2014

	2015	2014
REVENUE AND SUPPORT		
Investment income, net of expenses	\$ 1,979,345	\$ 13,449,743
Other	3,550	4,920
TOTAL REVENUE AND SUPPORT	1,982,895	13,454,663
EXPENSES		
Program Services:		
Grants:		
Responsive	4,620,230	9,124,610
Foundation initiated	556,007	6,468,090
Total Program Services	5,176,237	15,592,700
Supporting Services:		
General and administrative:		
Salaries and benefits	1,574,887	1,376,622
Professional fees	299,953	414,434
Other	781,758	555,132
Total General and Administrative	2,656,598	2,346,188
Federal Excise Tax Provision (Benefit)		
Current	196,000	314,535
Deferred	(157,000)	(75,973)
Total Federal Excise Tax Provision	39,000	238,562
Total Supporting Services	2,695,598	2,584,750
TOTAL EXPENSES	7,871,835	18,177,450
Change in Unrestricted Net Assets	(5,888,940)	(4,722,787)
NET ASSETS, BEGINNING OF YEAR	203,303,264	208,026,051
NET ASSETS, END OF YEAR	\$ 197,414,324	\$ 203,303,264

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

**DANVILLE REGIONAL FOUNDATION**  
**STATEMENTS OF CASH FLOWS**  
**For the Years Ended December 31, 2015 and 2014**  
**Increase (Decrease) in Cash and Cash Equivalents**

	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (5,888,940)	\$ (4,722,787)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Realized gains on investments	(10,493,578)	(11,310,286)
Unrealized losses on investments	10,381,393	278,852
Depreciation and amortization	81,864	74,704
Deferred federal excise tax benefit	(157,000)	(75,973)
Changes in assets and liabilities:		
Receivable for return of grant funds	110,460	314,350
Prepaid expenses and other assets	146,953	(193,276)
Accounts payable and accrued expenses	(115,207)	51,334
Grants payable	(468,985)	9,519,157
	<u>(6,403,040)</u>	<u>(6,063,925)</u>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of investments	(48,071,151)	(39,680,357)
Proceeds from the sale of investments	54,340,600	46,663,909
Acquisition of property and equipment	(34,370)	(82,006)
	<u>6,235,079</u>	<u>6,901,546</u>
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Principal payments under capital lease obligation	(29,929)	(28,335)
Principal payments on notes payable	(5,907)	-
	<u>(35,836)</u>	<u>(28,335)</u>
<b>NET CASH USED IN FINANCING ACTIVITIES</b>		
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(203,797)	809,286
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,034,787</u>	<u>225,501</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 830,990</u>	<u>\$ 1,034,787</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Actual cash payments for excise taxes	<u>\$ 259,775</u>	<u>\$ 265,000</u>
Actual cash payments for interest	<u>\$ 49,255</u>	<u>\$ 44,926</u>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Investment properties acquired through seller's financing	\$ (1,325,000)	\$ (250,000)
Obligation incurred under notes payable	1,325,000	250,000
Net cash outlay	<u>\$ -</u>	<u>\$ -</u>

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

# DANVILLE REGIONAL FOUNDATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

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### 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 five wholly owned, single member limited liability company subsidiaries of DRR. 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.

Each of the five single member limited liability companies owned by DRR were incorporated under the laws of the Commonwealth of Virginia. Each company 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 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 consolidated financial statements at their fair value, as based upon quoted market prices, as of December 31<sup>st</sup>.

Investments also 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.

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# DANVILLE REGIONAL FOUNDATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

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### 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 five feeder funds in master-feeder structures invested in equity related investments in private equity partnerships. These investments are recorded in the accompanying consolidated 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 (ASU) 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.

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 2015 and 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 conducted under the Uniform Standards of Professional Appraisal Practice.

The change in unrealized appreciation or depreciation of investments is included in investment income in the accompanying consolidated statements of activities. Realized gains and losses on sales of investments are computed on an average cost method and are recorded on the trade date of the transaction and included in investment income in the accompanying consolidated statements of activities.

#### Fair Value Measurements

In accordance with generally accepted accounting principles (GAAP), 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.



# DANVILLE REGIONAL FOUNDATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

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### 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 are the Foundation's real estate property investments which were valued based upon independent appraisals as of December 31, 2015. The property held as of December 31, 2014 was acquired in December 2014 and the purchase price was determined to approximate fair value as of December 31, 2014.

As of December 31, 2015 and 2014, 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 Accounting Standards Codification (ASC) include only its investments, as described in Note 2 of these consolidated financial statements.

#### Fair Value of Financial Instruments

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

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# DANVILLE REGIONAL FOUNDATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

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

#### Fair Value of Financial Instruments (continued)

Based upon the borrowing rates currently available to the Foundation for bank loans with similar terms and average maturities, the carrying value of the notes payable was estimated to approximate fair value.

#### 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. Included in property and equipment is a building which the Foundation leases and which qualified to be treated as a capital lease as outlined in Note 4 to these consolidated financial statements. 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.

#### Grant Expense

Unconditional awards are expensed in the year in which the grant commitment is made to the recipient organization. Conditional grants are not included as expenses until such time as the conditions are substantially met.

#### 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 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 2014 amounts have been reclassified to conform with the 2015 presentation.

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# DANVILLE REGIONAL FOUNDATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

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

#### New Accounting Pronouncement

In May 2015, the FASB issued ASU 2015-07, *Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent)*, which is effective for non-public entities for fiscal years beginning after December 15, 2016, with early adoption permitted. The standard removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using net asset value per share as a practical expedient. The Foundation has elected to adopt this ASU early. As required by the ASU, the provisions have been applied to these consolidated financial statements retrospectively. Accordingly, all alternative investments of the Foundation for which fair value is determined using the practical expedient are excluded from the fair value hierarchy disclosures and included as a reconciling item in Note 2 of these consolidated financial statements.

### 2. Investments

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

	December 31, 2015		December 31, 2014	
	Cost	Fair Value	Cost	Fair Value
Cash equivalents	\$ 28,259,851	\$ 28,259,851	\$ 29,660,640	\$ 29,660,640
Common stock	47,878,006	52,498,462	46,296,214	56,528,648
Mutual funds	57,652,086	76,875,317	58,077,326	81,900,404
Timberland partnership fund	12,720,424	19,650,864	12,717,025	18,852,532
Commingled real estate fund	9,001,829	14,721,003	9,512,863	13,349,218
Common trust fund	12,155,647	11,813,460	10,145,939	11,989,395
Feeder funds (private equity investments)	2,747,343	4,671,349	1,260,213	4,621,743
Real estate investment properties	<u>3,559,153</u>	<u>4,335,000</u>	<u>754,990</u>	<u>754,990</u>
Total	<u>\$173,974,339</u>	<u>\$212,825,306</u>	<u>\$168,425,210</u>	<u>\$217,657,570</u>

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**DANVILLE REGIONAL FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the Years Ended December 31, 2015 and 2014**

**2. Investments (continued)**

Investment returns are summarized as follows:

	2015	2014
Interest, dividends and other partnership earnings	\$ 2,854,312	\$ 3,211,699
Realized gains	10,493,578	11,310,286
Unrealized losses	<u>(10,381,393)</u>	<u>(278,852)</u>
Total investment returns	2,966,497	14,243,133
Rental income – from real estate investment properties	<u>57,881</u>	<u>-</u>
Subtotal	3,024,378	14,243,133
Investment management, advisory and consulting fees	(793,320)	(741,823)
Other costs related to the real estate investment properties	<u>(251,713)</u>	<u>(51,567)</u>
Net investment income	<u>\$ 1,979,345</u>	<u>\$13,449,743</u>

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

While the Foundation has not purchased its real estate investment properties with the intent to lease these properties, certain of the properties have tenants in a portion of the space. As of December 31, 2015, only one tenant lease has a remaining stated term in excess of one year. This lease agreement expires December 31, 2020. The lease contains a fixed escalation clause for increases in the annual minimum rent at the rate of 2% annually. These fixed escalations are not considered significant to the consolidated financial statements and rental income under this lease is therefore recognized based upon the actual receipts each year.

As of December 31, 2015, total future minimum lease rentals to be received are as follows:

<u>For the Year Ending</u> <u>December 31,</u>	
2016	\$ 93,180
2017	95,044
2018	96,944
2019	116,333
2020	<u>118,660</u>
Total	<u>\$ 520,161</u>

Continued

**DANVILLE REGIONAL FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the Years Ended December 31, 2015 and 2014**

**2. Investments (continued)**

The following table summarizes the Foundation's investments at fair value as of December 31, 2015:

	<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	\$ 28,259,851	\$ 28,259,851	\$ -	\$ -
Common stock:				
Financial	9,500,769	9,500,769	-	-
Health care	8,566,920	8,566,920	-	-
Industrials	7,301,213	7,301,213	-	-
Information technology	7,197,569	7,197,569	-	-
Consumer discretionary	6,931,261	6,931,261	-	-
American depository receipt	5,291,291	5,291,291	-	-
Utilities	2,219,269	2,219,269	-	-
Materials	1,865,191	1,865,191	-	-
Consumer staples	1,461,383	1,461,383	-	-
Energy	1,419,908	1,419,908	-	-
Real estate	397,520	397,520	-	-
Telecommunication services	<u>346,168</u>	<u>346,168</u>	-	-
Total common stock	52,498,462	52,498,462	-	-
Mutual funds:				
Equity funds	76,774,696	67,517,775	9,256,921	-
Bond fund	<u>100,621</u>	<u>100,621</u>	-	-
Total mutual funds	76,875,317	67,618,396	9,256,921	-
Real estate investment properties	<u>4,335,000</u>	-	-	<u>4,335,000</u>
Total	<u>\$ 161,968,630</u>	<u>\$ 148,376,709</u>	<u>\$ 9,256,921</u>	<u>\$ 4,335,000</u>
Alternative investments measured under the NAV practical expedient: <sup>(a)</sup>				
Timberland partnership fund	19,650,864			
Commingled real estate fund	14,721,003			
Common trust fund	11,813,460			
Feeder funds (5 private equity investment funds)	<u>4,671,349</u>			
Total investments	<u>\$ 212,825,306</u>			

Continued

**DANVILLE REGIONAL FOUNDATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**For the Years Ended December 31, 2015 and 2014**

**2. Investments (continued)**

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

	<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	\$ 29,660,640	\$ 29,660,640	\$ -	\$ -
Common stock:				
Financial	11,632,525	11,632,525	-	-
Health care	6,941,512	6,941,512	-	-
Industrials	6,634,337	6,634,337	-	-
Information technology	7,838,935	7,838,935	-	-
Consumer discretionary	7,989,813	7,989,813	-	-
American depository receipt	5,594,093	5,594,093	-	-
Utilities	2,518,988	2,518,988	-	-
Materials	2,437,157	2,437,157	-	-
Consumer staples	1,380,708	1,380,708	-	-
Energy	2,731,128	2,731,128	-	-
Real estate	410,581	410,581	-	-
Telecommunication services	200,877	200,877	-	-
Shipping	217,994	217,994	-	-
Total common stock	<u>56,528,648</u>	<u>56,528,648</u>	-	-
Mutual funds:				
Equity funds	81,800,907	70,699,305	11,101,602	-
Bond fund	<u>99,497</u>	<u>99,497</u>	-	-
Total mutual funds	81,900,404	70,798,802	11,101,602	-
Real estate investment property	<u>754,990</u>	-	-	<u>754,990</u>
Total	<u>\$ 168,844,682</u>	<u>\$ 156,988,090</u>	<u>\$ 11,101,602</u>	<u>\$ 754,990</u>
Alternative investments measured under the NAV practical expedient: <sup>(a)</sup>				
Timberland partnership fund	18,852,532			
Commingled real estate fund	13,349,218			
Common trust fund	11,989,395			
Feeder funds (4 private equity investment funds)	<u>4,621,743</u>			
Total investments	<u>\$ 217,657,570</u>			

Continued

## DANVILLE REGIONAL FOUNDATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

#### 2. Investments (continued)

(a) These investments are measured at NAV as a practical expedient and have not been classified within the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the consolidated statements of financial position.

Included in equity mutual funds classified as "level 2" as of December 31, 2015 and 2014 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, 2015 and 2014 was based upon the market value approach as published trading values were available for this fund.

The following table represents a roll forward of the fair value measurements as of December 31, 2015 and 2014 using significant unobservable inputs (Level 3):

	<u>Real Estate Investment Properties</u>
Balance, December 31, 2013	\$ -
Purchases	754,990
Realized gains	-
Unrealized gains	-
Sales	-
Transfers in/out of level 3	<u>-</u>
Balance, December 31, 2014	754,990
Purchases	2,804,163
Realized gains	-
Unrealized gains	775,847
Sales	-
Transfers in/out of level 3	<u>-</u>
Balance, December 31, 2015	<u>\$ 4,335,000</u>

All unrealized gains from the real estate investment properties shown in the table above are included in net investment income in the accompanying consolidated statements of activities for the years ended December 31, 2015 and 2014.

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## DANVILLE REGIONAL FOUNDATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

#### 2. Investments (continued)

The following details the Foundation's ability to redeem investment funds valued at NAV, or its equivalent, as of December 31, 2015 and includes any unfunded commitments of the Foundation to these funds as of December 31, 2015:

	Fair Value	Number of Funds	Unfunded Commitments	Redemption Restrictions
Timberland partnership fund	\$19,650,864	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	14,721,003	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.
Common trust fund	11,813,460	1	None	None
Feeder funds	4,671,349	5	\$12,643,098 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 (\$1,557,944) to December 12, 2023 (\$1,395,087) to October 26, 2026 (\$1,003,284) to January 21, 2029 (\$715,034). The terms for all may be extended by the General Partner of the fund for two successive one year terms.
Total	\$50,856,676	8	\$12,643,098	

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## DANVILLE REGIONAL FOUNDATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

#### 2. Investments (continued)

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.
Common trust fund	11,989,395	1	None	None
Feeder funds	4,621,743	4	\$4,436,121 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	\$ 4,436,121	

Additional redemption restrictions may be exercised at the discretion of the fund manager and are dependent upon available cash of the fund as well as considerations of the fund manager including the protection of the interests of other investors in the fund.

The 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 consolidated financial statements at the net asset value per share as of December 31<sup>st</sup>.

Continued

## DANVILLE REGIONAL FOUNDATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

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#### 2. Investments (continued)

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 consolidated financial statements at the net asset value per share as of December 31<sup>st</sup>.

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 consolidated financial statements at the net asset value per share as of December 31<sup>st</sup>.

The feeder funds include four foreign funds and one domestic fund as of December 31, 2015 and three foreign funds and one domestic fund as of December 31, 2014. These 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 consolidated financial statements at the net asset value per share as of December 31<sup>st</sup>.

# DANVILLE REGIONAL FOUNDATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

### 3. Grants Payable

The Foundation awards grants to various nonprofit organizations. As of December 31, 2015 and 2014, the Foundation had unconditionally promised to give \$13,533,184 and \$14,002,169, respectively, in grants which are due to be paid as follows:

	<u>2015</u>	<u>2014</u>
Less than one year	\$ 4,480,932	\$ 5,862,966
One to five years	<u>9,052,252</u>	<u>8,139,203</u>
Total	<u>\$ 13,533,184</u>	<u>\$ 14,002,169</u>

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

### 4. Commitments and Contingencies

#### Grant Award Commitments

As of December 31, 2015 and 2014, the Foundation had conditionally promised future grant awards totaling \$3,364,981 and \$337,359, 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, 2015 and 2014 in the accompanying consolidated financial statements.

#### Concentration of Credit Risk

The Foundation's cash is comprised of amounts in accounts at a financial institution. While the amount at times exceeds the amount guaranteed by federal agencies and, therefore, bears some risk, the Foundation has not experienced, nor does it anticipate, any loss of funds. As of December 31, 2015 and 2014, 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 \$206,651 and \$691,041 as of December 31, 2015 and 2014, respectively.

# DANVILLE REGIONAL FOUNDATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

### 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 \$181,912 and \$137,363 as of December 31, 2015 and 2014, respectively.

As of December 31, 2015, total future minimum annual lease payments under this lease for the Foundation, including the ten year renewal period, are as follows:

For the Year Ending <u>December 31,</u>	
2016	\$ 73,260
2017	73,260
2018	73,260
2019	73,260
2020	73,260
Thereafter	<u>799,754</u>
Total	1,166,054
Less: Amounts representing interest	<u>(387,642)</u>
Total capital lease obligation	<u>\$ 778,412</u>

Continued

## DANVILLE REGIONAL FOUNDATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

#### 5. Notes Payable

As of December 31, 2015 and 2014, the Foundation was obligated under the following notes payable, which were issued in connection with the purchase of real estate for investment, and each of which is secured by the related real estate property:

	2015	2014
In December 2014, the Foundation obtained a \$250,000 loan from a third party. The note has a five-year term which commenced December 9, 2014. Interest accrues at an annual rate of 5.0%. Payments of interest and principal equal to \$32,376 are due annually. The note matures December 9, 2019 with a balloon principal payment in the amount of \$164,332 due at that time.	\$ 250,000	\$ 250,000
In April, 2015, the Foundation obtained a \$200,000 loan from a third party. The note has a one-year term which commenced April 1, 2015. The note is non-interest bearing with principal of \$200,000 due in a balloon payment upon maturity at March 28, 2016. The imputed interest on this note was not material to the consolidated financial statements and, accordingly, was not recognized.	200,000	-
In July, 2015, the Foundation obtained a \$510,000 loan from a third party. The note has a ten-year term which commenced July 31, 2015. Interest accrues at an annual rate of 3.5% in the first year and 5.0% thereafter. Payments of interest and principal are due monthly in the amount of \$2,958 for the first twelve months and \$3,247 thereafter. The note matures August 1, 2025 with a balloon principal payment in the amount of \$331,074 due at that time.	504,093	-
In July, 2015, the Foundation obtained a \$335,000 loan from a third party. The note has a ten-year term which commenced July 16, 2015. Interest accrues at an annual rate of 4.8%. Payments of interest and principal equal to \$42,859 are due annually. The note matures July 15, 2025.	335,000	-
In September, 2015, the Foundation obtained a \$280,000 loan from a third party. The note has a ten-year term which commenced September 25, 2015. Interest accrues at an annual rate of 4.0%. Payments of interest and principal equal to \$34,521 are due annually. The note matures September 25, 2025.	280,000	-
Total notes payable	\$ 1,569,093	\$ 250,000

Continued

# DANVILLE REGIONAL FOUNDATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

### 5. Notes Payable (continued)

The future principal payments under these notes as of December 31, 2015 are as follows:

<u>For the Year Ending</u> <u>December 31,</u>	
2016	\$ 307,854
2017	89,339
2018	93,511
2019	238,052
2020	77,086
Thereafter	<u>763,251</u>
Total	<u>\$1,569,093</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, 2015 and 2014 was \$98,901 and \$81,188, respectively, and is included in salaries and benefits in the accompanying consolidated 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. Total contributions to this plan for the years ended December 31, 2015 and 2014 were \$14,825 and \$15,300, respectively, and are included in salaries and benefits in the accompanying consolidated statements of activities. As of December 31, 2015 and 2014, the total liability for this plan was \$130,758 and \$114,797, respectively, and is included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position. The Foundation has internally set aside investments equal to the plan's liability.

# DANVILLE REGIONAL FOUNDATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

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### 7. Income Taxes

DRF is exempt from federal income taxes other than on net unrelated business income 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 each of the five wholly owned single member limited liability companies are all treated as disregarded entities for tax reporting purposes and accordingly, the activities of DRR and each of its five wholly owned subsidiaries are included in DRF's tax return.

For each of the years ended December 31, 2015 and 2014, the Foundation was subject to an excise tax rate of 2%. Qualifying distributions in excess of the minimum required were made each year. The Foundation generates unrelated business income from the rental income on certain of its real estate investment properties.

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, 2015 and 2014, 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 \$822,941 and \$979,941 as of December 31, 2015 and 2014, respectively, represents the federal excise tax on the net unrealized appreciation on investments.

As of December 31, 2015, the Foundation had a current excise tax receivable of \$27,280 which is included in prepaid expenses and other assets in the accompanying consolidated statements of financial position. 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 consolidated 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 uncertainty in income tax. For the years ended December 31, 2015 and 2014, management did not identify any uncertainty in income tax requiring recognition or disclosure in these consolidated financial statements. As of December 31, 2015, tax years considered open and subject to examination include returns for the years ended December 31, 2012 through 2014.

## DANVILLE REGIONAL FOUNDATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2015 and 2014

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#### 8. Subsequent Events

The Foundation's management has evaluated subsequent events through August 31, 2016, the date the consolidated financial statements were available to be issued. There were no subsequent events identified through August 31, 2016 required to be disclosed in these consolidated financial statements.