DRF

A Bridge to the Future

DANVILLE REGIONAL FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 and 2017

MARCUM
ACCOUNTANTS ▲ ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Danville Regional Foundation

We have audited the accompanying consolidated financial statements of the Danville Regional Foundation and Subsidiaries (the Foundation), which comprise the consolidated statement of financial position as of December 31, 2018, and the related consolidated statements of activities, functional expenses and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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.

MARCUMGROUP
MEMBER

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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 as of December 31, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The consolidated financial statements of the Danville Regional Foundation as of and for the year ended December 31, 2017 were audited by Raffa, P.C., whose practice was combined with Marcum LLP as of October 1, 2018, and whose report dated August 28, 2018, expressed an unmodified opinion on those statements.

Marcum LLP

Washington, DC

October 7, 2019

DANVILLE REGIONAL FOUNDATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	$ 1,418,669	$ 980,376
Investments	209,794,393	235,529,735
Prepaid expenses and other assets	137,428	95,530
Property and equipment, net of accumulated depreciation and amortization of $594,459 and $523,504, respectively	649,260	720,215
Total Assets	$ 211,999,750	$ 237,325,856
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 676,032	$ 577,085
Deferred revenue	50,855	25,816
Grants payable	9,896,215	9,187,718
Capital lease obligation	675,985	710,666
Notes payable	826,814	1,174,209
Deferred federal excise tax	511,441	1,118,941
Total Liabilities	12,637,342	12,794,435
Net Assets		
Without Donor Restrictions	199,362,408	224,531,421
Total Net Assets	199,362,408	224,531,421
Total Liabilities and Net Assets	$ 211,999,750	$ 237,325,856

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

DANVILLE REGIONAL FOUNDATION

CONSOLIDATED STATEMENTS OF ACTIVITIES

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Revenue and Support		
Investment (loss) income, net of expenses	$ (12,330,316)	$ 32,231,379
Other	35,755	5,070
Total Revenue and Support	(12,294,561)	32,236,449
Expenses		
Grantmaking and program related activities	$ 12,114,768	$ 6,708,315
Management and general	1,186,184	1,117,785
Total Expenses	13,300,952	7,826,100
Change in Net Assets Without Donor Restrictions Before Provision for Excise Taxes	(25,595,513)	24,410,349
Federal Excise Tax (Benefit) Provision		
Current	181,000	200,000
Deferred	(607,500)	235,000
Total Federal Excise Tax (Benefit) Provision	(426,500)	435,000
Change in Net Assets Without Donor Restrictions	(25,169,013)	23,975,349
Net Assets - Beginning of Year	224,531,421	200,556,072
Net Assets - End of Year	$ 199,362,408	$ 224,531,421

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

DANVILLE REGIONAL FOUNDATION

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	Year Ended December 31, 2018		
	Grantmaking and Program Related Activities	Management and General	Total
Grants:			
Responsive	$ 9,767,145	$ -	$ 9,767,145
Foundation initiated	609,000	-	609,000
Total grants	10,376,145	-	10,376,145
Salaries, wages and benefits	856,362	754,687	1,611,049
Professional fees	332,441	109,824	442,265
Other	549,820	321,673	871,493
Total Expenses	$ 12,114,768	$ 1,186,184	$ 13,300,952

	Year Ended December 31, 2017		
	Grantmaking and Program Related Activities	Management and General	Total
Grants:			
Responsive	$ 3,587,299	$ -	$ 3,587,299
Foundation initiated	1,496,206	-	1,496,206
Total grants	5,083,505	-	5,083,505
Salaries, wages and benefits	833,063	748,481	1,581,544
Professional fees	356,751	73,999	430,750
Other	434,996	295,305	730,301
Total Expenses	$ 6,708,315	$ 1,117,785	$ 7,826,100

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

DANVILLE REGIONAL FOUNDATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash Flows From Operating Activities		
Change in net assets without donor restrictions	$ (25,169,013)	$ 23,975,349
Adjustments to reconcile change in net assets to net cash used in operating activities		
Realized gains on investments	(14,742,264)	(17,263,256)
Unrealized losses (gains) on investments	30,080,258	(12,039,688)
Depreciation and amortization	70,955	77,568
Deferred federal excise tax (benefit) expense	(607,500)	235,000
Changes in assets and liabilities:		
Prepaid expenses and other assets	(41,898)	94,398
Accounts payable and accrued expenses	98,947	61,870
Deferred revenue	25,039	25,816
Grants payable	708,497	(5,240,784)
Net Cash Used In Operating Activities	(9,576,979)	(10,073,727)
Cash Flows From Investing Activities		
Acquisition of investments	(98,160,550)	(77,921,439)
Proceeds from the sale of investments	108,557,898	88,659,358
Net Cash Provided By Investing Activities	10,397,348	10,737,919
Cash Flows From Financing Activities		
Principal payments under capital lease obligation	(34,681)	(36,143)
Principal payments on notes payable	(347,395)	(87,017)
Net Cash Used In Financing Activities	(382,076)	(123,160)
Net Increase In Cash and Cash Equivalents	438,293	541,032
Cash and Cash Equivalents - Beginning of Year	980,376	439,344
Cash and Cash Equivalents - End of Year	$ 1,418,669	$ 980,376
Supplemental Cash Flow Information		
Actual cash payments for excise and income taxes	$ 225,690	$ 197,500
Actual cash payments for interest	$ 68,614	$ 103,112

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

NOTE 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 subsidiaries, Dan River Renaissance, LLC (DRR) and DRF Timber, LLC (DRF Timber) and nine 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.

DRR owned nine single member limited liability companies as of December 31, 2018 and eight single member limited liability companies as of December 31, 2017. Each of these limited liability companies were incorporated under the laws of the Commonwealth of Virginia and were created to acquire certain real property in the City of Danville, VA.

DRF Timber was incorporated as a limited liability company in July 2018 under the laws of the Commonwealth of Virginia. DRF is the sole member of DRF Timber. DRF Timber was created for investment opportunity purposes. DRF Timber makes investments in, manages and develops forest properties located primarily in the southern United States. Regions Bank serves as the manager of DRF Timber.

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.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS

Investments include common stocks, equity mutual funds, a bond mutual fund, corporate bonds, U.S. government obligations and cash equivalents considered to be part of the Foundation's investment portfolio. These investments and cash equivalents are recorded in the accompanying consolidated financial statements at their fair value as of December 31st.

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.

The alternative investment funds consist of a commingled real estate investment fund and feeder funds in master-feeder structures invested in equity related investments in private equity partnerships. Additionally, a limited partnership fund which was invested in industrial grade timberland properties was included as of December 31, 2017. During the year ended December 31, 2018, this fund was terminated. 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 accounting guidance which permits, as a practical expedient, the fair value of certain alternative investments within its scope to be estimated using net asset value (NAV) 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.

The Foundation also owns timber and timberland holdings and real estate property acquired as an investment. Timber and timberland holdings are stated at fair value as determined by good faith estimates of management which use independent third-party appraisers as the basis. As of December 31, 2018, due to the proximity of the acquisition of the timber and timberlands to year-end, acquisition cost was determined to be the best estimate of fair value. 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.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FAIR VALUE MEASUREMENTS

In accordance with accounting principles generally accepted in the United States of America (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.

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.

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.

As of December 31, 2018 and 2017, the only assets and liabilities of the Foundation which were measured at fair value on a recurring basis were the Foundation's investments, as described in Note 3 of these consolidated financial statements. In accordance with the standards, investment funds measured at NAV are excluded from the fair value hierarchy.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY AND EQUIPMENT AND RELATED DEPRECIATION AND AMORTIZATION

Furniture and equipment are stated at cost. Depreciation is provided 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 5 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

Net assets without donor restrictions represent the portion of expendable funds that are available for support of the Foundation's operations.

GRANT EXPENSE

Grant awards are expensed in the year in which the grant commitment is made to the recipient organization, provided the grant is not subject to significant future conditions. Conditional grants are recognized as grant expense in the period in which the grantee substantially satisfies the conditions.

FUNCTIONAL ALLOCATION OF EXPENSES

The consolidated statements of activities and consolidated statements of functional expenses report certain categories of expenses that are attributable to both programs and management and general functions. Certain expenses have been directly applied to functions based upon the nature of the expense. Other expenses require allocation on a reasonable basis that is consistently applied. These include salaries, wages and benefits, which have been allocated on the basis of time and effort. Most other expenses have been allocated based on an allocation ratio derived from the salaries, wages and benefits allocation.

NOTE 1 - ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

RECLASSIFICATIONS

Certain 2017 amounts have been reclassified to conform with the 2018 presentation.

NOTE 2 – LIQUIDITY AND AVAILABILITY

As of December 31, 2018, financial assets and liquidity resources available for general expenditure, that is, without donor or other restriction limiting their use, within one year were as follows:

Cash	$ 1,418,669
Investments available to be liquidated	183,796,907
Total financial assets and liquidity resources available within one year	$ 185,215,576

The Foundation regularly monitors liquidity required to meet its annual operating needs, including grant commitments, while also striving to preserve the principal and return on its investment funds.

None of the Foundation's notes payable include loan covenants. While there are outstanding capital commitments for several of the Foundation's alternative investments, these commitments are due when called by the fund managers. The Foundation considers these obligations to be part of its general operating expenditures, to be funded by its financial assets and liquidity resources available within one year.

NOTE 3 - INVESTMENTS

The following table summarizes the Foundation's investments at fair value as of December 31, 2018:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	$ 3,074,839	$ 3,074,839	$ -	$ -
Common stock:				
Financial	12,883,902	12,883,902	-	-
Information technology	8,455,318	8,455,318	-	-
Consumer discretionary	6,996,788	6,996,788	-	-
Health care	5,664,441	5,664,441	-	-
Industrials	5,032,957	5,032,957	-	-
American depository receipt	2,249,501	2,249,501	-	-
Utilities	1,531,170	1,531,170	-	-
Materials	1,515,546	1,515,546	-	-
Energy	1,424,836	1,424,836	-	-
Consumer staples	785,143	785,143	-	-
Telecommunication services	642,381	642,381	-	-
Total common stock	47,181,983	47,181,983	-	-
Equity mutual funds	67,582,241	55,327,216	12,255,025	-
Bond mutual fund	102,250	102,250	-	-
Corporate bonds	35,832,739	-	35,832,739	-
U.S. government obligations	13,219,747	-	13,219,747	-
Timber and timberland holdings	9,055,442	-	-	9,055,442
Real estate investment properties	6,862,000	-	-	6,862,000
Total [(a)]	$182,911,241	$105,686,288	$ 61,307,511	$ 15,917,442
Alternative investments measured under the NAV practical expedient: [(b)]				
Commingled real estate fund	16,803,108			
Feeder funds (4 private equity investment funds)	10,080,044			
Total investments	$209,794,393			

NOTE 3 - INVESTMENTS (CONTINUED)

The following table summarizes the Foundation's investments at fair value as of December 31, 2017:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	$ 5,596,053	$ 5,596,053	$ -	$ -
Common stock:				
Financial	13,332,645	13,332,645	-	-
Information technology	7,752,360	7,752,360	-	-
Consumer discretionary	7,568,981	7,568,981	-	-
Health care	7,462,826	7,462,826	-	-
Industrials	9,060,598	9,060,598	-	-
American depository receipt	5,260,339	5,260,339	-	-
Utilities	2,073,255	2,073,255	-	-
Materials	1,350,465	1,350,465	-	-
Energy	1,789,448	1,789,448	-	-
Consumer staples	3,121,439	3,121,439	-	-
Telecommunication services	294,277	294,277	-	-
Real estate	319,093	319,093	-	-
Total common stock	59,385,726	59,385,726	-	-
Equity mutual funds	86,835,883	71,874,394	14,961,489	-
Bond mutual fund	101,273	101,273	-	-
Corporate bonds	22,972,302	-	22,972,302	-
U.S. government obligations	14,747,590	-	14,747,590	-
Real estate investment properties	6,179,257	-	-	6,179,257
Total [(a)]	$195,818,084	$136,957,446	$ 52,681,381	$ 6,179,257
Alternative investments measured under the NAV practical expedient: [(b)]				
Commingled real estate fund	16,180,476			
Feeder funds (5 private equity investment funds)	8,495,391			
Timberland partnership fund	15,035,784			
Total investments	$235,529,735			

NOTE 3 - INVESTMENTS (CONTINUED)

(a) Investments are categorized based on the inputs to the valuation techniques as follows:

Cash equivalents – Classified as level 1 based upon the availability of quotes for identical assets.

Common stock and mutual funds – Generally classified as level 1 as values are based upon quoted prices in an active market. Included in equity mutual funds classified as "level 2" as of December 31, 2018 and 2017 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, 2018 and 2017 was based upon the market value approach as published trading values were available for this fund.

Corporate bonds and U.S. government securities – Classified as level 2 as values are based upon quoted prices of securities with similar characteristics, estimates using pricing models, or discounted cash flows.

Timber and timberland holdings – Classified as level 3 as values are based upon independent appraisals. As of December 31, 2018, due to the proximity of the acquisition date to year-end, the purchase price, net of certain capitalized costs, was determined to be an appropriate measure for the fair value.

Real estate investment properties – Classified as level 3 as values are based upon independent appraisals conducted under the Uniform Standards of Professional Appraisal Practice as of December 31st.

(b) 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.

The following table represents a roll forward of the fair value measurements as of December 31, 2018 and 2017 using significant unobservable inputs (Level 3):

Balance, December 31, 2016	$ 4,440,001
Purchases	1,760,749
Realized gains	-
Unrealized losses	(21,493)
Sales	-
Transfers in/out of level 3	-
Balance, December 31, 2017	6,179,257
Purchases	9,488,227
Realized gains	-
Unrealized gains	249,958
Sales	-
Transfers in/out of level 3	-
Balance, December 31, 2018	$15,917,442

NOTE 3 - INVESTMENTS (CONTINUED)

All unrealized gains/losses shown in the preceding table are included in net investment income in the accompanying consolidated statements of activities for the years ended December 31, 2018 and 2017.

The following details the Foundation's ability to redeem investment funds valued at NAV, or its equivalent, as of December 31, 2018 and includes any unfunded commitments of the Foundation to these funds as of December 31, 2018:

	Fair Value	Number of Funds	Unfunded Commitments	Redemption Restrictions
Commingled real estate fund	$16,803,108	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.
Feeder funds	10,080,044	4	$5,840,202 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 are as follows: August 5, 2020 ($671,398); December 12, 2023 ($1,111,861); October 26, 2026 ($1,825,179); and January 21, 2029 ($6,471,606). The terms for all may be extended by the General Partner of the fund for two successive one year terms.
Total	$26,883,152	5	$5,840,202	

NOTE 3 - INVESTMENTS (CONTINUED)

The following details the Foundation's ability to redeem investment funds valued at NAV, or its equivalent, as of December 31, 2017 and includes any unfunded commitments of the Foundation to these funds as of December 31, 2017:

	Fair Value	Number of Funds	Unfunded Commitments	Redemption Restrictions
Commingled real estate fund	$16,180,476	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.
Feeder funds	8,495,391	5	$8,289,114 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 are as follows: August 5, 2019 ($826,274); December 12, 2023 ($1,311,610); October 26, 2026 ($1,752,871); and January 21, 2029 ($4,604,636). The terms for all may be extended by the General Partner of the fund for two successive one year terms.
Timberland partnership fund	15,035,784	1	None	Investors are not able to redeem their interests during the fund's "investment period" which terminated on December 31, 2018.
Total	$39,711,651	7	$8,289,114	

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

NOTE 3 - 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.

The feeder funds include three foreign funds and one domestic fund as of December 31, 2018 and four foreign funds and one domestic fund as of December 31, 2017. 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.

The timberland partnership fund consisted of timber holdings which were valued at estimated market values based upon appraisal reports prepared by independent appraisers. In March, 2018, management of the timberland partnership fund closed on the sale of the timberland assets owned by the fund, and in May, 2018, distributed substantially all of the net proceeds from the sale to the fund's investors. The fund remained open during 2018 with a minimal cash balance to satisfy liabilities of the fund and was formally terminated on December 27, 2018.

NOTE 3 - INVESTMENTS (CONTINUED)

Investment returns are summarized as follows:

	2018	2017
Interest and dividends	$ 4,246,883	$ 4,060,662
Realized gains	14,742,264	17,263,256
Unrealized (losses) gains	(30,080,258)	12,039,688
Total investment returns	(11,091,111)	33,363,606
Rental income – from real estate investment properties	167,146	147,723
Subtotal	(10,923,965)	33,511,329
Investment management, advisory and consulting fees	(936,431)	(883,296)
Other costs related to the real estate investment properties and DRR Timber	(469,920)	(396,654)
Net investment (loss) income	($12,330,316)	$32,231,379

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, 2018, the leases for two tenants have a remaining stated term in excess of one year. One of the lease agreements expires December 31, 2020 and the other lease agreement expires December 31, 2022. Both of these leases contain 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 these leases is therefore recognized based upon the actual receipts each year.

As of December 31, 2018, total future minimum lease rentals to be received are as follows:

For the Year Ending December 31,	
2019	$ 144,408
2020	147,293
2021	47,359
2022	48,303
Total	$ 387,363

NOTE 4 - GRANTS PAYABLE

The Foundation awards grants to various nonprofit organizations. As of December 31, 2018 and 2017, the Foundation had unconditionally promised to give $9,896,215 and $9,187,718, respectively, in grants which are due to be paid as follows:

	2018	2017
Less than one year	$ 8,818,257	$ 6,236,298
One to five years	1,077,958	2,951,420
Total	$ 9,896,215	$ 9,187,718

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.

Grant Award Commitments

As of December 31, 2018 and 2017, the Foundation had conditionally promised future grant awards totaling $10,790,191 and $516,666, 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, 2018 and 2017 in the accompanying consolidated financial statements.

NOTE 5 - COMMITMENTS AND CONTINGENCIES

Concentration of Credit Risk

The Foundation's cash is comprised of amounts in accounts at various financial institutions. 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, 2018 and 2017, 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 $947,668 and $817,449 as of December 31, 2018 and 2017, respectively.

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.

NOTE 5 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Capital Lease (continued)

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 originally provided for a base annual rent of $222,000 of which the Foundation was 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.

In the first quarter of 2018, the Foundation received notice that the interest rate charged by the landlord's lender had been lowered, resulting in a reduction in the base annual rent, retroactive to the first quarter of 2017, to $204,000, of which the Foundation is responsible for $67,320.

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 $315,563 and $271,013 as of December 31, 2018 and 2017, respectively.

As of December 31, 2018, total future minimum annual lease payments under this lease for the Foundation, including the ten year renewal period and including the base rent reduction described above, are as follows:

For the Year Ending December 31,	
2019	$ 67,320
2020	67,320
2021	67,320
2022	67,320
2023	67,320
Thereafter	532,950
Total	869,550
Less: Amounts representing interest	(193,565)
Total capital lease obligation	$ 675,985

NOTE 6 - NOTES PAYABLE

As of December 31, 2018 and 2017, 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:

	2018	2017
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 $164,331 due at that time.	$ 164,331	$ 188,384
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.	455,283	472,293
In July, 2015, the Foundation obtained a $335,000 loan from a third party. The note had a ten-year term which commenced July 16, 2015. Interest accrued at an annual rate of 4.8%. Payments of interest and principal equal to $42,859 were due annually. The note had an original maturity date of July 15, 2025. On April 2, 2018, at the request of the lender, the Foundation prepaid this note at a discount.	-	281,107
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.	207,200	232,425
Total notes payable	$ 826,814	$ 1,174,209

NOTE 6 - NOTES PAYABLE (CONTINUED)

The future principal payments under these notes as of December 31, 2018 are as follows:

For the Year Ending December 31,	
2019	$ 207,079
2020	44,643
2021	46,622
2022	48,690
2023	50,852
Thereafter	428,928
Total	$ 826,814

NOTE 7 - RETIREMENT PLANS

The Foundation offers a defined contribution plan under Section 403(b) of the Internal Revenue Code (IRC). Under the 403(b) plan, employees may elect to contribute up to the federal tax limitation. The plan provides for a 3% safe harbor employer contribution as well as matching contributions and other discretionary employer contributions. Eligible employees are immediately 100% vested in any employer contribution. Retirement plan expense for the years ended December 31, 2018 and 2017 was $103,596 and $96,071, respectively, and is included in salaries, wages 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 an employment agreement. Total contributions to this plan for the years ended December 31, 2018 and 2017 were $13,875 and $14,618, respectively, and are included in salaries, wages and benefits in the accompanying consolidated statements of activities. As of December 31, 2018 and 2017, the total liability for this plan was $182,100 and $165,979, 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.

NOTE 8 - INCOME AND EXCISE 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.

DRF Timber, DRR and each of DRR's nine wholly owned single member limited liability companies are all treated as disregarded entities for tax reporting purposes and accordingly, the activities of each of these entities are included in DRF's tax return.

For each of the years ended December 31, 2018 and 2017, the Foundation was subject to an excise tax rate of 1%. 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, 2018 and 2017, the Foundation calculated its deferred tax liability using an excise tax rate of 2%. The deferred excise tax liability of $511,441 and $1,118,941 as of December 31, 2018 and 2017, respectively, represents the federal excise tax on the net unrealized appreciation on investments.

As of December 31, 2018 and 2017, the Foundation had a current excise tax receivable of $76,487 and $31,797, respectively, which is included in prepaid expenses and other assets 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, 2018 and 2017, the Foundation had no significant unrelated business income and management did not identify any uncertainty in income tax requiring recognition or disclosure in these consolidated financial statements.

NOTE 8 - INCOME AND EXCISE TAXES (CONTINUED)

The Foundation's tax returns are subject to possible examination by the taxing authorities. For federal tax purposes, the tax returns remain open for possible examination for a period of three years after the respective filing deadlines of those returns. There are no examinations currently pending or in progress.

NOTE 9 - SUBSEQUENT EVENTS

The Foundation's management has evaluated subsequent events through October 7, 2019, the date the consolidated financial statements were available to be issued. There were no subsequent events identified through October 7, 2019 required to be disclosed in these consolidated financial statements.