DRF

A Bridge to the Future

DANVILLE REGIONAL FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2019 and 2018

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 statements of financial position as of December 31, 2019 and 2018, and the related consolidated statements of activities, functional expenses 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.

Auditors' 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 auditors' 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 as of December 31, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Marcum LLP

Washington, DC

November 24, 2020

DANVILLE REGIONAL FOUNDATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	$ 1,225,301	$ 1,418,669
Investments	231,259,318	209,794,393
Prepaid expenses and other assets	67,382	137,428
Property and equipment, net of accumulated depreciation and amortization of $620,474 and $594,459, respectively	629,155	649,260
Total Assets	$ 233,181,156	$ 211,999,750
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	$ 613,329	$ 676,032
Deferred revenue	62,235	50,855
Grants payable	8,877,273	9,896,215
Capital lease obligation	635,331	675,985
Notes payable	619,633	826,814
Deferred federal excise tax	730,978	511,441
Total Liabilities	11,538,779	12,637,342
Net Assets		
Without Donor Restrictions	221,642,377	199,362,408
Total Net Assets	221,642,377	199,362,408
Total Liabilities and Net Assets	$ 233,181,156	$ 211,999,750

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, 2019 AND 2018

	2019	2018
Revenue and Support		
Investment income (loss), net of expenses	$ 37,097,970	$ (12,330,316)
Other	4,930	35,755
Total Revenue and Support	37,102,900	(12,294,561)
Expenses		
Grantmaking and program related activities	$ 13,416,945	$ 12,114,768
Management and general	1,094,449	1,186,184
Total Expenses	14,511,394	13,300,952
Change in Net Assets Without Donor Restrictions Before Provision for Excise Taxes	22,591,506	(25,595,513)
Federal Excise Tax Provision (Benefit)		
Current	92,000	181,000
Deferred	219,537	(607,500)
Total Federal Excise Tax Provision (Benefit)	311,537	(426,500)
Change in Net Assets Without Donor Restrictions	22,279,969	(25,169,013)
Net Assets - Beginning of Year	199,362,408	224,531,421
Net Assets - End of Year	$ 221,642,377	$ 199,362,408

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, 2019 AND 2018

	Year Ended December 31, 2019		
	Grantmaking and Program Related Activities	Management and General	Total
Grants:			
Responsive	$ 9,473,364	$ -	$ 9,473,364
Foundation initiated	2,094,457	-	2,094,457
Total grants	11,567,821	-	11,567,821
Salaries, wages and benefits	841,454	779,631	1,621,085
Professional fees	438,746	73,615	512,361
Other	568,924	241,203	810,127
Total Expenses	$ 13,416,945	$ 1,094,449	$ 14,511,394

	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

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, 2019 AND 2018

	2019	2018
Cash Flows From Operating Activities		
Change in net assets without donor restrictions	$ 22,279,969	$ (25,169,013)
Adjustments to reconcile change in net assets to net cash used in operating activities		
Realized gains on investments	(6,045,330)	(14,742,264)
Unrealized (gains) losses on investments	(27,936,617)	30,080,258
Depreciation and amortization	62,594	70,955
Deferred federal excise tax expense (benefit)	219,537	(607,500)
Changes in assets and liabilities:		
Prepaid expenses and other assets	70,046	(41,898)
Accounts payable and accrued expenses	(62,703)	98,947
Deferred revenue	11,380	25,039
Grants payable	(1,018,942)	708,497
Net Cash Used In Operating Activities	(12,420,066)	(9,576,979)
Cash Flows From Investing Activities		
Acquisition of investments	(67,387,744)	(98,160,550)
Proceeds from the sale of investments	79,904,766	108,557,898
Purchase of property and equipment	(42,489)	-
Net Cash Provided By Investing Activities	12,474,533	10,397,348
Cash Flows From Financing Activities		
Principal payments under capital lease obligation	(40,654)	(34,681)
Principal payments on notes payable	(207,181)	(347,395)
Net Cash Used In Financing Activities	(247,835)	(382,076)
Net (Decrease) Increase In Cash and Cash Equivalents	(193,368)	438,293
Cash and Cash Equivalents - Beginning of Year	1,418,669	980,376
Cash and Cash Equivalents - End of Year	$ 1,225,301	$ 1,418,669
Supplemental Cash Flow Information		
Actual cash payments for excise and income taxes	$ 2,247	$ 225,690
Actual cash payments for interest	$ 67,383	$ 68,614

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, 2019 and 2018. 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. 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.

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, 2019 and 2018, 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 consolidated 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.

NOTE 2 – LIQUIDITY AND AVAILABILITY

As of December 31, 2019 and 2018, financial assets and liquidity resources available for general expenditure, that is, without donor or other restriction limiting their use, within one year of the consolidated statement of financial position date, were as follows:

	2019	2018
Cash	$ 1,225,301	$ 1,418,669
Investments available to be liquidated	202,909,107	183,796,907
Total financial assets and liquidity resources available within one year	$ 204,134,408	$ 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, 2019:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Cash equivalents	$ 2,899,490	$ 2,899,490	$ -	$ -
Common stock:				
Financial	12,742,338	12,742,338	-	-
Consumer discretionary	10,012,939	10,012,939	-	-
Information technology	8,738,589	8,738,589	-	-
Industrials	6,365,276	6,365,276	-	-
Health care	4,984,293	4,984,293	-	-
American depository receipt	2,884,575	2,884,575	-	-
Consumer staples	2,522,001	2,522,001	-	-
Energy	1,565,500	1,565,500	-	-
Utilities	1,490,198	1,490,198	-	-
Materials	1,304,940	1,304,940	-	-
Telecommunication services	869,403	869,403	-	-
Total common stock	53,480,052	53,480,052	-	-
Equity mutual funds	79,148,821	79,148,821	-	-
Bond mutual fund	108,222	108,222	-	-
Corporate bonds	37,536,154	-	37,536,154	-
U.S. government obligations	12,580,338	-	12,580,338	-
Timber and timberland holdings	9,720,000	-	-	9,720,000
Real estate investment properties	7,815,000	-	-	7,815,000
Total [(a)]	$203,288,077	$135,636,585	$ 50,116,492	$ 17,535,000
Alternative investments measured under the NAV practical expedient: [(b)]				
Commingled real estate fund	17,156,030			
Feeder funds (4 private equity investment funds)	10,815,211			
Total investments	$231,259,318			

NOTE 3 - INVESTMENTS (CONTINUED)

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	-	-
Consumer discretionary	6,996,788	6,996,788	-	-
Information technology	8,455,318	8,455,318	-	-
Industrials	5,032,957	5,032,957	-	-
Health care	5,664,441	5,664,441	-	-
American depository receipt	2,249,501	2,249,501	-	-
Consumer staples	785,143	785,143	-	-
Energy	1,424,836	1,424,836	-	-
Utilities	1,531,170	1,531,170	-	-
Materials	1,515,546	1,515,546	-	-
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 investments funds)	10,080,044			
Total investments	$209,794,393			

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 is a publicly traded fund which, during the year ended December 31, 2018, was not open to new investors and not considered to be actively traded. The valuation as of December 31, 2018 was based upon the market value approach as published trading values were available for this fund. In 2019, this fund was re-opened to new investors and as of December 31, 2019, classified as "level 1".

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.

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, 2019 and 2018 using significant unobservable inputs (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
Purchases	85,866
Realized gains	-
Unrealized gains	1,671,373
Sales	(139,681)
Transfers in/out of level 3	-
Balance, December 31, 2019	$17,535,000

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, 2019 and 2018.

The following details the Foundation's ability to redeem investment funds valued at NAV, or its equivalent, as of December 31, 2019 and includes any unfunded commitments of the Foundation to these funds as of December 31, 2019:

	Fair Value	Number of Funds	Unfunded Commitments	Redemption Restrictions
Commingled real estate fund	$17,156,030	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	10,815,211	4	$5,330,202 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, 2021 ($478,006); December 12, 2023 ($832,162); October 26, 2026 ($1,788,065); and January 21, 2029 ($7,716,978). The terms for all may be extended by the General Partner of the fund for two successive one year terms.
Total	$27,971,241	5	$5,330,202	

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, 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	

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, 2019 and 2018. 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.

Investment returns are summarized as follows:

	2019	2018
Interest, dividends and other investment returns	$ 4,489,952	$ 4,246,883
Realized gains	6,045,330	14,742,264
Unrealized gains (losses)	27,936,617	(30,080,258)
Total investment returns	38,471,899	(11,091,111)
Rental income – from real estate investment properties	171,735	167,146
Subtotal	38,643,634	(10,923,965)
Investment management, advisory and consulting fees	(1,089,319)	(936,431)
Other costs related to the real estate investment properties and DRR Timber	(456,345)	(469,920)
Net investment income (loss)	$ 37,097,970	($ 12,330,316)

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.

NOTE 3 - INVESTMENTS (CONTINUED)

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, 2019, 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, 2019, total future minimum lease rentals to be received are as follows:

For the Year Ending December 31,	
2020	$ 147,293
2021	47,359
2022	48,303
Total	$ 242,955

NOTE 4 - GRANTS PAYABLE

The Foundation awards grants to various nonprofit organizations. As of December 31, 2019 and 2018, the Foundation had unconditionally promised to give $8,877,273 and $9,896,215, respectively, in grants which are due to be paid as follows:

	2019	2018
Less than one year	$ 7,142,927	$ 8,818,257
One to five years	1,734,346	1,077,958
Total	$ 8,877,273	$ 9,896,215

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, 2019 and 2018, the Foundation had conditionally promised future grant awards totaling $14,112,191 and $10,790,191, 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, 2019 and 2018 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, 2019 and 2018, 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 $528,066 and $947,668 as of December 31, 2019 and 2018, 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.

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.

NOTE 5 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Capital Lease (continued)

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 $360,113 and $315,563 as of December 31, 2019 and 2018, respectively.

As of December 31, 2019, 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,	
2020	$ 67,320
2021	67,320
2022	67,320
2023	67,320
2024	67,320
Thereafter	465,630
Total	802,230
Less: Amounts representing interest	(166,899)
Total capital lease obligation	$ 635,331

NOTE 6 - NOTES PAYABLE

As of December 31, 2019 and 2018, 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:

	2019	2018
In December 2014, the Foundation obtained a $250,000 loan from a third party. The note had a five-year term which commenced December 9, 2014. Interest accrued at an annual rate of 5.0%. Payments of interest and principal equal to $32,376 were due annually. The note matured December 9, 2019 with a balloon principal payment in the amount of $164,331 due and paid at that time.	$ -	$ 164,331
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.	438,666	455,283
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.	180,967	207,200
Total notes payable	$ 619,633	$ 826,814

NOTE 6 - NOTES PAYABLE (CONTINUED)

The future principal payments under these notes as of December 31, 2019 are as follows:

For the Year Ending December 31,	
2020	$ 43,229
2021	46,622
2022	48,690
2023	50,852
2024	53,111
Thereafter	377,129
Total	$ 619,633

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, 2019 and 2018 was $100,898 and $103,596, respectively, and is included in salaries, wages and benefits in the accompanying consolidated statements of functional expenses.

The Foundation also offered its former President and CEO an opportunity to defer compensation pursuant to IRC Section 457(b). Total contributions to this plan for the years ended December 31, 2019 and 2018 were $11,841 and $13,875, respectively, and are included in salaries, wages and benefits in the accompanying consolidated statements of functional expenses. As of December 31, 2019 and 2018, the total liability for this plan was $196,800 and $182,100, 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. Subsequent to the year ended December 31, 2019, the cumulative liability was paid to the Foundation's former President and CEO.

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 excise tax on its net investment income, which excludes unrealized gains and losses. The Foundation also generates unrelated business income from the rental income on certain of its real estate investment properties.

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.

The applicable excise tax rate for the years ended December 31, 2019 and 2018 for private foundations was 1% or 2%, dependent upon the amount of qualifying distributions. For each of the years ended December 31, 2019 and 2018, the Foundation was subject to an excise tax rate of 1%. Effective January 1, 2020, the excise tax rate for private foundations is 1.39%.

As of December 31, 2019, the Foundation had a current excise tax payable of $12,766 which is included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position. As of December 31, 2018, the Foundation had a current excise tax receivable of $76,487 which is included in prepaid expenses and other assets in the accompanying consolidated statements of financial position.

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 2019, the Foundation calculated its deferred tax liability using the excise tax rate of 1.39% in effect for 2020. As of December 31, 2018, the Foundation calculated its deferred tax liability using an excise tax rate of 2%, the excise tax rate it projected to be subject to in 2019. The deferred excise tax liability of $730,978 and $511,441 as of December 31, 2019 and 2018, respectively, represents the federal excise tax on the net unrealized appreciation on investments.

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, 2019 and 2018, 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.

NOTE 9 - SUBSEQUENT EVENTS

The Foundation's management has evaluated subsequent events through November 24, 2020, the date the consolidated financial statements were available to be issued. In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) a pandemic. The pandemic has caused business disruption through mandated and voluntary closings of businesses for non-essential services and triggered volatility in financial markets and a significant negative impact on the global economy. The Foundation's management has concluded that while it is reasonably possible that COVID-19 could have a negative impact on the Foundation's investment portfolio and therefore its results of operations, the specific impact is not readily determinable. However, there are no comparable recent events which may provide guidance as to the effect of the spread of the pandemic and, as a result, the ultimate impact of the COVID-19 outbreak is highly uncertain and subject to change. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

There were no other subsequent events identified through November 24, 2020 required to be disclosed in these consolidated financial statements.