



DANVILLE REGIONAL FOUNDATION

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

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, 2020 and 2019, 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, 2020 and 2019, 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

August 24, 2021

DANVILLE REGIONAL FOUNDATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents	\$ 13,093,073	\$ 1,225,301
Investments	237,423,538	231,259,318
Prepaid expenses and other assets	101,912	67,382
Property and equipment, net of accumulated depreciation and amortization of \$679,767 and \$620,474, respectively	569,862	629,155
Total Assets	<u>\$ 251,188,385</u>	<u>\$ 233,181,156</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued expenses	\$ 413,857	\$ 613,329
Deferred revenue	637,048	62,235
Grants payable	6,966,443	8,877,273
Capital lease obligation	592,996	635,331
Notes payable	576,405	619,633
Deferred federal excise tax	892,075	730,978
Total Liabilities	<u>10,078,824</u>	<u>11,538,779</u>
Net Assets		
Without Donor Restrictions	<u>241,109,561</u>	<u>221,642,377</u>
Total Net Assets	<u>241,109,561</u>	<u>221,642,377</u>
Total Liabilities and Net Assets	<u>\$ 251,188,385</u>	<u>\$ 233,181,156</u>

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, 2020 AND 2019

	2020	2019
Revenue and Support		
Investment income, net of expenses	\$ 27,195,136	\$ 37,097,970
Other	-	4,930
Total Revenue and Support	27,195,136	37,102,900
Expenses		
Grantmaking and program related activities	\$ 6,586,192	\$ 13,416,945
Management and general	783,389	1,094,449
Total Expenses	7,369,581	14,511,394
Change in Net Assets Without Donor Restrictions Before Provision for Excise Taxes	19,825,555	22,591,506
Federal Excise Tax Provision		
Current	197,274	92,000
Deferred	161,097	219,537
Total Federal Excise Tax Provision	358,371	311,537
Change in Net Assets Without Donor Restrictions	19,467,184	22,279,969
Net Assets - Beginning of Year	221,642,377	199,362,408
Net Assets - End of Year	\$ 241,109,561	\$ 221,642,377

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, 2020 AND 2019

	Year Ended December 31, 2020		
	Grantmaking and Program Related Activities	Management and General	Total
Grants:			
Responsive	\$ 3,730,689	\$ -	\$ 3,730,689
Foundation initiated	1,406,437	-	1,406,437
Total grants	5,137,126	-	5,137,126
Salaries and benefits	636,133	511,286	1,147,419
Professional fees	484,973	77,987	562,960
Other	327,960	194,116	522,076
Total Expenses	\$ 6,586,192	\$ 783,389	\$ 7,369,581

	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 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

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, 2020 AND 2019

	2020	2019
Cash Flows From Operating Activities		
Change in net assets without donor restrictions	\$ 19,467,184	\$ 22,279,969
Adjustments to reconcile change in net assets to net cash used in operating activities		
Realized gains on investments	(9,927,029)	(6,045,330)
Unrealized gains on investments	(14,999,550)	(27,936,617)
Depreciation and amortization	59,293	62,594
Deferred federal excise tax expense	161,097	219,537
Changes in assets and liabilities:		
Prepaid expenses and other assets	(34,530)	70,046
Accounts payable and accrued expenses	(199,472)	(62,703)
Deferred revenue	574,813	11,380
Grants payable	(1,910,830)	(1,018,942)
Net Cash Used In Operating Activities	(6,809,024)	(12,420,066)
Cash Flows From Investing Activities		
Acquisition of investments	(100,985,788)	(66,019,902)
Proceeds from the sale of investments	119,424,429	78,361,575
Purchase of property and equipment	-	(42,489)
Net Cash Provided By Investing Activities	18,438,641	12,299,184
Cash Flows From Financing Activities		
Principal payments under capital lease obligation	(42,335)	(40,654)
Principal payments on notes payable	(43,228)	(207,181)
Net Cash Used In Financing Activities	(85,563)	(247,835)
Net Increase (Decrease) In Cash and Cash Equivalents	11,544,054	(368,717)
Cash and Cash Equivalents - Beginning of Year	4,124,791	4,493,508
Cash and Cash Equivalents - End of Year	\$ 15,668,845	\$ 4,124,791
Cash and Cash Equivalents Reported in the Consolidated Statements of Financial Position		
Cash and cash equivalents	\$ 13,093,073	\$ 1,225,301
Cash and cash equivalents held within investments	2,575,772	2,899,490
Total Cash and Cash Equivalents	\$ 15,668,845	\$ 4,124,791
Supplemental Cash Flow Information		
Actual cash payments for excise and income taxes	\$ 193,450	\$ 2,247
Actual cash payments for interest	\$ 52,001	\$ 67,383

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

DANVILLE REGIONAL FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

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 ten 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 ten single member limited liability companies as of December 31, 2020 and nine single member limited liability companies as of December 31, 2019. 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.

DANVILLE REGIONAL FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

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.

DANVILLE REGIONAL FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

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, 2020 and 2019, 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.

DANVILLE REGIONAL FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

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 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 and benefits allocation.

DANVILLE REGIONAL FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

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, 2020 and 2019, 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:

	<u>2020</u>	<u>2019</u>
Cash and cash equivalents	\$ 13,093,073	\$ 1,225,301
Investments available to be liquidated	<u>198,072,152</u>	<u>202,909,107</u>
Total financial assets and liquidity resources available within one year	<u>\$ 211,165,225</u>	<u>\$ 204,134,408</u>

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.

DANVILLE REGIONAL FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

NOTE 3 - INVESTMENTS

The following table summarizes the Foundation's investments at fair value as of December 31, 2020:

	<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	\$ 2,575,772	\$ 2,575,772	\$ -	\$ -
Common stock:				
Information technology	14,345,843	14,345,843	-	-
Consumer discretionary	11,648,480	11,648,480	-	-
Financials	10,327,025	10,327,025	-	-
Industrials	5,178,574	5,178,574	-	-
Health care	5,012,669	5,012,669	-	-
American depository receipt	3,614,666	3,614,666	-	-
Consumer staples	3,025,810	3,025,810	-	-
Materials	2,755,656	2,755,656	-	-
Energy	1,761,541	1,761,541	-	-
Utilities	1,679,162	1,679,162	-	-
Telecommunication services	<u>471,123</u>	<u>471,123</u>	-	-
Total common stock	59,820,549	59,820,549	-	-
Equity mutual funds	89,515,443	89,515,443	-	-
Corporate bonds	25,917,881	-	25,917,881	-
U.S. government obligations	8,088,566	-	8,088,566	-
Timber and timberland holdings	18,500,000	-	-	18,500,000
Real estate investment properties	<u>8,760,000</u>	<u>-</u>	<u>-</u>	<u>8,760,000</u>
Total ^(a)	<u>\$213,178,211</u>	<u>\$151,911,764</u>	<u>\$ 34,006,447</u>	<u>\$ 27,260,000</u>
Alternative investments measured under the NAV practical expedient: ^(b)				
Commingled real estate fund	12,153,941			
Feeder funds (4 private equity investment funds)	<u>12,091,386</u>			
Total investments	<u>\$237,423,538</u>			

DANVILLE REGIONAL FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

NOTE 3 - INVESTMENTS (CONTINUED)

The following table summarizes the Foundation's investments at fair value as of December 31, 2019:

	<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	\$ 2,899,490	\$ 2,899,490	\$ -	\$ -
Common stock:				
Information technology	8,738,589	8,738,589	-	-
Consumer discretionary	10,012,939	10,012,939	-	-
Financials	12,742,338	12,742,338	-	-
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	-	-
Materials	1,304,940	1,304,940	-	-
Energy	1,565,500	1,565,500	-	-
Utilities	1,490,198	1,490,198	-	-
Telecommunication services	<u>869,403</u>	<u>869,403</u>	-	-
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	<u>7,815,000</u>	<u>-</u>	<u>-</u>	<u>7,815,000</u>
Total ^(a)	<u>\$203,288,077</u>	<u>\$135,636,585</u>	<u>\$ 50,116,492</u>	<u>\$ 17,535,000</u>
Alternative investments measured under the NAV practical expedient: ^(b)				
Commingled real estate fund	17,156,030			
Feeder funds (4 private equity investment funds)	<u>10,815,211</u>			
Total investments	<u>\$231,259,318</u>			

DANVILLE REGIONAL FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

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 – Classified as “level 1” as values are based upon quoted prices in an active market.

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, 2020 and 2019 using significant unobservable inputs (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
Purchases	8,555,892
Realized gains	-
Unrealized gains	1,371,242
Sales	(202,134)
Transfers in/out of level 3	-
Balance, December 31, 2020	<u>\$27,260,000</u>

DANVILLE REGIONAL FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

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, 2020 and 2019.

The following details the Foundation's ability to redeem investment funds valued at NAV, or its equivalent, as of December 31, 2020 and includes any unfunded commitments of the Foundation to these funds as of December 31, 2020:

	Fair Value	Number of Funds	Unfunded Commitments	Redemption Restrictions
Commingled real estate fund	\$12,153,941	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	12,091,386	4	\$4,378,040 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 (\$212,577); December 12, 2023 (\$724,475); October 26, 2026 (\$1,830,804); and January 21, 2029 (\$9,323,530). The terms for all may be extended by the General Partner of the fund for two successive one year terms.
Total	\$24,245,327	5	\$4,378,040	

DANVILLE REGIONAL FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

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, 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	

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.

DANVILLE REGIONAL FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

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, 2020 and 2019. 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:

	<u>2020</u>	<u>2019</u>
Interest, dividends and other investment returns	\$ 3,728,806	\$ 4,489,952
Realized gains	9,927,029	6,045,330
Unrealized gains	<u>14,999,550</u>	<u>27,936,617</u>
Total investment returns	28,655,385	38,471,899
Rental income – from real estate investment properties	<u>179,153</u>	<u>171,735</u>
Subtotal	28,834,538	38,643,634
Investment management, advisory and consulting fees	(1,082,038)	(1,089,319)
Other costs related to the real estate investment properties and DRR Timber	<u>(557,364)</u>	<u>(456,345)</u>
Net investment income	<u>\$ 27,195,136</u>	<u>\$ 37,097,970</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.

DANVILLE REGIONAL FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

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, 2020, the leases for four tenants have a remaining stated term in excess of one year. Two of the leases expire during the year ending December 31, 2022 and two of the leases expire during the year ending December 31, 2025. Each of these leases contain a fixed escalation clause for increases in the annual minimum rent. 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, 2020, total future minimum lease rentals to be received are as follows:

For the Year Ending December 31,	
2021	\$ 185,517
2022	155,917
2023	128,333
2024	130,644
2025	<u>129,958</u>
Total	<u>\$ 730,369</u>

NOTE 4 - GRANTS PAYABLE

The Foundation awards grants to various nonprofit organizations. As of December 31, 2020 and 2019, the Foundation had unconditionally promised to give \$6,966,443 and \$8,877,273, respectively, in grants which are due to be paid as follows:

	<u>2020</u>	<u>2019</u>
Less than one year	\$ 4,124,809	\$ 7,142,927
One to five years	<u>2,841,634</u>	<u>1,734,346</u>
Total	<u>\$ 6,966,443</u>	<u>\$ 8,877,273</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.

DANVILLE REGIONAL FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2020 and 2019

NOTE 4 - GRANTS PAYABLE (CONTINUED)

Grant Award Commitments

As of December 31, 2020 and 2019, the Foundation had conditionally promised future grant awards totaling \$13,569,508 and \$14,112,191, 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, 2020 and 2019 in the accompanying consolidated financial statements.

NOTE 5 – COMMITMENTS, RISKS 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, 2020 and 2019, 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 approximately \$6.1 million and \$528 thousand as of December 31, 2020 and 2019, 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 which the Foundation has done. 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.

DANVILLE REGIONAL FOUNDATION
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NOTE 5 – COMMITMENTS, RISKS AND CONTINGENCIES (CONTINUED)

Capital Lease (continued)

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 \$404,663 and \$360,113 as of December 31, 2020 and 2019, respectively.

As of December 31, 2020, 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 <u>December 31,</u>	
2021	\$ 67,320
2022	67,320
2023	67,320
2024	67,320
2025	67,320
Thereafter	<u>398,310</u>
Total	734,910
Less: Amounts representing interest	<u>(141,914)</u>
Total capital lease obligation	<u>\$ 592,996</u>

Global Pandemic

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.

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NOTE 6 - NOTES PAYABLE

As of December 31, 2020 and 2019, 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:

	<u>2020</u>	<u>2019</u>
<p>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.</p>	422,721	438,666
<p>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.</p>	<u>153,684</u>	<u>180,967</u>
Total notes payable	<u>\$ 576,405</u>	<u>\$ 619,633</u>

The future principal payments under these notes as of December 31, 2020 are as follows:

<u>For the Year Ending</u> <u>December 31,</u>	
2021	\$ 46,622
2022	48,690
2023	50,852
2024	53,111
2025	<u>377,130</u>
Total	<u>\$ 576,405</u>

DANVILLE REGIONAL FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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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, 2020 and 2019 was \$73,088 and \$100,898, respectively, and is included in salaries 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 year ended December 31, 2019 were \$11,841 and are included in salaries and benefits in the accompanying consolidated statements of functional expenses. As of December 31, 2019, the total liability for this plan was \$196,800 and is included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position. The cumulative liability was paid to the Foundation's former President and CEO during the year ended December 31, 2020.

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 ten 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 year ended December 31, 2020 for private foundations was 1.39%. The applicable excise tax rate for the year ended December 31, 2019 was 1% or 2%, dependent upon the amount of qualifying distributions. For the year ended December 31, 2019 the Foundation was subject to an excise tax rate of 1%.

The Foundation had a current excise tax payable of \$16,526 and \$12,766 as of December 31, 2020 and 2019, respectively, which is included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position.

DANVILLE REGIONAL FOUNDATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
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NOTE 8 - INCOME AND EXCISE TAXES (CONTINUED)

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 2020 and 2019, the Foundation calculated its deferred tax liability using the excise tax rate of 1.39% in effect for 2021 and 2020. The deferred excise tax liability of \$892,075 and \$730,978 as of December 31, 2020 and 2019, 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, 2020 and 2019, 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.

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 August 24, 2021, the date the consolidated financial statements were available to be issued. There were no subsequent events identified through August 24, 2021 required to be disclosed in these consolidated financial statements.