

DAVENPORT & COMPANY LLC AND SUBSIDIARIES

Consolidated Statements of Financial Condition

December 31, 2016 and 2015

(With Report of Independent Registered Public Accounting Firm Thereon)

DAVENPORT & COMPANY LLC AND SUBSIDIARIES

Table of Contents

	Page
Report of Independent Registered Public Accounting Firm	1
Consolidated Statements of Financial Condition	2
Notes to Consolidated Statements of Financial Condition	3



KPMG LLP
Suite 2000
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Richmond, VA 23219-4023

Report of Independent Registered Public Accounting Firm

The Board of Directors and Members
Davenport & Company LLC:

We have audited the accompanying consolidated statements of financial condition of Davenport & Company LLC and subsidiaries as of December 31, 2016 and 2015 (the consolidated financial statement). The consolidated financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statement referred to above presents fairly, in all material respects, the financial position of Davenport & Company LLC and subsidiaries as of December 31, 2016 and 2015, in conformity with U.S. generally accepted accounting principles.

KPMG LLP

Richmond, Virginia
February 27, 2017

DAVENPORT & COMPANY LLC AND SUBSIDIARIES

Consolidated Statements of Financial Condition

December 31, 2016 and 2015

Assets	2016	2015
Cash and cash equivalents	\$ 25,936,002	29,757,840
Cash segregated under federal and other regulations	2	2
Deposits with clearing organizations and others	3,861,239	3,368,983
Receivable from broker-dealers and clearing organizations	128,985	103,672
Receivable from customers	68,219,712	73,178,969
Receivable from noncustomers	974,021	1,596,815
Securities owned, at fair value	11,047,540	7,587,866
Furniture, equipment, software, and leasehold improvements, at cost	2,977,055	3,546,702
Notes receivable from employees	2,850,334	1,511,583
Prepaid expenses and other assets	6,167,226	4,936,263
Total assets	<u>\$ 122,162,116</u>	<u>125,588,695</u>
Liabilities and Members' Interest		
Short-term bank loans	\$ 100,000	100,000
Drafts payable	10,014,754	16,960,855
Members' interest payable	—	5,664,311
Payable to broker-dealers and clearing organizations	835,164	2,875,616
Payable to customers	52,599,889	47,515,182
Payable to noncustomers	128,017	364,606
Securities sold, not yet purchased, at fair value	192,200	744,296
Accounts payable, accrued expenses, and other liabilities	12,180,152	11,614,981
Total liabilities	76,050,176	85,839,847
Commitments and contingent liabilities	—	—
Members' interest	46,111,940	39,748,848
Total liabilities and members' interest	<u>\$ 122,162,116</u>	<u>125,588,695</u>

See accompanying notes to consolidated statements of financial condition.

DAVENPORT & COMPANY LLC AND SUBSIDIARIES

Notes to Consolidated Statements of Financial Condition

December 31, 2016 and 2015

(1) Organization and Nature of Business

Davenport & Company LLC and subsidiaries (the Company) is a broker-dealer registered under the Securities Exchange Act of 1934 and an investment adviser registered under the Investment Advisers Act of 1940. The Company is a member of the New York Stock Exchange, Inc. and the Financial Industry Regulatory Authority (FINRA). The Company is a limited liability company organized under the laws of the Commonwealth of Virginia. The Company is owned by Davenport & Company of Virginia, Inc., Davenport Corp., DAVA Corp., and Davenport IV, Inc. (collectively, the Members) who have membership interests of 52%, 24%, 23%, and 1%, respectively. The liability of each Member is limited to the balances in each Member's capital account. The Company will continue indefinitely, unless dissolved earlier pursuant to the terms of the operating agreement of the Company. Davenport Financial Advisors LLC (DFA) and Davenport Trust Company (DavTrust) are wholly owned subsidiaries of Davenport & Company LLC. DFA is engaged in the appraisal of businesses and their securities in connection with estate and gift tax, equitable distribution, acquisition advisory, the purchase and sale of listed and unlisted securities, litigation support, and other purposes. The services and responsibilities of DFA are separate from those of Davenport & Company LLC, notwithstanding the fact that DFA and Davenport & Company LLC may share employees and facilities. DavTrust is a wholly owned North Carolina corporation formed in 2009 to be the trustee of Davenport's individual retirement accounts.

The Company is engaged in several classes of services, including principal transactions, agency transactions, investment banking, and investment advisory services.

(2) Summary of Significant Accounting Policies

(a) *Basis of Presentation*

The consolidated statements of financial condition include the accounts of the Company and its wholly owned subsidiaries. All material intercompany balances and transactions are eliminated in consolidation.

(b) *Cash and Cash Equivalents*

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents.

(c) *Fair Value of Financial Instruments*

The Company carries cash and cash equivalents, cash segregated under federal and other regulations, securities owned, and securities sold, not yet purchased at fair value. Deposits with clearing organizations and other receivables from brokers-dealers and clearing organizations, receivable from customers, noncustomers, and employees, short-term bank loans, drafts payable, members interest payable, payable to brokers-dealers and clearing organizations, payable to customers, and payable to noncustomers are recorded at their carrying amounts, which approximate fair value. The fair value of these items is not materially sensitive to shifts in market interest rates because of the limited term to maturity and/or variable interest rates of many of these instruments.

DAVENPORT & COMPANY LLC AND SUBSIDIARIES

Notes to Consolidated Statements of Financial Condition

December 31, 2016 and 2015

(d) *Securities Transactions*

Proprietary securities transactions in regular way trades are recorded on the settlement date, which is not materially different from the trade date. Customers' securities transactions and related commission income and expense are reported on a trade-date basis.

Marketable securities owned are recorded at fair value which is the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between willing market participants on the remeasurement date.

In the event of an inactive market, the fair value for certain financial instruments is derived using pricing models and other valuation techniques that involve significant management judgment. The price transparency of financial instruments is a key determinant of the degree of judgment involved in determining the fair value of the Company's financial instruments. Financial instruments for which actively quoted prices or pricing parameters are available will generally have a higher degree of price transparency than financial instruments that are thinly traded or not quoted. In accordance with U.S. generally accepted accounting principles (GAAP), the criteria used to determine whether the market for a financial instrument is active or inactive is based on the particular asset or liability. For equity securities, the Company's definition of actively traded is based on average daily volume and other market trading statistics.

When instruments are traded in secondary markets and quoted market prices do not exist for such securities, the Company utilizes valuation techniques to estimate fair value. Valuation techniques may also rely on other observable inputs such as yield curves, interest rates and expected principal repayments and default probabilities. Instruments valued using these inputs are typically classified within Level 2 of the fair value hierarchy. Examples include certain municipal debt securities, and corporate debt securities. The Company utilizes prices from independent services to corroborate its estimate of fair value. Depending upon the type of security, the pricing service may provide a listed price or use other methods including broker-dealer price quotations. Positions in illiquid securities that do not have readily determinable fair values require significant judgment or estimation. For these securities, which include non-publically traded equity securities, the Company uses quotes from secondary market makers to determine fair value. Securities valued using these techniques are classified within Level 3 of the fair value hierarchy.

(e) *Income Taxes*

Income taxes are not reflected in the accompanying consolidated statements of financial condition as the responsibility for income taxes is that of the Members and not of the Company. One subsidiary, DavTrust, is a C corporation and is responsible for its own income taxes. DavTrust has a current income tax receivable of \$1,300 and a deferred tax liability of \$5,800 as of December 31, 2016, and accrued current income tax liability of \$3,800 and a deferred tax asset of \$11,800 as of December 31, 2015.

Uncertain tax positions are required to be recognized or derecognized based on a more likely than not threshold. This applies to positions taken or expected to be taken on a tax return. The Company analyzed filing positions in all of the federal and state jurisdictions where they are required to file

DAVENPORT & COMPANY LLC AND SUBSIDIARIES

Notes to Consolidated Statements of Financial Condition

December 31, 2016 and 2015

income tax returns, including its status as a pass-through entity. The only periods subject to examination for federal and state tax returns are 2013 through 2016. The Company believes its income tax filing positions, including its status as a pass-through entity, would be sustained on audit and does not anticipate any adjustments that would result in a material change to its consolidated financial position. Therefore, no reserves for uncertain tax positions, nor interest and penalties, have been recorded as of December 31, 2016 and 2015.

The Bipartisan Budget Act of 2015 provides that any tax adjustments resulting from partnership audits will generally be determined, and any resulting tax, interest and penalties collected, at the partnership level for tax years beginning after December 31, 2017. The Bipartisan Budget Act of 2015 allows a partnership to elect to apply these provisions to any return of the partnership filed for partnership taxable years beginning after the date of the enactment, November 2, 2015. The Partnership does not intend to elect to apply these provisions for any tax return filed for partnership taxable years beginning before January 1, 2018.

(f) *Furniture, Equipment, Software, and Leasehold Improvements*

The Company records depreciation and amortization on the straight-line method based on estimated useful lives of two years for software and the related software licenses, four years for quotation equipment, six years for data processing and communications equipment, and ten years for furniture and fixtures. Leasehold improvements are amortized over the lesser of the estimated useful lives of the improvements or the terms of the related leases.

(g) *Notes Receivable from Employees*

From time to time, the Company issues loans to employees. Some of these loans are nonnegotiable and forgiven over a predetermined period of time on a schedule determined by the Company, as long as the employee remains employed by the Company. Periodic forgiveness of the principal and interest amounts appear as noncash compensation to the employee in each monthly paycheck.

(h) *Drafts Payable*

Drafts payable represent amounts drawn by the Company against a bank.

(i) *Use of Estimates*

The preparation of consolidated statements of financial condition in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated statements of financial condition. Actual results could differ from those estimates. Significant items subject to estimates and assumptions include the fair value of investments and other contingencies.

(3) *Cash Segregated under Federal and Other Regulations*

Cash of \$2 at December 31, 2016 and 2015, has been segregated in a special reserve bank account for the benefit of customers under Rule 15c3-3 of the Securities and Exchange Commission (SEC).

DAVENPORT & COMPANY LLC AND SUBSIDIARIES

Notes to Consolidated Statements of Financial Condition

December 31, 2016 and 2015

(4) Receivable from and Payable to Broker-Dealers and Clearing Organizations

Amounts receivable from and payable to broker-dealers and clearing organizations at December 31, 2016 and 2015, consisted of the following:

	2016	
	Receivable	Payable
Securities failed to deliver/receive	\$ 80,992	6,333
Amounts receivable from/payable to clearing broker	—	159,290
Amounts receivable from/payable to clearing organizations	—	643,652
Amounts receivable from/payable to other broker	47,993	25,889
	\$ 128,985	835,164

	2015	
	Receivable	Payable
Securities failed to deliver/receive	\$ 8,549	88,690
Amounts receivable from/payable to clearing broker	—	54,258
Amounts receivable from/payable to clearing organizations	—	2,697,217
Amounts receivable from/payable to other broker	95,123	35,451
	\$ 103,672	2,875,616

The Company clears certain of its transactions through another broker-dealer on an omnibus basis. The amount payable to the clearing broker relates to the aforementioned transactions and is collateralized by securities owned by the Company.

(5) Receivable from and Payable to Customers and Noncustomers

Amounts receivable from and payable to customers and noncustomers (principally, directors of the Company) include amounts due on cash and margin transactions. Securities owned by customers and noncustomers are held as collateral for receivables. Such collateral is not reflected in the consolidated statements of financial condition and may be repledged by the Company. See further discussion of collateral at notes 8 and 10.

DAVENPORT & COMPANY LLC AND SUBSIDIARIES

Notes to Consolidated Statements of Financial Condition

December 31, 2016 and 2015

(6) Securities Owned and Securities Sold, Not Yet Purchased

(a) Securities owned and securities sold, not yet purchased, consisted of trading securities at December 31, 2016 and 2015 as follows:

	2016	2015
Owned:		
Marketable securities, at fair value:		
State and municipal obligations (primarily located in the Commonwealth of Virginia)	\$ 8,263,376	5,078,951
Auction rate preferred securities	—	90,000
Certificates of deposit	759,229	758,575
Mutual funds	823,492	717,797
Corporate bonds	491,228	449,649
Corporate stocks	710,215	492,894
	\$ 11,047,540	7,587,866
Sold, not yet purchased at fair value:		
Corporate bonds	—	738,256
Corporate stocks	\$ 192,200	6,040
	\$ 192,200	744,296

(b) Fair value disclosures are based on a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets that the Company has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable, either directly or indirectly.
- Level 3 inputs are unobservable inputs.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

DAVENPORT & COMPANY LLC AND SUBSIDIARIES

Notes to Consolidated Statements of Financial Condition

December 31, 2016 and 2015

The following table presents assets and liabilities that are measured at fair value on a recurring basis at December 31, 2016:

	December 31, 2016	Fair value measurements at reporting date using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Trading securities:				
State and municipal obligations	\$ 8,263,376	—	8,263,376	—
Certificates of deposit	759,229	759,229	—	—
Mutual funds	823,492	823,492	—	—
Corporate bonds	491,228	—	491,228	—
Corporate stocks	710,215	26,041	—	684,174
Total	<u>\$ 11,047,540</u>	<u>1,608,762</u>	<u>8,754,604</u>	<u>684,174</u>
Liabilities:				
Securities sold not yet purchased:				
Corporate stocks	\$ 192,200	192,200	—	—
	<u>\$ 192,200</u>	<u>192,200</u>	<u>—</u>	<u>—</u>

DAVENPORT & COMPANY LLC AND SUBSIDIARIES

Notes to Consolidated Statements of Financial Condition

December 31, 2016 and 2015

The following table presents assets and liabilities that are measured at fair value on a recurring basis at December 31, 2015:

	December 31, 2015	Fair value measurements at reporting date using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:				
Trading securities:				
State and municipal obligations	\$ 5,078,951	—	5,078,951	—
Auction rate preferred securities	90,000	—	—	90,000
Certificates of deposit	758,575	758,575	—	—
Mutual funds	717,797	717,797	—	—
Corporate bonds	449,649	—	449,649	—
Corporate stocks	492,894	14,457	—	478,437
Total	\$ 7,587,866	1,490,829	5,528,600	568,437
Liabilities:				
Securities sold not yet purchased:				
Corporate bonds	\$ 738,256	738,256	—	—
Corporate stocks	6,040	6,040	—	—
	\$ 744,296	744,296	—	—

The following table summarizes Level 3 assets measured at fair value on a recurring basis for the year ended December 31, 2016:

Assets:	
Beginning balances as of January 1, 2016	\$ 568,437
Total realized and unrealized gains included in net income	204,211
Purchases and sales of Level 3	(88,474)
Ending balance as of December 31, 2016	\$ 684,174

DAVENPORT & COMPANY LLC AND SUBSIDIARIES

Notes to Consolidated Statements of Financial Condition

December 31, 2016 and 2015

There were no significant transfers between Level 1 and Level 2 of the fair value hierarchy during the year ended December 31, 2016.

The following table summarizes Level 3 assets measured at fair value on a recurring basis for the year ended December 31, 2015:

Assets:	
Beginning balances as of January 1, 2015	\$ 252,654
Total realized and unrealized gains included in net income	—
Purchase into Level 3	314,783
	314,783
Ending balance as of December 31, 2015	\$ 567,437
	567,437

There were no significant transfers between Level 1 and Level 2 of the fair value hierarchy during the year ended December 31, 2015.

The Company had no assets or liabilities that were measured at fair value on a nonrecurring basis as of December 31, 2016 or 2015.

(7) Furniture, Equipment, Software, and Leasehold Improvements

Furniture, equipment, software, and leasehold improvements are summarized as follows:

	2016	2015
Furniture	\$ 3,623,427	3,512,930
Equipment	4,947,061	4,795,868
Software	1,129,741	1,021,827
Leasehold improvements	4,021,644	3,989,038
	13,721,873	13,319,663
Less accumulated depreciation and amortization	10,744,818	9,772,961
Total furniture, equipment, software, and leasehold improvements, net	\$ 2,977,055	3,546,702

(8) Short-Term Bank Loans

Short-term bank loans are used to finance loans to customers and noncustomers who have purchased securities under margin agreements and to finance trading and investment securities. These loans are generally made at the short-term collateralized borrowing rate (1.69% and 1.27% at December 31, 2016 and December 31, 2015, respectively) and are payable on demand. In addition, the Company has a \$1 million unsecured line of credit with a commercial bank. The interest rate on this line of credit is prime (3.75% and 3.50% at December 31, 2016 and 2015, respectively) and any borrowings are payable upon demand.

DAVENPORT & COMPANY LLC AND SUBSIDIARIES

Notes to Consolidated Statements of Financial Condition

December 31, 2016 and 2015

Short-term bank loans and related collateral outstanding at December 31, 2016 and 2015 were as follows:

	Loans		Collateral	
	2016	2015	2016	2015
Collateralized by company securities	\$ —	—	7,913,718	4,667,776
Collateralized by customer securities	—	—	—	—
Collateralized by noncustomer securities	—	—	2,579,690	1,080,960
Unsecured line of credit	100,000	100,000	—	—
	\$ 100,000	100,000	10,493,408	5,748,736

(9) Subordinated Borrowings

The Company has approval from the NYSE for a Revolving Note and Cash Subordination Agreement (the Agreement) with a bank for up to \$7,500,000 at prime (3.75% and 3.50% at December 31, 2016 and 2015, respectively) + 1%. The Company must pay a commitment fee of 1/8% for any unused portion of the Agreement. There were no amounts outstanding under the Agreement as of or during the years ended December 31, 2016 or 2015, respectively.

The subordinated borrowings are available in computing net capital under the SEC's Uniform Net Capital Rule (Rule 15c3-1). To the extent that such borrowings are required for the Company's continued compliance with minimum net capital requirements, they may not be repaid.

(10) Financial Instruments

In the normal course of its business, the Company enters into various transactions involving off-balance-sheet financial instruments. These financial instruments include the purchase and sale of securities pursuant to new issuances. These transactions are used to meet the needs of customers, conduct trading activities, and manage market risks and are, therefore, subject to varying degrees of market and credit risk.

In addition, the Company has sold securities that it does not currently own and will, therefore, be obligated to purchase such securities at a future date. The Company has recorded these obligations in the consolidated statements of financial condition at the fair values of the related securities and will incur a loss if the fair value of the securities increases subsequent to year-end.

In the normal course of business, the Company's customer activities involve the execution, settlement, and financing of various customer securities transactions. These activities may expose the Company to off-balance-sheet risk in the event the customer or other broker is unable to fulfill its contracted obligations and the Company has to purchase or sell the financial instrument underlying the contract at a loss.

The Company's customer securities activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to its customers, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the customers' accounts. In connection with these

DAVENPORT & COMPANY LLC AND SUBSIDIARIES

Notes to Consolidated Statements of Financial Condition

December 31, 2016 and 2015

activities, the Company executes and clears customer transactions involving the sale of securities not yet purchased, substantially all of which are transacted on a margin basis subject to individual exchange regulations. Such transactions may expose the Company to significant off-balance-sheet risk in the event margin requirements are not sufficient to fully cover losses that customers may incur. In the event the customer fails to satisfy its obligations, the Company may be required to purchase or sell financial instruments at prevailing market prices to fulfill the customer's obligations. The Company seeks to control the risks associated with its customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. The Company monitors required margin levels daily and, pursuant to such guidelines, requires the customer to deposit additional collateral or to reduce positions when necessary. The margin balance is located in receivable from customers on the consolidated statements of financial condition.

The Company's customer financing and securities settlement activities require the Company to pledge customer securities as collateral in support of various secured financing sources such as bank loans and securities loaned. In the event the counterparty is unable to meet its contractual obligation to return customer securities pledged as collateral, the Company may be exposed to the risk of acquiring the securities at prevailing market prices in order to satisfy its customer obligations. The Company controls this risk by monitoring the fair value of securities pledged on a daily basis and by requiring adjustments of collateral levels in the event of excess market exposure. In addition, the Company establishes credit limits for such activities and monitors compliance on a daily basis.

The Company has a concentration of credit risk in the Commonwealth of Virginia since a significant portion of its customer base resides in that state. This is mitigated through the Company's policy of maintaining custody of collateral for all of its margin account customers in accordance with various regulatory and internal guidelines.

(11) Commitments and Contingencies

The Company leases its office space and certain office equipment and software under operating leases expiring at various dates through 2027. Minimum future rental payments required under such leases that have initial or remaining noncancelable lease terms in excess of one year at December 31, 2016 are as follows:

2017	\$	2,109,060
2018		2,937,022
2019		2,565,634
2020		2,282,299
2021		1,995,911
2022 and thereafter		<u>9,936,222</u>
Total minimum lease payments	\$	<u><u>21,826,148</u></u>

The Company is a party to certain legal and regulatory actions arising in the normal course of business. Management of the Company, after consultation with outside legal counsel, believes that the resolution of

DAVENPORT & COMPANY LLC AND SUBSIDIARIES

Notes to Consolidated Statements of Financial Condition

December 31, 2016 and 2015

these various actions will not result in any material adverse effects on the consolidated financial position, results of operations, or liquidity of the Company.

(12) Variable Interest Entities (VIEs)

The Company has determined that several entities in which it is the managing member meets the definition of a VIE. However, Davenport is not the primary beneficiary and accordingly does not consolidate the funds. These entities have assets of approximately \$452,545,000 and \$394,291,000 at December 31, 2016 and 2015, respectively.

(13) Net Capital Requirements and Capital Redemption Agreement

The Company is subject to the SEC Rule 15c3-1 and the New York Stock Exchange, Inc., which requires the maintenance of minimum net capital. The Company has elected to use the alternative method, permitted by the rule, which requires that the Company and its subsidiaries maintain minimum net capital, as defined, equal to the greater of \$250,000 or 2% of aggregate debit balances arising from customer transactions. The net capital rules also provide that equity capital may not be withdrawn or cash distributions paid if resulting net capital would be less than 5% of aggregate debits. At December 31, 2016, the Company's net capital, as defined, of \$29,635,606 was 43% of aggregate debit balances and was \$28,263,145 in excess of the minimum net capital required. At December 31, 2015, the Company's net capital, as defined, of \$25,586,556 was 28% of aggregate debit balances and was \$23,729,258 in excess of the minimum net capital required.

The Members have agreements with holders of all their outstanding common stock, whereby the Members have the option to repurchase the stock in the event of a stockholder's death or retirement. The Company has agreements with the Members, whereby it has the option to distribute to the Members capital sufficient for the Members to complete the redemption, subject to compliance with the rules of FINRA. The purchase price for such shares and the related units of the Company are determined by the Members' boards of directors and the Company's board of managers, respectively.

During the years ended December 31, 2016 and 2015, cash distributions of Members' interests were as follows:

	<u>2016</u>	<u>2015</u>
Income accumulated in prior year distributed to members during the current year	\$ 5,808,129	5,658,747
Income accumulated in the current year distributed to members during the current year	6,131,065	6,109,280
Repurchase of members' units for redemption of members' common stock	<u>1,104,009</u>	<u>626,975</u>
Total cash distributions of members' interest	<u>\$ 13,043,203</u>	<u>12,395,002</u>

DAVENPORT & COMPANY LLC AND SUBSIDIARIES

Notes to Consolidated Statements of Financial Condition

December 31, 2016 and 2015

(14) Subsequent Events

The Company has evaluated subsequent events for potential recognition and/or disclosure in the December 31, 2016 financial statements through February 27, 2017, the date the financial statements were issued, noting no matters requiring disclosure.